

## Cuba energy storage market analysis

Cuba is the largest island in the Caribbean Sea, with a 109,884 km<sup>2</sup> territory and 11.2 million inhabitants. Energy production, particularly power generation and its sustained growth, constitutes an indispensable element for the country's economic and social growth.

Cuba is Canada's largest export market in Central America and the Caribbean with a two-way bilateral merchandise trade in 2021 totaling \$981 million. Before the pandemic, over 1 million Canadians visited Cuba in 2019. Canadian exports included mainly cereals (mostly wheat), machinery, vegetables, electrical and electronic machinery and equipment, and oilseeds. Canadian imports are mainly nickel ores, seafood, rum and cigars.

Concerns over Cuba's dependence on Venezuela are translating into the need for a fundamentally redesigned energy sector and more flexibility for investors. The pandemic has accentuated Cuba's need to diversify and move from oil-generated energy to renewable sources of energy (RES).

RES with large potential on the island include solar, wind, biomass (bagasse, agriculture and forestry), and hydropower. Cuba has in place a "Plan Nacional de Desarrollo Económico y Social" (the National Social and Economic Development Plan), which aims to increase the proportion of clean energy output to 37% by 2030 (2,000 MW).<sup>Footnote6</sup>

These goals are facing significant challenges given Cuba's financial constraints. By the end of 2021, the program for 2030 was 40% behind schedule (only 303 MW installed compared to the 506 MW goal).<sup>Footnote7</sup> In 2021, renewable sources still accounted for just 4.5% of installed power generation capacity.<sup>Footnote8</sup>

Under Cuba's RES strategy, solar energy is deemed the most suitable for a fast expansion. There are currently 84 solar photovoltaic parks operational with a 227MW capacity, which account for 2.37% of daily electricity produced.<sup>Footnote9</sup> There are also plans to install 100,000 solar water heaters on private homes and 33,000 more in factories, hotels and hospitals.<sup>Footnote10</sup>

By 2030, Cuba also plans to install wind parks with a 700 MW capacity.<sup>Footnote11</sup> Four wind parks are currently operational, with an 11.8 MW capacity.<sup>Footnote12</sup> They were built by state companies with cooperation from and with Chinese firms.

Cuba is developing a domestic RES industry, including solar panels, wind turbines, hydro turbines, poles, and boilers for use in small bioelectric plants. This strategy is expected to enable Cuba to integrate domestic products into RES projects, thus reducing import costs and energizing the economy.

Foreign investment promotion has become an important component of Cuba's development strategy. The Economic Guidelines issued in April 2011 officially re-launched the foreign investment attraction program. This was followed by two important steps aimed at expanding foreign investment inflows: the creation of the Mariel Special Development Zone (Sept 2013), and the promulgation of a new Foreign Investment Law (April 2014). Both moves brought tax and operational incentives to foreign investors compared to previous legislation.

Renewable energy is among top priorities for the attraction of foreign investment and the Cuban government recently made rules more flexible to encourage their inflow. Foreign investors are now allowed 100% ownership of wind and solar farms, and foreign wholly-owned companies in clean-energy projects are now exempted from profit taxes for eight years, paying then a reduced profit tax rate (20%). These companies are also exempted from customs duties for equipment and material imported during the construction stage of their businesses.<sup>Footnote13</sup>

While Cuba offers opportunities in this sector, it is a complex market and not one recommended for first-time exporters. Companies looking for a quick sale may be disappointed. Bureaucratic processes, including approvals, tend to be complex, slow and opaque. Historically, it has been difficult to secure payments in a timely manner, this tendency has considerably worsened making Cuba an extremely risky market. The deep economic crisis that Cuba is currently going through has greatly exacerbated its ability to pay foreign investors/exporters.

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