



CUBA...FUTURE TRADE AND INVESTMENT PERSPECTIVE



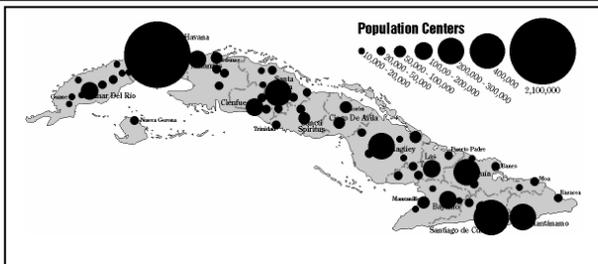
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EXTERNAL AFFAIRS

In April 2003 an extremely serious crisis affected Cuba's international relations, and most especially its link with Europe. It was the result of the harshness of the reprisals against 75 dissidents and the death sentences imposed on three hijackers of a ferry. These developments pushed back a series of rapprochement measures maintained by the European Union and most of its member states with the expectation of contributing to facilitate the political transition at the expected end of the Castro regime. The Cuban government justified its actions because of the perceived threat presented by the increased activity of the internal opposition and the backing provided by the U.S. government to the dissidents.

The measures generated an unprecedented world-wide protest not limited to the usual conservative sectors in the United States and the Cuban exile community. Traditionally tamed governments in Europe made explicit protests, while important backers of the Cuban regime abandoned their endorsement, changing it for a straight denunciation. In the European context, the serious deterioration caught the EU institutions flat-footed, with the result that once again a possible cooperative arrangement became doubtful. The European Parliament passed a Resolution and the Council adopted conclusions condemning Cuba. The Commission announced the freezing of the procedure to consider the admission of Cuba into the Africa-Pacific-Caribbean (ACP) Cotonou Agreement. In essence, this decision pushed back the EU-Cuba relationship to a low level similar to the one existing in 1996 when the EU voted a Common Position (CP) conditioning a full European cooperation package to reforms to be taken by the Cuban regime



TRADE POLICY

In the period from January through April 2003, American agricultural exports to Cuba have grown by more than 37 percent year-over-year, to nearly US\$67.5 million, according to the most recent U.S. Department of Agriculture statistics. However, while the Cuban government's food importing agency, Alimport, purchased some US\$140 million in foodstuffs from U.S. agro-industry vendors in 2002, Fidel Castro has set limits on the United States' share of Cuba's estimated US\$700 million annual imported food market. "We need to be cautious," warned Castro, "because we cannot be tied to only one source of supplies. It would be too risky so we continue purchasing commodities from our traditional suppliers."

In addition to the leadership's strategic concerns, economically the regime faces a "formidable challenge" to maintain its current trade volume. "If exports are not increased, Cuba will have to cut imports further, provoking a vicious circle in the economy," concludes Carmelo Mesa-Lago, University of Pittsburgh scholar on the Cuban economy. In 2002, the island ran a US\$2.725 billion trade deficit even as total imports fell by US\$677 million to US\$4.838 billion. With limited export prospects for increasing foreign exchange earnings and foreign banks offering only short-term financing at very high interest rates, Havana has launched an import-substitution program in vital industries, including energy and food production.

Cuba's rapidly evolving trade policy has also brought about a reprioritization of key commercial relationships established after the demise of the Soviet trading bloc in 1991. Mexico and Canada, and most recently Spain, have all lost Cuban market share to a diverse assortment of emerging economic partners in Europe, Latin America, the Middle East, and Asia.

