Strategic regional public enterprises and petroleum sovereignty: PDVSA, Petrocaribe and the ALBA-TCP

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RESUMEN

Los emprendedores (empresarios) públicos regionales estratégicos son empresas nacionales y mixtas de los países de América Latina y el Caribe que son miembros de un acuerdo de integración regional conocido como la Alianza Bolivariana para los Pueblos de Nuestra América-Tratado Comercial de los Pueblos (ALBA-TCP).
Este trabajo articula la conceptualización del fenómeno en torno a cuatro elementos: el empresarismo público estratégico; el regionalismo estratégico; la multidimensionalidad que trasciende el ámbito económico; y el concepto de soberanía. Aplica esta teorización para explorar cómo la compañía de Petróleos de Venezuela (PDVSA) se convirtió en un emprendedor público estratégico, cómo el ALBA-TCP presenta alternativas a la crisis del petróleo; y cómo estos procesos contribuyen a la transformación de la economía política internacional.
[***Palabras clave***: desarrollo de constructos, economía política internacional, soberanía, empresarismo público estratégico, petróleo, Alianza Bolivariana.]

ABSTRACT

New Strategic Regional Public Enterprises are national and mixed state enterprises from Latin American and Caribbean countries that are members of a regional integration agreement known as the Bolivarian Alliance-Peoples Treaty Agreement (ALBA-TCP). This article conceptualizes the phenomena and applies this theorization to explore: how Venezuela's petroleum company became a strategic public enterprise; Petrocaribe as a regional initiative in energy integration; and what characterizes intra-Petrocaribe trade in petroleum-related goods.

This article analyzes how Full Petroleum Sovereignty is construed as strategic industrial and trade policies adopted by National Oil Companies (NOCs) at the level of the state to seek sovereignty from International Oil Companies (IOCs). Sovereignty is therefore conceptualized as a response to the contradictions of the NOC/IOC relation. It also analyzes the regionalization strategy within the ALBA-TCP exemplified by Petrocaribe. Conclusive research findings present evidence on intra-Petrocaribe trade in petroleum-related goods and on value chains being formed in the region. [***Keywords***: petroleum sovereignty, strategic public enterprises, Bolivarian Alliance (ALBA-TCP), PDVSA, Petrocaribe, national oil company.]

Introduction[2]

New Strategic Regional Public Enterprises have emerged in Latin America and the Caribbean. These are defined, for the purpose of this article, as national state oil companies from Latin American and Caribbean countries that have established strategic industrial and trade policies conducive to petroleum sovereignty.

This article will analyze the phenomena and will focus on Venezuela's Petroleum Company PDVSA (for its acronym in Spanish of Petróleos de Venezuela, Sociedad Anónima) and its link to a regional integration agreement known as the Bolivarian Alliance for the Peoples of Our America-Peoples' Trade Agreement (ALBA-TCP) (ALBA-TCP for its acronym in Spanish of Alianza Bolivariana para los Pueblos de Nuestra América-Tratado Comercial de los Pueblos) and to Petrocaribe, an energy integration initiative within the ALBA-TCP.

Launched in 2005, ALBA-TCP is constituted at present by eight member countries: Venezuela, Cuba, Bolivia, Nicaragua, Dominica, Antigua and Barbuda, Saint Vincent and the Grenadines, Ecuador, Saint Lucia, Suriname and Haiti (initiated process to become a member). The Petrocaribe agreement has been signed by 18 Caribbean countries: Antigua and Barbuda, Bahamas, Belize, Cuba, Dominica, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Dominican Republic, Saint Vincent and the Grenadines, Saint Lucia, Saint Kitts and Nevis, Surinam and Venezuela. One of the strategic initiatives of regional energy integration is that PDVSA has formed 14 mixed public enterprises with eleven Petrocaribe member countries, as discussed in this article.

The objective of this article is two-fold: First, to propose a conceptualization of the strategic regional public enterprises structured around the concept of petroleum sovereignty. Then, it applies this conceptualization to explore how Venezuela's petroleum company became a strategic public enterprise seeking petroleum sovereignty. Second, to present conclusive findings on: intra-regional trade in exports among Petrocaribe members, specifically those that have mixed enterprises with PDVSA and also to map intra-regional chains in exports.

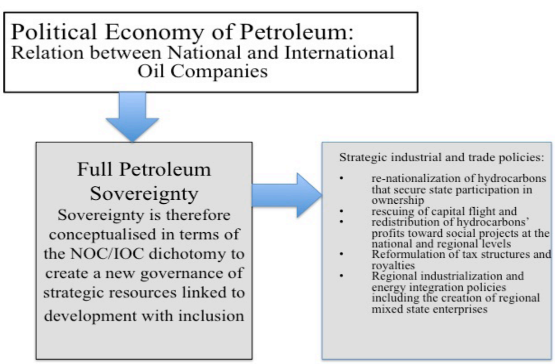
Research design was structured around three components. The research utilized an exploratory study, a conclusive research design to analyze intra-Petrocaribe trade, and two case studies –PDVSA and Petrocaribe. The exploratory study integrated elements of grounded theory to establish categories relevant for research. The exploratory study allowed for the formulation of the phenomenon with greater precision, clarifying the concepts and generating theorization. Techniques applied were codification of data and analytic induction to 'discover' categories. Data and sources of data included articles, books, interviews, field study notes, transcriptions of the *Aló Presidente* Program, documental material and speeches. The case studies were used as theoretical sampling in the sense stated by Eisenhardt and Graebner (2007, p. 25) to construct theory. Theory construction based on case studies is a research strategy that involves the utilization of one or more cases to create the theoretical constructs and formulate propositions based on cases. Quantitative and qualitative methods and techniques of sources of evidence included: company documents, databases available online on financial statements, and semi-open and semi-structured interviews.

A conclusive research design with mixed methods was employed. Descriptive quantitative methods were used to analyze exports among Petrocaribe countries utilizing the United Nations Commodity Trade Data Base. Countries studied were Petrocaribe members that have mixed enterprises with PDVSA. The period chosen to examine intra-Petrocaribe trade ranges from 1999-2012. This was divided into two periods in order to carry out a comparative analysis: pre-ALBA-TCP from 1999-2005 and post-ALBA-TCP from 2006-2012.

Conceptual framework: strategic public enterprises and petroleum sovereignty[3]

Full Petroleum Sovereignty is construed as strategic industrial and trade policies adopted by National Oil Companies (NOCs) at the level of the state and as strategic management at the level of the firm to seek sovereignty from International Oil Companies (IOCs). Sovereignty is therefore conceptualized as a response to the contradictions of the NOC/IOC relation, as illustrated in Figure 1.

