



BabunGroup

BabunGroup Consulting, Inc.

CUBA CHANGE NEWS ALERT

EXCLUSIVE NEWS OF POTENTIAL INTEREST TO OUR CLIENTS & FRIENDS

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A Turn to the Bizarre... A Country in a “Screen Saving” Mode

About our Special Report of August 24, 2007

Soon after publishing our Special Report, a number of other credible rumors regarding Fidel Castro’s death or terminal condition began to circulate around the world. Two days later, a spokesman for the U.S. State Department stated that in the past, the Cuban Government has been known for floating rumors.

We published the report because we believe that Fidel Castro’s death would represent a crisis for Cuba, and crisis breeds change.

On September 21st the ailing Cuban leader made a surprise appearance on Cuban television, speaking slowly and looking visibly aged.

Summary/ Introduction

Cuba is a country in a “screen saver” mode. "Everything is in suspended animation," said Daniel Erikson of Inter-American Dialogue, a Washington, D.C.-based think tank. "No one is willing to make any big moves...This could go on awhile."

Raúl Castro is facing deficient public transport, decrepit housing, inefficient food production and low wages. He has (and he wants) to urgently solve these problems or he could face an implosion. But a big worry for Raul and the other leaders is that reforms could trigger an unstoppable process of change, such as that under Gorbachev which led to the collapse of the Soviet Union.

The Economy

- HSBC, Barclays, Credit Suisse, Royal Bank of Canada and the Bank of Nova Scotia, also known as Scotiabank, have closed accounts of Cuban companies or reduced business tied to Cuba since last year to comply with US regulations. “Canadian banks have told clients to close their accounts and their credit cards because they have a business address in Cuba,” said Canadian Mario Simonato, who imports vehicles and heavy equipment into Cuba.
- ING Groep NV , the first big Western bank to set up business in Communist Cuba, doing so in 1994, said two weeks ago that it will close its Havana office. Experts attribute this action to heightened scrutiny of banking transactions by the United States since the September 11 attacks.
- Russia's Ulyanovsk-based Aviastar-SP has delivered the first of four Tu-204SE transport airplanes (medium haul airliner) it is building for Cuba's flagship carrier, *Cubana de*

Aviacion. The second plane will be transferred to the Cuban airline later in August, while the remaining two, including one passenger jet (for the Cuba-Venezuela run), will be delivered in the fourth quarter of this year.

Important Domestic Affairs

- Ratcheting up his fight against corruption and mismanagement in Cuba, interim leader Raúl Castro has signed a decree requiring tough, swift and long-lasting punishment for public officials who violate labor rules. The decree published in the Official Gazette, covers the enforcement of earlier decrees designed to counter official corruption and illegal but widespread workplace activities, including petty thievery of public supplies, 4-hour work days and hiring friends for good jobs.

Some Cuban experts believe that this new decree is really a “warning shot” not against corruption itself, but against possible panic. It seems that some within the hierarchy think that the death of Fidel could provoke a collapse of the system, and the manifestation would be accelerated theft and capital flight.

It is also known that in the Cuban system, thousands of Party dignitaries live from what they can get—none have lived within their salary means. Raúl may be publicly threatening the leadership but at the same time providing favors to gain support.

- The 31st Ordinary Assembly of the Latin American Episcopal Council (CELAM) is held at Havana’s Archdiocese. A Conference of Catholic Bishops held a dialogue with the Cuban Government. And in an apparent act of appreciation for the Conference of Catholic Bishop’s dialogue, and for the closing of the aggressive Catholic Newsletter “Vital”—the Cuban Government allowed 90 open air processions and 10 radio messages by bishops during the feast day of Our Lady of Charity; an important celebration for the Catholic Church in Cuba. In the past, 50 open air processions were normally allowed.
- Authorized “group discussions” are taking place around the country to discuss the economic situation, and of “of anything they want to talk about”, said Raúl Castro. A common complaint at the discussion groups has been Cuba’s dual currency system, under which state salaries are paid in pesos and consumer goods are sold in hard currency. Other complaints range from low wages, which average about \$15 a month, and poor services to many restrictions.
- A recent documentary created for Cuba consumption was duplicated and shown in south Florida; the documentary highlighted in great detail the state of discrimination of Cubans living in the eastern provinces and their hope that Fidel would solve their problem “once he became aware of the travesty”.
- Our sources in eastern Cuba reported that on September 18th and 19th students at the Universidad de Oriente, Cuba’s second largest were on strike in protest of their living conditions. Students refused to go to class, prompting the police to enter the university to get the students back into classes. Student actions of this type are unprecedented in Cuba since 1959.
- Radio 26 Matanzas in Cuba reported that on Saturday, September 22nd, 65 teenagers from the Versailles neighborhood were arrested by the police after a small riot broke out—no specifics were reported.
- About 16,100 undocumented Cubans have arrived in the United States in this fiscal year, which ends Sept. 30 - 1,749 more than last year. Whether Fidel Castro's departure from Cuban affairs on July 31, 2006, has played a role in the spike in migrants remains unclear.
- On August 17th, a little-known group of rural Cuban women said it has gathered more than 6,000 signatures petitioning lawmakers to study the possibility of a law closing the gaps in a dual economy they say hurts the island’s poorest people the most. The petition asks the government to allow the use of standard Cuban pesos – the currency of state employee salaries – in upscale stores, restaurants and hotels that only accept the convertible Cuban

peso, whose value is linked to the U.S. dollar. It is difficult to ascertain who is “feeding” this new populist movement.

