The Relevance of U.S.-Caribbean Relations
Three Views

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CSIS | CENTER FOR STRATEGIC & INTERNATIONAL STUDIES

A Report of the CSIS AMERICAS PROGRAM
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Introduction

Georges A. Fauriol, David Lewis, and Nicole Ghazarian

The passage in the U.S. Congress of HR 4939\(^1\) in late 2016 was a significant development. It has had the potential of focusing U.S. policymakers’ attention on a region most often deemed of secondary interest, or parceled out in small, generally disjointed policy fragments. But it easily also invites skepticism that the passage of legislation is in no way confirmation of a serious long-term commitment to the Caribbean by Washington. And then there is a counterpart Caribbean reality that also must be factored in, and the prospects that the way the region defines its own interests can influence, let alone shape, U.S. policy. Even when acting from a joint or integrated Caribbean perspective, there is the potential for a mismatch in the scale and scope of perceived strategic hazards—what may be articulated as an existential threat in the Caribbean does not always measure in parallel terms with U.S. policymakers. Nevertheless, HR 4939 provides a once-in-a-generation opportunity to address these realities and trigger a robust Caribbean policy dialogue that addresses core interests. This requires some serious work.

In Spring 2017, the Center for Strategic and International Studies (CSIS) held three off-the-record roundtables on Caribbean policy based on the premise that the passage of the 2016 legislation needed to trigger expert analyses of key policy issues. There were also two practical considerations: first, a need to provide support to those in the executive branch tasked with drafting the outlines of U.S. policy and report to Congress, as required under the terms of HR 4939; and second, an assumption that policymakers would welcome this kind of input, if only to help formulate longer-term views of policy that Washington often finds difficult to envision, let alone sustain.

From a large menu of issues, CSIS chose three interlocked themes: 1) Strategic Insights: Caribbean Security Issues; 2) U.S.-Caribbean Economic Issues; and 3) Shaping the Future of Caribbean Energy. Any serious review of regional policy cannot escape the realization that these three themes are in effect part of a continuum.

The U.S.-Caribbean security agenda somewhat paradoxically operates at two speeds, one that conveys a region formally at peace contrasting with multiplying stresses, notably from transnational criminal organizations and its corrupting influences, as well as a reemergence of a form of geopolitical competition from China and Russia, even Iran. Much of this permeates, in varying ways, the region’s economic outlook. American policymakers also cannot escape the political reality that the Caribbean’s geographic proximity has a direct relevance to definitions of U.S. national interests, which plays itself out notably in

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immigration policy terms and its hybrid foreign/defense policy and domestic political constituencies.

The *U.S.-Caribbean economic policy agenda* provides a fluctuating baseline of issues that resonate across other policy sectors, as well as wider international concerns—trade, de-risking, debt management, poverty alleviation, infrastructure development, energy and related geopolitical risks, as well as widening economic uncertainties associated with tenor of relations with Cuba, and the impact of an imploding Venezuelan polity.

The *U.S.-Caribbean energy policy agenda* suggests varying road maps, from an expanding wealth future with fossil fuels (for the near term in the Suriname-Guyana Basin), to a wider growing importance of natural gas, LNG, and CNG, as well as an expanding interest in shifting to renewable energy technologies that can be made economically sustainable. Much of this agenda brings with it layers of technical complications and a broad range of nontechnical risks—from the long-term life cycle of energy-related investments to built-in geopolitical uncertainties, with the Venezuela-Guyana border dispute the most notable. A policy gap may arise as this overall agenda is extended to environmental policy issues and the salience of climate change, with Caribbean leadership articulating deeper concerns than the emerging political stance of the new administration in Washington.

The required granularity envisioned by CSIS leaves out some obvious core elements of regional policy without which any formulation will remain incomplete—Cuba, the Dominican Republic, and Haiti are the most obvious country examples. The challenge for U.S. policymakers is to ensure that the bureaucratic compartmentalization built up over the years gives way to a rebooting of how U.S.-Caribbean relations are structured. The United States will continue to frame core interests on a regional scale, if for no other reason than a need to integrate them into global strategic priorities. Yet, there is a growing need to recognize that the component national parts of the region operate at different speeds. Beyond reaffirming a regional Caribbean vision and set of mutual interests, there is a need to operationalize a form of Caribbean sub-regional functionalism. Arguably, this may be where the locus of today’s policy momentum lies.

Each of these CSIS roundtables triggered discussion papers, presented here as a consolidated view of the challenges and opportunities facing U.S.-Caribbean policy. Drafted by three well-known students of regional policy, they confirm the wide range of strategic interests at play for both the United States and Caribbean states. For Washington, there is the added complexity of dealing with, as well as synchronizing, policy initiatives across 15 countries in the Caribbean proper and several significant entities such as Puerto Rico, the U.S. Virgin Islands, Curacao, Cayman Islands, and others. A renewal of U.S.-Caribbean relations, as envisioned by the framers of HR 4939, also draws attention to an expanding set of constituencies able to shape thinking in Washington. The growing role of Caribbean diasporas is providing economic and political energy at the local and federal level of policymaking, as well as a cross-border networking potential of unparalleled influence. In
analyzing these issues, CSIS is drawing on a long-standing commitment to a robust definition of U.S.-Caribbean policy.²

Strategic Insights: Caribbean Security Issues

Evan R. Ellis

Key Points

- The security environment of the Caribbean is shaped by its proximity to the United States, which gives it strategic importance to both the United States and its competitors, as well as driving licit and illicit flows through the region.

- The environment is shaped by three persistent, interdependent, albeit evolving, challenges: climate, migration, and criminal flows.

- Potentially transformative events for the region include the discovery of oil off the coast of Guyana, the future of Cuba following its 2018 leadership transition, the withdrawal of U.S. peacekeepers from Haiti, and the criminal and immigrant flows associated with the collapse of Venezuela.

- The pursuit of opportunities in the region by Russia, China, and Iran, including Iran’s courtship of Hezbollah, and a potential resumption of the China-Taiwan struggle for diplomatic recognition.

Introduction

Outside of military, law enforcement, and some academic circles, security issues are rarely part of the discourse about the Caribbean. Yet, during the Cold War, the region’s contiguity with the United States made its largest island, Cuba, the focal point of the world’s closest publicly known approximation to nuclear war.

Today, the Caribbean is at peace and continues to be a strategically important region to the United States and its geopolitical rivals, transnational criminal organizations, and those who live there. Currently, the security environment of the Caribbean is subject to multiple interacting stresses, influences, and potentially transformative events posing significant consequences for the United States and the region.

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3 This article was originally published by the Strategic Studies Institute at the U.S. Army War College, http://ssi.armywarcollege.edu/index.cfm/articles/CSIS-Caribbean-Forum/2017/05/16. It is reprinted here with permission.
Regional Security Environment

The security environment of the Caribbean is defined by a particularly unique combination of characteristics. The region’s proximity to the United States shapes it as a market for illicit, as well as licit, flows, including the movement of commercial goods, drugs, and migrants to the United States, and money and tourists from it. In this way, the United States is thus both a principal driver of the region’s security challenges, as well as its principal source of trade, investment, and other resources to fight those challenges.

