



BabunGroup

BabunGroup Consulting, Inc.

## CUBA CHANGE NEWS ALERT

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

April, 2008

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### **After a short quiet period...an explosion of activities!**

#### *Our analysis*

Fidel leaves, but he somewhat stays. The new president Raúl agreed to delegate his attributes and consult Fidel on all of the important topics. The parliament supported that proposal unanimously. Fidel has been reserved the veto power. He will continue governing, albeit behind the scene, until his death.

Raúl's presidency has three main objectives: 1) survive by keeping the Revolution from self-destruction from the tensions and divisions that have swelled through the leadership ranks, with hardliners demanding much tougher measures to restrain manifestations of grievances and moderates hoping they can somehow reorganize the government, 2) prepare and present a form of government that can be marketed as "worthy" or at least perceived to be in a "pre-transition state" to the new U.S. president and Congress so that normalizing of relations can begin, and 3) prepare the population for the permanent absence of Fidel and a younger leadership crew led mostly by Vice-President Carlos Lage.

Raúl's first tactic is to solve the more urgent problems which he inherited from the devastating Fidel era. He is convinced that the Cubans, in fact, don't want freedoms as their first priority now, but instead, want bread with butter. He believes that if the government improves the supply of food and the population lives a little better, they will give him time to govern.

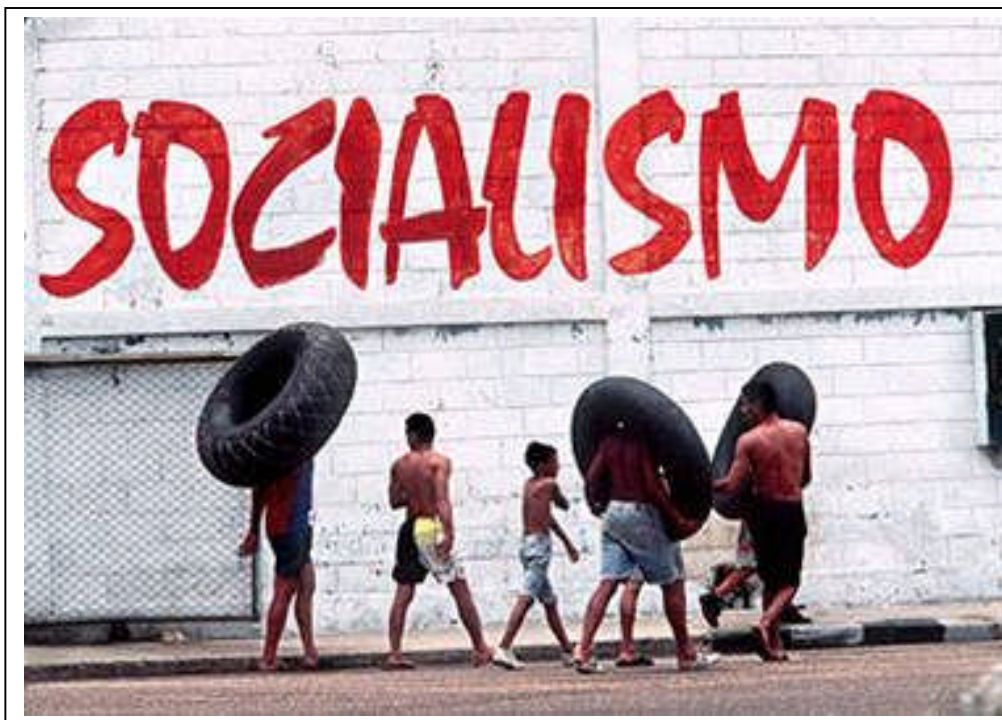
Here is what we can expect from Raúl in Cuba's future:

