

# ALBA, PETROCARIBE AND CARICOM: ISSUES IN A NEW DYNAMIC

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## Introduction

The growth of relations between several Caricom states and the Venezuelan-promoted ALBA and Petrocaribe initiatives is one of the most significant recent developments in regional affairs. An immediate issue that has arisen is whether membership of ALBA might conflict with the obligations of membership of Caricom itself. There are also larger issues of a strategic nature for Caricom. They are related to the need for diversification of economic relations in the light of global economic restructuring; pursuit of opportunities for new modalities of South-South cooperation that are more advantageous to the region than the standard features of North-South arrangements; and the scope for a coordinated external trade policy by the Community. Indeed although ideology and hemispheric geopolitics do come into play with ALBA and Petrocaribe; it seems important for the issues to be framed within a regional optic rather than within one determined by Washington.

We argue here that ALBA, though having its own special characteristics; should be seen as one manifestation of a process of reconfiguration in the world political economy; a process marked by a relative decline in U.S. power and the emergence of new geo-economic poles of influence. The rise of Asia, and in particular China and India, is among the most significant of the changes; as is the emergence of other regional powers in the Global South including South Africa, Brazil and Venezuela. One notable consequence is the waning ability of the United States to control the course of events in Latin America and the Caribbean. Hence, according to a recent report published by the Washington-based Council on Foreign Relations, ‘the era of US hegemony (in the region) is over’<sup>1</sup>.

The signs of this shift are everywhere. The FTAA process was aborted due to Brazilian opposition to the terms on which Washington had framed the negotiations; governments opposed to the neo-liberal ‘Washington Consensus’ have come to power in several countries; the Cuban Revolution is about to celebrate its 50<sup>th</sup> anniversary in spite

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<sup>1</sup> “Era of U.S. hegemony in Latin America is over, says CFR Task Force”, Washington, D.C.: U.S. Council on Foreign Relations, Press Release, May 15, 2008. Available at [http://www.cfr.org/publication/16245/era\\_of\\_us\\_hegemony\\_in\\_latin\\_america\\_is\\_over\\_says\\_cfr\\_task\\_force.html](http://www.cfr.org/publication/16245/era_of_us_hegemony_in_latin_america_is_over_says_cfr_task_force.html). The full report is published as *Report of an Independent Task Force, U.S.-Latin America Relations: A New Direction for a New Reality*. Available at <http://www.cfr.org/publication/16279/>

Washington's obsession with regime change in that country; the Bolivarian Revolution in Venezuela continues apace in spite of Washington's antagonism; and the traditional Washington-dominated sources of development cooperation are being overshadowed by Southern-controlled institutions centred on Venezuela and Brazil. Continentally, a South American Union (UNASUR) is being constructed under Brazilian leadership. These developments form an important backdrop to a consideration of the role and significance of ALBA and of Caricom's relationship with the grouping.

In this paper we examine the nature of ALBA's mission and programme, focusing on the kind of cooperation arrangements that are likely to be of particular interest to Caricom countries. Hence, we review the scope and magnitude of its financial cooperation, the existence of non-reciprocity, the scope of social cooperation, the role of Petrocaribe and the recent incorporation of food security into the ALBA cooperation programme. We discuss the content of ALBA agreements from the point of view of the treaty obligations of Caricom members; and conclude that there is no inherent incompatibility between them. We go on to point to the potential economic and political vulnerabilities from participation in ALBA and Petrocaribe; and suggest how these might be mitigated. We point to the value of coordinated Caricom policies on ALBA and other external economic relations and discuss the difficulties of agreement on these in a Community with divergent interests among its members. There is a short concluding section.

## 1. The ALBA Mission

ALBA—the Bolivarian Alternative for the Americas—presents itself as an integration scheme that is an alternative to the U.S.-sponsored neo-liberal model of economic integration based on trade and investment liberalization<sup>2</sup>. ALBA claims to put the basic needs of the population and the reduction of poverty above private profits and the rights of private investors. The guiding principles of ALBA integration are said to be solidarity, complementarity, compensatory financing for the treatment of asymmetries, and differentiated treatment of countries according to their circumstances. In practice ALBA's cooperation has consisted mostly of (i) concessional financing for the relief of energy import bills, for state-owned industries, and for physical and social infrastructure, (ii) support for projects in health and education that directly benefit the poor; and (iii) non-reciprocal trading arrangements.

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<sup>2</sup> Information on ALBA was drawn from the documents listed in Box 2 and from various documents at <http://www.alternativabolivariana.org>; including "What is ALBA?", available at [http://www.alternativabolivariana.org/pdf/alba\\_mice\\_en.pdf](http://www.alternativabolivariana.org/pdf/alba_mice_en.pdf); Ministerio de Integración y Comercio Exterior, *El ALBA en el Caribe*, available at <http://www.alternativabolivariana.org/modules.php?name=Content&pa=showpage&pid=258> (21/05/08); and Venezuelan Bank of External Commerce, BANCOEX, "What is the Bolivarian Alternative for Latin America and the Caribbean?" *Venezuelanalysis.com*, February 5, 2004; available at [www.venezuelanalysis.com](http://www.venezuelanalysis.com). (21/05/08).

