



BabunGroup

BabunGroup Consulting, Inc.

## CUBA CHANGE NEWS ALERT

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

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### **As the Fate of Cuba Hangs in the Balance**

#### **Summary/ Introduction:**

Cuba remains in limbo, and on the verge of a major transition. Fidel has not died and this is creating a dreadful internal situation. Everyone seems to be waiting for Fidel to die before they move forward certain target reforms.

The recent death of Vilma Espin (Raul Castro's wife) changes nothing and will have no impact. They have been living separate lives for many years.

#### **Present Situation-Domestic Affairs**

##### **Latest regarding Fidel Castro's health:**

The 80-year-old's exact condition is a state secret. But it is not a secret that he had several operations that were not initially successful, have spent "many months" being fed intravenously, and has been hospitalized for the last 12 months. The key news sources were: a published editorial written by Fidel himself, and a fifty-minute pre-recorded interview broadcast on Cuban National Television in early June, in which Castro, still clearly weak, aimlessly reminisced and at times appeared a bit incoherent.

A senior American intelligence official confirmed in a meeting with reporters that Castro indeed suffers from Parkinson's disease, diverticulitis (a condition which makes him highly susceptible to infections), and perhaps Crohn's disease, a debilitating inflammation of the digestive tract. And reports are that he was fitted with an artificial anus during the first operation in July of last year.

Since March 28<sup>th</sup>, Fidel has published under his signature more than 15 "Reflections of the Commander in Chief". Most of the articles have been on personal and world political issues until, starting in late June he started writing more about internal Cuba politics, fueling speculation that his health is improving, and that he has not resigned himself to the role of an elder statesman who intends, voluntarily or not, mostly to "reflect". The big questions now are what his true condition is, whether he will get better and what role he will try to take in running the country.

On July 3<sup>rd</sup>, in an article for the *American Chronicle*, William Ratliff wrote that "Taking what little we know for sure, what might Cubans and the world expect now? Fidel could still be a terrible spoiler, in Cuba as well as abroad. His adamant, decades-long commitment to failed socialist formulas got Cuba into its current mess. Were he to actively press these formulas again, the transition already tentatively underway could be de-railed."

##### **Other Recent Domestic Issues:**

Cuba called a failed attempt to hijack an airplane involving two army recruits an "act of terror promoted by the United States." This is the second incident involving guns and soldiers in the last 40 days-both in eastern Cuba. In an unrelated speech, Cabinet Secretary Carlos Lage in April told communist youth leaders that the current system is ``not as ideal as the one we

wished for, or achieved years ago." "We always knew the biggest challenge . . . is to instill in young people a communist conscience and rejection of capitalism, without having lived in it, without having seen the moral damage it produces," Lage said.

The key figures:

- **Raul Castro:**

Since March, he has publicly stopped every new effort that he had promoted or supported during the last six months of 2006. This apparent timid reaction to Fidel's improved health will make it harder for Raul to govern following Fidel's death; every day that goes by he is developing less prestige and confidence from his peers.

On June 26<sup>th</sup>, Political Analyst, Carlos Alberto Montanel wrote the following thoughts in The Miami Herald: "the relations between the two brothers rest on foundations that are totally perverse. Fidel, five years older than Raúl, feels an enormous moral contempt for his brother and tells him so, fairly frequently. Fidel values Raúl's absolute loyalty and admits that he has a notable instinct for the bureaucratic management of the armed forces but considers him frivolous. Fidel is annoyed by Raúl's episodes of alcoholism, reproaches his limited capacity for political analysis, is irritated by his brother's notorious lack of intellectual curiosity and criticizes him for the fatal behavioral flaw that allows Raúl's yokel humor and vulgarity to liquidate all vestiges of the majesty that Fidel believes should permanently envelop any leader."

He added that "In turn, Raúl has lived psychologically and emotionally subordinated to a brother he admires, even though Fidel always has exerted his authority through intimidation and verbal and physical abuse and at times has resorted to another type of punishment: an implacable silence. In moments of deep anger, Fidel does not speak to Raúl, and Raúl feels forsaken and the victim of that feeling of guilt he first experienced in childhood. Raúl is so afraid of Fidel that Gabriel García Márquez, on more than one occasion, has carried to Fidel the messages Raúl did not have the nerve to deliver in person."

