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Cuba's Oil Plans Gather Speed with Foreign Aid Causing U.S. Concern

By Daniel Vázquez

Cuba is accelerating its oil-sector investments to increase its production, triple its refining capacity, and tap potential reserves in its exclusive economic zone in the Gulf of Mexico through a strategy that is attracting foreign companies and motivating environmental as well as political concerns in the US.

This year, the island will produce about 28 million barrels of oil. Cuba generated 21.4 million barrels in 2010, which in addition to natural gas represents 46% of its energy consumption. Oil supplied by Caracas, Havana's main political and economic ally, meets the rest of the country's needs.

Cuba will start drilling exploratory wells this year in its exclusive economic zone (EEZ) of the Gulf of Mexico under contract with Statoil (Norway), which has formed a consortium with Repsol (Spain), OVL (India), Petróleos de Venezuela (PDVSA), PetroVietnam, Petronas (Malaysia), and Sonangol (Angola).

Cuba's EEZ covers a 112,000 sq km area, divided into 59 blocks, 22 of which are under contract to foreign oil companies. Initially, they plan to drill five wells between 2011 and 2013 in the ultradeep waters off the northwestern coast of the island, near the beaches of the Florida Keys.

Oil dependence has been a weak point for the Caribbean nation. For nearly three decades, Cuba enjoyed the privilege of receiving oil supplies from the Soviet Union, but after the collapse of the communist bloc in 1989, factories closed because of a lack of fuel and cities had to adjust to frequent blackouts.

Streamlining oil investments

The island consumes about 160,000 barrels of oil per day (bpd) of which 60% is Venezuelan crude, while the rest comes from Cuba's northeastern coast, where they also obtain natural gas for electricity generation. Domestic production varies between 60,000 bpd and 70,000 bpd, and Caracas sends 115,000 bpd with favorable financing conditions.

In 2010, Cuba drilled 25 oil wells, 13 by national teams and the rest by foreign companies associated with the island. The drilling sites extend from the town of Mariel, 45 km west of Havana, to the province of Las Tunas, 700 km from the nation's capitol.

This year oil exploration will increase in late summer or early fall with the arrival of the Chinese-built semisubmersible Scarabeo 9 platform. It will expedite drilling at a depth of some 6,500 ft in the Havana-Matanzas strip in the Florida Straits, about 97 km from Key West.

The rig owned by Saipem SpA, a subsidiary of the Italian oil company Eni SpA, requires about 220 employees for its operation. The Spanish company Repsol will be the first company to operate the rig and will drill at least one well in partnership with Norway's Statoil and a unit of India's Oil and Natural Gas Corporation (ONGC).

The US Geological Service has estimated that the North Cuba Basin region holds about 4.6 billion barrels of oil, according to a 2004 report. However, Cuban data puts these offshore reserves at 20 billion barrels.

"The probability of success in finding oil is huge," said Jorge Piñón in May. An energy analyst at the Center for Hemispheric Policy at the University of Miami and a visiting scholar at Florida International University, Piñón recently visited Cuba. The expert predicted that the island's production would increase by between 200,000 bpd and 300,000 bpd.

In May, state-owned Cubapetroleo (CUPET) confirmed the existence of an investment plan to increase its refining capacity, which has among its basic points constructing a new refinery capable of processing 150,000 bpd near the Bay of Matanzas, 100 km east of Havana.

The work plan also includes expanding two existing oil refineries--one in Cienfuegos, 260 km southeast of Havana on the southern coast, and the other in Santiago de Cuba, at the southeastern end of the island. The Cienfuegos plant expansion would increase production from the current 65,000 bpd to 150,000 bpd.

The purpose is to triple the nation's oil-refining capacity of 120,000 bpd to 360,000 bpd during the next six years, Cuban and Venezuelan officials said. The aim is to ensure a high-quality product, customized to European standards. In these efforts to modernize and operate its plants, Cuba has had the assistance of the highly qualified work force of Venezuela's PDVSA.

In addition, Havana signed agreements with Norway in May to train staff, manage resources, and exchange technology for oil exploration and production, especially at sea. Moreover, during a visit to Cuba in June, Chinese Vice President Xi Jinping toured oil wells and signed bilateral energy-sector agreements.

The island is trying to increase its own professional work force through exhortations and predictions in the press of a "promising future" for those who opt for university courses related to geology, as well as for advanced degrees.

Concern among the neighbors

Scarabeo 9's explorations will be conducted in the eastern Gulf of Mexico near areas that Washington now keeps closed after the 2010 BP Deepwater Horizon oil spill. US firms are unable to search for deposits in Cuban oilfields because of the economic and financial embargo imposed on the island for half a century.

US Secretary of the Interior Ken Salazar admitted in May that the US is concerned about the possible consequences of an oil spill in Cuban waters. "For us it is an issue of concern," Salazar said about drilling in Cuban waters. "Obviously, because it's located 60 miles off the coast of Florida....It's an issue that we're monitoring carefully."

Salazar participated in a daylong international conference sponsored by the US Department of the Interior on best safety practices for deepwater drilling. During that conference, Mario Budebo, an undersecretary in Mexico's Secretaria de Energia (SENER), said that the three countries should "get together and have discussions" about Cuba's offshore drilling activities.

Budebo said his country was less concerned about drilling safely in Cuban waters and added, "That is still something that we have to deal with and put Cuba together (at) the table." Cuba was not among the countries invited to the conference.

The concern is because of the impact of a possible spill in an area heavily dependent on tourism such as Florida and the danger that, in case of a spill, limitations set by the embargo would delay US companies' help to the island.

The redoubled search for oil, part of the survival strategy of the Cuban government, has unleashed the displeasure of anti-Castro sectors in Florida, where Rep. Ileana Ros-Lehtinen (R-FL) is promoting a plan to punish those who contribute to Havana's development of its oil industry.

The bill that Ros-Lehtinen presented in May argues the need to protect coral reefs in the Caribbean and seeks to impose sanctions against companies and individuals who cooperate with Cuban President Raúl Castro's government in oil-industry development as well as related activities in the waters dangerously close to the Florida Keys.

Havana-born Ros-Lehtinen failed to convince the US Congress to pass a resolution to curb expansion of Cuba's oil in 2007. Among the measures in the current bill is the denial of a US visa to those who contribute to oil-reserve development in the neighboring country.

In contrast, three weeks ago Havana's official weekly *Trabajadores* ratified US companies' interest in exploring Cuba's exclusive area of the Gulf of Mexico, saying, "Cuba has always said it would welcome US oil companies interested in exploring its waters" despite the "economic aggression maintained by their government."