**Box 1: ALBA principles and ‘rules’**

*As set out in Joint Statement (Venezuela-Cuba) for the Creation of ALBA, 14/12/2004,*

1. Trade and investment to be instruments of fair and sustainable development with effective participation of the State.
2. Special and differentiated treatment for participating countries according to their level of development and size
3. Economic complementarity and cooperation between countries to preserve efficient and productive specialization and balanced economic development
4. Cooperation and solidarity for a Continental fight against illiteracy provide free healthcare and a scholarship programme.
5. Creation of a Social Emergency Fund
6. Integrated development of communications and transport
7. Protection of the environment
8. Energy integration
9. Promotion of intra-Latin American Investment through a Latin American Investment Bank, a Bank of Development of the South and a Latin American Society of Reciprocal Guarantees
10. Defense of cultural identity: creation of TELESUR.
11. Intellectual Property Rights to protect the patrimony of the region while not becoming an obstacle to cooperation
12. Harmonization of positions in multilateral fora, including democratization of international organizations particularly the United Nations system.

ALBA has grown significantly since it was launched by Venezuela and Cuba in December 2004. Bolivia, Nicaragua and Dominica have acceded; and St. Vincent and the Grenadines and Antigua and Barbuda have signed statements of support. The 6<sup>th</sup> ALBA Summit in January 2008 was attended by the leaders of twelve countries<sup>3</sup>, including nine from the Greater Caribbean and five Caricom member states. According to the Venezuelan Ministry of Integration and Foreign Trade, the main initiatives of ‘Caribbean ALBA’ are:

- a) The fight against poverty and social exclusion
- b) Joint Plan for food security
- c) Power and mining development for the development of joint production chains
- d) Portfolio of integrated investments
- e) Academic and cultural exchange
- f) Tourism—cooperation in human resource development, air transport, and other areas
- g) Environmental conservation
- h) Caribbean regional market—intra-regional trade
- i) Prevention and management of natural disasters

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<sup>3</sup> Besides the above seven there were the leaders of Ecuador; St. Kitts-Nevis; Honduras; Haiti; and Uruguay.

### **Box 2. ALBA Agreements**

- December 14, 2004: Joint Statement by the Presidents of the Bolivarian Republic of Venezuela and Cuba for the Creation of ALBA
- December 14, 2004: Agreement between the Presidents of Venezuela and Cuba for the Application of ALBA
- December 14, 2004: Contribution and Subscription of the Republic of Bolivia to the Joint Statement
- April 29, 2006: Agreement for the Application of ALBA and the Trade Treaty of the Peoples (TCP) between Bolivia, Cuba and Venezuela
- May 17, 2006: Agreement in the Framework of ALBA and the TCP for the Instrumentation of Special Financing Funds
- January 11, 2007: Accession of Nicaragua to the Joint Statement and Statement of Contribution and Accession of Bolivia
- February 17, 2007: Joint Statement of the President of Venezuela and the Prime Ministers of Antigua and Barbuda, Dominica and St Vincent and the Grenadines
- January 26, 2008: 'Document of Accession' to ALBA signed by the Prime Minister of Dominica

*Source:* documents obtained from official sources. The Spanish versions of several of the above documents are available at <http://www.alternativabolivariana.org>.

## **2. ALBA Financial Cooperation**

Financial cooperation is an important element of ALBA. Hence, there was a Venezuelan commitment of \$100 million to Bolivia on the latter's joining and an additional \$30 million for infrastructure projects. Two major new developments are the ALBA Caribe Fund and the ALBA Bank. The ALBA Caribe Fund was created within the Petrocaribe framework specifically for ALBA participating countries. Reportedly 25 percent of the bill for imports of crude oil from Venezuela is credited to this Fund, whose purpose is to fight poverty by financing social and economic programmes. Information on the amount accruing to this fund and the level of disbursements is not available. Given the steep increases in oil prices, the fund is likely to grow rapidly.<sup>4</sup>

Establishment of the ALBA Bank (BALBA) was agreed between Bolivia, Cuba, Nicaragua and Venezuela in June of 2007 and the Bank was formally launched in 2008.

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<sup>4</sup> *Acuerdo de Cooperación Energética Petrocaribe*. Available at <http://www.alternativabolivariana.org/modules.php?name=Content&pa=showpage&pid=232>. (21/05/08)

Its objectives are to support sustainable social and economic development, reduce poverty and strengthen integration. BALBA will have an authorized capital of \$2 billion and will start with subscribed capital of \$1 billion.

### 3. Non-reciprocity in ALBA

Non-reciprocity and compensated trade (i.e. through direct product exchanges) are two ways in which the principles of fair trade and special and differentiated treatment are applied in ALBA. Furthermore, trade agreements are negotiated on a case-by-case basis, allowing for flexibility of commitment according to country circumstances. These principles are broadly applied: for instance, some non-reciprocal features of the Cuba-Venezuela agreements actually favour Venezuela, even though it may be considered the 'more developed' member.

