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In the News

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Republican sweep of Congress unlikely to alter direction of U.S. policy on Cuba

BY ANA RADELAT

Republicans boosted their majority in the House and wrested control of the Senate from Democrats thanks to the Nov. 5 elections. But the GOP's increased power won't do much to dampen growing congressional sentiment to ease Washington's tough Cuba policy.

Just as in the current Congress, the 108th Congress beginning Jan. 7 will be constrained by the White House on the issue of Cuba.

How determined President Bush is in keeping a hard line against Havana in the face of mounting pressure from Capitol Hill to ease sanctions remains to be seen.

An early indication of the strength of Bush's determination will be what he does with Otto Reich, the controversial assistant secretary of state for Western Hemisphere affairs. Reich's term ends Jan. 3, the last day of this Congress.

Since he was appointed a year ago, Reich has overseen a crackdown on illegal American travel to Cuba, increased aid to Cuban dissidents by the U.S. Interests Section in Havana, a clampdown on U.S. visits from Cuban officials and the recent expulsion of four Cuban diplomats from their posts in Washington and New York.

Reich is a Cuban exile with historic links to anti-Castro groups. His nomination was opposed by several lawmakers and blocked by Sen. Chris Dodd (D-CT), so Bush was forced to appoint him when Congress was in recess; the appointment expires when the 107th Congress ends.

The president could try to force Reich's nomination through the Senate again, but the Republicans' 52-member majority may not be enough to free the nomination if Dodd or another senator blocks it.

The president could also make another recess appointment, or name Reich to a lesser position at State that doesn't require Senate confirmation but would still allow him to serve as acting head

See **Congress,** page 2

BrasCuba steps up local cigarette sales as venture's Latin export market shrinks

BY LARRY LUXNER

Felicio Ferraz doesn't smoke. Neither does Orlando Flores Vega. But both men's jobs depend on getting Cubans who do smoke to buy their cigarettes with dollars, not pesos.

"This market is very price-sensitive," says Ferraz, a native of Brazil. "When the economy improves, we sell more. When things get worse, Cubans run to the peso market."

Ferraz, 32, is marketing director of BrasCuba Cigarrillos S.A., a joint venture between state entity Tabacuba and Rio de Janeiro-based Souza Cruz S.A. He and Flores, the venture's local merchandising manager, have helped BrasCuba grab a whopping 95% share of the island's hard-currency cigarette market, estimated at 1.4 billion sticks, or individual cigarettes.

Cuba's total market — which includes peso and dollar sales — stands at 11 billion sticks, of which BrasCuba currently has a 12% share.

"This year, we're producing 1.3 billion sticks for the domestic market, and 100 million for the export market," said Ferraz, who's been with Souza Cruz for the past eight years, and has lived in Cuba for the last two. That compares to 2000 production of 1.025 billion cigarettes for the domestic market and 681 million for export.

"Our market here is Cubans," he said. "We try to sell to foreigners also, but we can't imagine that a tourist will change brands in one week."

The venture's success depends in large part on the manufacturing and marketing expertise of Souza Cruz, a $1 billion giant which controls 80% of Brazil's enormous cigarette market and is 75% owned by British American Tobacco (BAT).

Flavio de Andrade, president and CEO of Souza Cruz, says BrasCuba represents his company's first and only foreign investment to date.

"Cuba is the most important market in the Caribbean region, and it was the only country where BAT did not have a presence," said Andrade, interviewed in Rio de Janeiro. "So BAT asked Souza Cruz if we were inclined to partici-

See **BrasCuba**, page 6

Congress — FROM PAGE 1

of the Western Hemisphere department.

However, a congressional source with an interest in the situation said Secretary of State Colin Powell wants to transfer Reich to a job that doesn't have anything to do with Cuba.

It's easier to predict what the new Congress will do. Despite the election results, lawmakers are expected to continue pushing to ease sanctions on U.S. travel to Cuba and start a new campaign to expand the types of U.S. goods that can legally be sold to the island's government *(see box below)*.

But there will be new participants in the debate over Cuba, and key lawmakers involved in the issue will have new jobs in Congress. Here's a look at what's likely to change:

THE SENATE

At first glance, the change in Senate leadership from anti-embargo Tom Daschle (D-SD) to Trent Lott, a Mississippi Republican who has opposed relaxing Cuba sanctions in the past, would seem to be a blow to those in the Senate who seek new openings to Cuba. But in reality, it's likely to have little impact.

Even though Daschle visited Cuba in 1999, he did little to promote an easing of the embargo when the Senate was in his hands.

Lott's support of the embargo was based first on his wishes to help hardline GOP leaders in the House, then on his duty to carry out White House policy. Besides seeming to lack a strong ideological position on Cuba, Lott is under pressure from Mississippi port officials and other local business interests who want to trade with Cuba; in fact, he's told Mississippi farmers he's "rethinking" his opposition to U.S. food sales to Cuba.

Former Florida Sen. Connie Mack once kept Lott's feet to the fire on the Cuba issue. But Mack, a close friend of Lott's, retired two years ago.

In addition, Lott's Mississippi colleague, Republican Sen. Thad Cochran, is a vocal embargo foe who is slated to be the next chairman of the Senate Agriculture Committee.

But the main reason Lott will find it hard to stop initiatives to broaden trade with Cuba is that he'll lack the 60 votes needed to block such legislation. A majority of the new Senate will support easing the embargo, and possibly eliminating it altogether.

The departure from Congress of Sen. Robert Torricelli (D-NJ), a longtime and very active embargo supporter, and the arrival of Sen. Norm Coleman, a Minnesota Republican who campaigned against the embargo, will also help swell the ranks of senators opposing the White House on Cuba.

Another Senate change that bodes well for the anti-sanctions crowd is the stepping down of Sen. Jesse Helms (R-NC) as chairman of the powerful Senate Foreign Relations Committee. His replacement, Sen. Richard Lugar (R-IN) opposes the use of economic sanctions as a foreign policy tool.

> *"With the Florida phenomenon over, things will be a lot easier."*
>
> — REP. JEFF FLAKE (R-AZ), CO-FOUNDER OF THE HOUSE CUBA WORKING GROUP

THE HOUSE OF REPRESENTATIVES

This year's series of largely symbolic votes in the House of Representatives to ease sanctions shows there was majority support in the chamber to relax Washington's Cuba policy.

Every year, more and more GOP House members want to ease sanctions. But the Republican leadership has been an effective roadblock to change.

Rep. Tom DeLay (R-TX), who has been promoted from the No. 3 to the No. 2 Republican leadership position and will become House majority leader in the new Congress, says he staunchly supports the embargo for personal reasons that stem from his childhood.

DeLay's father was an American oil executive in Venezuela. Returning to Texas from a visit to Venezuela in the early days of the Cuban revolution, a young DeLay and his mother tried to change flights in Havana, but were detained for hours at the airport by revolutionaries. DeLay says he's loathed Castro's government ever since.

The rest of the Republican House leadership, House Speaker Dennis Hastert of Illinois, Majority Whip Roy Blunt of Missouri and Republican Conference Chairman Deborah Pryce of Ohio, also defend the embargo, but they lack DeLay's passion.

Earlier this year, the House Cuba Working Group — composed of 22 Republicans and 22 Democrats — was formed in order to work in a concerted effort to exert pressure on the GOP leadership.

One of the group's co-founders, Rep. Jeff Flake (R-AZ), predicts that with the 2002 elections out of the way, the White House will be more open to negotiate on Cuba next year.

Flake, whose contempt for Castro is well-known, adds that the overwhelming re-election of Florida Gov. Jeb Bush may take some pressure off the White House to curry favor with Cuban-American voters.

"With the Florida phenomenon over," said Flake, "things will be a lot easier." □

LAWMAKERS, AGRIBUSINESS INTERESTS DROP PUSH FOR CUBA CREDIT

WASHINGTON — U.S. farm interests and their supporters in Congress have abruptly dropped a campaign to ease the embargo by allowing U.S. bank financing of American food sales.

