



BabunGroup

BabunGroup Consulting, Inc.

## CUBA CHANGE NEWS ALERT

*EXCLUSIVE NEWS OF POTENTIAL INTEREST TO OUR CLIENTS & FRIENDS*

November 1, 2007

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### **Cuba is selling a new image and a new leadership, while the U.S. steps-up pressure for change**

#### **Our Strategic Analysis on Cuba**

In July 2006, Raul Castro gave his first major policy speech. He stated a need to examine and expand the practices that work in the agriculture sector, which would imply an expansion of private farming where productivity is highest. He called for increased foreign investment, and offered to bury the hatchet with the United States.

More and more time has passed since Fidel Castro's announced sickness, and Raul Castro has steadily raised expectations and hope for policy changes that will improve Cubans' daily lives. He has done so through his public speeches, and by allowing public discussion of economic and labor problems. Additionally, top level members of the government are globetrotting between Madrid and Montreal to sell the impression have learned from their past mistakes and that they are now ready to welcome once more international investors in all sorts of economic areas. The new public relations strategy is to appear to be friendly to market economy.

Some analysts are now convinced that economic reforms are scheduled to be introduced before the end of the year. That may be so, but unlike Academia's and the U.S. media's assurances that a succession has already taken place, many of us at the firm believe that no such change will occur until Fidel Castro's death, and the total capitulation of the Cuban government hard-liners (the political orthodox wing) have occurred.

Add to the equation President George W. Bush's speech on October 24<sup>th</sup>, urging the international community to help Cubans shed Fidel Castro's rule and become a free society. The president said, "Now is the time to stand with the Cuban people as they stand up for their liberty." Bush also announced measures to help prepare Cuba for transition to a democratic future, including a new initiative to develop an international multi-billion dollar Freedom Fund for Cuba's reconstruction.

It turns out that this is only the fourth policy speech on Cuba Mr. Bush has had since becoming president of the United States. In his speech he castigated US allies in Europe, Latin America, and elsewhere for electing engagement with Cuba over isolation, and assigned US Secretary of Commerce Carlos Gutierrez and Secretary of State Condoleezza Rice to begin working with foreign governments and multilateral financial institutions to create what Bush said would be a "multibillion-dollar freedom fund" for Cuba's reconstruction.

In his speech, Bush also took the unusual step of directly addressing members of the Cuban military. "When Cubans rise up to demand their liberty ... you've got to make a choice," he said. "Will you defend a disgraced and dying order by using force against your own people? Or will you embrace your people's desire for change? There is a place for you in the free Cuba." Without

question one of the messages sent by the president's speech is that the U.S. is not interested in the "peace offering" pronounced by Raul on his July 26 speech.

Cuba's foreign minister, Felipez Perez-Roque, said that President Bush's call for change in Cuba sounded like a threat to overthrow the communist country. The official called Bush's plans "equivalent to the re-conquest of Cuba by force." In fact, the president's words may give the Cuban government hard-liners the ammunition they needed to slow-down any efforts to introduce economic reforms. This wing of the government is more interested in ideological struggles and believes that embracing an economic restructuring that may open Pandora's Box.

But there may not be too many choices left to save the struggling revolution. And if all the issues that they are facing (deficient public transportation, decrepit housing, inefficient food production, low wages, high expectations for change, pent-up anger, resentment, and outrage at corruption and the material hell of their daily lives) were not enough, now, because of their high dependency on food imports (84-percent of the daily food basket is represented by imported items), they must face the fact that bulk shipping rates have grown by more than 300-percent this year alone-the result is that next year Cuba will pay an additional \$400 million to import the same amount of food commodities.

Once Fidel Castro is out of the scene completely, his successors are not sure what might occur. It is possible that spontaneous demonstrations could occur following the announcement of Castro's death. The questions now remain if Fidel's successors will be able to maintain stability in his absence, and if his brother's revolutionary history and Carlos Lage's legitimacy are sufficient to smoothly consolidate a successor regime, and ultimately avoid instability and violence.

