Economics and Politics of Oil in the Caribbean

Robert Swandby

Follow this and additional works at: http://digitalcommons.law.umd.edu/mjil

Part of the International Trade Commons

Recommended Citation
Available at: http://digitalcommons.law.umd.edu/mjil/vol4/iss1/15
The initiatives of Caribbean countries in the development of the global oil industry have proved to be quite significant. Mexico, for example, was the first country to nationalize its oil industry in 1938 and is now embarked on a hydrocarbon development program that may set further precedents in the oil world. Venezuela, as far back as 1945, sold a portion of its royalty oil1 (instead of accepting payment for it in currency) at higher prices than the concessionaires were selling it, thus forcing them to buy all royalty oil at the higher prices. Further, in 1958, Venezuela set the profit-sharing pattern at sixty-five to thirty-five percent from the former fifty to fifty percent. In 1960, Venezuela established a national oil company, and a year later, hoping to establish a kind of international “Texas Railroad Commission” to allocate output, Venezuela sparked the creation of OPEC. Additionally, The Latin America Energy Organization (OLANDE) is in the early stages of development. It remains to be seen, however, how quickly and effectively its goals will be developed. OLANDE’s goals include higher export prices, direct supply negotiations between OLANDE nations, uniform policies vis-à-vis foreign oil interests and the use of oil to gain more technical and trade advantages from the developed countries, a move that the UNCTAD, pushed by Algeria, is urging.

**United States Influence on Caribbean Oil Industry**

The Caribbean oil industry has developed in response to United States demands and requirements. After World War II, refineries were established to process mainly Venezuelan crude oil in Venezuela,

---

1. Royalty oil is Venezuela’s share of oil from companies which developed and drilled for oil in Venezuela. Early in Venezuela’s history, these foreign concessionaires were given very lucrative rights to develop Venezuelan oil.
Trinidad and Tobago, the Netherlands Antilles and Puerto Rico. As U.S. oil product demands, principally for residual fuel, increased, refineries were built in the Bahamas and the Virgin Islands. These refineries had the capacity to handle economically efficient tankers which could bring in crude oil from the Persian Gulf (now about one-half the Caribbean refineries total crude throughputs)² and Africa (about one-third the crude throughputs). Of the Caribbean refineries, only those in Venezuela exclusively process domestic crude oil.

In particular, it should be noted that the Caribbean refineries, which yield sixty percent residual fuel (compared with ten to eleven percent for U.S. refineries) exported seventy-seven percent of their oil product output to the United States in 1976, as compared with seventy-four percent in 1975. This was sixty-nine percent of total U.S. oil product imports and eighty-three percent of U.S. residual fuel imports. It should also be noted that Caribbean refineries’ market shares in the United States, mainly along the Atlantic Coast, are closely related to their refinery shares in the Caribbean. Venezuela’s share of the residual fuel market in the United States is thirty-six percent while its Caribbean refinery share is 36.5%; the Virgin Islands is 22.3% and eighteen percent respectively; the Bahamas is 13.8% and 12.8%; the Netherland Antilles 17.6% and 20.8%; and Trinidad and Tobago 10.3% and 11.8%.

Caribbean refineries are also structured and equipped to meet U.S. needs for low sulfur residual and distillate fuel oils. In Venezuela, Amuay has the capacity to produce 230,000 barrels daily (bd.) of low sulfur fuel oil while Cosdon can produce 71,000 bd. When Puerto Rico (130,000 bd.) and Trinidad and Tobago (125,000 bd.) are considered, Caribbean refineries have a total of over one million barrels daily in desulfurization equipment.

Oil product yields are also tailored to fit U.S. market needs, with sixty percent residual fuel, ten percent distillates, only ten percent gasoline and twenty percent others. U.S. refinery yields are forty-six percent gasoline, twenty-nine percent distillates, with an historical nine percent residual fuel yield now increasing toward twelve percent.

The slowdown in U.S. demand has reduced operations in all Caribbean refineries, resulting in large surplus capacities. Capacity totals about 4.6 million barrels daily (mmbd) against internal needs of 1.4 mmbd. With refineries running at about 3.2 mmbd and domestic demand of 1.4 mmbd, there is an unused capacity of some 1.8 mmbd due mainly to the reduction in exports. Furthermore, recent U.S. oil industry develop-

---

² Throughputs are volumes of crude oil, unfinished oil and natural liquids refined during a given time period.
ments, such as expansion of residual fuel capacity (ECOL, SOCAL\textsuperscript{3} and Exxon), crude price controls which encourage U.S. output of residual fuel, and the entitlements program which encourages U.S. imports of crude oil rather than products, have increased the Caribbean refinery surplus. This has resulted in a shutdown of an 80,000 bd. plant in Jamaica and a 12,000 bd. plant in Guatemala.

**OPTIONS FOR FUTURE OIL POLICY DECISIONS**

Caribbean country options for future oil policy decisions are a blend of oil and politics. Their decisionmaking flexibility will depend mainly on the kinds of oil industries they have developed, namely whether they are exporters of crude oil and products (Venezuela, Mexico, Trinidad and Tobago) or refiners (the Virgin Islands, the Bahamas, Puerto Rico).

Exporting countries can try to diversify crude oil and/or product exports, increase refinery capacity to minimize crude and maximize product exports, or intensify domestic activity to develop local industry and reduce the need to export oil products. They can also try to reduce oil production to minimize the surplus/stretch-out exploitation of a depletable resource, accelerate development of hydrocarbon resources timed to the long-term growth of the world economy and join OPEC.

The refiners, on the other hand, have fewer options. They can try to diversify exports in order to become less dependent on the United States, establish joint crude supplier/marketing ventures, upgrade refineries to meet changing oil product demand patterns or sell out.

**CONCLUSION**

It is suggested that for the medium term (to the mid 1980s), exporters will choose to accelerate domestic economic growth, develop resources at a pace timed to global energy demand and export crude oil and products to the best economic markets. These countries will find that other options will not serve their interests because the artificial development of new markets pose difficult competitive problems (i.e., Europe's refinery surplus will make Caribbean exports difficult to expand; Persian Gulf country plans to increase refinery capacity will give them the edge in competing for third country markets). The economic advantages for Mexico to join OPEC appear minimal since Mexico and other non-OPEC producers (in the North Sea, for example) will continue to follow the OPEC upward price path. Refiner-exporters will probably choose to intensify long-term

---

3. ECOL — Energy Corporation of Louisiana, LTD.; SOCAL — Standard Oil of California.
crude oil supply contracts with exporters and solidify market outlets within their economic export area. Some will choose to sell out. As long as economic forces guide oil industry activities, the export and the export-refiner countries will continue to find that the United States will remain their major market. The task of the Caribbean countries will be to blend this economic necessity with the political desideratum of not appearing to be subservient to U.S. interests.