Perhaps influenced by reports that European and Canadian companies are having trouble collecting payments from Fidel Castro's government *(see page 4)*, those who once advocated a change in policy now say they are quite happy with the embargo's requirement that Cuba pay for U.S. food shipments in cash.

Peter Nathan, organizer of last September's U.S. Food & Agribusiness Exhibition in Havana, told *CubaNews* the cash-only restriction has increased interest among U.S. businesses in selling to Cuba.

"I think the fact that the law requires transactions in cash made it easier for American companies to participate in the [show]," Nathan said. "There was zero risk. You either get paid or you don't sell."

A law passed in 2000 allows U.S. farmers to sell agricultural products to Cuba on a cash-only basis. Instead of seeking an end to the prohibition of U.S. financing of those sales, the business community now plans to push next year for an expansion of the types of goods that can be sold to Cuba, including farm equipment and perhaps certain consumer goods like shoes and clothing.

"Clearly the business community is seeking to shift from permitting financing to expanding the range of products they're allowed to sell," said John Kavulich, president of the U.S.-Cuba Trade and Economic Council in New York. "The argument will be, 'if you're going to sell them dairy cows, why not sell them milking machines?'"

Tony DeLio, corporate VP of marketing at Archer Daniels Midland, is among those who agree that the focus should be on other things, like expanding the types of goods that can be sold to Castro's government and loosening U.S. constraints on American travel to Cuba.

"Allowing travel is the biggest change that can occur [to] impact trade because it gives Cuba cash to buy products," DeLio said.

Rep. Jeff Flake (R-AZ) has for three years spearheaded an effort to end restrictions on U.S. travel to Cuba, and is expected to continue the campaign next year. He also says that pushing to allow Cuba to borrow from U.S. banks is a bad idea.

"Nobody in their right mind would extend any credit to that government," he said.

– ANA RADELAT

US-CUBA RELATIONS

Cuba claims 'genocidal' U.S. embargo has cost $70 billion

BY LARRY LUXNER

A lengthy report by Cuba to the United Nations General Assembly claims the U.S. embargo has cost Cuba's economy $70 billion since its imposition in 1962 — not including $54 billion in damages "caused by acts of sabotage and terrorism carried out by agents at the service of the United States."

The 11,000-word complaint was submitted to the UN on Oct. 31. Two weeks later, the General Assembly voted 173-3 to condemn the embargo; only the U.S., Israel and the Marshall Islands opposed the measure.

Another four countries abstained: Ethiopia, Malawi, Nicaragua and Uzbekistan. It was the 11th year in a row that the world body had criticized the unpopular U.S. policy.

"The Cuban people continue to be victimized by the genocidal blockade imposed by the government of the United States in an effort to break the Cuban resolve to exercise self-determination and its willingness to preserve its independence, social justice and equality," says the angry appeal, which contains a wealth of anecdotes illustrating how the embargo has prevented U.S. and other companies from doing business with Cuba.

NOTEBOOK AND PENCIL SHORTAGE

Even the Trade Sanctions Reform and Export Enhancement Act of 2000 allowing U.S. food sales to Cuba on a cash-only basis is ridiculed in the report, which was presented to UN Secretary General Kofi Annan.

The document claims that embargo-related damages to nine key sectors of the Cuban economy came to $643 million in 2001 alone.

In the food sector, restrictive U.S. policies cost Cuba $233.7 million last year, because of price differentials, financial costs of operations and higher transportation costs.

"The fact that all operations must be carried out in only one direction, thus preventing any Cuban export to the U.S., implies the loss of potentially substantial savings as vessels could sail back carrying Cuban exports to that country," the petition charged.

"In the case of bulk shipments, 36% of transportation costs could be saved, as average freight expenditures amount to $15.50 per metric ton, while the figure could be reduced to $10 a ton if vessels were able to take cargos back to the United States."

The report also blames the embargo for depriving Cuba's educational system of hard currency. During the 2001-02 school year, 50% fewer notebooks and pencils were distributed to children than in 1989. In 2001, imports of basic teaching aids came to $19 million.

"Items must be brought from far-off markets, which implied excessive freight charges estimated at 20% of the total value," says the report, estimating that the savings could have allowed Cuba to import 37 million additional notebooks or 185 million additional pencils.

Even though medicine is exempted from the embargo, Cuba may not purchase certain U.S. technologies, diagnostic kits, equipment and raw materials it deems crucial for its health-care sector.

For example, says the report, U.S. manufacturer Rashkind makes a balloon catheter used to treat infants with heart defects. Since Cuba may not purchase these devices in the U.S., it has to import them from Canada, causing the unit price to jump from $110 to $185.

Likewise, if refurbished dialysis machines could be purchased in the U.S., Cuba could save 65-75% off the cost of each new machine.

Turning to exports, the report says Cuba's economy suffered losses of $177.3 million last year because of its exclusion from the U.S. sugar market. Cuba would have placed some 918,180 metric tons in that market. The fact that it can't sell nickel to the United States cost it another $5.4 million.

ON THE NO-NO LIST: XEROX MACHINES AND GAS

Some of the U.S. restrictions against Cuba seem downright petty.

In December 2001, the Swiss subsidiary of Xerox stopped leasing a photocopy machine to the Cuban Embassy in Bern, Switzerland. The justification: a document containing U.S. Export Administration regulations, in which Cuba is listed among various countries banned from receiving computers, software and other various U.S. technologies.

And in June, an official of Texaco refused to sell gasoline to the Cuban Embassy in Belize, insisting that such sales would violate the Trading With the Enemy Act.

In the tourism sector, the report describes how several companies had to withdraw from lucrative deals in 2001 due to the embargo.

Hilton International Group PLC, based in Great Britain, was forced to pull out of a venture to manage two Quinta del Rey hotels in Cayo Coco and Havana. This happened after Hilton attorneys concluded the venture would violate Helms-Burton because all operations are carried out by Hilton's U.S. subsidiary.

"Had negotiations been completed, the country would have raked in some $107.2 million in 25 years," said the report.

In another example, European Festival Cruise Lines based one of its largest vessels, El Mistral, in Havana harbor for weekly voyages between December 2001 and March 2002. As a result, says the report, the company "was subjected to enormous pressure to persuade it to cancel this itinerary, and was forced to include the warning, 'These cruises cannot be offered in the United States' in its May-December 2002 promotional materials."

LARRY LUXNER

Billboard over Santiago de Cuba gas station, playing on José Martí imagery, demands an end to U.S. trade sanctions, specifically the Cuban Adjustment Act, the Helms-Burton Act and the Torricelli Act.

Likewise, when Carnival Corp. bought Costa Cruciere, an Italian firm, the company's $62 million project to repair the Sierra Maestra cruise-ship dock was terminated at the insistence of the U.S. Treasury Department.

And in April 2002, Washington-based Airline Tariff Publishing Co. deleted all tariffs and regulations of Cuba's state airline, Cubana de Aviación, from its database.

In a related matter, U.S. restrictions on civil aviation have cost Cuba $153.6 million. These include the impossibility of acquiring and renting high-performance planes; restrictions on the use by Cuban airlines of computerized reservation systems like Sabre, Galileo and Worldspan, and exclusion of Cuban airlines from the services of U.S. jet fuel suppliers. □

To see the full text of the report, e-mail us at larry@luxner.com or call CubaNews at (800) 365-1997. We will e-mail it to you at no charge.

CORRECTION

A front-page story in the September 2002 issue of *CubaNews* reported that Spain's Meliá hotel chain is based in the Canary Islands. In fact, Meliá headquarters is in Majorca, part of Spain's Balearic Islands. We regret the error.

