



Cuba Trade & Investment News

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Embargo Update

SENATORS FORM CUBA GROUP

Following up on the creation of the House Cuba Working Group last year, 10 Republican and Democratic senators formed an informal group Friday to fight the U.S. trade embargo on Cuba.

The group, which also calls itself the Cuba Working Group, are part of an effort to gear up for a legislative battle over trade and travel sanctions. Members include Max Baucus (D-Mont.) and Pat Roberts (R-Kan.).

The "United States-Cuba Trade Act of 2003" to end the embargo is currently in the Senate Finance Committee. The bill was presented by Baucus and Chuck Hagel (R-Neb.).

HOUSE BILL TARGETS TRAVEL BAN

Fifty House members presented a bill to end the travel ban on Cuba. Jeff Flake (R-Az.), who visited the island as part of an eight-member delegation of the House Cuba Working Group, said in Havana that 25 Republicans and 25 Democrats are sponsoring the initiative. Similar legislation presented last year received a clear House majority of 262 votes, but that amendment was eliminated in February when the Senate and the House produced a joint bill of their budget projects. Flake said he expects greater support in the current legislature. William Delahunt (D-Mass.) added the group would work harder with the Senate this year to obtain a substantial majority.

Delahunt also said he would be interested in organizing a Cuba trip by 30 House and Senate members this year and outlined an idea to hold a town meeting with Cuban citizens.

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Economy

CUBA WOOING PETROBRAS AGAIN

Brazil's Petrobras has begun negotiations with Cuba about restarting offshore oil exploration in the Gulf of Mexico, Cuba's ambassador to Brazil told Portal Exame.

Jorge Lezcano said the cost will likely exceed \$30 million. Petrobras officials wouldn't comment.

Three years ago, Petrobras sank \$16 million in an unsuccessful search for oil off Cuba's northeast coast. The state-owned oil company was criticized for its Cuban engagement then, but after Brazilian voters elected a leftist government, Cuban officials are apparently hopeful the issue will be reconsidered. Since the rise to power of Inacio "Lula" da Silva, Cuba has expressed its eagerness to secure more business with Brazilian companies.

If a deal is worked out, Petrobras would join two other oil companies in Cuban deep-sea exploration. Spain's Repsol-YPF recently announced it would begin test drilling late this year. Canada's Sherritt International also has secured exploration rights, but hasn't announced a drilling date.

ECONOMY MINISTRY GETS FRESH BLOOD

In a major reshuffle of Cuba's economic team, Vice President Carlos Lage replaced four of six vice ministers at the Ministry of Economy and Planning, according to Reuters. Cuban media didn't report the changes. A mid-level ministry official told Reuters that Lage reacted to complaints about too heavy-handed and bureaucratic attitudes and said that Economic Minister José Luís Rodríguez may have to go as well.

Lage, in charge of the economy and considered the architect of Cuba's economic reforms, in February announced major structural changes to face an increasing cash crunch.

The four outgoing officials are First Vice Minister Mirta Villanueva, Mercedes Rúa, Enrique Martínez and José González Francés. All were recognized for "long years of work" at the ministry. They are being replaced by José Baz, Ricardo Caballero, Marino Murillo and José Hernández.

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Rodríguez: shaky post?

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'TIS THAT SEASON AGAIN

While Cuban officials are expressing concern over the U.S. invasion of Iraq, suggesting the island could be next, the United States and Cuba have entered another one of their annual tit-for-tat cycles of escalating conflict.

Each year, before seeking a condemnation of Cuba in the U.N. Human Rights Commission, the United States Interests Section in Havana initiates a flurry of activities on the island supporting the political opposition, to provoke a Cuban crackdown. In response, Cuba this time restricted the movement of U.S. diplomats and imprisoned 72 dissidents. Cuba also denied entry to a U.N. human rights official.

Jeff Flake (R-Az.), a leading House Republican in the battle to lift the embargo, pushed for a resolution to condemn the Cuban crackdown.



First hijacked, then seized

Meanwhile, a Miami court ordered the seizure of a DC-3 airplane owned by Cuba's Aerotaxi that had been hijacked to Key West by six Cubans during a domestic flight. The oldtimer is expected to be sold at auction to benefit the \$27 million claim of the ex-wife of a Cuban spy imprisoned in the U.S.

WHITE HOUSE WANTS MARTINEZ FOR SENATE

The Washington Post reports that presidential advisor Karl Rove is trying to talk a Cuban American, Housing and Urban Development Secretary Mel Martinez, into running for the Senate seat of veteran Sen. Bob Graham (D-Fla.). Graham, who may give up his seat because he's a presidential candidate, has until Spring 2004 — past the primaries — to make a decision on his Senate seat. Martinez told the Washington Post he's "thinking about it but not inclined."

