



## **The World Today**

### **Oil Diplomacy: The Geopolitics of Oil in the Hemisphere**

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In a globalised world, energy development, supply and demand are interconnected on an unparalleled scale with respect to pace, scope and depth. With access residing in sovereign producer nations, energy security and resultant oil diplomacy move along multiple concurrent paths in a multipolar energy global system of producer and consumer nations, multinational oil companies and other global entities. Dependence on such resources for energy requirements makes this of vital national, regional and international import where national interests become inextricably bound to global concerns, with diplomatic activity to protect such interests, oil diplomacy, a strategy increasingly utilised.

Current high oil prices are attributed to several determinant factors, contributing to renewed emphasis of the issue on political and economic agendas. Among these are increased demand with hyper-economic growth of China, and other emerging industrialising powerhouses such as India and Brazil creating unprecedented competition for resources; heightened and continuous political and military tensions in various regions, affecting both demand and supply; the contribution of speculation in the futures markets; the all too visible hand of geopolitical power rather than the market in determining supply, and the effects of natural disasters and industry accidents.

To ensure their energy security, states are increasingly engaged in oil diplomacy in the hemisphere. With oil providing 40 percent of energy and 97 percent of transportation fuel, the US's *National Energy Policy* characterizes access to global oil as a vital national interest explicitly linking oil to its foreign policy objectives. The US continues its Carter Doctrine securing resources in the Persian zone and engagement with foreign governments and entities, even with previously described axis of evil countries. The People's Republic of China, accounting for 40 percent of global growth in oil demand in the last four years has focused on investment in upstream oil activities around the world, including exploration, pipelines and refinery facilities in a number of countries, including Latin America which is becoming an important destination for China in its global quest for energy security by diversifying supply beyond Middle Eastern sources.

One of the manifestations of hemispheric oil diplomacy is the use of oil as a geopolitical tool. Although by no means a new phenomenon, the OPEC nations in the 1970s effectively wielded oil diplomacy; Venezuelan President, Hugo Chavez, is engaging in

extensive diplomatic manoeuvring, bolstered by high prices and lowered supplies through an active, assertive and multi-dimensional oil diplomacy policy. Chavez, in May, coupled new requirements for joint ventures with state-owned oil company Petróleos de Venezuela (PDVSA), and dramatic increases in royalties and taxes paid by foreign energy companies, including Total, ConocoPhillips, Chevron, BP and Repsol YPF, from 34 to 50 percent. Refusal to accede by the Italian company, led to appropriation of one of its oil fields in retaliation. 'Nationalisation' of Bolivia's foreign owned natural gas installations has created similar tensions, particularly with Brazil, potentially jeopardising regional integration plans for a continental natural gas pipeline project.

Chavez has also used oil diplomacy to build regional and global alliances, promote Venezuelan interests regionally, expand his international influence and counter that of the United States in multilateral forums, such as the Organisation of American States (OAS) and the United Nations. Various initiatives including PetroCaribe, PetroSur, PetroAndina and bilateral deals provide for crude oil on favourable terms, through credits, subsidized prices and barter exchanges, declaring them as altruistic for humanitarian reasons and to enhance regional integration. The award of the UN's Jose Marti prize for promoting Latin American unity to Chavez and Caribbean support in the selection of Jose Miguel Insulza as OAS secretary general are heralded by Venezuelan authorities as verification of the policy's success. However, his calls to replace the US currency on the oil bill with the Euro have met with minimal success. In the face of these policies the US, perhaps not wishing to jeopardise supplies from its second largest supplier, seems to be practicing non-interference.

To enhance the international perception of Venezuela, Chavez, through Citgo, innovatively linked oil and public diplomacy, providing 45 million gallons of subsidized fuel in a response to an appeal by US Senators to oil companies for fuel aid to US cities.

Some analysts warn that using oil as a political tool and elevating prices to prohibitive levels will hasten the urgency of the world to find alternatives. However, with little recourse to alternative large-scale energy alternatives, oil and gas remain the dominant energy security concern for the Caribbean. High energy prices put pressure on the balance of payment of these islands. The bulk of foreign exchange, in some cases up to 80 percent, is used to fund fuel imports, leaving less available to purchase basic goods and services.

Chavez's oil diplomacy has implications for CARICOM in particular. Despite the significant financial relief afforded by the PetroCaribe agreement, Caribbean governments are unwilling to adopt his proposal for a Bolivarian Alternative for the Americas (ALBA) over the stalled Free Trade Area of the Americas (FTAA), in part due to incompatibility of many of its principles with the CARICOM Single Market and Economy (CSME). Also of regional concern are the potential commercial competition for

Trinidad and Tobago and Barbados energy sectors, the proposed Eastern Caribbean Gas Pipeline for T&T gas to reduce oil dependence and the overall regional integration initiative against which oil diplomacy must be balanced for the furthered integration movement of the region and its long term development agenda.