Despite attempts at integration, the region is also defined by fragmentation, only partly surmounted through organizations such as the Caribbean Community (CARICOM) and the Organization of East Caribbean States. The region’s small governments, with limited resources and fragile institutions, make it susceptible to both the corrupting influences of transnational criminal organizations, and the initiatives of larger states with an interest in its affairs, including the United States, China, and Russia, among others.

Enduring Regional Security Themes

Even without geopolitical considerations, the security environment of the region is shaped by three persistent, interdependent, albeit evolving, challenges: climate, migration, and criminal flows. It is these challenges that are the focus of the policy documents, doctrine, day-to-day activities, and budgets of the region’s security forces.

The principal islands of the region lie in the paths of hurricanes and tropical storms that most typically form to the east of the region during the June 1–November 30 Atlantic hurricane season and move westward. The regular devastation of Caribbean islands by such storms continues to make national emergency response systems, military support for civil authorities in disaster relief efforts, international coordination, and international relief efforts key components of the security discourse.

As another facet of climate, the tropical geography of the Caribbean makes contagious diseases a serious public health danger. At the same time, the region’s dependence on tourism makes disease a strategic economic risk as well. Nonetheless, the hazard is primarily concentrated in the region’s poorest countries, including Haiti, with the perceived risk of transmission influencing the attitudes of neighboring states toward immigration.

Trans-regional criminal flows, and their linkage to and impact on local populations, are arguably the greatest source of violence and threat to governance in the Caribbean. The dynamic is driven by the location of the region between the hemisphere’s largest market for drugs and people, the United States, and its largest source of both, South America.

With respect to drugs, the deterioration of governance in Venezuela has complemented efforts by transport groups and overland drug routes in Central America to increase narcotics shipments from Western Venezuelan states, such as Zulia, San Cristobal, and Apure (as well as the north coast of Colombia), to Hispaniola (among other routes), bringing with it money for bribes, as well as lucrative opportunities for criminal activities, which tempt young,
underemployed Caribbean populations. Such drug flows also bring criminal cartels from both Mexico and Colombia, which involve local groups in their activities, spawning violence both by generating competition for drug routes and by encouraging local drug cultures.

With respect to money, the region is home to some of the world’s most notorious tax shelter nations, such as the Cayman Islands and the British Virgin Islands. The search for protection from financial accountability attracts significant illicit, as well as licit, financial flows from an increasingly globalized economy to small economies and weakly institutionalized governments transformed by such resources.

With respect to people, the Caribbean is a channel for human trafficking and smuggling for multiple groups moving persons toward the United States, including Chinese triads (organized crime), as well as migration to the United States from the region itself.

To a degree, previous patterns of migration have also created natural criminal links between local groups and the United States. Examples include the previous Jamaica-based organization known as the Shower Posse, which leveraged the Jamaican diaspora in Miami and the greater New York area to export cocaine to the U.S. market. Similarly, the diaspora of people from the Dominican Republic in the United States has contributed to a significant role of Dominican gangs in the smuggling of drugs to the U.S. East Coast and their distribution.

In Jamaica, the role of English as the national language further facilitated the growth of the “lottery scam,” often overlooked in discussions of the regional security environment. The scam used Jamaica-based telemarketing operators to rob billions of dollars from foreigners, mostly in the United States, flooding the island with illicit money.

In all cases, the inflows of illicitly gained resources have empowered local gangs and smuggling groups, expanding corruption and violence in the countries involved, and transforming groups of delinquents (once exploited by local political machines) into powerful criminal entities that hijack the nation’s politics.

Sources of Instability

Compounding the fragility of the region’s strategic environment and the persistence of serious security challenges, the Caribbean currently faces multiple, potentially transformative influences and events.

The discovery of significant oil deposits in the Stabroek block off the coast of Guyana is likely to significantly expand the resources of the Guyanese state. In 2015, Guyana experienced a sea change in political dominance from the Indo-Guyanese, who had ruled the country since 1992, to the Afro-Guyanese, whose first government was headed by former Guyana Defense Forces Brigadier David Granger. Such opportunity in Guyana, however, will likely bring with it a significant increase in foreign activity in the once-isolated country, as well as significant potential for corruption and the possible rekindling of border disputes with neighbors, such as what reemerged in 2015 between Guyana and neighboring Venezuela over the Essequibo region.
The future of Cuba will also dynamically affect the region. With Republicans controlling both houses of the U.S. Congress and with President Donald Trump currently adopting a hardline posture toward the island, the Cuban government could abandon some of the restraint it has shown in recent years. It is very possible that in the face of American belligerence that Cuba could become more receptive to the advances of U.S. adversaries, like Russia and China, in the security realm, to include the possible granting of base access to the militaries of those countries, and to allow access to Cuban signals intelligence facilities, such as Lourdes and Bejucal. In the process, Cuba could return to its historic role as regional leader of anti-U.S. leftism, taking up the mantle from Venezuela in continuing chaos. In the context of the death of Fidel Castro in 2016, the upcoming 7th Congress of the Cuban communist party in 2018 raises the possibility for a range of significant political changes: from a turn toward more democratic governance and reintegration into the economic and political structures of the Caribbean, making the island a competitor for tourism and a leader in regional business; to political and economic chaos, spawning significant migratory flows impacting the economies, social support systems, and politics of the region. Arguably, with a move toward either greater integration with the region, or toward chaos, Cuba is positioned to become more important as a center of regional organized crime flows.

In Haiti, the nation’s sub-development and inadequate infrastructure makes its population particularly vulnerable to the effects of natural disasters like the 2004 earthquake and 2016 hurricane that devastated the island, as well as diseases such as cholera. With the pull-out of the United Nations Stabilization Mission in Haiti (MINUSTAH) at the end of 2017, the nation could descend more deeply into criminality and disorder, expanding its role as a refuge for criminals, a transit node for illegal flows, and a source of outward immigration, affecting even more adversely its neighbors in the region, and becoming a greater problem for the Dominican Republic, with which it shares Hispaniola.

On the southern border of the Caribbean basin, the ongoing collapse of Venezuela fuels a growing wave of refugees and criminality that is also adversely impacting its Caribbean and South American neighbors. In addition to the previously mentioned drug flows into the Caribbean from Venezuela’s interior, the economic desperation and breakdown of law enforcement has fueled the rebirth of piracy on the nation’s Caribbean coast, and a new illicit trade in goods and refugees across the seven miles of water that separates Venezuela from Trinidad. Venezuela’s disintegration has similarly driven flows of goods and refugees to Aruba and Curacao, off its northwestern coast, and next door, to Colombia’s Caribbean coast.

Beyond expanding such criminal activities and migration, the deterioration of Venezuela will further prejudice the Caribbean by effectively ending the remaining flows of subsidized oil to the region under the Petrocaribe program, which subsidizes the energy sector of many countries of the region.