Latest Regarding Fidel Castro

On September 21st the Cuban leader gave his first television interview in more than three months. In a conversation that was at time difficult to follow, Castro, 81, spoke slowly, and often trailed off mid-sentence, needing prodding from the presenter to help him finish some of his thoughts. Fidel's health is still a mystery for most people.

Fidel Castro has not been seen in public for nearly 14 months, but he's certainly been heard from. About 45 "*Reflections of the Commander in Chief*" have appeared under his signature in the last six months, pontificating on the state of the world, cataloging a lifetime of anti-U.S. sentiment.

In recent months The *Reflections* have turned bizarre. The *Reflections* which always appear under Fidel's signature, have recently denied the September 11th crash of a civilian airplane into the Pentagon Building in Washington, DC, and publicly criticized and even ridiculed (calling them “super-revolutionaries”) foreign friends of the Revolution for suggesting steps to save the Cuban system.

On July 30th, a *Reflection* slapped down Raúl Castro for suggesting in a speech on "Revolution Day" that Cuba hold talks with Washington. The *Reflection* quotes the elder Castro as writing, "No one should entertain the slightest illusion that the empire, which carries the genes of its own destruction, will negotiate with Cuba."

As for the economy, in another *Reflection*, Fidel seemingly ridiculed the idea that Cuba should follow the example of China by freeing the market while retaining Communist Party control. "The standard of living can be improved by raising knowledge, self-esteem and dignity of the people," he apparently wrote.

The key figures

Raúl Castro

Most western observers believe Raúl is running day-to-day government. What is less clear is who is setting the political agenda.

In an hour-long keynote televised address before a 100,000 strong crowd on July 26th, Raúl acknowledged there were problems with the economy and changes were needed. Raúl announced (for a second time) his intention to make some changes in the way Cuba runs its economy. He noted the need for Cuba to make some structural changes, without specifying how much change is needed.

Again, repeating a message he gave in his first speech in December 2006, Raúl stated that "If the new United States authorities would finally desist from their arrogance and decide to converse in a civilized manner, it would be a welcome change

A multitude of newspaper articles published in official media are reporting in great details the efforts being made throughout the country to improve the production and distribution of milk and other food stuff to the general population. This is an apparent attempt to improve Raul's image and status as a believable (problem solving) leader.

Carlos Lage Davila

In response to an embarrassing *Reflections of the Commander in Chief* by Fidel Castro, protesting that “the petroleum industry only finds heavy crude (oil)”, Lage published a detailed article in the official newspapers noting that Cuba was now producing almost half of the

petroleum and natural gas that it was consuming. "This is good news for the economy of our country" he added. (Cuba has announced oil reserves of about 1.8 billion barrels located in deep water, and needing high technology for production).

Vice President Lage, who is surfacing as a strong ally of Hugo Chavez of Venezuela, also squashed speculation that Cuba is heading toward Chinese-style reforms of its economy. However, only a month after making this statement, Lage's son (Carlos Lage Codorniu, president of the Federation of University Students (FEU), the largest governmental organization of university students in the country) said to the Spanish media EFE that in his opinion socialism does not need to be divorced from the quality of life of the people, and that he recognized the need for changes in Cuba so that when the people (get) a plate of food they could "feel the good deeds of the revolution".

Ramiro Valdez

The Ministry of Communications under the direction of Ramiro Valdez, announced that effective on August 18, 2007 reporters of radio and television stations will no longer have access to the Internet. An official letter, signed by Valdez, who is a well-known friend of Russia's Vladimir Putin (and suspected of being a former KGB agent), was sent to all the information agencies and media in the country. The letter calls for specific qualification of reporters to have limited access to the internet.

