



BabunGroup Consulting, Inc

# CUBA CHANGE NEWS ALERT

## A Divided and Dysfunctional Government Keeps Progress On-hold

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

### Inside this issue:

Our Analysis	1-2
Strategic Engagement	3
Latest Business Headlines	4-6
Cuba Geopolitical Outlook	7
Contact Us	8

### Our Analysis

Recently, Raul Castro complained again about the failure to jump start agricultural production, corruption, overspending, waste, and other vices. The speech came about a month after a veteran revolutionary leader, the head of civil aviation, was sacked, apparently for gross corruption. But he provided no clue about when he would be introducing additional market incentives and allowing more sweeping entrepreneurship.

The debate over worker incentives and market reforms appears to be dividing Cuba's leadership. By Raul Castro's own admissions, he is riding herd over a alienated and apprehensive government bureaucracy. On April 14, Castro acknowledged that there are some that are advocating a more rapid use of market incentives throughout the economy. Limited market-oriented reforms have been permitted for farmers, beauty parlors, barbershops, taxi drivers, and rural street vendors. While other prefer to do nothing that would jeopardize their highly centralized and controlled economy. These "hard liners" also don't want to normalize relations with the U.S. because that would mean a rejection of one of Fidel Castro's main legacies: anti-Americanism.

#### The U.S. Shows their frustration

In the mean time, U.S. -Cuban relations have soured in recent months after early expectations of an improvement under the Barack Obama administration.

After a brief warming last year, both countries appear to be falling back into old, antagonistic ways, obscuring whatever progress that has been made and hindering further advances. Obama moved forward with initiatives to lift restrictions on travel by Cuban Americans and initiated talks on migration issues, telecommunications proposals, and direct postal service. Since then, Cuban Americans have flooded the island and the two longtime ideological foes have held their first high-level discussions in years. But recent developments have been mostly negative. They include:

Cuba jailed U.S. contractor Alan Gross in December on suspicion of spying and continues to hold him without charges. Obama rebuked the Cuban government in a strongly worded statement on March 24, saying Cuba continues "to respond to the aspirations of the Cuban people with a clenched fist."

U.S. officials think they have done enough to elicit a more positive response from Cuba, while Cuba complains that Obama has done too little.

Secretary of State Hillary Clinton recently stated that the Castro brothers are against normalizing relations with the U.S. because the U.S. embargo serves as an excuse for the failures of the Cuban government.

In February, Assistant Secretary of State Craig Kelly provoked a bitter Cuban reaction when he met with dissidents



**“...has caused many to doubt your government's expressed desire to improve relations with the United States.”**

following migration talks with Cuban officials in Havana. Cuba, in turn, has soured the political climate by harshly criticizing Obama for his lack of action while taking little of its own.

Its detention of Gross, which U.S. officials say Cuba has refused to discuss, has called into question its desire for change even among those who want better relations. In a letter to Cuba's top diplomat in Washington, 41 members of the U.S. House of Representatives said the detention of Gross "has caused many to doubt your government's expressed desire to improve relations with the United States."

#### Perhaps Haiti's and BP's Crises Provides a Ray of Hope

Contrary to the lack of response by the Cubans on Obama's search for a positive engagement, Cuba's foreign dignitaries have held meeting with a senior U.S. official - in the highest level contacts between the two countries for years on both the earthquake tragedy in Haiti and the oil spill in the Gulf of Mexico by a British Petroleum offshore rig.

Foreign Minister Bruno Rodriguez has met with Cheryl Mills, the chief of staff to U.S. Secretary of State Hillary Clinton during talks held at a U.N. forum on aid for quake hit Haiti in New York. Details of the meeting have not been made public, but sources say that Cuba provided airspace access to U.S. relief planes, and some discussion took place regarding Cuba's interest in managing Haiti's health care programs. While oils spill discussions focused on technical issues regarding the possibility of the oils spill affecting Cuba's shores.

A spokesman said the U.S. did not agree "with Cuba on very much", but they both agreed on the need for aid to Haiti.

#### Conclusion

Raul has characterized the regime as "extremely paternalistic and irrational state regulations." His bottom line was straightforward: Cubans must develop a "love for work." But as we have seen in the last few years, Raul's desires for more Cubans to work independently of the state for profit appear to be just wishful thinking as the doctrinal and tactical disagreements in the Cuban leadership today may not be fully resolved until his brother Fidel Castro is finally gone from the scene.



**Raul Castro**



**Hillary Clinton**



**Cheryl Mills**



**Bruno Rodriguez**

## Strategic Engagement

*Initiating a useful dialogue with the Cuban government*



There is no question that the U.S. is interested in engaging the Cubans that would stop the old antagonistic ways that have divided the two countries for half a century. A non-controversial, strategic engagement that would focus on important items of mutual concern and that would benefit both parties.

Perhaps there is an area that has been overlooked-One that may have a clear domestic impact for both sides which should be considered.

