



An Energy Crisis Is Putting Cuba's Post-Castro Leadership to Its First Test

William M. LeoGrande | Tuesday, Oct. 8, 2019

Venezuela's economic collapse and Washington's new sanctions (<https://www.reuters.com/article/us-usa-venezuela-sanctions/us-slaps-sanctions-on-firms-moving-venezuelan-oil-to-cuba-idUSKBN1W91XV>) on companies shipping Venezuelan oil to Cuba have plunged the island nation into its most severe energy crisis since the collapse of the Soviet Union in the early 1990s. In response, Havana is looking to its old ally Russia to plug the hole in energy supplies left by the decline in Venezuelan shipments. But the crisis is hampering plans to implement economic reforms that Havana hopes will respond to popular demands for economic liberalization while retaining the Communist Party's political dominance.

Visiting Cuba last week, Prime Minister Dmitry Medvedev (<https://www.reuters.com/article/cuba-russia/russia-will-find-ways-to-help-cuba-get-oil-says-medvedev-idUSL5N26Q094>) promised that Russia would help Cuba through the current crisis. But the long-term challenge for Havana is how to develop energy security, locking in stable sources of supply that don't depend on shifting political winds.

Energy insecurity has been a chronic problem for Cuba, which has no economically viable coal supplies, no hydro-power and little onshore petroleum reserves. During the Cold War, Cuba got most of its oil from the Soviet Union (https://www.ascecuba.org/asce_proceedings/russian-oil-for-sugar-barter-deals-1989-1999/) at subsidized prices in exchange for sugar. After the Soviet Union collapsed, putting an end to those favorable terms of trade, Cuba could not afford to import enough energy to power its farms and factories. Havana's ability to finance imports fell by 70 percent, with GDP dropping by 35 percent. Electricity blackouts were common during the 1990s, and private cars disappeared from the streets for lack of gasoline.

Venezuela rescued Cuba from the energy crisis of what had become known as the "Special Period" when then-Venezuelan President Hugo Chavez and Fidel Castro struck a deal in 2000 to trade oil for doctors (<https://www.brookings.edu/wp-content/uploads/2016/06/CubaVenezuela-Alliance-Piccone-Trinkunas.pdf>). Flush with petrodollars when crude was selling at over \$100 a barrel, Venezuela agreed to provide Cuba with more than 100,000 barrels per day at below market prices, financed by low-interest loans and by the services of some 40,000 Cuban medical professionals who provide health care in Venezuela's poorest barrios. Venezuela has been



People line up with their vehicles to load up on fuel at a gas station in Havana, Cuba, Sept. 11, 2019 (AP photo by Ismael Francisco).

Cuba's principal oil supplier ever since, providing up to two-thirds of Cuban consumption when the oil-for-doctors trade was at its peak.

But the bonanza didn't last. A combination of mismanagement and disinvestment in the oil industry by Chavez and his successor, Nicolas Maduro, resulted in a decline of more than 50 percent (<https://oilprice.com/Latest-Energy-News/World-News/Platts-Venezuelas-Oil-Production-Is-Set-To-Fall-Further.html>) in Venezuelan production in a period when the world market price of crude also fell by 50 percent, leaving Venezuela unable to finance its own basic imports. Although Venezuela prioritized its commitment to Cuba, shipments have fallen nevertheless, from a peak of some 115,000 barrels (<https://havanatimes.org/news/how-venezuelas-pdvsa-exports-crude-oil-to-cuba/>) per day in 2008 to just 53,000 now (<https://www.voanews.com/americas/what-causing-cubas-acute-shortage-fuel>).

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In 2019, the Trump administration prohibited U.S. companies from doing business with Venezuela's state-owned oil company, PDVSA, and imposed secondary sanctions (<https://fas.org/sgp/crs/row/IF10715.pdf>) on foreign businesses as well. Since Venezuela exported most of its oil to the United States, the embargo deprived Venezuela of its largest customer, but had the unintended effect of freeing up more oil for Venezuela to send to Cuba (<https://www.miamiherald.com/news/nation-world/world/americas/venezuela/article235808947.html>). Washington tried to put a stop to that by subsequently imposing sanctions on the shipping companies (<https://www.reuters.com/article/us-usa-venezuela-sanctions/us-slaps-sanctions-on-firms-moving-venezuelan-oil-to-cuba-idUSKBN1W91XV>) transporting Venezuelan oil to Cuba, disrupting Cuba's supply chain.

When Venezuelan oil shipments first began to decline in 2015-2016, then-President Raul Castro declared (<https://www.ft.com/content/91050296-4f8a-11e6-8172-e39ecd3b86fc>) an energy emergency, imposing energy rationing in state buildings and enterprises, scaling back investment plans, and launching a crackdown on the black market in gasoline, which was diverting about half the nation's supply into illicit channels. Economic growth projections were also revised downward.

