The Chinese–Venezuelan Oil Agreements: Material and Nonmaterial Goals

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Rita Giacalone
University of the Andes (Venezuela)

Jose Briceño Ruiz
Universidad Nacional Autónoma de México

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Rita Giacalone and José Briceño Ruiz

This article explores the Chinese–Venezuelan oil agreements established after 2007 to identify both governments' objectives and to pose questions of interest for determining their possibilities and limitations. The first section discusses the global energy background and the evolution of the Venezuelan economy in the last decade, including changes to oil policy after 1999; the second section analyzes the content of the bilateral oil agreements; and the third section evaluates the material and nonmaterial aspects of Chinese and Venezuelan foreign policies included in them. The article concludes that, although both governments share some ideational premises, realpolitik matters in their bilateral oil cooperation.

Este artículo examina los acuerdos petroleros entre China y Venezuela establecidos después de 2007 para identificar los objetivos de ambos gobiernos y hacer preguntas de interés para determinar sus posibilidades y limitaciones. La primera sección aborda el panorama histórico de la energía global y la evolución de la economía venezolana en la última década, incluidos los cambios en la política petrolera a partir de 1999. La segunda sección analiza el contenido de los acuerdos petroleros bilaterales, y la tercera evalúa los aspectos materiales y no materiales de la política internacional china y venezolana contenidos en estos. El artículo concluye que, aunque ambos gobiernos comparten algunas premisas ideológicas , la realpolitik es importante en la cooperación bilateral petrolera.

Key words: oil, Venezuela, China, ideas, interests

In the last decade, the rise of Chinese trade and investment abroad has affected developing and emerging markets. In Latin America, its consequences have been an increase in trade flows toward the Pacific; an emphasis on extraregional rather than intraregional trade; and a change in the sector composition of trade, with more primary goods in Southern Cone (Argentina, Brazil, Chile, and Uruguay) exports (Lélis, Cunha, & Lima, 2012).

In Venezuela, a nation in which oil constitutes the bulk of exports, the People's Republic of China (PRC, subsequently China) has recently entered the field of oil exploration and production in association with the government. Venezuela has hailed this decision as opening the possibility of obtaining independence from U.S. companies that had traditionally dominated this field, but the deal has been

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criticized because Chinese investments in the exploitation of natural resources belonging to the state could deepen Venezuelan dependence on oil exports revenues, increase the already large role of the state in the economy, and curtail future oil sales to guarantee debt repayment of a Chinese loan to a bilateral fund (Orozco, 2011).

This article explores three aspects of the Chinese–Venezuelan oil agreements: the global oil background and the evolution of the Venezuelan economy during the last decade, with emphasis on changes in its oil policy since 1999; the content of the oil agreements; and the material and nonmaterial elements included in them. The study is based on secondary material, including a specialized bibliography, but also press information, published interviews, and statistical data. Our aim is to pose questions that may contribute to further research and discussion.

Global Energy Situation, Chinese Objectives, and Recent Venezuelan Oil Policy (1999–2012)

The global oil landscape at the beginning of the 21st century is characterized by increased demand for energy and restriction of supply because of dwindling natural resources. Moreover, 77% of that supply is presently under the control of governments that restrict access to their country's natural resources (Mirsaeedi, 2009, p. 319). Part of the increased demand is due to the pressure of emergent economies, such as China, the second largest consumer of energy in the world. In the mid-1990s, its economy entered a phase in which cars became the main means of transport, displacing other sectors. This change resulted in a government industrial strategy in which the automotive industry was considered an engine of economic growth, following the model of industrial development in the United States. If the number of Chinese oil-propelled vehicles grew 5.7% from 1980 to 1999, since then it has grown another 26.5% (Shalizi, 2007, pp. 136–137).[1] This and similar growth in India is not wholly responsible for the global rise in oil prices, which can be attributed to decreasing supply and increasing geopolitical uncertainty regarding Iraq, Nigeria, and Venezuela, plus the Gulf of Mexico hurricanes that have affected refining capacity (Shalizi, 2007, p. 142).

Since the 1980s, international oil prices had been stationary, except during the Persian Gulf crisis (1990–1991) and the Asian financial crisis (1997–1998). Since 1999–2000, the Organization of Petroleum Exporting Countries (OPEC) has been able to obtain an increase in prices by decreasing its members' production quotas. After 2004, the rapid increase in oil prices went hand in hand with global economic expansion.

In the 2000s, China developed a new type of agreement—"oil for credits" (Bingwen et al., 2010, p. 9). The agreements signed in 2007, 2009, and 2011 between the Chinese National Petroleum Corporation (CNPC) and Petroleum of Venezuela (PDVSA) fall under this type of agreement. China's objective has been to obtain a steady supply of energy for at least the next decade (Rodríguez Holkemeyer, 2011). These agreements—energy for credit lines—began in 2004 and specified that borrowers must buy goods and services from Chinese companies,[2] showing the coordination between Chinese firms and the Chinese government through the China Development Bank (CDB) (Downs, 2011, p. 2).