Figure 1: The Political Economy of Petroleum



Source: Elaboration by Maribel Aponte García.

The concept of FPS is constructed around the political economy of petroleum marked by the differentiation and dynamics between national and international oil companies. The FPS concept has been articulated around re-nationalization of petroleum, rescuing of capital flight, redistribution of oil profits towards social projects at the national level, and creation of mixed regional enterprises and it has been operationalized in specific management practices. It is in the framework of the political economy of petroleum that new management practices by PDVSA and the state are built to acquire FPS. What also distinguishes FPS in Venezuela as well as in other Latin American countries, particularly Bolivia and Ecuador, is that sovereignty is tied to development with inclusion.

Strategic industrial policies and management practices are constructed around three practices –secure state ownership, increase taxation and carry out a regional industrialization policy. For instance, in the case of Venezuela, there are three things that are new, all owing to the reach of the vision of petroleum's role in national and regional economic development: 1) governmental control over the national oil company PDVSA; 2) application of oil revenue utilization policy to fuel economic development within the country, to solve some of the specific problems of poor people in the country and ALBA region; and 3) the development of a regional economic integration alternative based on oil and energy trade and investments.

The clash between sovereign national companies and international oil companies

What defines the crucial issue in the political economy of petroleum is the relation between the proved petroleum reserves of a country and its oil consumption. In this relation, there are two basic contradictions. The first is that the largest consumer countries are not the largest owners of the world's proved reserves, as can be deduced from table 1. For instance, in 2012, the United States was the world's largest consumer of oil with 18.8 millions of barrels a day, while as an owner of the world's proved reserves, it held the 12th position worldwide. The second contradiction is that in many of the countries with the largest proved reserves, oil is in the hands of national oil companies that belong to the Organization of Petroleum Exporting Countries (OPEC) while the largest consumer countries do not own, in general terms, national oil companies and depend on private International companies. "About 77% of the world's 1.1 trillion barrels in proven oil reserves is controlled by governments that significantly restrict access to international companies." PFC Energy (a Washington, D.C. consultants' firm)[4]

Table 1: World Proven Petroleum Reserves and Consumption, 2012

In descending order of number of barrels per day

World Proven Reserves 2012 (1)			World Oil Consumption 2012 (2)		
Billions of barrels	Countries	(In billions of barrels)	Millions of barrels per day	Countries	(Millions of barrels per day)
>200	Saudi Arabia (NOC) (OPEC)	267.0	>10	United States	18.6
	Venezuela	211.2	7-10	China (NOC)	10.3
100-200	Canada (IOC)	173.6	4-7	Japan	4.7
	Iran (NOC) (OPEC)	151.2	2-4	Brazil (NOC)	2.8
	Iraq (NOC) (OPEC)	143.1		Canada	2.3
	Kuwait (NOC) (OPEC)	104.0		Germany	2.4
50-100	United Arab Emirates (NOC) (OPEC)	97.8		India	3.6
	Russia (IOC)	60.0		Korea, South	2.3
25-50	Libya (NOC) (OPEC)	47.1		Mexico (NOC)	2.1
	Nigeria (NOC) (OPEC)	37.2		Russia	3.2
	Kazakhstan	30.0		Saudi Arabia (NOC) (OPEC)	2.9
10-25	United States (IOC)	26.5	1-2	France	1.7
	Qatar (OPEC)	25.4		Indonesia	1.4
	China (NOC)	20.4		Iran (NOC) (OPEC)	1.7
	Brazil (NOC)	14.0		United Kingdom	1.5
	Algeria (NOC) (OPEC)	12.2		Italy	1.4
	Mexico (NOC)	10.4		Singapore	1.4
<10	80 countries			Spain	1.3
0 (none)	117 countries			Taiwan	1.1
				Netherlands	1.0
				Thailand	1.0
			<1	200 countries	

Source: Elaborated by Maribel Aponte García based on
1) http://www.eia.gov/countries/index.cfm?view=reserves
2) http://www.eia.gov/countries/index.cfm?view=consumption

Since the early Twentieth Century, the oil industry has been characterized by friction and continuous re-negotiation of conditions agreed between host countries and international enterprises that acquire and exercise concessionary rights to exploit such countries' natural resources. A pattern has been established in which host countries have gradually been assuming more leverage as increased dependency upon oil and increased demand for the product has changed the market environment. Through the years host countries have also been developing their own oil expertise and are no longer subject or easy prey to the International Oil Companies (IOCs) that previously held an advantage in knowledge.

By no means has this trend followed a uniform nor steady pace in one direction. Negotiation at different stages of history, ups and downs of crude oil prices, competition between host countries for IOC investment, and changes that have occurred in the balance of the power structure between host countries and IOCs have made the balance go back and forth several times through the years. During the most recent decades National Oil Companies (NOCs) have risen to the level of equating and surpassing IOCs in expertise, size and impact in all aspects but particularly in crude extraction. Venezuela's national oil company PDVSA is among the seven top petroleum enterprises in the world, together with Saudi Aramco, Exxon-Mobil, Royal Dutch-Shell, National Iranian Oil, British Petroleum, and Chevron.

National Companies have been created for different purposes.[5] In some cases the purpose has been to manage the national oil resources, while in other cases they have been created to deal with producer countries in the acquisition of oil to satisfy their country's needs, locate, purchase and manage oil stocks, refine imported oil, or to distribute and sell the oil products in the country. Upon energy having become such a fundamental issue in their national agendas, many states have chosen to administer their supplies publicly as suppliers using private companies as accessories. This is worrisome for the consumer countries.

The international oil market, almost from its beginning, has operated by means of the exploitation by private companies from the developed countries that need the product of oil reserves located in less developed countries. Historically, the international oil companies: obtain concessions to locate and exploit oil, claim title to the oil reserve, invest funds in developing the infrastructure required to extract the oil, and then begin extracting and exporting the oil to the points where it is to be consumed, where they have been able to establish control of retail sales of oil products. The tensions that exist between the countries that own the resource and the IOCs that have the capital and the knowledge necessary to carry out the exploration and exploitation have eventually brought about the need for countries who are blessed with oil reserves to develop and strengthen their national oil companies, in the first place, to confront and come to terms with the foreign oil companies, and, further ahead, to assume some of the functions that were carried out only by the international companies. This has resulted in the development of competent proactive national companies and has put limits on the participation options that IOCs have for participation by means of access to raw materials and has defied the control of private companies of distribution networks and of retail sales to final consumers.

