3-30-2000

CUBA: OIL PRODUCTION IS UP BUT SO IS THE COST OF IMPORTED OIL

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To reduce energy costs, the Ministry of Basic Industry (MINBAS) announced in early March that it would increase domestic oil production this year by more than 30% to a total output of 23.8 million barrels. Production of natural gas is projected at 660 million cubic meters--a 45% increase over last year. However, the rising price of imported oil threatens to cancel out much of the savings from domestic production.

Cuban oil is heavy crude used mainly for electricity generation and for various industrial applications. Domestic production supplies half the island's electricity needs and all its energy requirements in the cement industry.

MINBAS officials say domestic production has saved the country US$650 million in imported oil in the past eight years. By next year, the oil industry will be supplying enough fuel to produce 70% of the nation's electricity needs.

With a total foreign investment of US$600 million during the 1990s, Cuba's oil industry, run by Cuba Petroleo (CUPET), has quadrupled production since 1991. The government projects an additional US$700 million in foreign investment in the current decade.

Economy officials hope to reduce oil imports from the 42 million barrels imported in 1999 to 14 million barrels this year. As late as 1989, Cuba was importing at the rate of 91 million barrels per year from the former Soviet Union.

Government opens Gulf fields to foreign investors

In March, MINBAS announced the opening a 112,000-sq meter offshore zone for foreign participation. The Zona Economica Exclusiva (ZEE) is an area in the Gulf of Mexico allotted to Cuba in an agreement with Mexico and the US in the 1970s, and is divided into 59 exploration blocks.

At a news conference announcing the offering of profit-sharing joint ventures to foreign firms, MINBAS Vice Minister Tomas Benitez said he was satisfied with the initial interest shown. He said six firms--which he did not identify--from Canada, Europe, and Latin America had expressed interest.

MINBAS described the joint-venture investments in the zone as risky, but said exploration is attractive because the zone adjoins fields with known oil reserves and because of the ready market in Cuba and nearby Caribbean islands. Cuba also offers investors secure legal protections, attractive contract terms, and strong backing from the Cuban government, said a ministry official.

A report by a French firm that conducted a seismic survey of the zone will be released later this year. Meanwhile, MINBAS officials believe the potential yield is large.

MINBAS also announced that Brazilian state-run oil company PETROBRAS would begin offshore drilling in mid-year in a joint venture with CUPET. An exploratory well will be drilled off the central province of Villa Clara where PETROBRAS has made surveys. The ministry emphasized that the exploration is "high risk," with only a 15% chance of striking oil.

Meanwhile, Cuba and Venezuela are exploring possible joint ventures between CUPET and Venezuelan oil company Petroleos de Venezuela (PDVSA). In February, the two countries signed a memorandum that could lead to a US$30 million Venezuelan investment in the renovation of a nearly obsolete refinery in Cienfuegos, southeast of Havana, and the production of lubricating oils for the Cuban market.

Despite optimism about domestic production, the rising cost of imported oil has forced the government to take emergency measures to conserve energy and reduce imports.

The combination of rising global oil prices and falling sugar prices cost the government US$38 million in the first two months of the year, said Economy Minister Jose Luis Rodriguez. A commission set up by the Central Bank is developing proposals for energy conservation for the rest of this year and next.

The unexpected rise in energy costs contributed to the government's economic growth projection of 4% to 4.5%, compared with 6.2% in 1999.

[Sources: BBC, 02/12/00; Agence France-Presse, 02/14/00; World Data Service (Cuba), 02/17/00; The Financial Times (London), 02/19/00; Notimex, 02/17/00, 03/01/00, 03/05/00, 03/15/00; Reuters, 03/01/00, 03/02/00, 03/17/00]