

WHEN OIL LUBRICATES FASCISM: THE VENEZUELAN-CUBAN CONNECTION

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“Why are you coming to Venezuela?” a Cuban “doctor” was asked by a local journalist. “Because I want to see the first half of the movie!” he replied.

THE INVESTMENT THAT PAID OFF

After leading a bloody but inept and unsuccessful coup in 1992, Hugo Chávez was sent to prison but, after only a few months, received a pardon from Venezuelan President Rafael Caldera. One of the things that he did after coming out of prison was to pay Fidel Castro the first of what would become a long string of more than 30 visits. In this initial visit he was treated by Castro as a Head of State. He was received by the dictator at the airport and had the opportunity to give a speech before a large audience that included the top Cuban leaders. This modest investment by Castro in a then obscure and ignorant Venezuelan demagogue paid handsomely. Today, Chavez is still a demagogue but, due to a combination of favorable political and social circumstances, he has reached a very high level of political power in Venezuela and is now paying back Castro’s hospitality with a largesse both beyond Castro’s imagination and disastrous for the Venezuelan nation.

Venezuela has become a political ally of Cuba and the main contributor to the fragile Cuban economy. Venezuela represents today much, or even more, than the Soviet Union meant to Cuba during the early stages of the Castro dictatorship. Today, there are about 50,000 Cubans in Venezuela,¹ in activities that

almost invariably have a strong component of ideological indoctrination of the Venezuelan poor, and in control of activities related to the Venezuela military and to its national security.

The extent and magnitude of the Cuban influence in Venezuela is now so great that it constitutes, without much doubt, the greatest danger to hemispheric political and social stability of the last decade and, perhaps, the greatest challenge to democracy and free markets in the region in recent history, given the importance of Venezuela as a world class oil producer and exporter. Ten years ago, 90% of Venezuelans were clearly opposed to the Castro dictatorship. Today, this opposition has decreased to 70%, still a formidable share, but a change that has to be a matter of deep concern to all democratic Latin Americans.

CHAVEZ: CASTRO’S NEW AND BETTER “SUGAR DADDY”

The initial investment Castro made in Chávez in the 1990s, treating him as political royalty when he was still a non-entity, has proven very profitable. There is no doubt that their relationship has been one of increasing ascendancy of Castro over Chávez. Chávez now says and does pretty much what Castro tells him. He seems convinced that, by doing time as Castro’s pupil and sycophant, he will inherit the leadership that Castro has exerted for many years over the Latin American extreme left. He is sure that he will become the next Castro, and this belief has led him

1. G. Coronel, “The other face of the Cuban invasion in Venezuela,” VenezuelaTODAY.net, July 18, 2005.

to dispense favors to Castro that history will probably define as acts of treason against the Venezuelan nation.

The concept of “sugar daddy” can be applied to political relationships between States, just as it is applied to “romantic” relationships in which age and money asymmetries prevail. Chávez is giving Castro money while being anointed by him as his heir apparent.

The main contribution Chávez is making to Castro is in the form of oil. In an agreement signed by the two Heads of State in October 2000, 53,000 barrels of Venezuelan oil per day started to be sent to Cuba, in 8 to 10 shipments per month. The agreement is for 15 years. Cuba can pay for 25% of the oil shipments over the 15 years of the agreement, at interest rates of 2%, with a 2-year grace period. Payment requires no international guarantees, contrary to normal procedures of the Venezuelan oil company in commercial transactions. Since the rate at which *Petróleos de Venezuela* borrows from international lenders is substantially higher than the rate Cuba pays, it is easy to see that much of the Venezuelan oil going to Cuba under the terms of this agreement represents a gift from Chávez to Castro. On the basis of the details we know of the agreement, its favorable economic terms, and the fact that an important portion of the oil can be paid by Cuba in services, it is possible to estimate the amount of Venezuela subsidy to Cuba: no less than 10,000 to 13,000 barrels of oil per day are being given to Castro for free. At the current international prices of oil, the value of this handout from Chávez to Castro would be of the order of \$3 to \$4 billion during the 15-year term of the agreement. This is a considerable amount of money, taken from a country where poverty afflicts more than 80% of the population.

