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DOMESTIC ECONOMY

CUBA TO EXPAND USE OF EMPLOYEE-RUN COOPERATIVES

Source: Reuters, Marc Frank; September 7, 2010

- * Cooperatives planned for manufacturing, retailing
- * Raul Castro pushes local development initiatives
- * Economists press for market mechanisms

Cuba will soon turn some small-scale manufacturing and retail services into cooperatives as the state retreats from minor businesses in an effort to boost the island's troubled economy, government and Communist Party sources said.

The moves are the latest reforms by President Raul Castro, who wants to reduce bureaucracy and raise productivity by easing the government's role without sacrificing the socialist system installed after Cuba's 1959 revolution. "Cooperatives are not something on the horizon, they are something already approved by the Havana Provincial Assembly in hopes of recovering local production and improving morale and competitiveness," said one government insider who, like others, asked that his name not be used. "There are already local workshops that have received approval to move to a cooperative form of production and administration," he said, listing furniture-making and garment workshops as good candidates.

The plan includes bringing illegal private businesses already operating in Havana out of the shadows and taxing them. Cuba nationalized all retail business and small manufacturing in 1968, all the way down to shoeshine shops. Earlier this year, Castro leased back small barber shops and beauty salons to individual employees and is doing the same with taxis. Farm cooperatives have existed in Cuba since the late 1970s. Castro also has said the government must cut bloated state payrolls by around 1 million workers over the next five years. Seeking to create jobs, he announced last month that more family-based private business would be allowed and, for the first time, private contracting of labor.

Castro has brought local and provincial governments into the task of economic development. They were ordered earlier this year to come up with projects to stimulate economic activity and create new jobs under a program called the Municipal Initiative for Local Development. According to a document shown to Reuters, the premise of the initiative is that "the scarcity of ... local development plans has created a complicated and unfavorable situation in a number of municipalities." "Centralization has left big empty spaces at the local level that must be resolved -- for example food production, services, transport and trade, among others," it said.

NO SHIFT TO CAPITALISM

The provincial governments are now in the process of approving proposals that can include cooperatives and other forms of administration. "Raul said to study what to do at the local level. It doesn't have to be the same in Havana as here in Camaguey," a Communist Party cadre in the province said by telephone. Castro has fostered debate on how best to handle the retail sector since taking over from his brother Fidel Castro two years ago but he has ruled out a shift to capitalism.

There has been no mention, for example, of entrepreneurs being able to reinvest profits to expand their businesses. The state will still own the cooperatives' premises, as it does most things in Cuba, but the workers will run them, pay operating costs and taxes and keep the profits. "Thirty of our restaurants, some with a good image and others less so, have already been selected to become cooperatives and their presidents named. They should begin the process soon," a mid-level functionary in Havana's food service industry said. He said discussions had gone on for a year. "What is holding things up is figuring out how they will purchase supplies and details such as minimum salaries and if the administrators' earnings should be capped," he said. An economist involved in preparing rules for non-agricultural cooperatives said it was still under debate how much the cooperatives would be allowed to function through market mechanisms. "The state should let them operate through supply and demand, not begin to cap prices and tell them where and what they can and cannot sell. In other words exercise only indirect control, for example through a tax on sales," he said.

CUBA TO ELIMINATE STATE JOBS, SPUR PRIVATE SECTOR

Source: Reuters, Marc Frank; September 7, 2010

- * More than 85 percent of Cuban labor force in state jobs
- * 250,000 new self-employment licenses to be issued
- * Biggest reform so far by President Raul Castro

Cuba will let more than 500,000 state employees go by next March and try to move most to non-state jobs in the biggest shift to the private sector since the 1960s, the official Cuban labor federation said on Monday.

The statement said eventually more than a million jobs would be cut and, due to efforts to increase efficiency in the state sector, there would be few new state sector openings. More than 85 percent of the Cuban labor force, or over 5 million people, worked for the state at the close of 2009, according to the government. "Our state cannot and should not continue maintaining companies, productive entities, services and budgeted sectors with bloated payrolls (and) losses that hurt the economy," the statement said. "Job options will be increased and broadened with new forms of non-state employment, among them leasing land, cooperatives and self-employment, absorbing hundreds of thousands of workers in the coming years," it said.

According to Communist party sources who have seen the detailed plan to "reorganize the labor force," Cuba expects to issue 250,000 new licenses for self-employment by the close of 2011, almost twice the current number, and create 200,000 other non-state jobs. The government's definition of self-employment includes many entities that are essentially small businesses, including such things as family-run restaurants and cafeterias, auto repair shops and jobs in the building trades. The non-state jobs will include, among other things, workers hired by the small businesses, taxi drivers who will now lease their cabs from the state and employees of small state businesses to be converted to cooperatives.

SEISMIC SHIFT

The plan amounts to the most important reform undertaken by President Raul Castro since he succeeded older brother Fidel Castro in early 2008 and the biggest shift to private enterprise since all small businesses -- 58,000 in total, with an average of five to eight employees, according to Cuban economist Juan Triana -- were nationalized in 1968. "We have to erase forever the notion that Cuba is the only country in the world in which people can live without working," Castro said, upon announcing in general terms his plans to cut state payrolls and increase self employment in an August speech to the National Assembly.

Cuba currently has only 591,000 people working in the private sector, a number that includes mostly family farmers as well as 143,000 self-employed, according to the National Statistics Office. All state businesses and agencies were ordered in January to review payrolls with an eye to trimming unneeded positions. Laid-off state workers will be offered alternative jobs, and if they do not accept one, will have unemployment benefits equal to 70 percent of their wages for no more than three months, depending on their seniority, sources said. They will not be totally out in the cold because all Cubans receive free health care and education, subsidized utilities, a subsidized food ration and automatic adjustment of mortgages to 10 percent of the top breadwinner's income.