***Babun Group Consulting, Inc.***

—————→ **REMINDER** ←————

**Private Reception and Conference for clients and friends of Babun Group Consulting, Inc.**

***REBUILDING CUBA: THE CRITICAL ISSUES***

Tuesday, November 27, 2007  
Riviera Country Club  
Coral Gables, Florida  
2:00 pm – 6:00 pm

Keynote Speaker:  
**Thomas Herzfeld**

**Chairman & Chief Investment Officer of the Herzfeld Caribbean Basin Fund, Inc.; NASDAQ symbol CUBA.**

Panelists:

**Caleb Charles McCarry, Coordinator for Cuba Transition, Bureau of Western Hemispheric Affairs, U.S. Department of State (invited)**  
**Dr. Jose R. Oro, Vice-President and Senior Consultant, Babun Group Consulting, Inc.**  
**Ignacio E. Sanchez, DLA Piper US, LLP (Invited)**  
**Nicolas J. Gutierrez, Jr., Partner, Borgognoni and Gutierrez, LLP**

**Please RSVP by November 15th**  
**Contact: mail@babungroup.com or call 305.884.0441**

### ***About the Private Business Conference***

With the end of an era which might bring about changes in the economic and political models of this Caribbean island, it is anticipated that with a future transition to a free market economic model, considerable investment and commercial opportunities for Cubans on the island, and for foreign investors alike will abound. However, like other emerging markets it may not be an easy road to travel for small or large investors. Investment law, monetary policy, a transparent judiciary system, and other business enablers will have to be reviewed in order to attract the magnitude of capital investment needed to rebuild the Cuban economy.

Economic sectors such as infrastructure, housing, agriculture, tourism, consumer products, and human capital resources will offer opportunity for growth and development, but the opening of this possible economic bonanza also presents challenges and threats to the economies of Florida and the Caribbean.

The private conference will address market entry scenarios, the capitalization of state enterprises, funding strategies, property claims, and land tenancy questions among many other emerging market entry issues. Among the key economic sectors that will be reviewed and discussed are large and mid-sized business opportunities, tourism, mining/construction materials, , and infrastructure such as: ports, highways, railroad, electric power, and water & sewer.

## **Recent Key News**

### **Economy, Domestic Affairs & Pulse of the Future**

- From EFE-October 1<sup>st</sup>- **Cuba is preparing to invite more foreign investment** in a "new climate" in the country and to prevent errors committed in the past, Foreign Investment Minister Marta Lomas said "There's a new climate for investment, the consolidation of the economy is a fact. We have had years with sustained growth of the economy and that allows there to be a new climate for doing new things," Lomas revealed there are 236 foreign corporations -- mostly Canadian, Spanish, Italian, Venezuelan and German. EFE quoted Lomas as saying.
- From EarthTimes.Org-September 27- After spending more than US\$2 billion since 2005 to modernize its electrical grid and eliminate power blackouts, **Cuba has set about overhauling its transport system**, government officials say. Cuba recently signed contracts to purchase more than 6,000 buses and 100 locomotives from China, civilian passenger and cargo planes from Russia, 100 railway freight cars from Iran, and thousands of motors for antiquated Soviet-era trucks.
- From The Chicago Tribune-October 2- The Tribune reported that **The number of fleeing Cubans caught at sea reached a 17-year high last year**—2,868 in all— despite a 1994 migration accord between Cuba and the U.S. designed to reduce immigration, according to U.S. officials and government statistics. At the same time, Cubans are making Mexico the more popular route to enter the United States, arriving at a rate of 10,000 a year, compared with a total of 7,693 Cubans who chose to go through the Florida Straits last year, U.S. diplomats in Havana said Monday. Some of those Cubans made it to the U.S.