The fact that the majority of oil consumption occurs in countries where the existence of sufficient petroleum reserves to cover their needs does not necessarily coincide, creates additional tensions between developed and less developed countries. History has registered many events whose roots can be traced to the issue of assurance of oil stocks for consuming countries. The range of such events includes the imposition of governments from abroad and the establishment of national borders in some parts of the world.

Petroleum has been becoming less available to those private IOCs that have traditionally controlled the industry as NOCs have continued consolidating as formidable competitors and custodians of the resource. This has been occurring as energy continues each day to have increased strategic and geopolitical relevance, as demand for the product rises while it is perceived that reserves of fossil fuels are inevitably becoming more and scarcer.

Coinciding with the discourse of liberalization and globalization of markets predicated during the most recent twenty years, the recent course of the world's oil industry shows several interesting contradictions. While the liberal current proposes privatization of those enterprises managed by the state as an infallible remedy, in this industry it appears the opposite is what is occurring. While liberalization of commercial and investment norms is proposed to facilitate the operation of private transnational enterprises worldwide in the different industries, in the petroleum industry doors are being closed for private international companies in favor of national companies that have been assuming more and more as major players within a nationalist framework.

During the most recent thirty years we have seen an inversion of the relation between the shares of total petroleum reserves held by the IOCs on one hand and by the NOCs on the other. This has left the majority control of reserves in the hands of national companies (Álvarez, 2007).

These national enterprises come about as operational arms of the energy ministries of the respective countries and in many cases they assume functions that previously pertained solely to the IOC such as *Exxon-Mobil, Chevron, Conoco-Phillips, British Petroleum, Total*. This change in the composition of control for exploitation of reserves, joined to the growing apprehensiveness regarding future fuel supplies and the additional part some national companies have assumed in the more just distribution among the national population of the benefits obtained from the oil sales has converted national oil companies in an object of study[6].

The contradictions of the political economy of petroleum have exacerbated the race for the control of remaining reserves of this non-renewable resource. Vivoda (2009, p.4) states that "The resurgence of resource nationalism is not confined to Latin America and the former Soviet Union. In Angola, Nigeria, Chad, Sudan and elsewhere, local protests for a greater share in the nation's oil wealth have disrupted production frequently. In virtually every oil-exporting country, NOCs, which had in the 1990s ceded ground to IOCs in the wake of globalization, have reclaimed lost ground. The majors are struggling to hold on to their position in most states in which they operate (Johnston, 2008, p.38). There is a balance of power between governments and firms determined by the particular circumstances of the times. In the current decade, when considering exclusively empirical evidence from the oil industry, the nation-state appears robust as a regulator of MNCs. On the contrary, IOCs' bargaining power is fading away vis-à-vis that of host states. Resource nationalism is back at the forefront of relations between host-governments and IOCs and it 'translates into an anti-Western IOC campaign' (Stevens, 2008, p.26). Some claim that despite the existence of 'some holdout governments that refuse to relinquish control to the private sector,' resource nationalism is moribund (Morse, 1999, p. 18). This does not apply in the oil industry, where oil producing and exporting states own and control between 77 and 90 per cent of total proven world oil reserves (Marcel, 2006, p.1; Chen & Myers Jaffe, 2007, p.11; Myers Jaffe, 2007, p.1). The IOCs' bargain has obsolesced once again."

PDVSA and full petroleum sovereignty: the emergence of a strategic public enterprise

PDVSA, far from being alone, is one among nearly sixty NOCs that have defined a new posture for national patrimony in the face of IOCs. Among the most notable NOCs are: *Saudi Arabian Oil Company (ARAMCO)* (Saudi Arabia)*, Petropars* (Iran), Pemex (Mexico), *Lukoil*

(Russia), *China National Petroleum Corporation (CNPC)* (China), *Oil and Natural Corporation Limited (ONGC)* (India), Petrobras (Brazil). Many of these, including PDVSA, also manage natural gas.

PDVSA holds assets valued at $218,424 million (PDVSA, Informe de Gestión Anual 2012: 161). In 2012, PDVSA's operational income was $ 124,459 million with net earnings of $4,237 million (PDVSA, Informe de Gestión Anual 2012: 159) PDVSA ranks fourth (in December 2008) among the most important oil companies in the World, behind *Saudi Aramco, National Iranian Oil Company (NIOC)*, two NOCs, and *Exxon-Mobil*, a private company, having surpassed *British Petroleum* (a private company) during 2008[7]. In December 2008 PDVSA was ranked fourth in proven reserves of oil and gas, seventh in production volume, fifth in refining capacity and eighth in sales[8]. PDVSA is responsible for 50% of the total income of the government of Venezuela, provides 80% of that country's export income and is the largest employer (greatest number of jobs) in Venezuela with some 78,739 employees and 19,374 contracted services providers (December 2008)[9].

Venezuela has four main oil field areas producing conventional oil: Maracaibo with 50% of the country's total production, Falcón, Apure and Oriental, all on the mainland. The development of offshore facilities is in its initial stages, with production having initiated recently in Corocoro, located in the Gulf of Paria West.

Known for years, although traditionally undervalued, there exist immense reserves of a material known as extra-heavy crude oil (previously called bitumen)[10] in an area known as the Orinoco Belt. Nowadays, the Orinoco Belt is considered to hold the greatest oil reserves in the World (Talwani, 2002, p.1).

In the Venezuelan case, President Hugo Chávez campaigned in the late nineties promising to apply oil income to solve the country's economic problems, and to correct the oil industry's position with respect to IOCs. State control of the industry had been relaxed because, despite the 1975 Nationalization Law, the NOC, PDVSA, had later been allowed to range away from a national standpoint toward more independence from the state, first through its internationalization during the 1980s and later in the mid-nineteen nineties within the so-called *Aperture* when private foreign oil companies were invited to invest in upstream operations (exploration and extraction) and to own operations in which they exercised control of more than the 50% ownership allowed by the 1975 law. Between 1995 and 1999 several mixed enterprises were established in Venezuela in which PDVSA owned less than 50%. When the Chávez government acceded to power in 1999 through democratic means and stating that it would redirect oil income towards the relief and solution of severe problems confronted by the population, it started to develop its strategy concerning PDVSA and securing state control.