The State of Florida is running out of Limestone for roads and other construction, and the environmental community is up-at-arms regarding the mining methods used in Florida. While Florida has plenty of Phosphoric Rock (raw material used for fertilizers) as well as Phosphoric Acid, which Cuba needs to mix to produce much needed fertilizer for agriculture.

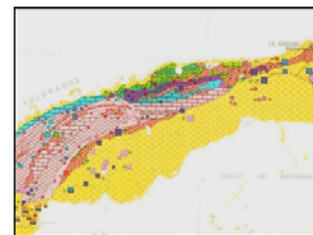
Mining company representatives in Florida have predicted a devastating impact from even a partial shutdown in the industry's richest rock zone -- not just on mining companies but on Florida's construction-driven economy. The area the industry calls the "Lake Belt" is home to four of the state's five largest limestone mines and supplies half the state's cement and fill.

The prospect of a rock shortage has raised concerns with home and road Builders. A report by the Florida Transportation Department produced earlier this year predicts that the shut down (of Limestone mining operations) could come at a significant cost. The study projected even a 5 percent cut in Lake Belt rock would result in \$2.4 billion of lost annual economic output and 24,000 lost jobs or layoffs.

On the other hand, Cuba has at least 22 billion cubic meters of what is generally called construction aggregates in its northern coast (items such as limestone, sand, and gravel) which they are not able to develop since the market is primarily in the United States.

And Cuba needs fertilizers to improve its agricultural output. They import 60% of the food it consumes now (which is at least 40% below the food demand by the population); spending nearly \$2 billion last year. Cuba produces its needed fertilizer by importing raw material from abroad.

It seems to us that both sides could win. The U.S. would be able to import construction oriented products that are not generally available in the U.S., while Cuba can produce fertilizers to help improve their agriculture of tubers, rice, and plantain to help feed their people and stabilize their economy. Additionally, this type of trade could be expanded to other low key construction products such as sand and marble, granite, and other ornamental stones against certified seeds and powder milk to directly help improve the health of the people in Cuba.



**Aggregate deposits in Cuba**

**“...5 percent cut  
in Lake Belt  
rock would  
result in \$2.4  
billion of lost  
annual  
economic  
output and  
24,000 lost jobs  
or layoffs.”**





## Latest Business Headlines

### **Cuban trade plunges 34 percent in latest sign of island's economic woes**

By Paul Haven (AP)

Cuba's foreign trade plunged by more than a third in 2009, with imports from traditional allies including Venezuela and China down sharply, the latest sign that the island is wrestling with a deep financial crisis. Trade for 2009 totaled \$12.7 billion, down 34 percent from the \$19.3 billion registered the previous year.

The government has been forced to cut back on deep subsidies that Cubans rely on to make ends meet. Under Cuba's communist system, workers make a tiny salary of about \$20 a month, but the state provides free education and health care, virtually free housing and transportation, and ration cards that can be used to purchase a limited amount of heavily subsidized food.

***“Cuba's oil  
production fell  
by almost  
300,000 tons in  
2009 over  
2008...”***

Statistics released recently show imports were down the sharpest, falling 37 percent to \$9.6 billion, from \$15.4 billion in 2008. Exports for 2009 fell 21 percent to \$3.1 billion. The larger drop in imports brought a silver lining: Cuba reduced its trade imbalance for the year to \$6.5 billion, down from \$11.4 billion in 2008. Imports of fuel and related products fell to \$2.9 billion, down 42 percent from the \$4.9 billion registered in 2008. Cuba has urged its citizens to use less fuel, and has clamped strict controls on the use of air conditioners and gasoline in offices and by state workers.

Food imports were also down, dropping to \$1.6 billion from the \$2.4 billion registered in 2008. The Cuban statistics office said trade with the United States totaled \$729 million in 2009, down 30 percent from the year before.

### **Cuban oil production fell 9 pct in 2009**

(Reuters)

Cuba's oil production fell by almost 300,000 tons in 2009 over 2008, while natural gas output stagnated.

Oil production was 2.73 million tons and natural gas output, the equivalent of 1.15 million tons, compared with 3 million tons and 1.16 million tons respectively in 2008. Cuba does not report oil production in barrels, but official's state it is between 60,000 and 70,000 barrels per day.

Since 2006, Cuba has shipped small amounts of the crude to Asia. Cuba imported 93,000 bpd of oil and by products, with preferential financing, from Venezuela in 2008, the last statistics available, with an additional amount sent to the Cienfuegos refinery.



## U.S. Telecom Companies Fail To Use New Rules On Exports To Cuba

### Inside Trade

More than eight months after the departments of Commerce and Treasury released final rules allowing U.S. telecommunications companies to do business in Cuba if they receive a license to do so from the U.S. government, U.S. telecommunications companies are still making no inroads into the Cuban market, sources said.

