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Inter-American Dialogue's Latin American Energy Advisor

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Q and A: Will Cuba's Electricity Sector Hold the Country Back?

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A massive power outage hit two-thirds of Cuba's provinces earlier this month, a sign of the country's aging infrastructure. According to analysts, modernizing the system could cost several billion dollars. Meanwhile, two recent attempts at exploratory drilling off the Cuban coast have been unsuccessful. Will the electricity sector hold the country back as the government takes steps to liberalize the economy and increase consumption? How serious are Cuba's energy woes? Is the government partly at fault for mismanaging the sector, as some critics allege, or are sanctions entirely to blame?

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

"Without a doubt, the electricity sector will hold the country back. This has been one of the lingering questions related to the modernization of Cuba's infrastructure since the end of the Cold War. Cuba has been deeply concerned about replacing its aged and perhaps now obsolete electrical transmission and delivery systems. Educated estimates place the regular losses of electricity as high as 20 percent. The impact is a zero-sum; any gains to dedicated sectors of the economy, such as hotels, transportation and manufacturing, necessarily imply a direct loss to the housing sector. This could also have a significant chilling effect on the emerging commercial sector. Cuba has been in an energy crisis since 1992 and has weathered the storm rather well considering the up-and-down nature of its energy supply and chronic infrastructure problems. It has dealt with the loss of energy generation facilities by increasing the output of those remaining online and increasing efficiency across the entire energy spectrum. But, as we can see, it is not enough. Cuba is dealing with a double-edged sword. While attempting to address its infrastructure problems, it simultaneously has to deal with a significant shortfall in investment capital and resources. Invariably, this leads to piecemeal efforts that are never comprehensive enough. Could there be better project management and prioritization in the effort? Without a doubt, but in most cases it is akin to putting out a fire with a squirt gun. In this vein, the sanctions work very well. By limiting Cuba's access to the kind of funding for large infrastructure projects from the IMF, World Bank and IBRD, the United States ensures that Cuba's infrastructure will remain a basket case. No other country in the hemisphere is so summarily isolated or could use that type of investment capital more. The United States could potentially play a significant role in addressing the problem and I imagine that the Cubans would welcome its input. But, for now, that is impossible and the Cuban energy infrastructure continues to age and fall apart.

Considering that much of it was built from the 1920s until the early 1960s, I am surprised they've kept it together this long."

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

"This query concludes with a predisposed question unabashedly implying that U.S. economic sanctions are the principal cause of Cuba's energy woes, it asks: 'Is the government partly at fault for mismanaging the sector, as some critics allege, or are sanctions entirely to blame?' Nonsense, many countries make excellent products and since no other nation enforces economic sanctions on Cuba, and the country is free to purchase its equipment and other needs from anywhere else in the world, why would the inability to purchase American products be at fault? Doesn't any other nation make products suitable for Cuba's needs? Cuba's energy disrepairs are critically serious and the Cuban government is not just partly at fault for mismanaging the sector. The failure in implementing effective economic reforms is rooted in the pathology of thought of the country's ruling elite. It is this pathology of thought that economist and political philosopher Friedrich A. Hayek described in his influential work 'The Fatal Conceit: The errors of Socialism.' As Hayek explained, central plans fail with unforeseen and unintended consequences because all variables are not known or even knowable to the central planners. It is quite a conceit to believe, as Cuban central planners do, that one individual or one ministry or one central committee can gather and understand all available information to design an efficient economic system. The tragedy of communism is both its mistaken view of how an economy works and its glorified view of its own rational capabilities. The Cuban government's hubris on riding the intellectually dead horse of central planning to liberalize its economy showcases its 'Fatal Conceit.' "

A: Johannes Werner, editor of the Cuba Standard:

"Cuba's energy woes will continue to be a major bottleneck for economic growth. If PDVSA doesn't strike oil within the next few days, the island's deepwater oil plans will have to be put on hold for several years. That said, Cuba's challenges need to be put in context: it is not the only country in the region facing dependency on costly imported fuel and aging or insufficient infrastructure. Look at the Dominican Republic, Nicaragua, Jamaica or even Brazil, and you will realize that frequent and extended blackouts are part of everyday life. All these countries— with both private and publicly run utilities—are facing similar challenges. The main differences are that Cuba has not ceded control to the private sector and it faces the added obstacle of having no access to multilateral loans and paying a premium for foreign private-sector credit. I don't expect the government to cede control to foreign, private-sector energy companies on a large scale anytime soon. However, it has reacted flexibly to face energy and infrastructure challenges. There is a series of precedents that may serve as models when it comes to fixing the grid. A Panama-based company is the sole owner of a small power plant on the Isle of Youth, which had faced extreme power shortages. Genpower Cuba built a \$15 million diesel power plant and has been operating it for more than a decade. In the water sector, the government set a bigger precedent: in 1999, it picked publicly traded Aguas de Barcelona as a minority partner in a joint venture to rebuild and operate Havana's decaying water system. European and Canadian power companies, however, are facing an uphill struggle since Cuba prefers cooperation with companies from nations with close governmental ties. Brazilian and Russian companies have

already expressed their interest in assisting Cuban efforts to refurbish the grid. Using unorthodox methods, Cuba was able to fix a billion-dollar gap in power generation five years ago, at a fraction of the cost of building new thermoelectric plants. In comparison, fixing the grid is less costly. Expect unusual approaches, with funding from Brazil, Russia and maybe China. How lasting these solutions will be remains to be seen."

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

"Any and every country depends on its infrastructure to advance economically and any failure is always detrimental in both the short and long run. This is certainly true in the United States, where bridges, roads and power grids are in desperate need of modernization and, if not updated, will hold back our own development. So it is also true in Cuba. Without a modernization, Cuba's economic future will not proceed as fast as it could. Mismanagement can be cited as a partial reason, but more so is the lack of the financial resources to build the needed infrastructure and also—for sure—the U.S. embargo. That embargo is not mainly about travel and tourism which gets most of the attention; it is far more insidious. Look at the hoops that Cuba and its foreign partners had to go through to obtain an oil rig—all because of the international reach of the embargo and willingness of companies to adhere to the 10 percent rule. Foreign banks and financial institutions continue to be fined by the United States if they do business with Cuba, thus depriving Cuba from access to financing for its projects. All of this, of course, makes it so much more difficult for Cuba. The embargo by the United States is not entirely to blame, but neither can it be ignored."

A: Stephen Wilkinson, chairman of the International Institute for the Study of Cuba:

"It is not certain what exactly caused the blackout in Cuba, but the authorities reported that it was breakage in a high tension cable along the main axis route of the grid. Power was restored promptly and there has been no repeat. While Cuba lacks investment in its infrastructure, there is no reason to read into this event that the electrical grid is falling apart. On the contrary, it has been subject to considerable renewal in recent years and is in better shape than it was in the 1990s and the first years of this century. The energy sector is open to foreign investment and would be attractive to investors were it not for the punitive effect of U.S. sanctions. Failure to find oil does not mean there is none. We can expect the oil sector to continue to develop."

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