Hence, Cuba agreed to grant duty-free access to Venezuelan imports and to remove non-tariff barriers; while in return Venezuela has agreed to eliminate only non-tariff barriers on Cuban imports. Such non-reciprocity is in recognition of the fact that "Venezuela is a member of international institutions that Cuba does not belong to, all of which must be taken into consideration when applying the principle of reciprocity in the commercial and financial arrangements that are made between the two countries"<sup>5</sup>. Similarly, Bolivia has been granted duty free access to Cuba and Venezuela and elimination of non-tariff barriers on its exports without undertaking the same obligation in return<sup>6</sup>.

In payment arrangements, there is provision for payment-in-kind for oil imports from Venezuela ('compensated trade') and for Reciprocal Credit Arrangements; both being contained in the Venezuela-Cuba Agreement.<sup>7</sup>

Non-reciprocity in payment obligations also applies: Bolivia can pay for Cuban imports with Bolivian products, with the national currency of Bolivia or other mutually agreed currencies; but is not obliged to grant a reciprocal facility to Cuba.<sup>8</sup> Venezuela has been granted the same facility in paying for Cuban imports, without reciprocity from Venezuela.<sup>9</sup> In the Caribbean, Dominica is allowed to pay for 40 percent of its Petrocaribe oil imports with exports of bananas<sup>10</sup>.

Non-reciprocity, however, is not always a good thing. There is the danger that Caricom will come to be seen, and will come to see itself, as a 'free-loader' in its external relations. It is in the interest of the Community to identify ways in which can assist other

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<sup>5</sup> Article 11, Agreement between Cuba and Venezuela for the Application of ALBA, December 14, 2004

<sup>6</sup> Cuba, Venezuela, Bolivia Agreement of application, 29<sup>th</sup> April, 2006, pg 4.

<sup>7</sup> Article 18, Agreement between the Presidents of Venezuela and Cuba for the Application of ALBA, December 14, 2004.

<sup>8</sup> Cuba, Venezuela, Bolivia Agreement of application, 29<sup>th</sup> April, 2006, pg 3

<sup>9</sup> Article 8, Agreement between the Presidents of Venezuela and Cuba for the Application of ALBA, December 14, 2004.

<sup>10</sup> Caribworldnews.com, *Dominica makes history as ALBA member*, 15<sup>th</sup> January 2008. Available at [http://www.caribbeanworldnews.com/middle\\_top\\_news\\_detail.php?mid=136](http://www.caribbeanworldnews.com/middle_top_news_detail.php?mid=136).

ALBA participating countries. English language training and tourism-related training are two areas that come to mind. Caricom could also seek to establish its own technical assistance and volunteer programmes for service in other developing countries, not restricted to ALBA. Thus non-reciprocity can, and should, be reciprocated<sup>11</sup>.

#### 4. Social cooperation

Cooperation in health and education are major elements in ALBA. Here Cuba's considerable human resource capabilities in these sectors come into play.

Hence, it is reported that some 30,000 doctors are providing free services to the poor throughout Latin America and the Caribbean; 70,000 students are receiving training as health professionals; over two million have been made literate and 600,000 people have 'had their sight restored via Operation Miracle and free surgical operations'.<sup>12</sup>

ALBA agreements provide for 2000 Cuban scholarships per year for Venezuela and 5000 Cuban medical scholarships for Bolivia. Bolivia is reportedly benefiting from 600 Cuban medical specialists and Venezuela has 15,000 Cuban medical professionals working in its *Barrio Adentro* Mission.

In the case of Dominica, over 100 students from that country are reportedly attending Cuban medical and nursing schools and approximately 75 Dominican students are in other Cuban schools. It is reported that 'about 2,000 Venezuelan and Cuban scholarships are available to qualified Dominican students in computer science, medicine, engineering, sports, physics, math, and agriculture'<sup>13</sup>. Several hundred visually impaired Dominicans are said to have had their sight restored in either Cuba or Venezuela through Operation Miracle.

#### 5. Petrocaribe<sup>14</sup>

Petrocaribe was initiated in June 2005 as an extension of the Caracas Energy Accord of 2001. As such the facility predates ALBA and, as it is available to 16 countries in the Greater Caribbean; it is not tied to ALBA accession. However, ALBA countries appear to

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<sup>11</sup> See Havelock Brewster, "Understanding Development Challenges in the Caribbean: Time to Take in the Begging Bowl", (May 2007) available at <http://www.normangirvan.info/understanding-development-challenges-in-the-caribbean/>.

<sup>12</sup> Nidia Diaz, *Venezuela offers to finance 50% of ALBA nations' oil*, Granma International, 4<sup>th</sup> May, 2007. Available at <http://www.granma.cu>.

<sup>13</sup> Information from Caribworldnews.com, op. Cit., 15/01/08.