Treasury's Office of Foreign Assets Control (OFAC) has approved no licenses for U.S. companies to provide telecommunications services, satellite radio, television services or roaming service agreements with telecommunications providers already in Cuba, as now allowed under OFAC rules, sources said.

U.S. industry sources said they were unaware of any U.S. companies that are even seeking such licenses. One primary reason for the lack of interest is the fact that Cuba government appears unwilling to allow U.S. firms into Cuba, sources said.

Additionally, one source pointed out that the Cuban market may be too risky for U.S. firms, due to the government's control over the market. In addition, the market offers limited benefits for U.S. companies due to widespread poverty in Cuba and the fact that telecommunications companies from other countries already operate there, this source said.

## Cuba says foreign ventures slightly up after long decline

By Marc Frank (Reuters)

Cuba registered a slight increase in the number of foreign investment projects last year, the first rise since authorities began winnowing out foreign ventures they deemed ineffective or corrupt in 2003, according to a government report.

The report by the Foreign Trade and Investment Ministry said the country was involved in 218 joint ventures, compared with 211 in 2008, and had 69 hotels under foreign management, up from 63 the previous year. The increase was the first reported since 2002. After that Communist authorities began closing many of the 404 ventures and 313 cooperative production agreements then in existence, mainly with Western partners, alleging they did little for the economy and were often corrupt.

Foreign Trade and Investment Minister Rodrigo Malmierca told the National Assembly in December that 46 of the investment agreements with foreign companies were abroad, many of them in Venezuela, China and Angola. Cuba has pharmaceutical ventures in Iran, India, China, Brazil and other countries, works construction in Angola and Vietnam, operates a hotel in China, and is involved in numerous projects in Venezuela, whose President Hugo Chavez is a top ally.

Inside Cuba, Malmierca said joint ventures were predominantly with investors from Spain, Venezuela, Canada and Italy, in sectors such as tourism, oil exploration, communications and mining.



***“Treasury's Office of Foreign Assets Control (OFAC) has approved no licenses for U.S. companies to provide (media services)...”***





## The Gulf oil spill could mean more drilling off Cuban coast

By Nick Miroff ET in The Americas

The worst oil spill in U.S. history may not be such a bad thing for Cuba — assuming that the crude now fouling up the Gulf never reaches the island's shores. It's an environmental threat that also comes with a potential economic opportunity. Cuba's untapped offshore reserves are growing increasingly attractive to U.S. oil companies with every gushing barrel into the Gulf, some experts say.

Cuba has 4.6 billion barrels of oil and 9.8 trillion cubic feet of natural gas in undersea deposits off its northwest coast, according to U.S. Geological Survey estimates, enough to put the country on par with major regional exporters like Colombia and Ecuador. Cuban geologists say there may be four times that amount in vast hydrocarbon pools under Cuban-controlled waters farther out into the Gulf.

The Castro government has already signed deals with nearly a dozen foreign oil companies interested in drilling those waters, including Brazil's Petrobras, Norway's Statoil and a unit of India's ONGC. It has also extended invitations to U.S. oil companies, which are currently barred from doing business with Cuba under the half-century-old trade embargo.

For the first time, Treasury officials have given American oil industry representatives permission to travel to Cuba, having denied previous travel requests. Executives from the International Association of Drilling Contractors say they're now preparing a three-day visit to the island to discuss safety and environmental standards with their Cuban counterparts.

At the same time, Cuba and its foreign partners are moving forward with their own offshore agenda. According to Reuters, Spain's oil giant REPSOL has contracted for a Chinese-built rig that could begin drilling in Cuban waters later this year. That plan raises new concerns about the possibility of environmental damage to Florida if an accident were to occur on a rig in nearby Cuban waters.

**“Cuba has 4.6 billion barrels of oil and 9.8 trillion cubic feet of natural gas in undersea deposits off its northwest coast...”**



## ***Cuba Geopolitical Outlook*** BabunGroup Consulting, Inc.



- **Access to professional Staff:** 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 under contract to two former ministers and over 40 experts on different industries/expertise related to Cuba. ***-Contact us for a full brochure.***
- **Customized executive briefings:** BGC conducts informal discussions/briefings on Cuba issues with client's staff. The briefing sessions are general and informal business focused (not academic) presentations and discussions regarding current Cuba and U.S.-Cuba subjects. The number and timing of the sessions is at the discretion of the client. ***-Contact us for rates.***
- **Business reports:** 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:**

BabunGroup Consulting, Inc.

P.O. Box 546135

Miami, Florida 33154

Phone: 305.884.0441

Fax: 305.260.4214

E-mail: [teo@babungroup.com](mailto:teo@babungroup.com)

[WWW.CUBADATA.COM](http://WWW.CUBADATA.COM)

We have  
the information  
you need



on opportunities in a new Cuba

**CUBADATA.com**

**OVER 2,000 TIMELY  
RESEARCH TOPICS ON LINE**

*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.*