

PetroCaribe: A handout, not a hand-up, which may soon run out

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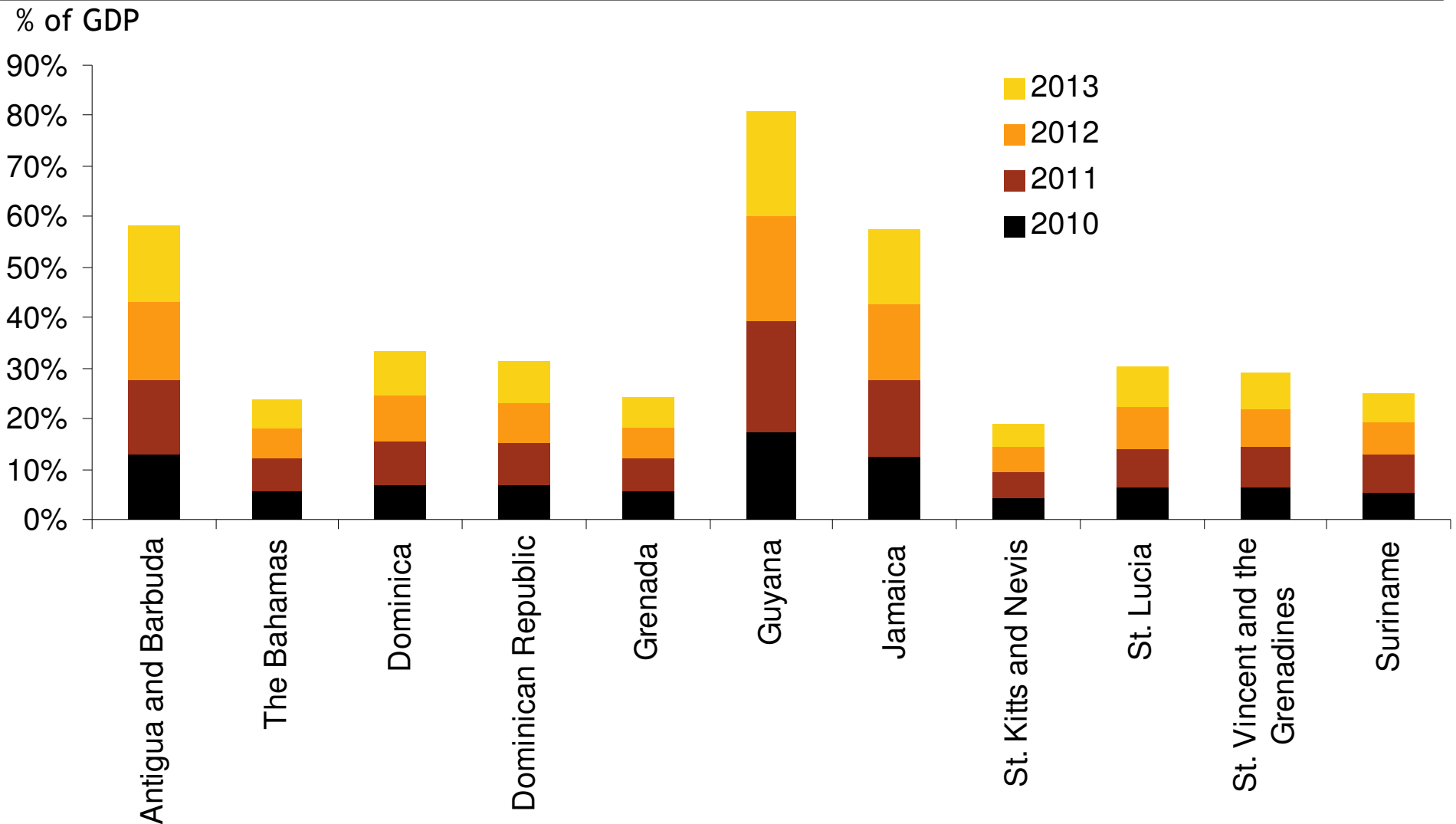


PetroCaribe and its Caribbean Members

- (Hypothetical) Impact of PetroCaribe's collapse:
 - Members' fuel import bill
 - External balances and debt to PetroCaribe
 - What if fuel imports were at market price?
- PetroCaribe defined – motive and structure
- (Un)sustainability:
 - Fiscal impact on Venezuela
 - The China factor

Most members spend roughly 7-12% of GDP on fuel imports per annum, according to the IMF. Guyana spends 20% on average. And they are not always paying market price.