Far from sovereignty being an isolated case in the Venezuelan petroleum industry, similar processes have been carried out in other hydrocarbon producing countries of South America, particularly in Bolivia and Ecuador. On September 4, 2007, Ecuador decreed that 99% of the extraordinary profits from petroleum would be for Ecuadorians (instead of the prevailing 50% prior to the decree) ("*Reglamento de Aplicación de la Ley Número 42-2006 Reformatoria a la ley de Hidrocarburos*") (Available at http://www.nodo50.org/caminoalternativo/boletin1/159-10.htm). Bolivia nationalized its hydrocarbons on May 1, 2006. According to the decree, the new income distribution derived from the production of petroleum and gas would be of 82% for the State and the remaining 18% for the petroleum companies.[1] (Disponible en http://www.larepublica.com.uy/economia/209576-bolivia-nacionaliza-hidrocarburos).

PDVSA was created as Venezuela's national oil company in 1976 under the authority of the Nationalization Law approved in 1975, when Venezuela opted to nationalize the oil industry.[11] The company has been called The New PDVSA since 2003, the moment when the State imposed its control over the oil industry and aligned PDVSA with the State's goals. This event is known as the first phase of the re-nationalization and recuperation of PDVSA in January 2003 and in the terms of this article shall be called the first phase of Full Petroleum Sovereignty. On the 10th of October, 2004 the President of the Republic, Hugo Chávez, announced, in his program *Aló Presidente* Number 207, a new strengthening of the country's petroleum policy to enter into a phase of "Full Petroleum Sovereignty" (http://www.PDVSA.com). This is known as the second phase of re-nationalization and Full Petroleum Sovereignty.

On July 29, 2007, Chávez stated regarding the Full Petroleum Sovereignty, "This is the crux of the matter, the management of the country's resources that were administered before by an oligarchy subordinated to the empire, for its own benefit and for the empire's benefit. Now we are managing in a different manner for the benefit of the majority, and that is the difference."[12] According to Venezuelan president Hugo Chávez, the conceptualization of Sovereignty was the product of efforts in research, work, and knowledge appropriation in order to make fair decisions regarding the Bolivarian Republic of Venezuela and the nation.

In energy, the concept of sovereignty within the ALBA-TCP has been articulated around the re-nationalization of hydrocarbons, the rescue of capital flight and the redistribution of hydrocarbons' profits toward social projects at the national level, as well as in the creation of regional mixed state enterprises. What also distinguishes hydrocarbon sovereignty in Venezuela, Bolivia and Ecuador, is that sovereignty is tied to inclusive development. Redistribution can be focused on access to land, production, consumption, work and credit. Also, regionalization efforts are channeled toward countries with convergent political affinities instead of toward international oil companies. According to Venezuelan president Hugo Chávez, the conceptualization of sovereignty was partly the product of efforts in research, work, and knowledge appropriation.

As we have already mentioned, PDVSA was created in 1976 at the moment of the nationalization of the Venezuelan oil industry. That event occurred as part of a wave of resource nationalism on the part of the countries that have reserves of oil, bauxite, copper, etc., a wave that involved several nations, including Trinidad-Tobago and Chile. National companies were empowered and would react by defining their central role in the dichotomy producer countries/consumer countries in the more ample panorama related to energy markets.

In the case of Venezuela, nationalization was not a sudden reversal but instead came within the course of a long history of resource nationalism and after having sketched repeatedly the goal of maximizing fiscal income that could be derived from the oil industry as conducted by the state (Mommer, 2002, pp.2-3).

Since at least the 1940s, the Venezuelan voice has been one of leadership in the continuous renegotiation with the private IOCs. During the process of development of the balance of power between concessions-holders and producer countries, Venezuela has provided leadership, having registered strong friction with the companies to increase state participation in the oil income during the period 1940 to 1945 that was resolved through US mediation and resulted in their Hydrocarbons Law of 1943, by means of which Venezuela became the first country to achieve a 50-50 split of earnings with the IOCs. Venezuela urged Middle Eastern countries to celebrate meetings to discuss ways of confronting the IOCs and promoted the consolidation of a common front of producers. The strategy for creating National Oil Companies was born during the First Arab Oil Congress celebrated in 1959, where Venezuela attended as an observer. Venezuela was one of the OPEC founders in 1960 together with Iran, Iraq, Kuwait and Saudi Arabia, having provided a great part of the initiative invested (Penrose, 1964: 83).

OPEC was founded in 1960 as a producer that could assume the strength required to deal with control that had been established by the cartel that had been formed by the main private oil companies. In the decade 1950-1960, the seven majors were: *Standard Oil (New Jersey), Royal Dutch/Shell, British Petroleum, Gulf Oil, Texaco, Standard Oil of California* and *Mobil Oil)* (Penrose, 1964: 78). In spite of early rivalries between them these enterprises had harmonized and operated in an orchestrated manner, imposing the conditions as concessionaires for oil extraction and in the control of supplies available as well as provider companies in a global coordination. Six of these, all except BP, operated in Venezuela during the 1950s (Penrose, 1964, p.58).

Through the recent events in which the negotiating strength has been taken to the limits by the supply (reserves) side in the face of IOCs, Venezuela maintains its leadership. Venezuela has always viewed its petroleum reserves as national property. As Former Energy Minister and PDVSA President Alí Rodríguez commented in a 2004 interview (Padgett, 2004): "The people are the owners of their natural resources, so we all have a proprietary actor's role on the oil stage." A study by Mares and Altamirano (2007) states: "Venezuela has been in the forefront of national strategies to wrest more benefits from the IOCs that developed the global petroleum market". A brief review of some of the highlights in Venezuelan oil history shows the reason for the previous comment. Venezuela was the first country to achieve a 50-50 split of oil earnings between the foreign countries and the government of the host country in the early 1940s. The Venezuelan Constitution of 1947 declared that oil revenue would be the cornerstone of economic development of the country (Mares & Altamirano, 2007). In the latter 1950s Venezuela joined the Arab countries to create a unified front for dealing with IOCs: was an observer in the First Arab Petroleum Congress in 1959, created a national oil company (CPV) in 1960 and became a founding member of OPEC in 1960. Nationalization of the Venezuelan oil industry was executed in 1975, but even under the most nationalistic scenarios, Venezuelan nationalization never excluded IOCs participation in mixed companies. Nationalization Law required majority ownership (at least 50%) for the country.