<sup>14</sup> Information on Petrocaribe was obtained from the following sources: Petrocaribe Summit available at [http://www.jis.gov.jm/special\\_sections/summit/](http://www.jis.gov.jm/special_sections/summit/); Petroleos de Venezuela, S.A. Available at [http://www.pdvsa.com/index.php?tpl=interface.en/design/readmenu princ.tpl.html&newsid\\_temas=48](http://www.pdvsa.com/index.php?tpl=interface.en/design/readmenu princ.tpl.html&newsid_temas=48); Ministerio del Poder Popular Para La Energia y Petróleo Petrocaribe. Available at <http://www.mem.gob.ve/Petrocaribe/index.php>; Kaia Lai, 2006, Petrocaribe: Chavez's Venturesome Solution to the Caribbean Oil Crisis, COHA. Available at [www.venezuelanalysis.com](http://www.venezuelanalysis.com). (21/05/08)

derive an extra benefit from Petrocaribe (see below). Petrocaribe finances a portion of the value of imports of crude oil from Venezuela according to a sliding scale: above \$30 per barrel, 25 per cent; at above \$40, 30 per cent; above \$50, 40 per cent; above \$100, 50 per cent. The balance is payable over 25 years at 2 percent, falling to 1 percent at prices above \$40/bl., with a grace period for repayment of 2 years.

As the price of oil on world markets has grown, so has the value of Petrocaribe loans to importing countries. One consequence is that Petrocaribe has become the largest single source of concessional finance to the Caribbean region. Hence, Petrocaribe credits to importing countries from June 2005 to December 2007 amounted to \$1.17 billion and are expected to reach \$4.5 billion by 2010<sup>15</sup>. This is \$468 million/year in 2005-2007 rising to \$1.1 billion in 2008-2010. By comparison, U.S. Foreign Assistance to the Caribbean region for Fiscal Years 2005-2007 is estimated at \$340 million/year, \$149 million/year excluding Haiti<sup>16</sup>. In the case of the Inter-American Development Bank, disbursements to the 16 Petrocaribe participating countries in Fiscal Year 2008 amounted to \$100 million; which is less than one-quarter of the Petrocaribe average lending for 2005-2008.<sup>17</sup>

For Caricom countries, the shift in the relative importance of sources of concessional finance is no less marked. Jamaica alone benefited from Petrocaribe lending to the tune of \$471 million to the end of March 2008; while US assistance to Jamaica in Fiscal Years 2005-2007 amounted to \$58 million; i.e. less than one-eighth as much in a comparable period. For the Eastern Caribbean and Suriname, the value of Petrocaribe credit is estimated at between \$180-\$360 million/year<sup>18</sup>, compared to US assistance in FYs 2005-2007 totalling approximately \$15 million. IADB disbursements to all of Caricom in 2007 amounted to \$43 million, clearly a fraction of the Petrocaribe total. Petrocaribe also exceeds the EU's Regional Indicative Programme for Cariforum countries by a wide margin: the 10<sup>th</sup> replenishment of the European Development Fund (EDF) is programmed at EU165 million (approximately US\$255 million) or \$45 million/year.

Since the beginning of 2008 the skyrocketing price of oil on world markets has considerably enhanced the strategic role of the Petrocaribe facility. At current rates of importation (72 million barrels/year) each dollar rise in the oil price adds \$72 million/year to the oil bill of importing countries. By reference to a base price of \$30/barrel, the recent world market price of \$135/barrel represents an addition of \$7.6 billion/year to the oil bill of the 16 importing countries. Between 25 and 50 percent could be financed by Petrocaribe credits.

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<sup>15</sup> The figure of \$4.5 billion by 2010 may turn out to be a considerable underestimate, as it was given in December 2007, i.e. before the huge increase in oil prices in the first half of 2008. Information sourced from Venezuelan leader Chavez presides over oil summit in Cuba, available at <http://edition.cnn.com/2007/WORLD/americas/12/21/cuba.petroleum.summit.ap/index.html>. (21/05/08)

<sup>16</sup> Sullivan, Mark, Caribbean Region: Issues in U.S. Relations. CRS Report for Congress. October 27<sup>th</sup>. 2006.

<sup>17</sup> <http://www.iadb.org>

<sup>18</sup> i.e. between 25 and 50 percent of the extra cost of 24,000 bpd (8.76 million bpy) at a price of \$120. However this figure includes Barbados's imports as per the original estimate, but Barbados opted not to participate in Petrocaribe.

### Box 3. Petrocaribe Projects

- **Jamaica.** Supply of 23.500 b/d. agreements signed in education, science, technology, medicine, tourism. Agreement to upgrade the Petrojam refinery.
- **Grenada.** Agreements to supply 340,000 barrels per year of products, 55,000 gasoil, 85,000 thousand gasoline and 200,000 fuel oil.
- **Cuba.** Inauguration of the Cienfuegos Refinery in Cuba with a capacity of 70,000 b/d.
- **Belize.** Mixed enterprise between PDV and Belize Petroleum.
- **Nicaragua.** 80.000 gallons of Venezuelan diesel.
- **Dominica.** 1,200 barrels of asphalt. Warehouse 1000 b/d hydrocarbons.
- **Antigua and Barbuda** is a strategic place for warehouse and distribution of fuel to the Eastern Caribbean.

#### New projects:

- Expansion of the Kingston refinery, Jamaica.
- Building of the refinery in Leon, Nicaragua.
- Construction of the refinery in Dominica
- Construction of the refinery in Belize
- Conclude the construction of the PLG (liquefied petroleum gas) in St. Vincent and the Grenadines.
- Construction of fuel distribution plants in Dominica, St. Kitts Nevis, St. Vincent and the Grenadines, Grenada and El Salvador.
- Electricity Generation plants in Nicaragua, Haiti, St. Kitts Nevis, and Antigua and Barbuda.

