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Carlos Navarro

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# Mexico, Cuba Discuss Cooperation in Energy Sector

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By Carlos Navarro

Mexico's state-run oil company PEMEX and its Cuban counterpart Unión Cuba Petróleo (CUPET) are exploring the possibility of entering into a cooperation agreement to help develop the petroleum industry in Cuba. Mexican Energy Secretary Jordy Herrera and Cuban Minister for Basic Industry Tomás Benítez Hernández signed a nonbinding agreement during President Felipe Calderón's official visit to Cuba in mid-April. The two sides agreed to continue the conversation later this year.

At first glance, the noncommittal aspect of the agreement appears to be just a good wish. But many observers point out that the commitment to begin discussions, especially in such an important area as energy, is a significant milestone for the two countries, which had experienced tense relations for at least a decade. In addition to the nonbinding energy agreement, Calderón and Cuban President Raúl Castro announced plans to cooperate in education, sports, and health.

Of these agreements, the most significant is the one dealing with the energy sector. In addition to agreements on the oil industry, Herrera and Benítez signed a memorandum of understanding to cooperate in a number of areas, including technology, training, research projects, and strategic planning in oil, electricity, energy efficiency, and renewable energy.

## ***Deepwater drilling among possibilities***

Regarding the oil sector, PEMEX subsidiary Pemex Exploración y Producción (PEP) and CUPET agreed to explore opportunities along their common border in the deep waters of the Gulf of Mexico. Calderón said any cooperation would "always respect the sovereignty of the two countries." Cuba has made development of its oil sector a priority.

A potential obstacle is that PEMEX has little technical expertise or experience in deepwater drilling and virtually no track record of operating overseas despite its ranking as one of the world's largest oil companies. The Mexican Constitution has prohibited direct participation by foreign entities in the Mexican oil sector, with recent reforms allowing the company to enter into exploration and production contracts with private entities. The reforms were passed in part because of Mexico's need to address its dwindling reserves, potentially by drilling in the

deep waters of the Gulf of Mexico. Mexico has discussed deepwater-drilling options with Brazil and the US.

PEMEX, which operated exclusively in Mexico, only recently began exploring opportunities outside its borders. Its most recent move was to expand its share of the Spanish-Argentine joint venture Repsol-YPF to about 9.8% in 2011. This has indirectly provided an opening to the Cuban energy sector, since Repsol-YPF already has operations on the island.

But an agreement with CUPET would give PEMEX direct access to Cuba's exclusive economic zone (EEZ) in the Gulf of Mexico, which is about 112,000 sq km. The EEZ is divided into 59 blocks, of which 22 are already committed to foreign entities, including Repsol-YPF, Petroleos de Venezuela (PDVSA), and oil companies from China, Angola, India, Malaysia, Norway, and Russia. Brazil's Petrobras and Canada's Sherritt initially expressed interest in the project, but later withdrew without drilling.

The initial well in the EEZ was drilled by Repsol-YPF in 2004, but Cuba did not grant the partnership the option of commercial exploitation. Earlier this year, the Spanish-Argentine joint venture initiated exploration activities in another area of the EEZ, in partnership with Norway's Statoil and India's ONGC Videsh.

The Mexican government has already been working behind the scenes to explore PEMEX's possible participation in the project. "Representatives from PEMEX, the Secretaría de Relaciones Exteriores, and the Secretaría de Energía have traveled to Havana a few times since last November to explore [cooperative agreements]," said the Mexico City daily newspaper La Jornada. "A Cuban offer would be similar to those reached with nine other foreign companies."

The areas that Cuba could make available to Pemex are in a triangle close to the zones under US and Mexican jurisdiction. PDVSA was given concessions for the lots closest to Mexico, in a square a mere 100 km from Cancún.

### ***Agreement could help define maritime boundary***

Some energy analysts anticipate that an agreement could have a more far-reaching impact than mere access for PEMEX to Cuba. "The real motive of the visit is to encourage the Cuban government to start the process of normalizing its maritime boundary with Mexico in relation to hydrocarbons in a manner compatible with the agreement negotiated with the United States," said Houston-based oil-industry analyst George Baker of México Energy Intelligence. "In this sense, Calderón is an advance agent of the US government by promoting a framework to which the Americans have already agreed."

