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Inter-American Dialogue's Latin American Energy Advisor

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Q and A: What Does Repsol's Departure Mean for Cuba's Drilling Future?

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Spanish oil company Repsol announced last month that it is withdrawing from Cuba after it failed to discover oil in an exploratory well. Repsol also came up dry when drilling in 2004 and now says that the risks no longer justify the expense for its blocks. Does Repsol's withdrawal have major implications for the future of drilling in Cuba? What are the next steps for the Caribbean nation's offshore projects?

A: José Azel, senior scholar at the Institute for Cuban and Cuban American Studies at the University of Miami:

"In April, Argentine President Cristina Fernández dramatically announced that the country was expropriating 51 percent of the interest in YPF, without announcing any compensation. In anachronistic language reminiscent of the last century, the nationalization rhetoric spoke of recovering control of Argentina's national patrimony. 'Efficiency and the motherland are not incompatible,' noted Fernández. Cuba, in ideological solidarity with the expropriation, applauded the Argentine decision and accused Repsol of having purchased its controlling interest in YPF for less than its fair value. The problem is that Repsol is a key Cuban partner in offshore oil exploration. In 2000, Repsol agreed to invest millions of dollars to financially and technically underwrite Cuba's search for oil and gas. Repsol invested heavily to avoid U.S. economic sanctions on Cuba by leasing an Italian deep-water drilling rig built in China and Singapore, which has less than 10 percent of U.S. components and flies the Bahamian flag. It is estimated that Repsol has spent \$150 million in its Cuba operation since 2000. Repsol did not abandon its efforts in 2004 when it first came up dry and continued its labors for eight more years at an estimated cost of \$150,000 per day. These are the operational and business risks inherent in oil exploration. However, Cuba's joy at the misfortune of its business partner losing its Argentine investment must have made Repsol executives cringe with the thought of 'with a business partner like Cuba, who needs enemies?' In the calculus of current and prospective investors in partnership with Cuba's government, what may have been considered acceptable business risks must now be recalculated to include prohibitive host-country political risks. This does not bode well for Cuba's offshore projects. But it is not so much a case of dry wells as it is a case of having an avowed ideological enemy as a business partner."

A: Jonathan Benjamin-Alvarado, professor of political science at the University of Nebraska at Omaha:

"Cuba's offshore exploration does not end with the departure of Repsol. Already, Scarabeo-9 is going to be put to work to the northwest of Havana for Petronas, and it will be continuing work offshore until the end of 2012. Repsol's decision was a purely economic one. Having already spent \$100 million in Cuba, and seeing its YPF operations in Argentina nationalized, Repsol rightly is scaling back its international exposure at this time. I think the lesson learned here is that in spite of the concerted international effort to bring Cuban oil into the global market, the costs imposed by the U.S. embargo and export control restrictions on first-generation oil production technologies are too high given that under normal circumstances there would have been no need to bring Scarabeo-9 halfway around the world at such a steep price, especially when state of the art technology sits at the ready directly north on the U.S. Gulf Coast. In light of that, the U.S. embargo is working."

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

"Of course, there must be great disappointment about the results from Repsol's recent drilling. How could it be otherwise? Repsol has worked for many years in Cuba and invested significant funds to do so. And for the Cuban government, the finding of oil and natural gas would mean so much for the future. But as many experts have said, exploration is at best a tricky business and supremely risky; more turn up dry than not. But these same experts also know that there is an abundance of oil in the Gulf and that oil knows no boundaries. Both the United States and Mexico have oil in their parts of the Gulf. Several consortia are in line for continued exploration, so it is too early to pronounce the entire effort at a dead end. For the Cubans and their many other partners, it may be just a matter of time. The current joy on the part of the perpetual 'Cuba haters' may be short lived."

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