- In the first 12 months we could expect a more productive country with fewer needs in the food area. Expect elimination on restriction on wages received for work performed and even authority for Cubans to hire other Cubans.
- In the mid-term (13 to 36 months) we expect a drive to make Cuba look as a less rigid society, with wider opinion spaces. The recent publication of a speech by cardinal's Bertone announcing that Raúl would consider some possible gestures toward the Catholic Church could be a preview of this. Expect allowance for a monthly Catholic radio program, and more action related to the United Nations Agreements on Human Rights.
- In the long term (60 to 72 months) expect that Raúl would have taken elements from various economic models such as Vietnam, China, Russia and even Eastern European countries but randomly not as a system to create its own Cuban model controlled by the old friends of the party, and of the army, who will manage all the threads of the political and economic power, guaranteeing the maintenance of the elite, capable of auto renewing itself, until the historical communism is dissolved and converted into an acceptable Latin American model. The model will include an "exit strategy" for Raúl and his closest friends for protection against international persecution ala Pinochet or Fujimori.

But Raul may be mistaken; his basic premises may fail. He may not even truly believe that he can succeed, and may be just trying to delay the moment the communist system falls apart in Cuba.

Cubans may initially accept bread over freedoms, but eventually (after bread, or electricity or public transportation is no longer the main question) their expectations could grow out of control. For example, in a recent video conference where a group of eighteen to twenty-five year-old Cubans interacted with Cuban-American university students from the University of Miami, the Cubans were uninhibited, surprisingly eager to air their grievances. They spoke of their desire for “liberty, freedom, and structural and political change”.

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***Balseros* to Florida could become a problem again**

## **Business News on Cuba**

- **RAILWAY PRODUCTS FROM CHINA, IRAN**

Cuba has purchased 100 locomotives from China, and 550 freight cars and 200 passenger coaches from Iran, said Cuban Transport Minister Jorge Luis Sierra Cruz, reports ACN (Jan. 31, 2008). When operating, the new equipment will greatly improve transportation between Havana and the eastern part of the island, he said, adding that the investment involved in renovating the railroads is more than US\$500 million, and includes improving trains, tracks, sign-posting and communication systems. He said a good part of the engines and cars "currently being assembled" will be delivered to Cuba in 2009 and 2010.

- **NICKEL IS MAIN EXPORT**

Nickel consolidated its position as the island's main export in 2007, said the Minister of the Basic Industry (MINBAS), Yadira Garcia, reports ACN (Feb. 5, 2008). Nickel production is concentrated in the factories Rene Ramos Latour of Nicaro, and the Pedro Soto Alba and Ernesto Che Guevara in Moa, both in Holguin province. In 2007, the Cubaniquel business group, comprised of 19 productive and service companies, made the biggest contribution of its history to the national budget.

- **GOLD & COPPER MINES PLANNED**

Feasibility studies are underway with a view to opening gold and zinc-copper mines in the Cuban province of Villa Clara in 2009, reports ACN (Jan. 25, 2008). The study is part of a cooperation program between Cuba and Venezuela. "Our aim is to extend existing reserves and to start mining underground deposits by next year," said company director Argelio Abad. The studies, being carried out by the Central Geo Mining Co., have an increased importance because of the raise in the price of gold and the demand for copper and zinc on the world market. The Central Geo Mining Co. had a commercial production of more than 14 million pesos in 2007.

- **NEW ASTHMA VACCINES**

Three vaccines for treating asthma were developed and produced by the National Bio-Preparation Center (BIOCEN) in Bejucal, Havana in 2007, reports AIN (Jan. 30, 2008). Called Valergen, the vaccines are said to be effective in treating allergies triggered by the dust mite. The head of the allergens department of BIOCEN, Alexis Labrada, said that products to diagnose allergies were formerly obtained, and that the center now focuses on making remedies to treat food allergies, and mentioned one substance to apply on patients allergic to oranges.