Many Cubans also receive remittances from family abroad worth far more than the average monthly wage, equivalent to around twenty U.S. dollars. Castro has fostered discussion in the media and grass-roots meetings on what ails the socialist economy, and made mostly minor changes aimed at boosting productivity by putting more incentives in the system. The most important reforms up to now were in agriculture, where state lands have been leased to 100,000 new farmers and the state's monopoly on the sale of farm supplies including fuel and fertilizer and produce have been loosened.

CUBA'S BRAVE NEW ECONOMIC WORLD

Source: ABC News; September 16, 2010

Many Cubans Already Have Private Side Business to Supplement Government Job

A brave new world is slowly dawning in Cuba as the cash strapped government of President Raul Castro cuts gratuities and subsidies, designs wage systems based on performance, sheds state jobs, revamps the feeble tax system and liberalizes agriculture in search of socialist sustainability. The government announced plans Monday to lay off 500,000 state employees over six months and spur development of non-state jobs in their place, the biggest shift to private enterprise since the 1960s after Fidel Castro moved his revolution into the Soviet camp.

Cuba is a poor, developing country, embargoed by the United States, caught in an antiquated system and racked by hurricanes. But the basics, from jobs to food rations, health care and education were always guaranteed. Except for health care and education, that is no longer the case. The austerity measure is certainly painful, but perhaps not as painful as one might think. Many Cubans working for the state in jobs from driving taxis and repairing appliances to waiting on tables and making furniture will move to leasing their activity or working as cooperatives. At the same time state employees, most of whom already do something on the side to make ends meet, will now strike out on their own.

Havana secretary Kendra, like many of those being let go, already is self employed in her spare time doing friend's nails and hair, as her state salary of \$15 a month lasted barely a week. "I guess I'll do this full time," said Kendra, who asked to be identified by her first name only. "The recent announcement that the government will shift 500,000 state jobs to the private sector confirms the important, but gradual and slow reforms underway are irreversible," Arturo Lopez-Levy, a Cuban-American political scientist at the University of Denver, said. "The government has committed to opening more space for small business and cooperatives, which to function need the model to change from state dominated toward the market," he said. Lopez-Levy, like other experts, says the measures must include the recognition that the private sector is not evil but indispensable, an ideological shift that Castro has clearly supported in Agriculture where he has leased land to more than 100,000 new farmers and ordered private farmers be supported in the same way as state farms.

Cuba Says It Wants to 'Modernize' Economy

"This is a major change in the government's thinking. The new entrepreneurs and cooperatives will amount to a sort of small business sector, and the government sees them not as a necessary evil, but as a way to make the entire economy more productive," Phil Peters, a Cuba expert at the Virginia-based Lexington Institute, said. Castro, during a speech in August, announced a five year plan to modernize the economy had been approved, but failed to give any details.

Cubans are not sure what's ahead as Castro "modernizes" the economy and states that in the future, "Cuba will no longer be known as the only country in the world where you do not have to work to live," words uttered during the August speech that certainly caused anxiety among some of his minions. Government insiders say the jobs reform that will eventually effect more than a million state workers, 20 percent of the labor force, is part of the five-year plan that also includes more foreign investment, bank credits for small business and farmers, measures to improve efficiency, a mixed retail sector and the lifting of many regulations on the supply of inputs to farmers and sale of what they produce.

The non-descript Cubataxi garage on Palatino Street in the Cerro municipality of Havana may not look like much, but it provides a glimpse into the past, present and future. The past, even the government admits, was characterized by suffocating bureaucracy, massive pilfering and slovenly work habits. The present still is, but also by the recognition one of the world's last Soviet-style economies must change. Controversy over who gets what and anger at the tax man will more and more replace paternalism and passivity.

The 30-car garage opened for business on an experimental basis in January. Instead of three support staff for every vehicle as in other garages, an administrator, book keeper, mechanic and custodian man the fort. The drivers do not work for a state wage, but lease the cars on a daily basis and pay for their gas and vehicle maintenance. They will have to pay social security and income tax at the end of the year. "Starting next year we will have to pay the local equivalent of more than a \$1,000 to the tax office on top of everything else," a taxi driver, whose garage will go over to leasing next year, angrily said.

The average monthly wage in Cuba amounts to \$20. The government is thrilled with the pilot project, and for good reason. On Monday, the same day that the official trade union weekly *Trabajadores* announced the state's massive layoffs, the paper ran a story on a meeting of transportation officials. Buried in the article were a few paragraphs with the astounding news that productivity at the garage was up not by 55 percent, but 55 times its previous level and the state's yearly take from each taxi estimated at the local equivalent of \$18,360, compared with \$580 in the past. "It's no mistake,"

Christina, the book keeper said, sitting outside the garage's office. "No one hangs around here anymore doing nothing for a few dollars, stealing and taking the family to the beach in a company cab all expenses paid." The drivers are not so enthusiastic, insisting it's from their hides the fantastic statistics come. "It is slavery. We do not have a minute for the family," Roberto, one of them said. "We have to work day and night and seven days a week to pay the lease and tax office," he growled.

Hundreds of barbers and hair stylists across the land have also been leased their chairs and small establishments, and at least in Havana many voice similar complaints as the cabbies, while others appear satisfied and are sprucing up their shops. Transportation officials met the drivers in June to discuss the project and according to Roberto got an ear full. They promised to hold another meeting in December to announce "adjustments" before the experiment goes nationwide. Four drivers soon quit, while Roberto said the rest had adopted a wait and see attitude. Christina confirmed all this, but with a scoff as if to say things were not all that bad, though she admitted given the spectacular results perhaps a bit more of the pie could be shared.

