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WORKPLACE THEFT SAPS CUBA'S STATE-RUN ECONOMY

Source: Reuters, Tom Brown; June 25, 2009

In a cramped apartment just behind the renowned Partagas cigar factory in central Havana, the factory worker displayed his wares. Shiny wooden boxes of Cohiba, Montecristo and Partagas cigars - - considered among the finest in the world -- emerged from a duffel bag as the worker, who gave his name as Jose but asked not to be identified further, offered them at a steep discount to those on sale in the Partagas store. "This isn't stealing. We do it to survive," said Jose, who explained that his wage in the factory amounted to less than \$20 a month. Without slipping cigars out of the state-run business and selling them to tourists, he and his family would not get by, Jose said.

Cuba's communist authorities take a dim view of such "survival" tactics, which have existed for years in some form or other in a society whose citizens often wryly joke "if it's not illegal, it's prohibited." A popular Sunday night drama on state television highlights the crimes and punishment -- including long jail terms -- meted out to Cubans responsible for "counterrevolutionary" acts such as black market sales of goods, such as beef, cigars and rum. "I could get in a lot of trouble just for talking to you ... I could go to prison," said the Partagas worker. He and three fellow workers reaped just 20 percent of the revenues from the "bolsa negra" or black market deals, Jose said. Plant managers and foremen keep the other 80 percent and split it among themselves and police or Interior Ministry officials who turn a blind eye to the illicit sales, he said. Former President Fidel Castro complained bitterly about theft from the workplace in a speech in November 2005. But he fell ill not long after that, and little seems to have been done about a problem so commonplace that Castro described it as having created a class of "nuevos ricos" or new rich which he said threatened the very lifeblood of the Cuban Revolution. The government routinely blames many of Cuba's economic problems on the U.S. trade embargo against the island that which has been in place since 1962.

"ESCAPE VALVE"

But the problem of theft from state-owned businesses is an embarrassment for a government that has long prided itself on socialist egalitarianism and a sense of ethical superiority. President Raul Castro, who took over from his ailing elder brother Fidel last year, has called for more efficiency, austerity and sacrifice as the global recession squeezes the centralized Cuban economy with dips in foreign currency earners such as tourism and nickel.

Nevertheless, many Cubans see themselves as victims of a flawed economy and say workplace theft is one of the things still keeping the Cuban Revolution alive. "It's sort of our escape valve," said one taxi driver, who asked not to be named. "If they were to take that away people could get pretty angry and things might get out of hand." Dissident blogger Yoani Sanchez, whose wry comments about daily life in Cuba have won her international acclaim, described pilfering from the workplace as "a socially accepted way of breaking the law" in a website posting this week. It was also a way of dissuading people from protesting publicly to demand better living standards, she said.

DUAL CURRENCY STRAINS SOCIETY

Many Cuba experts say the widespread theft problem stems largely from the fact that Cuba, which initially legalized use of dollars in 1993 during the economic nosedive that followed the collapse of its old economic ally the Soviet Union, has two currencies. The local peso currency, which most salaries like Jose's are paid in, is essentially good only for rationed or other items available in drab state-run peso stores. The government replaced dollar circulation in 2004 with convertible, dollar-pegged pesos called CUCs. Having CUCs provides access to better stores and more goods, and getting them is often through black market sales of goods smuggled out of the workplace. Hard-currency remittances from family members living abroad are another major source of the CUCs for many Cubans. But some critics have called the dual currency system a form of economic apartheid in the country of 11 million people. The state still provides free health and education as well as heavily subsidized housing and a small ration of almost-free food items. So the social safety net compensates partially for what officials acknowledge to be low salaries in dollar terms. But many peso-paid workers or people on pensions have a hard time meeting basic needs, and the solution for many is daily "inventing" -- often just a euphemism for stealing.

CUBA LAGS REGION IN TELECOMS, INTERNET ACCESS

Source: Reuters, Marc Frank; June 25, 2009

- * Telecoms, Internet access lags others in hemisphere
- * Official statistics show just 630,000 computers in Cuba
- * Internet access is restricted in 11.2 mln population

Communist Cuba may boast a doctor on every block and schools for all its children, but when it comes to telephones, computers and the Internet it lags behind other countries in the hemisphere, a government report showed on Thursday. The National Statistics Office released 2008 telecommunications data showing there were 1.4 million telephones, fixed and mobile, in the country of 11.2 million inhabitants. (www.one.cu/aec2008/esp/20080618_tabla_cuadro.htm)

This gave a total density of 12.6 telephones per 100 inhabitants, the lowest in the region, according to the United Nations International Telecommunications Union. Computers were also scarce at just 630,000 and most were believed to be in government offices, health facilities and schools. The report said 13 percent of Cuba's population had Internet access, but in most cases this was to a government Intranet. No data was available for access to the worldwide web, but diplomats and residents say it is severely restricted.

In Jamaica, Internet access was 53.27 per 100 inhabitants, the Dominican Republic 25.87 percent and in Haiti 10.42 percent, the ITU reported. "I would love one day to have a telephone, computer and Internet at home, but I see little prospects for now," said 23-year-old Yenisey Peraza, a Cuban dancer who recently bought a cellphone for emergencies. In a reform introduced by President Raul Castro after he took over from his ailing brother, Fidel, in February last year, Cubans were given permission to freely buy and use cellphones. But they can only pay for them in hard currency equivalent convertible pesos, which are not available to all Cubans. The government pegs the Cuban convertible currency (CUC) at \$1.08.

OBAMA TELECOMS MOVE

In a move in April easing some aspects of Washington's 47-year-old embargo against Cuba, President Barack Obama allowed U.S. telecommunications firms to offer services in Cuba as part of a strategy to try to increase "people to people" contact. The White House said in April that U.S. telecoms companies would be allowed to set up fiber-optic cable and satellite links with Cuba, start roaming service agreements and permit U.S. residents to pay for telecoms, satellite radio and television services provided to Cubans.

While Cuba's leaders welcomed the move as a step in the right direction, they reiterated their demand that Washington completely lift the embargo, suggesting the new telecoms overtures would not prosper. Cuba's failure to embrace modern telecoms is a major complaint among citizens under 50 years old, who cite it as one of the reasons they seek to migrate abroad. "There is very little Internet access, and what there is the government controls. Even having a telephone is difficult, and one can't even dream of having a computer or Internet," said Denis Ferrer, a young restaurant employee.

The Cuban state monopolizes communications and dominates the economy where the average government wage is around 420 domestic pesos, or around 18 convertible pesos (\$20), a month. A cellular telephone line costs 30 CUCs and the cheapest cellular phone is priced at 60 CUCs. A minute's use of a cell phone calling out or receiving averages half a CUC, or more than half a day's state wages, while a 160 character text message costs 0.16 CUC to send. About 60 percent of Cuba's population has some access to convertible pesos through money sent to them by relatives abroad, tourism tips, state bonuses, or the black market.

Cuban officials blame the U.S. trade embargo against the island for the country's poor communications. They insist the data for individual use and ownership is misleading as priority is given to social use of telecoms technology, from health and education, to government-operated computer clubs in every municipality.

LA PARADOJA ECONÓMICA CUBANA

Source: El País, Carmelo Mesa-Lago; 12 de julio, 2009

Según Ariel Terrero, comentarista televisivo cubano, la centralización y planificación socialistas permiten al Gobierno tomar medidas rápidas, priorizar inversiones estratégicas "a fin de administrar el exiguo capital de que dispone la nación". Cuba carece de un plan económico -que debería ser aprobado por el congreso del partido a fines de este año, pero del cual no se habla- frente a la peor crisis desde el colapso de la URSS, y su equipo económico completo ha sido despedido en medio de la crisis. Cuba carece de un plan económico para afrontar su peor crisis desde el colapso de la URSS. Es una economía socialista y centralizada, pero no planifica ni ha establecido una estrategia coherente

El crecimiento disminuyó desde el 12,5% al 4,3% entre 2007 y 2008, y se proyectó al 6% para 2009. La CEPAL predijo en abril que Cuba sería una de las cuatro naciones latinoamericanas que crecería un 3%; en mayo, el ministro de Economía lo estimó "por encima de 2%". Pavel Vidal, del Centro de Estudios de la Economía de Cuba en la Universidad de La Habana, proyecta tres escenarios: 2,5%, optimista; 1%, mediano, y -0,5%, pesimista. Este último parece el más probable en vista a lo ocurrido en la primera mitad del año y de una proyección mundial del -3% hecha por el Banco Mundial.

El número de turistas, segunda fuente de divisas, se estancó en febrero y cayó un 2,6% en marzo, mientras que los ingresos por turismo disminuyeron un 14% en el primer trimestre, y el ministro del ramo advierte de que empeorará el resto del año porque disminuirán los visitantes por la crisis mundial. La producción de níquel, tercera fuente de divisas y de la mitad de las exportaciones cubanas, cayó un 8% en 2008 y su precio mundial un 80%, lo que hace casi no rentable su explotación. La cosecha azucarera fue de 1,3 millones de toneladas, un 13% inferior a la de 2008, y la demanda de puros se ha contraído.

La balanza comercial de bienes arrojó un déficit de 7.900 millones de euros en 2008 porque las exportaciones se estancaron, mientras que las importaciones se dispararon un 43%. Según el ministro de Comercio Exterior, el déficit se acentuó en el primer trimestre de 2009: el 78% del intercambio total correspondió a importación y el 22% a exportación; podrían perderse 740 millones de euros por la caída del turismo y el precio del níquel, por lo que no podrán importarse los bienes necesarios. A pesar de la suspensión por Obama de las restricciones a las remesas externas, se informa de que bajarán porque la crisis estadounidense golpea más duro a los emigrantes recientes que son los que envían más dinero.

La deuda exterior de 13.560 millones de euros en 2008 equivalió al 380% del valor de las exportaciones. La iliquidez se agravó en 2009 por dificultades en obtener crédito externo, que le cuesta a Cuba entre un 20% y un 30% más que a otros países; los bancos estatales tienen pocas divisas y corren el riesgo de insolvencia, y 80 empresas estatales han pospuesto pagos a acreedores externos. Las cuentas bancarias de cientos de empresas mixtas están congeladas desde hace meses por el Gobierno, que impide la expatriación de ganancias y pagos a proveedores foráneos. El Banco Central requiere autorización a todas las empresas para transacciones superiores a 10.000 pesos convertibles. Cuba ha rechazado la invitación de la OEA a solicitar su reingreso, lo cual hubiese facilitado su posterior acceso como miembro al Banco Interamericano de Desarrollo (BID) y el acceso a los préstamos que necesita.