- **CUBA BUYS \$300M WORTH OF RUSSIAN JETS**

Cuba has now used up a \$203.4 million credit line, having bought Tupolev Tu-204-100E passenger jets from Russia. Vneshekonombank, its subsidiary Rosek-simbank and VTB bank have closed the credit line opened for Cuba's Aviaimport SA in 2006 to fund the purchase of Ilyushin 11-96-300 and Tupolev Tu-204 aircraft. In so doing, the company used the third and fourth tranches of \$67.5 million each. Three 11-96-300 and three Tu-204 aircraft were sold to Cuba between 2005 and 2007. The total value of the deals is close to \$300 million, Prime-TASS said.

- **MEXICO TO RESTRUCTURE \$400M IN CUBA DEBT**

Mexico has agreed to restructure \$400 million in Cuban debt and re-open credit lines with Havana after a six-year hiatus to boost bilateral trade amid improving diplomatic ties. Reuters reported Feb. 17 that officials from Mexico's foreign trade bank Bancomext, who signed the deal in Havana, said the agreement would lift trade flows that fell to a historic low of \$200 million in 2007, less than half the levels of the 1990s. "With the signing of this agreement... a great step has been made to normalize financial and commercial ties between both countries," Bancomext said in a statement, without giving details of the restructuring plan. Traditionally close ties between Mexico and Cuba hit a low in 2004 when Mexico criticized Cuba's human rights record at the UN and former President Vicente Fox withdrew Jorge Bolaiios, Mexico's ambassador to Havana.

*Special Report*  
***PROSPECTS AMID THE EXCITEMENT***

The accession of a new leadership structure in Cuba has brightened the light at the end of the tunnel to the time when normal U.S. and Cuba diplomatic relations would resume. In this article, we try to make sense of the prospects amid the hype and assess which sectors could stand to benefit. As expected, the official retirement of Cuban leader Fidel Castro has triggered considerable excitement among the global investment community. With Fidel for all practical purpose now gone, the potential for regulation to slacken has opened the eyes of many US investors to the possibility of lucrative gains on the island.

For the US Congress to contemplate an aggressive move towards normalization of relations, the Cuban government may have to make some concessions beyond economic reforms. First on the list would be the release of political prisoners and a restoration of human rights legislation. Beyond this, we would expect to see an opening up of Cuba's market mechanisms, the holding of free elections and compensation for US investors whose property was expropriate during the revolution. Negotiation over such contentious issues could be a tortuous process, putting a dampener on potential investment opportunities for some time.

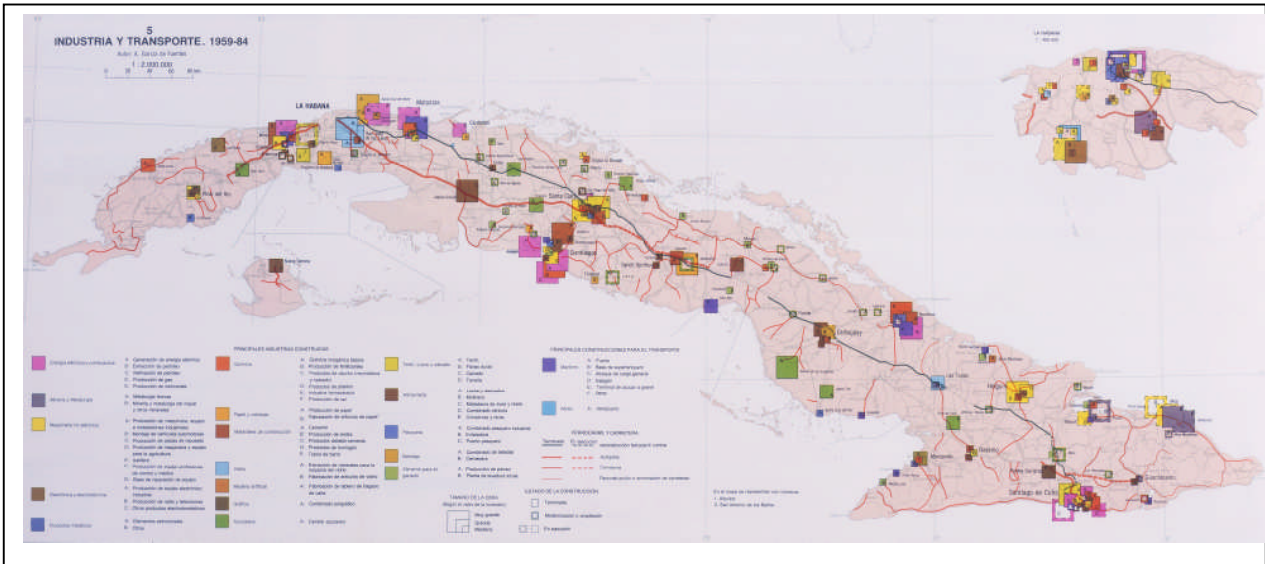
The US presidential elections could give us an insight into future policy on Cuba. While incumbent President George W. Bush has been a staunch defender of the embargo, leading contenders to replace him could take a softer stance. Of the leading Democrat candidates, Barack Obama has publicly supported easing controls on family-related travel and the transfer of remittances, while Hillary Clinton says that she is willing to respond positively to actions that demonstrate a willingness to change in Cuba. Meanwhile, Republican candidate John McCain believes that the removal of the embargo should be linked to evidence of a transition to a free and open democracy in Cuba.