It is also not clear how the destabilization of Venezuela and the outward flow of refugees will affect radical Islamic actors in Venezuela and their relationship with likeminded groups elsewhere in the Caribbean, such as the Jamaat al Muslimeen in Trinidad and Tobago.

Finally, as already occurred in 2015, it is possible that the destabilization of Venezuela, in combination with new offshore oil claims in places like Guyana, may tempt the nation to
launch a military conflict against neighboring Colombia or Guyana, further destabilizing the Caribbean basin.

Beyond such possibilities, the security environment in the Caribbean will be impacted by the initiatives of Russia, China, Iran, and the United States as they react to opportunities and events in the region and to each other.

For its part, the United States will impact the security region through its immigration and other homeland security policies, as well as through possible changes to security and economic assistance programs, such as the Caribbean Basin Security Initiative, or to trade accords such as the Dominican Republic-Central America Free Trade Agreement (CAFTA-DR). Changes to immigration policies such as the elimination of the “wet foot-dry foot” policy toward Cuba have already had ripple effects on immigration flows throughout the Caribbean basin.

With respect to Islamic groups, the region contains multiple important communities, including those in Guyana, Suriname, the Caribbean coast of Colombia (Barranquilla and Maicao), and Trinidad and Tobago—country of origin of the largest per capita outflow of foreign fighters to Iraq and Syria, with over 125 believed to have left the island nation to fight for the Islamic State. In terms of Iran, in 2016, its President Hassan Rouhani made the Caribbean the focus of the first trip to the region, with stops in Margarita Island, Venezuela, for the summit of Non-Aligned Nations, as well as in Cuba. It is possible that the Iranian regime, with $150 billion in new capital from the lifting of economic sanctions and incensed by confrontational policies from the Trump administration, might expand its presence in the Caribbean basin.

With respect to the People’s Republic of China (PRC), expanding loans and equity investments by Chinese companies in Caribbean nations such Jamaica, the Bahamas, Dominica, Barbados, Guyana, and Suriname will give the PRC increasing leverage in the region on critical issues. Such leverage will be reinforced by ongoing training of the region’s military officers in PRC institutions and People’s Liberation Army (PLA) military diplomacy that has focused notably on the region. Examples include the 2011 and 2015 visits to the region by the PLA hospital ship Peace Arc, the 2015 visit to Cuba by the PLA 20th Naval Task Force, the deployment of PLA military police to Haiti from 2004 to 2012, and Chinese gifts of equipment to the region’s armed forces.

At the same time, a possible breakdown of the diplomatic truce between the PRC and Taiwan would also have transformative effects on the region’s security environment, possibly bringing an influx of new loans and PRC political engagement, not only with the six Caribbean nations that currently recognize Taiwan, but also with the Central American states that bound the Caribbean to the West: Panama, Nicaragua, Honduras, Guatemala, and Belize.

A return to diplomatic recognition of the PRC by Nicaragua could be particularly impactful, insofar as it could motivate the Chinese government to formally back the long-delayed Nicaragua Canal Project, transforming shipping flows and commercial patterns throughout the Caribbean. The new canal, in turn, would likely unleash a new wave of competition for infrastructure projects throughout the region, including port projects such as that proposed...
in Goat Island, Jamaica, as key countries in the region seek to position themselves as logistics hubs to accommodate expanding traffic, including larger ships passing through the canal, in turn generating changes in the patterns of both licit and illicit commerce.

With respect to Russia, deepening disillusionment in Cuba or the consolidation of power by supporters of the Fidel Castro line, following the 2018 Congress, could lead the nation’s leadership to expand security or other engagements with their former Cold War ally. Worsening U.S. relations with Central America could similarly embolden Russian security engagement with Nicaragua. Such engagement, in the context of the construction of the Nicaragua Canal, could precipitate an expanded Russian presence in the Caribbean (including the Nicaraguan waters around the Colombian island of San Andres) in fulfillment of Russian commitments to provide security for the canal.

Conclusion

The strategic importance of the Caribbean to the United States, combined with the potential for dramatic change in its security environment, makes it imperative for the United States to closely monitor developments in the region, and for the United States to maintain engagement with the region in the security as well as economic domains.

Such engagement should include:

1. Continuing to work closely with the region on matters of disaster relief;
2. Using incentives and trade agreements to encourage trade with and investment in the region;
3. Expanding, not cutting, programs to strengthen the Caribbean’s institutions, with an emphasis on fighting corruption and negotiating the best possible deals with (rather than excluding) economic engagement by partners such as China;
4. Tailoring any changes to U.S. immigration or port security policies to minimize the effects on the region;
5. Sending strong signals regarding engagement with Iran, Russia, and China in the security domain;
6. Expanding intelligence and security cooperation against criminal and terrorist groups in the region, to include radical Islamic actors; and,
7. Preparing to support and participate in a multilateral response to the disintegration of Venezuela or other high-impact events affecting the region.

The Caribbean basin is connected to the United States in geographic, economic, and human terms. Its prosperity and security directly impacts that of the United States. Accordingly, the choices that the United States makes with regard to furthering the region’s security and prosperity will be felt in the United States as well.
02

U.S.-Caribbean Economic Issues

Scott B. MacDonald

Key Points

- U.S.-Caribbean economic issues center on trade, de-risking, debt management, infrastructure development, poverty alleviation, energy, and geopolitical risks that could influence economic outcomes.

- How a more protectionist approach implied by a U.S. “America First” strategy matches up with a region that (outside of the Dominican Republic’s party to CAFTA-DR) does not have a free-trade agreement with the United States is uncertain. Moreover, the region has unilateral access to the United States for most goods under the Caribbean Basin Initiative (CBI) as well as nonreciprocal preferences extended under the Caribbean Basin Economic Recovery Act (CBERA). That these programs are generally perceived to benefit U.S. jobs and the fact that the region has a trade deficit with the United States should be positive factors.

- De-risking, driven in part by U.S. anti-money laundering efforts, affects the flow of credit in Caribbean economies, complicates tourism, and represents a major potential drag on economic growth. This could also push transactions to informal channels, paradoxically making it difficult to monitor illicit transactions.

- Improvements in debt management in a number of counties (Jamaica, Guyana, and St. Kitts-Nevis) is also paired with others that are struggling—notably Barbados, Belize, Puerto Rico, and the U.S. Virgin Islands. This potentially points to where the U.S. government could help Caribbean economies.

- The Caribbean needs $30 billion over the next 10 years to modernize its power and other infrastructure and improvement with roads, bridges, and port facilities, and related efficiencies to help with the environment.