The White House is eager to have a strong Senate candidate on the ticket with George W. Bush in 2004 in swing state Florida.

Martinez also is rumored as a Florida gubernatorial candidate in 2006 to succeed Jeb Bush. The Cuban-born Martinez was the elected chief executive of Orange County, Fla.

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More on Cuba's Economy

WAR TRIGGERS NEW ROUND OF CUTTING

Cuba has moved up its hard-currency savings efforts yet another notch after U.S. troops invaded Iraq in March. Already squeezed by record-high oil prices, the cash-strapped island now expects to suffer another drop in tourism, its main hard-currency generator. Visitor numbers in Cuba this season had just begun to recover from a post-9-11 drop.

During the 1991 Gulf War, tourist visits to some Caribbean islands fell by as much as 30%.

Vice president Carlos Lage, in charge of Cuba's economy, demanded the immediate elaboration of new contingency plans exceeding previous ones.

At the center of Cuba's efforts are fuel savings through more efficiency in transportation and electricity consumption. Lage told Cubans that the deficitary passenger and cargo transportation won't see any improvements this year. He also announced that "popular inspectors," known from the worst days of the Special Period, will return to city streets. Placed at 1,000 dedicated spots, the inspectors stop state-owned vehicles, forcing drivers to take on passengers.

CUBA WANTS TO DOUBLE NICKEL OUTPUT

Cuba plans to double its annual nickel production from 75,000 metric tons to 150,000 tons within a decade, *Negocios en Cuba* reports. To that purpose, Cuba is seeking financing and new technologies, according to Cubaniquel S.A. officials. In February, Cubaniquel announced plans to expand the capacity at two of its three processing plants in eastern Holguín province. The Che Guevara plant should rise from 31,500 tons to 50,000 tons and the Pedro Sotto Alba plant from 33,000 tons to 50,000 tons.



"Che" will smoke more

The former is a joint venture with Canada's Sherritt International. Cubaniquel traditionally exports to Canada and Europe, but it recently signed a deal with the Chinese state importer. Cubaniquel also plans to build a nickel and cobalt refinery.

More economy news on page 5

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OFAC: More remittances, no educational tourism

The U.S. Treasury's Office of Foreign Assets Control (OFAC) on March 24 published a new "interim final rule" regarding travel and remittances that streamlines the licensing process for Cuban Americans and allows for more remittances, but also does away with some of the "people-to-people contact" provisions introduced under President Bill Clinton.

The new regulations, intended to implement George W. Bush's ideas of political intervention on the island, may increase remittances and visits by Cuban Americans somewhat, but will also curb the number of legal non-Cuban American U.S. visitors. Clinton loosened travel restrictions in 1999, saying that people-to-people contact with Cubans would promote democratic change and spread American ideals. The liberalization triggered a Cuba travel boomlet by visitors ranging from college professors, students and lawyers to musicians, athletes and Hollywood stars.

But with Bush taking office, things changed. Claiming abuses, Bush ordered a crackdown. The number of written notices sent to suspected violators rose immediately after he took office, from 188 in 2000 to 766 in 2001. Since 2000, OFAC has prohibited visits such as participation in sister city conferences, architects taking walking tours of Havana and railroad hobbyists climbing around on Cuba's aging locomotives. Meanwhile, the pro-travel Cuba Policy Foundation is working on a survey of OFAC practices, suggesting the agency is systematically dragging its feet to prevent travel.

Here are some of the new OFAC regulations:

- People-to-people educational exchanges that had been licensed on a case-to-case base are now prohibited. OFAC now requires a connection to academic coursework. That is a blow to institutions such as San Francisco-based Global Exchange, which has offered language classes at the University of Havana or informational tours in cooperation with the Cuban Federation of Women. The licenses that already have been granted will be honored, but no new licenses or renewals of existing ones will be granted

- OFAC now explicitly authorizes "all transactions ordinarily incident" to selling food and medicine to Cuba. These transactions must be tied to specific sales. However, U.S. businesspeople still must apply for case-by-case licenses for travel to Cuba linked to marketing, sales negotiations, delivery or servicing of exports.

- "Fully hosted" U.S. travelers in Cuba are prohibited from providing services in Cuba to citizens of a third country.

- Licensed banks are now explicitly allowed to offer remittance forwarding services.

- Licensed cargo, travel and remittance forwarding services now have to produce only an annual instead of quarterly reports to OFAC.

