



BabunGroup Consulting, Inc.

CUBA CHANGE NEWS ALERT

EXCLUSIVE NEWS OF POTENTIAL INTEREST TO OUR CLIENTS & FRIENDS

January 2009

Copyright © 2009 by **BabunGroup Consulting, Inc.** All Rights Reserved

CHANGES ARE COMING (U.S.-Cuba Politics) *Year No. 51 Begins*

Our analysis

The winds of change may begin as a calm breeze with President Obama rescinding restrictions on remittances and travel by Cubans living here to visit relatives, but this could develop into a hurricane that will sweep everything in its path that seeks to resist the change it is set to effect.

Much has changed in 2008, both in Cuba and in the U.S., and a pent-up demand for change in U.S. policy towards Cuba from different--and mostly disconnected--players could have negative unintentional consequences.

What is blowing across the U.S. as a call for a more “pragmatic Cuba policy” could develop into a frenzy of well-intentioned but chaotic activities that could lead to less, instead of more influence on a Cuba in transition.

What follows is our analysis of the arguments, the objectives, those leading the charge for change, opportunities, and a little reality check:

Here are the main arguments used by those who seek change:

- Diplomatic isolation has not worked; the trade embargo to protest the expropriation of U.S. property has been ineffectual. Instead, it has served as a pretext for repression. There is also a belief that ending the embargo will help push Cuba toward a Chinese model of authoritarian capitalism, assist Cuban people and perhaps ultimately lead to greater freedoms.
- Fidel Castro finally stepped down this year handing the reins of power to his younger brother, Raul, who is more pragmatic and who has already started a series of moderate reforms toward a transition.
- It has been reported that support for the U.S. embargo and other tough measures against Cuba's communist government is declining, including among Cuban-Americans.
- The United States already exports about \$700 million worth of food to Cuba annually under a 2000 law allowing agricultural trade for humanitarian reasons.
- The United Nations condemns the embargo and its recent 185-3 vote to condemn the embargo makes that clear. The entire world believes our policy is wrong.
- The European Union and most countries in Latin America and the world, trade with Cuba. And the United States does business with many regimes with checkered human rights records, from Egypt to Russia to China, which is officially a communist state.
- In an era of declining U.S. domestic oil production, American companies can not afford to ignore Cuba's recently announced 4.6 billion barrels of oil in Gulf of Mexico waters. Russia, China, Brazil and other large players are already conducting exploration drillings.

Here is a list of what the winds of change wish to accomplish:

- President Obama should start by rescinding restrictions on remittances and travel by Cubans living here to visit relatives, perhaps reverting to the structure existing prior to 2004. The argument for quick action is to send a clear signal of change in U.S. policy toward Latin America, where U.S. influence has declined under Bush and where the embargo against Cuba is very unpopular.
- President Obama must sign an executive order to meet the urgent needs of the hundreds of thousands of Cuban people who were affected by a record four hurricanes this season. But since the Cuban government will not accept traditional disaster assistance, the new president must use his "notwithstanding" authority enshrined in the Foreign Assistance Act of 1961 to lift the embargo for 180 days and allow Cuba to purchase civilian items with cash or credit on the American market. Such an action will instill immediate good will among the Cuban people.
- President Obama should use his presidential prerogatives to expand exports by licensing direct banking services with Cuba.
- Take Cuba off the State Department's State Sponsors of Terrorism List.
- The U.S. Senate should ratify the US-Cuba 1977 Maritime Agreement and provide access to American companies to participate in oil exploration along Cuba's northern coast oil fields.
- Repeal all aspects of the "communications embargo" (radio, TV, Internet).
- End opposition to the re-engagement of the international community with Cuba in regional and global economic and political organizations.
- Work with the members of the European Union and other countries to create a multilateral fund for civil society that will train potential entrepreneurs in management and innovation.
- Explore the prisoner trade Raul Castro has recently proposed.
- President Obama should resume the people-to-people or "purposeful travel" allowed in President Clinton's first term and push Congress to lift the travel ban and repeal the 1996 Helms-Burton law prohibiting trade with Cuba.
- President Obama should elevate the rank of the United States' diplomatic representation to the category of embassy and facilitate sports and academic exchanges. Promote knowledge exchange and reconciliation by permitting federal funding of cultural, academic, and sports exchanges.
- Begin a deliberate process of negotiations to normalize relations.

Here are some of the players leading the drive for change, and other factors:

- President-elect Barack Obama has made clear he favors relaxing restrictions on family travel and cash remittances by Cuban Americans to Cuba. During the presidential campaign, Senator Obama said he wants to improve relations with Cuba, and is willing to talk to Fidel and Raul Castro with few restrictions.
- Business organizations as the U.S. Chamber of Commerce, the American Farm Bureau, the Grocery Manufacturers Association, and the National Retail Federation have stated that there is rising urgency that President-elect Barack Obama end our isolation of Cuba and have called for an exemption for the sale of farm machinery and heavy equipment.
- The Center for International Policy, the Brookings Institution, the Cuba Study Group and many influential media such as the Los Angeles Times and the New York Times are providing support for changes.
- Take advantage that the Office of the Coordinator of Cuban Affairs is no longer active. Mr. Caleb McCarry has taken a job in the public sector and the office, for all intent and purposes is closed.
- Capitalize on the fact that pro-embargo Secretary of Commerce Carlos Gutierrez is being replaced by anti-embargo Secretary of Commerce Bill Richardson.