FOREIGN TRADE

EU, Canada watch jealously as U.S. food sales to Cuba jump

BY OUR HAVANA CORRESPONDENT

Cuba's European and Canadian trading partners are feeling left out while their American rivals sell more food than ever to Cuba, and get paid rapidly — and in cash — from the Cuban government.

This resentment was plainly evident at the 20th Havana International Fair (FIHAV), which ended Nov. 10 with $62 million in signed contracts and about $8 million in production cooperation agreements.

Some 500 Cuban entities and 915 foreign firms from 56 nations attended the event, led by Canada and the 15-member European Union. Apparently, only two U.S. companies were present at FIHAV, though it's unclear which ones they were.

What's sparking the jealousy isn't only the sales in themselves, but the quick payment in cash American suppliers are receiving from Cuban government agency Alimport — while Canadian and European firms have to wait in line for delayed settlement of their accounts.

"We love Cuba dearly as if it were our own land, but we also get very jealous when we see our place taken by someone else," said Rafael García Padilla, vice-president of the Chamber of Commerce of Malaga, Spain, in an obvious reference to the United States.

Sylvain Fabi, chief of commercial promotion services at the Canadian Embassy in Havana, answered a question on the subject by referring to the historic relations between Canada and Cuba. In a heartbroken tone, he said, "the Canadian business community has nothing to criticize if the products sold are more competitive in price and quality."

Canada is the second-largest investor in Cuba after Spain, and the leading source of foreign tourists to the island.

Nevertheless, Cuban officials suddenly find themselves scrambling to appease complaints from Europeans and Canadians by assuring them their debts will be honored. Fidel Castro, who attended the closing ceremony of FIHAV specifically for that purpose, told delegates "Cuba will never depend on a sole supplier in such a vital sector as food."

Pedro Alvarez, chairman of Alimport and president of the Spanish-Cuban Bilateral Cooperation Committee, declared that "Spain was, is and will continue to be one of Cuba's most important trading partners. Cuba is open to joint ventures and investment from abroad, but Spain will never cease to be one of Cuba's main partners."

Ironically, it was Alvarez who led negotiations to buy $95 million worth of soybeans, poultry, eggs and other farm products from American firms at the U.S. Food & Agribusiness Exhibition, held Sept. 26-30 in Havana.

Under the 2000 U.S. Trade Sanctions Reform and Export Enhancement Act (TSRA), U.S. food may be unloaded in Cuba only upon payment in cash; no credits are allowed.

Since December 2001, Cuba's U.S. food purchases have totaled $230 million, with some officials predicting that number will reach $1.4 billion by 2005.

Although Cuban food imports from the U.S. haven't been significant overall, Spain's exports came to only 215 million euros, an 18% drop from the year-before period. Cuba's financial difficulties appear to be the main cause for the drop, with steel, manufactured goods and food imports suffering the most.

Food imports from France are also down, by 40% during the first six months of 2002, according to the French Embassy in Havana *(see CubaNews, Oct. 2002, page 9)*.

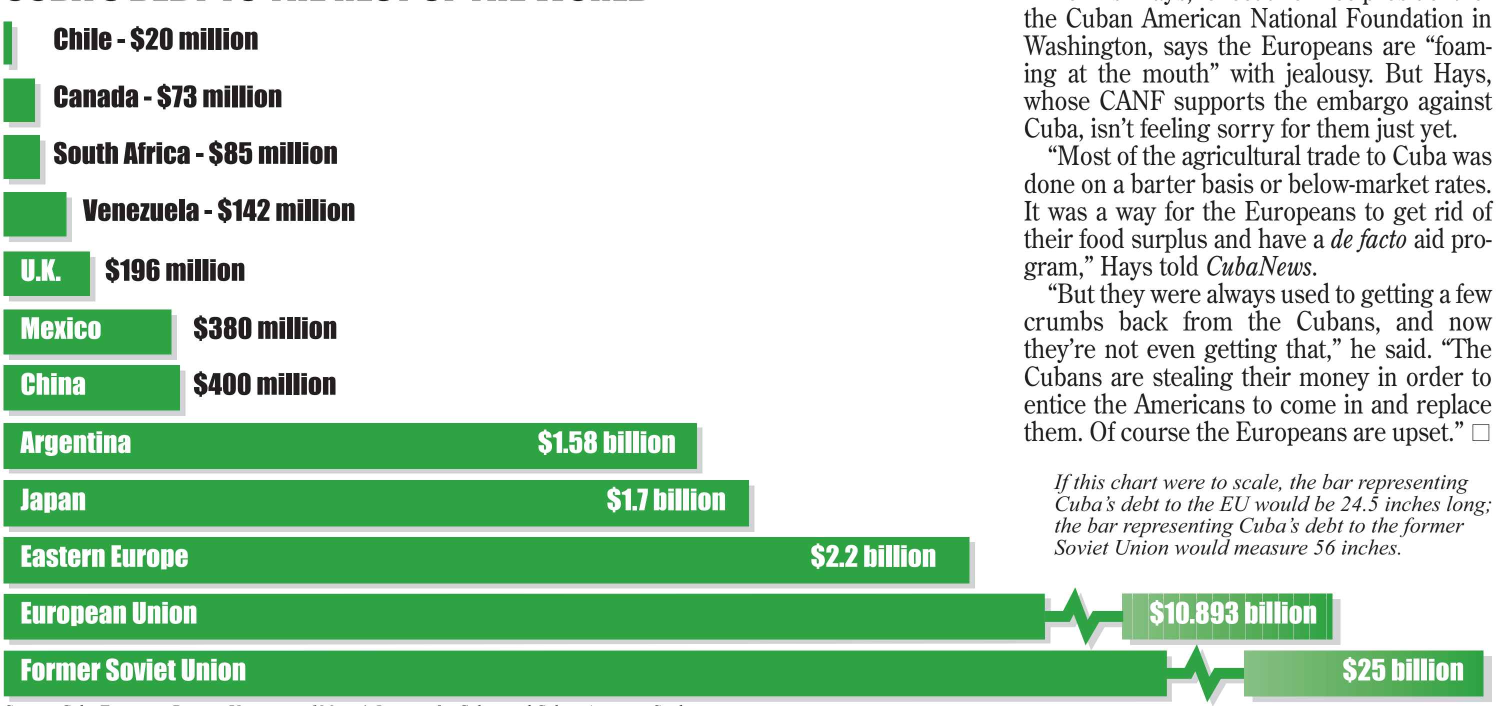
There's no doubt U.S. suppliers offer Cuba more competitive prices and lower transportation costs. As such, the entry of U.S. agricultural products has given the Castro government greater leverage with the Europeans while at the same time helping it to shave millions of dollars off its food import bill.

Dennis Hays, executive vice-president of the Cuban American National Foundation in Washington, says the Europeans are "foaming at the mouth" with jealousy. But Hays, whose CANF supports the embargo against Cuba, isn't feeling sorry for them just yet.

"Most of the agricultural trade to Cuba was done on a barter basis or below-market rates. It was a way for the Europeans to get rid of their food surplus and have a *de facto* aid program," Hays told *CubaNews*.

"But they were always used to getting a few crumbs back from the Cubans, and now they're not even getting that," he said. "The Cubans are stealing their money in order to entice the Americans to come in and replace them. Of course the Europeans are upset." □

CUBA'S DEBT TO THE REST OF THE WORLD



If this chart were to scale, the bar representing Cuba's debt to the EU would be 24.5 inches long; the bar representing Cuba's debt to the former Soviet Union would measure 56 inches.