In addition to the CNPC, other Chinese companies are participating in these agreements to develop the necessary infrastructure for moving supplies out of the region and obtaining the full benefits of the government lines of credit. In Venezuela, the China Railway Engineering Corporation has an agreement to build a railway between Tinaco and Anaco, at a cost of US$75 million, mostly provided by the CDB through the Joint Chinese–Venezuelan Fund (Heavy Fund) established in 2007. The project is part of a multimodal link that would go from the confluence of the Orinoco and Caroni rivers in eastern Venezuela to the Pacific coastline in Colombia (Rodríguez Holkemeyer, 2011) and includes the construction of towns along the way for lower-income people. PDVSA (2007, p. 169) reported the formation of a mixed socialist agro-industrial enterprise between China's Helongjiang Xinliang Grains & Oil Group Co. Ltd. and PDVSA-Agrícola. Its projects include the building of grain storage areas, rice and soy cultivation, and the production of balanced animal food, as well as pork, mainly in the Orinoco Belt. In the industrial sector, joint companies would be developed in telecommunications for the production of cell phones in Venezuela with Chinese technology. The same would be done with electric appliances (refrigerators, stoves, air conditioners) by means of an agreement between the Chinese Electric Appliances Corporation and the Venezuelan Corporation of Intermediate Industry (Carlson, 2007). The fund would also financed five metro lines, a train from Cúa to Encrucijada, and a highway (Downs, 2011, p. 49).

In addition to more than US$28 billion granted since 2007, including US$8 billion to capitalize the Heavy Fund, the CDB gave Venezuela loans of US$20.6 billion in 2010. The new deal encompassed three agreements: a US$10 billion loan incorporated under English law, a RMB 70 billion loan governed by Chinese law, and an oil supply contract between CNCP and PDVSA under Venezuelan law (Downs, 2011, p. 49). The second loan and US$4 billion of the first one would fund projects jointly selected and implemented and seemingly conditioned to hiring Chinese firms (e.g., the contract granted to China's CITIC Group to build housing units in Venezuela). The expanded role of CDB in determining how funds should be spent and of Chinese firms in implementing them signals a departure from previous agreements. It is probably a risk-mitigating factor, because the lengths of the repayment periods necessitate guarantees that they would be repaid even after the present government is out of office (Downs, 2011, p. 53).

In general, the agreements specify that Venezuela would increase its supply of oil to China and that China would invest in Venezuelan agriculture, infrastructure, mining, and energy production, increasing annual trade between the two countries that already had grown from less than a half a billion dollars in 2003 to US$5 billion in 2008 (Suggett, 2009). The implementation of these measures has made Venezuela China's major Latin American trade partner.[3] A decade before, China's largest trade partners in Latin America were Mexico, Brazil, Argentina, Chile, and Cuba, and its main exports were textiles, light industry, and machinery and equipment, in exchange for iron, copper, wheat, wool, sugar, and paper pulp (Xu, 1996, p. 193).

Since the 1930s, oil has been the axis of the Venezuelan economy because of the amount of money generated by selling oil and its derivatives in the international market. The state is at the center of this process, because of its ownership of oil fields, and it is the main factor in internal redistribution of the oil rent (Baptista

& Mommer, 1989). A conflict of interests over redistribution developed between the service and oil sectors that prefer free trade, capital mobility, and a strong currency, and industrialists and agriculture and cattle producers, oriented toward the domestic market, who prefer tariff protection (Schliesser & Silva, 2004). Since the 1960s, economic policies conciliated both interests; while exchange control and macroeconomic policies favored the outward-oriented sectors, subsidies, credits, and tariffs helped the inward-oriented ones (Frieden, 1991, pp. 183–185).

This conciliatory economic policy was sustained until the late 1970s, but the external debt crisis (1982) upset this trend (Bello & Ayala, 2004, p. 41), and successive governments experimented with different development models. In 1996, with inflation at 103%, salaries losing 40% of their real value, and low international oil prices, Venezuela resorted to the International Monetary Fund (IMF) (Schliesser & Silva, 2004). By then, state mechanisms were unable to manage social and economic conflicts. Institutions were questioned and political actors mobilized to restructure the economy in their own interests (Machado & Useche, 2001).

In 1998, a leftist-leaning civic–military coalition headed by Hugo Chávez took over power. This government emphasized constitutional reform and administrative and political reforms, and since 2001, emphasis moved to the economy in an effort to restructure it. The axis of the 2001–2007 economic programs was oil (Guerra, 2004, pp. 36–39), but the increase in oil prices and a strong currency led to an increase in consumption and imports of luxury products. Cuts in oil production to sustain high oil prices also meant a fall in GDP, 21% inflation, and a 15% rise in unemployment, which became evident at the beginning of 2002 (Guerra, 2004, p. 53). The political crisis of April 2002 and the oil strike of December 2002–January 2003 exacerbated these negative trends (Rodríguez, 2008).

During these years, Venezuelan oil dependence grew because oil-generated funds went from 5.8% of total state income in 1998 to 15.9% in 2006 (García & Reyes, 2008, pp. 31–32). Oil exports also grew as a proportion of total exports. In 1998, they were valued at US$12.178 billion and, by 2006, at US$48.150 billion (a 295% rise). As a proportion of total GDP, they grew from 11.66% to 14.16% during the same years. At the same time, government measures such as the prohibition of agricultural exports (e.g., coffee, rice) to control domestic food prices diminished the percentage of nonoil exports in the total amount ("Cae exportación no petrolera," 2009; "Exportaciones no tradicionales se contraen," 2009). GDP increased 17.9% in 2004, 9.0% in 2005, and 10.3% in 2006 (García & Reyes, 2008, p. 27). Constant high oil prices did not mean a proportionate growth of the Venezuelan economy. In fact, it grew by only 2.7% between 1999 and 2006, mostly due to the fall in foreign and private sector investment (García & Reyes, 2008, p. 38), which left the state as the largest investor.