- Geopolitical uncertainties frame the regional economic agenda—the unsteady state of U.S.-Cuban relations, the undoing of Venezuela, and extra-hemispheric developments such as Brexit and its direct impact on Caribbean tourism and trade. Also included in this mix is the state of U.S.-China relations and its economic interface with the Caribbean.
Introduction

The economic issues facing the Caribbean are wide-ranging and key off major international economic trends. While the International Monetary Fund (IMF) forecasts global real GDP growth to improve in 2017, the recovery is uneven in the Caribbean with tourist-based economies more likely to benefit than commodity-driven economies. This bodes well for countries such as The Bahamas, Dominican Republic, Grenada, and Jamaica, but also means that Belize, Suriname, and Trinidad and Tobago are finding the economic environment still challenging. Barbados has its own set of problems related to a heavy debt burden, questionable policy decisions, and being hit hard by the Great Recession, which impacted its tourist industry and financial-services sectors hard and have yet to recover. Hanging over all of this, of course, is the change in administrations in Washington with the advent of the Trump presidency, which has raised many questions as to what is next in terms of Caribbean policy priorities.

Considering the above, U.S.-Caribbean economic issues center on trade, de-risking, debt management, infrastructure development, energy, and geopolitical risks that could influence economic outcomes, namely the future of normalization of relations between the United States and Cuba and what are the possible impacts of the collapse in one of the region’s largest neighboring economies, Venezuela. Poverty alleviation is another issue, which pertains mainly to Haiti and, to lesser extent, due to the discovery of oil, Guyana. The U.S.-Caribbean Strategic Engagement Act of 2016 provides for some of the means to address parts of these issues, but many of the details have been left vague, hence the following outline of ideas.

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Source: International Monetary Fund.

The key priorities over the next 18 months for U.S.-Caribbean economic relations are as follows:

1. **U.S. trade policy:** The Trump administration has signaled that it is taking a more sharp-elbowed and protectionist approach to trade as part of the president’s “America First” game plan. Part of this is a border adjustment tax on the part of the United States, which should be of major concern for most countries in the Caribbean, including U.S. territories Puerto Rico and the U.S. Virgin Islands. This touches upon everything from
manufactured goods to oil and rum. The rate-cutting corporate tax reform proposed by House Republicans would adjust taxes at the U.S. border by allowing U.S. companies to deduct export sales from taxable income, while prohibiting them from deducting the cost of imported goods. In many regards, the border adjustment tax is aimed at some of the United States’ larger trade partners, namely, Japan, China, Mexico, and Germany; the Caribbean runs the risk of unintentionally being hit by a policy aimed at others. The need for greater clarity on this is critical.

It should also be noted that outside of the Dominican Republic, which is party to the Dominican Republic-Central America Free Trade Agreement (CAFTA-DR), Caribbean states do not have a free trade agreement with the United States. As of this juncture, there has been no news pertaining to the Trump administration looking to renegotiate the CAFTA-DR agreement.

Caribbean states do have unilateral access to the United States for most goods under the Caribbean Basin Initiative (CBI), a legacy of the Reagan era. The preferences extended under the Caribbean Basin Recovery Act (CBERA) are nonreciprocal; Caribbean countries do not have to confer reciprocal access to U.S.-originating goods. They are also unilateral, which means preferences can also be unilaterally revoked by the United States. Some Caribbean countries also benefit from the United States’ Generalized System of Preferences (GSP), another unilateral, nonreciprocal regime.

It is unclear what would be the future of these unilateral nonreciprocal preference schemes under a Trump presidency. What might help the Caribbean is that these programs are generally perceived to benefit U.S. manufacturing and jobs. Moreover, the region has a trade deficit with the United States.

One last issue on the trade front is whether the Trump administration opts to pull out of the World Trade Organization (WTO). This has been used in the past to settle trade disputes and Caribbean countries have used it over rum and on-line gambling services (Antigua and Barbuda v. the United States).

2. De-risking: De-risking is another major issue as it directly affects the flow of credit in Caribbean economies, complicates tourism, and jeopardizes the smooth functioning of local Caribbean banking systems. In many cases in the Caribbean, large international banks have closed local branches or terminated correspondent banking relationships with local banks. Along these lines, de-risking can be broadly defined as compliance actions taken by large international banks operating in advanced economy jurisdictions to reduce chances of money laundering, financing of terrorism, and/or tax evasion, which has resulted in substantial fines by regulatory authorities. The problem is that correspondent banking with global banks allows smaller banks access to the international payments system, facilitating money transfers through transactions such as wire transfers, check clearing, and currency exchange. Without these banking relationships, businesses are cut off from international trade and financing, families are unable to collect remittances from relatives working abroad, and foreign investors may be unwilling to invest if there is a risk they will be unable to
repatriate their profits. The significance of this issue was highlighted at the 2016 High Level Caribbean Forum in Port of Spain, Trinidad and Tobago, on November 2, 2016, where IMF Deputy Managing Director Tao Zhang stated: “The withdrawal of correspondent banking relationships presents a clear and present danger to the Caribbean.”

A survey conducted by the Caribbean Association of Banks in 2016 shows banks in 12 countries in the region have experienced loss of correspondent banking, among them The Bahamas, Belize, Guyana, Jamaica, Suriname, Trinidad and Tobago, and countries in the Eastern Caribbean Currency Union. In Belize, the withdrawal of correspondent banking relationships is systemic, with affected banks’ assets amounting to more than half of the domestic banking system’s assets. The IMF also noted that “In other countries, the loss of correspondent banking relationships has not reached systemic proportions but still presents an urgent threat.” There are also concerns that de-risking could push transactions to informal channels, making it difficult to monitor illicit transactions and in effect countering anti-money laundering efforts. This issue is only going to increase in importance as it represents a major potential drag factor to economic growth. As U.S. anti-money laundering efforts are one of the main forces in de-risking, this issue clearly fits within the rubric of U.S.-Caribbean relations.

3. **Debt management:** Although there have been improvements in the debt management stories in a number of counties (Jamaica, Guyana, and St. Kitts-Nevis), a number of other countries and territories are struggling under the burden of too much debt. In this bracket are Barbados (public sector debt/GDP of 104.8 percent in 2016 according to the IMF), Belize (94.8 percent), Puerto Rico (51.6 percent), and the U.S. Virgin Islands. According to the IMF, Caribbean tourism-based economies had a public sector gross debt-to-GDP ratio of 88.2 percent in 2015 and 87.3 percent in 2016, with 84.0 percent forecast for 2017. These are high levels and continue to raise issues over prioritization of government finances. The debt issue also raises issues as to where the U.S. government could help Caribbean economies.