Source: Cuba Transition Project, University of Miami's Institute for Cuban and Cuban-American Studies

The Cuban government owes billions of dollars to numerous countries, and lacks the resources to even pay interest on these obligations. According to Reuters, "the island is notorious for paying its debts late, and public and private creditors report that the situation has grown much worse in recent months." Cuba's debt to the EU reached $10.893 billion, according to the most recent Central Bank data available. Cuba has paid neither principal nor interest since 1986 on multilateral obligations to the 19-member Paris Club. It owes another $2.2 billion to former communist regimes in Eastern Europe — much of that absorbed by Germany and the Czech Republic — and around $25 billion to the former Soviet Union. Its $1.7 billion debt to Japan makes that country Cuba's single largest creditor, while it owes $1.58 billion to Argentina, $400 million to China and $380 million to Mexico. As *The Economist* noted in May 2001, "France, Italy and South Africa have recently cut off further credit to Cuba, in a bid to claw back some of what they are owed."

COMPANIES

Sherritt releases 3Q earnings

Sherritt International Corp. reported a net loss of C$1.1 million (7¢ a share) for the third quarter of 2002, compared with net earnings of C$23.5 million (18¢ a share) for the year-ago period.

Even so, consolidated revenue for the quarter was C$207.7 million, compared with C$86.8 million for the same period in 2001. Higher oil, gas and nickel prices explained most of the increase.

Sherritt, one of the largest foreign investors in Cuba, said its Moa nickel refinery in Holguín produced 8,353 metric tons of nickel plus cobalt contained in mixed sulfides during 3Q 2002, up from 8,613 tons during the same period last year. Total production of mixed sulfides for the first nine months of 2002 was 25,223 tons, up from 24,744 tons in the first nine months of 2001.

The oil and gas sector continues to be the most productive for Sherritt, with capital expenditures expected to reach C$100 million this year. The re-port says this money will be "focused on continued development of Cuban properties, facilities and seismic commitments for the newly acquired offshore blocks."

During the 3rd quarter of 2002, gross working-interest oil production in Cuba totaled 41,188 barrels a day, up 29% from the same period in 2001. This increased production came from new wells in the Puerto Escondido, Yumuri, Varadero and Canasi oil fields.

Sherritt completed five development wells and one exploration well in Cuba during the quarter; two development wells at Puerto Escondido and Canasi were started in June and are now producing; their combined production totals 10,150 b/d.

Three additional wells drilled at Puerto Escondido, Yumuri and Canasi resulted in a combined production rate of 9,800 b/d.

In the Via Blanca West area of Block 7, an exploration well was suspended after experiencing drilling difficulties and failing to encounter the expected reservoir.

During the third quarter, Sherritt also signed a production-sharing agreement with Cuban state oil company Cupet for exclusive exploration rights on four blocks in the deep-water economic zone off Cuba's northern coast. This zone contains around two million undeveloped acres.

Operating earnings from the "other businesses" category were essentially break-even, compared with a C$300,000 loss for the third quarter of 2001. This category includes Sherritt's interest in a soybean-based food processing plant, the Cubacel mobile phone network, two hotels, an agribusiness venture in Matanzas province and a power generation subsidiary.

Sherritt said commissioning of the final phase of a combined-cycle expansion at its Varadero power plant will take place by the end of 2002. This will add 75 megawatts of net capacity, for a total contracted capacity of 226 megawatts.

Details: Ernie Lalonde, VP/investor relations, Sherritt International, 1133 Yonge St., Toronto, Ont., M4T 2Y7, Canada. Tel: (800) 704-6698. Fax: (416) 924-5015. Internet: www.sherritt.com.

In their own words ...

"The government of the United States, responsible for the world's largest and most sophisticated intelligence apparatus, has no moral authority or justification whatsoever to endorse these assertions against our diplomats."

— **Luís M. Fernández**, *spokesman at the Cuban Interests Section in Washington, responding to the State Department's expulsion of four of his colleagues [two in Washington, two in New York] on grounds they were engaging in espionage.*

"It is rather extraordinary that the United States in less than 12 months has risen from last place to among the 10 largest trading partners of Cuba."

— **John Kavulich**, *president of the U.S.-Cuba Trade and Economic Council.*

"At a time when suicide bombings and mass hostage-takings have become common tools of political insurrection, the opponents of Cuban dictator Fidel Castro remain stubbornly civilized ... Yet Mr. Castro's response to such dissent remains as harsh as if he were confronted by the terrorists of al-Qaeda; in fact, he treats his political prisoners far worse than the United States treats the al-Qaeda suspects it is holding at the Guantánamo Bay naval base."

— Nov. 13 editorial in The Washington Post.

"The U.S. government has reiterated its shameful accusation that Cuba is producing biological weapons, using a method from the Goebel days that says if you repeat a lie enough times it will ultimately be turned into truth."

— Cuban Vice President **Carlos Lage**, *speaking Nov. 16 at the XII Ibero-American Summit in Santo Domingo.*

"I personally feel this embargo should be lifted. I don't see any reason for its existence beyond grudges carrying into the 21st century."

— **Steven Spielberg**, *speaking Nov. 5 in Havana after meeting with Castro on a trip arranged by the Cuban Institute of Cinematographic Arts and Industry.*

"President Bush talks about regime change in Iraq. Hussein's terrorist brother in Havana deserves likewise, and Cuba's captive Jews deserve the solidarity of their free brethren."

— **Myles Kantor**, *director of the Center for Free Emigration, writing in FrontPage Magazine about Fidel Castro's anti-Israel policies and supposed hatred of Jews.*

"It is absolutely impossible to rationally conduct business between two sovereign states without the existence of a normal regime of relations among enterprises that allows negotiation, a regular financial flow, air and maritime transportation, the benefit of customary formulas supporting foreign trade and the critical access to credits."

— Cuban government's Oct. 31 report to the UN detailing how the U.S. embargo has caused the island over $70 billion in damage since its inception in 1962.

"We have to go on working together before the EU about the need to admit Cuba as a member of the Cotonou Agreement."

— **Jean Robert Goulangana**, *general secretary of the African, Caribbean and Pacific (ACP) countries, during his November visit to Havana.*

"I can assure you that the State Department continues to strictly limit visa issuance for Cuban officials traveling to points outside of Washington and New York. We remain committed to working with you to carry out the president's Cuba policy, to seek a rapid, peaceful change to democracy and free markets."

— **Paul V. Kelly**, *the State Department's assistant secretary of legislative affars, in a Nov. 7 letter to Rep. Ileana Ros-Lehtinen (R-FL) explaining why he could no longer inform the House about visas granted to Cuban officials visiting the U.S.*

"I personally have much to thank Hemingway for ... the honor that he gave us by choosing our country in which to live and write some of his best work."

— **Fidel Castro**, *upon signing a document Nov. 10 with U.S. dignitaries to help preserve 2,000 letters, 3,000 photos and other artifacts belonging to novelist Ernest Hemingway, who lived in Cuba from 1939 to 1960.*

BrasCuba

— FROM PAGE 1

pate in the Cuban market. We said yes. It took two years from the time we started talks with the Cuban authorities, until the time we closed the deal. Since the beginning, this operation has been profitable."

A $20 MILLION INVESTMENT

BrasCuba's cigarettes are produced at the old Henry Clark factory in Havana's industrial Luyanó district, which before the revolution produced Lucky Strike. In 1960, the plant was nationalized, its British owners were compensated, and the factory was renamed for René Arcay, a Marxist revolutionary.

Since its inauguration in 1996, Souza Cruz has poured $20 million into its Cuban venture.

Says Andrade: "We manage this company like we manage Souza Cruz itself. BrasCuba is by far more efficient than the Cuban government-owned cigarette companies."

The proof: go shopping for cigarettes in Cuba's peso market, and you'll end up spending only seven pesos (about 27 cents) for a pack of low-quality, unfiltered cigarettes.

By contrast, BrasCuba's brands, sold at hard-currency shops throughout Cuba, are filtered, quality-tested and packaged in cellophane. These brands range from Popular — the best-selling brand — at 50 cents, to Monterrey at 60 cents, all the way up to Hollywood and Romeo y Julieta, each at $1 per pack, and Lucky Strike, which costs $1.60 a pack.