ECONOMY

At the start of the 21st century, the Cuban economy seemed to continue its long, slow recovery after the severe crisis of the 1990s, but in 2001-2003 there was a significant slowdown in the Cuban economy and it is important to analyze its causes. Cuba authorities blamed external factors for the slowdown: (1) the terrorist attacks of September 11, 2001 and the war in Afghanistan provoked a drastic decline in tourism, while the 2001 world recession and the sluggish 2002 recovery also reduced international travel; (2) world prices of nickel fell in 2001 because of the recession and prices of sugar continued their decline in 2001-2002, while world oil prices decreased in 2001 but jumped in 2002; (3) hurricane Michelle hit the island in November 2001 causing damages estimated at 1,866 million pesos (tantamount to 6.6% of GDP), one year later hurricanes Isidore and Lili stroke the western part of Cuba causing damages of 713 million pesos (4% of GDP); (4) Russia shut down its surveillance base in Lourdes and stopped paying an annual fee of \$200 million; (5) the political situation in Venezuela deteriorated in 2002-2003 and oil deliveries were halted in April-September and December- January; and (6) mainly because of the deceleration in the Cuban economy and lack of payment to creditors, hard-currency loans became even tighter and costlier. On the other hand, it can be argued that domestic factors, particularly, the virtual paralysis and even regression of the market-oriented reforms since 1996, have been responsible for the slowdown and that the external factors just aggravated existing problems.

Mainly based on Cuban statistics and publications, this essay evaluates Cuban economic and social performance in 2001-2002. The situation in these years is contrasted with that in 1989 (prior to the crisis) and 1993 (the worst point in the crisis). The analysis of socioeconomic performance includes macroeconomic, external sector, physical output, and labor and social indicators. In addition, 1998-2002 goals and 2001 and 2002 targets are contrasted with actual performance, while prospects for 2003 are examined. The question of whether the slowdown has been the exclusive result of external factors is discussed at the end of the essay.



Cement Plant Santiago Bay

The Rise and Decline of the Embargo

The Cuban Democracy Act of 1992 (CDA) was approved over Bush's initial objections. The CDA established a two-track policy to reach out to the Cuban people while strengthening the economic embargo against the regime. It permits humanitarian donations, including food and medicines, while attempting to increase economic pressure on the Cuban government by prohibiting U.S. subsidiaries from trading with Cuba and prohibiting any vessel from entering a U.S. port for a period of 180 days if that vessel had handled freight to or from a Cuban port.

As part of its new effort to overturn sanctions policy, elements of the U.S. corporate community established USA*Engage in 1997, largely in response to Helms-Burton and ILSA. USA*Engage, followed by the active emergence of the U.S. Chamber of Commerce in lobbying against sanctions.

Although removing U.S. sanctions against Iran, Libya, and Iraq remained the ultimate goal-as these nations have oil revenues-that goal also meant taking on the domestic lobby interested in strong U.S. support for Israel. Cuba was an easier first target. Third, corporate America learned that Cuba gave them greater resonance with the U.S. media. Initiatives on Cuba brought wider media coverage than did the general cry of "sanctions reform" or an effort to reverse existing sanctions on a Middle Eastern state.

Dramatic Assertions

According to a new report by the University of Miami's Institute for Cuban and Cuban-American Studies, the population is feeling the effect of a significant downturn in the economy. The report, *Cuba's Economy in the Doldrums*, is a compilation of data gathered from government statistics reported in Granma, the voice of Cuba's Communist Party, and other sources by the institute's Cuba Transition Project.

Among the report's most dramatic assertions:

- At least 13 percent of the population is clinically undernourished, as the state's food rationing system now provides for only a week to 10 days of basic nutritional needs each month. Rations began to shrink with the start of Cuba's so-called special period in the early '90s.
- Unemployment hovers at about 12 percent and up to 30 percent of workers are displaced or underemployed. Government figures put unemployment at 3.3 percent in 2002, compared to 7.9 percent in the mid-1990s, but the official figure does not include the loss of up to 100,000 jobs last year in the sugar industry.