CUBA UNVEILS PRIVATE SECTOR EXPANSION PLAN

Source: Reuters, Jeff Franks; September 24, 2010

- * Goal is to increase productivity, defend socialism
- * Bank credits may be offered
- * Self-employment to pick up slack for government layoffs

Cuba detailed its plan for expanding the private sector on Friday, saying self-employment would be allowed in 178 activities and the government would consider financial credits for the country's new entrepreneurs.

The plan, outlined in a story in Communist Party newspaper *Granma*, will let Cubans sell food, give massages, train animals, repair cars and homes, sell wine and many other things currently prohibited, in a liberalization of Cuba's state-controlled economy. The key goal of the reform was to "defend, maintain and continue perfecting socialism" by increasing productivity, the story said.

Self employment, it said, gives a worker "another way of feeling useful with his personal effort." Many of the details of the plan were leaked earlier, but Friday's story was the first official confirmation of what will happen. It contained comments from Cuban officials, including Economy Minister Marino Murillo Jorge and Labor vice minister Admi Valhuerdi Cepero.

Cuba has said it will lay off 500,000 workers from state payrolls and, starting in October, will issue 250,000 licenses for self-employment to help create private sector jobs for them. Another 200,000 government jobs will shift over to employee-run cooperatives and leasing arrangements. More than 85 percent of the Cuban labor force, or more than 5 million people, worked for the government at the close of 2009, according to official figures. For the first time since small businesses were nationalized in 1968, the self-employed will be allowed to hire their own employees.

TWENTY SEATS

Granma said private restaurants, known as "paladares," will be able to expand to 20 seats, up from the current limit of 12. Many popular paladares were already ignoring the 12-seat limit. It also said homeowners who have permission to live outside the country will be able to rent out their homes while they are away. The newspaper said the government was analyzing with Cuba's central bank the possibility of providing financial credits to help the self-employed get their businesses up and running.

Many are expected to get start-up money from relatives living abroad. Previously leaked Communist Party documents have said the self-employed will pay taxes ranging from 10 percent to 40 percent on their gross income, depending on their business, plus another 25 percent for the national social security program. Granma said the taxes will increase government revenues and help achieve their "adequate redistribution." Murillo said Cuba would have to beef up inventory in its stores, which are state-run, to meet demand for equipment and supplies for the new businesses. He said eventually it would be good to have wholesale outlets, but that will not be possible "in the next few years."

CUBANS FACE NEW REALITY AS JOB CUTS BEGIN

Source: Source: Reuters, Marc Frank; October 7, 2010

- * First mass layoffs since 1960s
- * Aim is increasing efficiency, cutting costs
- * Workers taking jobs more seriously, showing up for work

Cubans faced a harsh new reality this week -- the dismissal slip -- as the government began slashing state payrolls in a cost-cutting move that has created job insecurity for the first time in years in the Communist-run country.

Everywhere from hospitals to hotels, workers were being laid off, and in the biggest known move so far, employees at state-owned Special Protection Services Company (SEPSA) were told the firm was being shut down and 23,000 people let go. It was the beginning of President Raul Castro's plan to cut 10 percent of the state's labor force, or about 500,000 workers, by April in the biggest reform since he succeeded older brother Fidel Castro in 2008.

The layoffs, aimed at boosting efficiency and slashing Cuba's budget deficit, are the first major job cuts since the 1960s. About 85 percent of the Cuban labor force, or over 5 million of the nation's 11 million population, work for the state, many of them in unproductive jobs. Not all Cubans, accustomed to guaranteed employment in the socialist system, took the news in stride. At the Havana Libre Hotel, where a large number of jobs are being eliminated, Communist Party officials had to be brought in to calm workers down, hotel employees said. A nurse said she was shocked at the magnitude of layoffs in her Havana hospital. "I expected some job cuts, but not 500 out of our 3,000 employees," she told Reuters.

Employees at SEPSA, which provides armed guards and other security services nationwide, said they were told of the cuts on Tuesday. "They said the entire company was being closed and we were offered jobs in the prison system, police and traffic," said one SEPSA employee who asked that her name not be used. The government has said laid-off workers would be offered other jobs, but would have to seek work on their own if they did not take them.

FEARFUL FOR JOBS

It has said it will begin issuing this month 250,000 licenses for self-employment to create new jobs and shift many workers off state payrolls to leasing and cooperative arrangements. Still, said one Havana resident, Cubans are facing something they have not seen for a long time. "I understand the need to improve the economy, but it's hard to take after 50 years of job security," said the woman whose family members work for SEPSA. "It will be hard to get another state job as they are cutting everywhere, and many older workers are used to a desk and might have a hard time adjusting to doing something else," she said.

One immediate effect appears to be that workers, suddenly fearful for jobs they once took for granted and often neglected, are taking them more seriously, a local family doctor said. "People used to stay home if they had a sniffle and now they are going to work even if they are really sick, spreading their colds around," the doctor said. The layoffs are not based on seniority, but an evaluation by workplace committees of each worker's ability and productivity. At the Havana hospital a committee made up of administrators, Communist Party members and trade union members are deciding workers' fates in a process viewed as open to the vagaries of office politics. "Ability means friends and influence," one employee quipped.

Local economists said that, despite the accompanying unease, the cuts were long overdue. The Cuban system, modeled after the Soviet Union, has been based on each employee doing a single task and refusing to do more, even if it meant sitting around all day, they said. This resulted, for example, in state taxi garages employing three support staff for each driver. In a pilot project leasing the cabs to drivers, only four support staff are needed for 30 drivers, a garage manager said. "Workers will now be expected to do more, but will also receive a higher salary," one economist said. The government has said that after the first round of cuts, another half-million workers will be laid off in the future.