Una reunión de economistas, de la que ha dado cuenta el diario Granma, anuncia otros problemas: la demanda de productos cubanos por China y Rusia ha declinado; la inversión externa caerá un 70% y ya se ha recortado la interna; se cierran industrias (neumáticos, empacadora de aluminio, productos lácteos) por falta de insumos importados y crédito externo; la devaluación del dólar y el euro frente al peso convertible cubano (milagrosamente no ha afectado por la crisis) encarece el turismo hacia Cuba y disminuye las compras de los visitantes, y habrá menos alimentos y vestidos disponibles para la población.

El transporte habanero mejoró con la importación de 500 autobuses chinos, pero la flota equivale al 43% de la existente en 1990; la falta de mantenimiento, neumáticos y piezas de repuesto ha provocado un nuevo deterioro, mientras que el Gobierno persigue a los taxistas ilegales. Más del 75% de las calles de la capital necesita reparación. El plan de pago por resultados (destajo), pilar de las reformas de Raúl Castro y aprobado hace 17 meses, sólo se aplica al 18% de la fuerza laboral; los administradores lo rechazan porque los técnicos pueden ganar mucho menos que los obreros con alta productividad. El salario real disminuyó un 3,4% en 2008 y se augura que bajará más este año.

De las 100.000 solicitudes presentadas hace diez meses para tierras estatales ociosas se han tramitado ya el 73%, pero sólo se ha entregado un 38% en usufructo y un 20% sembrado; el 60% de la tierra está infestada de marabú, el 80% de los usufructuarios carece de experiencia, y falta crédito, semillas, aperos y fertilizantes. Toneladas de tomate, cebolla, remolacha, boniato, zanahoria y berro se han perdido por incapacidad estatal para recogerlas, almacenarlas o procesarlas para conservas. La producción agrícola cayó en promedio un 7,3% en el primer trimestre respecto a 2008: 61%, en plátanos; 33%, en carne de cerdo, y 28%, en la de ave. En 2008 la importación del 80% de los alimentos esenciales le costó a Cuba 1.850 millones de euros y para reducir esa factura este año las raciones de frijoles, chícharos y sal se han recortado a la mitad. Los precios en los mercados agrícolas siguen congelados, nueve meses después de los huracanes, y faltan muchos productos. Las tiendas de divisas no ofertan pollo, picadillo de res, papel higiénico, dentífrico; el precio de la leche en polvo y las conservas es inasequible.

Para enfrentar estos problemas, Juventud Rebelde anuncia un experimento en La Habana: las empresas estatales contratarán directamente con campesinos y cooperativas, éstas concertarán la recolección, transporte y venta al por mayor de sus productos (no al acopio sino al Ministerio de Comercio Interior), los obreros agrícolas ganarán 0,13 euros por cada 50 kilos de producción, y el número de mercados agrícolas aumentará al doble a fin de año.

El plan de combustible se excedió un 8% en el primer trimestre de 2009 y, de mantenerse esa tendencia, habría que importar 250.000 toneladas de crudo. Por ello el Gobierno ordenó un corte del 12% en el consumo eléctrico y ha multado a cientos de empresas incumplidoras; no hay aire refrigerado en tiendas y cines, ni se pueden usar ventiladores en las casas, y han retornado los apagones que habían terminado con la "revolución energética" de Fidel. Cuatro posibles causas del corte son: Chávez puede haber reducido el suministro de 150.000 barriles diarios por la caída del precio mundial del petróleo y de sus ingresos; según el Ministerio de Comercio Exterior se ha exportado crudo nacional por 650 millones de euros, pero el petróleo cubano tiene alto contenido de azufre, por lo que posiblemente se reexporta el venezolano (como se hizo antes con el soviético); la producción interna, estancada en 2008, puede haber caído este año, o los electrógenos instalados por Fidel no resolvieron de raíz el déficit energético.

La crisis no ha llegado al extremo de 1992-1994 por tres razones: Chávez suministra el 65% del petróleo necesario a precios subsidiados equivalentes a 1.850 millones de euros, y paga 4.000 millones de euros por 40.000 profesionales cubanos que trabajan en Venezuela, y el 65% de los cubanos reciben remesas del extranjero. Pero si la economía decrece un 0,5%, será el peor desempeño desde 1994.

Ante la grave crisis ya debería estar preparándose el VI Congreso de Partido Comunista, anunciado por Raúl hace un año para el segundo semestre de 2009. El último congreso fue en 1997, aunque debe celebrarse cada cinco años; ha de aprobar el plan económico para 2010-2014 y la estrategia frente a la crisis. Pero las reuniones locales del partido este año no lo han mencionado, ni se ha publicado la convocatoria que debe ser seguida de asambleas que elijan delegados para que discutan el plan. Se rumorea que el congreso será pospuesto por la crisis, pero el economista independiente cubano Óscar Espinosa Chepe ofrece otras razones: la insatisfacción popular, el peligro que la discusión se salga de control y la obstinación a no hacer reformas económicas profundas recomendadas por numerosos economistas del país. He ahí la gran paradoja cubana: una economía centralizada que no toma ventaja de su poder para planificar y establecer una estrategia coherente que la saque del marasmo que sufre.

CUBA UNFREEZES SOME BANK ACCOUNTS TO BOOTS TRADE

Source: Reuters, Marc Frank; July 22, 2009

- * Central bank authorizes payments through ministries
- * Measure seen as response to supply worries
- * Measure part of decentralization under Raul Castro

The Cuban central bank has authorized the release of some funds in foreign business accounts that have been blocked by the government for months and caused a growing reluctance to trade with Cuba.

Central bank Instruction #3 issued this month allows the transfer or payment of foreign exchange from the frozen accounts with the approval of a government ministry, business sources familiar with the resolution said. They said some 600 accounts, with frozen funds estimated at \$600 million to \$1 billion, would potentially be involved. Faced with a drying-up of liquidity as the global financial crisis increasingly hit home, Cuba's state banks in January began telling many businesses their funds were simply not available for the moment. While renewed access, even if only partial, to accounts is welcome, business sources said it is being offered with the proviso that they continue to do business with the island.

They said the government and state-owned firms were reaching out because of mounting supply problems in the country as traders and companies balked at doing new business unless their accounts were unfrozen. "The ministries have set their priorities and are contacting suppliers. They are saying they can unblock some of the supplier's funds in exchange for new business which they are guaranteeing will be paid without further problems," a Spanish businessman said, asking not to be identified. "That is better than nothing, but if you are not on the priority list you are out of luck for now, and if you don't strike a new deal forget your money for the time being, at the least," he said. Another foreign businessman said it was unheard of for depositors to have to go to ministries to unblock accounts.

Cuba has a dual monetary system under which a foreign exchange equivalent called the convertible peso (CUC) circulates along with the peso. Foreign businesses operate within the country using the CUC, pegged at 1.08 to the U.S. dollar and 24 times the peso's value, depositing them in state banks where they are available as foreign exchange for transfer or withdrawal. A government report seen by Reuters this week said the country would be short around 30 percent of the resources it had planned on in 2009, or some \$4 billion, and cut its growth forecast from 6 percent to 2.5 percent.

The report blamed the "global economic crisis", the decades-long U.S. trade embargo, hurricanes that hit the island last year and "the low efficiency of the economic model" for a liquidity crisis that has it also seeking to restructure debt with official and commercial creditors. The new payment scheme appears to be part of a gradual decentralization of control over foreign exchange exercised by the Central Bank of Cuba, which previously had to approve any purchase of more than \$10,000 by the state-run companies that account for more than 90 percent of economic activity. In March, the government eliminated the central bank's control and began a process of assigning foreign exchange budgets to government ministries to spend as they see fit. It also authorized them to seek fresh credit. The measures came after President Raul Castro replaced his economic cabinet following a dismal 2008 that saw the current account, or balance of payments that measures the flow of foreign exchange in and out of the country, go from a \$500 million surplus to a deficit of more than \$2 billion, according to various estimates. Communist authorities often do not comment on internal reforms and official decrees announcing them are often published well after they are signed.

CUBA PONDERES REDUCED STATE ROLE IN ECONOMY

Source: Reuters, Marc Frank; July 28, 2009

*Cuban commentator suggests larger private role in economy

*Says economic crisis may open door to reforms

Cash-strapped Cuba should consider putting more of its state-run economy in the hands of producers, as President Raul Castro has done with agriculture, the country's top economic commentator said on Tuesday.

Ariel Terrero, during his regular Tuesday appearance on state-run television, did not call for private management, but suggested that sectors such as food services and retail could perform better if they were run in a new way. "In the Cuban economy, there's a need to look for formulas more dynamic, more intelligent, of understanding property, of running a business, of running a cafeteria," he said. About 90 percent of communist-led Cuba's economy is under state control. Terrero pointed to Castro-led reforms in the island's agriculture that include decentralization of decision-making, greater emphasis on private cooperatives and farms, and the leasing of state lands to some 80,000 individuals. "The leasing of state lands, which in the end is the placing of state property in the hands of producers, could be applied in other sectors, for example food services, retail trade, and other areas where really it is impossible, given the diversity and breadth, for the state to administer directly," he

said. Terrero, who regularly comments on economic affairs in Cuba's tightly controlled state media, said big, concentrated operations such as nickel plants, sugar mills, hotels and the power grid were not the same as an appliance repair shop or a cafeteria. "I think this diversity requires new thinking about the concepts and manner of understanding property in the Cuban economy," he said.

Raul Castro replaced ailing brother Fidel last year and since then has pushed for a more efficient and streamlined government and economy. He replaced his economic Cabinet in March amid the worst financial crisis Cuba has gone through since the demise of former benefactor the Soviet Union in 1991. Terrero said the current difficulties could open the way to reform, pointing out that in the 1990s crisis the economy was opened up to foreign investment, tourism and some small family businesses.

GOVERNMENT REPORT CONCURS

His comments follow a recent government report seen by Reuters that suggested similar changes. The report by the Economy and Planning Ministry blamed hurricanes, the U.S. embargo and world financial crisis for a cash shortage that has forced cutbacks in imports, budgets and energy consumption. But it also said long-standing structural problems were to blame. "State-run socialist companies must be efficient and for that what they need for their optimal performance must be guaranteed," the report said. "The remainder of the economy must adapt to a form of property better suited to the resources available," it said.

Many Cuban economists have long argued that the state should focus on large companies and wholesale trade and get out of the retail business, which it has monopolized since 1967 and which the government admits is plagued by petty theft, inefficiency and abysmal service. Cuba expert Daniel Erikson at the Inter-American Dialogue think tank in Washington said it appears the Cuban government may be considering such a move. "What this tells me is that the Cuban government is once again wrestling with the central dilemma of how to adapt the island's outdated economic model to changing realities," he said. "At bottom this is a debate about reducing the role of the state and allowing controversial free market practices to take root," he said.