Exiles and Diaspora

- The Cuba Study Group, a politically active exile organization, announced on August 4th that they plan to raise \$300 million to help develop Cuba's post-communism economy by aiding business start-ups. The Study Group's members, who include some wealthy Cuban exiles, will have no financial interest in the fund. The initiative is modeled after the successful U.S. enterprise funds created by Congress through the Support for Eastern European Democracy Act of 1989, following the fall of the Berlin Wall.
- In Miami, business leaders and investors are closely watching developments in Cuba. Many view potential political change there as an opportunity. Thomas Herzfeld, an investment advisor, has established a portfolio of American companies set to benefit if the US embargo against Cuba is lifted. "From early on we decided that once the trade was resumed with Cuba, there would be a boom in that country. This boom we believe would proliferate throughout the region. But of course being a US investor and a US citizen we can't invest directly in that country so we have invested in companies that we believe will do well even if trade is not resumed with Cuba, but also in companies that would benefit once trade is resumed." The \$16 million fund trades on the Nasdaq with the ticker symbol "Cuba".
- The U.S.-Cuba Democracy Political Action Committee (PAC), founded at the end of 2003, has given \$322,500 in political donations in the 2007-2008 cycle, including \$10,000 to House Majority Whip James Clyburn (D-S.C.). Clyburn, who has previously voted to lift the Cuban trade embargo,. However, in July, Clyburn voted against a more limited measure sponsored by Ways and Means Committee Chairman Charles Rangel (D-N.Y.) that would have eased certain restrictions on agricultural trade with Cuba.

US-Cuba Relations

- Speaking on July 10th at the University of Miami, Caleb McCarry, the State Department's designated "Cuba Transition Coordinator," says the United States is currently "stepping up" efforts to encourage civil society on the island and "will continue to do so," adding that federal and local officials have held joint exercises in Florida to prepare for the day *EI*

Comandante finally expires. "This is an opportunity for the Cuban people that can't be lost."

- The Cuban foreign ministry said the US was intentionally delaying meeting the visa quota to destabilize the country. The deal was reached in 1994, after thousands fled Cuba on makeshift rafts. Cuba says the U.S. is not issuing as many visas as promised to allow Cubans to enter; the U.S. had agreed to issue 20,000 visas per year after huge influx of Cubans in 1994. The United States said it cannot meet an agreed quota of 20,000 visas for Cuban émigrés this year because Cuba is obstructing its consular work in Havana.
- On September 7th the U.S. Senate agreed to restore President Bush's requested \$47 million funding for Cuba opposition groups. The House defeated a similar measure before the summer recess.
- The US Commerce Department estimates Cuba will import \$300 million to \$350 million in goods from the US this year.

Venezuela-Cuba Relations

- The Venezuelan Petroleum Corporation and Cuban CUPET start the first project for offshore exploration in Cuba.
- Venezuelan oil subsidies to Cuba rose to \$3.4 billion in 2006 and may top \$4 billion this year, as the Caribbean nation's reliance on aid from ally Hugo Chavez intensified. Venezuela ships from 90,000 to 103,000 barrels of crude per day depending on tanker vessel availability.
- Cuba pays for most of its Venezuelan oil with social services rendered by specialists from approximately 14,000 doctors to sports trainers. "More than 50 percent of the bill is paid in this manner," Cuban Ambassador to Venezuela, German Sanchez Otero told Dow Jones Newswires

Other Foreign Affairs

- Cuba will hold informal talks with the European Union (EU) next December in New York City under the framework of the United Nations General Assembly. Cuban Foreign Minister Felipe Perez Roque said he will hold talks with his Spanish counterpart Miguel Angel Moratinos on the sidelines of the ongoing UN General Assembly as agreed by the two sides in June.
- Mexico's relations with Venezuela and Cuba are regaining pace and the three countries plan to exchange ambassadors, Mexico's foreign minister said recently. "All three governments value the importance of relaunching and formalizing diplomatic relations, something which could happen very soon," Foreign Minister Patricia Espinosa Cantellano said. "We will soon receive Cuba's and Venezuela's ambassadors." Mexico broke off diplomatic relations with both nations during the 2000 to 2006 government of President Vicente Fox due to contradictory positions on various issues.
- Canada's relationship with Cuba is being "redefined" under the Stephen Harper Conservative government, said Cuban Government official Raul Rodriguez during a public lecture at Thompson Rivers University "They are showing more coincidence with the U.S., and that's something we're following very closely in Cuba." He added.
- On August 1st, two Hungarians were detained and expelled from Cuba after authorities accused them of maintaining political contacts with Cubans, Free Democrat caucus leader Mátyás Eörsi told reporters. And The Cuban government brands Hungary an "imperial accomplice" of Washington for granting asylum to a group of Cubans in hunger strike at the Guantanamo Naval Base.

Our Comments/Opinion

Low wages, food shortages and poor public transport seem to be the complaints that dominate conversations on the streets-much more than questions concerning political

freedom. The Cuban people appear to be generally pessimistic. The feeling is that “Fidel can’t govern because he is sick, but he is also not letting anyone else govern”.

There is no question that Raúl is attempting to build credibility as a leader with the Cuban people. Perhaps one of the dangers of Raúl’s recent statements about his intentions to make things better, and the “group discussions” regarding economic problems is that he is also creating expectations. And we are not sure how long the people will give him to make good on those promises. Fidel was always careful to blame “the enemies of the Revolution” for most of the country’s economic problems, thereby diverting expectations away from him.

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.