CUBA UNVEILS NEW TAX CODE FOR SMALL BUSINESS

Source: Reuters, Marc Frank; October 22, 2010

Cuba unveiled on Friday a new tax code it said was friendlier for small business, signalling authorities are serious about building a larger private sector within the state-dominated economy.

The new system, outlined in the Communist Party daily Granma, greatly increases tax deductions, but also adds taxes and comes with a warning of stiffer enforcement of tax collection. It replaces a rudimentary tax code in place since 1994 when some self-employment was first authorized but then squeezed by severe regulation.

The tax redesign comes as the government has begun slashing 500,000 workers from state payrolls and preparing to issue 250,000 self-employment licenses to create new jobs in President Raul Castro's biggest reform since taking office in 2008. He promised economic change when he replaced ailing older brother Fidel Castro and is pushing to boost productivity to help the Caribbean island's troubled economy. There were just 143,000 self-employed in 2009, according to official figures.

The new tax system enables the self-employed to deduct up to 40 percent from income for the cost of supplies, compared to just 10 percent under the old one. Formerly, small businesses simply paid a graduated income tax. Now they will also have to pay a 10 percent sales tax and 25 percent social security tax, but both are deductible at the end of the year. Castro's reform permits the self-employed, for the first time, to hire workers. They will have to pay a 25 percent social security tax for each employee, which will also be deductible, and an undefined labor tax.

ENFORCING SOCIALIST PHILOSOPHY

The Granma story made clear that despite the development of a larger private sector, the government's socialist philosophy remains in place and the labor tax is a way of enforcing it. "This tax is regulatory in character to avoid concentrations of wealth and indiscriminate use of labor," Granma said. "The more labor hired the more severe the tax," it said, without providing details.

The Granma story warned that those who are illegally self-employed must obtain a license and said tax scofflaws would face legal action. "Those who continue working on their own without papers, or do not pay the required taxes, will feel the weight of the law imposed upon them by those mandated to enforce it, the National Tax Office," it said. Cuba expert Phil Peters at the Lexington Institute in Arlington, Virginia said the new code is an attempt to simplify taxes for small businesses and make sure those taxes are paid. "My bet is that the sector will grow substantially, but only time will tell how big a tax burden this will be and how many entrepreneurs will be able to live with it," he told Reuters.

The government, which took power in part in a 1959 revolution headed by Fidel Castro, controls about 90 percent of the Cuban economy. Most small businesses remained in private hands until 1968 when they were all nationalized, down to the shoe shine shops. The reforms, announced last month, turn back the clock to some degree on the sweeping nationalization. Along with being able to hire employees, the self-employed will for the first time be able to do business with the state, open bank accounts, receive credits and rent space. The goal of these changes, Granma said in a story last month, was to "distance ourselves from those conceptions that condemned self-employment almost to extinction and stigmatized those who decided to join it, legally, in the 1990's." At present, more than 85 percent of the Cuban labor force, or over 5 million people, works for the state, many in unproductive jobs. The government has said it ultimately plans to cut a total of one million state workers, or 20 percent, from state payrolls. Along with private sector development, many state-owned retail operations will be converted to employee-run cooperatives and leasing arrangements the government said.

CUBAN '09 COFFEE HARVEST WAS WORST IN HISTORY

Source: AP, Will Weissert; September 30, 2010

Adios, café con leche?

Cuba -- where super-strong shots of espresso are a way of life -- says it had its worst coffee harvest in history last year, with production plummeting to just 5,500 tons nationwide. And a full-page article in the Communist Party newspaper Granma on Wednesday warned that authorities will no longer fill the shortfall with imports. It said the government cannot afford to spend a projected \$40 million this year and \$47 million next just to keep islanders in high-octane caffeine.

Cuba was the world's top coffee exporter in the 1940s, Granma reported, producing a bean "that was very coveted in discerning markets." As recently as the harvest of 1961-1962, Cuba produced 60,000 tons. The newspaper cited inefficiency and negligence as reasons for the drop in production, but did not go into detail.

Orlando Guevara, a coffee specialist at the Agricultural Ministry, told Granma that Cuba hopes to produce at least 6,700 tons of coffee in the coming harvest that begins in October and lasts about two months. He said Cuba hopes to one day get back to 1970s' level of 28,000 to 30,000 tons a year. As part of an effort to improve coffee production, Cuba recently abandoned the long-held practice of using teams of ill-trained student volunteers to harvest coffee, most of which is grown in the island's east.

Strong, almost tar-like espresso is most commonly served on the island in thimble-sized shots cut with copious portions of sugar. Cafe con leche is strong espresso combined with a large glass of steamed milk. Though it is famous in Cuba, it is more commonly drunk by Cubans living in the United States or elsewhere. But cafe con leche's days could be numbered on the island itself. Bad news about coffee production follows a report in May that Cuba recorded its worst sugar harvest in more than a century, a scathing assessment that followed the firing of the head of an industry that was once a symbol of the nation.

No official figures were given, but officials acknowledged there had not been "such a poor sugar campaign" since 1905, when the Cuban census reported 1.23 million tons of sugar were harvested in the 1905-1906 season. Communist officials have also for years attempted to jump-start the country's foundering milk production, with only spotty results. All of that could mean a lot less cafe con leche. President Raul Castro has used every major address since taking over power from his older brother Fidel in July 2006 to stress the need to revive Cuba's farming sector and cut back on costly imports.