- **Carlos Lage (Vice president):**

He seems to be gaining the most in the current period of uncertainty. The rumor (humor) mill is that Lage has taken the lead and is now "the prime minister of both Cuba and Venezuela". In fact, the comments heard on the street are that "Fidel and Raul symbolize the revolution, and are our mentors, but the guy that really counts is Lage".

On a more serious note, Lage appears to have become the unofficial manager of the informal Trade Union Federacion de Republicas (ALBA) between Venezuela, Bolivia, Nicaragua, and Cuba. Venezuelan President Hugo Chavez is busy trying to recruit other countries, and recently announced that Iran will join.

### Economy

- Cuba says it will spend about US\$185 million to upgrade tourism facilities in an attempt to reverse this sector's decline. package and hotel rates remain 20 percent less in the Dominican Republic, and in Cancun they are similar but the service is far superior,"
- Cuba's largest foreign investor, Sherritt International Corp. sees business running smoothly under acting President Raul Castro and will push ahead with a \$1.2 billion expansion in nickel mining, and oil and electricity production. Sherritt Executive Chairman Ian Delaney said there has been no adverse impact on the business climate since Fidel Castro took ill last year.
- China signed new cooperation agreements in medicine and biotechnology. China's projects range from investing in potential oil reserves in the Straits of Florida; a joint Havana-Beijing venture to produce Cuban bio-medical products in China; and plans to

build two Chinese plants to manufacture household appliances for both Cuba and Latin America.

- The state energy firms of Vietnam and Cuba signed contracts for oil exploration and drilling both in the Gulf of Mexico and on shore. The Vietnamese oil company joins the Spanish-Argentine consortium Repsol-YPF, which shares some blocks with Norway's Norks Hydro and ONGC of India, as well as with Canada's Sherrit, and the Malaysian firm Petronas in the exploration of Cuba's deep-water deposits. Cuban authorities believe that, should the exploration and prospecting in the 59 blocks located in deep waters prove satisfactory, they could be able to begin commercializing crude on 2011 or 2012.
- The economy is rumored to be so much better that they could reach the production levels of 1989 (their best year) by the end of this year.
- Cuba is doing everything possible to mitigate any possibility of a negative massive public reaction following an announced death of Fidel due to economic reasons, so they are repaying debts to farmers and promising higher prices for milk and meat in an attempt to increase food production, the state had paid off 550 million pesos (\$23 million) in debts to the small farmers and cooperatives that grow two-thirds of the island's fruits and vegetables.

### **Exile Community**

- On June 22<sup>nd</sup> Cuban-American lawyers conducted a conference at St. Thomas University School of Law titled "Preparing for Cuba Business Opportunities and Obstacles: The Legal Issues."
- On July 10<sup>th</sup> the newly confirmed USAID Assistant Administrator for Latin America & the Caribbean, Dr. Paul J. Bonicelli, and the U.S. Department of State's Cuba Transition Coordinator will unveil the U.S. Government efforts to support a democratic transition in Cuba to exile leaders in Coral Gables, Florida, while Commerce Secretary Carlos Gutierrez continues to be the official spokesperson for the administration's position on Cuba.
- The Cuban Transition Project at the University of Miami published a white paper on how foreign investors are defying the Helms-Burton Act with emphasis on France-based Bouygues SA (the Bouygues Group), one of Europe's largest conglomerates.

### **US-Cuba Relations**

- Cuba sent a clear message to the U.S. Government that they will no longer welcome plane hijackers or convicted criminal who are fleeing from U.S. law. They returned two fugitives that were living in Cuba.
- President George W Bush appealed for Pope Benedict's help in turning Cuba away from communism once Fidel Castro is dead. The United States wants the Pope to act as an "honest broker" between it and Cuba. Mr Bush's appeal over Cuba came after a leaked memorandum put together by the US State Department warned that the death of Castro could lead to huge instability on the island.
- Several third countries and foreign individuals, presumed to be carrying messages from Havana, have approached the U.S. government since Fidel Castro took ill. But the State Department told Havana to use formal channels if it wants to communicate with Washington. U.S. officials declined to identify the intermediaries, but one said that "many third countries and individuals" have offered themselves as go-betweens with Cuba, presumably with the approval of Raúl Castro.