Oil import bill vs. GDP : Caribbean

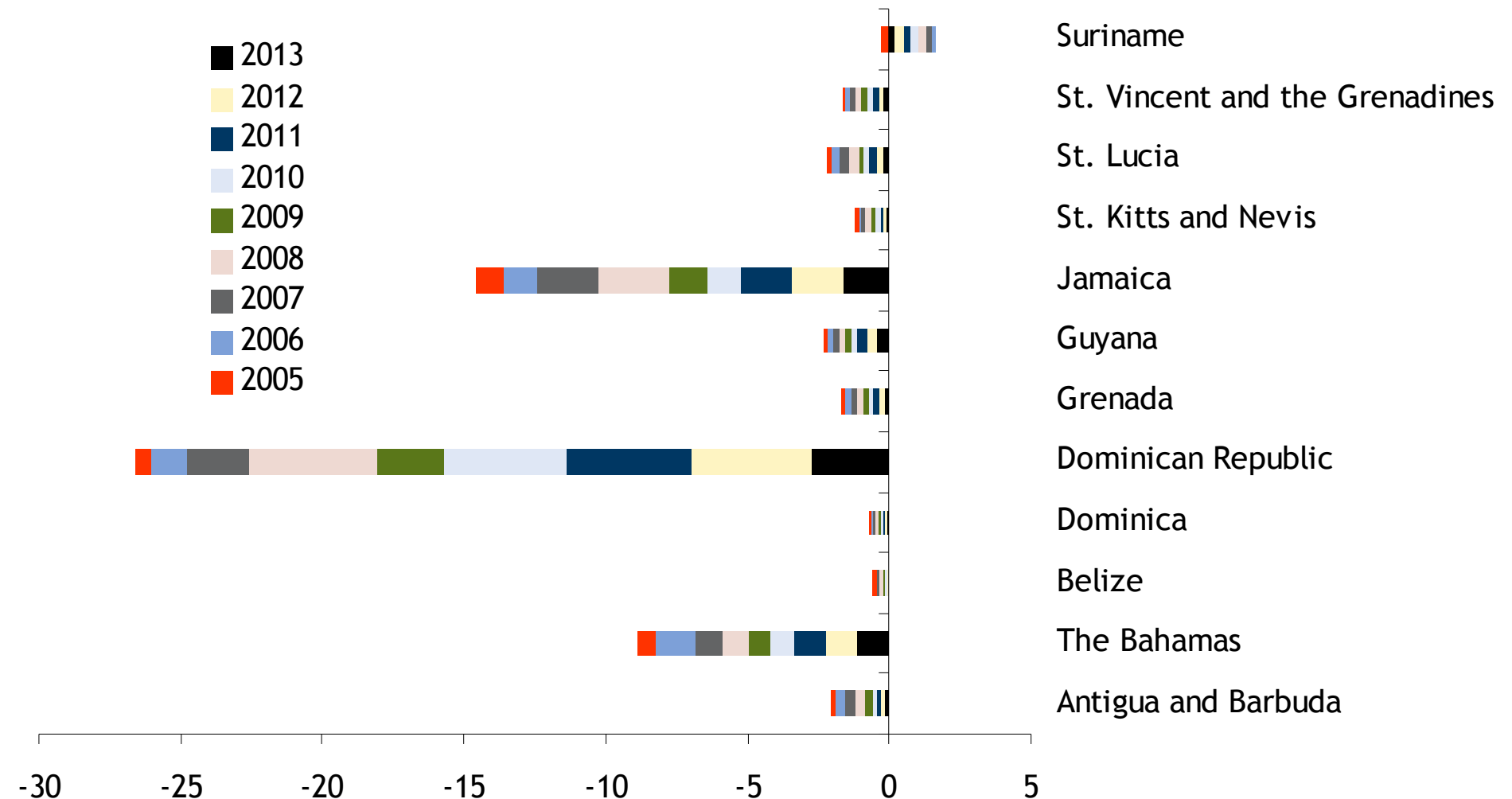


Source: IMF, RBC Financial (Caribbean) Limited

Persistent BoP Current Account deficits exist in the Caribbean (except Suriname), despite not always paying full market price at all times for fuel imports.