CUBA LOOKS READY TO ALLOW SMALL LOANS FOR REFORMS

Source: Reuters, Esteban Israel; October 11, 2010

- * Spanish credits scheduled to go to agriculture next year
- * Microcredits could help Cuban economy
- * Brazil also offers expertise to develop small businesses

Some European countries are quietly working to bring hard-currency loans to Cuban farmers, an idea the communist-led government has traditionally resisted but now looks ready to accept to help its economic reforms.

A small flow of Spanish money for credits in Cuba is set to start up in 2011 and there are hopes it can grow as Cuba modernizes its state-dominated socialist economy. The first loans will be financed by Spain's Agency for International Development Cooperation, which next year will donate 490,000 euros (\$680,000) for agriculture, a priority for the cash-strapped Caribbean state dependent on food imports. "We are trying to help create a financial instrument currently nonexistent in Cuba to provide the agriculture sector with credit in hard currency," said Juan Diego Ruiz, local coordinator of the Spanish government aid agency.

Cuban officials have for long been wary of "microcredits" -- first developed in the 1980s to provide financial services to the poor in Bangladesh -- because they worry the small loans to groups of individuals could undermine the country's socialist principles, especially if coming from abroad. But Western diplomats say Cuba's government now appears ready to give such financing a try, even though it does not want to talk openly about "microcredits". Hard currency loans would allow groups of Cuban farmers, who lease land from the state, to buy the imported supplies, ranging from irrigation systems to seeds, they badly need to increase production, Ruiz said.

Cuban President Raul Castro has made a series of reforms aimed at boosting agricultural output and he unveiled plans last month to lay off 500,000 state workers in the next six months. The government says many of those being laid off will be allowed to enter the private sector in the boldest reform since Castro succeeded his older brother Fidel Castro in 2008. Those changes have made Cuba more appealing for European policymakers and Ruiz said the hard currency small loans "could eventually become an instrument linked to the ongoing process of economic adjustments."

OUTSIDE HELP

Spain has offered 4 million euros (\$5.5 million) to finance potential future loans for microcredit in Cuba under very favorable terms that take into account the island's current acute liquidity shortage. The 27-nation European Union also has been discussing providing up to 2 million euros (\$2.8 million) for credit. "The European Commission is willing to accompany or facilitate the process of economic reforms at the request of the Cuban government," said the EU representative in Cuba, Javier Nino-Perez.

Brazil's Foreign Minister Celso Amorim recently offered Castro the South American giant's expertise in developing small and medium enterprises. Western diplomats say Cuba's resistance to microcredits in the past seems to have eased following sharp economic shocks in recent years. The island was battered by three hurricanes in 2008, which did an estimated \$10 billion in damage and dragged down the already struggling economy. The global financial crisis that followed delivered another blow.

Traditionally, the government blames the long U.S. trade embargo against Cuba for most of its financial woes. When last month's ground-breaking labor reforms were announced, state media said the central bank was studying the idea of offering credits to small private enterprise, but specifics were not spelled out. Because of the political sensitivities, diplomats said the loans will not go directly from foreign providers to individuals. Instead, the initial Spanish funds will be channeled through the state-owned Bank of Credit and Commerce to groups of farmers leasing land from the state. But Cuba would have to allow microcredit recipients to open bank accounts in hard currency.

Cuba does not belong to multilateral financial institutions such as the International Monetary Fund or World Bank, so its success in microfinancing will depend on credits from friendly nations. "The main challenge is scale. Microfinances only work when there is sufficient scale to have an impact, and in order to reach that, external financing is critical," said Sergio Navajas, an expert with the Inter-American Development Bank in Washington.

Experts say Cuba appears headed down a path taken by its communist ally Vietnam, which has developed a market socialism often seen as a model for Raul Castro's current reforms. Microfinances played a key role in the Vietnamese economic transformation. "At first, Vietnamese authorities were also cautious," a Western diplomat in Cuba said.

100,000 CUBANS ENTERED FARM SECTOR TO INCREASE PRODUCTION

Source: EFE; October 12, 2010

About 100,000 Cubans have joined the ranks of the country's farmworkers as part of a strategy by the government of Raul Castro to spur food production, the government daily Juventud Rebelde reported Tuesday. The paper cited remarks by Vice President Ulises Rosales del Toro at a meeting with leaders of the Union of Young Communists, or UJC, at which he said that 30,000 young people had entered the agrarian sector. Rosales del Toro, who up until June was agriculture minister, said that the figure was achieved "when some skeptics thought it could not be reached." In addition, he emphasized that the UJC leaders were being counted upon to "mobilize the masses of youth" with the aim of strengthening the economy and achieving efficiency and good quality in production.

In August, Juventud Rebelde, the voice of the UJC, reported that young people are in the majority at present in requesting newly available farm land. According to government figures, people under 35 have acquired more than 50 percent of the more than 1 million hectares (2.47 million acres) distributed since 2008, when the government approved a law promoting the turning over of idle state lands to individuals to make those territories productive.

President Castro has insisted on a number of occasions that food production is a "national security" matter and has reiterated his effort to spur agricultural production on the communist island. Cuba has been importing more than 80 percent of the food that its 11.2 million citizens consume, and it spends more than \$1.5 billion annually on purchasing food from abroad.

CUBA AUTORIZA A 1.100 TIENDAS LA VENTA DE INSUMOS AGRÍCOLAS

Source: AP; October 19, 2010

Cuba autorizó a unas 1.100 tiendas la venta de insumos agropecuarios en pesos cubanos con el objetivo de que los campesinos puedan adquirirlos libremente sin esperar las asignaciones estatales. "Comenzamos hace unos meses con unos 10 productos, ya estamos casi en 20 y deben llegar a alrededor de 40 este año", dijo a la televisión cubana Arturo Vázquez, un funcionario del Ministerio del Comercio Interior.

