



Cuba Trade & Investment News

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a marketing management firm connecting business to new markets.

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Embargo Update

ALABAMA CLOSES \$10 MILLION DEAL

Cuba's Alimport S.A. officially added Alabama to the list of U.S. states it trades with, by signing agreements in Havana with the state and the Port of Mobile. Alabama is the 35th U.S. state signing a food sale agreement with Cuba.

Under the state's accord, Alimport will begin importing \$10 million worth of agricultural goods and food from Alabama later this year.



Mobile: scheduled service

The Cuban food import agency has agreed to buy \$2.5 million worth of timber from Swift Lumber Co. of Atmore, Ala., and 50 dairy cattle from Pat Ranken of Faunsdale, as well as 30 Gelbvich cattle embryos from Milam Turner of Selma. Alimport also signed a letter of intent to buy 10,000 tons of chicken, 850 tons of cotton, 3,000 tons of powdered milk, 3,000 tons of newsprint, and a shipping container of cheese and butter.

Meanwhile, María Conchita Méndez, the Cuban American who heads the Alabama State Port Authority, signed an accord that will lead to regular shipping services to Cuba from Mobile, beginning in September or October. Méndez also said she would work with Alabama legislators to promote air, cruise and ferry tourism to Cuba.

Ron Sparks, head of the Alabama Department of Agriculture and Industries, led the state delegation. The group included cattle, agriculture, wood and dairy representatives.

Crisis? What crisis?

Amid a rapidly deteriorating political atmosphere, U.S. food sales to Cuba continue to soar. Pedro Alvarez, head of Cuban food importer Alimport S.A., said he expects the volume this year to reach \$300 million, nearly one-third of all Cuban food imports. Last year, \$125 million worth of U.S. goods made it to the island. Alvarez said that U.S. purchases could potentially cover 60 percent of Cuba's food import needs. The total weight of U.S. goods shipped to Cuba since 2001 was 2.2 million metric tons.

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Economy

DOLLAR CONTROLS STIR UP INVESTORS

The Cuban government is "beginning to reconsider" an earlier surprise announcement to control the flow of U.S. dollars at state-owned companies, reports news service Reuters.

The government issued a currency control decree on July 16 to concentrate diminishing hard currency resources to pay for essential imports, including U.S. agricultural goods. This partially reverses a policy of decentralization that has given managers in Cuba's foreign trade sector more autonomy since the early 1990s.

Resolution 65/2003, which tells state companies to exchange all their dollars for convertible pesos, has stirred up foreign businesspeople on the island who fear even longer waiting periods for payments.

The Central Bank has since partially backtracked, reducing its exchange commission from 2 percent to 1 percent and waiving currency controls for transactions of less than \$5,000.

In the decree, the Central Bank orders state companies to stop using dollars for purchases within Cuba and buy dollars from the Central Bank for imports, debt payments, and purchases from joint ventures in Cuba. Under the new rules, companies need the Central Bank's approval for every dollar transaction. Enterprises now pay a 1-percent fee and wait up to two weeks to obtain foreign exchange.

Central Bank President Francisco Soberón has tried to reassure diplomats and foreign business executives, according



Soberón: trying to calm nerves

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FLORIDA CATTLEMAN RECONNECTS TO CUBA

One week before an Alabama delegation toured Cuba, Naples, Fla. cattle rancher John Parke Wright IV held a press conference in Havana, after accompanying shipments of 148 Holstein and Jersey dairy cows from Jacksonville and Port Everglades to Cuba.

The shipments were part of two deals J.P. Wright & Co. closed at last year's agricultural fair in Havana and at an agricultural fair in Boyeros.



High profile: Wright (l.) poses with older Castro brother Ramón

Wright, one of the heirs to Tampa's Lykes Bros. which had extensive interests in pre-revolutionary Cuba, was escorted by fellow Florida cattlemen Jim Strickland, Bud Adams and Johnnie Copeland. The businessmen negotiated further deals but were not able to close any at this time. Cuba is interested in Brangus, Braford and Beef

Master heifers.

The cows were quarantined at the Florida Department of Agriculture Export Center in South Florida and were approved for export by the United States Department of Agriculture through a country-to-country agreement with the Cuban Veterinary Institute. Two specialists from Cuba's Ministry of Agriculture and Veterinary Institute traveled to Florida on 45-day visas to meet Wright and other suppliers to select the cattle.

Tampa-based A.R. Savage & Son, Inc. advised J.P. Wright & Co. concerning shipping, letters of credit and payment.

North American Partners is proud to announce that Cuba Trade & Investment News will be distributed among members of the U.S.-Cuba Trade Association, beginning with this issue. The association serves as a focal point for private-sector efforts to grow ties between commercial partners in the United States and Cuba.