Leaving the issue of timing aside, there is little doubt that economic liberalization would stimulate local economic activity. The most attractive opportunities could lie in the rebuilding of the island's antiquated infrastructure, and as such, would expect to see a rapid growth in real estate and transport. Cuban Americans, with relatively high levels of disposable income, would be a key driving force. Tourism numbers and expenditure have exhibited a decidedly upward trend over the past 15 years and a flood of capital from the US would generate even more investment in the sector. International companies that stand to benefit from an infrastructure drive in Cuba include air & ocean cargo shipping, architecture & engineering, construction materials, mining, and other transportation firms.

The potential impact on Cuba's exports is substantial. Sugar is Cuba's largest merchandise export, followed by nickel and tobacco. All three industries would benefit from having access to the US consumer, especially as the commodities boom continues to play out. The island's low wage structure leaves plenty of scope for growth in industrial operations. It has not gone unnoticed that British tobacco firm Imperial Tobacco Group recently bought Cuban cigar maker Altadis for roughly US\$15bn in January. This could prove a shrewd move, as Altadis has the world's biggest share of cigar sales and accounts for a substantial share of the global market. Other potential winners are industrial minerals, pharmaceuticals, fruit & vegetables, and cruise ship companies.

And we can't forget the energy sector where the US Geological Survey estimates that the North Cuba basin contains 4.6bn barrels (bbl) of undiscovered oil.

Companies interested in participating in a new Cuba should be thinking about market entry scenarios, the capitalization of state enterprises, funding strategies, property claims, and other emerging market entry issues. Among the key economic sectors to be thinking about are large and mid-sized business opportunities, tourism, mining/construction materials, and infrastructure issues such as: ports, highways, railroad, electric power, and water & sewer.