Las imágenes mostraron alambres, mangueras, palas y limas expuestos en los estantes, mientras que una dependiente aseguró que lo más vendido fueron guantes, machetes y botas. No se especificó exactamente cuándo comenzó el programa. "Son cerca de 1.100 unidades" las que comercializan estos productos en pesos cubanos, una de las dos monedas emitidas en la isla.

El Estado emplea los pesos cubanos para abonar masivamente los salarios y pagar sus deudas con los productores agropecuarios, y no tienen equivalencia directa en dólares como los llamados pesos convertibles (un peso convertible se cambia a 1,08 dólares). Los campesinos suelen lamentar que el Estado cubano, el principal comprador de sus cosechas —cuyo precio deben convenir previamente—, les imponga un sistema burocrático y muchas veces no cumpla con su parte, como la entrega de fertilizantes y el recoger la mercancía a tiempo, lo cual provoca que se eche a perder.

Para impulsar el alicaído campo cubano, en el 2008 se le permitió a algunas tiendas la venta de aperos —herramientas para la agricultura—, pero con ciertas restricciones y en pesos convertibles, lo que generó quejas entre los productores. La venta liberada en pesos cubanos es una alternativa que posibilita al productor no tener que esperar la entrega de estos implementos por parte de ningún organismo, señalaron en la transmisión televisiva mientras se mostraban las imágenes. Según Vázquez, los aperos ofertados a los campesinos tienen precios sin subsidios y son fabricados en el país.

También en el 2008, las autoridades comenzaron un plan de entrega de tierras ociosas en usufructo a productores privados, el cual corrió paralelo a una reestructuración del Ministerio de Agricultura y el cierre de empresas agrícolas ineficientes. Las autoridades dijeron que habían entregado por este concepto hasta mediados de este año un millón de hectáreas, equivalentes al 56% del fondo establecido, el cual era de 1.763.000 hectáreas que se consideraban no explotadas pese a ser cultivables.

Aunque unas 110.000 personas resultaron beneficiadas, el propio ministro de Economía, Marino Murillo, reconoció que los resultados se están haciendo esperar. El gobierno ha reiterado en varias ocasiones que el tema de la seguridad alimentaria es un asunto de interés nacional para la isla agobiada por la crisis mundial y con una factura externa por compra de estos productos de unos 2.000 millones de dólares. Los cooperativistas y pequeños productores —no estatales— disponen del 41% de la superficie agrícola y aportan el 70% de la producción de bienes del campo en el país.

SUGAR

CUBAN FREIGHT DATA CONFIRMS SUGAR INDUSTRY WOES

Source: Reuters, Marc Frank; September 6, 2010

*Cuba reports decline in raw sugar transport

*Data indicates output around 1.1 million tonnes this year

Cuba's transportation of raw sugar by train declined 16.3 percent and by truck 10.4 percent through June, compared with the same period in 2009, the government said on Monday, confirming the industry's continued decline.

According to the National Statistics Office report on freight traffic for the first six months of the year 732,000 tonnes of raw sugar was moved by train and 311,000 by truck, compared with 875,000 tonnes and 347,000 tonnes respectively in 2009 (<http://www.one.cu/semestraltransporte.htm>). The Cuban sugar harvest over the last few years has run from December into June, but more than 95 percent of the crop is ground between January and the middle of May. For example, the data suggest around 1.2 million tonnes of raw sugar was moved by train and truck during the first six months of 2009, while the government reported final output was 1.34 million tonnes.

According to the report 1.04 million tonnes of raw sugar was moved during the same period in 2010, which would indicate final output was just over 1.1 million tonnes. While 2010 results will not be available for a year, Reuters estimated in June that output fell to between 1.1 million and 1.2 million tonnes during this year's harvest, based on local media reports and sources. This year's harvest was the worst in more than a century, the Communist party newspaper, Granma, reported in May, while sources close to the industry report it will be reorganized and foreign investment allowed for the first time since mills and land were nationalized in 1959.

Cuba exported 740,400 tonnes of raw sugar last year, garnering \$216 million, down slightly from 2008, the 2009 statistical abstract posted on the Office web page (www.one.cu) said, while importing \$11 million worth of refined sugar products, presumably low-grade whites.

CUBA PREPARES FOR ANOTHER BITTER SUGAR HARVEST

Source: Reuters, Marc Frank; October 18, 2010

*Government hopes to match this year's 1.1 million tonnes

*Fewer mills to open

*Joint venture talks stalled

Cuba's once proud sugar industry is gearing up for the 2011 cane harvest with fewer mills scheduled to open and hopes to merely equal this year's dismal output of 1.1 million tonnes of raw sugar, the official media reported on Monday.

The Communist party newspaper Granma, quoting deputy sugar minister Adrian Jimenez Fernandez, said 39 mills would grind the cane into raw sugar, compared with 44 the previous season and 54 in 2009, with the "mission of producing a similar amount of sugar as this year's Harvest". The harvest runs from January into May, though a few mills open in December for what is called the "little harvest."

Cubans, who saw their monthly sugar ration cut by a pound this year, are expecting further rationing in 2011 as the cash-strapped island nation tries to avoid importing sugar to meet its domestic and international obligations. The country consumes 700,000 tonnes of sugar per year and has a 400,000 tonne toll agreement with China.

Traders said they were told the country had no sugar to sell after the September estimate came in at less than 1.1 million tonnes. "The plan is to try to reach 1.1 million tonnes, but even that will be difficult," an industry source in the provinces said.

INVESTMENT TALKS STALLED

A local expert, who like others asked his name not be used due to a prohibition on talking with foreign journalists, said the country would be lucky to top a million tonnes.

