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Big banks dropping out of Cuba

Apparently reacting to threats from Washington, at least four more first-tier foreign banks have significantly reduced their ties with or completely pulled out of the Cuban market.

As a result of Washington's third-country embargo enforcement, the U.S. dollar has been practically eliminated from direct transactions with Cuba.

According to a variety of sources in Cuba and abroad, Germany's Deutsche Bank and Dresdner Bank, Switzerland's Cr dit Suisse, and Japan's Mitsubishi Bank have joined Switzerland's UBS, Britain's HSBC, and Canada's Scotiabank, all of which stopped transactions with

Cuba-based clients earlier this year and late last year.

Netherlands-based ING Groep may follow suit. A spokesman for ING told Cuba Trade & Investment News in November his bank was still undecided what to do with Cuba. A Cuba-based ING subsidiary was blacklisted by the U.S. Department of Treasury's OFAC in July.

At the same time, however, second-tier banks such as Germany's DZ Bank and the British subsidiary of China's Hong Kong and Shanghai Banking Co. have stepped into the void left by the pullouts.

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Embargo Update

EMBARGO LIFTERS IN CHARGE NOW...

The Democratic sweep of Congress in the November elections will bring back life to efforts of easing or lifting the embargo against Cuba.

All designated committee heads in the House and Senate, with the exception of one in each chamber, are Democrats who have consistently voted in favor of normalizing relations with Cuba. With anti-embargo Democrats firmly in control of the levers of power in Congress, trade with island will likely regain some

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Also read the Kirby Jones column, p. 3

...but will they use their power?

Although the levers of congressional power are now in the hands of anti-embargo Democrats, some observers caution that they might want to use their power on other issues.

For instance, Rep. Charles Rangel (D-N.Y.), the designated chairman of the powerful House Ways and Means Committee, repeatedly sponsored a standalone bill that proposed an end to the embargo. But Washington publication Inside U.S. Trade quoted a House aide saying that Rangel will "not be inclined to push for his own legislative priorities now as chairman, especially those that stand little chance of prevailing in Congress."

Cont'd on next page

Economy

CUBA BUILDS MIDSIZE POWER PLANT

While bombarding the public with news about its shift in electricity generation from large thermoelectric plants to thousands of small diesel generators, Cuba has been quietly building a midsize, heavy-oil fueled power plant at the port of Mariel, near Havana.

The estimated cost of the 132-megawatt power plant is \$122 million.

Officials at Uni n El ctrica didn't respond to inquiries by Cuba Trade & Investment News about the Mariel plant.

Germany's MAN B&W Diesel AG is providing seven generators and other hardware, while Cuban state companies are constructing the building and surrounding infrastructure. The project is already nearing its final phase; MAN in late October delivered the generators at the port.

A foreign engineer described the Mariel power plant as a "mid-term solution."

It isn't clear where the Mariel plant's fuel will come from. The foreign engineer suggested that, because Cuba's sulphur-heavy domestic oil couldn't be used by the generators without

Cont'd on page 7



'Embargo lifters,' from p. 1

dynamism.

"Members of Congress interested in changing Cuba policy are in key positions," the Latin American Working Group (LAWG), a Washington-based anti-embargo group, said in a recent call to action. "We have reason to be optimistic."

Activists' most immediate targets include axing the travel ban, remove restrictions on remittances, and reining in on the Treasury Department's re-interpretation of embargo-related laws.

A six-member congressional delegation, organized by Sarah Stephens with the Center for Democracy in the Americas, is headed to Cuba in December. The delegation will be headed by Reps. Jeff Flake (R-Az.) and Bill Delahunt (D-Mass.), and will include members of the Cuba Working Group in Congress.

Although President George W. Bush has said in the past

he would veto any embargo-easing bill, repeated nixing will come at a political cost, particularly when Cuba bills are attached to larger spending bills.

In a first taste of upcoming Cuba battles in the new Congress, which begins sessions in January, Flake and Delahunt requested a General Accounting Office investigation into the use of more than \$70 million in taxpayer funds since 1996 for "democratic transition" in Cuba. The study concluded there was lax oversight. USAID provided 95 percent of its grants without bids, and donations to Cuban dissidents included chocolate, leather jackets and videogames.

Hearings on the GAO study are set for January.

Reflecting travel-ban easing demands of five Cuban dissidents in the wake of the GAO report, an editorial in the Miami Herald, whose editorial page has been a long-time embargo supporter, appealed to Washington to lift the travel ban and remittance restrictions.

'Power,' from p. 1

"Rangel will not look to muscle his committee on anything, and will not force the Cuba issue simply because it is a pet project," the publication paraphrased the aide.

The aide also said that it is unlikely that any major Cuba bills will come up in the House while there is an interim leadership in Havana.

The Washington-based Latin America Working Group (LAWG) believes that in order to challenge the embargo in a serious way in Congress, anti-embargo activists need to 'win' almost 40 of the new members to their position on Cuba.

"We need 218 votes in the House to pass legislation," said the group. "After the November elections, we calculated that we had about 182 House members who would support an end to the travel ban on Cuba.



Rangel: Won't muscle his committee

Doing the math, that comes out to 36 votes short. So, the new members are extremely important."

LAWG also said it will try to win back some incumbents who switched sides in 2004 "because of lobbying money from the right-wing U.S.-Cuba Democracy PAC." The PAC is "actively recruiting new members to vote in favor of maintaining the embargo," LAWG said.

The group cited Rep. Tom Lantos (D-Ca.), chair of the House International Relations Committee, as one possible challenge. "While he has voted with us consistently on travel, he is not particularly sympathetic to changing Cuba policy overall," the group said, adding that the ranking Republican on the committee, Ileana Ros-Lehtinen (R-Fla.), may have some influence over

Lantos.