During the 1990s, the Venezuelan government had changed the hydrocarbon legislation to attract foreign investors by means of the "opening process." Its objectives were to incorporate new technology and skills from abroad into the oil business and to increase PDVSA access to new markets. The new laws opened the domestic gasoline market and promoted the development of the petrochemical, coal-chemical, and other related sectors in three negotiation rounds from 1992 to 1997. In the first two rounds, the government secured foreign direct investment of more than US$2 billion and, during the third, US$2.17 billion more. Overall, these operational agreements allowed private firms to participate in 32 oil fields, including the Orinoco Belt (Stanley, 2008, p. 7).

The post-1998 Venezuelan government introduced changes in economic and oil policies. In the oil sector, the government increased the *royalties* that foreign investors paid to 30%, later to 33% and later to 50% (Stanley, 2008). The 2001 Hydrocarbons Organic Law established that the state should have the majority share in all strategic alliances, but this was not effectively implemented until 2005 (Stanley, 2008). That year, the Venezuelan government announced that the oil operating agreements of PDVSA, signed in the 1990s, would have to convert to jointly owned enterprises under the hydrocarbons law of 2001 (Pascal & Azpúrua, 2008).[4] The following year, the Law for the Regularization of Private Participation in Primary Activities terminated all existing operating agreements and prohibited any new contract granting rights to private parties, except as minority investors in a jointly owned enterprise (Pascal & Azpúrua, 2008).

In 2007, more economic changes were incorporated in a constitutional reform process aimed at establishing "real socialism" (Guerra, 2007a, 2007b). The constitutional reform was rejected at the polls in December 2007, but the "enabling law," passed by the all progovernment National Assembly in January 2008, granted government the right to implement these economic measures directly (Orozco, 2008). In May 2007, the last remaining oil area open to foreign companies—the Orinoco Belt—had been nationalized, and the government established that there should be a 60% minimum share of state property and the transfer of all operations to PDVSA. These measures affected Chevron, Exxon Mobil, British Petroleum, and Conoco Phillips, which had huge investments in the area. Some companies had previously accepted the deals, whereas others had left Venezuela (Weisbrot, 2007), but Exxon and Conoco Phillips took the matter to international arbitration. Anti-Western sentiment in government and the need to generate more funds for official social programs were behind the Venezuelan decision (Mirsaeedi, 2009, pp. 321–322).

During the oil boom (2003–2008), the existence of a market with high oil reserves attracted foreign investors to Venezuela, but the government tried to substitute capital and technology from traditional investors by those coming from countries whose governments were politically closer to the Venezuelan administration (CONAPRI, 2007). Investment in the oil sector was necessary because PDVSA suffered problems due to the rise in production costs, the loss of technology and human resources after the oil strike (2002–2003), and the need to finance external cooperation and productive projects in different sectors (Rodríguez, 2008). Foreign investors were mainly attracted by Venezuelan oil reserves in the Orinoco Belt—some 79.729 billion barrels (7.3% of the world total) of heavy and extra-heavy oil that demands additional technological investments to be processed into light oil (Oficina Económica y Comercial, 2006). Another objective of Venezuelan oil policy has been the replacement of traditional oil clients. Although exports to the United States are still dominant, they have been falling vis-à-vis exports to other nations. A special case is the use of oil in advance-buying operations of arms, technology, and other things, a trend that may compromise the possibility of benefitting from future rises in oil prices because the price of oil is set at the level of the time when the contract is signed.

Mirsaeedi (2009, p. 323) considers that the Venezuelan government had an interest in maintaining a minimum share of foreign companies because they offered know-how, capital, and experience, but the decision of the largest foreign companies, Exxon and Conoco Phillips, to take the matter to international arbitration upset this possibility. If the government was able to assert its sovereignty over natural resources, it was also faced with the problem of not having

> sufficient capital and know-how to continue production without any joint ventures. . . . If Venezuela does not succeed in attracting enough investment, it risks having insufficient means to sustain production, arriving at a point where losses from a lower production volume exceed the additional revenue stemming from world oil prices. (Mirsaeedi, 2009, p. 324)

This may explain why, since the end of the oil boom in 2008, Venezuela has not fulfilled its export quota within OPEC (Suárez Núñez, 2009, p. 9). Venezuela's need to attract new investors into the Orinoco fields coincided with the Chinese drive to obtain a larger share of global oil resources, and these became the main motivations for the Chinese–Venezuelan agreements signed in 2007 ("Heavy Fund 1"), enlarged in 2009 ("Heavy Fund 2"), and renegotiated in 2011.

The Chinese–Venezuelan Oil Agreements

President Chávez visited China and signed energy-related agreements in 1999, but the beginning of a new era in Venezuelan–Chinese relations can be dated to 2001, with the establishment of a strategic alliance between the two countries. The first action in the construction of such an alliance was the creation of a High Level Joint Commission to coordinate relations between the two countries. Since then, Chávez visited China several times, the Chinese president visited Caracas in 2010, and high-level representatives of the Chinese government have been in Venezuela to discuss mechanisms to activate the strategic alliance. Even before, the Chinese government had fostered agreements with the Venezuelan oil state company, PDVSA, and Chinese oil companies had been operating Venezuelan oilfields in the Maracaibo Lake Basin ("CNPC in Venezuela," 2012). Bilateral cooperation in the oil sector increased and deepened after 2006.