- Licensed travelers can now carry up to 10 quarterly household remittances per trip (\$3,000) instead of just one. However, the \$300 limit per Cuban household for quarterly remittances remains unchanged.

- Families of senior-level Cuban officials are now prohibited from receiving remittances.

- OFAC now permits bit-by-bit remittances from previously blocked U.S. funds for Cuban citizens. This means partial relief for Cubans who have had no access at all to inherited money or life insurance payments.

- Cuban American visitors are now allowed to exceed the per-diem expense limit in specific cases, for example for travel within Cuba to visit close relatives.



1500 Pennsylvania Ave.,
home of the U.S. travel
license

- OFAC "may authorize" Cuban Americans to visit relatives more than once a year, on a case-by-case basis.

- The definition of "close relative" has been expanded from the second to the third degree of relationship. Great-grandparents and second cousins are now included.

- Americans will only get licenses on a case-by-case basis for visits of non-Cuban relatives who are "engaging in transactions" in Cuba.

The revisions took effect March 24, but written comments on the changes will be

accepted through May 23, meaning that the provisions could be altered. For the full text of the new regulations, see <http://www.treas.gov/offices/enforcement/ofac/actions/20030324.html>.

U.S. LEADS CHINA IN FOOD SALES TO CUBA

The United States was Cuba's No. 1 source of imported food last year and is projected to remain the top provider of farm products in 2003. The U.S.-Cuba Trade and Economic Council believes American food sales will rise up to 20% this year.

Illinois companies ranked first in overall value of U.S. agricultural products sold last year, with \$69 million of the total \$140 million in sales. Florida, with \$29 million, was second, followed by Georgia, Ohio and Arkansas.

Top products included wheat, corn, poultry, soybeans, rice and eggs, in that order.

USDA figures for the first nine months of 2002 showed China emerging as Cuba's No. 2 source of farm product imports. France was in third, after a 45.27% drop in sales from 2001. Food exports by several other traditional Cuban trade partners also plunged in the first nine months of 2002, including drops of 40.54% for Brazil, 43.11 for Spain, 39.64% for Mexico and 81.05% for Argentina.

Ferry owner shifts to small option

Giving up on hopes that the U.S. government will grant approval for weekly ferry service to Cuba this season, Yucatán Express, the Canadian-owned company based in Tampa (see q&a in our March 2003 issue), is now applying for two humanitarian trips to Mariel April 15 and 22. Ship owner Matthew Hudson said he applied for a “temporary sojourn” permit and that there are enough humanitarian goods lined up to send the M/S Scotia Prince to the western Cuban port.

Originally, Hudson wanted the ship to go to Matanzas, which has roll-on/roll-off facilities.

Goods include computer equipment for hospitals, dental chairs, X-ray machines, playground equipment and vials of a drug to treat breast cancer.

As of late March, the U.S. Treasury’s Office of Foreign Assets Controls hadn’t issued a license and wouldn’t comment.



M/S Nova Scotia: Two trips to Mariel?

The owners of the 1,000-passenger ferry, which currently makes weekly roundtrips from Tampa to Mexico, have been trying for months to get approval to use the vessel to deliver humanitarian aid and possibly passengers to Cuba.

Some Cuban officials were first surprised by Hudson’s project of a Tampa-Matanzas ferry, but he seems to have gained support on the island now.

In May, the ship returns to its summer Maine-to-Canada service.

LYKES HEIR SELLS CATTLE TO CUBA

Tampa-based J.P. Wright & Co. agreed to sell 150 Holstein and Jersey cows to Cuba’s Alimport S.A. The deal is worth \$200,000. The owner of the company is John Parke Wright IV, one of the heirs of the Sykes Enterprises fortune. The Tampa company was one of the largest cattle exporters to Cuba before the revolution, with extensive farming interests on the island.



Holsteins for Havana

Parke participated in the agriculture fair FIAGROP 2003 in Havana where he announced a University of Georgia program that would teach cattle breeding know-how to Cuban experts.

This is the second cattle deal for J.P. Wright. In February he was due to ship 50 head of dairy cattle to Cuba.

CUBANS ASK CROWLEY FOR TAMPA SERVICE

Pedro Álvarez, head of Alimport S.A., Cuba’s state-owned import buying agency, told Tampa port officials that he asked Jacksonville-based Crowley Liner Services to develop a monthly container connection between Cuba and Tampa. He said Tampa — historically the most important U.S. port in Cuba trade — hasn’t benefited from the U.S.-sanctioned trade like competing ports.