CUBA SHUTS FACTORIES, CUTS ENERGY TO SAVE ECONOMY

Source: Associated Press, Will Weissert; July 31, 2009

It's hard to find a spare tire in Cuba these days, or a cup of yoghurt. Air conditioners are shut off in the dead heat. Factories close at peak hours, and workers go without their government-subsidized lunches.

Cuba has ordered austere energy savings this summer, and the secretive Council of Ministers and Communist Party Central Committee met this week to consider more cuts to cope with budget deficits and plummeting export profits. The communist government imposed conservation measures even as it continues to get free oil for services from Venezuela, fueling rumors that Cuba is selling President Hugo Chavez's crude on the side to raise cash. More likely, the shortages result from a global recession that hit an already struggling economy still reeling from last year's hurricanes. President Raul Castro scolded Cubans in a national address Sunday to work harder because they have no one to blame but themselves. "The only thing I know is that we're screwed," said one 27-year-old who only gave the name Raul because he sells cement and housing materials on the black market. "I don't work. I find a way to survive."

The latest cuts are small compared with strict measures imposed during the so-called special period, when Cubans nearly starved after subsidies dried up with the collapse of the Soviet Union. Nor are they as severe as the blackouts of 2004, when technical problems at power plants left much of the island in the dark for hours at a time. Fans and water pumps were idled. Milk and food spoiled, while electrical surges damaged refrigerators, televisions and other costly appliances. Still, every bit of belt-tightening stings in a country where almost everyone works for the state and average wages are less than \$20 per month.

The price of nickel, Cuba's chief export, is down more than 50 percent from last year, according to Toronto-based Sherritt International Cooperation, Cuba's largest energy partner. The company's oil production on the island was down 19 percent last quarter compared to the second quarter of 2008, mainly because Sherritt suspended drilling earlier this year when Cuba fell behind on its payments. The government and Sherritt have worked out a plan to pay down the debt, and the company says Cuba has been sticking to it. But the situation could have spurred the mandatory energy savings.

Neither Sherritt nor the Cuban government would provide more details. Or Cuba may be trying to save unused oil to bolster strategic reserves while prices are still relatively low, said Dan Erikson of the Inter-American Dialogue in Washington. But he also said the strict measures lend credence to whispers that Cuba is selling Venezuelan oil overseas — something the communist government did with some of the discounted oil it got from the Soviet Union. "It's been alleged they've been selling Venezuelan oil on the side. They've denied that, but if they are open to doing it, now would be the time," Erikson said. "Cuba's in a real cash crunch."

Beginning June 1, the government ordered energy conservation measures as part of a broader plan to cut the national budget by 6 percent. Central planners also revised their economic growth projections from 6 percent to 2.5 percent and could lower expectations even further. These days, most countries would cheer any economic growth. But Cuba counts what it spends on free health care and education, monthly food rations and other social programs as production — making economic growth figures dubious. The island's economic woes began in earnest with three hurricanes last summer that caused more than \$10 billion in damage and wiped out some of the food and grains the government had stockpiled to insulate itself from rising commodities prices.

How much Cuba has spent on hurricane recovery is unclear. But Castro said the government has rebuilt or repaired 43 percent of the 260,000 homes damaged or lost in the storms. Cuba consumed about 150,000 barrels of crude oil a day in 2008, of which 52,000 were produced domestically and 93,000 imported from Venezuela, said Jorge Pinon, an energy fellow at the University of Miami's Center for Hemispheric Policy. Half is used to generate electricity, according to Cuba's Ministry of Basic Resources. Though the numbers leave the country 5,000 barrels a day short, Pinon said natural gas production last year covered the energy equivalent of 20,000 barrels of oil daily and kept the power plants running smoothly. "Cuba, from a petroleum point of view, is balanced," he said. "It's not running out of oil." So far the power-saving measures have been confined to state-run businesses and factories, though many Cubans fear they will soon hit residential users as well.

Workers at a tire factory in San Jose de las Lajas, a rugged farming town 30 miles (50 kilometers) south of Havana, said production is down and the factory goes dark when demand for electricity is high — leaving gas stations and mechanics short on spare tires. In the central province of Cienfuegos, a large dairy that supplies ice cream and other products to much of the country and exports cheese has been ordered to cut production, according to the Communist Youth newspaper Juventud Rebelde. Yogurt is scarce in Havana — sold only in upscale grocery stores that cater to tourists and are too expensive for most Cubans.

Some government office workers say their hours have been cut to between 8 a.m. and 3 p.m., and others are being told to come in only twice a week. State companies also have stopped offering employees low-cost lunches in worker cafeterias to save power. Other government offices, businesses, banks and stores have ordered air conditioners turned off for much of the day, rather than close early. Customer service, never stellar in state-run institutions, has suffered even more. In the sweltering banks, barbershops and boutiques, listless employees are more interested in fanning themselves than serving sweating customers.

CASTRO SAYS CUBA TO CUT SPENDING, COMMUNISM SECURE

Source: AP, Will Weissert; August 1st, 2009

Raul Castro announced Saturday that Cuba will cut spending on education and health care, potentially weakening the building blocks of its communist system in a bid to revive a foundering economy. The former defense minister who took over the presidency last year called state spending "simply unsustainable" and said the cash-strapped government would reorganize rural schools and scrutinize its free health care system in search of ways to save money. But he vowed that the island will not see fundamental change even after he and his older brother and predecessor, Fidel Castro, are gone. "I wasn't elected president to return capitalism to Cuba," Raul Castro said, "or to surrender the revolution" — the armed uprising that toppled dictator Fulgencio Batista a half century ago. "I was elected to defend, build and perfect socialism, not destroy it," he said to a standing ovation from lawmakers in Parliament.

He framed those remarks as a response to U.S. Secretary of State Hillary Clinton, who has said Washington wants to see economic and social reforms in Cuba before doing more to improve relations. Castro reiterated his willingness to negotiate better relations with the United States and acknowledged a "decline in the aggressiveness and anti-Cuban rhetoric" during the Obama administration. He said he was ready to talk about "everything here in Cuba, but also everything there in the United States," referring to Washington's 47-year-old trade embargo. Castro said Cuba "won't negotiate our political or social system and we won't ask the United States to do so. We should mutually respect our differences."

Raul was Fidel Castro's hand-picked successor for decades and took power from his brother without an election in February 2008. Cuba argues its system is democratic because voters ratify a slate of official parliament candidates, and lawmakers in turn choose the Council of State, the supreme governing body. The parliament list is drawn in part from municipal leaders who are picked during neighborhood gatherings where participants vote by show of hands. Raul Castro made an unusual mention of the mortality of his ailing, 82-year-old brother — something top officials almost never do in public — scoffing at those who think Cuba's political system will crumble after "the death of Fidel and all of us." "If that's how they think, they are doomed to failure," Castro said.

Defiant guarantees for the future came only after a heavy dose of grim economic news. Without mentioning specifics and while insisting education will not suffer, he said some students and teachers in rural areas will be reassigned to nearby cities, saving time and money needed to transport 5,000 educators long distances between home and work. He also said cuts were in store for the universal health care system, which, along with free education through college, subsidized housing and food provided on a monthly ration system, forms the basis of the communist way of life that the Castro brothers have spent 50 years building. Before Castro spoke, lawmakers established a new office of government finances to crack down on corruption and keep better watch on the state's often mysterious spending patterns.

The new comptroller's office is a break from the past, when Fidel Castro lorded over the national treasury. Cuba's former "Maximum Leader" often raided it for pet projects after taking power in 1959 and continued to micromanage minuscule spending details in subsequent decades. Taking scrutiny of Cuba's economic books away from the presidency reflects the businesslike, military mentality of the younger Castro, an army general who has demanded better accountability from all leaders. Cuba's government dominates well over 90 percent of the economy and pays an average salary of about \$20 a month, meaning some employees steal food, electronics and anything else they can at work and sell them on the black market to make ends meet. While it may help limit graft, the new office likely will do little to fill sparse state coffers. Three hurricanes last summer caused more than \$10 billion in damage and wiped out grain that the government had stockpiled to protect against rising commodity prices. The global recession has since cut into export earnings and caused budget deficits to soar, leaving Cuba short of cash.

Things are so dire that on Friday, authorities postponed a Communist Party congress that would have been the first of its kind in 12 years. At the same time, the government decreased the projection for 2009 growth to 1.7 percent. As recently as December, central planners boasted Cuba would grow 6 percent this year, but they count as output government spending on social programs. Tourism has remained strong, with the number of foreign visitors on pace to slightly exceed last year's record 2.35 million, which generated \$2.7 billion. Still, Tourism Minister Manuel Marrero said revenue from those visitors is down about 10 percent in 2009. "Tourism is growing, tourists keep coming, but they have changed the way they travel," Marrero said outside the parliament meeting. "They are coming for less time, trying to come with a lot of discounts, and that has caused a decline in profits."

WHEN TWO PLUS TWO EQUALS THREE

Source: The Economist print edition; August 6, 2009

When Cuba celebrated the anniversary of its revolution at the end of last month with a mass rally in the central city of Holguín, a nearby building was draped with a gigantic picture of Fidel and Raúl Castro thrusting their arms skyward under the words, "The Vigorous and Victorious Revolution Keeps Marching Forward." But this habitual triumphalism was in sharp contrast to the messages that Raúl, installed as president last year in place of his ailing elder brother, put across in his speech to the crowd and in another this week to the National Assembly.

He announced the unexpected and indefinite postponement of a long-overdue Communist Party congress, which he had scheduled for the end of this year. And he was blunt about Cuba's economic problems. Lower world prices for nickel and a fall in tourism revenue have led the government to cut its forecast for economic growth this year from 6% to 1.7%. The island is still recovering from three devastating hurricanes last year, which the government says caused damage worth \$10 billion. The American economic embargo is still there, too. But Raúl Castro blamed "our own shortcomings" for the fact that "often two plus two results in three." Even as he fixes some problems, others open up. He has answered longstanding grumbles about public transport by repairing Cuba's pot-holed roads and buying new Chinese buses. Last month he ordered a wage increase for 543,000 teachers and education workers. But he has also ordered cuts in "non-essential" education and health spending, as well as in the meagre free-food rations that Cubans receive from the state. Some of these measures are a response to a trade deficit that soared by 65% in 2008. Partly because of the higher cost of food and fuel, imports rose by 41%, to \$14.2 billion, whereas exports were just \$3.7 billion.