There are at least five categories of agreements related to oil and energy issues: (1) oil supply agreements, by which Venezuela is engaged in the provision of oil to China; (2) agreements to promote Chinese participation in the exploration and exploitation of oil in the Orinoco Belt; (3) financial cooperation agreements in which China provides loans to develop economic and social projects, and Venezuela pays them by sending fuel and crude oil to China; (4) agreements in which China supplies capital goods, such as drills or tankers, or services; and (5) agreements on infrastructure, in particular the construction of refineries in China to process Venezuelan oil.

Oil supply agreements and exploration and exploitation agreements represent the majority of treaties signed between China and Venezuela, but financial agreements and capital supply agreements are also important (Figure 1).

The evolution of the agreements signed by the two countries can be seen in Figure 2, which highlights the interest of each country in promoting cooperation and how this has evolved. In the early stage (1999–2005), exploration and exploi-

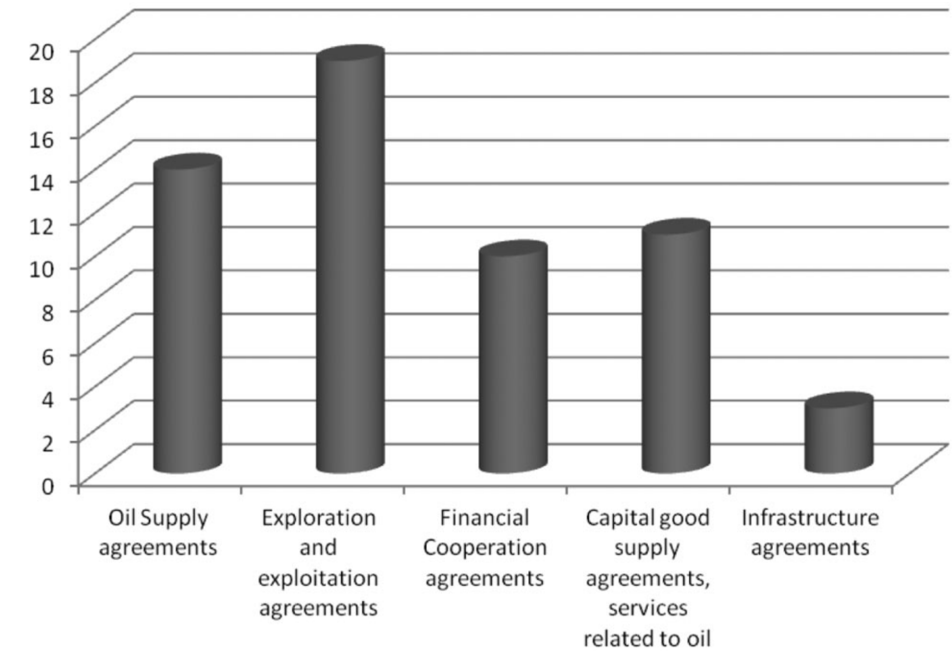

Figure 1. Oil Cooperation Agreements between China and Venezuela
Source. MPPRE, Embassy of China in Venezuela.

tation agreements prevailed, a fact that indicated Chinese interest in entering the Venezuelan oil sector as a first step to ensuring an increasing supply of oil from that country. Caracas welcomed Chinese interest because, at that time, the government was ending the operating agreements signed in the 1990s and trying to diversify its partners beyond U.S. and European companies. Since 2006, supply agreements and financial agreements (related to oil supply) were signed (Tables 1 and 2). When Chinese firms began to participate in the Venezuelan oil market, new needs emerged, and it was necessary to provide capital goods and services (Table 3). In the most recent stage, cooperation has evolved from exploration, exploitation, and supply of oil to infrastructure agreements, such as the construction of tankers and refineries (Table 4).

Exploration and Exploitation Agreements

Table 1 shows the chronology of exploration and exploitation agreements. During President Chávez's visit to China in October 1999, the most important agreements established a joint commission to explore and foster initiatives of cooperation in energy and an agreement to supply Orimulsion to China. In 2001, the Venezuelan minister of foreign affairs, Luis Alfonso Dávila, and the Chinese minister of planning and development, Zeng Peiyan, signed a memorandum of understanding for energy cooperation between 2001 and 2011 (Memorandum de Entendimiento entre el Ministerio de Energía y Minas de la República Bolivariana de Venezuela y la Comisión Estatal de Planificación y Desarrollo de la República Popular China sobre la Cooperación Energética Decenal, 2001–2011).