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Cuba in Focus

By Kirby Jones

Stay the course?

While politicians, elected officials, study groups, and indeed the country debate and decide whether the three year-old Bush policy of “stay the course” is valid for Iraq, another similar policy issue is set for debate in the new Congress.

That is whether the 45 year-old policy of stay the course with regard to Cuba is also valid.

With the Democrats taking control of both houses of the 110th Congress, lobbying groups, NGOs, agricultural associations, companies and others are preparing to challenge the “stay the course” policy toward Cuba of the Diaz-Balarts, Miami right-wing Cuban-American groups sucking taxpayer money, and their champion, President George W. Bush.

There is a feeling that the time may finally have come for a real change in this dysfunctional policy.

The landscape in Congress has changed dramatically. It is not so much the quantity of votes in the House or Senate, but that the levers of power over the mechanisms and rules of both chambers have changed hands. Gone is Tom DeLay, Lincoln Diaz-Balart has lost his power base as # 2 on the House Rules Committee, and the new Democratic House leadership has a record of voting in favor of change.

Hearings will be held

This means that pro-change amendments and bills will be allowed to be considered and debated, conference committees will actually meet and vote on Cuba issues, and hearings will be held.

There are many short-range issues of immediate concern to several

Continued on next page

Strategies

Customizing for Cuba

Cuba’s hard-currency retail sector is relatively small. So landing a government contract is probably the biggest any Cuba exporter can achieve these days. On this island extremely dependent on imports, food security and healthy diets for the population are among the government’s top priorities. But landing such a contract takes persistence — and maybe a custom-tailored product. Two American entrepreneurs have come up with products that respond specifically to Cuban needs.

By Johannes Werner

Dallas consultant Cynthia Thomas spent the last half-dozen or so years advising other businesspeople on how to do business with Cuba, through her TriDimension Strategies LLC and the Texas-Cuba Trade Alliance. But at the recent International Havana Fair, Thomas also pitched her own product: Gouda cheese — powder.

To be sure, it’s not the powder Cubans are supposed to eat. Thomas’ Gouda powder can be easily rehydrated with drinking water and turned into a creamy spread.

Thomas partnered with Maple Island Inc. of St. Paul, and the Minnesota company agreed to turn Gouda made by the Land-O-Lakes cooperative into powder.

If the instant cheese idea sounds unusual, her idea to sell the Gouda powder in large amounts to the Cuban government is at least as out-of-the-ordinary.

Thomas’ plan is to make Gouda — a product Cuba imports from Europe in considerable quantities for its hard-currency sector

— a staple in Cuba’s collective kitchens. State eateries such as school, company and hospital cafeterias, Thomas suggests, should use her Gouda powder as a pizza topping and spread on sandwiches.

“Cuba is

trying to get more cheese into schools,” Thomas says. “This would be a cost-effective way of doing it.”

The reason Thomas believes this would be a great product for Cuba’s peso sector is high nutritional value at low cost. Transporting the bulky cheese in refrigerated ships adds significantly to Cuba’s bill. Thomas’ cheese powder, in contrast, is smaller, lighter, doesn’t need refrigeration, and has a shelf life of three years.

Maybe, Thomas suggests, instant Gouda could even become an item on the *libreta*, Cuba’s ration card for subsidized staples.

Meanwhile, Irvine, Cal.-based businessman Bill Lane formed a company he called Anthem Ventures International to improve Cubans’ daily intake of vitamins, minerals and other nutritional essentials. Anthem is offering three nutritional supplement products whose formula is based on specs provided by a Cuban government study.

Lane and investor/counsel Ron Rus, an attorney who is also based in Irvine, stumbled upon the business idea when

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Bill Lane, left, and Ron Rus at the Havana Fair

Werner

'Customizing for Cuba,' from previous page

attending the Havana International Fair two years ago.

"It happened by chance while we were trying to find a buyer for another nutritional supplement. I ran across a woman who represents (Cuba's) nutritional institute," Rus said. "We didn't think that this meeting was going to have major significance. But what was supposed to be a five-minute meeting turned into a 45-minute meeting."

It turned out that the Instituto de Nutrición e Higiene de los Alimentos had just finished a study about the nutritional needs of children, pregnant women and seniors. The institute was now looking for ways to implement the recommendations of the study.

So Lane contracted Micelle Laboratories Inc. to develop and custom-produce a nutritional supplement that would

match the recommendations of the study.

Last year, the nutritional institute conducted a symposium, and Lane made a presentation about how his nutritional supplement product would fulfill Cuba's specific needs.

"We're the only company to present a complete solution," says Lane, who has worked in commercial real estate developments in California and the cattle business.

The Instituto de Nutrición eventually certified three Anthem products. Not surprisingly, Lane and Rus gave them Spanish names: Mejora, Mejora Plus, and Mejora Superior.

But this was only the first hurdle. Since Anthem's Mejora is not a retail product, the next — and higher — hurdle consists of convincing Cuban government institutions to actually buy Anthem's products.

Continued on next page

Cuba in Focus (contd.)

constituencies: U.S. ports which send agricultural products to Cuba want and need to be able to travel to Cuba more than the once per year visit allowed arbitrarily by the Office of Foreign Assets Control (OFAC); companies selling food to Cuba are faced with ever intricate financial procedures as OFAC reaches outside the United States and threatens to investigate the U.S. operations of any foreign bank which deals with Cuba; and Cuban-Americans suffer a more personal loss as they are prohibited from visiting family members more than once per year, and then only to certain relatives.