Improved relations in the energy sector could also help open the door for US industrial suppliers to bypass the US embargo on Cuba, especially since Mexico now has a direct relationship with one of the principal operators in the area, Repsol-YPF. "Some sectors of the oil industry in the United States have asked for legal exceptions to the blockade in order to sell supplies to the island once Repsol starts drilling in the area," said La Jornada.

And the drilling scheme could eventually put Cuba in a position to acquire industrial products from western companies. "A viable exploitation finding would change the island's financial capacity as well as its economic future," said La Jornada.

Mexico had made overtures to Cuba about cooperation in the Cuban oil sector as far back as the mid-1990s, but the matter was shelved because of a lack of follow-through. "In 1994, the two countries reached an agreement to cooperate on modernizing the Soviet-era Cienfuegos refinery," said La Jornada. "But the work was never started, and the agreement fell through two years later when the two sides decided that it was not feasible to continue." Cuba later hired PDVSA to refurbish and expand the refinery, which is expected to have a capacity to produce about 65,000 barrels per day upon completion of the project in 2014.

A decade later, former President Vicente Fox again made overtures to Cuba to cooperate in the oil sector, but any possibility of an agreement fell apart because of political tensions. Even as Fox was reaching out to Cuba, the Mexican president voted in favor of a US-backed resolution to condemn Cuba's human rights record. Cuban President Fidel Castro responded by accusing Mexico of submitting to the will of the US, prompting the two countries to temporarily recall their ambassadors. A few months later, they agreed to restore diplomatic relations, but tensions remained high.

Relations between the two countries did not fare much better during the early years of the Calderón government. Tensions were high between Havana and Mexico City in part because Fidel Castro continued to hammer the point that Calderón won the 2006 presidential election fraudulently and that Andrés Manuel López Obrador should be the legitimate president. Calderón defeated López Obrador by a very narrow margin.

Castro also made other comments that contributed to the strong tensions between Cuba and Mexico, including an allegation that Mexico was holding back information about the swine-flu outbreak.

### ***Bilateral relations improving gradually***

Despite the early friction with Cuba, Calderón has sought to ease tensions and restore relations with the island. "The current Mexican government has attempted from the beginning to gradually ease tensions with its neighbors and historic allies, including those countries where there are political differences, such as Cuba," analyst Gabriel Guerra Castellanos told BBC Americas.

Calderón confirmed the improved relations in a closing press conference in Havana. "Cuba and Mexico have launched a new phase in our relationship, thanks to our shared efforts to build bridges of understanding and cooperation," the president said. "These have been two extraordinary days for Cuba and for Mexico in that their mutual affection has been rediscovered."

Guerra, a columnist for the Mexico City daily newspaper El Universal and a commentator on the national television network Televisa, said the recent agreements with Cuba are evidence that Calderón accomplished the goal of repairing the relationship with Havana. "The visit closed the circle of diplomatic reconciliation," said the analyst. "This was a mission to repair damages and set the stage for the future."

Cuba also gained a small concession from Calderón, who during the visit strongly reiterated Mexico's opposition to the US economic embargo against the island nation, which has been in place for 50 years. He told President Raúl Castro that Mexico continues to oppose the "unjustified" embargo.

Guerra said there might have also been some pressure from the Mexican business community to strengthen connections with Cuba, since the political tensions affected economic relations. In particular, trade with Cuba has lagged because of the broken relationship between the two countries. Cuba ranks 57 among Mexico's trade partners, behind many European and Latin American nations. In 2011, bilateral trade amounted to a mere US\$375 million, according to Mexican government statistics. The trade balance favored Mexico, which had a US \$340 million surplus.

Mexico's primary exports to Cuba in 2011 included aluminum containers, animal feed, and fertilizer. Cuba mainly exported cigars, laboratory materials, copper wire, and aluminum scrap to Mexico.

Sources at the Secretaría de Economía (SE) recently said an expansion of the trade agreement (Acuerdo de Complementación Económica, ACE) that has been in place since 2001 could boost Mexican-Cuban trade. Officials from the two countries will hold discussions during the next six months to expand market access, define rules of origin, and establish dispute-resolution mechanisms, among other things.