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More on Cuba's Economy

CENTRAL BANK IMPOSES CURRENCY CONTROLS

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to Reuters, but few have been convinced. Some foreign companies have stopped doing business with state-owned companies, Reuters says, until the government clarifies how and when they will be paid for goods and services. Foreign banks responded by no longer accepting letters of credit from Cuban banks.

The Central Bank responded, stating in another decree on July 23 that Cuban letters of credit "will be considered payment transactions that already have the Cuban Central Bank's approval."

Foreign governments and banks are demanding a similar exception for lines of credit.

Cuban banks submit approval requests for dollar transactions to the Central Bank only twice a month. Each application requires a detailed one-page form. The Central Bank has 16 to 30 days to respond.

SHERRITT CONFIRMS TELECOM MERGER TALKS

Canada's Sherritt International Inc. confirmed that the Cuban government is seeking to merge its telecommunication firms (we reported in our March issue). Sherritt International said in its second quarter earnings report, released in August, that it "agreed to participate in the Cuban government's

initiative to consolidate the telecommunications industry."

The company said it is negotiating a possible sale of its 40-percent stake in Cubacel, the island's cell phone operator that operates

exclusively in the dollar market.

The telecommunications ministry would like to combine Cubacel with Etecsa, a fixed-line venture involving Telecom Italia SpA, to develop a peso-priced wireless service for the local population which has virtually no access to cell phones. The foreign partners are reluctant to engage in the venture.

The Brazilian development bank last year granted a \$60 million medium-term credit to Cuba for the purchase of equipment for wireless development, which has yet to be used.



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Cuba's largest conglomerate turns 25

Cuba's largest company, Corporación Cimex S.A., is celebrating its 25th year. A conglomerate that operates exclusively in the island's dollar economy, Cimex (the abbreviation stands for "Comercio Interior, Mercado Exterior") is a legally private company, but solely owned by the Cuban government. Nevertheless, its day-to-day business is largely free from government interference. Cimex borrows on its own account on international markets, and it is audited by western accounting firms.



President Eduardo Bencomo, the physician who has headed Cimex since its early days, is said to be close to Fidel Castro.

Cimex, incorporated in Panama under Panamanian laws 25 years ago, reportedly had military precursors in the early 1970s. Formally founded in 1978 as an export-import company, it successfully challenged Cuba's U.S.-imposed economic isolation in the western world by establishing a foothold in the free trade zone of Panama. However, Cimex

based Melfi Marine cargo lines), tourism, real estate, and financial and other services.

Cimex handles import and export activities independently, except for food purchases in the United States, which are handled through Cuba's import agency, Alimport S.A. The Cimex purchasing department is divided into the segments food, electronics, clothing, shoes, hardware, appliances, and national products.

Cimex' headquarters as well as the head offices of all subsidiaries are based in Havana. The company employs 22,000 in Cuba.

The subsidiaries

- The **retail division** includes 1,400 sales points of different size and scope, among them 900 Panamericana stores, boutiques and duty-free stores, a network of 140 gas stations with convenience stores (Cupet-Cimex), 136 self-service cafeterias (El Rápido), 40 photographic services stores (Photo Service), and 18 video stores (Videocentro).

- Transcimex**, the transport and logistics division, operates a just-in-time system that includes the Melfi Marine shipping fleet covering the Caribbean, Central America, Venezuela, Ecuador, Peru, Canada and northern Europe, as well as a fleet of 174 trucks on the island. The company has its own customs agency. The logistics division also includes a network of state-of-the-art warehouses in Cuba. Cimex' transportation and wholesale activities are overseen by a computerized real-time inventory tracking system. The wholesale tracking system interfaces with the company's retail inventory system.

- Another subsidiary, **Zelcom S.A.** (Zona Especializada de Logística y Comercio), operates a free trade zone in the Berroa valley just east of Havana, with bonded warehouses.

- Grupo Internacional Havanatur S.A.**, Cimex' tour operator and travel agency subsidiary, is Cuba's largest entity in that sector. Operating 16 agencies in 13 countries, Havanatur also is a joint venture partner with 25 companies from seven countries. In 2002, it brought nearly 20 percent of all foreign visitors to Cuba. Havanatur's main markets are Canada, United States, Spain, France, Italy and Germany.

- Havanautos S.A.** is Cimex' car rental and taxi subsidiary, operating 1,300 vehicles.

