



BabunGroup

BabunGroup Consulting, Inc.

CUBA CHANGE NEWS ALERT

EXCLUSIVE NEWS OF POTENTIAL INTEREST TO OUR CLIENTS & FRIENDS

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ANALYSIS OF RECENT EVENTS IN CUBA AND ELSEWHERE

Recent events throughout Latin America and the declining health of Cuba's long-term leader Fidel Castro have begun to refocus attention on the role of Cuba. Many questions and many opinions exist as to how a change in political leadership will unfold within Cuba and the region, and how U.S. policies, attitudes and actions towards the island will influence current and future events for this nation in transition.

The Political

Officially Fidel passed on presidential powers to his brother Raúl, and other powers to a transition team which includes: Vice President Carlos Lage, Foreign Minister Felipe Pérez Roque, President of the Central Bank Francisco Soberón, Health Minister José Ramón Balaguer, Communist Party leader Esteban Lazo, and secretariat member José Ramón Machado Ventura, in addition to Defense Minister Raúl Castro.

Raul has pressing domestic priorities: to consolidate the succession, strengthen the communist party, and provide more material benefits for the populace. Assertive internationalist policies would be a distraction. As a result, perhaps Raul will acquiesce in Chavez's de facto leadership of non-aligned, anti-American causes with the hope of retaining Venezuelan economic largesse while staying focused on Cuban internal economic priorities.

Following the collapse of communism in the Soviet Union and Eastern Europe in 1991, the Cuban political leadership continued to argue that Marxist-Leninist principles still constituted the basis of official ideology. But Raul Castro is well informed that the main desire of most of the Cuban living in the Island is an improvement of their standard of living, with emphasis in housing (this may be the No.1 problem today, with 1.25 million houses needed), more employment opportunities, alimentary sector improvements, and quick solutions in the transportation sector.

Raul and many other members of the Cuban government know that they can not satisfy these needs without opening step-by-step the Cuban economy to the private sector both within Cuba and to foreign investors, and without doing business with the United States.

The Economy

The Cuban economy is already recovering from the brutal crisis of the 1990's, with the end of the economic support from the Soviet Union. This year the trade sector will grow 27%, reaching a total value of US\$10 billion, mainly propelled by the availability of energy (Venezuelan supplied) for the manufacturing sector and the exceptional price of nickel in the international market. The pharmaceutical and other non-traditional exports are also significantly growing this year.

The substantial annual subsidies and investments Venezuela provides are now crucial to the health of Cuba's economy. The supply of the crude oil required for the Cuban energy sector to work, is a major part of this ideologically based economic support that the current Venezuelan government provides to Cuba. Chavez could provoke instability on the island with the stroke of a pen, or just with a punitive or petulant nod. The same effect can be the result of Chavez falling from power or being forced to govern in a coalition environment, limiting his powers.

The Advice

We believe the time is ripe to renew efforts to remain informed about the situation in Cuba and to determine where the comparative advantages for investors will be depending on the model that ultimately surfaces.

For More information

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"Its commanding position, its safe and capacious harbor of the Havana, the nature of its productions and of its wants, give it an importance with which that of no other foreign territory can be compared".

John Quincy Adams

President of the United States

1823