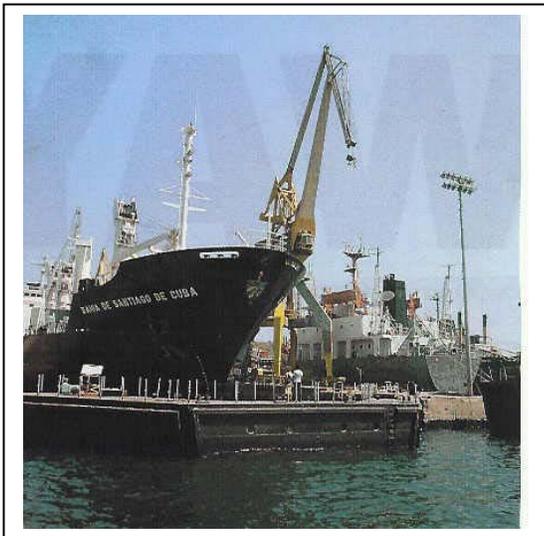
PERMITTED COMMERCIAL ACTIVITIES & LAWS

American businesses need special licenses for commercial activity in Cuba. By and large, purely American-owned business activity in Cuba doesn't go beyond trade shows, exhibitions, and a range of allowable projects to identify and explore investment opportunities in agriculture, medical supplies, telecommunications, and other fields defined by the U.S. Treasury Department. The department has a Web site, www.treas.gov/ofac, which provides a detailed overview of the regulations under the embargo.

INFRASTRUCTURE & INDUSTRY

- **Road and highways.** One of the island's strong points is its transportation system, which is in acceptable conditions. There are more than 21,100 miles of highways.
- **Railways.** With 9,270 miles of track, Cuba's main railway system presents unique opportunities for cargo transportation.
- **Airports.** There are six international airports. The largest commercial facility, located in Havana, handles more than 700,000 passengers each year and has the capacity to process 1,800 per hour.
- **Ports.** Cuba's coastline sports a total of 70 ports, 31 with cargo operations. Ten of these can be categorized as major ports.
- **Telecommunications.** The telephone infrastructure cannot support adequate services by developed-country standards.
- **Energy.** There are 14 electrical-power plants with a total generating capacity of 3,192 mega-watts. The system consists of pre-1959 US-built plants as well as newer Japanese, French and Soviet-bloc facilities.
- **Mining.** Cuba has identified over 200 mining deposits, many of which have not been exploited due to the lack of capital and know how.
- **Construction.** The island is well poised to deal with new construction demands. There are six cement plants with a combined capacity of 5.3 million Mt/year, as well as, 22 facilities to produce prefabricated homes and 11 brick plants scattered throughout the country.
- **Industrial Facilities.** Cuba's industrial plants are surprisingly diverse in capabilities, quality and products produced. They manufacture products as varied as cranes, engines, steel containers, elevators, railway cars and complete sugar mills.
- **Agriculture.** Cuba is best known for its agricultural industry. The country produces sugar, citrus products, tobacco, coffee, bananas, potatoes, rice, winter vegetables, tropical fruits and other crops.

Ship Repair Facilities



Meet the Partners

OSCAR J. ABELLO

Educated in Cuba and the United States, is the retired Chairman, President and Chief Executive of Kerr Steamship Company, Inc., "K" Line America, Inc., The Rail Bridge Corp., Maritime Computers Corp., Co-Chairman of Radisson Seven Seas Cruises, and currently, Executive Chairman of Data Solutions Corporation, and of Marine Cargo Line, LLC. He brings knowledge and experience in international and domestic transportation, information technology, the cruise industry, and international trade.

TEO A. BABUN, JR.

Is a graduate in Electrical Engineer, and holds an MBA and a Doctor of Letters. He is the author of a number of manuscripts and reports on Cuban business, political, and economic issues, including the best seller, *The Business Guide to Cuba*. He is a frequent commentator, writer, and speaker on Cuba economics and infrastructure issues. He brings knowledge and experience in manufacturing, distribution, logistics, shipping, and non-profit management.

EDUARDO DEL RIEGO

Is an MBA from the University of California. Formerly with Crowley Maritime, he was later an executive with Sea-Land Agencies, Southern Steamship Agency, and Inchcape Shipping, where he served in the Executive Board. More recently he has been active in creating and nurturing the growth of several technology companies, and is a shareholder in several U.S. and Latin America shipping concerns. He is President & CEO of Data Solutions Corporation.

JOSE R. ORO

Holds advanced degrees in geological studies from Cuba, Holland, and the former Soviet Union. Held key executive positions in Cuba's Ministry of Basic Industry, and in *La Academia de Ciencias de Cuba*, and is the author of a large number of books and scientific manuscripts on a multitude of subjects dealing with Cuba. He is a senior advisor to companies in consulting, mining and transportation. He brings knowledge and operational experience in heavy industry, construction materials, and international trade.

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