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Inter-American Dialogue's Latin American Energy Advisor

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Q and A: What is the Future of the Cuban Oil Industry?

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Spanish company Repsol YPF SA has leased several offshore blocks from the Cuban government and is expected to begin drilling for oil and gas next year. Cuba currently imports the majority of its energy from Venezuela but experts suggest that untapped reserves on the country's northern coast may yield enough oil to wean Cuba off dependence on Venezuela. What issues does the Cuban government face in its bid to develop its oil industry? What are the implications for the Cuban economy? How will the prospect of drilling 50 miles from the Florida Keys affect Cuba's relationship with the United States?

Jorge Piñon, energy fellow at the University of Miami's Center for Hemispheric Policy:

"TA senior executive for an international oil company active in Cuba shared with me what the telephone call to headquarters would be like about the announcement of a new oil find on the island: ..."the good news is we found oil...the bad news is we found oil." Oil in the ground has zero value unless it can be monetized and turned into petroleum products. Cuba currently lacks the refinery capacity needed to process large quantities of heavy oil, and the embargo would not allow the sale of Cuban crude to U.S. Gulf of Mexico refineries that have the conversion capacity to process the crude. Currently, three hundred thousand barrels per day of new heavy oil refining capacity are in the planning stages in Cuba but are not expected to come on stream until late 2013. Over half of Cuba's oil demand today depends on Venezuelan imports under a barter agreement in return for social services providers. It would take between three to five years for Cuba to develop its full oil and gas potential, and production volumes would have to reach a level of over 200,000 barrels per day to have the same economic benefit as that derived from Venezuela's oil subsidies. The biggest financial beneficiary of a major oil find in Cuba would be Venezuela. For every barrel found it will be one barrel less that Venezuela would have to provide Cuba at heavily subsidized payment terms. Only when Cuba becomes energy independent would it have the economic independence needed in order to consider a political and economic evolution free of any foreign influences."

Jonathan Benjamin-Alvarado, professor of Political Science at the University of Nebraska at Omaha:

"With regards to the issues the Cuban government faces, in the past it was a combination of a lack of investment capital and the appropriate technologies that limited Cuba's effort to

aggressively pursue offshore oil production. What is different now is that the capital is there, and the companies stepping up have access to the technology that will allow the Cubans to begin offshore activities in earnest. Although there is debate to the extent that Cuba will be able to produce enough oil to export to the global market, we expect that Cuba will, within a three to five year period, be able to produce 200,000 barrels of oil daily (40 percent above Cuba's present rate of consumption) from the time that oil is being drawn from the offshore reserves. This reduces the chronic oil dependency that Cuba has experienced for quite some time now, and perhaps becomes the catalyst for more oil and infrastructure investment that Cuba desperately needs. As for the relationship with the United States, that remains to be seen. The U.S. would have to radically alter its economic relations with Cuba for any cooperation to occur. There would have to be the relaxation of many of the provisions of the embargo and Helms-Burton. Is Congress up to such an undertaking? That will take the type of leadership that seems to be in short order at this time. We could begin by establishing relatively benign but essential steps like developing environmental protocols regarding offshore exploration, but there would still be much work needed to make it possible for U.S. firms to begin business relations with the Cubans."

Daniel Whittle, Cuba program director at the Environmental Defense Fund:

"Since the collapse of the Soviet Union, Cuba has struggled to rebuild its economy and meet the basic energy needs of its people. With the disappearance of cheap foreign oil, the Cuban government scrambled to enact programs to improve energy efficiency and develop solar, wind, biomass and clean ocean energy (ocean current and ocean thermal energy conversion). By 2000, Cuba had found a new, albeit unstable, source of subsidized oil in Venezuela. Looking ahead, offshore oil and gas could indeed be central to Cuba's economic recovery and energy independence, and the government will undoubtedly accelerate efforts to tap reserves in the Gulf of Mexico. Getting drilling right depends in part upon strengthening environmental standards, finding the right foreign business partners, maintaining accountability through strict regulatory oversight and learning from the policy failures that resulted in the BP disaster. Lasting energy independence seems achievable if Cuba continues to develop clean power and maintains a diverse energy portfolio. All of these are critical issues on which the U.S. and Cuba should collaborate. This summer Cubans closely monitored the BP disaster, fearing that it would wreak havoc on coral reefs, tourist beaches and communities along its northern coast. Floridians are similarly concerned about spilled oil potentially coming their way from Cuba. Alleviating these fears, and reducing actual risks to both countries, can occur only through renewed dialogue and cooperation. A pragmatic, rather than purely political, approach will help protect the interests of both Cubans and Americans, and may reshape U.S.-Cuba relations for the better."

Kirby Jones, president of Alamar Associates in Bethesda, Md.:

"The prospect of Cuba and its foreign partners exploring for oil within the next six months in the Gulf waters just 50+ miles off the coast of Florida will present to the United States a clear crossroads and require a decision never before faced in the last 50 years of US-Cuba relations. For the first time, Cuba has something of strategic importance to the United States—oil and natural gas. Never before has Cuba possessed something that the United States needs. For the U.S. to maintain the embargo and prevent U.S. companies from sharing in this effort means that it is OK for Cuba and perhaps Russia, China and others taking oil that is so close to our shores. Cuban officials have stated many times that they would welcome the participation of U.S."

companies in this endeavor—just as companies from almost a dozen other countries are doing now. Rhetorical cries from mainly Florida politicians call for the U.S. to stop somehow Cuba from exploring in its own waters. That the U.S. cannot do. The embargo hurts our national interest. There is no clearer example of this than what will unfold in the next six months right before our eyes and within sight almost of our shores. For our own sake, it is time to change.

The Energy Advisor welcomes responses to this Q&A. Readers can write editor Gene Kuleta at kuleta@thedialogue.org with comments.