Hugo Chávez, Venezuela's president, supplies Cuba with cheap oil in return for the services of Cuban doctors and security and intelligence specialists. But Cuban oil consumption appears to have risen sharply, because the government dealt with chronic power-cuts by buying thousands of thirsty diesel generators. To save energy, in June the government ordered all factories, shops and offices to switch on their air conditioning for just five hours a day, in the afternoons. So shops are mostly empty in the mornings and idle employees sit around by open doors and windows. Food is also in short supply. Despite its abundant farmland, Cuba imports 80% of its food (much of it from the United States since a loophole was opened in the embargo in 2001). Inefficient state farms occupy three-quarters of the best land but leave much of it idle. Raúl Castro has tried to raise production by offering land to private farmers. But this scheme has been slow to get off the ground: agricultural production actually fell by 7.3% in the first quarter, and meat production fell by 14.7%. "The land is there, here are the Cubans, let's see if we get to work," he said in Holguín.

On taking over as president, Raúl Castro called for "changes of structure and concept" in the economy, raising hopes in some quarters that Cuba would imitate Vietnam in moving to a capitalist economy under communist political control. Those hopes have yet to be met. He has instead concentrated on better administration, quietly promoting his own aides to key positions in the state bureaucracy. He has stressed discipline and control. The assembly approved a law to set up a new auditor-general's office, to stamp out corruption. The education minister and the rector of the University of Havana were fired after a poll found revolutionary spirit was lacking among both students and professors. This spirit of caution was reflected in the decision to postpone the party congress, an event that would define "the economic model that will guide the life of the nation," he said. It was also expected to see the handing over of political leadership, from the elderly revolutionary nomenklatura to a younger generation. But Raúl Castro said the party was not yet ready.

The real reason appears to be the continuing influence of Fidel. Obligated to surrender the presidency when he underwent abdominal surgery three years ago, he still exerts influence and an apparent veto power behind the scenes. Instead of a congress, Raúl Castro convoked a "national conference" to elect new party leaders. The regime and the Cuban people face an unusually hot summer. But there are no signs of political control weakening. Unlike Fidel Castro, Raúl is sparing in his use of strident ideological rhetoric. In his speeches he made few references to the United States and its embargo. He welcomed the resumption last month of talks about migration, suspended under George Bush. But he reminded the assembly, and the world, that "I was elected to defend, maintain and continue perfecting socialism, not to destroy it."

CUBAN ECONOMY FEELS HEAT OF WORLD DONTURN

Source: Miami Herald Media Company, Juan O. Tamayo; August 10, 2009

Fernando used to have a cushy job in Havana as a teller in a government bank office with air-conditioning, a nice computer and a bank-provided lunch. Not anymore.

Amid Cuba's deepest economic crisis in nearly two decades, his office has shut off the AC and his computer constantly crashes because of the heat, exasperating him and his customers. His lunch, Fernando said, has "shrunk to a snack." Driving the bulk of the crisis has been the world recession, which slashed demand and prices for Cuba's few exports, like nickel, and choked off new credits to a government already deeply in debt. Add the island's internal woes, and Raúl Castro's recent description of the problems as "a matter of national security" seems like no exaggeration.

After Castro replaced brother Fidel, "most Cubans hoped for some improvements in the medium term. But now everyone is preparing for worse and worse," said one Miamian who recently returned from a visit and asked for anonymity to protect her relatives there. Castro has adopted Draconian measures to survive the storm in the short term. To cut electricity consumption by 12 percent -- Cuba imports half its oil needs -- the government has shut down many factories and ordered state office buildings, theaters and other facilities to shut off their ACs. Inspectors also are cracking down on Cubans who steal electricity through illegal hookups with \$23 fines -- about five weeks' worth of the average salary. "Banks are built to keep out robbers, not to let in a breeze," said Fernando, who asked that his surname not be published because of fear of government reprisals. "Without [air conditioning] . . . my office is two bus stops past hell." Some hospitals also are shutting down their emergency rooms for two hours a day, and elective surgeries are being postponed until electricity services become more dependable, said Elaine Scheye, a Chicago consultant who has studied Cuba's health system.

LESS FOOD

Portions for many rationed foodstuffs have been cut -- red beans and chickpeas from 30 to 20 ounces a month, salt by half to about four ounces per month -- while food deliveries to factory, office and school cafeterias have been trimmed, according to official announcements. Harsh police crackdowns on the food black market -- apparently an attempt to ensure that more items reach the legal outlets -- have driven up prices yet left many of the legitimate sales points with shelves oddly bare, Havana residents say.

Even foreign businesses are suffering, with the government tightly controlling withdrawals from their accounts. Castro also replaced his entire economic Cabinet in March, and just last week the legislature created a comptroller's office to attack official corruption. Yet many analysts in and out of Cuba argue that those belt-tightening moves are far from what's needed to address the crisis. "Mercurochrome and Band-Aids for deep wounds with heavy bleeding," Miami activist Juan Antonio Blanco wrote in his blog, *Cambio de Epoca* (Epochal Change). Even the official Granma newspaper called the situation "grave."

EARLIER TROUBLE

Cuba was already in deep trouble by the fall of 2008, after four hurricanes caused \$10 billion in damage -- equivalent to a whopping 10 percent of its gross domestic product (GDP) for 2007. Imports for 2008 spiked 41 percent to \$14.2 billion from the previous year while exports remained flat at \$3.7 billion, meaning the island's already huge trade deficit mushroomed by 65 percent. Food imports alone rose from \$1.5 billion in 2007 to \$2.2 billion last year as the government tried to replace hurricane-damaged harvests, according to official Cuban figures.

And then the world economy plunged into recession, drying up lending markets. Foreign commercial lending to Cuba fell by \$1 billion in 2008, according to the Bank for International Settlements, a crippling blow to a government that for the past decade had been taking on ever larger debts to pay for imports and older debts -- "financing by arrears," as one economist put it. Russian auditors reported last month that Cuba had failed on three dates to make payments due on a \$355 million loan signed in 2006. And some 80 Cuban government enterprises postponed payments to foreign creditors this year, according to Carmelo Mesa Lago, a University of Pittsburgh expert on the Cuban economy.

GRIM OUTLOOK

With remittances and tourism expected to be flat this year and the price of nickel -- 41 percent of Cuban exports -- at about 25 percent of its 2008 levels, the outlook for 2009 remains grim. Over the past month Havana cut its predictions of 2009 GDP growth from 6 percent to 2.5 percent and then 1.7 percent -- though some Cuba economists are privately predicting a .5 percent drop. "The country is again facing a situation as adverse" as the early 1990s, the U.N.'s Economic Commission for Latin America wrote earlier this year. Cuba's economy shrank by 35 percent after the Soviet Union collapsed and cut off its \$4 billion-\$6 billion annual subsidies to Havana.

LONGER-TERM REFORMS

Since Raúl Castro officially assumed power in early 2008, he has also been putting in place several longer-term reforms that he hopes will give Cuba a more productive, streamlined and less centralized economy. In his government's most ambitious effort, it has loaned 1.7 million acres of fallow state lands to 82,000 Cubans, hoping to increase food production and slash costly imports. It also shifted *Acopio*, the notoriously inefficient agency that gathers and distributes farmers' products, from the Agriculture to the Domestic Commerce Ministry.

The government also has increased some salaries as incentives to productivity, allowed Cubans to hold more than one job at a time and let retirees to return to work. Castro last week predicted cuts in government spending on health and education, and said imports would be cut back this year. Havana also has hinted that it is studying opening the doors wider to foreign investors and abandoning the costly food rationing system. One leading Havana economic analyst, Ariel Terrero, even suggested recently that the government put more of the economy "in the hands of producers" -- for example, allowing state grocery or clothing shop workers to run their own enterprises.

'RATIONAL SOCIALISM'

Despite early speculation that the reputedly pragmatic Castro would move Cuba toward a Chinese-like "market socialism system," his reforms have remained relatively moderate. Brother Fidel remains a powerful opponent of more profound changes even three years after he was last seen in public, analysts say, and Raúl Castro must know that opening Cuba to more market forces could fuel a potentially destabilizing increase in the island's social and economic inequalities.

In a keynote speech to the legislature last month, he prescribed a move toward a kind of "rational socialism" that will preserve Cuba's political system while cutting back the bureaucracy, state subsidies and waste, and increasing productivity and efficiency. "It's a matter of defining, with the broadest popular participation, the socialist society to which we aspire and can build, given Cuba's current and future conditions -- the economic model that will rule the life of the nation in benefit of our people," Castro said. Lest anyone get the wrong impression, Castro added a caution. "I was not elected president to restore capitalism in Cuba or surrender the revolution," he said. "I was elected to defend, maintain and continue perfecting socialism, not to destroy it."

ENERGY & OIL

ECOPETROL TO EXPLORE FOR OIL IN CUBA'S GULF WATERS

Source: EFE; June 24, 2009

Colombian state-controlled oil company Ecopetrol S.A. plans to explore for oil in Cuban waters in the Gulf of Mexico, officials said. Colombian Energy Minister Hernan Martinez announced the project yesterday after meeting with Cuban Basic Industry Minister Yadira Garcia.

The meeting with Garcia and other Cuban officials was "very interesting," Martinez told Efe, adding that Ecopetrol would register with the island's National Mineral Resources Organization as the first step in developing the project. "Later, a group of technicians will be sent to conduct a geological study" in Cuba's Exclusive Economic Zone in the Gulf of Mexico, the Colombian energy minister said. The zone, off the island's northwestern coast, covers an area of some 112,000 sq. kilometers (43,240 sq. miles). "We'll be doing that very soon, so we can later determine our participation," Martinez said.

The minister traveled to Havana with Ecopetrol CEO Javier Gutierrez for a 24-hour visit to meet with Cuban officials and discuss exploration opportunities in deepwater areas within Cuba's Gulf boundaries. Spain's Repsol YPF, Norway's Norsk Hydro, India's Oil and Natural Gas Corporation, Malaysia's Petronas, Venezuela's PDVSA, Vietnam's PetroVietnam and Brazil's Petrobras are operating in Cuba's Exclusive Economic Zone. State-owned Cuba Petroleo's exploration director, Rafael Tenreyro, said last November that based on "very modest" estimates, about 20 billion barrels could lie off the island's north coast, while the U.S. Geological Survey has estimated that the North Cuba Basin holds between 4.6 billion and 9.3 billion barrels of crude oil. The zone is divided into 59 blocks and, according to officials, only 30 of them are located at depths of less than 2,000 meters (6,550 feet).

CUBA OIL REFINERY OUTPUT NEARLY DOUBLED IN 2008

Source: Reuters; June 26, 2009

- *Venezuelan joint venture adds to refining capacity
- *Gasoline, jet fuel, diesel and fuel oil up significantly

Cuban oil refining nearly doubled in 2008 as a new joint venture refinery with Venezuela completed its first year of operations, producing mainly for export, a government report showed on Friday.