BoP Current Account Balances : Caribbean

USD Billions

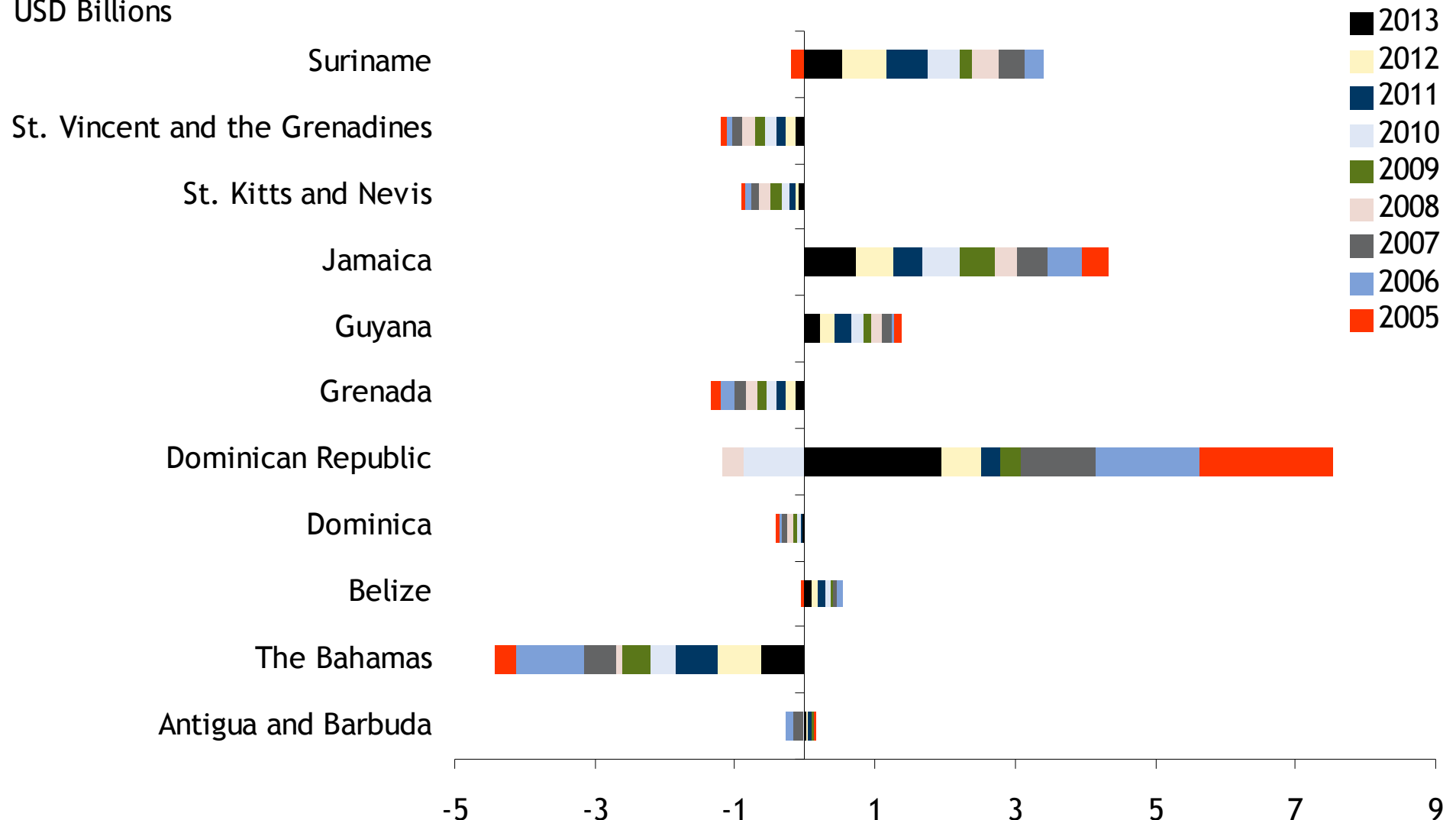


Source: IMF, RBC Financial (Caribbean) Limited

If fuel imports are eliminated, many countries would have Current Account surpluses – this shows the significance of (subsidized) fuel imports relative to external balances.