Thus, recent measures taken by the Venezuelan government under Hugo Chávez related to its control of the oil industry and the revenue it produces may be placed within a historical context as a reaffirmation and reinstatement of a resource nationalism that has been developing in this country during decades. There are three things that are new, all owing to the reach of the vision of petroleum's role in national and regional economic development: 1) governmental control over the national oil company PDVSA; 2) application of oil revenue utilization policy to fuel economic development within the country, to solve some of the specific problems of the people who are the most poor in the country; and 3) the development of a regional economic integration alternative based on oil and energy trade and investments.

President Hugo Chávez campaigned in the late nineties promising to apply oil income to the county's economic problems, and to correct the oil industry's position with respect to IOCs.

State control of the industry had been relaxed in the mid-nineteen nineties within the so-called *Aperture* when private foreign oil companies were invited to invest in upstream operations (exploration and extraction) and to own operations in which they exercised control of more than the 50% ownership allowed by the 1975 law. Between 1995 and 1999 several mixed enterprises were established in Venezuela in which PDVSA owned less than 50%. The NOC, PDVSA, had also ranged away from a national standpoint toward more independence from the state.

The recent changes toward a more strict governmental management of the oil industry and of PDVSA have been favored by high oil prices and by developments carried out by PDVSA in earlier stages, particularly the incursion into downstream operations including the purchase of refining and retail operations in the USA (Venezuelan-owned CITGO making direct sales to consumers) that PDVSA had made in the 1980s.[13]

The process of change has been characterized by the speed it has assumed both in implementation of policies and in the evidence of results. The environment has been characterized by open hostility both inside the country and from outside. Chavez's political style, the existence of a strong opposition within the country, his government's host country third world perspective, the counter current Venezuela has created to confront U.S. plans and schemes for the region, the fact that oil income is now benefiting groups of people who previously were excluded and neglected, have provoked intense hostility from the part of powerful local factions and from the part of the USA government.

Full Petroleum Sovereignty is then construed along the path of how National Oil Companies establish strategic policies at the level of the state and at the level of the firm to seek sovereignty. Sovereignty is therefore conceptualized in terms of the NOC/IOC dichotomy to create a new governance of strategic resources linked to development with inclusion.

In Venezuela, when the present government acceded to power in 1999 through democratic means and stating that it would redirect oil income towards the relief and solution of severe problems confronted by the population, it started to develop its strategy concerning PDVSA and therefore, securing of state participation in ownership.

The first issue that needed to be solved was the state control of PDVSA itself and of its international subsidiaries. During his campaign for presidential elections Chávez referred to PDVSA as “a State within the State” and accused the enterprise as corrupt and of being subservient to the IOCs. The maneuvering to arrive at a solution to the ensuing struggle for power between the government and PDVSA Board of Directors resulted in a general strike in 2002 that aimed to overthrow the Chávez government. The government resisted and eventually discarded approximately 18,000 members of its work force including a good number of technical persons and members of the middle and upper level management and put into place a new board of directors in order to assume control of PDVSA.

Significant changes have been implemented stemming from the mandates of the Hydrocarbons Law of 2001, a statute that discarded some of the compromises the previous administration had made during the *Aperture* and returned policy closer to pre-aperture goals. One of the changes that were made was the requirement of repatriation of the earnings of international operations PDVSA had established and that were diverting the funds raised in international operations toward other investments. For this, the international organizational network was simplified and restructured, with subordination to home PDVSA offices. One of the most notable changes, because of controversies it brought about was the expropriation of excess participation by IOCs in mixed enterprises in order to assure PDVSA the mandated 60% participation (according to 2001 law) in mixed enterprise operations: strategic associations for the development of the Orinoco Basin reserves and in mixed enterprises that operated existing oil fields.

In this expropriation process Venezuela has consistently offered settlement payments to compensate the affected parties. Although four out of six strategic association (IOCs) accepted renegotiation of the percentage participation and the compensation payment (from indemnification) offered by PDVSA as a compensation of that was to change hands, two of the IOCs (Exxon Mobil’s and Conoco’s Phillips) walked away from negotiations and have been requesting arbitration by international bodies to establish a just compensation for the participation expropriated. Although Conoco Phillips has subsequently arrived at acceptable terms with Venezuela, the Exxon Mobil discrepancy garnered extensive dispute settlement at the international level.

In order to increase taxes, there were two major changes: the reform of taxation and royalty charges to provide more benefits to the host country. Royalty is paid to the host country as a percentage of the value of crude oil extracted. Previous to 2001 Hydrocarbons Law, royalties ranged between 1% and 17%, changing to between 20% and 30% through the Law. In May 2006 this was established at 33.3%. Taxes are paid to the host country on the basis of net income. Taxes were increased from 34% to 50% of net income. The fact that PDVSA is the owner of many enterprises is the purchaser of the crude oil extracted by firms that have service contracts to operate oil wells and also participates as a majority-share owner in mixed enterprises assures obtaining correct production and accounting figures. An additional tax on windfall income was instituted for situations when prices are extremely high.

The methods by which the income derived from the oil industry are passed directly from PDVSA to social projects without having to go through governmental collection and treasury agencies as royalty, tax or dividend payments, were changed. Responsibility for specific projects, not only financial, was assigned to PDVSA and contributions to such causes are considered company expenses. Recently we have seen PDVSA invest heavily, for example, in the food production sector.

PDVSA's contribution is not limited to those three aspects of fiscal policy and dividend policy mentioned, but instead, we must take note of the effects of the new type of contribution that has been assigned to PDVSA since 2002 according to what is mandated by the Law of 2001: direct contribution to social projects. These elevate the total contribution of PDVSA to almost $45 billion in 2007. These contributions are composed of assignments of funds that are paid directly to social projects or enterprises. On the other hand, the sale of gasoline at subsidized prices to consumers in Venezuela represents a direct cost of $1.5 billion according to estimates and an opportunity cost between $9 and $10 billion.

Petrocaribe

The Bolivarian Alliance purports to promote a regional industrialization strategy within the oil industry. This strategy is articulated most significantly through Petrocaribe. One of the modalities of regional energy integration in production has been the constitution of mixed enterprises in diverse Caribbean countries. PDVSA has formed 14 mixed enterprises with eleven Petrocaribe member countries (see table 2) (PDVSA, PDV Caribe 2008, p. 29).