THE SITUATION SINCE 2005

Since early 2005, the handouts from Chávez to Castro have almost doubled! In December 2004, a new agreement was drawn up between Chávez and Castro, again without the Venezuelan people being consulted, as they only found out the details after the fact. In the context of this broader agreement, it was announced that the supply of Venezuelan oil to

Cuba had been increased from 53,000 barrels per day to 90,000 barrels per day. Since there is no detailed information on the conditions of this new arrangement, we have to presume that they are the same ones as before. This means that the gift from Chávez to Castro for the next 15 years will now be of the order of \$6 to \$8 billion. This sum of money is roughly equivalent to about two years of net Venezuelan oil proceeds, and represents a monstrous despoil of Venezuelan assets in favor of a dictatorial regime.

This unwarranted transfer of Venezuelan oil and money to Castro has another probable and equally criminal component. According to Cuban official figures, domestic oil production in Cuba is of the order of 80,000 barrels per day. This volume, Castro claims, is already sufficient to meet the industrial and electricity requirements of the island. Government and independent observers coincide in saying that the frequent power outages in the island are due to faulty maintenance of the electrical distribution system rather than to lack of oil supplies. This means that the Venezuelan oil going into Cuba would essentially be used for domestic transport. The Cuban government also claims that national oil consumption is roughly 160,000 barrels per day. If this were true, the Venezuelan imports would complement Cuban domestic oil production in order to meet internal consumption. But is this the case?

If we accept Cuba's oil consumption of 160,000 barrels of oil per day, this means that consumption is roughly 15 barrels per day per 1000 inhabitants. This is a per capita consumption higher than Ecuador's or Poland's. It would represent a consumption twice as high as Costa Rica's or that of Egypt, Colombia, Peru, or El Salvador, and three times as high as that of Nicaragua, Bolivia, or the Philippines. It would be six times higher than Nigeria's and thirty times higher than Bangladesh's. If this level of consumption were true, it would also be higher than Norwegian or Irish or Puerto Rican oil consumption, countries with a considerably higher level of industrial and transport activity than Cuba. Cuban oil consumption figures, as claimed by the government, must therefore be questioned.

To judge by the level of transport in the island, and by the general profile of industrial and electrical consumption in a country where sugar production has declined to a third of what it used to be and where electrical supply is very erratic, it would seem more likely that oil consumption would be about 120,000 barrels per day. If this estimate were close to being correct, this would mean that Castro could be re-exporting between 40,000 and 50,000 barrels of Venezuelan crude oil and products per day; at the current world market prices, this would represent between \$1.5 and \$2 million per day in export revenue, some \$550 to \$700 million per year.

In summary, Venezuela's supply of oil to Cuba, under the terms of an illegal agreement that was never properly ratified by the legislative body, represents a handout from Chávez to Castro that could reach \$1.2 and \$1.3 billion per year, for a total of some \$18 to \$20 billion during the 15 year duration of the agreement.

The December 2004 agreement also gives Castro, free of charge, access to the oil technology owned by Venezuela and, by extension, access to technology not owned by Venezuela but in Venezuelan hands through third-party agreements. In non-oil matters, it gives Cuban nationals authority to participate in criminal investigations and to apply restrictive measures against Venezuelan nationals in Venezuelan territory. This constitutes a serious surrendering of Venezuelan national sovereignty, while the oil clause represents a threat to the national security of Venezuela and other countries of the region.