BoP Current Account Balances *sans* fuel imports : Caribbean

USD Billions

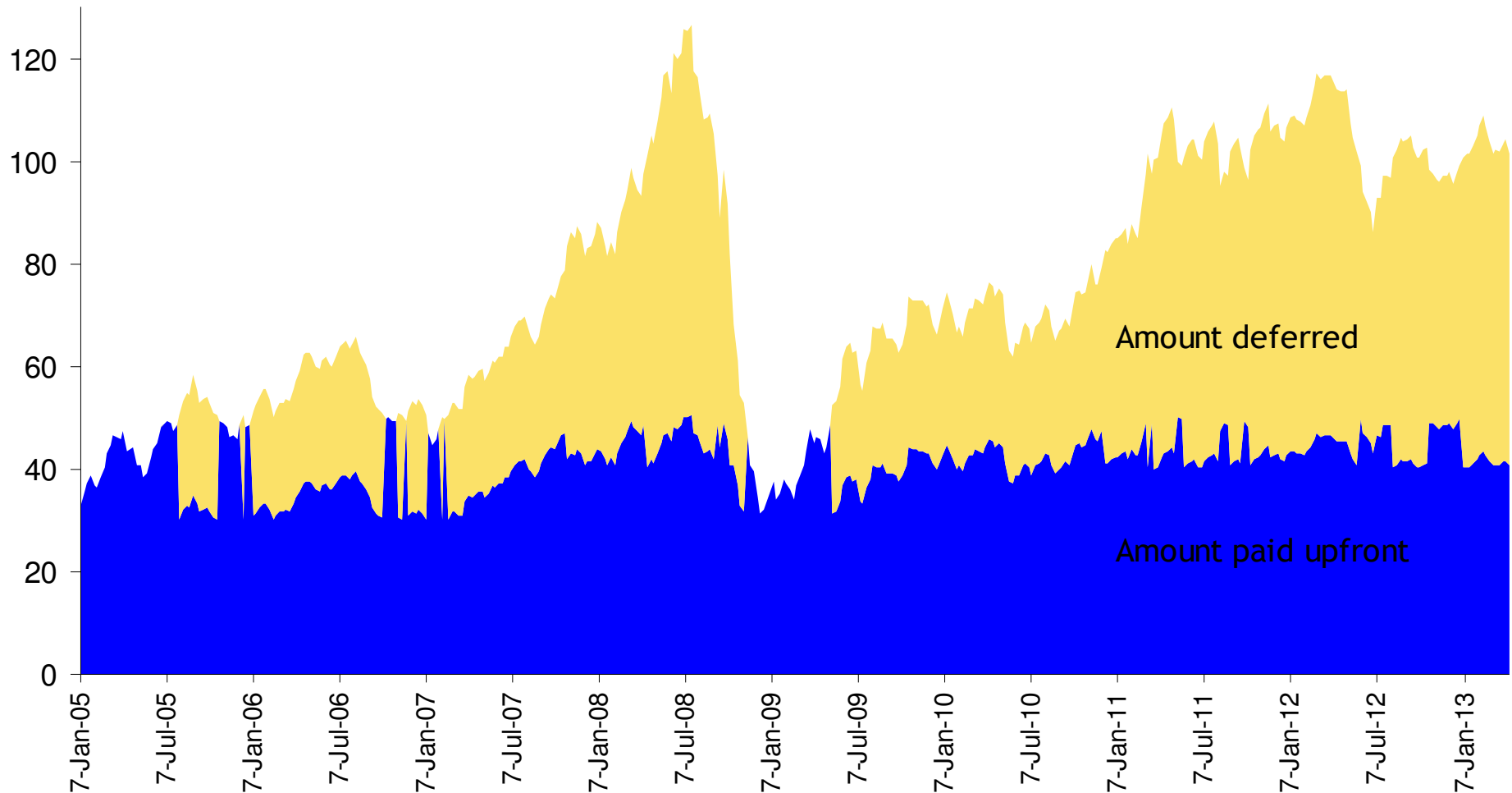


Source: IMF, RBC Financial (Caribbean) Limited

Financing is applied on a sliding scale, with the payment threshold averaging USD41 per barrel since 2005, maximum USD50.58 per barrel paid upfront.