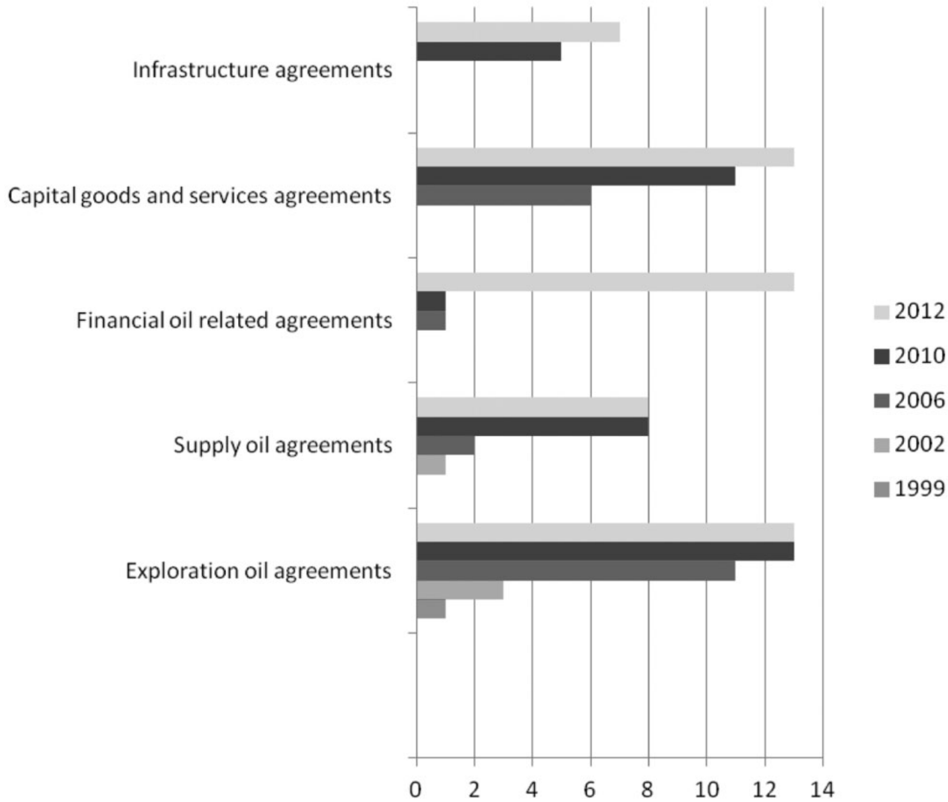

Figure 2. Oil agreements.
Source. Tables 1, 2, 3, 4.

Table 1. Supply Contract Agreements

Agreement	Date
Supply contract about Orimulsion	4/17/2001
Supply contract of PDVSA to Petrochina	8/24/2006
Supply contract of fuel oil between PDVSA and CNPC	3/03/2007
Supply contract of crude oil between PDVSA and CNPC	3/27/2007
Supply contract of fuel oil up to 500,000 barrels between PDVSA and CNPC	7/24/2008
Supply contract of fuel oil between PDVSA and China Zen Hua Oil Co. LTD.	9/24/2008
Framework supply contract of fuel oil between PDVSA and China Zen Hua Oil Co. LTD	12/22/2009
Framework supply contract of fuel oil and crude oil between PDVSA and UNIPEC Asia Company LTD	12/23/2009
Framework supply contract of fuel oil between PDVSA and Petrochina International Limited Company	12/23/2009

Source: MPPRE, Embassy of Venezuela in China.

Table 2. Financial Agreements Related to Oil

Agreement	Date
CDB and the Ministry of Finance of Venezuela	9/13/2005
Agreement for the management of the Venezuelan Chinese Program of Financial Cooperation	11/14/2005
Four-party agreement (BANDES, PDVSA, CDB, and CNPC)	6/11/2007
Six-Party agreement for the establishment of a China–Venezuela joint investment fund	6/11/2007
Financing agreement between BANDES and CDB	6/11/2007
Intergovernmental convention about the financing of the China–Venezuela Joint Fund	6/11/2007
Amendment Protocol between Venezuela and China to the intergovernmental convention about the financing of the China–Venezuela Joint Fund	2/18/2009
Supplementary agreement between BANDES, PDVSA, CNUOC, and CDB, modifying and refunding the four-party agreement of November 6, 2007	2/18/2009
Supplementary agreement between China Oil, CDB, BANDES, PDVSA, FONDEN, and the Ministry of Economy and Finance, amending and reestablishing the framework agreement signed on November 6, 2007.	2/18/2009
Supplementary agreement between BANDES and CDB signed in November, 2007, amended and reformulated as a loan agreement	2 /18/2009
Agreement between Venezuela and China for cooperation in long-term financing	10/09/2010
Four-party agreement for financing the Heavy Fund	2/27/2012
Financing contract between BANDES and CBD	2/27/2012

Source: MPPRE, Embassy of Venezuela in China.

According to this agreement, the Venezuelan government would foster the participation of Chinese oil firms in the development of studies leading to their participation in investments for oil exploration in Venezuela and as shareholders or operators in the exploitation of hydrocarbons. Both governments would foster cooperation between their oil firms; carry on conversations to sign an agreement to drill the Zumano oilfield; promote cooperation in the development of Orimulsion; and explore mechanisms to increase their firms' cooperation in coal, electricity, and new sources of energy, and the Chinese government would encourage its firms to participate in the provision of technical services and oil engineering in Venezuela and exports of oil materials.

In 2001, PDVSA and the CNPC founded a joint venture in which the Chinese firms had a 70% stake and signed a 30-year contract for the drilling of an oilfield and an emulsification plant ("CNPC in Venezuela," 2012). Chinese oil corporations, such as CNPC, Petrochina Company Limited, and the SINOPEC International Petroleum Exploration and Production Corporation, participated in these agreements with PDVSA (Table 1).