But here is a little reality check:

- During the presidential campaign, President elect-Obama said the embargo should stay in place to press for democratic reforms in Cuba. Obama has made no commitment to overhaul U.S. policy toward Cuba beyond easing curbs on Cuban-Americans' visits to the island and their ability to send humanitarian aid there.
- Raul Castro seems to have lost the reigns of the changes he had previously proposed. Fidel Castro has clearly reemerged at the center of the Cuban political arena. His familiar, angry voice

resonates in recent messages. Some of the most enduring and intransigent themes of his dictatorship, including venomous denunciations of the United States and capitalist enterprise, are being replayed.

- In the wake of hurricanes Gustav and Ike, Cuban population suffers food shortages. Courts impose harsh punishments for food hoarding, theft, undue appropriation and other illegal activities.
- Harassment and arbitrary detentions by Cuban authorities against non-violent opposition activists continue. Reports are that outside Havana there is an actual increase of quick crackdowns resulting in short-term jail sentences.
- In five different occasions, in 2008, following Hurricanes Gustav and Ike, the Cuban government refused humanitarian aid packages, without conditions, from the United States, PAHO and UNICEF.
- Today, the average Cuban lives on \$20 a month and relies on government ration cards. There are shortages of basic foodstuffs and supplies such as cooking oil and soap. It is illegal for Cubans to open their own businesses to provide for their families. Toilet paper is in short supply, the Internet is generally unavailable, people can eat meat only a few times each month, cell phones were banned until recently. Civil and political rights are simply not alive.
- Although the U.S. President has wide discretionary powers to engage the Cuban government, even to restore the diplomatic ties, and allow Cuba back into the International Monetary Fund and the World Bank, the lifting the travel ban requires Congressional action.
- Even with Obama and Democrats in control, changing Cuba policy will be a tough sell. The GOP lost anti-embargo Sen. Larry Craig of Idaho, Reps. Chris Shays of Connecticut, Ray LaHood of Illinois, Jim Leach of Iowa, Nick Smith of Michigan and George Nethercutt of Washington. And all the pro-embargo Cuban-American Senators and Congresspersons were re-elected.

In our opinion, here is the most likely scenario:

Short of the “winds of change” developing into a hurricane that will sweep everything in its path, we anticipate that some immediate changes will take place in U.S.-Cuba policy. After President Obama rescinds restrictions on remittances and travel by Cubans living here to visit relatives, we expect one or more bills in Congress will pass expanding exports to Cuba and perhaps increasing humanitarian aid or de-funding programs such as TV Marti. But what follows, it’s anyone’s guess. Mostly it will depend on how “far and deep” the Cuban’s respond with counter-moves.

Some experts believe that President Obama will be patient and wait until Fidel dies, then the moment Fidel disappears, a series of goodwill gestures including reductions on economic sanctions will be made, even if they are made to Raul Castro. The message would be clear that the United States is willing to help transform the country into a peaceful and reasonably prosperous democracy. After all, that has been the official U.S. policy for as long as we can remember.

***Respectfully yours,
BabunGroup Consulting, Inc.***

Special Reports

Cuba... the Good and the Bad of 2008

Fifty years after Fidel Castro led a band of rebels to victory over a dictator; his revolution goes on, Cuba firmly in its grip.

In February, Cuba managed a smooth succession of power when Raul Castro, 77, officially replaced his older brother as president. Fidel Castro, 82, has not been seen in public since undergoing intestinal surgery in July 2006, but is still thought to wield considerable power.

Many Cubans were excited about the prospect for change when Raul Castro took power in February and instituted reforms that allowed them for the first time to buy computers, cell phones and DVD players and to go to hotels and stores previously open only to foreigners. Since then, most reforms have come to a halt for reasons no one outside the government really knows.

Raul Castro has deplored corruption, and inefficiency in the workplace. He told the national assembly: "people are working less. This is a reality that you can confirm in any corner of the nation." Raul has also warned the populace of harder times ahead.

Politically, Raul restructured the government with the old guard by assigning greater power to the old communist party (PCC) members and military leaders – nine generals are now in key leadership positions, and has convened the Congressional Communist Party to meet in July, 2009; the first in 12 years.

Other general and important measurables:

- 20,000 Cubans legally arrived in the U.S., in 2008; there was a downturn in the number of illegal persons which could signal a sense of hope by the people on Raul's promises of openings.
- Appearing before business leaders in Mexico City, Foreign Minister Felipe Perez Roque said reforms within the communist system will help guarantee that people earn a salary more commensurate with their career. But he cautioned that the change "has to be done in phases." Under the island's communist economic system, nearly all Cubans work for the government and earn an average monthly wage of 408 Cuban pesos, or just under US\$20. That is supplemented by food and other subsidies.
- The government in April raised salaries of court workers and increased monthly pensions for all workers. But the salary increases could not be extended to other sectors immediately because of insufficient resources.
- Cuba reports to be working toward having a single currency. Officials have repeatedly said they hope to bring the two systems together, but say that cannot be done until productivity increases.
- Members of the opposition may have actually dropped in 2008; perhaps signaling that it is more difficult to have meetings.