The National Statistics Office released energy-related data showing production of refined petroleum products was 5.46 million tonnes in 2008, compared with 2.3 million tonnes in 2007 (http://www.one.cu/aec2008/esp/20080618_tabla_cuadro.htm). The most significant increases reported were in gasoline production, which jumped from 392,000 tonnes in 2007 to 977,000 tonnes in 2008, and jet fuel, which went from 56,000 tonnes to 278,000 tonnes.

Diesel output surged from 464,000 tonnes in 2007 to just over a million tonnes last year while fuel oil increased from 940,000 tonnes to 2.7 million tonnes. Cuba does not report oil and derivatives production in barrels. The report did not cover oil and related exports, which according to a Foreign Trade Ministry report -- parts of which were seen by Reuters -- came in at approximately \$880 million in 2008. Cuba consumes around 160,000 barrels per day in petroleum products, more than 50 percent of which comes from regional energy giant Venezuela. The rest is pumped from the northwest coast along with natural gas for power generation.

Venezuela's state-run Petroleos de Venezuela SA (PDVSA) reported earlier this month that it delivered 115,000 bpd of crude and refined products to Cuba in 2008, of which 93,300 bpd were sold to Cuban state-run oil monopoly Cubapetroleo and 27,500 bpd was PDVSA's equity share delivered to the refinery in Cienfuegos, located 155 miles (250 km) southeast of Havana. There are two other operating refineries in Cuba. The Nico Lopez in Havana and Hermanos Diaz in Santiago de Cuba, 540 miles (860 km) east of the capital. The two refineries, with a maximum real capacity of around 65,000 bpd according to various industry sources, have processed 42,000 bpd of Venezuelan oil mixed with 20 percent Cuban heavy crude in recent years, almost exclusively for domestic use.

Venezuela is involved in upgrading both refineries, the Santiago refinery as another joint venture. Under President Hugo Chavez, Venezuela has become a close ally of Cuba, which is an enthusiastic supporter of Chavez's regional integration proposal, the Bolivarian Alternative for the Americas, aimed at countering U.S. influence in the region. As part of bilateral integration efforts, Venezuela is revitalizing Cuba's downstream operations and plans to use the island as a bridge to supply the Caribbean with crude and derivatives with preferential financing.

CUBAN OFFSHORE OIL DRILLING PLANS POSTPONED AGAIN

Source: Reuters, Marc Frank; July 7, 2009

- * Summer drilling plans postponed until further notice
- * Reasons for postponement unclear

Cuba and a consortium of foreign oil companies have once again postponed plans to drill for oil in the island's still-untapped fields in the Gulf of Mexico, diplomatic and industry sources said this week. Cuba had announced the consortium, led by Spain's Repsol-YPF <REP.MC>, would drill in June or July, but now it is uncertain when work will begin in the waters that Cuban oil experts say may contain 20 billion barrels of oil. "The project has been postponed until a further date for more study," said a foreign oil industry source with direct knowledge of the plans. "It is premature to say when drilling might begin, later this year or next," he added.

A European diplomat said he had first-hand knowledge that drilling was postponed at least until the end of 2009, if not into 2010. Neither source wished to be identified. Cuban authorities were not immediately available for comment. Repsol drilled a test well 20 miles (32 km) off Cuba's northern coast in 2004 and said it discovered traces of high quality oil, but that it was not commercially viable at the time. Since then, there have been several announcements that a second well would be drilled, but each time the project has been put off without explanation. It was not clear if the latest postponement

had to do with difficulties obtaining and moving a drilling rig, the cost of the project compared with the current price of oil, or other factors. The on-again, off-again project has been cloaked in secrecy in part due to opposition in the United States.

The U.S. trade embargo against communist-run Cuba is said to be a factor in the repeated delays because of U.S. regulations that threaten sanctions against companies doing business with Cuba if their drilling equipment contains more than 10 percent American technology. The United States has vast oil and gas fields in the Gulf of Mexico, but its energy companies cannot do business in Cuba because of the 47-year-old embargo against the island that is just 90 miles (145 km) from Florida's Key West. Repsol has an agreement with Cuba's state oil monopoly Cubapetroleo (CUPET) for exploration of six offshore blocks in partnership with Norway's StatoilHydro <STL.OL> and ONGC Videsh <ONGC.BO> of India.

Cuba has divided its share of the gulf into 59 blocks, 21 of which are already under lease to seven companies. Manuel Marrero Faz, oil advisor to Cuba's Ministry of Basic Industry, said earlier this year Cuba was in negotiations to lease another 23 blocks to firms including China National Petroleum Corporation, Angola's national oil company and a Russian consortium. Cuba says it produces the equivalent of 80,000 barrels a day of oil and gas, or about 50 percent of its energy needs. It depends on ally Venezuela for the rest. PDVSA, the national oil company of Venezuela, has said it plans to sink its first exploratory well in Cuba's offshore fields next year. Other companies with blocks are Vietnam state oil and gas group Petrovietnam, Malaysia's state-run Petronas <PETR.KL> and Brazil's Petrobras <PETR4.SA><PBR.SA>. The U.S. Geological Survey has estimated that Cuba's offshore reserves are likely around 5 billion barrels of oil and 10 trillion cubic feet of gas. Cuba experts say their estimates are higher because they have more information about the geology of the region.

END THE EMBARGO THAT GIVES CUBAN OIL TO CHINA

Source: YellowBrix; July 8, 2009

The 47-year-old trade embargo against Cuba has been shaken by the revelation that drilling for oil and natural gas is about to take place less than 50 miles off the U.S. coast - in Cuban waters. No one knows for sure just how much oil lies off the northwest coast of Cuba, but the consensus is that it's sizable.

The U.S. Geological Survey initially came up with an estimate in 2004 of between 5 billion barrels and 10 billion barrels. But Cuba's state oil company, Cubapetroleo, recently said the undersea geology was "very similar" to Mexico's giant Cantarell oil field in the Bay of Campeche and that the Cuban field may contain 20 billion barrels, more than twice the previous estimate. If confirmed, this would place Cuba's oil reserves among the top 20 in the world and not far behind the United States, which has 29 billion barrels. A number of U.S. geologists believe Cuba's revised estimate could actually be conservative and that it may only scratch the surface of its real potential.

The Cuban government is not only sitting on a potential oil bonanza but it has already awarded oil and gas exploration leases to companies from Canada, China, Spain, India, Venezuela and Norway. And Cuba is negotiating with Brazil's Petrobras, a company with years of experience in deepwater drilling. If U.S. firms are forbidden by their own government to drill for oil and gas in Cuban waters, then the national oil companies of other countries will benefit while our investor-owned companies watch from the sidelines. With the global economy in recession, we should not place U.S. energy companies at a disadvantage in the international marketplace.

The last thing we need is for U.S. companies to be shut out of leasing in a potentially big oil field in Cuba's offshore area known as the Exclusive Economic Zone, covering 43,000 square miles, while national companies from other countries pump out the oil. Access to global oil and natural gas resources is essential for America's energy security. Other countries, notably China, are investing around the world, securing energy and raw materials to support their economies. We need to consider that if the situation in the Persian Gulf becomes more volatile, or oil production in other regions is disrupted, we cannot count on other countries to share their oil supplies with us. Congress should lift the trade embargo against Cuba. It is a failed economic policy that has stood since the Kennedy administration, but it has hurt ordinary Cubans, while failing to bring about the intended changes in human rights. On the other hand, resuming normalized trade relations could contribute to what everybody wants: a more productive, open and cooperative relationship with Cuba.

The embargo hurts both the United States and Cuba. Preventing U.S. companies from drilling in Cuban waters within 45 miles of U.S. shores, when foreign firms are allowed to, is ludicrous. Since the drilling will take place, it may as well be by U.S. energy companies. U.S. companies have the experience and greater access to advanced technologies like four-dimensional seismic imaging and horizontal drilling that can help prevent damage to the marine environment and to Florida's beaches. Thanks to these new techniques, along with computerized reservoir management systems, U.S. oil companies have had a stellar environmental record over the past four decades. Tapping Cuba's oil will require billions in investment, especially in export pipelines. Drilling in Cuban waters is expected to start this year. It would be a shame for U.S. energy companies to miss out on the opportunity. On the other hand, if countries like China, Brazil and Venezuela find a way to get all of that Cuban oil, their days as global energy powerhouses could be just beginning.

CUBA, RUSSIA SIGN DEAL ON ZARUBEZHNEFT'S GULF OIL OPS - REPORT

Source: Dow Jones Newswires; July 29, 2009

Russia and Cuba signed a preliminary agreement on Russian oil company Zarubezhneft's operations in Cuba's exclusive economic zone in the Gulf of Mexico, RIA-Novosti news agency reports Wednesday. The agreement was signed in the course of a working visit to Havana by Russian Deputy Prime Minister Igor Sechin Tuesday. "We consider that an outcome of this cooperation will be new opportunities both for Cuba as well as Zarubezhneft," said Sechin, who met with Cuban President Raul Castro and other officials during his visit. Russia will also grant a \$150 million loan for two years to Cuba to finance deliveries of Russian construction and agricultural machinery and equipment.

CUBA GASOLINE PRODUCTION DOWN; FUEL OIL, DIESEL UP

Source: Reuters, Marc Frank; August 20, 2009

*Cuban gasoline output down; fuel oil, diesel up in first half 2009

*Diesel output jumps 25.3 pct in January-June period

Cuba increased its output of diesel and fuel oil in the first half of the year, but gasoline production fell dramatically, according to refining statistics released this week by the government. Fuel oil rose 10.5 percent to 1.4 million tonnes, while diesel jumped 25.3 percent to 646,000 tonnes, the National Statistics Office reported on its website (<http://www.one.cu/semestralindustriasmanufactureras.htm>).

Gasoline dropped 36.1 percent to 232,000 tonnes, the statistics office said. Kerosene, liquid gas and lubricant oils also declined significantly, while there was no information provided for jet fuel and other products. There was no official explanation for the mixed performance. Cuban oil refining nearly doubled to 5.46 million tonnes in 2008 as a new joint refining venture with Venezuela in Cienfuegos completed its first year of operations, producing mainly for export. The 2008 production included 977,000 tonnes of gasoline, just over 1 million tonnes of diesel and 2.7 million tonnes of fuel oil. Jet fuel production totaled 278,000 tonnes for the year, the government said. Cuba does not report oil and derivatives production in barrels. The communist-led island consumes around 160,000 barrels per day in petroleum products, more than 50 percent of which comes from regional energy giant Venezuela. The rest is pumped from oilfields on Cuba's northwest coast, along with natural gas for power generation.