## MEET THE NEW GOVERNMENT

### **RAUL CASTRO RUZ**

President of the Council of State

### **V I C E P R E S I D E N T S**

#### **JOSE RAMON MACHADO VENTURA**

First vice President of the Council of State

#### **JUAN ALMEIDA BOSQUE**

Vice President

#### **JULIO CASAS REGUEIRO**

Vice President

#### **ESTEBAN LAZO HERNANDEZ**

Vice President

#### **CARLOS LAGE DAVILA**

Vice President

#### **ABELARDO COLOME IBARRA**

Vice President

### **M E M B E R S**

#### **JOSE MIGUEL MIYAR BARRUECO**

Secretary

#### **JOSE RAMON BALAGUER CABRERA**

#### **RAMIRO VALDES MENENDEZ**

#### **PEDRO SAEZ MONTEJO**

#### **LUIS S. HERRERA MARTINEZ**

#### **IRIS BETANCOURT TELLEZ**

#### **ROBERTO FERNANDEZ RETAMAR**

#### **FRANCISCO SOBERON VALDES**

#### **FELIPE PEREZ ROQUE**

#### **CARLOS VALENCIAGA DIAZ**

#### **ORLANDO LUGO FONTE**

#### **YOLANDA FERRER GOMEZ**

#### **SALVADOR VALDES MESA**

#### **JUAN JOSE RABILERO FONSECA**

#### **JULIO MARTINEZ RAMIREZ**

#### **MARIA DEL C. CONCEPCION GONZALEZ**

#### **TANIA LEON SILVEIRA**

#### **REGLA DAYANI ARMENTEROS MESA**

#### **INES MARIA CHAPMAN BOU**

#### **DIGNORA MONTANO PERDOMO**

#### **ZURIMA ACOSTA BROOK**

#### **GUILLERMO GARCIA FRIAS**

#### **LEOPOLDO CINTRA FRIAS**

#### **ALVARO LOPEZ MERA**



**Raúl Modesto Castro Ruz.** Born June 3, 1931, is the younger brother of former Cuban President Fidel Castro. Was the Maximum General of the Armed Forces (Army, Navy, and Air Force), second only to the Commander in Chief, Fidel Castro. By December, 2006 he attained de facto status of the nation's ruler.



**Jose Ramon Machado Ventura.** Member of the Political Bureau and Secretary of the Communist Party. Trusted by Raul.



**Carlos Lage Dávila**  
Born October 15, 1951. Lage has been described as Cuba's de facto prime minister. Lage trained as a pediatrician, before entering the Cuban government. In the early 1990's Lage became an adviser to Fidel Castro, gaining a reputation as Cuba's "primary economic fixer". More recently, Lage negotiated a guaranteed supply of subsidized oil from Venezuela.



**Esteban Lazo**  
Head of the Ideological Department of the Communist Party and symbolic figure by being ethnically black. He also directs, like member of the Political Bureau, the activity of International Relations of the Party. He is vice-president of the Council of State.



**General, Abelardo Colomé Ibarra**  
Born September 13, 1939, is an army corps general and bears the title *Hero of the Republic of Cuba* in recognition of his service.



**General, Julio Casas Regueiro**  
Veteran of the Revolution against Batista, was leader of the logistics of Cuban Armed Forces, in charge of the Industrial – Military complex (Cubanacan, Gaviota, other enterprises).



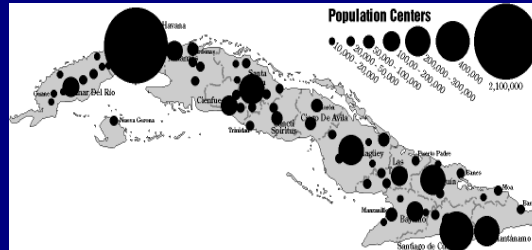
**Juan Almeida Bosque.** Born on 17th February, 1927. Attended the University of Havana where he met Fidel Castro, who was a candidate for Congress for the Cuban People's Party. Commander of the Revolution.



## BGC News and Consulting Activities



BabunGroup



On Wednesday February 20th, more than 100 engineers packed the University of Miami's "Casa Bacardi" to participate in a workshop titled "The Role of the Engineer in a Free Cuba". Dr. Teo A. Babun, President and CEO of BabunGroup Consulting provided the opening statement and assessment of Cuba's new government, and introduced Keynote Speaker, Dr. Juan A.B. Belt, the Director of the Energy and Information Technology Office for Economic Growth and Trade for USAID.

Only three days after defecting from Cuba, On February 25, 2008 BabunGroup Consulting had the privilege to extensively interview and engage Cuba's former Director of tourism, construction and investments Arq. Eduardo Rodriguez de la Vega y Parrilla. In the 1970's Mr. Rodriguez de la Vega distinguished himself by leading the efforts of industrialization that were taking place in Cuba, and later, in the 1980's was the architect of the overall tourism strategy and plan for the Island.