Table 2: Petrocaribe-Mixed

Country	Mixed public enterprises
Belize	ALBA-TCP Petrocaribe *Belize Energy Limited*. (PDV Caribe 55%; Belize *Petroleum and Energy Limited* 45%).
Cuba	CUVENPETROL, S.A.-(Comercial Cupet, S.A. 51%; PDVSA Cuba, S.A. 49%) Transportes del ALBA-TCP-TRANSALBA-TCP (PDVSA Cuba, S.A. 49%; Internacional Marítima, S.A. 51%). Trocana World Inc. (PDVSA Cuba, S.A. 50%; Dominica *National Petroleum Company Ltd.* 45%) Tovase *Development*
Dominica	PDV Caribe Dominica *Limited* (PDV Caribe 55%; Petrocaribe Granada 45%)
Dominican Republic	REFIDOMSA (Estado dominicano 51%; PDV Caribe, S.A. 49%)
Grenada	PDV Grenada *Limited* (PDV Caribe, S.A. 55%; Petrocaribe Granada 45%)
Jamaica	PetroJam *Limited (Petroleum Corporation of* Jamaica 51%; PDV Caribe 49%)
Nicaragua	ALBA-TCP Nicaragua, S.A. ALBA-TCPNISA (PDV Caribe, S.A. 51%; PetroNic 49%)
Saint Christopher and Nevis	PDV *St. Kitts Nevis LTD*. (PDV Caribe, S.A. 55%; *St. Kitts Nevis Energy Company Ltd.* 45%)
Saint Vincent and the Grenadines	PDV *Saint Vincent and the Grenadines Limited* (PDV Caribe, S.A. 55%; Petrocaribe *St. Vincent and the Grenadines SVG Ltd.* 45%)
El Salvador	ALBA-TCP Petróleos de El Salvador. (PDV Caribe, S.A. 60%; Asociación Intermunicipal Energía para El Salvador ENEPASA 40%)
Haiti	*Societe D'Investissement Petion-Bolivar* S.A.M. (Petión-Bolívar) (PDV Caribe 45%; Estado haitiano 55%).

Source: Informe de Gestión PDVSA 2012.

Venezuelan mixed enterprise arrangements with other nations also transcend the region and the ALBA, as shown by the makeup of the group of oil project partners in the Orinoco Reserve (see table 3), and by the partnership to establish a mixed enterprise refinery in Brazil. The list of National Oil Companies that have reached agreements to operate blocks of the Orinoco Reserve includes: China, Vietnam, India, Russia, Norway, France, Spain, Britain, Belarus, EE.UU, Korea, Japan, South Africa, Italy, Republic of Mauricio, and Malaysia. Also included from within the Caribbean and South American region are: Ecuador, Argentina, Cuba, and Brazil (PDVSA, Informe de Gestión Anual 2012, pp 57). In all mixed enterprises, PDVSA maintains a percentage of participation between 60 and 83.33 (PDVSA, Informe de Gestión 2012, p. 59).

Table 3: Mixed Enterprises in the Orinoco Belt

Orinoco Belt Division	Mixed enterprise	Date of creation	(%) PDVSA's Ownership	(%) Partner's Ownership	Partner
Junín	Petrolera Indovenezolana, S.A.	8/4/08	60	40	ONGC
	Petrocedeño, S.A.	11/12/07	60	30.32	TOTAL
				9.677	StatoilHidro
	Petromiranda, S.A.	20/04/10	60	40	Consorcio Nacional Petrolero
	Petromacareo, S.A.	17/09/10	60	40	Petrovietnam
	Petrourica, S.A.	14/12/2010	60	40	CNPC
	Petrojunín, S.A.	14/12/2010	60	40	ENI
Carabobo	Petrodelta, S.A.	3/10/07	60	40	HRN
	Petrolera Sinovensa, S.A.	1/2/08	60	40	CNPC
	Petromonagas, S.A.	21/02/2008	83.33	16.67	TNK-BP
	Petrocarabobo, S.A.	25/06/2010	60	11	REPSOL
				11	PC Venezuela
				11	OVL
				7	Indoil
	Petroindependencia, S.A.	25/06/2010	60	34	Chevron
				5	JCU
				1	Suelopetrol

Ayacucho	Petrokariña, S.A.	31/08/06	60	29.2	PETROBRAS
				10.8	INVESORA MATA
	Petroven-Bras, S.A.	4/9/06	60	29.2	PETROBRAS
				10.8	COROIL
	Petroritupano, S.A.	4/9/06	60	22	PETROBRAS
				18	VENEZUELA US
	Petronado, S.A.	15/09/06	60	26	CGC
				8.36	BPE
				5.64	KNOC
	Petrocuragua, S.A.	18/10/06	60	12	OPEN
				28	CIP
	Petrozumano, S.A.	6/11/07	60	40	CNPC
	Petrolera Kaki, S.A.	28/11/06	60	22.67	INEMAKA
				17.33	Inversiones polar
	Petrolera VenCupet	3/12/10	60	40	CUPET
	Petrolera Sino-Venezolana, S.A. (Caracoles)	28/11/06	75	25	CNPC
	Petrolera Bielovenezolana, S.A. (Guara Este)	14/12/07	60	40	UEPB
	Petropiar, S.A.	19/12/2007	70	30	Chevron
	Petrolera VenangoCupet	26/11/12	60	20	CUPET
				20	Sonangol Pesquisa & Producao, S.A.
Boyacá	Petroguárico, S.A.	25/10/06	70	30	Teikoku

Source: http://www.PDVSA.com. 2012. Proyecto Orinoco, Magna Reserva, Capítulo 3, p. 59.

Petrocaribe finances a portion of the value of oil purchased by members from Venezuela on the basis of an adjustable scale. If the price is above $30, Petrocaribe finances 25% of the invoice; above $40 finances 30%, above $50, 40%; Above $100, 50 (Girvan, 2008, pp. 7-8). The balance is to be paid in 25 years with a 2% interest rate. When price is above $40, the interest charged is 1%. The purchasing countries have 90 days to pay 50% of the total value and a grace period of two years before initiating payments on the amount financed. The other 50% is split into two parts: 25% charged on credit to the purchasing country. The remaining 25% is destined to the ALBA Caribe Fund administered by PDVSA to carry out economic and social projects with the purchasing country. Part of the payments can be made through products exchange (Girvan, 2008, pp. 7-8)).