Access to Petrocaribe is not conditional on accession to ALBA. However Petrocaribe shares many elements in common with ALBA, including compensation for asymmetries and the financing of poverty reduction and of the state sector. In Venezuelan eyes, Petrocaribe and ALBA are expressions of a Bolivarian vision that includes other initiatives such as PetroAndina, PetroSur, Telesur, and the South Bank, which has an authorized capital of \$7 billion<sup>19</sup>.

ALBA countries plus Haiti also reportedly derive an extra benefit from Petrocaribe. In this instance Petrocaribe extends 90 days credit for payment of 50 percent of the value of oil shipments, and part payment may be made through product exchange. For the balance, 25 percent of the import bill is extended as a direct credit to the government of the importing country and 25 percent is paid into the ALBA Caribe Fund administered by PDVSA for social and economic projects within the importing country. The ALBA Caribe fund is a new institutional development within the ALBA Caribbean landscape and is destined to become a major player in regional financing.

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<sup>19</sup> Sistema Economico Latinoamericano y del Caribe, *El Banco del Sur comenzará a operar a finales de 2008 con un capital inicial de 7.000 millones de dólares*. Europapress.com (28/04/08). Available at <http://www.sela.org/sela/prensa.asp?id=13115&step=3>. (21/05/08)

## 6. Food security

An Extraordinary Summit of ALBA held on April 26-27 2008 addressed the issue of rising food prices and food shortages affecting the region. The leaders of Bolivia, Cuba, Nicaragua and Venezuela agreed to create the ALBA Network of Food Trade and the ALBA Food Security Fund with an initial investment of \$100 million. They also approved the creation of a Commission comprising the Agriculture and Forestry Ministers of the countries with the objective of organising joint productive projects and agro industrial development in cereals, leguminous and oleaginous plants, meat and milk. The Extraordinary Summit also declared its support for the President of Bolivia in alleged attempts to destabilize his administration.

In short, ALBA and Petrocaribe are significant developments in the hemispheric geo-economic and geo-political landscape. Caricom countries cannot afford to ignore these developments; indeed they are already strongly engaged on a bilateral basis. ALBA and Petrocaribe are major new sources of balance of payments relief in the face of rising oil prices, of financial assistance for government budgets and for badly needed physical infrastructure, and of technical cooperation in the provision of social services and human resource development. They have proven to be pro-active in the face of new developments such as rising food prices. They are low-conditionality and involve a considerably lower degree of intrusion into domestic policies in scope and depth, than the funding from traditional donors.<sup>20</sup>

Let us now turn to the issues and risks involved in ALBA association.

## 7. Do ALBA obligations conflict with Caricom obligations?

The main issues to be considered here are the form of association with ALBA and the nature of the commitments undertaken by acceding countries.

The inter-governmental modes of association employed for ALBA are those of *Joint Statement, Agreement, and Statement of Accession, Statement of Contribution and Subscription, and Statement of Support*; signed by Heads of State and/or Government (shown in Box 3). Hence, ALBA does not take the form of an international or inter-governmental organisation, treaty or integration scheme in the normal sense. There is no set of ALBA statutes or obligations by which adhering states agree to be legally bound under international treaty law. 'Principles' and 'agreements' appear to be of a political nature; they are bilateral or trilateral documents to which specific Heads of government subscribe. The term 'membership', therefore, may be misleading as to its connotations in the case of ALBA (although it is used in both English and Spanish language documents). The terms 'accession', 'adherence' or 'participation' may be more appropriate in conveying the nature of the association.

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<sup>20</sup> Embajada de la Republica de la Bolivariana de Venezuela en Francia, *Tema alimentario será prioridad en Cumbre del ALBA*, Prensa Presidencial, 23 de abril de 2008, available at [http://www.embavenez-paris.com/embavenez.php?cat=pei&inc=24\\_04\\_2008](http://www.embavenez-paris.com/embavenez.php?cat=pei&inc=24_04_2008). (21/05/08)

The question therefore turns on what *specific* obligations apply to acceding countries in general and to Dominica, as an acceding Caricom state, in particular. In the cases of Bolivia and Nicaragua, accession involved adherence to the Joint Statement by Cuba and Venezuela of December 14, 2004 (Box 1). This is a political declaration containing certain principles to which the governments subscribe. Some might believe that the thrust of this Statement is for the creation of an ALBA ‘economic bloc’ (a term that is sometimes used in reference to ALBA); and that this will conflict with the implementation of the CSME. However, a close reading suggests that this is not the case.

There is no commitment to the liberalization of trade and investment within ALBA, or for the adoption of common economic policies among the participating countries, or for the erection of common economic barriers towards the rest of the world. The normal features of an orthodox integration scheme are absent. Hence the possibility of conflict with existing integration scheme obligations does not arise. Notably, both Venezuela and Bolivia are members of the Andean Group integration scheme; Venezuela is in the process of negotiating Mercosur membership, and Nicaragua participates in CAFTA, the Central American free trade agreement with the United States.