- The real estate subsidiary, **Inmobiliaria Cimex S.A.**, is developing rental apartment complexes and office buildings. It currently owns or has under construction some 500 apartments in eight condos, all in Havana. In cooperation with tourism companies, it also develops extra-hotel facilities in resort towns. Furthermore,



Eduardo Bencomo

Corporación Cimex S.A. (revenues, million US \$)

Year	1999	2000	2001	2002
Revenues	\$800	\$890	\$950	\$950

Source: press reports

changed scope with the fall of the Soviet Union. The company saw its biggest growth boost and diversification in the 1990s, when the Cuban government legalized U.S. dollar holdings and promoted the island's tourism industry.

From 1996 to 2000, annual revenue growth averaged 8.2 percent. Profitability in that period was 10.1 percent, according to the company.

In 2002, although it failed again to cross the \$1 billion mark, Cimex hit a respectable \$950 million in revenues amid a lagging economy. Recent cost cutting, according to Cuba's state media, has generated higher profits this year. The reports neither disclosed this year's nor last year's numbers.

Today, Cimex' 73 subsidiaries and participations in 21 more companies account for 6 percent of Cuba's GDP. Cimex stores cover a more than 50 percent share of the national retail market. Of Cimex' 94 entities, 61 are based abroad (49 in the Americas, 11 in Europe, one in Japan).

Last year, more than half of Cimex' revenues were generated by retail (Cimex operates 2,000 Panamericana, Cupet-Cimex and other retail outlets on the island), followed by import-export activities and shipping (the company owns Panama-

Continued on next page

ANTI-CASTRO EXILES TURNING AGAINST BUSH

The Bush administration's honeymoon with Cuban exiles is over. After sending back 12 hijackers of a Cuban ship and defending the 1994 migratory agreements with Cuba signed by Bill Clinton, the Bush administration has come under heavy fire from exile groups. A group of 13 Republican legislators in Florida, another group of 39 elected Republican officials in South Florida, and 98 directors of the Cuban American National Foundation sent letters to George W. Bush, accusing him to be soft on Castro, and threatening to withdraw their support during the presidential elections next year.

Just days later, a Federal prosecutor announced the indictments of three Cuban military men in the shootdown of two Brothers to the Rescue planes in 1996. Also, the White House said the TV Martí signal would now be beamed to Cuba via satellite. According to people who attended a recent meeting in Miami with Otto Reich, the administration's point man on Cuba, Reich said Bush is trying to inflict irreversible damage on U.S.-Cuban trade by denying visa to the head of Cuba's Alimport S.A., Pedro Alvarez, and by withholding a license to hold another U.S. agricultural fair in Cuba. Reich also said that Bush will not yield to efforts to lift the travel ban.

The measures seem to have calmed critics for now.

BILL PROPOSES TO EASE BUSINESS TRAVEL

The Senate Appropriations Committee passed an amendment authored by Sen. Byron Dorgan (D-N.D.) that would ease business travel to Cuba. The amendment, attached to the Agriculture Appropriations bill, will be debated on the Senate floor before going to the Senate/House conference committee. The House did not pass a similar bill in its version of the Agriculture bill.

The amendment was not considered controversial by the senators on the committee, but it is expected that pro-embargo senators and House members will try to strip it from the bill. The amendment would relieve exporters from having to apply for a license for each trip from the Office of Foreign Assets Control (OFAC). A number of companies have recently been denied a license to travel to Cuba to make deals for food sales.

HAYS QUILTS

Dennis Hays, the former diplomat who runs the Cuban American National Foundation's office in Washington, quit amid tension between the exile organization and the White House. The pro-embargo group has recently criticized Bush's Cuba policy. Hays, who is said to be aspiring a post in the administration, denies a link between his resignation and the conflict. Camila Ruiz, a former aide to Rep. Ileana Ros-Lehtinen (R-Miami) was appointed to succeed Hays.

TRAVEL AMENDMENT REACHES HOUSE FLOOR

Probably in the first week of September, the House of Representatives will vote on a new amendment sponsored by Jeff Flake (R-Az.) and 58 other members of the House Cuba Working Group to end funding for the enforcement of the travel ban. The House voted 262-167 for a similar amendment last year, but the effort died after the Senate failed to pass similar legislation. This year, an identical bill will be introduced in the Senate. The Senate amendment is sponsored by 23 senators.

U.S. READERS PICK CUBA AS BEST DESTINATION

Although the White House has imposed further restrictions on travel to Cuba, the island is continuing to surge in popularity among Americans. Readers of Travel + Leisure magazine voted it the best among Caribbean islands in its World's Best Awards



issue. The magazine, owned by American Express Publishing Corp., is published in New York. In May, Cuba for the first time worked its way into the top 10 in bookings at iExplore, an online adventure travel agency. Also, organizations that sponsor trips to the island report a rise in queries from travelers eager to make a legal visit before the opportunity disappears by year's end. The last of the special licenses for non-academic

educational travel are scheduled to expire Dec. 31. Travel under those licenses has accounted for about 70 percent of legal visits by Americans not of Cuban descent.