Cuba, where sugar once was king, accounting for 90 percent of export earnings compared with under 5 percent last year, has drawn up plans to reorganize the industry and allow foreign investment for the first time since mills were nationalized in the 1960s. But the reorganization has yet to begin and negotiations with at least two foreign companies to jointly share administration of mills and share production for a limited number of years stalled in June, foreign business sources said.

Cuba's fall from once being the world's biggest sugar exporter, producing 8 million tonnes of raw sugar annually, began with the 1991 collapse of former benefactor the Soviet Union, which had paid padded prices for Cuban sugar to boost the island's economy. Cuba shut down and dismantled 71 of 156 mills in 2003 and relegated 60 percent of sugar plantation land to other uses. More mills have closed since then. Only 1.7 million acres (700,000 hectares) of the over 5 million acres (2 million hectares) once controlled by Cuba's Sugar Ministry are currently dedicated to sugar cane.

ENERGY & OIL

CUBA UPS GASOLINE PRICES BY ABOUT 10 PER CENT IN LATEST ECONOMIC ANNOUNCEMENT

Source: CP, Paul Haven; September 27, 2010

Cuba has upped already-high gasoline prices by about 10 per cent amid sweeping changes to the economy, a move that could lead to grumbling among cash-strapped islanders, particularly private taxi drivers who are not allowed to raise their own prices.

The changes, which took effect Monday, were announced in the Communist Party-newspaper Granma, which cited rising international prices for the move. It was the first time prices have risen since September 2008, when crude oil internationally sold for about a third more than it does now. The cost of diesel fuel — used by many of the old cars that populate Cuba's streets — rose to \$1.19 a litre (\$4.50 a gallon), about 11 cents a litre higher than previously (42 cents a gallon). The highest octane fuel rose even more to \$1.73 a litre (\$6.54 a gallon), from \$1.51 a litre (\$5.72 a gallon).

The prices approach those paid in Europe and are apparently the highest in the hemisphere, topping pump prices in Brazil and Bermuda. They are a fortune for Cubans who make the average salary of just \$20 a month. But the changes are not likely to effect many islanders, a reason why past gas hikes here have not led to unrest, as they sometimes do in other developing countries.

Few people on the island own a car, and those lucky enough to have been issued a vehicle through their state-run companies usually have a monthly quota of gas paid through work. The government heavily subsidizes the public transportation system on which most Cubans rely, and it did not announce an increase in those prices. Those who will take a hit are the thousands of private taxi drivers who use gas-guzzling American clunkers from the 1950s or rusting cars from former Eastern Bloc countries to ferry people along set routes to and from work. In most cases, the price they charge is set at 10 pesos (about 50 cents). Even before the price hikes, many complained that high fuel costs meant it didn't pay to cruise the city looking for a fare.

The gas price hikes come as the government is seeking to transform its socialist economy into a system that includes more private workers and more reliance on prices to regulate supply and demand. Earlier this month, Cuba announced it was laying off half a million workers — about one-tenth of the work force — while allowing far more free enterprise. On Friday, the government approved some 178 private business activities, gave Cubans the right to employ people not related to them, and even promised credit to entrepreneurs.

CUBA TO ADD NEW DOCKS, TERMINAL AT CIENFUEGOS PORT

Source: AP, Andrea Rodriguez; October 1, 2010

Cuba will build three additional loading docks and a terminal large enough to accommodate modern supertankers by 2014 at its port in Cienfuegos, part of the communist government's effort with Venezuela to rehabilitate and modernize the area's oil refinery. Venezuelan President Hugo Chavez, a self-described socialist and close friend of Fidel Castro, attended the December 2007 re-inauguration of the Soviet-era facility on central Cuba's southern coast, and since then it has refined 55 million barrels.

Cuba and Venezuelan plan to expand capacity there to 150,000 barrels refined per day and the new berths and terminal will ensure tankers carrying more oil can come and go more freely, said Luis Medina, director of Cuba's national port authority, at a news conference Friday in Havana, 185 miles (300 kilometers) northwest of Cienfuegos.

Chavez's government ships more than 100,000 barrels of oil a day to Cuba in exchange for island doctors who provide free medical care in his country and other social services. The expanded capacity at Cienfuegos will allow Venezuela to ship more petroleum products that can be refined on the island.

Cuba independently operates its largest oil field, the Varadero field discovered by Russian scientists in 1971, but the communist government relies on energy companies from Canada, Spain, Norway, India, Malaysia and China for other drilling operations. The government has laid out zones in the Gulf of Mexico where private energy companies, mostly from Canada and Europe, have said they could one day drill deep-water test wells searching for crude.

A 2004 test well by a Spanish company was not considered commercially viable, however, and Washington's 48-year-old trade embargo prohibits U.S. companies from investing in Cuban oil exploration and production, even though the island's Gulf waters are close to the Florida coast. A meeting of U.S., Mexican and Cuban scientists wrapped up Wednesday in Sarasota, Florida, with an outline for a plan to better protect the Gulf of Mexico and western Caribbean through collaborative management and conservation.

It includes actions that scientists in each country will undertake to conserve coral reefs, marine mammals, sea turtles and shark and other fish populations. Examples include a regional monitoring protocol for sea turtles to make sure results are compatible among nations and continued research expeditions focused on sharks.

INVESTMENT

INVESTMENT, FREIGHT DECLINES REFLECT CUBAN WOES

Source: Reuters, Marc Frank; September 8, 2010

- * Investment down 14.7 percent through June
- * Freight traffic down 12.2 percent through June
- * Critics say reform too slow

Cuban investment and freight transportation fell significantly through June as the Caribbean nation grappled with a two-year old financial crisis and recession, according to government reports released this week.