Time for fundamental change

In addition to these immediate issues, there is a growing consensus that now is the time to fundamentally change a 45 year-old "stay the course" policy and look for ways to make the United States relevant and to embark on a policy direction which actually is in the best interests of the entire United States rather than those of a handful of politicians who long for a return to the "good ol' days" of the Batista era.

Some very positive ideas have been suggested and are under discussion. These include lifting the ban on travel so that the United States has some eyes and ears on the ground while Cuba goes through what clearly is a transition to a new era; exempting energy companies from the embargo so U.S. companies can participate in the exploration of oil and natural gas just 50-plus miles off the coast of Florida; enacting a provision to "sunset" the policy of embargo and force Congress to undertake initiatives to prove that such a policy actually works; and undertake some real oversight of the operations of OFAC which has operated over the last decades in relative secrecy.

Will any or all of this happen in Congress? Will such measures be vetoed by President Bush? The answer, I think, is "probably" to the first and "maybe" to the latter.

There seems to be little doubt that Congress will undertake measures. With one exception in the House and one in the Senate, every single committee is expected to be chaired by an elected official who has a perfect record in voting 100 percent of the time in favor of amendments and initiatives to change the embargo policy — and this is also the case for both House Speaker Nancy Pelosi and House Majority Leader Steny Hoyer.

In support of this potential, NGOs are mounting a serious and strong effort of education of the new members; agriculture groups are in the planning stages of a major strategy conference to be held early next year to discuss Cuba; and a delegation of several key members of Congress will visit Cuba in December organized by Phil Peters of the Lexington Institute. More activities and projects are expected to be announced and organized in the first months of 2007.

Unfit for Iraq, unfit for Cuba

Just as "Stay the Course" will not work for Iraq, there are many who believe that the same is also unfit for Cuba.

Now what about that veto? It may all come down to what we learned in Civics 101: The millions of members of the agriculture associations (not just their leadership) need now to make their individual voices heard; Cuban-Americans need to decide that the views of Lincoln Diaz-Balart do not represent their best interests; and members of Congress need to decide that the self interest of the United States is more important to the country and their constituents than those of a few thousand people in Miami.

In the face of that, maybe even President Bush as he thinks about his legacy will decide that "stay the course" will also not work for Cuba.

Kirby Jones is founder and president of the U.S.-Cuba Trade Association and has been a consultant to companies and organizations conducting business in and with Cuba since 1974.

Strategies

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Over the past few months, Lane and Rus have tried to make inroads with Cuba's two main healthcare/medical purchasing agencies, Medicuba and Servimed. To further the goal of meeting Cuban buyers, Lane and Rus decided to rent a booth at this year's Havana International Fair.

Lane has tried to be flexible as to a "delivery vehicle" for the product. Mejora can be mixed with milk, water or juice. Anything, from direct purchase of Mejora by a Cuban

institution, to creating a "national" drink by mixing it with milk or juice is possible.

"It's about information flow," Rus said when asked what it takes to convince Cuban officials. "They're very busy providing for the needs of the population, from a variety of sources. But with time, we'll prevail. It's hard to imagine how cost-effective our product really is for the Cuban government. This product was developed with a single market in mind. It's not available anywhere else. If they don't buy this product, it won't be made."

Embargo News

Big banks dropping out of Cuba, from p. 1

Reuters reported that foreign embassies in Havana have been forced to convert their accounts from U.S. dollars to euro. According to Reuters, Cuba's Banco Metropolitano told embassies that its intermediary, the National Bank of Canada, would no longer process U.S. bank checks without an attached U.S. license.

A business executive for Chinese agricultural machine exporter CAMCO in Havana told Cuban business weekly Opciones that using U.S. dollars is now impossible.

"We have to exchange dollars to euros or British pounds, and finally to yuans," he told Opciones.

"With such financial operations, our company is suffering losses."

These currency swaps also add cost for Cuba. European banks tend to ask for a deposit of up to 10 percent on the value of a transaction when Cuba is buying a letter of credit, to safeguard against currency exchange fluctuations. Cuba's foreign trade ministry said this caused an additional cost of \$25.3 million during the 12 months before March 2006.

Anti-Castro activist Rep. Ileana Ros-Lehtinen (R-Fla.), who was a driving force in a Congressional investigation

into UBS, wrote in an op-ed in the *Diario de las Américas* about the Swiss banks' drop-out that she was "exceedingly pleased to have been a factor in this disruption" of commerce for Cuba.

Although OFAC wouldn't comment, observers believe the banks are reacting to communication from the U.S. agency. None of the banks contacted by Cuba Trade & Investment News would say exactly what prompted their pullout. Two Canadian banks said they were concerned about U.S. operations being involved in Cuba transactions. *Crédit Suisse* only said that Cuba is a "sensitive" country and that doing business with such countries requires too much expense on compliance.

Extending national legislation such as U.S. embargo laws to third countries violates international law. Beyond that, several countries, including Canada, specifically created "antidote" laws prohibiting national companies to comply with America's 1996 Helms-Burton law (One Canadian bank said it pulled out of Cuba because of the U.S. Patriot Act). None of the governments of the banks' home countries have publicly reacted.