Since the accession of the new leadership structure in Cuba BGC has been engaged by new multinational corporations to help develop strategic market entry plans following normalization of relations between Cuba and the United States. The industries represented are mining products and tourism.

During the months of January and February, Dr. Babun also participated in multiple radio and television interviews related to Cuba's industry and investment potential following renewed relations with the United States.

## Special News

### Herzfeld Fund Skyrockets

Thomas J. Herzfeld's Caribbean Basin Fund is doing very well these days — all thanks to the resignation of Fidel Castro and his Feb. 24 replacement by younger brother Raul.

The fund, established in 1994, is a closed-end mutual fund that invests in U.S. companies that stand to benefit from the end of the United States embargo on Cuba, which began when Castro came to power on New Year's Day in 1959.

Fidel's resignation, according to *Forbes* magazine, sent the fund soaring 19.4%, or \$1.44, to \$8.88. The fund came public at \$5.20 a share, so investors have had to wait a long time for Herzfeld's thesis to play out.

According to *Forbes*, "this was not the first time the fund, which trades like a stock, skyrocketed as a result of the 81-year old leader's failing health. On Jan. 16, 2007, it surged 20% after it was reported that Castro was in serious condition following three surgeries on his large intestine. A few days later, it topped out at more than \$16 a share, but has seen its price erode since then."

Among the fund's five largest positions, the top gainer was Trailer Bridge, a trucking and marine freight carrier that provides truckload freight transportation from the mainland United States to Puerto Rico. It rose 9.8%, or \$1.05, to \$11.75. Seaboard, a shipper and commodity producer, was up 3.6%, or \$55.00. to \$1,590.00 per share.

*Details: Thomas Herzfeld, PO Box 161465, Miami, FL 33116. Tel: (305) 271-1900. Fax: (305) 270-1040. URL: [www.herzfeld.com](http://www.herzfeld.com).*

### CUBA'S FINANCIAL SNAPSHOT

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006s</u>	<u>2007e</u>	<u>2008f</u>	<u>2009f</u>	<u>2010f</u>	<u>2011f</u>	<u>2012f</u>
Nominal GDP	38.62	41.06	46.16	56.18	61.77	69.00	76.38	84.32	92.59	101.38
Population	11.23	11.24	11.24	11.24	11.27	11.31	11.34	11.37	11.41	11.44
GDP per capita	3,439.42	3,653.03	4,105.54	4,998.71	5,479.72	6,102.62	6,735.48	7,413.83	8,116.14	8,860.71
Real GDP	3.80	5.40	11.83	12.50	7.45	7.20	6.50	5.60	4.80	5.00
Annual inflation	7.10	4.10	3.10	5.70	2.50	4.50	4.20	4.80	5.00	4.50
Fiscal Balance	-2.78	-3.46	-4.21	-3.08	-3.19	-3.22	-3.28	-3.33	-3.40	3.49
Exports	1.67	2.19	1.99	2.76	3.30	3.60	4.00	4.50	5.00	5.50
Imports	4.61	5.56	7.53	9.42	12.60	14.80	16.20	18.00	19.00	19.50
Trade balance	-2.94	-3.37	-5.54	-6.66	-9.30	-11.20	-12.20	-13.50	-14.00	-14.00
Net External	12.20	13.80	14.70	16.00	17.05	18.17	19.37	20.64	21.99	23.44
Net External GDP) 1	31.59	33.61	31.84	28.48	27.60	26.34	25.35	24.48	23.76	23.12

E/F- BMI estimate/forecast. Source:

1 BUI calculation,

2 World Bank,

3 La Oficina Nacional de Estadísticas



## *Cuba Geopolitical Outlook*

- **Access to professional Staff:** 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 under contract to two former ministers and over 40 experts on different industries/expertise related to Cuba. *-Contact us for a full brochure.*
- **Customized executive briefings:** BGC conducts informal discussions/briefings on Cuba issues with client's staff. The briefing sessions are general and informal business focused (not academic) 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.*
- **Business reports:** 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 Contact:**

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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.*