Venezuela's state-run Petroleos de Venezuela SA (PDVSA) reported delivery of 115,000 bpd of crude and refined products to Cuba in 2008, of which 93,300 bpd were sold to state-run oil monopoly Cubapetroleo and 27,500 bpd was PDVSA's equity share delivered to the refinery in Cienfuegos, located 155 miles (250 km) southeast of Havana. There are two other operating refineries in Cuba. The Nico Lopez in Havana and Hermanos Diaz in Santiago de Cuba, 540 miles (860 km) east of the capital. The two refineries, with a maximum real capacity of around 65,000 bpd according to various industry sources, have processed 42,000 bpd of Venezuelan oil mixed with 20 percent Cuban heavy crude in recent years, almost exclusively for domestic use. The Santiago de Cuba refinery is being upgraded in a joint project with Venezuela, which also has said it would invest in construction of a new refinery in Matanzas, 60 miles (96 km) east of Havana.

CUBA LAND LEASES TO PRIVATE FARMERS ON THE RICE

Source: Reuters, Marc Frank; July 6, 2009

- *Government seeks to reform sector, up food output
- *Biggest distribution since post-revolutionary period
- *Farmers say takes months to gain access to land

The ranks of Cuba's family farmers have grown by more than 30,000 this year as the government conducted the biggest land-lease distribution since the country's 1959 revolution in an effort to solve an agricultural crisis, a newspaper reported on Monday.

Communist authorities began leasing 4 million acres of fallow state lands in October, mainly small parcels, to private family farmers and interested individuals as part of an effort by President Raul Castro to reform the state-dominated sector and increase food production. The official trade union weekly *Trabajadores* newspaper said a total of 78,113 land leases have been granted since the program began, up from 45,000 in January when figures were last released. "A study of fallow state lands found there were 1.69 million hectares (4 million acres), of which 689,697 hectares (1.7 million acres) have been leased, or 41 percent," *Trabajadores* said. Cuba has not handed out land on such a large scale since shortly after the 1959 revolution when large land holdings were nationalized and some of the acreage given to small farmers. Cuba had around 250,000 family farms and 1,100 private cooperatives before the land-lease program began, which together produce around 70 percent of the country's produce on less than one-third of the land.

FARMERS SEE RESULTS

Farmers said the program had borne visible results, though they added it took months to actually gain the land once granted. "I am thrilled to see how wasted state lands are turning into food providers, but there are cases where the land is leased but has not been put to use due to organizational questions," Alfredo Estevez, a farmer in central Camaguey province, said in a telephone interview. *Trabajadores* said 56,000 of the leases were in production.

Castro took over for his ailing brother Fidel in February 2008 facing an agricultural crisis that left the country importing 60 percent to 70 percent of the food it consumes, according to local experts, and residents angry over high prices at state-run produce markets. The government, which controls more than 90 percent of economic activity, provides Cubans with a subsidized food ration which must be supplemented at the markets where a pound of meat costs more than an average day's pay and a head of lettuce, a few tomatoes and a mango close to the same. Cubans receive various social benefits, but the average salary is only about \$20 a month. Raul Castro as part of his reform program has decentralized decision-making in agriculture and increased prices paid to farmers for produce. Foreign and local experts said it was too early to judge the success of the reform measures, but they questioned the state's continued monopoly over agricultural supplies and distribution of what is produced.

CUBA'S LEADERS SEE PRIVATE FARMERS AS KEY TO SAVING SOCIALISM

Source: Times Latin America Correspondent, David Adams; August 17, 2009

Cuba's leaders are counting on Alberto Romero's eight cows to help turn around the island's struggling socialist economy. Private farmers like Romero, who belongs to a 219-member cooperative near the eastern city of Holguin, were overshadowed for years by Cuba's emphasis on large state farms. But the government recently began handing out idle state land to private farmers across the island in an effort to boost food production. "The government has put its faith in us, and we will show what we are capable of," said Romero, whose 20-acre plot has been in his family for 103 years.

Cuba is hoping that private farmers can literally plow the island out of a huge \$11 billion trade deficit this year caused by rising food import costs and falling exports. The policy marks a major shift away from inefficient state farms that once occupied the lion's share of the island's agricultural land. "The land is there! Here are the Cubans. Let's see if we work or not, if we produce or not!" exclaimed President Raúl Castro last month at a rally in Holguin. Castro has made raising food production a national security priority, noting that the area of cultivated land fell 33 percent from 1997 to 2008. He told the crowd in Holguin that Cuba's poor agricultural output could not be blamed on the U.S. economic embargo alone. "It's not a question of shouting, 'Homeland or death, down with imperialism, the embargo hurts us.' The land is there, waiting for our sweat."

Despite being an agricultural nation with plentiful sun, soil and rain, Cuba produces barely 30 percent of the food it needs, due to an acute lack of resources and the inefficiency of its state farm sector. About 250,000 small family farms and 1,100 cooperatives till only about one-quarter of the land, yet still manage to outperform the state farms, producing almost 60 percent of crops and livestock, according to official figures. "The last 50 years have shown that private farmers are more socialist than the state. State farms are antisocialist. The only thing they socialized is loss-making," said Oscar Espinosa Chepe, a former state economic adviser who is now a vocal critic of the government. Since the redistribution of farmland began last year, Cuba says 110,000 people have submitted applications and about 80 percent have been granted, totaling 1.7 million acres. But the new program has been slow to get going. Three devastating hurricanes last year wiped out vast swaths of productive farmland.

Though milk production has risen significantly, overall agricultural production fell by 7.3 percent in the first quarter of 2009, and meat production fell by 14.7 percent. While it may be too early to judge the results of the program, analysts say it is running into familiar problems. "There is too much control and bureaucracy that hinders everything," Espinosa Chepe said. "It's impregnated with a 50-year-old operating method that is built on taking orders and is not used to decentralization. "There need to be more incentives," he said.

Private farmers and cooperatives manage their own land but must sell part of their produce to the state at government prices, which are generally half the market value. Private farmers also lack direct access to equipment and tools, as well as fertilizer and pesticides, all controlled by the state. Opening the farm sector to more foreign capital would help Cuba acquire new technology and markets, analysts say. But Cuba complains that the U.S. embargo limits its access to foreign capital, as well as cheap pesticides and heavy farm equipment. Javier Pérez, 40, a plantain grower near Guanabacoa, welcomes the state's rekindled interest in private farmers. "We were a bit forgotten about in the past," he said.

He earns good money selling to farmers' markets in Havana after he meets his government quota. In return, the state provides him with subsidized fertilizer and irrigation equipment. The adjacent land he recently obtained from the state will help him raise his production by 25 percent more. Less regulation would be better, he agrees. "The more independent you are, the more you push yourself," he said. "Why work harder if you don't get any benefit?" Cuba's state-run newspaper *Granma* recently added its weighty voice to the farm debate, highlighting the success of a 100-acre cooperative farm in Bejucal, about 25 miles south of Havana. "If the worker is not content in his job and you don't pay him for his results, you don't achieve anything," cooperative president Lázaro Hernández told the paper, saying he paid his 20 employees 780 pesos a month (\$32.50), more than twice the average national wage. Their wages, and share of produce, increase if they exceed production targets. "If the salary is fixed, the worker will just show up and do his day's work, but he won't be interested in getting the most out of it. If he has a percentage, it all changes," he said.

Such quasi-free-market language wasn't heard much in Cuba until recently. But Raúl Castro has shown a pragmatic streak on economic matters, trying to improve state efficiency. In July 2008 he surprised many by advocating a shift away from the orthodox socialist concept of equal pay, arguing that those who were more productive should be paid more. Romero is optimistic. In eight years, his cooperative hopes to increase its milk output almost tenfold. But to do that, he cautioned, they need state help to buy expensive cereal feed, as well as seeds for better pasture. Artificial insemination would also improve their herds. "If we don't achieve it, we will be really close," Romero said, raising a glass of *alifiaño*, a homemade liquor of sugarcane and fruit. "We have to keep the revolution moving forward. There is no turning back."

CUBA COFFEE HARVEST BEGINS WITH MODERATE OUTLOOK

Source: Reuters, Marc Frank; August 20, 2009

*Cuban 09 coffee output seen similar to last season's 8,000 tonnes

*Financial crisis hits resources destined for harvest

Coffee picking began this week in Cuba's mountains, local media reported, with growers forecasting only a slight increase over the previous season's 8,000 tonnes of semi-processed beans. A financial crisis has led to the reduction of fuel and other resources for the harvest, potentially undercutting hopes for a significant increase in the crop as part of new President Raul Castro's effort to cut agricultural imports and increase exports, farmers said. "There is more coffee than last year and we are organizing to insure no beans are lost despite a lack of resources," coffee farmer Arnaldo Estrada said in a telephone interview from the eastern province of Santiago de Cuba, the island's largest producer.

Last year's crop came in 27 percent above that of 2007 despite a whipping by hurricanes, apparently due to better organization and higher prices paid for beans under an agriculture reform begun by Castro after he took over for his brother Fidel Castro last February. Since then the state has leased abandoned coffee plantations to hundreds of individuals to grow coffee and local agriculture committees, granted more powers under the reform, have worked to better prepare the crop. But a financial crisis gripping the country may hold back further progress, while recent land grants will take two to three years to bare fruit, farmers said. "The harvest will require a huge effort because there are few resources and the deficit has to be made up with work," coffee farmer Pedro Zaldivar said in a telephone interview from eastern Guantanamo province, the country's second major producer. "It is a big challenge," he said.

Coffee production has steadily declined since the 1959 revolution when the crop was around 60,000 tonnes. Cuba imported 33,000 tonnes of coffee in 2008 at a cost of \$52 million, while coffee exports garnered a mere \$3.8 million, according to the government's 2008 statistical abstract. Picking begins in August and ends in March, though most beans are harvested from October into January. Communist Cuba's 35,000 growers, in exchange for low-interest government credits and subsidized supplies, must sell all of their coffee to the state at prices below what the beans fetch on the black market. Local analysts said that system led to low production and the diversion of 10 to 20 percent of the crop.

IN CUBA, THE OX MAY BE MIGHTIER THAN THE TRACTOR

Source: AP, Will Weissert; August 10, 2009

In China it's the year of the ox -- and it could be for Cuba, too.

President Raul Castro is promoting the beasts of burden as a way for the economically strapped communist country to ramp up food production while conserving energy. He recently suggested expanding a pilot program that gives private farmers fallow government land to cultivate -- but without the use of gas-guzzling machinery.

"For this program we should forget about tractors and fuel, even if we had enough. The idea is to work basically with oxen," Castro told parliament Aug. 1. "An increasing number of growers have been doing exactly this with excellent results."