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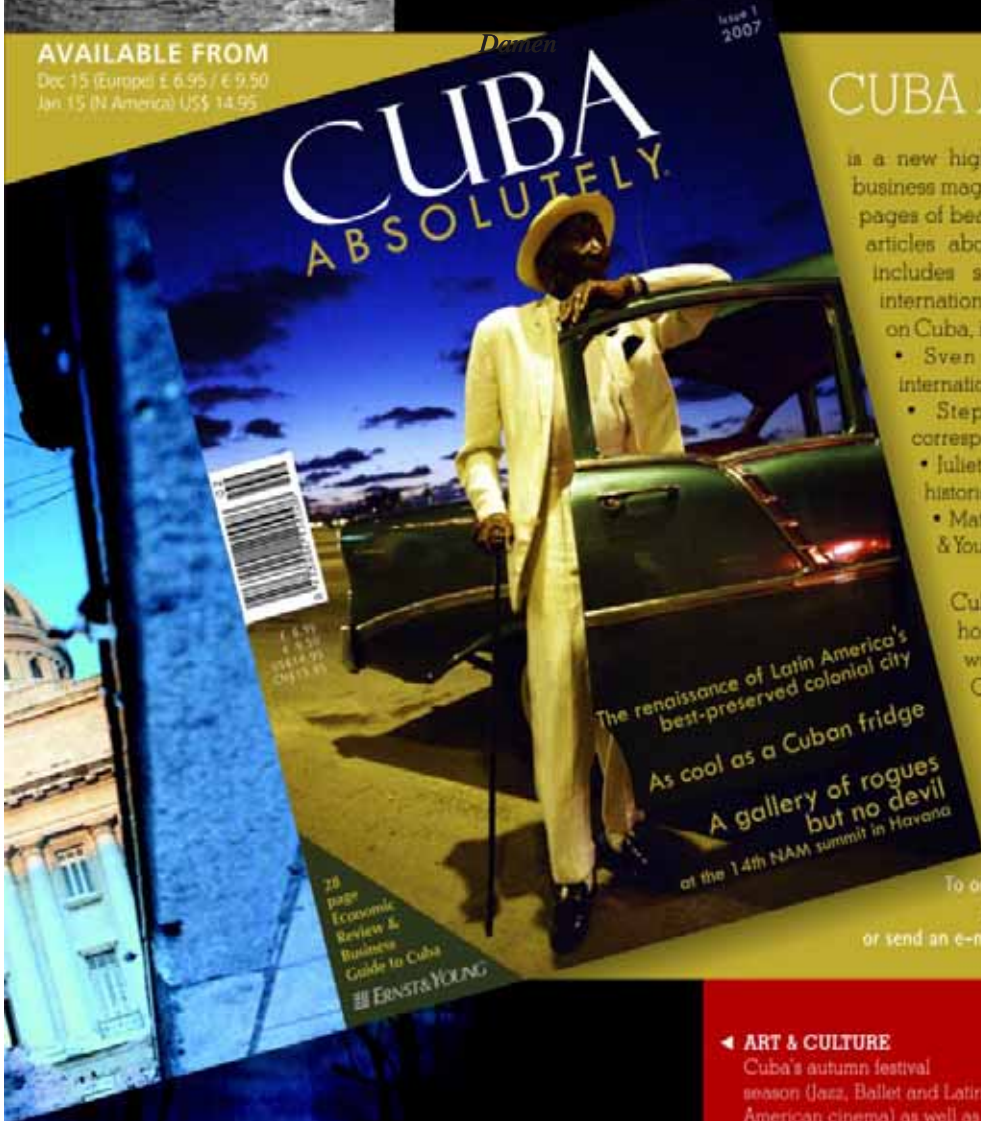
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Midsized power plant, from page 1

producing excessive wear and tear, the plant will likely be running on Venezuelan heavy oil.

“But it’s up to the Cubans to decide what they’ll do,” he cautioned.

*MAN
generators
after
unloading
at Port
of Mariel*



courtesy MAN

‘07: YEAR OF THE WATER REVOLUTION?

The Cuban government might declare 2007 to be the “year of the water,” observers say. A possible forum for an announcement could be the ExpoAgua 2006 conference and exhibit Dec. 13-16 in Havana.

2006 was the “Year of the Energy Revolution,” with the state investing massively in the power system.

Cuba has entered a phase of massive investments in its drinking water system. The island is facing a water crisis, both due to an aging, leak-prone and electricity-guzzling system, and a long-term drought that has scorched the eastern part of Cuba.

2007 will be a “very crucial moment for the development of investments in Cuba’s water sector, long-term plans for the solution of the cyclical effects of drought, the rational use of water, and the rehabilitation and modernization of water supply all over the country,” the ExpoAgua organizers wrote in an invitation.

The state institution in charge of the water supply, the Instituto Nacional de Recursos Hidráulicos (INRH, <http://www.hidro.cu>), said earlier this year that it was continuing to rehab the water system at the country’s second-largest city, Santiago de Cuba, and that it was preparing comprehensive renovation projects at the cities of Havana, Camagüey, Las Tunas and Holguín. The institute also began building six major water supply projects in 2006.

INRH needs hundreds of miles of pipes to accomplish pending projects. In 2000, it opened a polyethylene tube manufacturing plant in Ciego de Ávila province. However, production was insufficient, and Cuba had to resort to imports. INRH is now building two more pipe plants, in the capital and Holguín, with German technology.

A recent INRH study concluded that all of Cuba’s large electric water pumps, many dating back to pre-revolution years, should be replaced with new energy-saving ones. The study also recommended to buy tens of thousands of new water pumps for residential buildings.

Energy revolution based on import fuel

Cuba is beginning to pitch its decentralized power generation idea as a model to other developing countries.

However, the diesel generator-based model has a downside official Cuba hasn’t talked about yet: It is also producing more energy dependency for the island.

In the 1990s, Cuba converted its Soviet-era thermoelectric plants to run on sulphur-heavy domestic oil. By 2002, the country generated nearly all of its electricity with domestic oil — but at the cost of frequent and extended blackouts. The wear and tear caused by the “dirty” fuel was blamed for frequent turbine breakdowns and shorter maintenance cycles. Meanwhile, the new diesel generators — both small emergency generators and larger container-size engines — can only run on imported diesel.