### **U.S. Congress:**

- On June 18<sup>th</sup>, the U.S. International Trade Commission (in response to a mandate by the Senate Finance Committee) wrapped up a five-day visit to Cuba to gauge how Communist authorities might react if U.S. agriculture trade rules and travel restrictions were lifted. The U.S. Senate Committee on Finances requested the independent government investigation on the effects on the U.S. economy of easing the restrictions on agricultural sales to the Caribbean island. The report is expected in mid-July.
- Lawmakers from both parties proposed opening up agriculture exports to Cuba and ending travel restrictions. Leading the effort is Senate Finance Committee Chairman Max Baucus, D-Mont., who with other farm state lawmakers has long pushed for ending the restrictions on trade with Cuba. Baucus was joined in his effort by House Ways and Means Committee Chairman Charles Rangel, D-N.Y., and two farm-state Republicans, Rep. Jo Ann Emerson of Missouri and Sen. Mike Crapo of Idaho. Also in the mix is Rep. Jeff Flake of Arizona, and Jeff Moran of Kansas. But the Bush administration's tough policies on Cuba are not in trouble. The reasons include more pressing priorities like Iraq and immigration reform. Many Democrats prefer to wait for the political picture in Havana to clear up before moving to change policy, the staffers and activists say. Many lawmakers are waiting for the post-Fidel Castro transition to unfold.
- And even if amendments pass the House, they would face big hurdles. Approval in the Senate is less likely, in part because of procedural matters and in part because Senate leader Harry Reid, D-Nev., supports a tough line on Cuba, and the President has vowed to veto any bill easing trade restrictions on Cuba.
- The U.S. House of Representatives did agreed to ease restrictions on agricultural trade with Cuba, so that Cubans would no longer have to pay in advance for goods shipped to the island. Lawmakers passed the measure by voice vote on June 29th. Supporters of the measure say it would eliminate delays in shipping goods to Cuba. But opponents say the current pay-first rule keeps Cuba from defaulting on its debts to U.S. exporters. To become law, the measure would still need to be approved by the Senate and signed by President Bush.

### **Other Foreign Affairs**

- In May, the governments of Cuba and Spain held what they called "their first round of talks on human rights", but the Spanish Foreign Minister did not hold talks with dissidents. Secretary of State Condoleezza Rice bluntly criticized Spain for its close contacts with Cuba during an eight-hour visit to Madrid, and prodded the Spanish government to do more to support dissidents in Cuba as it prepares for what she called a "major transition"
- Secretary of State Condoleezza Rice told the annual gathering of foreign ministers from the OAS in Panama that "a process of change is taking place in Cuba, and the OAS must be ready to help the Cuban people realize their aspirations and freedom and to secure the rights that are now enjoyed within our democratic community of the Americas." The State Department official said it was the first time that Washington had asked the OAS to consider the issue. Cuba was suspended from the OAS in 1962, and the OAS has democracy clauses that would bar Havana from returning. U.S. officials say the administration wants the OAS to be prepared in the event a transition begins in Cuba.
- On June 18th the European Union reached to the new Cuban government, inviting a delegation to Brussels for what it called "open political dialogue" – on the condition that they discuss human rights. The EU said the temporary transfer of power from Fidel Castro to his brother Raul constituted a "new situation" and said it was ready to resume discussion with Cuban authorities on political, human rights and economic issues. But Cuba rejected the calls from the European Union for negotiations to improve relations until the EU scraps the existing sanctions against the island.

### **Our Comments/Opinion**

We still believe that because of Raul Castro's sympathy for the so-called Chinese or Vietnamese style market-oriented reform in the economy, and as long as Fidel does nothing to impede it, the lives of the Cuban people will continue to show some improvement, and, following the announced death of Fidel, the prospects for serious civil conflict will be substantially reduced. However we remind our clients and friends that the so-called Chinese economic model is still socialist, under the continuing direction of a single party and repression of politics; so the Cuban Government may be able to mitigate public reaction for economic reasons, but will they be able to control the pent-up actions of recrimination?

### **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**

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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.***