Cimex turns 25

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the division recently began with the development of rest stops and motels along major roads in Cuba. It is active in nine development joint ventures with foreign partners which will be completed soon.

•**Fincimex S.A.** is the financial services subsidiary. It operates the Banco Financiero Internacional under license of Cuba's Central Bank, offers leasing services as well as short-term financing, and operates credit card management for Visa and MasterCard International and Cabal. It also operates all the

foreign remittances to relatives in Cuba, via a network of 100 Western Union outlets.

•**Cimex' legal subsidiary, Bufete Internacional,** offers legal services, goods inspection, customs inspection and an overnight mail service.

•**Producciones Abdala S.A.** is Cimex' music division. Founded with the help of singer-songwriter Silvio Rodríguez in 1997, the studio produces Unicornio label records, featuring stars such as Rodríguez and Chucho Valdés.

More embargo news

TEXAS GROUP PLANS CUBA TRIP IN OCTOBER

The Texas Cuba Trade Alliance, a nonprofit organization launched early this year by the Texas Department of Agriculture, sent a delegation to Cuba in July. Although no deals were signed during the trip, Loggins Meat Co. in Tyler said it had a verbal commitment from Alimport S.A. for the purchase of beef if it gets an OFAC license.

The Alliance is planning another Cuba trip in October.

TAMPA MEN SEEKING CUBA CARGO CONNECTION

Dashing ahead of the Tampa Port Authority, Mike Mauricio, owner of Tampa-based Florida Produce of Hillsborough County, and Tampa attorney Daniel J. Fernandez are trying to secure cargo liner service from Tampa to Cuba. Although Fernandez and Mauricio were optimistic in mid-August, a deal was not closed as of deadline for this newsletter.

Less than a year after balking at suggestions to promote trade with Cuba, the Port Authority sent a delegation to Cuba in July. The group returned with no solid deals but with assurances from Cuban officials they would be interested in direct service from Tampa. •

CONFERENCES & EVENTS

- Expovaradero 2003 (tourism industry), Varadero, Sept. 16-19
- FIT 2003 (international transportation fair), Havana, Sept. 17-20
- 3rd World Congress of Law and Technology, Havana, Sept. 29-Oct. 3
- National Summit on Cuba, Miami, Oct. 4
- Cuban-American Leaders' Roundtable, Miami, Oct. 5
- Turnat (environmental tourism fair), Marea del Portillo, Granma, Oct. 13-17
- US-Cuba Travel Conference (ATRIP), Cancún, Oct. 16-18
- 21st International Havana Fair (general trade fair), Havana, Nov. 2-9
- 3rd International Conference on Science and the Environment, Santa Clara, Nov. 22-28
- Feria Comercial del Tabaco (tobacco trade fair), Pinar del Río, Nov. 25-28
- Latin American Film Festival, Havana, Dec. 2-12

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

More on the economy

PETROBRAS EXPECTED TO RETURN TO CUBA

Brazil's president, Luiz Inacio 'Lula' da Silva, is expected to announce during a state visit to Cuba Sept. 24-26 that state-owned Petrobras will launch a second effort to search for oil in deep water off Cuba's northern coast.



PETROBRAS

Before pulling out in 2001, Petrobras sunk \$15 million into a high-profile but unsuccessful search for oil in Cuban waters.

In other oil news, Repsol-YPF SA is looking for partners to help defray the estimated exploration cost of \$50 million at its six Cuban offshore blocks, according to Oil & Gas Journal. Cuba so far has found takers for 10 of 59 blocks in the Gulf of Mexico. Canada's Sherritt International Corp. has optioned four blocks, and Spain's Repsol-YPF, which has already begun exploration, has optioned six.

TOURISM FORECASTS TURNING ROSY

Official forecasts predict 1.9 million visitors for this year, 12.6 percent more than last year and closing in on the 2 million mark that seemed within reach in 2001. Despite the war in Iraq, the number of visitors to Cuba in the year's first half rose 16 percent to 1 million. This summer, most leading destinations — including Varadero, Havana, Holguín, Santiago de Cuba, Pinar del Río, Cienfuegos, and Jardines del Rey — have experienced increases in bookings over last year. In another highlight of the sustained recovery since fall 2002, Cuban hotels on Aug. 12 broke the summer season record set in August 2001, with 40,384 foreign guests on a single day. •

GOOD HARVEST REDUCES RICE IMPORTS

Cuban farmers expect to harvest 300,000 metric tons of rice this year, likely cutting rice imports by half in 2003. Cuba consumes about 500,000 tons of the staple every year. More than half of Cuba's rice is produced using labor-intensive techniques on small subsistence plots, making for high production costs of \$150 per ton. Meanwhile, Vietnam's state-owned Northern Food Corp. shipped 50,000 metric tons of rice to Cuba in August, at \$163 per ton. Vietnam sold 275,000 tons of rice to Cuba last year.