Most of the general principles of the Joint Statement appear to be unobjectionable from the Caricom point of view. There are, however, two that might be considered questionable. No. 12 calls for “harmonization of positions within the multilateral sphere” etc. and refers particularly to fight for the democratization of the UN system. However the ACS Convention also calls for harmonization of positions in international fora. All ALBA countries save Bolivia are also ACS members. The harmonization principle is always difficult to apply because of differences among member states (even within Caricom there are difficulties) and because of the consensus rule in decision-making, which means that even one country can hold up harmonisation. Furthermore, ALBA is not an inter-governmental organization. No. 12, therefore, is unlikely to be seen as problematic.

No. 8 in the Joint Statement calls for ‘energy integration between the countries of the region’. This clearly refers to Petrocaribe and its sister companies PetroAndina and PetroSur. It carries no legally binding obligations to do anything. But it does bring up the question of the role of Venezuela vis-à-vis Trinidad and Tobago in the region’s energy mix. Venezuela’s role as a supplier of crude oil to refineries in several Caricom countries cannot be taken up by Trinidad and Tobago and not much has been heard of late of the latter’s oil-financed Caricom aid facility. It seems unlikely that it could approach the scale of Petrocaribe’s lending. On the other hand, there is no reason why the two sources should be regarded as competitors in the regional oil market in the present environment of tight energy supplies. We conclude No. 12 is not conflictive with Caricom obligations since it is non-specific and non-binding; but that the Petrocaribe and ALBA developments highlight the desirability of a coordinated Caricom energy policy.

Regarding Dominica’s ‘statement of accession’ to ALBA, this document is of a general nature. It recites the principles and achievements of ALBA but contains no specific

commitments or obligations by Dominica or by any other ALBA country. It does not even go as far as the accession statement of Bolivia or the Cuba-Venezuela statement for the application of ALBA, which spell out certain trade and payment arrangements. Indeed it does not refer to the Cuba-Venezuela Joint Statement creating ALBA or to any other document except the joint declaration of the three OECS states of February 2007. In short, there is no evidence in this document that Dominica has undertaken any specific obligations of any kind, let alone obligations that might conflict with those applying under the Revised Treaty of Chaguaramas or the CSME.

**Box 4. Revised Treaty of Chaguaramas**

**ARTICLE 80**

***Co-ordination of External Trade Policy***

- 1. The Member States shall co-ordinate their trade policies with third States or groups of third States.*
- 2. The Community shall pursue the negotiation of external trade and economic agreements on a joint basis in accordance with principles and mechanisms established by the Conference.*
- 3. Bilateral agreements to be negotiated by Member States in pursuance of their national strategic interests shall:*
  - (a) Be without prejudice to their obligations under the Treaty; and*
  - (b) prior to their conclusion, be subject to certification by the CARICOM Secretariat that the agreements do not prejudice or place at a disadvantage the position of other CARICOM States vis-a-vis the Treaty.*
- 4. Where trade agreements involving tariff concessions are being negotiated, the prior approval of COTED shall be required.*
- 5. Nothing in this Treaty shall preclude Belize from concluding arrangements with neighbouring economic groupings provided that treatment not less favourable than that accorded to third States within such groupings shall be accorded to the Member States of the Community, and that the arrangements make adequate provision to guard against the deflection of trade into the rest of CARICOM from the countries of such groupings through Belize.*

## 8. Coordination of trade policy in Caricom

Article 80 of the Revised Treaty of Chaguaramas calls for the coordination of the external trade policies of the member states of the Community (Box 4). As such it mandates the Community to pursue the negotiation of external trade and economic agreements ‘on a joint basis’. At the same time, it allows for the negotiation of bilateral agreements by member states ‘in pursuance of their national strategic interests’. Such bilateral agreements should be without prejudice to members’ Revised Treaty obligations. Where they contain a trade or tariff component, they are subject to Secretariat or COTED<sup>21</sup> certification as the case may be. The provisions of Article 80 represent a compromise between regionalism and the preservation of national sovereignty in an area that is vital to the national interests of member states, given the highly trade-dependent nature of Caricom economies.

The ALBA documents signed by three Caricom countries do not contain a trade component, or any reference to tariffs. As such, they do not appear to require certification by the Caricom Secretariat or by the COTED. The Petrocaribe agreements signed by 13 of the 15 Caricom members could be construed as having a trade component, especially where ‘compensated trade’ is involved. When Caricom members signed on in 2005, concerns were expressed in some quarters<sup>22</sup> at the lack of prior Caricom consultation on the terms and conditions. This matter has never been resolved; in effect, Caricom members have agreed to differ over both ALBA and Petrocaribe. We return to this subject as 12 below.

## 9. Economic vulnerability issues

Vulnerability relates to the issues of (a) external indebtedness and (b) possible political change in Venezuela. The type of concessionary debt represented by Petrocaribe creates less debt servicing obligations per dollar than commercial or IFI (Fund/Bank) debt. Nonetheless the steep increase in total Petrocaribe debt that has taken place and will continue to take place should be a source of concern. Three strategies are called for here.

First, Caricom states should aim to keep, within a target ceiling, aggregate debt servicing obligations arising from all external debt as a proportion of exports (goods and services) and GDP. Petrocaribe debt should be managed as part of a total external debt management strategy.

