

Energy remains Cuba's Achilles' heel

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Cuba could be sitting on as much as nine billion barrels of undiscovered offshore crude oil, yet energy remains the Achilles' heel for the island's economy, experts say.

In recent months, Cuban leader Fidel Castro has focused on managing the latest chronic power blackouts, in what could become his final obsession. And there's a lot to manage.

Last year, the island's thermo-electric generation facilities began breaking down, plagued by maintenance problems worsened by the use of poor quality heavy crude oil. The power outages also disrupted water service and sparked a series of spontaneous demonstrations in the neighborhoods of Mariano and Havana Vieja in May and June 2005.

Since then the Cuban government has spent some \$800 million on diesel-fueled generators placed around the country to power homes and government offices.

"What I call the Home Depot strategy," said former oil executive Jorge R. Piñon Cervera on Thursday in Miami at the annual meeting of the Association for the Study of the Cuban Economy.

ENERGY INVENTORY

As part of Castro's "energy revolution," electricity-guzzling refrigerators and other appliances have been dragged out of homes, replaced by more efficient Chinese models that the new owners must pay for over time, experts and visitors say. Social workers are going house to house to inventory energy use.

In March, Castro held an 8 ½-hour unscheduled encounter with a group of visiting energy specialists.

"He spent three hours bringing these monstrosities out of the backroom," said Jonathan Benjamin-Alvarado, a professor from the University of Nebraska.

The "monstrosities" included energy albatrosses like a giant fan with no protective screen powered by a refrigerator motor, said Benjamin-Alvarado.

Ironically, the problems coincide with reports of promising discoveries.

Cuba first discovered oil near Varadero in 1971, with Soviet assistance. The country invited foreign oil companies to begin exploration in 1993-1994, with some success.

In February of this year, a U.S. Geological Survey report came out estimating Cuba could have undiscovered crude oil reserves of 4.6 billion to 9.3 billion barrels and natural gas reserves of 9.8 trillion to 21.8 trillion cubic feet.

FOREIGN EXPLORATION

The Cuban government has divided its exclusive drilling zones to the north and west of the island into 59 deep-water blocks. The Spanish energy company, Repsol-YPF, contracted to explore six blocks, and Sherritt International Corp. of Canada acquired the rights to another four. Benjamin-Alvarado said a handful of tracts are under negotiation.

Last year, Repsol-YPF -- which found a promising but noncommercial well -- was joined by Norsk Hydro of Norway and ONGG of India. Norsk is recognized for its expertise in deep-water drilling.

"This to me is real," Piñon said during the energy panel. ``Of course, I am an optimist."

Yet any discovery of new oil wells is still 12 to 18 months away at best, Piñon said. And without the Venezuelan shipments of more than half the country's crude oil and refined products, Cuba would come to a standstill.

Even oil discoveries are not totally free. Cuba receives its share of the joint venture but must pay Sherritt for the rest of the share.

The Cuban government also prefers flashy solutions, Benjamin-Alvarado said, such as buying Chinese drilling rigs rather than renting them from Sherritt for less money.

"Cuba has called for policy change," he said. ``Whether we see it is another story."