Cuba's economy was devastated by three hurricanes last summer, and the global recession has left the government short on cash to cover debts. As a result, it has slashed spending and cut domestic production and foreign imports, causing shortages of such basics as cooking oil, ground beef and toilet paper. Though the island gets nearly 100,000 free barrels of oil a day from Venezuela, it also has begun a campaign to conserve crude. The agricultural ministry in late June proposed increasing the use of oxen to save fuel, as Cubans have seen a summer of factories closing and air conditioners at government offices and businesses shutting off to save oil. The ministry said it had more than 265,000 oxen "capable of matching, and in some cases overtaking, machines in labor load and planting." In the farming initiative that began last year, about 82,000 applicants have received more than 1.7 million acres so far -- or 40 percent of the government's formerly idle land.

The program seems to have slightly increased production of potatoes and tomatoes in season, but the government has provided no official figures. Shortages in Cuba are not new. And neither are oxen. Thousands of Cuban farmers have relied on the beasts in the half century since Fidel and Raul Castro and their rebels toppled dictator Fulgencio Batista. "The ox means so much to us. Without oxen, farming is not farming," said Omar Andalio, 37, as he carefully coaxed a pair of government-owned beasts through a sugarcane field last week. For reasons no one can remember, the plumper one is called "Caramel," even though he's white, and his caramel-hued field-mate is "Lightweight" -- never mind that he's nearly 1,000 pounds. Andalio is one of 300 employees who grow cane, low-quality tobacco, sweet potatoes and bananas in San Diego, 95 miles (150 kilometers) west of Havana, with stunning views of limestone mountains in the distance.

The cooperative has 24 oxen and eight tractors -- with two of the machines clawing through terrain cooked by a recent drought. Each tractor can do the work of five teams of oxen, Andalio said. "Work with tractors hasn't stopped, but it will only go as far as the economy allows," he added. Juan Alvarez, a member of a state flower cooperative that supplies nearby funeral homes, tugged at two oxen with names translating to "Foreman" and "Spoiled Brat." A pair called "Evil Eye" and "Coal-Stoker" stood in the shade nearby, where a sea green-and-red highway billboard read: "Everything for the Revolution. Summer 2009." "We use tractors when there are tractors, but there almost never are," said Alvarez, 59. Zenaida Leon, acting head of the 10-employee flower cooperative, said the issue is not "oxen 'yes,' tractors 'no.'" "I am thankful for the revolution," the 52-year-old said. "But we don't get boots, tools, irrigation that works."

IMPORT & EXPORT

CUBA SLASHED PROJECTIONS FOR 2009 IMPORTS, EXPORTS

Source: Reuters, Marc Frank; July 21, 2009

*New Cuban economic team adjusts 2009 plan

*Imports slashed 22.2 percent as crisis weighs

*Analysts expect little if any economic growth

Cuba is cutting estimates of imports by billions of dollars this year and projecting a decline in export revenues due to the international financial crisis, according to a government report shown to Reuters this week. The Economy and Planning Ministry forecast was drawn up within two months of President Raul Castro's replacement in March of Cuba's entire economic leadership team after a dismal 2008 performance. The report outlines adjustments to the 2009 plans of the old cabinet, including projections of 2.5 percent economic growth compared with the original 6 percent. The report says imports will plummet 22.2 percent, or some \$3.4 billion, compared with an increase of nearly \$1 billion first projected. Exports will decline by \$500 million, compared with an increase of \$600 million the old cabinet forecast. "I think the figures are much more realistic and indicate they are trying to get the current account back in the black," a foreign businessman said, asking his name not be used.

The current account is a broad gauge of the balance of foreign exchange flowing in and out of a country, in Cuba's case critical given the Caribbean island's dependence on imports. The government has implemented energy savings measures, cut social spending and adopted other measures in recent months to cope with a growing liquidity crunch. At the same time creditors have been asked to restructure debts, and the bank accounts of hundreds of suppliers and other foreign companies have been blocked in state-run banks since January. The report coincides with a video of a cabinet meeting, apparently in May, making the rounds of state managers.

Economy and Planning Minister Marino Murillo Jorge announced at the meeting that the country was short 30 percent of the resources needed to meet the 6 percent growth figure, a source familiar with the video said. Local analysts said Communist-run Cuba had not faced such a dire situation since the early 1990s when the fall of the Soviet Union forced a 75 percent cut in spending. They said growth would be less than 2.5 percent and could be negative this year. Cuba's trade deficit soared by 65 percent in 2008, driven by a doubling in the value of oil imports, higher costs of food imports, a decline in prices for key export nickel and destruction caused by three hurricanes.

CUBA REDUCE IMPORTACIONES DE EE.UU.

Source: BBC Mundo, Fernando Raswerg; August 11, 2009

Desde 2002, Cuba compró a EE.UU. alimentos por valor de US\$4.400 millones, beneficiándose de la cercanía geográfica y de las subvenciones a la agricultura estadounidense.

La empresa estatal cubana encargada de la importación de alimentos informó que el país está reduciendo las compras en EE.UU. debido a las trabas que existen para hacer los negocios, refiriéndose al embargo. En declaraciones al semanario económico "Opciones", el presidente de Alimport, Pedro Álvarez, aseguró que desde hace tres años esas importaciones están descendiendo debido a que el "recrudescimiento de sus trabas a las compras hace inseguras las importaciones".

A la par, el gobierno cubano ordenó una rebaja de precios en 24 productos de la canasta básica en las tiendas de divisas de todo el país. Es la primera vez que ocurre algo así desde que se autorizó el comercio en dólares para los cubanos. La resolución enviada a todas las cadenas de tiendas de moneda dura informa que el gobierno "decidió establecer índices mínimos para la formación de precios minoristas en CUC (moneda cubana convertible) para productos que forman la canasta básica".

Hacia nuevos mercados

Cuba compró en EE.UU. alrededor de US\$4.400 millones en alimentos desde que el presidente George W. Bush permitiera las ventas, unos meses después de los atentados contra las Torres Gemelas y en ocasión del paso de un poderoso ciclón por Cuba. Los barcos que traen alimentos de EE.UU. deben regresar vacíos, pues EE.UU. prohíbe importar desde Cuba. Sin embargo, el comercio fue autorizado en una sola dirección y se realiza con enormes limitaciones impuestas por las leyes del embargo. "Por dicha razón, Alimport ha desviado importaciones desde EE.UU. hacia otros mercados más seguros", dijo Álvarez.

La Habana busca mercados "sin impedimentos para las exportaciones a Cuba, y que a su vez conceden créditos, aspectos a tener en cuenta en tiempos en que la crisis económica internacional ha influido en el aumento de los precios de los alimentos". El mercado estadounidense tiene como ventaja para Cuba el ahorro en el transporte debido a la cercanía geográfica y las subvenciones a la agricultura que permite precios muy competitivos. Sin embargo, tiene también sus desventajas.

Trámites kafkianos

Una regulación reciente permite a los guardacostas norteamericanos interceptar un buque que viaje con mercancías de su país hacia Cuba, argumentando que la nación caribeña no tiene todos los controles necesarios para evitar posibles actos terroristas.

Pedro Álvarez, presidente de Alimport

Álvarez describe los engorrosos trámites a que están sujetas las exportaciones a Cuba. El primer paso es que los empresarios deben solicitar una licencia al Departamento del Tesoro para venir a Cuba a iniciar contactos de negocios. Si logran ponerse de acuerdo, antes de firmar "deben tramitar otra licencia con el Departamento de Comercio de su país, y ya sellado el negocio, se requiere de una Carta de Crédito emitida por un banco cubano a uno europeo, de éste al banco corresponsal en EE.UU. y finalmente, del banco del proveedor en ese país".

El banco del tercer país también debe obtener una licencia del Departamento del Tesoro de EE.UU. "Al participar en estas operaciones al menos tres o cuatro bancos, se generan costos adicionales y mayor riesgo de errores en el manejo de la documentación", explica el directivo de Alimport. También la naviera que transporta la carga requiere un permiso oficial estadounidense, con el peso adicional de tener que regresar con las bodegas vacías debido a que EE.UU. no autoriza las importaciones de productos cubanos. Además, explica que "una regulación más reciente permite a los guardacostas de EE.UU. interceptar y registrar un buque que viaje con mercancías de su país hacia Cuba, argumentando arbitrariamente que la nación caribeña no tiene todos los controles necesarios para evitar posibles actos terroristas".

Bajan los precios

En tanto en los supermercados en divisas de todo el país se ha producido la primera reducción de precios desde que éstos se crearon en julio de 1993, cuando el entonces presidente Fidel Castro anunció que se autorizaría la circulación del dólar. Productos que bajan sus precios son la leche enlatada, la carne, el pollo, el jabón y la pasta de dientes. Se trata de 24 productos de primera

necesidad, listados en 479 marcas diferentes. Las rebajas incluyen alimentos y productos de aseo personal y van desde los US\$0,05 hasta los US\$0,30, pero en algunos casos llegan a los US\$3,50. La medida beneficia a la población de más bajos recursos y reviste cierta importancia en un momento en el que se espera una reducción de las remesas y del turismo, dos sectores que forman parte de los ingresos adicionales de muchas personas. A la par se nota cierto desabastecimiento en las tiendas en divisas sin que hasta el momento exista una situación crítica. Sin embargo, los rumores de escasés están haciendo que los cubanos con más recursos comiencen a acaparar algunos productos.

IN TRADE MISSION, GOV. RICHARDSON PROMOTES IDEA OF NEW MEXICO EXPORTS TO CUBA

Source: AP; August 25, 2009

New Mexico Gov. Bill Richardson has met with Ricardo Alarcon, president of Cuba's parliament, as well as members of the island's chamber of commerce as he heads a trade mission there this week. Richardson met with Alarcon on Monday. On Tuesday he visited chamber of commerce President Pedro Alvarez and Igor Montero, president of Alimport, the Cuban government agency responsible for agricultural commerce.

Richardson released a statement saying his delegation held "productive discussions" promoting the idea of exporting potatoes, wheat, apples and beef from New Mexico to Cuba. He returns to New Mexico Friday. Cuba has been subject to a U.S. embargo since 1962, but U.S. states are authorized to sell agricultural and certain other products to Cuba.

CUBA AND ITS PARTNERS

BRAZIL TO HELP FINANCE CUBAN PORT PROJECT

Source: Reuters, Jeff Franks; July 9, 2009

Brazil said on Thursday it would give Cuba up to \$300 million in credits to start rebuilding the island's port of Mariel, better known as the site of a 1980 Cuban exodus to the United States. Brazilian Industry and Trade Minister Miguel Jorge said \$110 million had been approved by his government and the rest would likely be, as Brazil strengthens its ties with communist-led Cuba. He said in a news conference that construction, to be led by a Brazilian company, would begin "very soon" with the building of infrastructure including highways and a railroad for the port about 30 miles (50 km) west of Havana.