Currently, Venezuela is covering most of Cuba’s oil import needs.

However, in the long term, Cuba is expected to find oil in commercial quantities in the Gulf of Mexico. Already, Canadian companies have begun to tap an oil field on Cuba’s northwestern coast that contains higher-quality crude that could be refined into fuel oil or diesel. The Venezuelan state oil company is helping Cuba refurbish a major refinery at Cienfuegos, which will begin to produce gasoline and diesel in 2007.

CUPET ORGANIZES OIL CONFERENCE

In an apparent effort to maintain the high level of interest among the world’s oil majors in the island, state company CubaPetróleo (Cupet) will hold an oil congress in March.

The First Cuban Oil & Gas Congress (Petrogas ’07) will open March 20 in Havana as part of the Geociencias ’07 congress (www.scg.cu).

Several newcomers, including India’s ONGC, Petrovietnam and Malaysia’s Petronas have recently acquired rights to Cuban offshore oil blocks. U.S. oil executives are blocked by U.S. law from participating in the event in Havana.

Discussion topics at Petrogas will include deepwater exploration, exploration in folded belts, production of heavy oil in carbonate reservoirs, heavy oil technology, horizontal drilling, and associated gas utilization.

Water: Cuba taps the private sector

Six years ago, Cuba took the unprecedented step of partnering with a private-sector company to fix problems with the capital’s



water supply. Spanish utility Aguas de Barcelona formed the Aguas de la Habana utility together with INRH in 2000. The joint venture has a concession through 2025 to operate Havana’s water system.

INRH also formed an Asociación Internacional Aguas Varadero, at Cuba’s main beach resort city.

Official Cuba kicks off economic reform debate

In a sign of possible reforms to Cuba's state enterprise-based economy, the government commissioned a study of the merits and deficiencies of "socialist property."

The interdisciplinary study was triggered by recent findings of widespread, and apparently increasing, irregularities and deficiencies at Cuba's state enterprises.

A large government inspection revealed widespread "disorder" and "inefficiency" at workplaces throughout Cuba, official newspaper *Juventud Rebelde* reported. The Oficina Nacional de Inspección del Trabajo only gave 44.6 percent of 3,502 inspected companies and institutions a "good" rating. Fifty-nine percent of the companies performed worse than in a 2005 inspection. In October, the labor ministry announced it would enforce a new workplace discipline regulation. At a recent union gathering, interim President Raúl Castro called upon workers to eradicate theft and corruption.

The findings of the inspection were preceded by an investigative series by official daily *Juventud Rebelde*, which detected consistent irregularities in peso-sector state shops.

"What the reporters described were retail businesses that would have to close if employees truly followed the rules, and that stayed open only because employees broke the rules and engaged in private business," said Phil Peters of the Washington-based Lexington Institute in a recent analysis. "They also showed that many of the central state enterprises are dysfunctional, unable to supply essential products and maintenance materials to their retail outlets."

Suggested solutions by academic experts quoted in a *Juventud Rebelde* article range from new forms of organization and improved supply systems to more autonomy of state enterprises and employee payment tied to profits. Privatization was not mentioned. Over the past few years, the state put the brakes on Cuba's budding private sector, by not issuing new permits for many *cuentapropista* activities.

Press reveals CIMEX scandal details

More than one year ago, four executives of CIMEX, Cuba's largest holding company, were sentenced to between four and 20 years of prison for fraud and corruption committed between 2001 and 2003, official weekly Bohemia reported.

This is the first time the November 2005 court rulings were discussed publicly.

In 2004, CIMEX President Eduardo Bencomo was investigated and publicly scolded for lack of oversight. Bencomo came out clean and retained his job.

All allegations were linked to CIMEX business dealings with Provimar S.A., a Spanish company. Provimar sells duty-free articles. The Spanish executive of Provimar in Havana told Cuban officials about the cases in 2003. One CIMEX executive allegedly received appliances, four cars and \$129,000 in cash, according to Bohemia.

Birthday party or farewell?

Fidel Castro's 80th birthday bash, delayed from August to early December due to his illness, turned more into something like a grand farewell party.

Fidel missed the opening event of the weeklong party with 1,500 invited guests, as well as the military parade celebrating the 50th anniversary of the revolutionary armed forces of Cuba.

The parade before 300,000 spectators, the first in Cuba since 1986, was presided by Defense Minister Raúl Castro.

Fidel's younger brother, who has kept a low profile in the four months he shared Cuba's helm with a team of leaders, tended an olive branch to Washington.

Havana, he said in a speech before the parade, is willing "to resolve the conflict at the negotiation table," as long as the United States accepts Cuba's sovereignty.

"After half a century, we are willing to patiently await the moment when common sense returns to the circles of power," the interim president said.



AILING COOPS GET OXYGEN

The Cuban state is "restructuring" the 1,541 agricultural cooperatives that emerged in 1993 after the breakup of large state farms during the special period, *Bohemia* reported.

According to the official weekly, the central bank, insurers and the finance ministry are involved in the restructuring. One of the steps includes forgiving the debt the coops have accumulated over the years.

Although they account for most of Cuba's food production, only 44 percent of the "Unidades Básicas de Producción Cooperativa" (UBPC) are profitable. According to *Bohemia*, most pork coops work profitably, while one-third of rice and produce coops and 79 percent of cattle coops make losses. Among the coops' major problems is the lack of access to loans and technology.

An Economy Ministry official told *Bohemia* that many coop members don't have a sense of property and "continue to behave like employees."

