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Dependence on Imported Oil Continues to Set the Pace of Cuba’s Economy and Politics

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Cuba’s economy, politics, and daily life continue to be influenced by dependence on oil imports needed to satisfy half of the island’s daily fuel consumption, even though the country has increased its search for more deposits since the 1990s, formed other strategic alliances, and attempted to diversify its energy sources.

A century ago, Cuban society was dependent on the world market’s sugar prices, sugar being the island’s flagship product. Ever since the former Soviet Union’s fuel guarantees ended in the late 1980s, however, the country has been alert to the price of crude. Before then, fuel was shipped to the island in such abundance that former President Fidel Castro and his government were able to resell it to other nations (NotiCen, Jan. 23, 2003).

Today, there is not a television news program or newspaper in the island that does not include the international price of oil, thus converting it into a key indicator of Cuba’s energy generation, and of the country’s liquidity and ability to import necessities, especially food.

“We are totally stressed if the price of a barrel goes up, because then there isn’t money to import food, and we are also worried when the price goes down, because then, friendly countries like Venezuela can’t give us petroleum,” said a young professional in Havana who, in an aside, mentioned the old national myth that the island has “fabulous oil reservoirs” just waiting to be discovered.

Petroleum is a true obsession for the Cuban government, and also for a society that, after the collapse of Eastern Europe in the 1990s, had to endure a failed public transportation system and blackouts of 12 hours or more, as well as interrupted services, paralyzed factories, and cuts in working hours.

Searching for help

Cubans now fear the political tensions besieging Venezuelan President Nicolas Maduro’s government, and Venezuela’s consequent decline (NotiSur, Nov. 4, 2016). Since 2000, during the late Hugo Chavez’s time in office, Venezuela had been filling the Cuban refineries with about 90,000 barrels of crude per day while, in exchange, Cuba shipped professionals and other services to that country (NotiSur, Nov. 2, 2000).

According to Cuba’s official newspaper, Granma, the country extracts around 45,000 barrels of petroleum and 3 million cubic meters of natural gas a day, which can satisfy about half of the country’s energy demands. The rest of the petroleum must be imported and has come mainly from Venezuela. In the first half of this year, imports have been around 53,500 barrels of crude daily, which means 40% less than in 2015, according to international press estimates.

Cuba today has a more diversified economy, more foreign tourists, plenty of remittances from abroad, and great expectations of benefits from the rapprochement with the US. Authorities have
tried to mitigate the decline in Venezuelan supplies as fuel consumption increases due to the rise in tourism and the expansion of the private sector, which has a competitive approach to lodging, restaurants, and transportation. In July, President Raúl Castro decreed a cut in fuel supplies to non-priority state institutions, limited the use of air conditioning, and reduced the work week for some services (NotiCen, Aug. 11, 2016). He warned then about the shortages that could be ahead, but clarified that there would not be power outages like those that characterized the 1990s, a period when Cuba went through what is considered to be the greatest crisis in its history.

Castro has also contacted old allies hoping to offset the decline in Venezuelan oil supplies. According to international press reports, the Algerian oil company Sonatrach will make two shipments of 515,000 barrels of crude to the island during the last third of this year. Castro visited Algeria twice in 2009 and again in May 2015, and Cuba annually imports between US$200 million and US$300 million in petroleum products from that country.

According to reports from the Russian press, Castro asked Moscow in September about sending oil and its derivatives to Cuba with favorable price and financing conditions. The relationship between Castro and his Russian colleague, Vladimir Putin, is being watched with curiosity by the Cubans since the reestablishment of diplomatic relations between Washington and Havana, during a time in which the tensions between Putin and Barack Obama have been obvious.

Additionally, Castro is trying to attract foreign capital and has embarked on ambitious projects such as a container terminal at the port of Mariel, west of Havana.

**Energy sovereignty**

This year, Cuban authorities have been explicit about their priorities on how to increase the nation’s petroleum and gas production. In April, the Cuban Communist Party Congress, the largest political conclave in the country, reaffirmed “energy sovereignty” as a top goal.

According to the state run Unión Cuba-Petroleum (CUPET), 99% of the nation’s petroleum exploration is located in an area of 750 square km between Havana and Varadero, a beach resort 145 km to the east of the capital. Those fields have reserves that have been in production for more than four decades. The aim is to maintain the extraction volume in that zone, CUPET announced in late September.

The majority of petroleum exploration from now until 2020 will be concentrated in the area between Havana and Santa Cruz del Norte, 54 km to the east. CUPET experts affirm that other oil reservoirs exist in the Cuban archipelago and their projections through 2030 reflect plans to drill on land and in shallow water, to increase production rates in existing fields through better technologies, and to modernize refining capacity (NotiCen, March 30, 2000, and Oct. 23, 2008).

The Canadian company Sherritt has been the biggest investor on the island so far, but companies from China, Russia, Australia, and Algeria also have links to the island. Reports from the oil and gas company MEO Australia Ltd. created a commotion in July relating to a supposed discovery of important crude reserves in the center of the island. However, CUPET’s Cuban experts indicated that the report was a false interpretation of a MEO memo, and it is too early to have reliable data on those potential reserves.

Companies that have explored in Cuba’s deep water found only dry wells as recently as 2012, although the government has great hopes for an area in the Gulf of Mexico it calls the Exclusive
Economic Zone. The authorities have made it clear that the nation does not have sufficient resources to undertake deep water oil exploration, and in these times of falling oil prices Cuba is not in the best condition to attract foreign investors.

A new panorama

Cuba is placing its hopes on the generation of energy from renewable sources. The state’s plan is to increase renewable energy from the current 4.5% to 24% in 2030 through the use of sugarcane biomass (14%), wind power (6%), and hydropower (1%). Experts believe that those are expensive investments and question whether Cuba can make that leap. Three wind power projects are in operation now, as well as one small, experimental project.

Climate change complicates the energy problem. Cubans complain of record high temperatures and burning summers. The annual average temperature has increased by 0.9 degrees since the mid 20th century, rainfall patterns have changed, droughts have increased, and with them a reduction in hydraulic potential. In their long history of economic readjustments, Cubans now find that they have to modify their home electrical consumption patterns in yet another phase of constraints.

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