Brazilian officials said Cuba expects the entire port project, which will be built in several phases, to cost up to \$2 billion. The first phase is projected to take four or five years to complete and cost \$600 million, they said. Mariel was the scene of the massive boatlift from April to October 1980 when a flotilla of vessels from the United States picked up 125,000 Cubans after the Cuban government said anyone wanting to leave the island could do so. Now Cuba wants Mariel to serve as logistics center for its still-nascent offshore oil industry and to be equipped to handle shipments from around the world, including the United States, just 90 miles (145 km) to the north of Cuba.

U.S.-Cuban trade is restricted by a U.S. trade embargo imposed in 1962, three years after Fidel Castro led a revolution to topple a U.S.-backed dictator. Jorge, who was on the second day of a two-day visit to Cuba, said Brazil's state-owned oil giant Petrobras (PETR4.SA)PBR.SA, which last October was awarded a bloc for oil exploration in Cuban waters, would open an office in Havana on Tuesday. He said Petrobras was completing seismic studies of the bloc and working on getting a drilling rig to Cuba. Jorge did not say when Petrobras expected to begin drilling. So far, only one test well has been drilled in Cuba's offshore fields -- by Spain's Repsol-YPF (REP.MC) in 2004.

CUBA, RUSSIA SIGN \$150 MLN LOAN DEAL

Source: RIA Novosti; July 29, 2009

Moscow will grant a \$150 million loan for two years to Cuba to finance deliveries of Russian construction and agricultural machinery and equipment. The Russian-Cuban loan agreement was signed in the course of a working visit to Havana by Russian Deputy Prime Minister Igor Sechin on Tuesday.

The two countries also signed a preliminary agreement on Russian oil company Zarubezhneft's operations in Cuba's exclusive economic zone in the Gulf of Mexico. "We consider that an outcome of this cooperation will be new opportunities both for Cuba as well as Zarubezhneft," said Sechin, who met with Cuban President Raul Castro and other officials during his visit. Trade ties between Russia and Cuba stalled after the collapse of the Soviet Union, when Russia faced financial difficulties and halted huge Soviet-era subsidies. In recent years, however, Russia has moved to revitalize ties with Cuba, as well as other Latin American states. President Dmitry Medvedev visited Havana in November, and a Russian anti-submarine destroyer and two auxiliary vessels docked in Cuba in December.

MINING

CUBAN NICKEL PRODUCTION BEHIND SCHEDULE

Source: Reuters, Marc Frank; August 27, 2009

- * Cuban officials tour hurricane-damaged plant
- * Local media report nickel output behind schedule

Cuban plans to produce around 70,000 tonnes of unrefined nickel and cobalt this year are behind schedule, official media in Holguin province reported this week, apparently due to hurricane damage sustained in 2008.

Local Television Cristal said on its website that one of the country's three nickel plants, all located in the eastern province, was forecast to produce 6,000 tonnes below its capacity and that in another it was "possible" it would reach full production. The information came out in reports on Wednesday about a visit to Moa, Holguin by state officials to inspect two of the plants. "Jorge Cuevas Ramos, First Secretary of the Holguin Communist Party, congratulated workers for their efforts to make up lost production," Television Cristal reported on its web page as he toured repair work. "These improvements along with other investments are key to leaving behind lagging output in 2009 and resuming next year the productive levels of this industry of transcendental importance for the Cuban economy," Cuevas stated.

Cuba produced 70,400 tonnes of unrefined nickel and cobalt in 2008, after averaging between 74,000 and 75,000 tonnes during much of the decade. Nickel emerged as Cuba's biggest export earner in 2000 with almost all output destined for Canada, Europe and China. The Cuban-owned Che Guevara plant, with a capacity of around 32,000 tonnes, and Pedro Sotto Alba plant, a joint venture between state-run Cubaniquel and Canada's Sherritt International <S.TO>, with a 37,000-tonne capacity, are located in Moa. Television Cristal said the officials toured the Che Guevara plant, "the most affected by Hurricane Ike ... where a production of 26,000 tonnes of nickel and cobalt is forecast", and the Pedro Sotto Alba plant where a recent expansion "made it possible that production would reach 37,000 tonnes this year."

Category Three Ike hit Cuba at Holguin's northern coast last September, where the nickel industry's three processing plants are located, seriously damaging infrastructure, housing and buildings and swamping the area with torrential rains and a storm surge. The Television Cristal report did not mention the third plant in the area, the Rene Ramos Latourt at Nicaro Holguin, Cuba's oldest, which has a capacity of 10,000 to 15,000 tonnes and was hit hard by Ike. Scattered reports this year indicated Rene Ramos Latourt and the feed process to the plant were operating below capacity at various times, so there were most likely production problems there as well.

The Caribbean island is one of the world's largest nickel producers and supplies 10 percent of the world's cobalt, according to the Basic Industry Ministry. Nickel is essential in the production of stainless steel and other corrosion-resistant alloys. Cobalt is critical in production of super alloys used for such products as aircraft engines. Cuban nickel is considered to be Class II, with an average 90 percent nickel content. Cuba's National Minerals Resource Center reported that eastern Holguin province accounted for more than 30 percent the world's known nickel reserves, with lesser reserves in other parts of the country.

MEDICINE

CUBAN CANCER DRUG UNDERGOES RARE U.S. TRIAL

Source: Miami Herald, John Dorschner; August 31, 2009

For the first time since Fidel Castro took power in Cuba over a half-century ago, a drug developed by the Communist regime is going through clinical trials in the United States. The drug nimotuzumab is designed to target cancer cells including those in rare and deadly types like glioma, the brain cancer that killed Sen. Ted Kennedy. A researcher at the University of Florida, where one trial is already in progress, calls the drug "exciting, interesting."

The hitch: Even if trials prove successful, nimotuzumab could not be sold in the United States because 20 percent of the company holding the license is owned by the Cuban government. "We're in the business of developing drugs," said David G.P. Allan, chief of YM Biosciences, based in Canada. "We could care less about the political side." YM Biosciences owns 80 percent of CIMYM, the company that has the rights to develop nimotuzumab in North America, Europe, Japan and other places. The other 20 percent is owned by the Center of Molecular Immunology, the biotech lab in Havana that developed the drug. Given by injection, nimotuzumab is already approved for marketing in 20 countries, including India and China, where the licensing was done directly by Cuba, not YM. It is not approved in North America, Europe or Japan, but almost 20 trials are in progress.

Amy Smith, a pediatric neuro-oncologist at the University of Florida, said the theory is that nimotuzumab works by attacking epidermal growth factor receptors, shutting off the growth of cancer cells. Smith said early studies in Europe indicate the drug showed considerable promise in prolonging the lives of children who have inoperable brain stem glioma. Even with radiation, those children generally survive only eight to 15 months. To test the Cuban drug in the United States, YM needed an exception from the embargo by applying to the Department of the Treasury's Office of Foreign Assets Control -- a process that Allan called "slow and formal." Other companies have done this -- Smithkline Beecham for a Cuba-made meningitis vaccine, and CancerVax for a cancer vaccine. In both cases, they obtained the necessary Treasury permission but after research decided not to do clinical trials. For nimotuzumab, YM received approval in 2006 for trials involving children with inoperable brain cancer. Those tests are still progressing. Results are expected next year.

Several drugs in the same class as nimotuzumab are already approved, including Eli Lilly's Erbitux. These types of drugs do not lead to miracle cures, said Allan, but can help extend life by allowing chemo and radiation therapies to be more effective. YM maintains that nimotuzumab is superior to others in its class because it alone does not lead to toxic skin conditions. Erbitux has a North American market of more than \$1 billion a year, Allan said, and is used with mixed results on a wide range of cancers. For inoperable brain cancer cases, the U.S. market is about 5,000 patients -- not a large population for a drug manufacturer, especially since treatments could cost \$10,000 to \$50,000 per patient. That's why YM Biosciences went back to the Treasury and asked to import the Cuban drug to test on patients with all sorts of cancers. That approval came earlier this month.

Not all the nimotuzumab news has been positive. In March, the European Medicines Agency rejected an application to market the drug, listing 27 major objections, including "major deficiencies in the control, consistency and validation of the drug substance" at the Havana manufacturing plant. Allan said the application was made by a European company that had sub-contracted with YM and was "based on impoverished data" which was bound to be rejected. Next time, the application will be

much sounder, he said. U.S. trials are expected to take three or four years. If the trials succeed, YM would need a change in the embargo law. Would a life-extending drug be worth an embargo exception? Ana Carbonell, chief of staff for Rep. Lincoln Diaz-Balart, issued a statement Friday, saying the Republican congressman from Miami ``supports all efforts to find cures for cancer. ``The medical trials for this drug will take several years. Diaz-Balart hopes that by then the Cuban people will be free."

TOURISM

TOURIST ARRIVALS RISE NEARLY 3 PCT IN CUBA

Source: EFE; July 23, 2009

Cuba welcomed 1.37 million tourists in the first half of 2009, a figure that was up 2.7 percent from the same period last year, the National Statistics Office said. Tourism continues to be one of the island's main sources of foreign exchange, Cuban officials said, without providing details on the revenue generated by the industry. In 2008, 2.3 million tourists visited Cuba, up 9.3 percent from the prior year. The Cuban government said it expected 2.5 million tourists to visit the island this year. The main sources of tourists visiting Cuba are Canada, Germany, Britain, Italy, Spain, France and Mexico.

REUBICAN A 9,000 EMPLEADOS DEL TURISMO POR TEMPORADA BAJA Y CRISIS

Source: AFP; 25 de agosto, 2009

Unos 9,000 empleados del turismo cubano fueron reubicados en otras labores debido a la temporada baja de la industria y la crisis económica internacional, informó este lunes el semanario Trabajadores.

Aunque "no es nada exclusivo este año", pues se trata de una medida tradicional en estos meses para cerrar capacidades hoteleras y disminuir gastos en la etapa baja de visitantes, "ahora se agudiza por los efectos de la crisis económica internacional", subrayó la publicación. Los 9.000 empleados, declarados "interrumpidos", representan el 10,4% de los 85.800 trabajadores del turismo y son reubicados en otros puestos de trabajo, la mayoría dentro del propio sector, o en tareas "socialmente útiles en actividades priorizadas", dijo Pedro Tejeda, dirigente sindical.

La categoría laboral "interrumpido" se usa en la isla para aquel trabajador cuya actividad es paralizada temporal o definitivamente (fábricas, hoteles, líneas de producción), y mientras es reubicado en otro empleo recibe un porcentaje de su salario habitual. El turismo es la segunda entrada de divisas a la isla tras las provenientes de servicios médicos brindados en otros países, y aunque el número de visitantes logró un discreto aumento de 2,9% hasta agosto, los ingresos por ese concepto tienden a la baja, según datos oficiales. En 2008 la isla recibió 2,3 millones de visitantes y recaudó 2.360 millones de dólares en el sector turístico.