- From Reuters-September 20<sup>th</sup>- Local branches of organizations such as the Cuban Communist Party, the island's lone labor union, pro-government neighborhood watch groups and the University Student Federation are **assembling around the country to debate shortcomings and suggest solutions**. The grass-roots discussions ( which were also tried in the late 1980s and mid-90s) auger a more market-oriented approach to an economy that is growing in some sectors but has yet to result in higher income for workers.

### Dissidents/Repression

From EFE-September 28<sup>th</sup>-The outlawed Assembly to Promote Civil Society said on Sept 28th that **all 47 people arrested at a protest on behalf of Cuba's political prisoners** were released, though not before several of them were subjected to "police brutality" said the assembly's leader, prominent dissident Marta Beatriz Roque.

### The Key Political Figures

#### ➤ **Latest Regarding Fidel Castro**

From The Miami Herald-October 15<sup>th</sup>- For the first time since falling ill last year, Cuban leader Fidel Castro was heard live on television and radio. The occasion was a telephone conversation, lasting more than an hour, with his friend and ally Hugo Chávez, president of Venezuela. In addition to the live phone conversation between Chávez and Castro, the program featured a 17-minute video, recorded the day before, of part of what was said to have been a lengthy meeting between the two leaders. Looking pale, thin and shaky -- but not significantly different from his last video appearance on Cuban television three weeks ago -- Castro left most of the talking to Chávez.

#### ➤ **Carlos Lage Davila** (Vice president):

On September 30<sup>th</sup> Vice President Carlos Lage said that Cuba needs to slash the amount of oil it uses and must improve production of goods that meet basic needs for its population instead of poor-quality consumer goods, and added that Cuba needs labor leaders and administrators who can solve problems -- instead of just parroting empty statistics. **"We live in the conditions of a country facing economic war,"** Lage told the leadership of Cuba's central workers union.

Expanding on Lage's new coin word ("an economy at war"), Foreign Minister, Felipe Pérez Roque, invited the foreign media to observe him debate with University students in Havana, where he discussed issues such as the U.S. Embargo, and other internal economic problems.

### Exiles and Community

- From El Nuevo Herald-October 3<sup>rd</sup>-Unidad Cubana, a group that largely promotes the conservative ideals of South Florida's "historical exile" **introduced "a plan for democratic action"**. The guide for a free Cuba is the first to emerge since an ailing Castro handed power to his brother Raul last year.
- From The Miami Herald-October 17<sup>th</sup>- American news media leaders criticized policies against the press by the governments of Cuba and Venezuela. A gathering of American news media leaders **demanding the release of jailed journalists in Cuba** and criticized the Venezuelan government for assaults and "acts of intimidation" against journalists there. The complaints were part of more than 20 resolutions issued by the Inter American Press Association at the end of its annual General Assembly.

### US-Cuba Relations

- Cuban Foreign Minister Felipe Perez Roque walked out of the U.N. General Assembly hall on September 25th after **President George W. Bush said "In Cuba, the long rule of a**

**cruel dictator is nearing its end,"** he told world leaders gathered there, in a reference to Castro. "The Cuban people are ready for their freedom," he added, stressing as the communist-rule island enters a period of transition, "The United Nations must insist on free speech, free assembly and ultimately free and competitive elections," Bush said.