There are agricultural coops whose members share the land (which cultivate a total of 721,000 hectares), and service and credit coops that maintain agricultural machines and provide financing, but whose members are small landowners (858,000 ha.). The bulk of the land is cultivated by state farms (5.5 million ha.), and private farms (420,000 ha.).

Havana Fair reveals stagnation in U.S. sales

Alimport signed contracts worth around \$90 million with U.S. companies at this year's International Havana Fair, mostly for grains, soy, chicken and lumber. That number is down from more than \$259 million last year.

According to Alimport, U.S. participation in the 24th International Havana Fair was down to about 100 companies, from 188 last year. The spotlight at the fair was mainly on Chinese, Russian and Venezuelan companies.

U.S. sales to Cuba for 2006 are expected to come in slightly below the \$350 million of 2005 (which was down



Visiting the Canadian pavilion at the fair: Foreign Trade Minister Raúl de la Nuez, L., and Alimport Chairman Pedro Álvarez

U.S. food sales concerns not the only ones

Apparently frustrated by a sustained drop in food sales to the island since U.S. exports began, France's state credit insurance sent a letter to the Cuban central bank asking to be repaid \$170 million, Reuters reports.

Coface's move came after years of near-fruitless negotiations over a new line of credit for wheat and other food purchases, a French diplomatic source told Reuters. Several French companies declared their Cuba sales as in default and asked for payments from Coface.

France's wheat price was "more than competitive" last year, the source told Reuters, and France was eager to maintain the line of credit open under which Cuba has bought \$1.5 billion worth of food since 1991.

Some problems with French and Spanish loans aside, Cuba's debt payment track record has improved considerably over the past few years, according to Reuters.

HAVANA CLUB COURT BATTLE GOES ON

After 10 years, the battle over the U.S. rights for Havana Club continues to keep U.S. courts busy.

Four months after a federal appeals court ruled against Havana Club Holding SA, the French-Cuban joint venture that markets the Cuban rum worldwide is filing a new lawsuit, alleging its constitutional rights have been infringed.

Joint venture partner Pernod Ricard SA said that Havana Club Holding will evoke the Fifth Amendment, which says that no person's property should be taken without due process of law. The new suit comes on top of another one filed in Delaware by Havana Club Holding, alleging Bacardi's use of the trademark is misleading and should be stopped.

Bacardi U.S.A. announced after the appeals court ruling that it will begin selling a Puerto Rico-made rum under the Havana Club name in the United States. Bacardi was able to do so because the appeals court found that the joint venture had no right to make a case in U.S. courts without getting a Cuba license from the U.S. Department of Treasury.

Treasury, in turn, denied Havana Club Holding a license in July, effectively blocking the French company from seeking its right to the trademark in the United States.

Meanwhile, Bacardi is taking the battle to other countries, challenging the Cuban trademark in Spain and Canada.

11 percent from the previous year). Through June 2006, sales had slid 3.9 percent from the previous year.

Meanwhile, Cuba's total food purchases abroad are continuing to rise at a fast clip. Pedro Álvarez, chairman of Cuban state food importer Alimport, said that his agency had budgeted \$1.7 billion for food purchases in 2006, up from \$1 billion five years ago.

"If I was a U.S. company, I'd be concerned," he said.

While some U.S. businesspeople at the fair attributed the drop to bad relations between Washington and Havana, others guessed low U.S. presence at the fair was due to the routine nature of most Alimport purchases and a natural occurrence.

"There's so much the Cubans will buy from any single country. Maybe we have reached saturation," said Brad Ford, a California-based vice president of The Rice Co.

More than half of U.S. sales to Cuba are handled by three companies, Archer Daniels Midland Corp. (which didn't have a stand at this year's fair), Cargill Corp., and FCStone Group Inc. Alimport has given special consideration to small and midsize U.S. businesses in the past, but the state agency hasn't signed many new contracts this year.

The fair is the biggest venue for U.S. agricultural and food vendors. State buyer Alimport S.A. said before the event that American companies with booths at the fair would get preferred consideration in purchases.

Watchdog barks at Bacardi

Continuing to target Bacardi U.S.A.'s bipartisan fundraising efforts for Florida candidates, watchdog group Citizens for Responsibility and Ethics in Washington (CREW) filed an amended complaint with the Federal Election Commission (FEC) alleging that Bacardi's U.S. subsidiary used corporate resources to organize a fundraising event for Sen. Bill Nelson (D-Fla.) in September 2005. CREW's original complaint in August was about a Bacardi-sponsored fundraising event in May 2004 for Sen. Mel Martinez (R-Fla.).

CREW alleges that Bacardi used a corporate list of vendors to solicit contributions for the candidates.

CREW requested FEC audits of the Bacardi fundraising events and the Florida senators' campaigns.

GROWTH CONTINUES AT FAST PACE

Despite a slowdown in tourism, Cuba's economy keeps growing at a fast clip. The Economy Ministry said in November it expected growth for the whole year to be 12.5 percent. The boost came largely thanks to a construction boom and growth in service exports, according to data from the Oficina Nacional de Estadísticas.

Last year's growth was 11.8 percent.

To be sure, Cuba last year changed the way it calculates its gross domestic product, by including services provided free of cost by the state. Britain's Economist Intelligence Unit calculated Cuba's growth for 2006 at 9.5 percent, using the standard international method.

Through September, Cuba's total foreign trade was up 27 percent over the previous year. Imports rose faster than exports, according to the foreign trade minister.

The Foreign Trade Ministry expects imports and exports to top \$10 billion in 2006, the largest value in 15 years.