Table 3. Capital Goods Supply and Services Related to Oil Agreements

Agreement	Date
Memorandum of understanding between PDVSA and China Petroleum Technology and Development Corporation (CTPDC) regarding drilling rigs	3/26/2006
Memorandum of understanding between PDV Marina and China National United Oil Corporation on marine traffic	4/28/2006
Purchase contract of drilling rigs between PDVSA and the CTPDC	8/24/2006
Memorandum of understanding for the creation of a joint venture for the assembly and engineering of drilling rigs between PDVSA and CTPDC	8/24/2006
Memorandum of understanding for the creation of a joint venture for the transportation of crude oil between PDVSA and the China United Oil Corporation (CNUOC)	8/24/2006
Memorandum of the meeting between PDVSA and the Chinese firm Freet—Shengli Oil Field Petroleum (subsidiary of SINOPEC) on the development of a project for the supply and possible creation of a Venezuelan–Chinese joint venture for the production of machinery, equipment and engineering for the exploitation of heavy oil in Venezuela	11/15/2006
Agreement for the creation of a joint venture for the assembly of drilling rigs between PDV exploration and the CTPDC	3/27/2007
Memorandum of understanding between PDV Marina and Jiangsu Rongsheng Heavy industries for the procurement of ships	9/24/2007
Memorandum of understanding for construction of four tankers by the joint venture CV Shipping	9/24/2007
Memorandum of understanding to provide services of deep-water and ultra-deep-water offshore drilling between PDVSA CNOOC	12/22/2009
Contract for the construction of a 320,000 DWT crude oil tanker (Hull n° BH518–4) between CV Shipping PTE. Ltd. and China Shipbuilding & Offshore International Co. and LTD. and Bohai Shipbuilding Heavy Industry Co. Ltd.	12/22/2009
Agreement between PDVSA and SINOPEC to create an oil refining joint venture	12/27/2012

Fuente: MPPRE, Embassy of Venezuela in China.

CNPC was involved in the development of the Caracoles and Intercampo oilfields. These oilfields are considered marginal fields and have been drilled for longer than 50 years. According to CNPC, "peak production of the fields has increased from 700 tons per day to 5,500 tons per day since CNPC takeover. In 2006, 1.07 million tons of crude oil was produced" ("CNPC in Venezuela," 2012). Similarly, the Chinese firm had signed with PDVSA a cooperation agreement on the Zumano oilfield in 2004 and a joint venture in 2006, with CNPC holding a 40% stake. Zumano is an oilfield located in the East Venezuelan Basin composed

Table 4. Infrastructure Agreements between China and Venezuela

Agreements	Date
Framework agreement for the construction of a refinery between PDVSA and Petrochina in Huhai, Province of Guandong	2/20/2008
Framework agreement of the project to construct a refinery by PDV–Eurasia and Petrochina	5/09/2008
Agreement for a joint PDVSA–SINOPEC study for the construction of a refinery at the Junin 8 Block in Venezuela	9/24/2008
Memorandum of understanding between PDVSA and Petrochina to develop an oil storage and distribution terminal in the Orinoco Belt	12/22/2009
Memorandum of understanding between PDVSA and Sinohydro to cooperate in the development of projects of infrastructure in the Orinoco Heavy Oil Belt	12/22/2009
Agreement for the construction of offshore oil platforms by CITIC	2/27/2012
Agreement between PDVSA and Sinohydro to build an industrial condominium at Carabobo area, Orinoco Heavy Oil Belt	2/27/2012

Source: MPPRE; Embassy of Venezuela to PRC, 2011.

of 15 oilfields and covering a total area of 532 square kilometers. According to CNPC, Zumano has production of original oil in place of 6.14 billion barrels. The remaining recoverable reserve is 510 million barrels, and the oilfield currently produces 19,025 barrels of crude oil per day ("CNPC in Venezuela," 2012).

Another agreement was established in October 2007 between CNPC and the Venezuelan Ministry of Energy and Mines to jointly develop and produce 20 million metric tons of heavy oil (or 30 million metric tons after blending with light oil) annually. In November, CNPC and PDVSA signed a memorandum to extend integrated upstream and downstream cooperation in the Orinoco heavy oil belt ("CNPC in Venezuela," 2012). The Junín 4 Block, located in that area, is another significant CNPC investment in Venezuela. The block boasts a reserve of 8.7 billion barrels of oil, and it is estimated that the project will produce approximately 400,000 barrels per day and 2.9 billion barrels of extra-heavy crude oil over the 25-year contract term ("PetroChina signed Junin 4 Oil Project," 2010). SINOPEC has also participated in the Chinese strategy of exploring and exploiting oil in Venezuela. Another Chinese firm, SINOPEC, has also signed an agreement in 2010 to develop the Junin 1 and 8 oil blocks of the Orinoco Oil Belt, with the goal of producing 200,000 barrels per day in each block ("China's Sinopec to have a stake in Orinoco Oil Belt," 2010).

Similarly, the China National Offshore Oil Corporation (CNOOC) signed a memorandum of understanding in 2009 to participate in the offshore production of gas in Venezuela. A year later, the company signed an agreement with PDVSA to participate in the Mariscal Sucre offshore gas project, which originally had expected to start gas production in 2012 ("China's Sinopec to have a stake in Orinoco Oil Belt," 2010). This project has the goal of producing 1.2 million cubic meters of natural gas and 37,000 barrels a day of natural condensation gas. Finally, Petrochina Company Limited, a subsidiary of CNPC, signed a framework agreement with PDVSA in 2008 to establish a joint venture in the Junín 4 Block. In April 2010, both oil corporations signed a preliminary agreement according to which the Junín 4 Block would produce 400,000 barrels of crude oil per day ("China Oil Giants Explore Petroleum in South America," 2010)

Oil Supply Agreements

More than a decade after Chávez first visited China (1999), a PDVSA document highlights that "China and Venezuela have achieved significant progress in the past years regarding oil matters. Before, hydrocarbons supply between both nations was non-existent. Venezuela never sold oil to China because this nation was located too far away" (PDVSA, 2012). According to the same document, "Venezuela currently sends China 350 thousand barrels per day of crude and derivatives. Moreover, there is a commitment to raise that number to 500 thousand barrels per day next year and to reach 1 million barrels per day by 2020–2021." Table 1 shows the diverse supply contract agreements signed between PDVSA and different Chinese oil firms in recent years.