Romeo y Julieta, a premium dark tobacco cigarette, is made from 100% tobacco from the Vuelta Abajo region Cuba's western province of Pinar del Río. Hollywood appears in two versions — full flavor and menthol — and is made from a combination of Virginia, Burley and Oriental tobacco leaves.

BrasCuba's six production lines can work three shifts a day and produce four different brands simultaneously. The venture has 3,600 points of sale across Cuba, using a computerized control system that allows stock rotation, ensuring freshness and optimum condition.

EXPORTS WEAK, BUT LOCAL DEMAND GROWS

Even though BrasCuba's brands are beyond the budgets of most Cuban smokers, they're still far cheaper than imported brands, which claim 5% of the hard-currency market. These include Salem, which sells in Cuba for $2.10; More ($2.20); Merit Lights ($2.85) and Benson & Hedges ($3.75).

The cigarettes BrasCuba makes are sold to the government, which then offers them to the public at a 210% markup. So, as Ferraz explained, "I sell a pack of Popular for 22 cents to Cupet or Oro Negro. They multiply by 2.1 and sell it for 50 cents. But the advantage we have regarding imports is taxation," since the tax on imported cigarettes is 250%.

Last year, BrasCuba's revenues came to $19 million, though this year, sales will drop slightly — to around $18 million — because the company's export market has diminished.

That's mainly due to economic difficulties and smuggling of Souza Cruz brands in Latin America, which was BrasCuba's top market when it began exporting a few years ago.

"Our exports used to be 50% of our production volume," said Ferraz. "This year, exports of blended cigarettes came to almost zero."

On the other hand, the internal Cuban hard-currency cigarette market is much stronger than it used to be.

"Five years ago, blended Virginia-type cigarettes represented only 3% of Cuba's domestic hard-currency market. Now they're 20%," says the tobacco executive. "Why? Because Hollywood is increasing its participation in the market. Even though our total volume is the same, we're getting better prices."

Because of that, BrasCuba will likely finish the year 2002 with profits of $7.6 million, up from $7.3 million in 2001 and profits of $7.0 million in 2000.

Felicio Ferraz, marketing director of BrasCuba S.A. in Havana. At left, Romeo y Julieta — one of the venture's most popular cigarette brands.

By the end of December, Ferraz expects to launch a new venture. BrasCuba will begin producing, under license from Habanos S.A., Cohiba cigarettes for the domestic market. The 20-unit boxes will sport the exact same yellow-and-black design that Cohiba cigars have, and they'll retail for between $1.25 and $1.50 a pack.

The Cohiba-brand cigarettes will be exported to Mexico immediately, with shipments to Brazil and Russia beginning in mid-2003.

"We're trying to take advantage of the image that Cuban cigars have. That will help a lot," said Ferraz, noting that "our contract with Habanos allows us to produce Cohibas for Latin America and Russia. CITA [a separate venture between Habanos and a company in the Canary Islands] produces Cohiba cigarettes for the European market."

MOTIVATING WORKERS ISN'T EASY

The company employs 243 people, of which 150 work in cigarette production. According to government statistics, 40% of the factory's staff are university graduates, and 58% have a high-school or technical-level education.

Yet Ferraz says things could be better.

"We would like to get our people more motivated, but it's difficult," said Ferraz. "This is the biggest issue, how to motivate people. I would like to have more flexibility on this."

That's unlikely, given that foreign companies in Cuba are generally prohibited from paying commissions or bonuses based on individual performance.

Under Cuban law, however, "our employees can receive 10% of their salary in *pesos convertibles* if the company meets its monthly targets," said Ferraz. "Almost all of the mixed joint ventures in Cuba have this possibility."

That means that in any given month in which the plant meets its production quota, a worker earning 245 pesos would be able to take home the equivalent of $24.50 — an amount worth 637 pesos at current exchange rates, or 2.6 times his regular salary.

Ferraz says that since 1996, the company has trained 15 salespeople and has even sent 10 of them to Brazil.

"We know that other companies pay employees an *izquierda* [illegal bribe] under the table," he said. "We lost our best sales guy this way. All the investment we made in him was wasted. Now he will compete against us."

Asked about market data, Ferraz laughs.

"We're not allowed to do any kind of research here. It's almost impossible," he said. "But Cuba has 11 million people, and we know they consume 11 billion units a year. That average [of 1,000 units a year] is higher than in most other countries."

HELPING A FUTURE COMPETITOR

To meet that demand, Tabacuba is investing millions of dollars in a highly sophisticated factory in Holguín, 800 km east of Havana, to produce cigarettes for the peso market.

While those cigarettes may eventually compete with BrasCuba's dollar cigarettes, Ferraz says "we're helping them because Tabacuba is a partner in our venture. We are trying to leverage the quality of the product and teach them how to increase productivity. In the future, we will benefit from this. They may ask us someday to manage their operations."

In the meantime, Ferraz says he expects the Cuban market for hard-currency cigarettes to grow as more and more Cubans gain access to dollars. On the other hand, Cubans may also become more health-conscious and decide that smoking isn't good for them.

Ferraz says he hopes to diffuse the issue by supporting warning labels on cigarettes.

"If you want to smoke, you need to know that it damages your health," the cigarette executive told *CubaNews*. "We are working with health authorities to make this a law, if only to protect ourselves in the future." □

FOREIGN TRADE

South Korea to open Havana trade office

South Korea, which maintains no diplomatic relations with Cuba, will open a trade office in Havana as early as next year, according to the Yonhap news agency.

Two separate memoranda of understanding on trade and investment were signed Nov. 4 by the Korea Trade Investment Promotion Agency (KOTRA) and three Cuban entities: the Cuban Chamber of Commerce, the Cuban Center for Export Promotion and the Center for the Promotion of Investments.

The MOUs, agreed to during the recent ExpoCuba trade fair in Havana, focus on holding joint seminars, exchanging business delegations and sharing information on trade and investment.

KOTRA heads from across Latin America will gather in Cuba next year for their annual meeting. KOTRA and the three Cuban entities also announced they would hold regular conferences beginning in 2003.

"The MOUs will be the starting point for Korea to launch an active trade and investment promotion in Cuba, as well as help open a local office there even before both countries have normal relations," said the visiting president of KOTRA, Oh Young-kyo.

Despite the lack of such relations, South Korean firms exported $120 million worth of automobiles, electronic products, tires and other goods to Cuba last year through Panama, Canada and other third countries.

Hyundai, Daewoo, LG and Samsung are household brands in Cuba; they and dozens of other Korean companies together occupied 2,050 square meters of space at ExpoCuba to showcase their products and technologies.

That made South Korea the event's second-largest exhibitor after Spain, currently the No. 1 investor in Cuba.

The idea that Seoul would establish a Havana trade office in lieu of formal diplomatic ties shouldn't come as a total surprise. In Eastern Europe, it was customary for KOTRA to open offices before establishing ties with former Communist states such as Hungary.

In fact, the Seoul government sent officials to Havana years ago to explore the possibility of normalizing diplomatic relations to back up the already active business ties. But Seoul could not proceed further for lack of support from Washington, which lists both Cuba and North Korea as state sponsors of terrorism.

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GUANTANAMERA — NOT JUST A SONG ANYMORE

Internacional Cubana de Tabacos, a 50-50 joint venture between Altadis S.A. and the Cuban government, has begun producing and exporting machine-made mini-cigars under the Guantanamera brand.

Miguel Angel Casas, president of ICT, said the Guantanamera label was launched Sept. 15 in Germany, followed by launches Oct. 2 in Canada, Oct. 8 in France, Nov. 7 in Cuba, and Nov. 14 in Mexico.

ICT was established Feb. 4, 1999, and began production of mini-cigars in March 2001. It employs 241 people in a modern, 9,500-sq-meter production facility on Avenida Independencia, about a mile from Havana's José Martí International Airport.