Trade was \$9.5 billion in 2005 — \$2 billion in exports and \$7.5 billion in imports.

Higher nickel prices and pharmaceutical exports helped boost goods exports by more than \$500 million to make for as total of \$2 billion, according to Reuters. Service exports rose by \$2.5 billion to \$7.5 billion.

As a result mainly of the rise in service exports, Cuba's hard-currency earnings increased by some \$3 billion this year, Reuters reported. Cuba's balance of payments will be positive for the third time in three consecutive years, around \$800 million, a government source with access to trade data told Reuters.

Cuba spent most of the revenues on food imports and machinery and other hardware for infrastructure.

Tourism growth flattens

Tourism growth dropped sharply to 7.7 percent for 2006, from 13.2 percent in 2005. The slowdown may be the result of a drop of Canadian travelers, and the fact that Venezuelans who visited Cuba for eye surgery under a government program inflated visitor numbers last year.

Some 2.5 million foreigners will have traveled to the island by the end of the year.

In September, the number of Canadian visitors was down 1.9 percent over the previous year, according to a Tourism Ministry report seen by Reuters. There were even higher drops in visitors from Spain (-5.7%), Italy (-15%), and France (-5.2%). Visits from Britain rose 5.7 percent in September.

Possible reasons for the slowdown include a rise in cost due to the revaluation of the convertible peso, and a quality gap with Caribbean competitors such as the Dominican Republic and Cancún.

Tourism Minister Manuel Marrero, interviewed by the BBC at a tourism fair in London, said that Cuba is working on growing markets such as China, Russia and India.

'MILAGRO' REACHES HALF-MILLION

More than 500,000 poor patients from 28 countries have benefited from a free eye surgery program operated by Cuba and financed by Venezuela. Most of the Operación Milagro patients are treated in Cuban hospitals. Because the program pays for airfare and hotels in Cuba, it has had a positive impact on the island's tourism business. More than 290,000 of the patients were Venezuelans. However, Cuba is installing a growing number of eye surgery centers in Latin American countries, including Ecuador, Haiti, Guatemala, Honduras and Bolivia. Cuba is also training personnel from these countries.



Happy eye patients flying home to Panama

Ministerio Salud Panama

HOUSING PROGRAM UNDER FIRE

A committee of Cuba's national parliament found that a \$500 million housing repair and construction program is hampered by "non-compliance and insufficiencies," especially lower-than-expected production of construction supplies.

Committee Chairman Leonardo Martínez told Communist Party daily Granma that "the actual construction sequence is insufficient to ensure the continuity of the program."

The parliament, which launched the ambitious program in fall 2005, will debate housing during sessions in December.

The initial plan was to build and renovate 150,000 units from September 2005 through the end of 2006. The national housing institute said that the final result should come in at between 140,000 and 145,000.

In spite of unprecedented investment by the state in the production and import of building material, the number of projects is lagging, the committee found. Some of the modern equipment recently installed at Cuban construction material plants doesn't work at full capacity because older equipment in the same plants frequently breaks down, and because of lack of other equipment in production and transportation. The biggest gaps are in the supply of sand and wall elements.

Meanwhile, Construction Minister Fidel Figueroa defended the industry, saying that a "productive jump" is about to happen, thanks to new plants and production lines. While blaming the delays on lack of discipline, theft and corruption, he advocates better pay for workers in the construction sector, including incentives.

Some 500,000 homes must be built or repaired to satisfy demand after 15 years of neglect during the "Special Period" and three intense hurricane seasons.

CONFERENCES & EVENTS

- 28th New Latin American Film Festival, Havana, Dec. 5-15
- Expoagua 2006 (intl. Show on technology and products for water industry), Havana, Dec. 13-16
- International Informatics Convention 2007, Havana, Feb. 12-16, 2007
- IX Festival del Habano (cigars), Havana, Feb. 26-March 2, 2007
- Petrogas '07, oil and gas conference, Havana, March 20-23
- 2nd Business Forum for Non-Aligned Movement countries, Havana, May 1-10, Havana
- International Tourism Fair, Havana, May 8-12, 2007
- International Meeting on Accounting and Finances, Havana, May 14-16, 2007
- Expocaribe (general trade fair), Santiago de Cuba, June 10-15, 2007
- Habanos 2007 International Symposium (cigars), Havana, June 19-22, 2007

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Embargo

CUBA INTELLIGENCE CHIEF NAMED



Bailey

John Negroponte, director of national intelligence, appointed Norman A. Bailey as Mission Manager for Cuba and Venezuela.

Only Iran and North Korea have received similar intelligence treatment by the Bush administration.

Bailey was a senior fellow at the conservative Potomac Foundation, an economist with Mobil Oil Co., president of a financial consulting firm, and an

adjunct professor at the Institute of World Politics before taking on the job. Bailey is credited with designing policies under President Ronald Reagan that helped bring down the Soviet Union. The role of the mission director is to integrate collection and analysis, identifying weaknesses of intelligence, and implementing long-term strategies.

FAMILIES GET \$90 MLN OF CUBA MONEY

Applying a 2002 anti-terrorism statute, a federal court in New York ordered J.P. Morgan Chase & Co. to release \$90 million in frozen Cuban assets to family members of two U.S. citizens who were executed by Cuba in the wake of the Bay of Pigs invasion in 1961.

The money was turned over within five days of the ruling.

Lawyers for OfficeMax Inc. had challenged two Miami court rulings that granted millions of dollars of damages to the daughter of a CIA pilot and the family of a businessman who had spied for the United States. OfficeMax maintains it inherited claims for Cuba Electric Co. through the merger with another U.S. company.