The Financial Agreements

The first framework agreement between the CDB and the Venezuelan Ministry of Finance was signed in September 2005. In November of the same year, they also signed an Agreement for the Management of the Venezuelan-Chinese Program of Financial Cooperation (*Convenio para la Administración del Programa de Cooperación Financiera Chino-Venezolana*, 2005).

In 2007, there was a change in bilateral cooperation because of the emergence of a new type of agreement—"financial agreements related to oil"—in which the Chinese government grants Venezuela loans or financial assistance to develop projects, and Venezuela commits to paying them by selling fuel oil or crude oil to China under special conditions.

Some crucial agreements were signed in November 2007, when high-level Chinese representatives visited Caracas: the four-party agreement between BANDES, PDVSA, CDB, and CNPC; the six-party agreement for the establishment of the China–Venezuela "Heavy Fund" (see first section), and the agreement between BANDES and CDB (Table 2). These agreements were amended, supplemented, or modified in 2010 and 2012.

According to the agreement, CDB granted a US$4 billion loan to BANDES, called the Joint Fund Phase I Facility. PDVSA was to pay this loan by selling up to 100,000 barrels of fuel oil or crude oil per day in three consecutive years, from November 2007 to November 2010. The agreement created a mechanism for the rollover of the fund for further terms of three years, each based on the same terms established in Phase I. A joint technical office of the CDB and FONDEN is responsible for the implementation of the strategic development projects in infrastructure, energy, and industry financed by the fund. The High Level Joint Commission (created in 2001) coordinates and supervises the implementation of the agreement, and BANDES and the CDB present an annual report to the commission on its activities in relation to the fund (Convenio, 2008, arts. V, VIII).

In February 2009, the Chinese vice president, Xi Jinping, visited Venezuela and signed an agreement that increased the resources of the Heavy Fund I, which were augmented from US$6 billion to US$12 billion. This increase was provided by an additional US$4 billion loan granted by the CDB to BANDES, whereas FONDEN would supply US$2 billion (Protocolo de Enmienda, 2009, art. 1). Venezuela would pay the loan by selling 130,00 barrels per day of fuel oil and crude oil to China for three consecutive years. The schedule and mechanisms to supply oil to China were established in the supply agreements shown in Table 1.

In September 2010, the Chinese and Venezuelan governments established a new agreement for cooperation in long-term financing. The Venezuelan National Assembly ratified the agreement that same month (long-term financing agreement, 2010). In the agreement, the CDB granted BANDES a loan of up to US$10,000,000,000 and a loan of up to RMB 70,000,000,000. These loans would be due 10 years from the date the respective agreements were signed (Long-term financing agreement, 2010, art. 3). The loan would amortized in the following way: PDVSA will sell oil to the China National United Oil Corporation (CNUOC or China Oil), and CNUOC will deposit the funds of the sale in the accounts that BANDES opens and maintains in the CDB. A portion of those funds, related to the royalties on oil resources PDVSA pays to the government of Venezuela, will be used to pay the CDB for amortizations of principal and interests and other related obligations. (Long-term financing agreement, 2010, art. 4)

Capital Goods Supply Agreements and Services Related to Trade Agreements

Since 2006, Chinese–Venezuelan bilateral energy cooperation has been diversified with the signing of agreements related to Chinese supply of capital goods to Venezuela. As shown in Table 4, they include agreements aimed at assembling drilling rigs in China to be used by PDVSA in oil exploitation. The president of PDVSA, Rafael Ramírez, explained the reasons. PDVSA in the past had contracted 18 oil-drilling rigs from transnational firms. "Now those firms are demanding huge amounts for the right to use this equipment. Vis-à-vis this situation, we have decided to nationalize these machineries and put them under the control of the State" (Ramírez, quoted in PDVSA, 2007). Because those 18 drilling rigs were not enough for the expansion plans of PDVSA, the Venezuelan government bought more from China, beginning in 2007, when Caracas purchased the first 13 Chinese drills (PDVSA, 2007). In September 2011, Ramírez announced that Venezuela would import 138 Chinese rigs and that both countries had established a joint venture (the Chinese–Venezuelan Drilling Industry) ("Industria China Venezolana de Taladros, ICVT," 2011) in the Orinoco Belt to assemble drilling rigs in Venezuela.

China has also become a supplier of oil tankers to Venezuela. As a result of the transportation agreement signed in 2006 (Table 3), Venezuela is committed to buying 18 oil tankers. The agreement also stated that China would help establish shipyards in Venezuela and train Venezuelan workers ("Venezuela, China Sign $1.3 Billion Tanker Deal," 2006).

Infrastructure Agreements

Infrastructure agreements have been signed since 2008, with the main objective of establishing refineries in China to process Venezuelan crude oil. They include the agreement signed in 2008 (Table 4) aimed at building a refinery complex in Guandong province, southeast China. The construction of the refinery started in April 2012, with an investment of US$9.3 billion, with CNPC holding a 60% stake and PDVSA the remaining 40%. The complex is expected to have an annual processing capacity of 20 million metric tons, or 400,000 barrels a day, and become China's largest integrated refining complex ever built at once. The refinery will process crude oil from the Orinoco Basin and will produce gasoline, diesel, and jet fuel ("CNPC-Venezuela joint refinery set for 2014 opening," 2012).