Under the Alba Caribe Fund there have been numerous projects financed with diverse socioeconomic impact. The diversity of areas in which these projects have been operating generates an impact on regional development with inclusion. Among these are: in Antigua, Improvements and Expansion to the V.C. Bird International Airport; Belize, Poverty Reduction and Expansion of Rural Education; in Dominica, Housing Revolution; in Haiti, Reconstruction of the Principal Market of Port au Prince, among others (PDVSA, PDV Caribe 2008, pp. 32-34). Between 2006 and 2008 88 projects were approved with an investment of 208 million dollars. This investment was distributed in the following categories: housing and habitat (32%), social aspects (24%), urban services (14%), productive sectors (13%), food and nutrition (6%), community development (8%), and energy and environment (3%) (Petrocaribe, Informe de Gestión 2013, pp 18-19).

Oil invoices may be partially paid in services. Cuba pays part of its petroleum invoices by means of the Cuban medical and education workers in Venezuela and in Cuba; and through the educational services the Venezuelans receive in Cuba. The equivalence between the oil invoice and the services is calculated by Intergovernmental Commissions. Thus, energy integration is intimately entwined with health and education.

Consumption and markets are also impacted through other initiatives carried out under ALBA. One of these initiatives is the impact of refinery projects established under Petrocaribe in countries of the region. In addition to the mixed enterprise projects with Petrocaribe members detailed previously, PDVSA has established refinery projects in several of the countries, with $14,697 MM (US$) and 61, 257 direct and indirect jobs created by 2008 (authors' calculations based on PDVSA, PDV Caribe 2008, pp. 27 (table XI)).

These projects impact production as they establish investments in these countries but they also impact consumption, to the degree to which energy generated by these projects absorbs between 10% and 100% of the demand for energy that exists in each of the countries. The impact of these projects can be appreciated not only evaluating the amount in terms of millions of dollars invested that enter these countries but also by analyzing the impact on direct and indirect employment. Additionally, development impact in these countries that have electrical infrastructure projects can be appreciated as they cover between 20% (Antigua and Barbuda) and 100% (Dominica) of the demand for electricity (see PDVSA, PDV Caribe 2008, pp. 16-19). To the Caribbean countries, the savings in energy is significant.

Petrocaribe: fueling Caribbean integration through the production chain

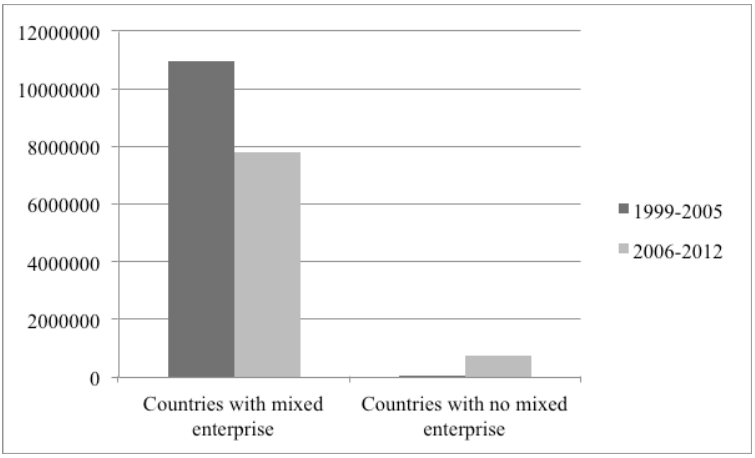
This section presents findings of the conclusive research on intra-Petrocaribe trade and chains. The research questions formulated were: have intra-Petrocaribe trade in petroleum-related exports increased more in countries owning mixed enterprises than in countries with no mixed enterprises after 2005 (when the ALBA agreement was implemented)? How is intra-Petrocaribe trade in petroleum-related exports by category of primary and intermediate goods characterized? Do primary goods prevail in intra-Petrocaribe trade in petroleum related exports or not?

The United Nations Commodity Trade Database allowed to examine each record of exports, specifically looking at the period, reporter country, partner, Broad Economic Category Code (BEC), Standard International Trade Classification Code, commodity description, industry (in our case petroleum), link to enterprise (specifically PDVSA) and trade value. BEC categories were utilized to establish a classification of goods in the value chain links: as either primary, intermediate-processed, or consumption goods. This allowed us to create a production chain in which aspects from the primary, processing and consumption stages were identified. Research limitations included the following. The export data for Venezuela was not available for the year 2007, so a proxy was created using import data from the other countries. Moreover, Cuba did not report any exports past 2006. Here specifically, a proxy was made based on mirror data: the imports by the other countries who did report Cuba as their source. Yet another limitation in our investigation concerned the data available from the UN Comtrade website, since this could not combine both sets of data – exports/imports and production – in terms of specific state or private enterprises in each of the countries examined.

Mixed enterprises in refining are a manifestation of regional integration in production that benefits the Caribbean country as well as Venezuela. It benefits the Caribbean country as it receives foreign investment that allows it to create an association between PDV Caribe and a local enterprise. Furthermore, local enterprises gain access to technology transfer that improves knowledge about the industry and qualifies human resources. Venezuela benefits from establishing an infrastructure to refine its petroleum, since due to its characteristics, this heavy oil must be refined in specialized facilities. Thus, this infrastructure allows Venezuela to secure markets and it allows Caribbean countries to acquire petroleum at below-market-prices.

Graph 1 illustrates intra-Petrocaribe trade in petroleum-related exports. It shows that trade volume in petroleum is much more significant for countries with mixed enterprises than for those countries without mixed enterprises.

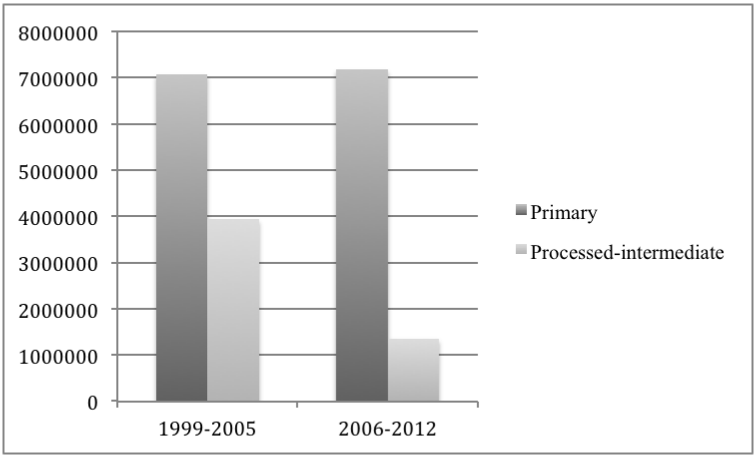
Graph 1:
Intra-Petrocaribe Trade: Petroleum-related exports in countries with and without mixed enterprises with PDVSA
(In US dollars)



Source: Elaborated by Aponte García with the collaboration of Yarlier Y. López-Correa

Once we pooled the petroleum-focused classified data, we were then able to group the categories into a production chain, starting with the initial primary product, and then into intermediate processed goods. For all countries combined, Graph 2 summarizes the values for each process in the production chain, according to the time periods before (1999-2005) and after the agreement (2006-2012). Under this category of fuels we found no products for final consumption in the production chain, which might be mainly due to the fact that Venezuela's heavy petroleum is exported to these other countries crude and it is then processed in each country's mixed enterprise refineries for final consumption and distribution. Petroleum-related exports are dominated by primary products. Primary products remain stable while intermediate products decrease during the second period (2006-2012).