The oil component of the Cuban-Venezuelan December 2004 agreement is being implemented by means of the opening in Havana of an office of *Petróleos de Venezuela*. This office, according to Chávez, will serve "to conduct oil exploration, production, refining, storage and transport" by *Petróleos de Venezuela* in Cuba. This is a very global and diffuse objective that serves to hide the real objective of controlling politically the distribution of Venezuelan oil in the Caribbean area. The Havana office will

serve two main purposes: (1) removing sizeable volumes of Venezuelan oil from direct monitoring by the Venezuelan opposition and general public; and (2) using the Venezuelan oil stored in Cuba for political purposes, supplying those countries that would kneel to the Castro-Chávez alliance and cutting off supplies to those countries that would not. The Office of *Petróleos de Venezuela* in Havana, being far removed from the control of the Venezuelan nation, will be in fact an office of Chávez and Castro Inc. and might serve to conduct private as well as state business.

The latest move of Chavez in the Caribbean has been the creation of *PetroCaribe*, a regional organization that would dispense highly subsidized oil to Caribbean countries.² In this new political adventure of Chávez, Cuba also has a role to play, through the *Petróleos de Venezuela's* office in Havana. The subsidies involved in *PetroCaribe* are substantial and include payment over 25 years, 2-year grace periods, and 1% interest on unpaid balances. When the oil price exceeds \$50 a barrel, payment for up to 60% of the invoice can be made in goods and services, anything from bananas to black beans. The Caribbean countries will have to create State owned companies in order to become a member of the organization, a provision which is in conflict with the Free Trade Agreements being promoted by the United States. The organization will have a Venezuelan Secretary General, who will run the day to day affairs, will create an operational entity managed by Venezuela to do the transporting and the storage of the oil, and will have an initial fund of \$50 million contributed by Venezuela.

All in all *PetroCaribe* looks like an irresistible bargain for the Caribbean States, most of them short of cash and eager to get subsidized oil supplies. But, of course, there is no free lunch. The day will come when the Caribbean States will have to pay back this apparent act of unselfish generosity. This will be the day when they have to vote in the OAS for Venezuelan candidates, or against sanctioning Chávez for vio-

2. Gustavo Coronel, "PetroCaribe: Chavez handouts go regional," *venezuelaTODAY.net*, July 4, 2005.

lations to the Inter-American Democratic Charter. Through PetroCaribe, Chávez is openly buying political loyalties. However, as the days go by, several countries of the area are having more and more doubts about PetroCaribe, as the intentions and highhanded manners of Chávez become more evident. In my opinion PetroCaribe is stillborn.

But Chávez is not discouraged. Wherever he goes, he proposes a Petrosomething. In Buenos Aires he proposed PetroSur. In Lima he proposed a PetroAndina. But few of his proposals seem to go beyond the oral stage.

CONCLUSIONS

The cumulative result of the mistakes made by Chávez in his attempts at consolidating an obsolete political regime has been an almost total economic and social national collapse. The oil industry, nationalized in the 1970s, is heading again towards foreign control, due to the ineptness and corruption of the Chávez-imposed managers of the state-owned oil company. During the six years of Chávez's rule, Petróleos de Venezuela has lost about 500,000 barrels per day of oil production, so that Venezuela is the only country member of OPEC that can no longer produce its full quota. The production loss is partially compensated by the activities of foreign compa-

nies, acting as contractors to the national company. This is happening although Chávez insists that Petróleos de Venezuela is today finally free from foreign influence!

In the political scene, Venezuela is a country that has surrendered significant sovereignty to Fidel Castro and his 50,000-Cuban contingent. Castro's envoys have substantially infiltrated Chávez's inner circle of bodyguards, the military, and the intelligence agencies. The Cuban take over of Venezuela is one of those rare cases in history where a weak and poor country, ruled by a dying, dictatorial, political leader, takes over the body and soul of an oil-rich state, having a young and vigorous political leader with democratic pretensions, and converts it into a shameless political satellite.

As Venezuelan oil production and income decline, and as Chávez becomes increasingly unable to keep everybody happy because of declining income, his revolution will progressively dissolve and the country will start to look at other political alternatives. As T. S. Elliot would have said:

“This is the way the revolution ends,
This is the way the revolution ends,
This is the way the revolution ends,
Not with a bang but a whimper....”