Venezuela crude prices : PetroCaribe

USD per barrel

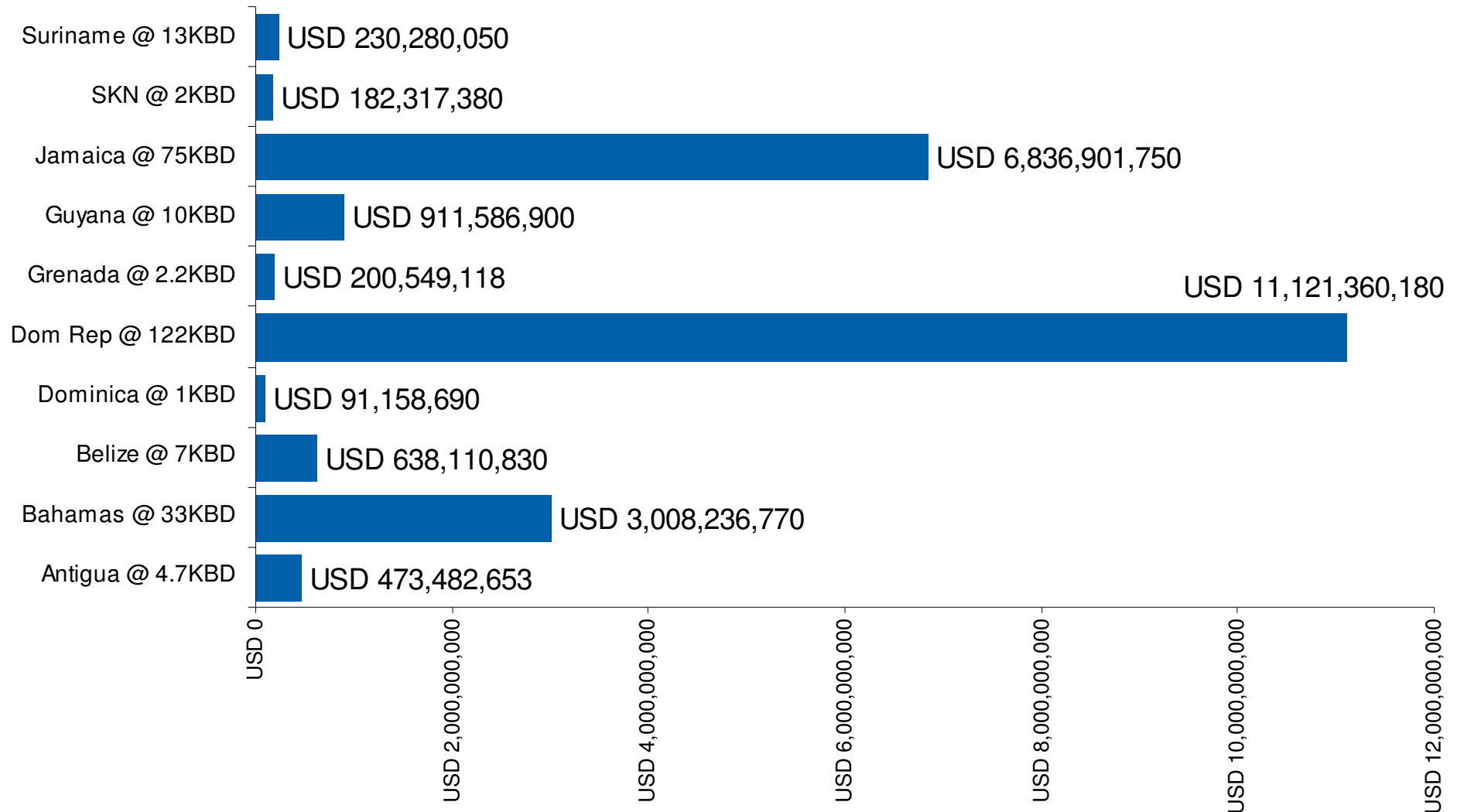


Source: Bloomberg, PetroCaribe, RBC Financial (Caribbean) Limited

Since 2005, cumulative debt to PetroCaribe reached at minimum, USD91MM in Dominica to USD11b in the Dominican Republic.