The National Statistics Office (NSO) reported that all investment, in foreign currency and local pesos, fell 14.7 percent from January through June and freight traffic 12.2 percent, compared with the same period in 2009. Investment was reported down across the board, from construction to the purchase of machinery and agricultural inputs. Investment fell just over 15 percent in 2009 and freight transportation 5 percent, according to the government.

Cuba does not release overall performance data until the end of the year, but the statistics office (ONE.CU) had reported earlier that manufacture stagnated and food production fell 7.5 percent through June. Local economists say import-dependent Cuba's economic performance has always been tied to the level of supplies purchased abroad the previous year. With further reductions in spending in place for 2010, Cuba's economic problems will likely continue for a while, they said.

The declines follow severe budget cuts and a reduction of more than \$5 billion or 30 percent in imports last year as Cuba fought off the effects of the international financial crisis, hurricanes, policy errors and the long-standing U.S. trade embargo against the communist-led island. Economic growth has fallen from 7.3 percent in 2007 to 4.1 percent in 2008 and 1.4 percent last year, according to the government.

LIVING WITHIN ITS MEANS

President Raul Castro, who took over for his brother Fidel Castro in early 2008, replaced his economic cabinet last year and declared the country had to live within its means and improve efficiency. Castro has warned of hard times throughout the year even while promising to modernize the Soviet-style economy, the last on the planet except for North Korea. He announced last month that as much as 20 percent of the state's labor force, or 1.2 million people, would be let go or transferred over five years and said he would allow more family businesses and private hiring to pick up part of the slack. "We have to erase forever the notion that Cuba is the only country in the world in which people can live without working," he said.

Castro's critics at home and abroad have repeatedly warned he has been too slow off the mark with needed changes. He has undertaken a series of reforms in agriculture, from leasing fallow state land to loosening the state's straitjacket on farmers' purchase of supplies and sale of their produce. Similar reforms began this year in the retail sector where some minor services were leased to employees, more licenses to peddle food granted and cooperatives planned. Modernization will also include warming up to foreign investors, local analysts believe, with the government recently extending from 50 years to 99 years the amount of time they can lease land.

CUBA AND ITS PARTNERS

CUBA-VENEZUELA UNDERSEA FIBER-OPTIC CABLE OPERATIONAL IN 2011

Source: ACN-RHC; October 11, 2010

An undersea fiber-optic cable between Cuba and Venezuela will be operational in July 2011, the Cuban Vice Minister of Informatics and Communications Alberto Rodriguez said last Friday. Rodriguez added that the cable will contribute to the promotion of cooperation ties between Cuba and Venezuela and it will also strengthen national sovereignty and security. "It will enable greater quality in information services and create more favorable conditions for confronting future developments," he added.

The main cable will link the northern Venezuelan city of La Guaira with eastern Santiago de Cuba and it has a 640-gigabyte-per-second capacity. Waldo Roboredo, vice president of Telecomunicaciones Gran Caribe S.A., the Cuban-Venezuelan joint venture that will operate the undersea cable, said the island will multiply its current data, image and voice transmission speeds by 3,000 and it will reduce operation costs by 25 percent and could be extended in the future to Haiti, the Dominican Republic and the Lesser Antilles.

According to the expert, the cable covers a distance of 5,340 kilometers and its cost is 70 million US dollars, with a lifespan of 25 years. He noted that these technological advances will not imply an end to Cuba's current satellite-based Internet service, which is all Havana is allowed due to the US's unilateral restrictions against the island. Washington prevent Cuba from accessing the Internet via undersea cables, one of which connects Cancun, Mexico and Miami and passes just 32 kilometers (20 miles) northwest of Havana. Cuba has had a satellite-based Internet link since 1996 that offers a 65-megabyte-per-second upload bandwidth and a 124 Mb/s download bandwidth, but any modification of the channel must be licensed by the US Treasury Department.

SALES OF HAVANA CLUB RUM ON THE RISE

Source: Reuters, Nelson Acosta; October 19, 2010

- * Havana Club sales expected to rise 9 percent this year
- * Legal fight with Bacardi over name will continue

Sales of Cuba's trademark Havana Club rum are expected to rise about 9 percent this year to 3.7 million cases, the head of the Cuban-French joint venture producing the liquor said on Tuesday.

The increase follows a decline of 3 percent in 2009 due to the global financial crisis, said Marc Beuve-Mery, head of Havana Club International, jointly owned by Cuba and liquor giant Pernod Ricard (PERP.PA). "Sales are rebounding. I have no doubt we will add another 300,000 cases or more, rising to 3.6 million or 3.7 million cases, a record number for the company," he said in a press briefing.

Cuban-made Havana Club is sold in 124 countries, not including the United States, due to the 48-year-old U.S. trade embargo against the communist-led island. If one day the embargo is lifted, it will open a big new market just 90 miles (145 km) away, said Beuve-Mery. "The United States represents 40 percent of the global market for rum," he said. "There's no doubt that if we had access to that 40 percent it would have a tremendous impact on sales."

Cuba is in the process of staging numerous press events to portray the effects of the embargo ahead of a United Nations vote next week on what has become an annual resolution condemning the sanctions. It is routinely approved by huge margins. Pernod Ricard and Bacardi Ltd have been embroiled in a longstanding dispute because Bacardi sells rum in the United States under the name Havana Club.

It says it bought the trademark from the rum's original makers, who, like most of the Bacardi family, fled Cuba after the 1959 revolution that put Fidel Castro in power. In April, a U.S. judge sided with Bacardi, saying it could continue to sell the rum, but Pernod Ricard is fighting the decision, said Beuve-Mery. The judge's ruling "doesn't adhere to the norms of intellectual property," he said. "We consider ourselves the owner of the brand."