Second, a high proportion of external debt owed to a single source opens the way to the exercise of political and economic leverage by the creditor. Here the strategy should be (a) to regionalize relations with the creditor as far as possible while (b) fixing a target ceiling for indebtedness to any one donor as a share of total external debt.

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<sup>21</sup> COTED: Caricom’s Council for Trade and Economic Development.

<sup>22</sup> Specifically, by Prime Minister Arthur of Barbados and Prime Minister Manning of Trinidad and Tobago.

Third, Caricom states must as a matter of their long-term survival adopt aggressive policies for energy conservation and the development of new and renewable sources of energy, so as to reduce their reliance on special financing for energy imports. For instance, a portion of Petrocaribe could be set aside for this purpose. Thus, the availability of concessionary loans to finance energy imports should not be allowed to reduce the incentive for policies of energy conservation and development.

## **10. Political vulnerability issues**

First, there is the matter of territorial claims and maritime boundary disputes involving Venezuela on the one hand and Guyana and Bird Rock/Island respectively on the other hand. There are concerns that the Caricom stand on these matters could be compromised by ALBA participation.

As things presently stand, there is no evidence that Venezuela has sought to establish a linkage, either formally or informally, between the issues and participation in ALBA/Petrocaribe. Certainly, there is no reference to these subjects even in general terms in ALBA and Petrocaribe documents; nor do we have any information from political leaders and officials of informal linkage in private contact. Notably, Guyana participates in Petrocaribe. We presume that any attempt to establish linkage of this kind would elicit a firm and unambiguous response from Caricom states.

Second, there are concerns about the possibility of change in leader, of government or of orientation in Venezuela. There is no way in which the likelihood of such eventualities can be assessed. President Chavez has been in office for the better part of ten years and has won several elections and referenda, losing only the last referendum by a narrow margin. His present term of office lasts to 2012 and he is not eligible for re-election. On the other hand, the Bolivarian mission appears to be a widely held ideology in Venezuela and may outlast the Chavez Presidency. In addition, disenchantment with neo-liberalism and the Washington consensus has spread throughout much (though not all) of Latin America.

Nonetheless, such political vulnerability issues underline the desirability of regionalizing relations with ALBA and Venezuela through joint or coordinated negotiations, and of strategies to mitigate debt dependence and energy dependence.

A particular point of concern is the possibility of incorporating a military dimension into ALBA and the fear of being drawn into a military confrontation with the United States by this route. This came about as a result of media reports on remarks made by the Venezuelan President in his speech at the 6<sup>th</sup> ALBA Summit. It seems clear, however, that this possibility, even if actually mooted by President Chavez (and this itself is not clear), was not supported by other leaders attending the Summit<sup>23</sup>. It was not mentioned

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<sup>23</sup> See Jossette Altmann, "The ALBA Bloc: An Alternative Project for Latin America?" *ARI: Real Instituto Elcano*, April 17, 2008; available at [http://www.realinstitutoelcano.org/wps/portal/rielcano/contenido?WCM\\_GLOBAL\\_CONTEXT=](http://www.realinstitutoelcano.org/wps/portal/rielcano/contenido?WCM_GLOBAL_CONTEXT=)

in the Summit Declaration, nor is there any reference to military cooperation in any of the official ALBA documentation. Officials of Caricom member states who deal with this matter insist that there is no discussion of a military dimension ALBA. A more likely proposition is Brazil's proposal to establish a South American Defence Council under the umbrella of UNASUR; a matter which is now the subject of discussions that include two Caricom member states<sup>24</sup>.

## **11. Relations with other hemispheric powers**

There are concerns about the potential fall-out of ALBA participation to relations with other hemispheric powers, notably the United States and Brazil. Given the poor state of Venezuela-US relations and the nature of the ALBA mission, association with ALBA carries the risk of compromising Caricom's traditionally friendly relations with the United States through 'guilt by association'. In the case of its relations with Cuba, Caricom has been able to maintain a clear distinction between the development of trade and cooperative relations with other hemispheric countries on the one hand and support for everything that is done by the governments and said by their leaders, on the other hand. This is an essential attribute of the foreign policy of sovereign states on which Caricom has insisted in various arenas; and the same principle applies to relations with Venezuela and with ALBA. Furthermore the main areas of cooperation between Caricom and the United States--security, narco-trafficking, money-laundering and migration--are all matters of mutual interest and should not be affected by participation in ALBA.

With regard to Brazil, there is the matter of its rivalry with Venezuela for influence in the LAC region. In this regard, participation in ALBA should actually increase the incentive to Brazil to deepen its cooperation with Caricom, as a means of countering Venezuela's influence.

## **12. A Caricom—ALBA agreement?**

We have suggested that coordination of Caricom's trade policy with ALBA and Petrocaribe, as with other countries and trade groupings, is both a treaty obligation and desirable for economic and political reasons. A joint agreement, for example, could contain provisions designed to address Caricom's concerns, such as respect for the provisions of the Revised Treaty of Chaguaramas and for the territorial integrity and sovereignty of member states. However, a coordinated position or joint agreement appears unlikely because of differences among member states in the perceived costs and benefits from association with ALBA. Trinidad and Tobago has a difficulty because it

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[/Elcano\\_in/Zonas\\_in/ARI17-2008](#)). Although this article states that there was "an announcement (at the 6<sup>th</sup> Summit) to create a military alliance among (ALBA's) five member states", this may have been a premature interpretation of President Chavez's remarks, as no such announcement appears in the Summit Declaration.