- From The Associated Press-October 4<sup>th</sup>-A group of Creighton University scholars (Omaha, Nebraska) commissioned by the U.S. Agency for International Development (USAID) published a report titled: "Report on the Resolution of Outstanding Claims between Cuba and The United States". Amongst other predictions, **the report says that (U.S.) "multinational corporations will want to get into Cuba fairly quickly as the government stabilizes and the market opens up.** U.S. corporations will want to move in before foreign multinational corporations occupy the field."
- From Earthtimes.org-October 4<sup>th</sup>, reported that Mr. Caleb McCarry, the US Cuba Transition Coordinator, had said that the **United States government was prepared for a possible mass exodus** of Cubans after the death of Fidel Castro.
- On September 17<sup>th</sup>, U.S. Secretary of Commerce Carlos M. Gutierrez launched the 2007–2008 Heritage Foundation series "Cuba at the Crossroads," which explores the choices Cuba faces after the end of Fidel Castro's 50-year reign. **The next event in the series will focus on the threat that Cuba currently poses to U.S. national security** through its activities in Latin America, intelligence operations, and relations with U.S. enemies.
- From Farm Progress-October 17<sup>th</sup>- Cuba can become a more important market for Iowa's agricultural commodities, say representatives of the Iowa Corn Growers Association and the Iowa Corn Promotion Board who traveled to Cuba with Iowa Secretary of Agriculture Bill Northey. **Last year, the Cubans bought about 100,000 metric tons, and this year that is expected to double.**
- From Fox News-October 24<sup>th</sup>-President Bush asked other nations to help Cuba eventually become a free society by committing money and political capital to the cause. The speech is Bush's first stand-alone address on Cuba in four years. "Now is the time to support democratic movements growing on the island. Now is the time to stand with the Cuban people as they stand up for their liberty. And **now is the time for the world to put aside its differences and prepare for Cuba's transition to a future of freedom and progress** and promise," Bush said. The president called on Congress to maintain the trade embargo on Cuba until it changes its ways, saying that Cuba has used the embargo as a scapegoat. "As long as the regime maintains its monopoly over the political and economic right of the Cuban people, the United States will keep the embargo in place," Bush said. The president urged dissidents to step up efforts on the island and send a message to the Cuban military and police that they do not have to go down with the regime.
- Bush proposed new initiatives to follow through on his call: the creation of an international "freedom fund" to help Cuba's potential rebuilding of its country one day; a U.S. licensing of private groups to provide Internet access to Cuban students; and an invitation to Cuban youth to join a scholarship program.

### **Other Foreign Affairs**

From Reuters-September 24<sup>th</sup>- **The European Union held informal exploratory talks** with Cuba on resuming closer ties after years of tension over human rights issues, an EU diplomat said. "It was an informal meeting authorized by the (EU) council to test the waters. No document was signed. The important thing was that the meeting happened at all," the diplomat said. The

27-nation EU reached out to Cuba in June, inviting a Cuban delegation to Brussels to explore a thaw in ties on the condition that it agree to discuss human rights on the island. Cuba's Foreign Ministry rebuffed the offer, saying talks could only happen when the EU lifts sanctions imposed in 2003.

### China

From Xinhua-September 18<sup>th</sup>-the Chinese Yutong Bus Company will **deliver 200 articulated buses** to Cuba. According to a report from PL news agency, the buses will arrive shortly in the island where they will be incorporated into urban service. Yutong, which is one of the leader bus companies in Asia, had previously sold 1,000 buses to Cuba that are already in service in all the provinces throughout the island.

### Colombia

From Prensa Latina-October 7<sup>th</sup>- A Colombian delegation of executives representing research centers and energy distributing companies CODENSA, EMGESA, Public Companies of Medellin, Electrificadora of the Huila and Distribuidora of the Pacific traveled to Cuba **aiming to widen bilateral cooperation in energy issues** as part of the mutual cooperation on rational use of energy and use of renewable energy between the Cuban Basic Industry and the Colombian Energy and Mining Ministry of Colombia.

### Dubai

From Reuters - Oct 19- State-owned Dubai Ports World, which relinquished control over six U.S. ports in a political firestorm last year, is **studying plans to build a container terminal** in the Cuban port of Mariel. DP World agreed in early October to do a feasibility study to build a \$250 million container terminal in Mariel that would start operating in 2012, a Havana port source told Reuters.