News from the Sales Department

++Duluth-Ga.-based poultry producer **Pilgrim's Pride Corp.** made its first direct sales in Cuba. The company, whose products previously sold in Cuba via distributors, landed a contract for the sale of 8,400 tons of frozen chicken with Alimport S.A. The chicken was delivered in two shiploads in October and November, said **Butch Johnson**, vice president of international sales. The company had a stand at the 24th International Havana Fair.++

++Cuba has contracted with Guatemalan companies to sell an unspecified amount of sugar, during a visit of a business delegation led by Vice President **Eduardo Stein** in Havana. Due to record-low harvest yields, Cuba has been forced over the past two years to buy sugar abroad to cover domestic demand. Cuba, once one of the largest sugar producers, has sugar export commitments with China and Russia it must fulfill. Last year, Cuba bought sugar in Colombia to cover domestic demand.++

++ **Agriculture and Agri-Food Canada** is organizing a round of negotiations and small tabletop show for Canadian agriculture companies Dec. 4 and 5 at the Meliá Cohiba hotel in Havana. This is the second year the state export promotion agency is holding the mini trade show, said international marketing manager **Christine L'Abbé**. **Brent Wilson**, Americas director with Agriculture and Agri-Food Canada, said at the Havana Fair that Canadian agriculture sales have been coming back recently, especially wheat and pulses. He expected more business in pork and potatoes. ++

++Naples, Fla. cattle broker **John Parke Wright IV** said Cuba intends to buy more Vermont dairy cows in spring. His booth was one of the busiest at the 24th International Havana Fair. A major hangup in the pending sale of Florida cows is the Cubans' insistence on cost-prohibitive veterinary checks, said **Jim Strickland**, a Manatee County, Fla. cattle rancher who accompanied Wright at the fair.++

New publications

•The service sector of Cuba: An analysis and critique.

By: Christopher J. Robertson, Richard P. Lindsay and Marcelo Perez-Verzini. In: Thunderbird International Business Review, July/Aug. 2006, Vol. 48 Issue 4.

•**Commercial biotechnology in Latin America: Current opportunities and challenges.** By: Fernando Quezada. In: Journal of Commercial Biotechnology, Apr. 2006, Vol. 12.

•**Cuba — Is the "Special Period" Really Over?** By: Cynthia Benzing. In: International Advances in Economic Research, Feb. 2005, Vol. 11 Issue 1.

•**Cuba's New Sugarcane Cooperatives Ten Years Later.** By: José Alvarez. In: Post-Communist Economies, Mar. 2005, Vol. 17 Issue 1.

•**Cuban retailing: From a centrally planned to a mixed dual system.** By: Julio Cerviño & Jaime Bonache. In: International Journal of Retail & Distribution Management, 2005, Vol. 33 Issue 1.

Company Briefs



*Damen
tugboat
for the
Caribbean*

courtesy Damen

Netherlands-based **Damen Shipyards Group NV** in 2007 will build 10 tugboats for state company **Empresa de Navegación Caribe S.A. (ENCSA)**, which currently operates a fleet of 34 vessels based in major Cuban ports. Damen, which will build seven of the tugboats in Cuba, is the 100-percent owner of Santiago de Cuba-based **Astilleros Damex S.A.** Earlier this year, Damex delivered the last of 10 fishing boats to Cuba's **Fisheries Ministry**. The boats were assembled at Damex from complete knockdown kits.

Ending a six-year court battle, a British judge rejected the claim by Los Angeles-based **Peer International Corp.** that it owned the rights to 13 Cuban songs dating back to the 1930s that were made famous by the **Buena Vista Social Club** album. State company **Editora Musical de Cuba (EMC)** argued successfully it had legally assigned the copyright to Britain's **Termidor Music Publishers**, which produced the Buena Vista album. Justice Lindsay traveled to Cuba earlier this year to get depositions from aging Cuban musicians and their offspring.

BrasCuba Cigarrillos S.A., a Havana-based joint venture with a Brazilian subsidiary of Britain's **B.A.T. Industries plc** that produces cigarettes, said it is trying to obtain an import quota from the Chinese government. BrasCuba exports its nine brands to Brazil, Spain, Japan, Switzerland and Canada.

Qatari Diar Real Estate Investment Co., a Qatar state company, negotiated in Havana with **Gran Caribe S.A.** to finance construction of a hotel in Cuba. "The project in Cuba is strategically to enhance bilateral relations, and we also feel it's a promising market," the company said on its Web site. Qatari Diar is also developing commercial projects in Bahrain, Oman, Sudan, Morocco and Egypt. Qatar and Cuba recently agreed to establish weekly flights from Doha to Havana.

Cash wiring giant **MoneyGram International Corp.** stopped serving Cuba in September, the Miami Herald reports. A spokeswoman told the Herald that the Cuba business was "too complicated" and didn't produce enough volume.

Chinese health authorities granted permission to market **Polycosanol**, a Cuban-made anti-cholesterol drug also known as **PPG**. The sugarcane-based drug, made by **Laboratorios Dalmer S.A.** since 1991, will be distributed by **Shandong Zibo Shanchuan Pharmaceutical Group Ltd.** Eventually, Shandong will begin to produce polycosanol in China under license. Dalmer is the marketing arm of the **National Center for Scientific Research (CNIC)** in Havana.

Rusia Automotriz S.A. has shelved plans to assemble Lada vehicles in Cuba, said company President **Victor Zharov**. The Latin American marketing arm of **Avtovaz**, the maker of **Lada** vehicles, had pondered assembling one or two of the most popular Lada models on the island. Cuba is the most important market in Latin America for Avtovaz. Russia recently announced a credit line of \$350 million for sales to Cuba.



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