"Last year, we produced 36 million mini-cigars," Casas told *CubaNews* during a recent factory tour. "This year, we'll finish with the same quantity, and as the market strengthens, we'll produce more, because we have the capacity to produce 85 million units a year. And we can continue to grow."

Casas said 2002 revenues are projected at $8 million to $10 million, compared to sales of $7 million in 2001. He said that 80% of ICT's production is exported, with 65% of exports going to EU member states and Switzerland, and the remaining 35% to Canada, Latin America and the Far East.

Virtually all of ICT's domestic sales are to hotels, airport duty-free shops and anywhere else in Cuba cigars are sold for hard currency. But Casas said Guantamanera cigars won't be available locally for at least two to three months as ICT pours its efforts into developing the export market.

LARRY LUXNER

Miguel Angel Casas, president of ICT venture.

In Spain, an individual Guantanamera cigar in a clear plastic tube will sell for the equivalent of $1.10, while a box of 25 cigars will cost around $30.

Casas said 64% of the 12 billion cigars sold worldwide annually are mini-cigars. "It is the market trend these days," he told us. "That's why we're making mini-cigars."

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LETTERS TO THE EDITOR

Very good article about Enrique Oltuski *(Nov. 2002, page 8)*. When I hear people in Cuba defending Fidel and their own ideals — as Oltuski does — I sometimes wonder if they really believe what they are saying or if they cannot admit that maybe they have been wrong for a very long time.

— Nicoletta Wagner, Neue Zürcher Zeitung (Zurich, Switzerland)

Excellent interview! Unfortunately, Oltuski's narrow-mindedness is the same for so many communists in Cuba. He is a "self-hating Jew" who was accidentally born into a Jewish family. For him, Cubans like myself living in Miami are terrorists and mafia, but Castro is a democratic leader (like Saddam and Arafat) who's given Cuba democracy and a free press.

— Moisés Asís (Miami, FL))

I liked your article, "U.S. academics analyze post-Castro transition scenarios" *(Nov. 2002, page 10)*. It was realistic and gave insight into the complications of Cuba's political situation.

According to the article, voter turnout [in Cuba's last election] was 95.6%, "impressive by U.S. standards, but the lowest Cuba has seen since 1976."

However, there's one fact it neglects to provide: In Cuba there are neighborhood committees. Whenever there's an "election," these *comites* register all voters on that block. If you don't register, you are reported to a higher-up who visits you to find out why you didn't register. Harassment usually follows.

So although it has been compared to U.S. voter turnout, by no means should it be, because that's like comparing apples to oranges. In the United States, no one is harassed into voting for the only possible candidate.

— Silvia Stanforth, sales director/Latin America, PR Newswire (Miami, FL)

Thanks for an excellent, well-balanced story *("Cuba food expo nets $95m in contracts," Oct. 2002, page 1)*. You really got it all in. I am constantly amazed by how different articles can be from "real life." Yours was on the mark, and for that you are to be commended.

— Peter Nathan, President and CEO, PWN Exhibicon Int'l (Westport, CT)

I am quite pleased that *CubaNews* has been rescued from oblivion — the fate of so many publications on Cuba over the last 40 years — and has now emerged in a more graphically pleasing and editorially vigorous form.

— Alfred Padula, History Department, University of Southern Maine (Portland)

Congratulations on the splendid job you are doing at *CubaNews*. Outstanding.

— Margaret Nell Johnston (Harahan, LA)

You guys must be crazy if you expect people to pay $429 for the crap that you guys write on that paper of yours. Good luck and keep trying. There are a lot of imbeciles out there.

— anonymous

NEWSMAKERS

Entrepreneur Cy Tokmakjian brings Hyundais to Havana

BY LARRY LUXNER

Armenian by heritage, born in Syria, educated in Canada and making a fortune in Cuba. That about sums up the life and career of Cy Tokmakjian, one of the most successful foreign investors in Cuba today.

The 61-year-old entrepreneur is president of Tokmakjian Group Inc., a Toronto-based family of companies servicing the bus, truck and industrial equipment industries in both Canadian and foreign markets.

In Cuba, Tokmakjian is the exclusive distributor for Hyundai and Isuzu vehicles through another subsidiary, Caribbean Auto S.A. Tokmakjian also remanufactures engines at two factories — one in Camagüey and the other in Havana — through a second subsidiary, Caribbean Diesel Inc.

In addition, the company has a lab in Havana for manufacturing fuel-injection pumps.

Tokmakjian said that last year, company revenues exceeded $100 million, with Cuba accounting for $47 million of the total. Profits from Cuban operations came to $1.7 million.

"I expect more growth here than in any of our other businesses," he told *CubaNews* over lunch in Havana. The company, with offices around the corner from the Pabexpo convention center, employs 200 Cubans and eight Canadian expatriates.

The shrewd but casual executive spends six months in Cuba, the other six months in Canada. He says dealing with Cuba's bureaucracy is "time-consuming," to put it politely.

"You want to do business in Canada, and it takes you five hours. Here the same thing used to take me two weeks. Now they know me, but still it takes longer than in Canada."

Even so, he adds, "if the Cubans say they're gonna pay, they delay, but eventually they pay — unlike some places, where they don't pay at all. I trust these people, and by nature they're very good. They have high ethics."

Tokmakjian founded his empire in 1971. From its base in Concord, Ont., a suburb of Toronto, it eventually established offices in Havana, Seoul, Minsk, Orlando and Bogotá. Subsidiaries include Can-ar Coach Service, a bus transportation company serving eastern Canada; S.N. Diesel Service, and National Refurbishing Inc., which is today Canada's leading transit bus and coach rebuilder.

Tokmakjian said he started negotiating with the Castro government in 1988, and a year later, delivered its first buses, which happened to be manufactured by Motor Coach Industries of Winnipeg.

He is also the distributor of Belarus tractors in Cuba and the Dominican Republic, and recently began supplying spare parts to the Soviet-built KTP combine factory in Holguín.

LARRY LUXNER

Cy Tokmakjian is CEO of Grupo Tokmakjian, the exclusive Hyundai automobile distributor in Cuba.

Asked why he got hooked on Cuba, Tokmakjian says "the Cubans came to me to purchase buses and get technical assistance."

Since then, Tokmakjian estimates he's exported over 10,000 Hyundai vehicles to Cuba — mainly for use by taxi and rental-car fleets, as well as foreign embassies in Havana. The Korean-made cars cost anywhere from $6,000 to $25,000 each.

He's also shipped over 200 Canadian-made buses, costing upwards of $40,000 each. Tokmakjian's main customers for these buses are Cubanacán, Transtur and other entities within Cuba's Ministry of Tourism.

This year, Tokmakjian will probably end up selling between 1,100 and 1,200 cars — with an increasing amount of them being bought by average Cubans with access to dollars. His main competitors are European carmakers like Peugeot, Mercedes-Benz, Fiat and Citroën — all of whom have dealerships in Havana.

Besides vehicles, Tokmakjian supplies about $10 million worth of food products to Cuba annually. Most of that is Canadian beef, which is well-accepted in this market.

"We sold chicken, but no more. Now you guys are stealing from us," he joked, refering to a recent jump in U.S. frozen chicken sales, now that Washington permits American exporters to supply Cuba with food commodities on a cash-only basis.

But the embargo still prevents U.S. automakers from selling cars to Cuba — one of the few places in the world where an estimated 60,000 vintage 1950s Chevys, Buicks and Fords share the road with Soviet Ladas and more recent Japanese and Korean imports.

"I don't know why the Americans are squeezing the Cubans so much. They didn't kill any Americans," he said. "You guys lost 58,000 men in Vietnam, and you're dealing with the Vietnamese."

Tokmakjian says he feels safer in Cuba than virtually anywhere else in Latin America.

