

OVERVIEW OF THE PETROCARIBE INITIATIVE

Jamaica has been receiving crude oil and refined products under the San Jose Accord established in 1980 and renewed yearly. Under this arrangement, Jamaica is expected to obtain 7,000 barrels of oil equivalents per day supplied in equal proportion from Mexico and Venezuela.

Since 2000 Jamaica has been receiving crude and refined products also at a quota of 7,400 barrels per day under the Caracas Agreement. Under this arrangement Jamaica purchases the oil at world market price and pays 75% of the purchase price within thirty (30) days. The remaining 25% is paid over 15 years with one year's moratorium at an interest rate of 2% per annum. The Caracas Agreement is renewed annually.

At a meeting of Caribbean Energy Ministers held in Caracas, Venezuela on July 10, 2004, Venezuela expressed concerns about the prevailing high price of oil and its adverse impacts on non-oil producing countries. Concerns were expressed regarding the high margins applied to petroleum products, which drive up the retail prices. At the meeting Venezuela expressed a strong desire to see more of the benefits of the energy agreements accruing to the social sectors, including health care and higher education, in the beneficiary countries.

Accordingly, Venezuela proposed a "Petrocaribe Initiative" to support Caribbean countries and other countries within the Americas. The Petrocaribe model is based on the concept of state involvement in the energy sector whereby surpluses achieved would be used to help meet expenses (through subsidies) in health care, education, housing for the poor and so on.

The Petrocaribe arrangement would involve refining of crude oil from Venezuela, shipping to Caribbean states, possibly in Petrocaribe owned/contracted vessels, wholesaling to existing retailers and even undertaking retailing where necessary.

Petrocaribe is seen as a replacement and an enhancement of the Caracas Agreement.

At the end of that meeting, a joint communiqué was issued whereby the signatories articulated the following positions, among others:

- The region faces serious challenges in obtaining continuous energy supplies;
- Recognition of the need for energy integration to emphasize the economic and social development of their peoples rather than being governed by market imperatives and the profit motive;

- Determination to guarantee to the peoples of the Caribbean region, access to and conservation of, non-renewable energy resources in a democratic and sustainable fashion;
- Recognition of the importance of a shared approach to resolving deficiencies in the global energy chain in so far as these deficiencies adversely impact on the sovereign rights of the states to safeguard the interests of their peoples;
- Reaffirmation of the sovereign rights of the states over their energy resources;
- Establishment of a Technical Commission to examine modalities of the implementation of Petrocaribe in the context of furthering the principles embodied in existing energy pacts viz. the San Jose and Caracas Accords.

The following is a chronology of the important developments since the first communiqué.

August 24 & 25, 2004: Technical Meeting on Petrocaribe, Kingston, Jamaica. This meeting was called to consider the legal, ownership, financial, and management options regarding the framework for Petrocaribe. In addition, the meeting reviewed the status of petroleum refining and distribution throughout the Caribbean region.

August 26 & 27, 2004: Second Meeting of Energy Ministers of the Caribbean on the Petrocaribe Initiative, Montego Bay, Jamaica. The following are the key positions articulated in a joint communiqué arising from the meeting:

- Petrocaribe to be a catalyst for the introduction of alternative approaches to market access, product distribution and retail, and correction of pricing inequities in some markets.
- This would be effected in a framework that recognizes multilateral commitments and facilitates greater market competition.
- The Ministers supported strengthening of the human and institutional capacities for the petroleum industry emphasizing the need for additional research and technology transfer within the region.
- Commitment to provide access to funding for upgrading refining capacities, establishing storage facilities and offering alternative transportation options.
- The Ministers welcomed offers from the major oil producing countries in the region to devise financial strategies for funding social programmes in areas including education, housing and public health.
- Agreement to undertake an in-depth evaluation of the practical benefits to be derived from Petrocaribe.

February 16, 2005: A Letter of Intent (LOI) was signed between Jamaica and Venezuela. This LOI covers the participation of Venezuela in Jamaica's energy sector projects, and technical studies/evaluations to inform and guide the nature and extent of the cooperation between the two countries. The three (3) specific areas identified for possible joint participation are:

1. Upgrading of Jamaica's oil refinery (the Petrojam Refinery)
2. The petroleum retail marketing sector
3. Exploration for oil and gas

March - May 2005: Petroleos de Venezuela SA (PDVSA) visited Petrojam to review cost estimates for upgrade and examine upgrade options. PDVSA engineering team visited to conduct inspection of refinery equipment and infrastructure.

June 29, 2005: A Memorandum of Understanding (MOU) for the upgrade of the Petrojam Refinery was signed between GOJ, acting through the Ministry of Commerce Science & Technology (with Energy) (MCST), and the Bolivarian Republic of Venezuela acting through its Ministry of Energy and Petroleum (MEP).

August 23, 2005: Official working visit of His Excellence President Hugo Chavez of the Republic of Venezuela, to Montego Bay, Jamaica. A Joint Communiqué was issued arising from the visit and the highlights/positions are as follows:

- Review by the Prime Minister of Jamaica and the President of Venezuela of the status of bilateral cooperation between their two countries, especially in the context of the San Jose and Caracas pacts.
- Recognition of the possibilities for broadening the scope of present arrangements/activities between Jamaica and Venezuela, and consequently, agreement to convene in the first quarter of 2006, the Jamaica/Venezuela Bi-national Commission, through which new proposals can be developed and refined in a structured manner
- Expression of appreciation by Prime Minister Patterson to the President and people of Venezuela for their agreeing to collaborate, on an equal basis, in the upgrading of the Petrojam Refinery. The upgrade will take place in two (2) phases:
 - Phase I will be implemented at a cost of US\$200 M and will include; the expansion of the crude unit from 35KBPD to 50KBPD; a new vacuum unit and; a new visbreaker unit
 - Phase II will include the installation of a delayed coker at a cost of US\$250 – 300 M
- Construction is scheduled to commence in 2006, facilitating start-up of the upgraded refinery by 2008
- PDVSA Caribe and the Petroleum Corporation of Jamaica gave an undertaking to create a new joint venture company to oversee the refinery upgrade, expansion of local retail trade and the trade in oil with regional countries
- Finalization by the leaders of Venezuela and Jamaica, a Bilateral Agreement under the Petrocaribe Initiative. Specific aspects include:
 - The coming into effect of the Bilateral Agreement on June 29,

2005

- The supply of twenty one thousand (21, 000) barrels a day of crude oil and products to Jamaica
- Financial arrangements that will allow forty percent (40%) of the purchase price of petroleum products to be provided as concessionary loans for twenty five (25) years. Interest will be charged at a rate of one percent (1%) per annum when prices equal or exceed US\$50 a barrel. The loan amounts will be calculated on the basis of price prevailing at the date of purchase
- Agreement to establish/enhance cooperation in other areas including strengthening of commercial and trade ties in tourism and air transport, and in the sphere of education and culture, an offer by Jamaica, of English language training to Venezuela.

Sept 4 – 6, 2005: Meeting of Energy Ministers and Heads of Governments in the Caribbean at Montego Bay to finalize the various bilateral agreements within the framework of Petrocaribe.