4. **Caribbean infrastructure needs:** In 2014, the head of the Caribbean Development Bank indicated that the region needed $30 billion over the next 10 years to modernize its power and other infrastructure. The chief banker then stated: “In the energy sector alone, massive investment will be needed to replace obsolete and inefficient power generation plants over the next five years and to transform electricity infrastructure.” We are now in 2017 and the need for infrastructure remains very much front and center throughout the region. A regular supply of power helps local businesses operate, employs workers and helps bolster personal security. Greater efficiencies in this area also help with the environment. There is also a need to help improve roads, bridges, and ports throughout the region. In many economies tourism plays a major role, but one of the challenges is to have the adequate infrastructure to service all types of tourist ships. (The U.K. government in 2015 launched a 300 million pound fund to help Caribbean countries to invest in roads, bridges, and ports to help bolster economic growth and development).
5. **Geopolitical factors that could influence U.S.-Caribbean economic relations:** These include the state of U.S.-Cuban relations, what happens in Venezuela, and the impact of Brexit on Caribbean tourism and trade. Into this mix we would add the state of U.S. and Chinese relations and how they interface in the Caribbean in terms of trade and market competition as well as construction. While part of these issues fall under discussions about security and energy in the region, some thought has to be given to these matters from strictly an economic dimension. Of these Venezuela is probably the most important. If the country hits failed state status and oil production is disrupted (as in the case of Libya where different groups fought over control of oilfields, pipelines, and ports), how would this impact international energy prices, would it disrupt the flow of oil from those Caribbean countries that purchase oil from PDVSA (the country’s state-owned oil company), and what happens if there are refugees from the country heading out to whatever safety they can find? Does a more radical and dying regime lash out at old border claims against Guyana and seek to disrupt its budding oil industry? All of the above have the potential to hugely impact Caribbean tourism and commodity exports.

This list of U.S.-Caribbean economic issues is by no means exhaustive, but hopefully has touched upon the major pressure points as the Trump administration begins to formulate its policies toward the region and Caribbean states reframe their policies toward a new government in Washington.
03
Shaping the Future of Caribbean Energy
Anthony T. Bryan

Key Points

- The global fall in oil prices has produced mixed results for the Caribbean. Oil-importing countries have benefited from lower commodity prices, while oil and natural gas exporters such as Trinidad and Tobago and Venezuela face declining revenues from the sector.

- A major trend is the emergence of new offshore oil provinces in the wider Caribbean: Guyana, Suriname, Cuba, and French Guiana, and the renewed investment in the deepwater by international oil companies (IOCs) in the mature oil and gas province of Trinidad and Tobago.

- A second trend is the growing importance of natural gas, LNG, and GNG as transition fuels in the region. The United States and Trinidad and Tobago are the major producers and exporters of LNG, and the Dominican Republic is emerging as a key transshipment point for the wider region.

- A third trend is the shift to various forms of renewable energy (geothermal, solar, hydro, wind) for power generation in the Caribbean. Despite the small size of the local market, the technical hurdles, and the challenge of capital investment, ambitious goals have been set by several island countries including Cuba, Jamaica, Barbados, Dominica, and St. Vincent and the Grenadines.

- Finally there is discernible progress toward regional energy cooperation and integration: U.S. natural gas trade and energy diplomacy toward the region; emerging cross-border oil and gas exploration and development of natural gas pipeline infrastructure networks between Venezuela and Trinidad; and the functioning of Trinidad as a deepwater logistics base for energy service companies that are building oil and gas capacity off Guyana, Suriname, French Guiana, and islands in the southern Caribbean—all are indicative of this trend.

Introduction

The consequences of the fall in oil prices produced mixed results for the Caribbean region. Oil-importing countries saw their bills drop by half for oil and for petroleum products, while low global oil prices have created additional opportunities for upstream projects. Oil and
natural gas exporting countries such as Trinidad and Tobago (T&T) and Venezuela continue to face declining revenues from the sector, resulting in serious budgetary constraints and economic adjustments.

But it is not all doom and gloom for the future of regional hydrocarbons. Offshore exploration projects by the international oil companies (IOCs) are still underway in the island Caribbean (e.g. in Jamaica, Barbados, Grenada) and the Guianas. Some countries in the region are now adjusting their tax structures to create a more competitive and attractive environment for foreign investment. The current hot spot for exploration and expected production in the near future is the Suriname-Guyana Basin (GSB). The U.S. Geological Survey (USGS) estimates that the GSB has undiscovered resources at 13 billion barrels of oil and 32 trillion cubic feet of gas, and ranks as the third province in terms of undiscovered conventional oil and gas resources within 31 geologic provinces within Central and South America and the Caribbean. In fact, Guyana and French Guiana have both had substantial offshore commercial finds since 2010; Suriname is on the verge of offshore discovery as well; the potential for Cuba’s exclusive economic zone (EEZ) in the Gulf of Mexico is great but failure to find any deepwater wells by IOCs since 2012 is a great disincentive. The lucrative cross-border oil and gas potential between T&T and Venezuela is expected to reap substantial rewards and a new level of energy integration for both countries by 2022. Finally, The island Caribbean and the Guianas are full of possibilities for the continuous development of renewable energy resources and the improvement of their respective national energy matrix as a route to energy sufficiency and regional energy security. A quick look at a possible energy future for the region reveals several trends.

The Persistence of Fossil Fuels and the Emergence of New Oil Provinces

Here is a closer look at current oil plays in four countries in the region: Guyana, Suriname, Cuba, and Trinidad and Tobago. Guyana and Suriname are potentially oil-rich states located on the northeastern tip of South America, with deep social, cultural, and regional roots in the Caribbean and are members of the Caribbean Community (CARICOM).

Guyana

Guyana is a very new deepwater oil province. The four well discoveries in the Stabroek field since May 2015 are huge for Guyana. They may put the country on the world’s prime fossil fuel map, and accelerate the development of a valuable oil and gas industry. With prospective oil production of over 100,000 barrels per day from the field, the find is quite likely to transform the fortunes of Guyana, the second-poorest country in the Caribbean region (after

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An oil reservoir the size of Stabroek could also produce an additional 300 million standard cubic feet per day (mscf/d) of natural gas.

Outlook

The full monetization of Guyana's oil and gas is perhaps 5–15 years in the future. The reality is that Stabroek is a prime Greenfield area and will be more costly to develop than a similar piece of acreage off the mature oil province off Trinidad for example. The IOCs do not anticipate production before 2021. In the meantime, as a new hydrocarbon player Guyana faces some practical challenges: it has to establish a state energy company, draft a regulatory framework including production sharing agreements (PSAs) for hydrocarbon extraction, and plan for fiscal regimes, state participation, and environmental protection statutes. Available expertise from Trinidad and Tobago has been recruited to assist in these endeavors.6

The hurdles to overcome in the development of these energy resources in Guyana are mostly above-ground issues including: unresolved border and territorial disputes, management of the potential windfall, and social and environmental concerns. The above-ground risks are many and will require studied responses, and in some cases diplomatic resolution.

The critical factor that threatens the Guyana offshore oil and gas sector is the maritime border claim by Venezuela of sovereignty over Guyana's EEZ.7 Guyana has countered the threats from Venezuela by pursuing a judicial settlement to the matter at the United Nations. Venezuelan pressure should not deter the IOCs, nor put a damper on exploration in other parts of Guyana's current exploration blocks. The only short-term risk is that the Venezuelan navy will increase its patrols in Venezuela's EEZ, deterring ships from conducting oil exploration activities close to the maritime border. Such a move could also increase the risk of other types of ships and vessels being intercepted and detained by the Venezuelan navy beyond the EEZ and into disputed waters.