Cumulative Deferred Payments (2005-12) : PetroCaribe

Average daily consumption

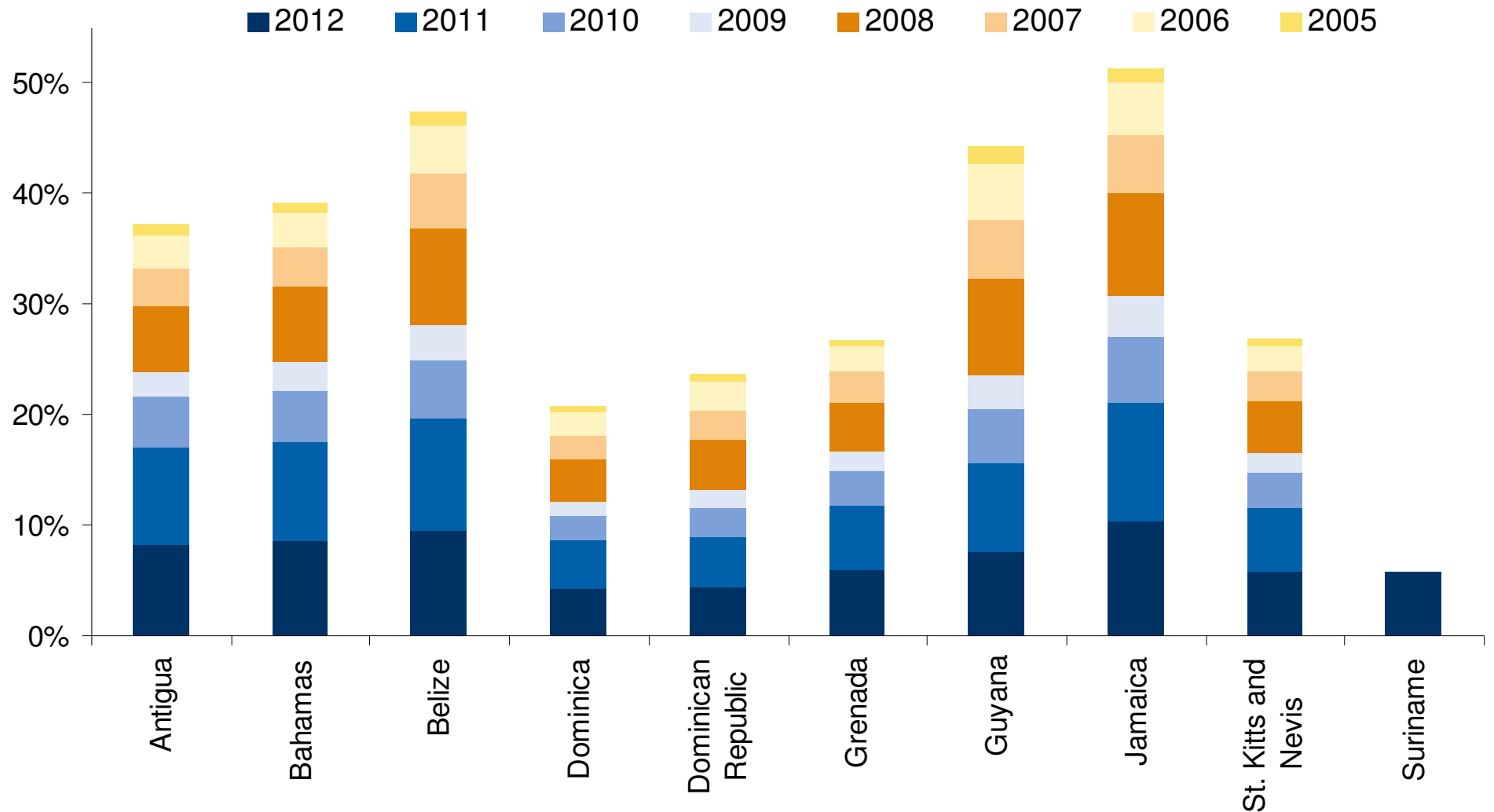


Source: Bloomberg, PetroCaribe, RBC Financial (Caribbean) Limited

Relative to GDP, the level of cumulative debt to PetroCaribe exceeds 20% for most members.