From the Economy Front:

- Cuba begins leasing land to private farmers and cooperatives.
- Cuba's central bank tells creditors the country's foreign debt increased by \$1.1 billion in 2007 to \$16.5 billion.
- Sales of Cuba's top export, nickel, fell by \$250 million, while prices for other exports such as sugar and tobacco also dropped.
- Cuba's trade deficit soared by nearly 70 percent, or an estimated \$5 billion, in 2008 due mainly to rising prices for imports such as food and oil and falling prices for nickel, its main export, official media said on Friday.

- Foreign Trade Minister Raul de la Nuez said in a speech to parliament deputies on Thursday that imports surged 43.8 percent while exports grew just 2.1 percent, said the Communist party daily, Granma. Granma gave no figures for 2008, but estimates based on the numbers from de la Nuez and data for 2007 would place imports at \$16.1 billion and exports at \$4.4 billion, leaving a deficit of \$11.7 billion. That would be an increase of \$4.8 billion, or 69.5 percent, over official figures for 2007, that showed a deficit of \$6.9 billion, with exports totaling \$4.3 billion and imports \$11.2 billion.
- President Raul Castro wrapped up the year in which he officially became Cuba's head of state by telling the National Assembly (December 27th) that the state must implement austerity measures, free non-essential services were in danger of being cut and 2009 would be a year of "much uncertainty." "We must act realistically and adjust all the dreams to the real possibilities," Castro told legislators, adding that the island needed to increase production, adjust spending and "optimize" international trade relations.
- Three hurricanes produced total losses of \$9.72 billion, a figure equivalent to 20 percent of GDP, and 530,758 dwellings were partially or completely destroyed.
- Over the last few years Cuba has helped pay for its trade deficit, which is a measure of goods bought and sold, through revenue from tourism and service exports, mainly for health and education to oil-rich ally Venezuela.
- A record number of 2.35 million visitors arrived in Cuba in 2008. Tourism Minister Manuel Marreno reported that 2008 will close with a 9.3 per cent increase in arrivals over 2007.

Foreign Relations:

- European Union officially lifted sanctions imposed on Cuba for its jailing of 75 dissidents in 2003. "There has been a process of reconstruction of Cuba's relations with the European Union," Perez Roque said. "In general, Cuba's relations with the EU are advancing and improving."
- Relations between Cuba and Mexico improved. Mexico signed an agreement with Cuba to deport Cubans caught moving through Mexico illegally to reach the U.S.
- Cuba and Russia strengthen political and economic ties after visits of Cuba's Foreign Affairs Minister to Moscow and Russian President Dmitry Medvedev to Havana. Prime Minister Vladimir Putin says it is time for Russia to rebuild links with Cuba, and Russian officials renew the idea of military cooperation with Cuba.
- Cuba enters into the Rio Group.
- China's President Hu Jintao visits Cuba.
- The European Union offers Cuba 30 million euros for rebuilding areas damaged by hurricanes and other projects.
- Cuba has promised to ratify UN covenants which include allowing the Red Cross to visit prisoners and much more.
- Spain and Brazil have taken aggressive positions to become players in a transition-Cuba.
- Spain renegotiates Cuba's debt and funds programs for the re-construction of houses and facilities in the island. Cuban opposition leaders make calls to Spain and the European Union not to be indifferent to the violations of human rights committed by the Cuban government.

Raul's Goals:

Raul has three objectives: to gain access to soft credit so he can import American goods; to attract hundreds of thousands of American tourists and to gain the release of five of the 14 Cuban spies captured in 1999 by the FBI. Nine of them admitted their culpability, made deals with judges and prosecutors, were given very light sentences and have already been reintegrated to life in the United States.

Once he attains the first two objectives, Raul would be able to essentially liquidate what remains of the embargo against his country. With the third, he would please his ailing big brother Fidel, who is determined not to die until his "hardest" agents return to Cuba.

Many experts now believe that a slow transition is the most likely scenario for Cuba between now and the end of the Raul Castro regime, to be followed by cautious steps to move the country forward then under a

new socialist regime. Thus, a quick transition to full-blown democracy, wherein most of the Libertad Act requirements are met, is not likely.

Cuba Geopolitical Outlook **Babun**Group Consulting, Inc.



- **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:

BabunGroup Consulting, Inc.

P.O. Box 546135

Miami, Florida 33154

Phone: 305.884.0441

Fax: 305.884.0442

E-Mail: teo@babungroup.com

WWW.CUBADATA.COM

We have
the information
you need



on opportunities in a new Cuba

CUBADATA.com

**OVER 2,000 TIMELY
RESEARCH TOPICS ON LINE**

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.