### St. Vincent

From THE FINANCIAL GLEANER -October 12<sup>th</sup>- Backed by aid from Venezuela and Cuba, the International Airport Development Company (IADC) will begin construction on a new EC\$480 million (US\$179 million) airport in St. Vincent in November 2007. **Venezuela and Cuba have already pledged nearly 50 per cent of the funds needed to construct the airport** at Argyle, an area on the Windward end of the island. Taiwan has also committed a US\$15 million grant and a US\$10 million soft loan for the project.

### Venezuela

- From ACN-September 25- Venezuela granted Cuba a **US\$100-million loan to improve its railways**, Cuban media said on September 25<sup>th</sup>, as the island nation moves to rebuild its dilapidated infrastructure after years of economic crisis. Cuba's Communist Party newspaper Granma said Venezuela's Economic and Social Development Bank signed a credit agreement with Cuba's Banco Exterior to upgrade tracks, signals and communications. "With this credit, the rails will be completely restored to their original condition to carry freight and passengers," Cuban Transportation Minister Jorge Luis Sierra was quoted as saying in Caracas. Sierra said Cuba's recovering economy required better railways and that trains would be able to travel at 100 kilometres per hour (62 mph) from the current 40 kph.
- From The Associated Press-October 15<sup>th</sup>- Venezuelan President Hugo Chavez and Cuba's interim leader Raul Castro oversaw the **signing of economic partnerships in areas ranging from oil production to tourism** as the nations moved to further integrate their economies. Among other agreements, Cuba and Venezuela also agreed to explore creating joint cement and mortar production plants, mining and other energy projects and even a five-star hotel.

- From Agence France Presse-October 15th- El presidente de Venezuela, Hugo Chávez, propuso ayer a Cuba la construcción de un complejo petroquímico en la ciudad de Cienfuegos, centro-sur de la isla, donde ambos países **modernizan una refinería de petróleo, un proyecto de unos \$1,400 millones de dólares.** "La primera fase de la refinería cuenta con una inversión de \$136 millones y con una capacidad para procesar 65,000 barriles. La segunda fase registra una inversión de \$1,300 millones", explicó el mandatario en un acto en esa planta (which is to be operated in a property with a substantial confiscated claim from Texaco, Inc.)

### Vietnam

From VNS-October 3- Viet Nam announced that it would invest in **building a factory to produce energy-saving light bulbs** in Cuba. Deputy Prime Minister Nguyen Sinh Hung also said that he hoped Viet Nam's other agricultural projects in Cuba would contribute to making Cuba more self-sufficient in food supplies.

### *Cuba Geopolitical Outlook*

- Babun Group Consulting (BGC) is known as a business-driven watch group that informs/updates/advises multinationals throughout the world to understand the goings on in Cuba. Our company has substantial expertise in Cuba issues; we often provide independent feasibility analysis and other business consulting and research assignments to multinational corporations. Our company has access to over 40 experts on different industries/expertise related to Cuba.-**Contact us for a full brochure.**
- BGC conducts informal discussions/briefings on Cuba issues with client's staff. The briefing sessions are general and informal business focused (not academia) presentations and discussions regarding current Cuba and US-Cuba subjects. The number and timing of the sessions is at the discretion of the client.-**Contact us for rates.**
- BGC is experienced in preparing reports to help provide a preliminary strategic plan and overview of issues related to a possible economic opening of Cuba to allow the client to conduct business operations in the emerging (future) new market. This "Analysis for Strategic Direction" could be drafted as a "Quick-Response Business Plan" in the event that things suddenly change in Cuba and it becomes permissible to do business in the Island. Our first step is to conduct a confidential meeting to help develop a scope of work at no cost to the potential client; following the scope of work we would determine the cost of such assignment.-**Contact us for an appointment.**

#### **For More information Contact:**

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***BabunGroup Consulting, Inc. is regarded as one of America's largest providers of strategic services related to Cuba. Since 1991, BGC has been engaged by a number of companies who are planning to expand or who for competitive or strategic reasons***

*need to know more about future opportunities in a post-transition Cuba.*