"I can drive to Camagüey, a distance of 600 kilometers, and stop on the road at night without any fear at all. Can you imagine doing that in the Dominican Republic, Mexico or Haiti?"

Another thing he doesn't fear is an end to the U.S. embargo. Despite the captive market it has handed him, Tokmakjian says he looks forward to the day it's completely abolished.

"That will hurt some of my businesses, but will help others," he told *CubaNews*. "We'll lose the chicken business, but if the embargo is lifted, the economy will improve, and part of my business will get better. In my opinion, it should be lifted."

When that happens, predicts Tokmakjian, the Cuban new-car market will jump 14-fold, from 5,000 vehicles a year to about 70,000. "Instead of 17% of the market now, I may end up with only 5%," the businessman told us.

Then he added, smiling: "But of course 5% of 70,000 is higher than 17% of 5,000." □

SAMPLE NEW CAR PRICES AT HAVANA'S GALERIAS DE PASEO

MODEL	PRICE (US$)
Nissan Micra	19,550
Kia Shumall	20,798
Kia Sportage	21,490*
Nissan Micra Luxury Plus	24,013
Nissan Almera	24,015
Kia Carnival	24,206*
Kia Carens	25,030*
Hyundai Galloper II	26,238*
Nissan Primera Luxury Hatchback	26,713
Nissan Terrano II	39,585*
Nissan Maxima QX	41,859
Nissan Patrol GR	48,957*

**sport-utility vehicle*

TOURISM

Provimar to launch airport duty-free shopping in Cayo Coco

Spanish retailer Provimar will open two new duty-free shops at Cayo Coco's international terminal in early December.

The new airport is to include a 100-sq-meter shop for cigarettes, drinks, chocolates, jewelry and perfumes, and a 60-sq-meter shop for crafts, souvenirs and tobacco.

Cayo Coco, an offshore key in the province of Ciego de Avila, boasts Cuba's third-largest international airport, with a 10,000-foot runway and a terminal capable of handling 20 flights a week and 1.2 million passengers a year. A provisional terminal has been operating there since February.

Provimar, established in 1972, has enjoyed an exclusive contract since 1995 with Cubana de Aviación S.A. for all duty-free sales aboard Cuba's national airline. Two years ago, it signed a supply and management contract with state entity Cimex to operate nine duty-free shops in four Cuban airports.

The Barcelona-based company operates over 40 outlets in Spain, Cuba, Gibraltar, Kosovo, Macedonia and Bosnia & Herzegovina.

Raquel Anton, an official in Provimar's marketing department, says Cuba accounted for about 10% of the company's 2001 revenues of 77 million euros and profits of 5 million euros.

Provimar's biggest presence is at Varadero International Airport, where 24% of Cuba's tourists enter and leave the country.

Provimar has a 70-sq-meter shop in the airport's in-transit lounge, and four shops in the international boarding area. These include a 220-sq-meter shop for cigarettes, wines and spirits, chocolates, fragrances and cosmetics; an 80-sq-meter shop for watches, jewelry and gifts; a 100-sq-meter shop for Cuban cigars, T-shirts, music CDs and local handicrafts, and a 20-sq-meter "last-minute" shop.

Provimar also operates 380-sq-meter and 170-sq-meter duty-free shops at Havana's José Martí International Airport. In addition, it is refurbishing a 365-sq-meter outlet at Holguín International Airport, because, according to Anton, "the current shop falls short of our high standards for presentation and product sales."

The new outlet will feature typical Cuban products and well as global luxury brands.

Besides its venture with Cimex — which also includes the international airports of Camagüey, Cienfuegos and Santiago de Cuba — Provimar has a contract with Cuban state entity TRD Caribe to operate one shop at Havana's Baracoa terminal for inter-Caribbean flights. Through a separate venture with Habaguanex, Provimar manages the duty-free shop at Havana's cruise-ship port.

In October, Provimar was sold in a 27-million-euro management buyout organized by European venture capital company 3i, which now controls 49% of the retail chain.

Carlos Mallo, 3i's director, says "Provimar has an enormous growth potential based on its position in Spain, and looks forward to expanding its presence in Cuba" and elsewhere.

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Tourism official says industry is finally recovering

More than a year after the Sept. 11 terrorist attacks, Cuba's tourist arrivals "are finally beginning to return, little by little, to previous levels," said Rosadela Mejías, director of international relations at the Cuban Ministry of Tourism.

Mejías said her agency had predicted that two million tourists would visit Cuba this year, but the terrorist attacks, war in Afghanistan and the continued global economic slowdown frustrated those efforts.

Nevertheless, if current trends continue, she said, Cuba should end 2002 with 1.7 million to 1.8 million visitors — which would be virtually unchanged from 2001 figures.

The tourism official spoke at a press conference marking the 10th anniversary of Sol y Son, a 50-50 joint venture between national airline Cubana de Aviación and Chilean investors.Sol y Son has offices in 23 countries and accounts for 7% of all tourist arrivals to Cuba, and 50% of those flying in on Cubana.

Mejías said Canada remains Cuba's leading source of tourism, accounting for 25% of all arrivals, followed by Italy, Germany, Spain, France, Great Britain and Mexico.

SIME: GROWTH IN INDUSTRIAL EXPORTS TO BOOST MINISTRY'S 2002 OUTPUT

SIME, the Spanish acronym for Cuba's Ministry of Steel, Machinery, Electronics and Recycling, is now the country's second-largest employer after the sugar industry.

Although it was stripped of its responsibility for communications and information technology in 1999, SIME remains a key factor in the Cuban economy. It employs over 70,000 workers, including 25,000 technicians and more than 12,000 university graduates.

SIME is today organized into "industrial groups" such as steel, aluminum, boilers and refrigeration, machinery, medical appliances, packing and electronics. It oversees 250 factories, most of them fully redesigned and decentralized.

In 1986, the ministry reached a peak of 846 million pesos worth of output. That dropped to 261 million pesos in 1992, following the collapse of communism in Eastern Europe and subsequent loss of Soviet subsidies, but by 1999, SIME had recovered, achieving revenues of 871 million pesos and higher productivity, thanks to capitalist-oriented reforms implemented after 1993.

Today, 138 of SIME's 250 factories are implementing these reforms — known collectively as *perfeccionamiento empresarial* — and annual growth since 1997 has averaged 15%. Last year, SIME achieved an output of 1.08 billion pesos, an outstanding figure by Cuban standards. Half of this was achieved in hard currency from sales to the domestic dollar market *(mercado en frontera)* as well as exports, mostly to the Caribbean. Of total dollar sales, 79% came from the mechanical industry, 11% from steel production and 10% from the recycling industry.

SIME has also signed cooperation accords with counterparts in Canada, Spain, France, Italy, Germany and China, and has obtained proper quality certification (ISO) in coordination with Lloyd's Register and Bureau Veritas. Scores of SIME factories were certified by the late 1990s, and nearly 30 plants and calibration laboratories have renewed their ISO certificates. The recent electronics and telecom agreement between SIME's electronics group and China represents a considerable expansion of this field within SIME's activities.

The first half of 2002 was a tough one for SIME and its goals. The fallout from Sept. 11 meant a suddening weakening of domestic and foreign markets. But it's expected that by year's end, revenues will have surpassed the billion-peso mark — with a very high percentage of that in hard currency, thanks to growing exports to Latin America and the Caribbean.

SIME's minister, Fernando Acosta Santana — who at 40 is the youngest member of Cuba's vabinet — emphasizes that in order to meet the ministry's goals, "investments must set the pace for development." Goals include boosting aggregate value on every product, improving maintenance levels and offering better post-sale service.

– DOMINGO AMUCHASTEGUI

TELECOMMUNICATIONS

Despite limited market, Cubacel monopoly rakes in profits

BY LARRY LUXNER

Cuba boasts the highest literacy rate and the lowest incidence of infant mortality of any country in Latin America.