<sup>24</sup> See "Consejo de Defensa Suramericano Profundizara la Integración"

<http://www.alternativabolivariana.org/modules.php?name=News&file=article&sid=3000>

continues to promote its candidacy as the site of the headquarters of the FTAA, to which ALBA is being promoted as an alternative. Other member states, such as Barbados and Jamaica, may have reservations about the impact of close association with ALBA on their relations with Washington. Both Trinidad and Tobago and Barbados have declined to participate in Petrocaribe; the former because, as an energy exporter, it considers Petrocaribe to be its competitor in the regional oil market.

This issue throws into relief the difficulty of coordination in a Community where economic circumstances vary widely among member states. The difficulty was not as evident when Caricom's most important relationships were with traditional trading partners in the North Atlantic. Commonality of interest in trade relations with the EU, the U.S. and Canada made joint negotiations relatively easy. With global and hemispheric reconfiguration, the issue is more sharply posed. Thus, as a Community, Caricom is unable to adopt a coordinated trade policy with the People's Republic of China, since several member states maintain diplomatic relations with Taiwan. Again, two Caricom member states on the South American continent are participating in the Union of South American States (UNASUR), and in May 2008 signed the constitutive agreement formalising the grouping<sup>25</sup>. As in the other cases, their participation was not the subject of prior Community sanction or the result of a Community-wide strategic policy. In effect, Caricom members have agreed to differ, not only on ALBA but also on several other subjects of external trade policy where they have divergent interests. The Communiqué issued at the end of Caricom's Council for Foreign and Community Relations (COFCOR) meeting in May 2008, where ALBA was discussed, reflects this on-going compromise (see Box 5).

Box 5.

Extract from *Communiqué Issued At The Conclusion Of The Eleventh Meeting Of The Council For Foreign And Community Relations (COFCOR), 7-9 May 2008, Bolans Village, Antigua And Barbuda*. (Press release 125/2008 10 May 2008. Available at [http://www.caricom.org/jsp/pressreleases/pres125\\_08.jsp](http://www.caricom.org/jsp/pressreleases/pres125_08.jsp))

**“The Protection of CARICOM’s Strategic Interests In the Changing International and Hemispheric Context**

“Ministers examined the geopolitical and economic changes taking place at both the hemispheric and international levels and the resulting challenges. They considered these changes particularly in the context of the redistribution of power on the global stage; the shifting priorities of traditional partners; the increasing presence of non-traditional actors in the Caribbean region; and geo-political changes in neighbouring regions and states. They also considered non-geopolitical issues having an impact on the Community including climate change, rising food and fuel costs and crime and security.

“In this context, Ministers considered policy responses to these changes and challenges as well as new initiatives which have emerged and which could assist countries of the Region in meeting these challenges, among them the Bolivarian Alternative for the Peoples of our America (ALBA).

“Ministers agreed that Member States should continue to pursue and explore all opportunities available to them for their social and economic development, recognising at all times their obligations under the Revised Treaty of Chaguaramas.

In the absence of coordination, Caricom's external trade policy will continue to be a series of ad hoc bilateral responses to opportunities afforded by global and hemispheric reconfiguration, lacking a coherent strategic dimension. While this may be understandable in the light of divergent interests, the downside will be failure to capitalise on the leverage available from coordination and from the synergies of joint action. There is also a danger of regional fragmentation associated with the fall-out from external trade policy to domestic policy. The Community, could, in effect, be pulled in several different directions at the same time.

## **Conclusion**

We have argued that ALBA should be seen as one expression of a process of reconfiguration taking place in world and hemispheric affairs. There are several attractive features in the ALBA model from Caricom's point of view. These include flexibility in the terms of participation based on differentiated treatment, non-reciprocity in trade and payment arrangements, availability of considerable financial assistance on concessionary and low-conditionality terms, and cooperation in health and education that directly benefits economically disadvantaged groups. However, non-reciprocity should not be one-way: Caricom should consider establishing a development cooperation programme in which it plays a donor role.

There are also advantages from Caricom engaging with ALBA as part of a broader policy of strategic diversification in its external economic relations. Caricom would seek to take advantage of the significant benefits to be available, while attenuating energy and donor dependency, preserving the integrity of its own integration arrangement, maintaining its political commitments to its own membership and minimising fall-out in relations with its traditional partners. Success in achieving these objectives would be enhanced by adopting a coordinated position and even negotiating a joint agreement with ALBA. At the present time this does not appear likely because of divergent national interests within the Community.

This is a general difficulty that appears to affect Caricom's relations with other non-traditional trading partners; though each case is peculiar. Hence the process of reconfiguration brings both new opportunities for cooperation and strategic diversification and new challenges to the cohesion of the Caricom integration movement.

May 29, 2008