As Venezuelan shipments have continued to decline, Cuba has had to cover the deficit by buying oil on the world market, aggravating its chronic shortage of hard currency and forcing a cutback on imports of everything else, particularly food and medicine. This past May, the government introduced rationing for basic goods (<https://www.nytimes.com/2019/05/11/world/americas/cuba-rationing-sanctions.html>) sold on the open market, in addition to those already rationed at subsidized prices. Drivers periodically have to wait for hours on long lines at gas stations (<https://havanatimes.org/news/cuba-in-slow-motion-over-lack-of-fuel/>), when there's any gas to be had. Repeated warnings from Cuban leaders that worse austerity may lie ahead has Cubans worried that they are entering

another Special Period (<https://www.miamiherald.com/news/nation-world/world/americas/cuba/article235028192.html>), despite the government's assurances to the contrary.

Until this year, Cuba's booming tourist industry provided some financial cushion. But the Trump administration's abolition of people-to-people educational tours for U.S. residents and its prohibition on U.S. cruise ships visiting Cuba have cut the number of foreign visitors (<https://www.travelpulse.com/news/destinations/us-visitation-to-cuba-plummets-amid-embargo.html>) to the island by as much as 20 percent, reducing tourism revenue by \$500 million or more per year.

Ever since the decline in Venezuelan oil shipments began, Havana has sought other foreign partners to meet its energy needs. In early 2017, Cuba signed a contract with Russia's Rosneft Oil Company (<https://www.reuters.com/article/us-cuba-energy-russia/russia-resumes-oil-shipments-to-cuba-helps-fill-venezuelan-breach-idUSKBN17Z2B8>) for diesel and crude—the first major contract with Russia since the 1990s. By the end of that year, Rosneft's CEO was meeting with Raul Castro to map out long-term cooperation in energy development, including modernization of a refinery in Santiago and exploration of Cuba's offshore oil reserves. In Havana last week, Medvedev said (<https://www.reuters.com/article/us-cuba-russia/russia-will-find-ways-to-help-cuba-get-oil-says-medvedev-idUSKCN1WK0B9>) that in response to U.S. sanctions, Russia would “find other ways to help Cuba get oil and petroleum products.”

In the longer term, Cuba is seeking foreign investors to help develop its own reserves. In partnership with Canada's Sherritt International Corporation (http://www.xinhuanet.com/english/2019-04/06/c_137955087.htm), in recent years Cuba has brought into production onshore and near-offshore wells along Cuba's north coast that produce over 50,000 barrels per day, or about 40 percent (<https://www.latimes.com/world-nation/story/2019-10-03/venezuela-meltdown-us-sanctions-batter-cuba>) of domestic consumption. Russia's Zarubezhneft drilling company recently announced plans to start 30 new wells (<https://www.reuters.com/article/us-cuba-economy-analysis/oil-rich-venezuela-and-russia-come-to-aid-of-ally-cuba-but-its-energy-woes-persist-idUSKBN1WJ2GS>) in Cuba's existing Boca de Jaruco oil field.

In 2004, the U.S. Geological Survey (https://pubs.usgs.gov/fs/2005/3009/pdf/fs2005_3009.pdf) estimated that there were 4.6 billion barrels of undiscovered oil and 9.8 trillion cubic feet of undiscovered natural gas offshore in Cuba's Northern Basin Exclusive Economic Zone—enough to make Cuba a petroleum exporter. A 2017 survey (<https://www.oilfieldtechnology.com/offshore-and-subsea/27052019/offshore-blocks-in-cuban-zone-of-gulf-of-mexico-to-be-offered-in-2019-licensing-round/>) estimated the oil reserves at more than 10 billion barrels. Cuba has leased concessions for deep-water exploration to a dozen oil companies, including those from Spain, Russia, China and Brazil. Exploratory wells have yet to find commercially viable deposits, however, although Cuba is in the process of soliciting bids (<https://cuba-energy.com/>) for new concessions and further exploration.

Cuba also has ambitious plans to produce 24 percent of its electricity from renewable sources (<https://www.renewableenergyworld.com/2017/02/10/power-shift-in-cuba-seven-reasons-to-watch-the-renewable-energy-sector-in-the-post-fidel-and-trump-era/#gref>)—principally biomass, wind and solar—by 2030, but at present they contribute only about 4 percent of the island's energy.

Domestic production, conservation and foreign assistance from Russia will be enough to get Cuba through the current energy crisis without the crippling shortages it experienced in the 1990s. But the resulting austerity will push the economy toward recession, limiting the government's ability to move forward with its program of economic reforms and making life more difficult for the Cuban people. Independent opinion polls (<http://www.norc.org/Research/Projects/Pages/survey-of-cuban-public-opinion.aspx>) leave no doubt that Cubans see the stagnant economy as the top problem facing the country and are impatient at the slow pace of change. Managing the political fallout from the current crisis will be President Miguel Diaz-Canel's first major test since he assumed office last year.

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