Suriname

Suriname is an exciting deepwater province for the IOCs. Over the past 35 years, all of Suriname's commercial oil production has come from a small number of onshore wells. So Suriname is virtually unexplored as a frontier offshore deepwater oil province of 150,000 square km. Major IOCs such as Chevron, Statoil, Inpex, Murphy Oil, Kosmos Energy, CEPSA, Apache, Petronas, Tullow, and RWE have taken blocks, farmed into existing offshore blocks, or are in the process of conducting 3D surveys.

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Outlook

Suriname’s offshore exploration is still in its infancy, since an offshore commercial well is yet to be discovered. But it is prepared for offshore discoveries. The regulatory system for oil and gas has been in place for many years, and unlike Guyana, the country has most of the resident skills and the local negotiating capacity to deal with the IOCs if there is an oil and gas bonanza in the future. The state oil company Staatsolie Maatschappij Suriname N.V. (Staatsolie) is in control of the exploration, production, trade in crude oil and derivatives, and refining, and very active in the increase of Suriname’s bidding rounds. It has been in the business of attracting exploration and production (E&P) contracts, offering bids, and negotiating production-sharing contracts (PSCs) since 2004. The company is both the regulator and market participant and operates a PSC model also used by Malaysia.

Suriname’s exploration efforts can suffer if global oil prices remain low and deter cash-strapped oil companies from investing their scarce resources. Oil exports typically constitute around 10 percent of Suriname’s goods exports. Suriname’s economy has always been characterized by cyclical boom and bust. The country is currently in recession (2017), because of falling hydrocarbon and mineral prices, and the end of an international commodity boom. Suriname is unable to implement countercyclical policies during recessionary periods because it lacks macroeconomic diversity. Short- and medium-term growth will be influenced by two main factors: the IMF Stand-By Arrangement (SBA), which runs for 24 months from May 2016, and a possible recovery in the extractive industries. Suriname’s economy underlines that the historic concentration on mineral commodities is a serious vulnerability. The country needs to diversify its exports, and to reduce its fiscal and external vulnerability to changes in global commodity prices.

Cuba

Cuba has significant oil and gas potential. Historically, most of its oil production of heavy oil has come from onshore and near-shore wells. As of 2016, Cuba had more than 10 producing oil fields near-shore within 5 kilometers of its northern coast. The potential for increased offshore production lies in Cuba’s untapped EEZ in the Gulf of Mexico that is known in the industry as the GoM-CEEZ. The Gulf of Mexico is one of the world’s great petroleum and gas mega-provinces and the GoM-CEEZ is at the southeastern margin of this province in waters that range in depth between 200 meters and 3000 meters. The GoM-CEEZ has significant hydrocarbon potential given its location where oil and gas fields are prolific and oil resources are estimated to be 114 billion barrels of oil equivalent (BBOE).8

Cuba has a good track record in onshore and near-shore (coastal) exploration and production. The state-owned oil company Unión Cuba-Petróleo (CUPET) founded in March 1992 is responsible for managing all aspects of the oil and gas industry, including all downstream and upstream operations. It is a vertically integrated and highly specialized entity comprised of 41 companies that include state enterprises and 5 joint ventures. CUPET

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is responsible for conducting negotiations with IOCs and the signing of PSAs. Since 1991 it has signed more that 44 PSAs with a value of $2.5 billion.\(^9\)

**Outlook**

Even given its vast potential there is little interest now among IOCs in new exploration of the Cuban GoM-CEEZ. The four wells explored over the last decade by important IOCs at a cost of about $100 million each, without commercial reward, is a great disincentive.

Although U.S. capital investment is available, there is no discernible interest by U.S. companies in the GoM-CEEZ, despite the improvement in U.S.-Cuba relations. In any case, interest by U.S. companies cannot advance until the embargo and (Cuban Liberty and Democratic Solidarity [Libertad] Act of 1996), the U.S. federal trade prohibitions are relaxed, or the embargo comes to an end. In the final analysis Cuba’s exploration of its GoM-CEEZ will depend in some part on its relationship with Mexico and a possible fruitful dialogue with the United States.

Cuba faces five challenges in trying to attract new bid rounds to the GoM-CEEZ: the failure to find commercial quantities; the continuing U.S. embargo and many of the provisions of the Helms-Burton Act law that support the embargo and prohibits U.S. trade with Cuba; attractive new opportunities in the liberalized oil sector of the Republic of Mexico; the focus of major IOCs on new provinces in the Caribbean such as Guyana, Suriname, and French Guiana; and the IOCs’ reluctance to embark on new mega-exploration projects in favor of smaller fields. Within the next three to five years it is quite unlikely that the level of deep-water exploration that existed before 2012 will be increased. The best estimates by trusted oil experts are that Cuba’s deep-water potential could produce only 200,000 to 250,000 b/d—or about 40 percent above Cuba’s current rate of consumption.\(^10\) In the short term, the Achilles’ heel of the Cuban energy matrix is Venezuela, which provides Cuba with some 100,000 b/d under a special barter arrangement signed in October 2000. If oil shipments from Caracas were to stop, Cuba could face a $1.3 billion deficit in its national budget.

Cuba also faces a serious political transition after President Raúl Castro retires in 2018. The old generation of revolutionary leaders is giving way to a younger, more pragmatic group. It is difficult to speculate on potential successors to Raúl Castro and their perspective on energy and possible energy relations with the United States. We can only assume that the PCC leadership will proceed with caution toward any succession plan.\(^11\)

**Trinidad and Tobago (T&T)**

Trinidad and Tobago, the Caribbean’s major oil, natural gas, and LNG producer, has had to face the full brunt of the fall in oil and natural gas prices. It is a mature oil and gas (O&G) country (120 years of oil and almost 30 years of LNG) and the economy is highly dependent

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\(^10\) A look at Cuba’s energy potential is provided in several chapters of Johnathon Benjamin-Alvarado, ed., *Cuba’s Energy Future: Strategic Approaches to Cooperation* (Washington, DC: Brookings Institution, 2010).

on the energy sector, which accounts for 45.3 percent of national GDP (2011), provides 57.5 percent of government revenue, and is responsible for 83 percent of merchandise exports. But it employs only 3 percent of the overall work force. The country’s strong hydrocarbon base, supported by elevated fuel prices over the last decade, translated into a period of phenomenal growth. That picture is now changing.

Outlook

According to the Ministry of Energy and Energy Industries, in July 2016, oil production was at its lowest ever in T&T’s history, at only 66,000 barrels per day (bpd) of crude oil compared to an average production of 230,000 b/d in 1978. The concomitant decline in natural gas prices has also impacted the nation’s economy. Even so T&T currently (2016) produces 3.3 billion cubic feet of gas per day, about the same as the UK and Argentina, but because of some structural problems and bureaucratic delays there is for the first time a temporary decline in gas output. As a result shortfalls on delivery contracts to its processing plants such as ammonia and methanol at Point Lisas have been as high as 10–15 percent. The supply gap is likely to continue until BpTT begins production at its Juniper offshore gas field and proceeds with monetizing its Angelin field—both during 2017—and BHP Billiton, which has chosen to invest heavily in Trinidad and Tobago, embarks on its deepwater campaign despite the current low price environment for hydrocarbons.