In 2008, SINOPEC and PDVSA signed an agreement to establish a refinery at the Junín 8 Block, and, in February 2012, both firms established a joint oil-refining venture at the Cabruta refinery in the Orinoco Oil Belt to be built by SINOPEC. The Chinese firms Sinohydro and CITEC will also participate in the construction of two US$8,000 industrial condominiums in the Carabobo campus of Orinoco Belt (El Mundo, 2012).

Conclusion

The promotion of national interest in a more-complex and diversified international system has led China and Venezuela to further energy cooperation. Ideational reasons have also played a role in this process, but it is difficult to deny that a realpolitik logic is behind the recent cooperation between Beijing and Caracas.

In Venezuela, this cooperation must be understood in the context of the new foreign policy fostered by its government. One of its goals is the promotion of a multipolar world, in response to U.S. hegemony after the end of the Cold War. As Corrales (2010, p. 115) has pointed out, Chávez "has elevated relations with China to almost national priority. He considers deepening ties with China as vital for constructing a more 'multi-polar world,' lessening Venezuela's dependence on U.S. markets for oil." In an official document of the Venezuela embassy in the United Kingdom, this objective is clearly established:

> Deepening diplomatic relations with China and other alliances with countries in Asia, Africa, Latin America and Europe is part of promoting a "multi-polar" world order which counteracts US hegemony. Multi-polar cooperation is an alternative to conventional financing by the IMF and World Bank which often comes with the burden of high interest rates and the imposition of damaging economic policies. (Embassy of the Bolivarian Republic of Venezuela to the UK-Ireland, 201, p. 1)

China shares this interest in the promotion of a multipolar world, even if the strategy that its government pursues is different from that of Caracas. For Beijing, a multipolar world is linked to the democratization of international relations, or as President Jintao asserted in 2010, a multipolar world should be based on "a new type of relationship with each other: one in which countries of the world are politically respectful and trusting to each other and, economically, beneficial and reciprocal to each other." Jintao also pointed out, "We uphold that all countries co-exist in peace, adhere to a new view of security that is based on mutual trust, mutual benefit, equality and collaboration, solve conflicts by peaceful means, and safeguard world peace and stability" ("Chinese president calls for multipolar world, democratization of international relations," 2010). This view of a multipolar world has been recognized in the agreement that created the JIF/Heavy Fund I, because it states that it is based on equality, reciprocal consultation, and respect for sovereignty and mutual benefits (Convenio, 2008, art. 1).

Notwithstanding these ideational premises, realpolitik also matters in bilateral oil cooperation. China needs to secure energy resources to maintain its process of economic growth, and considering the increasing political volatility of the Middle East and the Persian Gulf, Venezuela seems to be a more secure oil provider. The Chinese–Venezuelan agreements are part of China's overall foreign economic policy and follow the lines of Chinese energy for credits agreements in Africa, Asia, and South America, where China has signed similar deals with Brazil and Ecuador. At the same time, the loans associated with the agreements have helped Chinese firms to secure contracts in infrastructure, housing, agricultural development, and military equipment (e.g., aircraft, arms, radars) in Venezuela, a trait also shared with agreements in the rest of the world. In South America, this may be an important consideration because Chinese business does not have a strong foothold in the region. Projects undertaken in Venezuela, if successful, may be expected to have a substantial effect in high-value added sectors (cars, computers, cell phones, aircraft) for the rest of the region (Ellis, 2010, p. 3).

For Venezuela, oil cooperation with China fulfills several objectives. The agreements benefit the Venezuelan government by providing short-term funds, helping to extract oil, diversifying export markets, generating "symbolic projects for domestic consumption," serving as a supplier of "second-tier" military and other goods (Ellis, 2010), and obtaining external resources to finance social and economic plans without the conditions imposed by the Inter-American Development Bank and the World Bank.

This preliminary analysis of the Chinese–Venezuelan agreements shows the dynamism of relations between the two countries in a changing global environment. Moreover, it leads to the formulation of several questions regarding the possibilities and limits of the relationship. What will the effect of Chinese technological transfer be on the Venezuelan oil sector, with some authors questioning whether this is a second-tier technology? Is Venezuela a secure oil supplier for China, given the structural problems currently affecting PDVSA? There have also been questions regarding the lack of transparency about the use of the nonoil financial segments of the agreements. All these questions may be the starting point for developing a research agenda on Chinese–Venezuelan relations.

About the Authors

Rita Giacalone has a PhD in history from Indiana University. She is professor at the Faculty of Economic and Social Sciences of the University of the Andes, Mérida, Venezuela. E-mail: ritagiacalone@hotmail.com

José Briceño-Ruiz has a PhD in Political Science at the Institute d'Etudes Politiques d'Aix-en-Provence, France. He is professor at the Faculty of Economic and Social Sciences of the University of the Andes, Mérida.

Notes

[1]Between 2001 and 2005, China was responsible for 37% of oil global consumption (Shalizi, 2007, pp. 142–143).

[2]See Mattlin and Nojonen (2011) on conditionality in Chinese loans and cooperation funds.

[3]Trade between China and Venezuela reached US$10 billion in 2008, and China became Venezuela's second largest trading partner, after the United States (Crowe, 2009). By 2011, China had also become the largest creditor of Venezuela, in the amount of US$32 billion ("Venezuela: ¿Por qué PDVSA necesita préstamos de China?" 2011).

[4]At that time, with oil selling for almost US$50 a barrel and access to the world's reserves at a premium, the companies could probably have lived with the consequences ("Chávez Squeezes the Oil Firms," 2005), so private investors stayed but delayed new investments in Venezuela (Pascal & Azpúrua, 2008).

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