Álvarez in March met with Arthur Savage of ship agent A.R. Savage & Son, asking him to work with Crowley to line up enough suppliers and freight forwarders to support the monthly container ship service.

Meanwhile, the Port of Tampa Authority accepted an invitation from Alimport to visit Havana this year. Port CEO George Williamson said that a delegation would go to Cuba after a seminar on trade with Cuba in April.

Cargill Fertilizer made a shipment of dicalcium phosphate animal feed from its private pier near Tampa in early March.

DAVIS SEEKS TO CURE MED SALE PROBLEM

In another effort to unite pro- and anti-embargo activists in the U.S., Tampa Congressman Jim Davis said he intends “to explore why the medical exemption to the economic embargo is not working.” He said he will work with colleagues in Congress to facilitate sales and donations of U.S. medical goods to Cuba.

The U.S. requires proof from exporters that medical goods won’t be used in Cuba’s dollar economy or for government officials. Critics say this is impossible.



Rep. Jim Davis

The Florida Democrat in March became the first Congressman to openly travel to the island, but he angered anti-embargo activists when he sought the blessing of anti-Castro groups for his trip.

“While I have voted to maintain the embargo, Congress must seek alternatives and find ways for the United States and Cuba to pursue a more-positive relationship to the mutual benefit of our people,” he wrote in a March 24 op-ed piece in the Miami Herald.

Davis is said to be interested in running for Florida governor.

FIRST U.S. SEAFOOD SHIPMENT ARRIVES IN CUBA

City Sea Foods, a Los Angeles-based seafood broker, shipped a container of frozen salmon, octopus and imitation crab meat to Havana in late February. This was the first shipment of U.S. seafood to the island in more than four decades, and the first food sale from California. The deal was put together by San Diego consulting firm Global Strategies Trading during the U.S. food fair in Havana last September.

The seafood will be sold in dollar stores and hotels in Cuba.

More Embargo News

FLOW OF STATE DELEGATIONS CONTINUES

•Iowa Gov. Tom Vilsack is considering accepting an invitation by Alimport S.A. Chairman Pedro Álvarez to visit the island in May. Alimport said it is willing to sign food purchases “for several millions of dollars, if the price is right.” Last September, Iowa Secretary of Agriculture Patty Judge led a group of Iowa businesses, economic development officials and farmers to the food and agricultural trade fair in Havana. The Iowans returned with just one sale. FC Stone LLC, a West Des Moines commodities-trading company, negotiated a sale of 15,000 tons of corn and 15,000 tons of soybeans worth about \$5 million. Judge met Álvarez last month at a trade conference in Cancún, Mexico.



Vilsack

•Rep. Denny Rehberg (R-Mont.) is organizing a Montana trade delegation to Cuba. Rehberg said he will discuss the trip with Gov. Judy Martz and state farm officials. Similar visits by officials from neighboring North Dakota have led to millions of dollars in farm sales. During a recent visit to Cuba, Rehberg and Fidel Castro discussed wheat and malting barley, which Cuban brewers now buy from France, Rehberg said.

CONFERENCES & EVENTS

- FECONS (international construction industry fair), Havana, Apr. 2-6
- Cuban Tourism Convention, Havana, May 6-10
- Expoagua (3rd international water industry fair), Havana, May 8-12
- Cubadisco (international music and film fair), Havana, May 22-26
- 12th ExpoCaribe (general trade fair, in combination with the 4th Gran Caribe Trade Forum), Santiago de Cuba, June 8-13
- 4th Entrepreneurial Forum of the Caribbean, Santiago de Cuba, June 10-12
- FIMAE (international fashion and interior decor fair), Havana, July 2-6
- 21st International Havana Fair (general trade fair), Havana, Nov. 2-9

Call (941) 330-0303 or send an e-mail to huitzi@aol.com for more information on events

•A Georgia delegation will travel to Cuba in early June. The group, which includes representatives from education, health, agriculture, urban planning and Afro-Cuban traditions, will charter a Delta Air Lines plane for the flight from Atlanta to Cuba, via Miami.

More on the Economy

SUGAR HARVEST BELOW REDUCED TARGET

This year's sugar harvest is likely to remain below the official target of 2.7 million metric tons, according to Cuban newswire reports. The trouble comes after drastic cutbacks in the island's sugar production infrastructure last fall that left only half its sugarmills in operation. The main aim of the cutbacks is to increase efficiency and lower production costs. Officials blamed lack of fuel and hurricane damage for the shortfall.



La Zafra

The Communist Party urged sugar workers to increase efforts after news emerged that the harvest is behind schedule in most provinces.