The outlook for natural gas is very positive. The five production wells on the Iguana field are scheduled at 45 days each over a 7.5-month period, commencing in August 2017. First gas from Iguana is scheduled for March 2018. Drilling of the development wells in the Zandolie field is scheduled for the period July 2022 to February 2023, with first gas expected by June 2023. The Anole field is scheduled to be drilling between August 2027 and March 2028, with a subsequent exploration well being drilled on the Whiptail prospect in the second half of 2028. There are also other active initiatives being implemented to remedy the energy situation. To increase production, T&T and major IOCs are involved in several “offshore deepwater province” explorations and in “deep horizon” exploration on land. Priorities for increased production include continued facilitation of offshore “deep water” bloc exploration and further enhanced oil recovery (EOR) exploration projects to retrieve billions of barrels of crude “stranded” in reservoirs, and from heavy oil dormant in fields onshore and offshore.

The most urgent cross border project with Venezuela is in the Plataforma Deltana oil and gas province. Unitization treaties have been signed between both countries and of the five fields in the area, the Loran-Manatee and the Cocuina-Manakin are the ones that have priority for cross-border production. The Loran-Manatee field is on the cross border with Venezuela, where Chevron and Conoco Phillips hold Block 2 and Chevron holds block 3. The Loran-Manatee field contains an estimated 10 trillion cubic feet (tcf) of gas. In 2016 Venezuela and T&T agreed for both countries to go ahead and produce the gas and deliver via pipeline to Trinidad for conversion. Trinidad and Venezuela reached a preliminary gas deal that would set up a joint venture to market LNG that will be produced at Trinidad’s Atlantic liquefaction complex using gas from the Venezuelan side of the 10.25 trillion ft cross-border Loran-

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Manatee field. Venezuela and Trinidad had earlier agreed that 73.75pc of Loran-Manatee belongs to Venezuela and the other 26.25pc to Trinidad.

In sum, T&T’s interest in the Loran-Manatee field is to supply gas to the domestic market and to Atlantic LNG. Loran-Manatee is important for Venezuela since its share of the gas is expected to be monetized at Atlantic LNG. Still much depends on whether the new Venezuelan Congress elected in December 2015 will hold to the logic about the monetization of Venezuelan gas in T&T.

Separately, the Dragon field is part of Venezuela’s undeveloped Mariscal Sucre offshore gas project, and T&T’s state-run National Gas Company (NGC) is offering to finance the construction of a pipeline to transport the gas it plans to purchase from Venezuela’s Dragon field. The proposed pipeline will be constructed and owned by the National Gas Company and may be linked up with the existing 24” pipeline from the NCMA fields in Trinidad to the Atlantic facility. Chevron is the longtime designated operator on both sides of Loran-Manatee, and for the Dragon field.

The Growing Importance of Natural Gas, LNG, and CNG as Transition Fuels

The global market for LNG is advancing rapidly, energized by new sources of supply from U.S. shale. By 2035, the United States is expected to become the largest LNG exporter in the world. Regional access to LNG and CNG would be logical if T&T became the prime supplier for the delivery of small and medium volumes of LNG and CNG to Caribbean countries from small-scale barge trades of LNG, to floating import terminals. However, with the entry of U.S. companies such as Fortress Energy, and possibly Cheniere, in providing (more expensive) LNG to potential hub countries in the Caribbean (the Dominican Republic, Puerto Rico, Jamaica), T&T may forfeit the opportunity to establish itself as a force in the Caribbean LNG market. T&T is the only natural gas producer and exporter in the Caribbean, but the Dominican Republic (via AES Dominicana, which imports its natural gas from T&T and the United States) is establishing itself as an exporter of LNG to the Greater Caribbean. The AES Andres terminal used previously for importing has been recalibrated to export LNG as well. The Caribbean region’s potential as a destination for U.S. LNG cargoes will increase over time. Floating storage and regasification technology is developing as the fastest, cheapest, and most adaptable technique to import gas in place of LNG import terminals.

But T&T’s global strength in LNG persists. Trinidad and Tobago along with Nigeria and Qatar are leading global LNG export diversification, with an average of 20 trading partners in 2016. T&T’s Atlantic Energy (ALNG) remains a very cost-effective producer of LNG that remains competitive and attractive globally. T&T currently holds 6 percent of the global LNG market, is ranked sixth in the world for LNG exports, and supplies 25 countries around the globe including Caribbean countries such as Puerto Rico and the Dominican Republic. The four trains can produce up to 100,000 cubic meters of LNG per day. LNG is shipped on LNG tankers to various destinations including South America (Chile and Argentina), Asia, and Spain. In addition to LNG, the facility produces natural gas liquids (NGLs).
The Shift to Renewable Energy (RE) and Other Matrices

The Paris Agreement of December 2015 signals that RE will be more important globally in years to come. In tandem, the security implications of climate change have attracted increasing attention from both government and public for island and continental coastal populations in the Caribbean. The impact on human livelihoods, including the prospect of large-scale intraregional migration of "climate refugees," water shortages, and threats to infrastructure requires response from a variety of policy communities—defense, foreign affairs, and environmental and developmental agencies—in order to construct integrated strategies for energy security in the Caribbean. The future of RE in the Caribbean depends in part on the extent to which it can be competitive without subsidy. Energy storage is the critical component in helping RE to achieve this outcome.

The island Caribbean is full of possibilities for RE. Islands such as Dominica are volcanic and are exploring the potential to produce geothermal energy. Other island states have set RE goals. Some examples: St Kitts and Nevis wants to become the first green country in the world by producing 100 percent of the country's energy needs from renewable sources by 2020. French engineering company Teranov is currently conducting exploration activities in the country. Jamaica will be producing 80 MW of energy from renewable sources in 2017 with the objective of having the use of RE outpace that of fossil fuels. It is anticipated that the country could generate more than 50 percent of its electricity demand by 2019. Canada-based Emera Inc. is nearing completion of the $21.5 million photovoltaic farm in Barbados, and is currently exploring the possibility of building another facility elsewhere in Barbados. Yet other RE targets in some other islands is even more ambitious. St. Vincent and the Grenadines has set a target of 60 percent by 2020 and Dominica a target of 25 percent by 2020.

Even oil and gas rich T&T has for the first time set a specific target of 10 percent of power generation from renewable energy by 2021, starting from zero. Solar and wind energy are the two RE technologies under consideration. But since T&T currently uses 150 GW of power, and the target entails the generation of 150 MW of RE by that date, it is an ambitious target. The obstacle to solar and wind technology in T&T is economic. This is the result of the very low cost of electricity and the prevailing price structure in which the low price of natural gas is sold to the generating facilities. Moreover, natural gas has long been involved (100 percent) in power generation in T&T and so by comparison on average the price of electricity in Barbados and Jamaica is three to six times more expensive than in T&T.