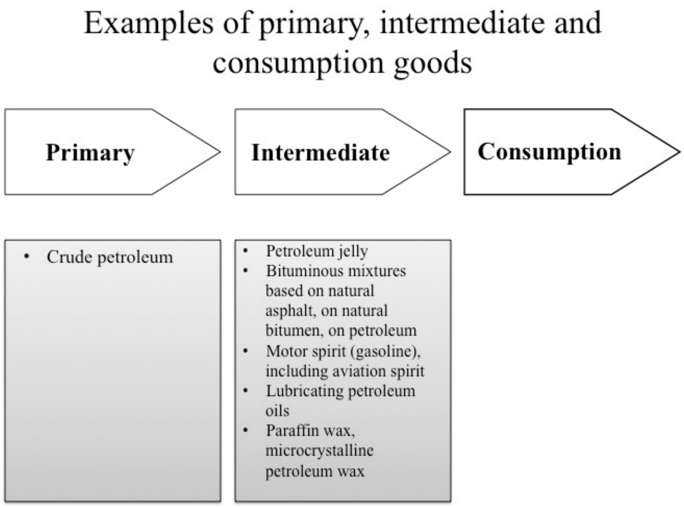
Graph 2:
Intra-Petrocaribe Trade: Petroleum-related exports by category of primary and intermediate goods
(In US dollars)



Source: Elaborated by Aponte García with the collaboration of Yarlier Y. López-Correa.

Taking this data a step further, we were able to create a more visual production chain for the selected countries that partake in Petrocaribe. Figure 2 provides examples of primary, intermediate and consumption goods being traded within Petrocaribe members.

Figure 2: Examples of Pimary, intermediate and consumption goods



Source: Elaborated based on Maldonado Domínguez, Carolyn 2012.

As shown in figure 2, intermediate products dominate intra-Petrocaribe trade in petroleum-related goods while consumption categories are practically non-existent and thus not included in the diagram.

Conclusions

Venezuela's PDVSA has become a strategic public enterprise promoting petroleum sovereignty within the Latin American and Caribbean region. This article has analyzed how Full Petroleum Sovereignty is construed as strategic industrial and trade policies adopted by National Oil Companies (NOCs) at the level of the state to seek sovereignty from International Oil Companies (IOCs). Sovereignty is therefore conceptualized as a response to the contradictions of the NOC/IOC relation. We have also analyzed the regionalization strategy within the ALBA-TCP exemplified by Petrocaribe. Conclusive research findings were presented that present evidence on intra-Petrocaribe trade in petroleum-related goods and on value chains being formed in the region.

In addressing the contradictions of the international political economy of energy (specifically petroleum), ALBA-TCP's initiatives propose alternatives to the contradictions and contribute to build solutions. This regional process goes hand in hand with concrete policies launched in some of ALBA member countries, particularly Venezuela, Bolivia and Ecuador and in regional integration schemes like Petrocaribe.

NOTAS

1. Correspondencia en torno a este artículo debe dirigirse a maribelapontegarcia@gmail.com

2. Some sections of this article have been published previously: Aponte-García, Maribel 2013e "The New Strategic Regionalism in the ALBA-TCP: Alternatives to the Food and Energy Crises" en Muhr, Thomas (ed.) Counter-Globalisation from the South: ALBA and the Construction of 21st Century Socialism (Nueva York: Routledge); Aponte-García, M. (forthcoming, August 2014). New Strategic Regionalism. The Bolivarian Alliance for Our America. Critical Thought Award Collection. Argentina: Latin American Social Science Research Council (CLACSO)-Asdi. Book with DVD, chapter 4. This is a reformulated version that seeks to locate research findings within the conceptual framework of strategic regional public enterprises and petroleum sovereignty.

3. The conceptual framework is proposed by Maribel Aponte García.

4. Quoted by Washington Post, August 3, 2005

5. In 1901 the Anglo-Persian Oil Company was purchased by the United Kingdom as a matter of national interest for the English, constituting what is probably the Forns NOC. In the First and Second World Wars Russia and the UK occupied y Iran (Brumberg & Ahram, 2007, pp.9-10).

6. As can be evidenced by the Financing and execution of various ample research projects and articles such as: Jaffe 2007; Studies carried out by Stanford University and available at http://pesd.stanford.edu/publications/; and numerous articles in Oil, Gas and Energy Review.

7. Based on an evaluation system that integrates various criteria used by Petroleum Intelligence Weekly Petroleum Intelligence Weekly, PIW Ranks The World's Top Oil Companies. http://www.energyintel.com/documentdetail.asp?document_id=218175

8. PDVSA, Financial Statements, December 31, 2008, p.7.

9. PDVSA, 2008 Informe de gestión anual 2008, p.29.

10. Venezuelan light and medium crude oil is heavier, more acid and with more sulphur content than what is normal as compared to regular oil. This has required that

facilities built to refine Venezuelan oil have specialized characteristics, something that restricts flexibility when it comes to switching from one crude source to another. The majority of facilities that can refine Venezuelan crude are in the USA, its major client, or in Venezuela itself. In other words, for Venezuela to change its client composition requires development of specialized facilities in additional countries.

11. August 21, 1975, it formal name is: Ley orgánica que reserva al estado la industria y el comercio de los hidrocarburos.

12. ALÓ PRESIDENTE, program Nº 288

Parroquia San Diego de Cabrutica, Municipio Monagas, estado Anzoátegui, Sunday, July 29, 2007 13 http://www.alopresidente.gob.ve/Materia_Alo/25

13. Partnership in refining operations was seen correctly as a manner of assuring market access for the particular type of Venezuelan crude, which at its best is heavier than regular crude and requires specific processes.

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