In the last harvest before the cutbacks, Cuba produced 3.61 million tons.

CASTRO: LEARNING FROM CHINA?

Cuba could take a cue from China's economic model, Fidel Castro said on a visit to Beijing in March. China opened up its economy to private initiative and now trades with the rest of the world without having relinquished the Communist Party's monopoly on political power.

Outgoing Prime Minister Jiang Zemin, who is 76 years old, briefed Castro, also 76, on the transfer of power to a new generation. The two also discussed trade and signed aid and cooperation pacts worth \$6 million.

EU OPENS TRADE AND AID ACCORD TO CUBA

The European Union's executive organ agreed to ask EU member nations to accept Cuba as a full member in the Cotonou Accord, which provides 78 former colonies trade privileges and \$14 billion in development aid. The EU's 15 member nations will discuss the issue in June or July.

An entry is expected to provide a boost to Cuba's exports and triple EU development aid.

The European Commission previously insisted on political reforms on the island, to which Cuba reacted by withdrawing in 2000 a previous bid to join Cotonou. The U.K., Spain and Sweden are still expected to press Cuba for improvements in human rights. What's more, the recent arrests of 72 dissidents could cause the EU to reconsider its recommendation, European diplomats said.

Poul Nielson, EU commissary of development and humanitarian aid, visited Cuba in March, witnessing the opening of a one-man EU delegation (embassy) in Havana.

CARGO SERVICE TO LINK BAHAMAS, CUBA

A Bahamas businessman and politician established the first-ever regular cargo ship service between the archipelago and Cuba, Weekly Bahamas reports. Tennison Wells announced his 500-ton container ship Hydra I will provide weekly service from Nassau and southern islands to Havana. He expects to bring juices, processed food, furniture and building supplies from Cuba to Bahamas.

Company Briefs

Canada's **Sherritt International** said it will spend CDN\$110 million to develop its oil and gas holdings in Cuba this year, while it is negotiating with the government over the way the business is taxed. The money will go into the development of reserves along Cuba's northern coast and the evaluation of newly acquired offshore properties.

Last year, Cuban officials challenged Sherritt's interpretation of how its oil and gas business should be taxed, resulting in a bigger than usual tax bill for the Toronto company. As a result, Sherritt International's overall effective tax rate soared to 29% in 2002 from 8% in 2001.

Nevertheless, Sherritt's oil and gas business last year produced record operating profits of CDN\$98.9 million and record revenue of CDN\$218.8 million.

Sherritt International shareholders have agreed to a financial restructuring of **Sherritt Power**. The power company expected to default on CDN\$45 million of its debt March 31 because of a cash shortfall that arose from construction delays at its Energas power plant near Varadero. Sherritt International, which owns 49.7% of the power company's shares and one-third of its outstanding notes, wants to buy out other Sherritt Power shareholders and repay other noteholders with cash and new notes issued by the parent company.

Washington's "no" to any future Cuban undertakings by guitar virtuoso/music producer **Ry Cooder** ("**Buena Vista Social Club**") has become the topic of a resolution in the British House of Commons. Coinciding with the beginning of the U.S.-British war in Iraq, the parliament debated U.S. policy on Cuba.

"I was appalled to see how America has treated Buena Vista Social Club," House of Commons member Andrew Dismore said of his symbolic resolution, which 32 other members of Parliament signed on in support.



Hotel Nacional

Hotel Nacional and the **La Bodeguita del Medio** and **La Floridita** bars in Havana, also said it purchased 68.1% of its supplies locally last year. The cash-strapped government asked companies to replace imports with local products.

Leisure Canada Inc., a developer of luxury resorts in Cuba, said it appointed Mark Katsumata as its chief financial officer. Katsumata joined the Leisure Canada as corporate controller in July 2001. Mark Morabito resigned as vice president for corporate and business affairs to join a mining company. Leisure Canada is building a five-star hotel, two 18-hole golf courses and timeshare condos in Cuba.

The Havana-based **Center of Molecular Immunology** (**CIM**) and its commercial branch **CIMAB SA** said they agreed to form a joint venture with contract research firm **BioCon India Ltd.** The joint venture, called **BioCon Pharmaceuticals Ltd.**, will set up a manufacturing facility in Bangalore, India to make a select range of biotechnology products for the local market. CIMAB holds 49% of the joint venture.

Cubana de Aviación and Spain's **Air Europe** signed an operations agreement. Air Europe will maintain seven Spain-Cuba flights weekly, Cubana will offer four in summer and two in winter.

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