The most ambitious shift to RE in the Caribbean is being undertaken by Cuba. After exploration failures, and the lack of incentive for foreign IOCs or national oil companies (NOCs) to drill in the deepwater GoM-CEEZ, the Cuban government announced in August 2014 a drastic shift in its energy focus to RE and to improving output from its producing onshore and near-shore wells. Officials revealed plans to produce 24 percent of the country's power from RE by 2030. Cuba is now seeking investors to develop RE components such as wind farms, biogas plants, biomass facilities, micro-hydro power systems, and solar electric power. Cuba’s RE program is known as La Revolución Energética. The main objectives of the energy revolution are to increase energy conservation and efficiency,
improve the reliability of the national grid, use smaller electric power plants to distribute generation, and incorporate more RE technologies into the energy matrix. The use of RE is greatest in off-grid systems in remote rural areas. Facilities currently using RE sources are as follows: 4 wind farms, 9,476 solar panels, 7x 11 MW solar parks, 10,595 solar heaters, 57 sugar mills with 470 MW, 827 biogas plants, 9,343 windmills, and 169 hydroelectric facilities. The government estimates that the current (2016) RE portfolio of the distributed electricity that is generated from renewable sources is 4 percent. (U.S. observers state that it is only 2 percent.)

Some experts on Cuba’s RE policy suggest that the shift in focus faces several obstacles including lack of private investment, limited access to international donor finance, and wide government ownership of the RE industry. But on the positive side, Cuba has the human resources (a plethora of qualified scientists and experts) needed to implement an RE roadmap. Most importantly, the country has been able to develop its own technologies including the use of bagasse from the sugar industry. Recent studies project that Cuba could produce around 2 billion gallons of ethanol a year from sugar cane. Cuba has 1 million hectares of land on which sugar was grown, and the environmental impact is minimal since no deforestation is required. Furthermore, a new capital-efficient sugar industry could produce 70,000 b/d of ethanol and contribute $3.5 billion per annum to the economy. The possibility of joint ventures with major Brazilian ethanol producers is being considered.

Specifically, while RE may be the path to reduction of Cuba’s power-generation costs and carbon emissions, the fastest way to get there is through LNG and solar energy. Conversion of the seven existing liquid-fuel plants to LNG would be a first step. Cuba is currently negotiating with foreign investors for the construction of 150 MW photovoltaic farms that will be fully owned by the foreign entity under build, own, and operate (BOO) contracts. The state company UNE will become the sole buyer of electricity at a fixed negotiated rate. The projects are a component of the government’s plan to install 700 MW of photovoltaic farms by 2030. The UK firm Hive Energy has already announced it will build a 50 MW solar farm at the Mariel Special Development Zone.

In sum, with the exception of Suriname (where hydro accounts for half of the energy supply), the development of RE in the Guianas and in the Caribbean region is still in an early phase. While renewable energy is attractive for the region, RE projects require high initial capital, possible only through concessional financing or global venture funding, as well as good chances for implementation and economic success. The small markets and the availability of cheap oil and gas at the present time are limitations to any quick start for RE. The size of the local market in some of the islands adds challenges to the economic viability of these schemes. A sustainable approach to RE is to encourage private-sector investment from businesses and home owners. Another pathway is to establish a regional low-interest RE fund to make soft loans available to private investors.

But there can be a downside to RE for the current and potential hydrocarbon producers in the Caribbean. RE may be a slow development, but it can pose a significant threat in that extensive fossil fuel resources may eventually become “unburnable” and redundant. This issue of “stranded assets” (defined in financial circles as assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities) because
of climate risk challenge is looming larger as a real economic challenge for hydrocarbon economies.

Progress Toward Regional Energy Cooperation and Integration

Ten years ago when CSIS studied the possibilities for energy cooperation in the Western Hemisphere there was not much ground for optimism. Today the outlook is much better. Vibrant U.S. oil and gas production from shale has helped to signal the importance of regional energy integration. Natural gas trade between the United States and Mexico has more than doubled since 2005 and will double again by the end of the decade. At the same time, natural gas via LNG from the U.S. Gulf Coast is imminent and will surely plug into the import markets of Chile, Central America, and the Caribbean. The U.S. government has embarked on a long list of energy diplomacy efforts aimed at the hemisphere’s energy market and integration. Programs such as Connecting the Americas 2022, the Caribbean Energy Security Initiative, and the Energy Task Force all seek to promote regional energy integration as well as energy transition, and argue for the diversification of energy matrices in Central America and the Caribbean. In addition, significant financial resources are being made available for the programs, including a $20 million clean energy fund being managed by the Overseas Private Investment Corporation (OPIC). But the future of these initiatives is still unclear with the new U.S. administration.

Within the Central American and Caribbean region there is a shift from domestic concerns on the security of energy supply to concerns about the region and regional energy integration. The SIEPAC electricity interconnection infrastructure in Central America is an outstanding example. From a strategic point of view, Trinidad and Tobago’s movement to link its gas network to Venezuela’s, and to develop projects to import and process Venezuelan gas in Trinidad has been underway for several years. Energy integration would have huge benefits for both Trinidad and Tobago and Venezuela. Further afield, T&T is solidifying its position as the Caribbean energy center.

Trinidad and Tobago is well located to function as a base to service deepwater programs in the wider region. Trinidad energy service companies are ubiquitous in the “Three Guianas” (French Guiana, Guyana, and Surinam). Trinidad has been named as a “logistics base” for the Zaedyus well, while MOUs have been signed between the Energy Chamber of Trinidad and Tobago for cooperation and exchange and building capacity in private companies in French Guiana, Suriname, and Guyana. Some energy experts now envision that regional energy cooperation and integration will no longer be limited by geography, geopolitics, or physical separation.

Conclusion: A Roadmap

As the Caribbean moves toward a potential wealth future from hydrocarbons (in the first instance), the geopolitical conditions throughout the life cycle of energy investments and

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above ground, (i.e., nontechnical risks such as political, financial, social, and environmental) issues, are often just as critical and constitute key success factors for sustainable development and investment. Beyond the uncontrollable element of future international export prices for oil and gas some of these specific “above ground” issues are border and territorial disputes (Venezuela and Guyana/and Guyana and Surinam), environmental degradation, and biofuels mitigation against climate change. Similarly nontechnical risks that stem from environmental and community concerns and institutional weaknesses such as the possible marginalization or displacement of indigenous peoples whose tribal land is being exploited. In the case of Guyana and Surinam, onshore discoveries or building of hydropower dams ignore the tribal and territorial rights of Amerindians and Maroons.

Finally, the potential for unequal distribution of revenue from energy rents is great unless watchdogs such as the Extractive Industries Transparency Initiative (EITI) are entrenched from the beginning, and proper sovereign wealth (heritage and stabilization) funds are established promptly. Most importantly, leaders and the public should understand that energy revenue earned must transcend political cycles and generations. Abundant natural resources will do little to promote economic development without sound economic management, and a willingness to address the political factors that may conflict with sound policy choices.
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The Relevance of U.S.-Caribbean Relations
Three Views

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