Cumulative Deferred Payments / GDP (2005-12) : PetroCaribe

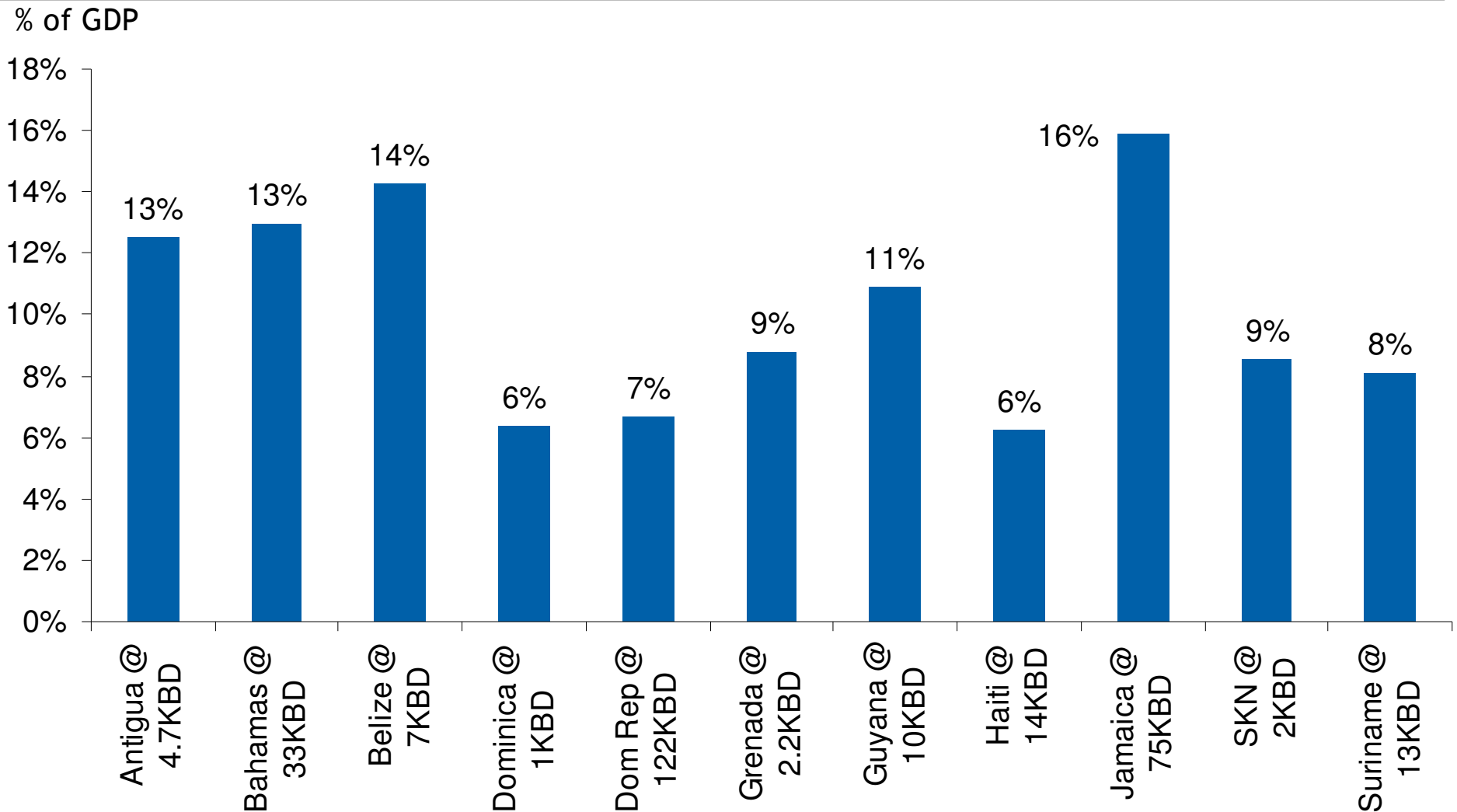
% of nominal GDP



Source: Bloomberg, PetroCaribe, UNECLAC, RBC Financial (Caribbean) Limited

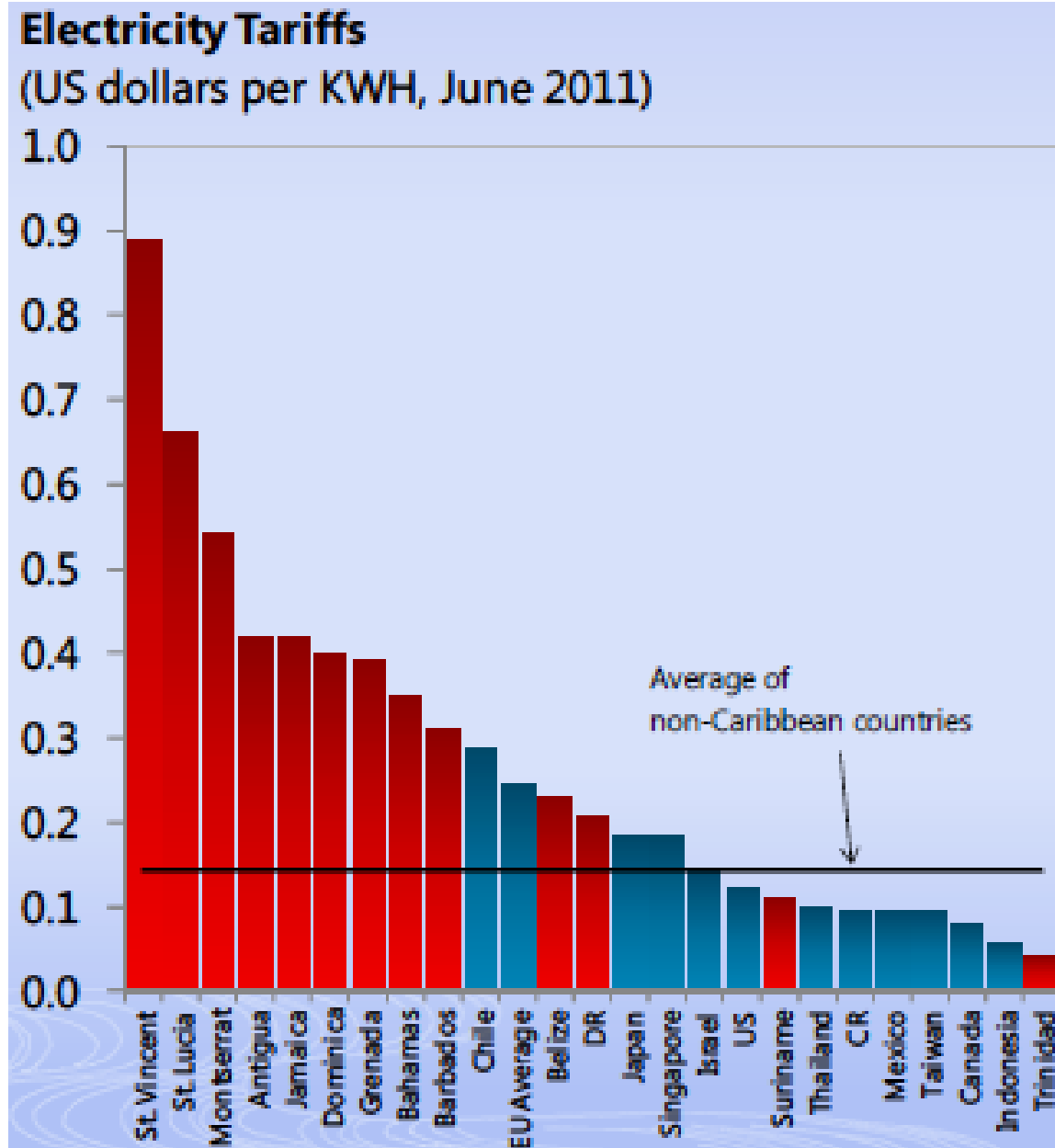
RBC has forecasted an average price of USD90 per barrel (WTI) for 2013. PetroCaribe consumption / GDP exceeds 6% for all members in 2013.

