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Cuba Joins Mexico and U.S. in Negotiations over Oil-Rich Area in Gulf of Mexico

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The US decision to expand economic relations with Cuba in late 2014 (NotiCen, Jan 29, 2015) opened the door for the island nation to participate in a discussion over territorial control of a resource-rich region in the deep waters of the Gulf of Mexico known as the Western Polygon or Doughnut Hole.

According to international law, countries own the rights to any resources found in the sea within 200 nautical miles of their territory. However, there are instances where areas overlap, which is the case of the Doughnut Hole. This means that the US, Mexico, and Cuba have to negotiate.

The US and Mexico had already reached an agreement to divide a disputed 17,790-sq km zone in 2000. At the time, Mexico was given control of 62% of the area (SourceMex, June 7, 2000), which is thought to hold some deep-water reserves of crude oil and natural gas, although the amounts are uncertain.

The entry of Cuba into the equation means that discussions on the percentage of control over the Doughnut Hole must be revisited. Officials from the three countries met in June and in September and discussed, among other issues, a proposal to use an alternative means to measure the area, a source close to the negotiations told Reuters news service. The US and Mexico used nautical miles as a measure in the 2000 agreement.

Officials did not release any specific information about the results of the two rounds of negotiations, and any future talks remain up in the air. The discussions were initiated during President Barack Obama’s administration, and there is uncertainty on what position the Trump administration might take on trilateral talks.

A need to boost energy reserves

For Cuba, there is an urgency to develop domestic supplies of oil to reduce dependence on imports, which have traditionally accounted for one-half of the island’s fuel consumption (NotiCen, Nov. 3, 2016).

In recent years, Cuba has increased exploration efforts to find more oil deposits by forming strategic alliances while moving to diversify its sources of energy. According to President Raúl Castro’s administration, an area within Cuba’s exclusive economic zone in the Gulf of Mexico contains about 20 billion barrels of oil. Some experts, including the US Geological Survey, believe the estimate is exaggerated and say the total amount of reserves is closer to 5-7 billion barrels.

In recent years, about a dozen foreign companies have received contracts from the Cuban government to conduct exploration activities. One of those companies is MEO Australia, which announced in July that its Block 9 site on the north coast of Cuba, in the provinces of Matanzas and Villa Clara, probably contains 8 billion barrels of high-quality oil.
“It is extraordinary to be able to already identify nearly 400 million barrels of prospective resources in conventional targets in a proven trend at moderate target depths, located in an accessible onshore area,” said Peter Stickland, the company’s chief executive officer and managing director.

**Mexican firms eyeing Cuban oil sector**

Mexican investors are among those eyeing the Cuban oil sector as a potential target for investment. According to Beatriz Barreto Uzcátegui, president of the binational Cuba-Mexico business chamber (Cámara Binacional de Negocios México-Cuba), several Mexican companies have expressed interest in investing in the Cuban oil, tourism, and food retailing sectors.

Barreto Uzcátegui said Cuba has 11 economic sectors, including energy, for Mexican companies to invest in the island nation in the short, medium, and long term. “The business opportunities are very broad,” she said in an interview with Forbes México.

“We know of 40 companies in Mexico that have expressed interest in investing in the island,” she said. “There is a proposal by two Mexican firms, one of which has ample experience in the oil industry, to invest in Cuba.” Barreto Uzcátegui added that her group had visited each of these companies and provided technical information on investments in Cuba.

Barreto Uzcátegui would not identify the Mexican firms. It’s possible the same companies are also seeking to participate in Mexico’s own efforts to bring private capital to its oil exploration and extraction activities, following the recently enacted energy reforms (SourceMex, June 29, 2016, and Oct. 5, 2016).

Cuba is also interested in partnering with Mexican companies in the creation of green energy. “On the matter of renewable energy, we are looking for investors in a plant that would manufacture LED [light-emitting diodes] light bulbs,” she said.

Another area where Mexico can bring significant expertise to Cuba is in the tourism sector, particularly in the development of resorts like the Mexican destinations of Riviera Maya, Cancún, and Los Cabos. “Mexico has a golden touch when it comes to experience in the tourism sector,” Barreto Uzcátegui said. Noting that tourism accounts for 42% of Cuba’s GDP, she predicted, “The sector will continue growing in the next several years, and [Cuba] could become a leading destination.”

There is also some interest among Mexican companies in supplying foodstuffs to Cuba, particularly dairy and pasta products. One Mexican company is looking into the possibility of constructing a pasta production factory on the island, Barreto Uzcátegui said.

There are also opportunities in other areas. “Two companies are interested in investing in the pharmaceutical and biotechnology industries,” she said.