JAPANESE FIRMS TO BUY GRAPEFRUIT

Several Japanese companies are likely to sign a contract for the purchase of grapefruit, according to the Japan External Trade Organization (JETRO). Japan currently imports \$800 million worth of grapefruit every year, 70 percent of which comes from Florida. Cuba, according to JETRO, could export \$40 million worth of grapefruit to Japan. JETRO opened an office in Havana earlier this year.

CUBA OPENING MORE 'LIBERATED' MARKETS

The Cuban government is opening and renovating 220 state-run 'liberated' markets on the island to reduce prices and provide additional, affordable outlets for consumers. By eliminating middlemen, the new outlets will likely put pressure on prices at private markets, which have flourished in Cuba since the 1990s. There are three types of food markets in Cuba: state-run markets that offer subsidized goods at rock-bottom peso prices; private markets that sell at market prices; and state-run 'liberated' markets that sell at prices lower than private markets, but still higher than most Cubans can afford. •

Company Briefs

Toronto-based **Sherritt International Corp.** reported flat second-quarter operating profit but a 37 percent rise in net income, thanks to one-time items. Sales edged up only 1.7 percent.

Sherritt said it earned CDN\$33.6 million, 18 cents per share, in the April-June period, compared with CDN\$24.5 million, 15 cents per share, in the year-ago quarter. Revenue increased to CDN\$221.2 million from CDN\$217.6 million.

Looking forward, Sherritt said that earnings from Cuban oil and gas "are expected to decline as production is affected by potentially reduced exploration and development drilling."

Sherritt also said that "as a result of working capital, financing and operating factors," it has lost management control of its Cuban soybean processing business.

Sherritt is the largest foreign investor in Cuba, with interests in oil, nickel, telecoms, and electricity generation.

Corporación Financiera Habana (CFH), the first financial joint venture in Cuba, reported net income of \$1.6 million for 2002, up 14.1 percent from the previous year. Loan volume rose 22.6 percent to \$72.1 million in 2002. CFH, created in 1998, is 60-percent owned by Spain's **Cajamadrid**. The remainder is controlled by Cuba's **Banco Popular de Ahorro**.

Gran Antilla, a division of **Gran Caribe SA**, said it is negotiating with Spain's **Sol Meliá** and Canada's **Wilton**

Property to build a three-hotel resort at Cayo Largo del Sur.

Gran Antilla also said it will begin construction of a beach hotel at Santa Lucía, Camagüey province, late this year. The cost of the joint venture project with Spain's **Grupo Barceló SA** is estimated at \$62 million.



Cuba Travel Services Inc. (CTS), an OFAC-licensed charter company that offers Cuba flights from Miami and Los Angeles, said it will open an office in Tampa. CTS is offering a Tampa-Miami flight to connect to its Miami charter flights to Havana and Cienfuegos.

Cubana de Aviación established a direct flight from Barcelona, Spain to Santiago de Cuba. Tour operator **Cubanacán** has booked eight flights through September.

Dominican airline **Aeromar** made its first flight to Cuba carrying tourists that had booked multi-destination packages. Aeromar is flying a Boeing 737-200 aircraft from the Dominican Republic to Havana on Mondays and Thursdays.

Empresa Cervecera Hatuey formed a joint venture with Canadian company **Caribbean Classic Beverage** to export organic beer and wine coolers to Canada and Europe. Hatuey has invested \$1 million in the venture.

A solution containing epidermal growth factor (EGF), a naturally occurring compound in saliva, developed by the Havana-based **Center for Genetic Engineering and Biotechnology (CIGB)**, was found to be highly effective in treating ulcers of the colon. CIGB supplied the drug for a 24-patient study by a team of British researchers in Leicester.

The finding, published in the **New England Journal of Medicine**, was called "impressive" in an accompanying appraisal article.

Biocon India formed a joint venture with the Havana-based **Center of Molecular Immunology** and its commercial branch **CIMAB**, to manufacture health care products in India. Also, India's **Kee Pharma** has tied up with Cuba's **Heber Biotech** to launch three cancer drugs in India and Russia.

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