2013 Oil Import Bill vs GDP : Caribbean



Source: Bloomberg, UNECLAC, PetroCaribe, RBC Financial (Caribbean) Limited

Electricity costs in member countries far exceeds the global average, despite access to heavily subsidized oil. Why?



Source : IMF

PetroCaribe is masking and exacerbating fiscal and external unsustainability in member states.

- **Dominica's PM Skerrit - "I know of countries today, because of the global crisis, are using the funds from PetroCaribe to pay the salaries of public officers in these countries. I know of countries today that are using the resources to make their debt payment that they are unable to meet on a monthly basis."**
- **Jamaica has reportedly accessed the PetroCaribe Development fund for recurrent expenses not limited to debt servicing. Wesley Hughes, Chairman of the PetroCaribe Development Fund: "We have analyzed that initially the impact would be about USD50 mm/month (USD600 mm/annum) that we would have to find, as a balance of payment impact."**

Venezuela – some stylized facts

- Venezuela is the world's 5th largest exporter of petroleum, and holds the world's largest crude oil reserves
- PDVSA contributes 50% of central government revenue, and 90% of foreign exchange earnings
- Petroleum production is now 22% lower than 1999 when Chavez took power

Venezuela and PetroCaribe – buying friends?

- PetroCaribe costs Venezuela USD6.7 billion annually
- 120K – 140K barrels shipped per day over the past three years
- Biggest buyers - Jamaica and the Dominican Republic.
- Cuba, separately, has received around 100,000 barrels per day under a more complex arrangement
- PDVSA estimates that one-third of the Caribbean's external debt will be owed to Venezuela by 2015

PetroCaribe structure

- PDVSA sells fuel on credit, partial payment is due within 90 days, the remainder due anywhere between 2 - 25 years for “between 5% and 50% of the oil bill” (PDVSA)
- If $>USD50$, 40% is deferred, if $>USD80$, 50% is deferred, if $>USD100$, 60% is deferred (Romero 2011)
- If $<USD40$ per barrel, 2% interest rate, if $>USD40$ per barrel, 1% interest rate (Griffith 2011)
- Barter arrangements exist for repayment

PDVSA, hence PetroCaribe is unsustainable.

- Venezuela only receives payment for two-thirds of its petroleum exports, or 2,470K bpd.
- PDVSA's 2011 Management Report shows that no funds were collected for 32% of output in 2009, and 43% of output in 2011 (Reuters)
- Since 2009, accounts receivable jumped 121% to USD38.7 billion.

Venezuela has mortgaged its reserves to China, and supply may shift away from PetroCaribe.

- Since 2007, the China Development Bank has lent Venezuela USD42.5 billion or 23% of all overseas loans by the CDB.
- CDB loans cost Venezuela no more than 6%, while international Vene bonds yield ~12%.
- Venezuela repays China with oil, ~200K bpd of the ~640K bpd sent to China is for debt servicing - about 9% of PDVSA's production. In 2011 alone PDVSA missed out on revenue of nearly \$8 billion
- Chavez promised to increase China's oil shipments to 1 million bpd

Key takeaways:

- PetroCaribe has afforded its members a higher level of fuel consumption and overall spending than they would normally be able to afford.
- PetroCaribe is unsustainable from a fiscal standpoint.
- China is a more important ally than the Caribbean. Supply will inevitably be diverted.
- The absence of subsidized fuel could force members to restructure their economies – lower consumption, renewable sources.

Thank you!

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