But when it comes to telecommunications, Cuba remains stuck in the Dark Ages. Fewer than 600,000 access lines serve the island's 11.6 million inhabitants, and a good percentage of its basic telecom infrastructure dates from the 1930s and 1940s.

Even worse is Cuba's cellular penetration rate — barely 0.05 mobile lines per 100 inhabitants. That ranks well below that of the hemisphere's poorest nation, Haiti (0.31 per 100), and is a fraction of cellphone penetration in nearby Caribbean countries like Trinidad & Tobago (2.99); Dominican Republic (5.02); Jamaica (5.64) and Puerto Rico (20.92).

One reason for this disparity is the exorbitant cost of mobile service. Cuba's only mobile operator is Empresa de Teléfonos Celulares de Cuba S.A. (Cubacel), whose average tariff of $120 a month in hard currency is more than many Cubans earn in a year.

And at 28 to 70 cents a minute depending on the plan, talk is hardly cheap — even for foreigners who use the service regularly.

The other reason mobile telephony hasn't taken off here is that it's illegal for ordinary Cubans to have cellphones, unless it's absolutely necessary for their jobs. Fidel Castro isn't eager to have wireless technology fall into the hands of dissidents or counter-revolutionaries who could threaten the existence of his government; for the same reason, computers may not be sold to the general public, and Internet access is strictly limited.

That could change soon. But for now, virtually all of Cubacel's 8,000 or so permanent customers are foreign diplomats, senior government officials and top executives of *empresas mixtas,* or joint ventures between Cuban state entities and overseas investors.

VENTURE ENJOYS MONOPOLY STATUS

Cubacel itself is an *empresa mixta*, created in December 1991 by the Cuban government and Mexican entrepreneur Luís Miguel Niño de Rivera. At that time, the company was granted a 20-year exclusive concession to provide both analog and digital service within the 800-MHz band throughout Cuba.

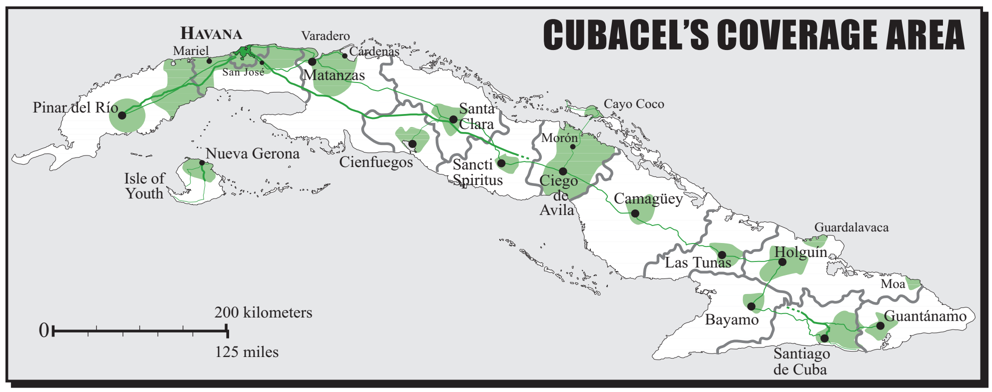
Today, the venture is still 50% owned by Cuba's Ministry of Communications, but the other half is split between Canadian mining and energy conglomerate Sherritt International (40%) and Niño de Rivera's company, Telecomunicaciones Internacionales de Mexico (TIMSA), with 10%.

Cubacel's president is Niño de Rivera, and its managing director is Cuban national Rafael Galindo. Other top Cubacel officials work directly for Sherritt, which paid $38.2 million to acquire its share of Cubacel in 1998.

During a recent visit to Havana, *CubaNews* attempted to interview Galindo at company headquarters on the fifth floor of the upscale Miramar Trade Center. But Galindo declined to meet with us, instead sending out a Sherritt official who patiently explained that it's against company policy to speak to the press.

PROFITABILITY, NOT PUBLICITY

The reason Sherritt keeps such a low profile is because it's already in big trouble with the U.S. State Department. Its various forays into Cuba's nickel-mining, energy and tourism sectors have caused the Canadian company to run afoul of the 1996 Helms-Burton Act *(see CubaNews, Sept. 2002, page 10)*.



Interestingly enough, on the wall of Galindo's conference room is a large framed poster and a quote from Darwin, in English and Spanish: "It is not the strongest species that survive, nor the most intelligent, but the ones most responsive to change."

That — along with the *Fortune* magazines spread out on a glass table in the comfortable waiting room — hardly suggests a company guided by the principles of Marxism.

In fact, Cubacel's 2001 annual report prides itself on its 36% average profit margin and 39% return on equity, which dwarfs the 8.2% profit margin and 21.8% average return on equity for the top 10 U.S. telecom firms.

10 YEARS LATER, OVER 8,000 SUBSCRIBERS

Cubacel's mission statement, according to the report, is "to be recognized as a leading company in communications and value-added services on an international level, based on total quality management and guided by the needs of its clients, stockholders and employees, and to contribute to the development of Cuba and its quality of life."

On Feb. 24, 1993, Cubacel began operations in Havana and the tourist resort of Varadero. In March 1995, service was expanded to include the eastern city of Santiago de Cuba. In 1997, Cubacel began serving Cienfuegos, while Santa Clara was added in 1998 and Holguín the following year.

In 2000, Cubacel's coverage area increased substantially with the addition of Pinar del Río, Cayo Coco, Ciego de Avila, Sanctí Spíritus, Las Tunas, Bayamo, Guantánamo, Camagüey and Nueva Gerona.

At the end of 2001, Cubacel said it had 7,643 permanent subscribers, up from 6,536 subscribers in 2000 and 5,100 in 1999.

But Cubacel has been growing quickly this year, and sales executive Dianelys Hernández Cárdenas says her company — which will soon mark 10 years in operation — today has well over 8,000 permanent subscribers. It also signs up 700 to 800 temporary "roamers" a month — usually tourists or business executives on short-term assignments in Cuba.

"At this moment, we aren't prepared to offer service to the entire population," said Hernández, one of several employees staffing the Cubacel booth at the recent U.S. Food & Agribusiness Exhibition in Havana. "But we have a project that is currently being studied, under which cellular service will be offered to anybody who wants it and can pay for it."

REVENUES UP, PROFITS DOWN IN 2001

Opening up the mobile market to anyone with dollars can only help Cubacel, already one of Cuba's most profitable ventures.

Between 1993 and 2000, Cubacel's revenues grew by an average 24.8% a year, and its profits increased by an average 23.9% a year. In 2001, the company recorded profits of $6.7 million on revenues of $24.1 million (which includes over $600,000 in sales of Nokia, Ericsson and Motorola phones and accessories).

That compares to profits of $8.1 million on sales of $23.1 million in 2000, and profits of $7.0 million on sales of $19.1 million in 1999.

"In spite of the slight decrease in earnings with respect to 2000, the company achieved its plan of allocating dividends to its stockholders worth $5.25 million, or 79% of earnings," says Cubacel, noting that its profit margin has never climbed below 27%.

Cumulative investments in Cubacel have now surpassed $30 million, enabling the company to offer its customers a variety of services including caller ID, voice mail, call waiting, 3-way calling and detailed billing. A new service known as Mensajes@ubacel offers e-mail, operator-assisted and online messaging.

Last month, Brazil's Banco Nacional de Desarrollo Económico y Social authorized a $60 million loan to Cuba. The bank's export chief, Renato Sucupira, said the funds would enable Cubacel to buy telecom equipment from the Brazilian subsidiary of Sweden's Ericsson.

In fact, high on the list of Cubacel's stated objectives is "significantly increasing national teledensity through the addition of 300,000 mobile phone lines, and achieving a minimum of $200,000 in annual revenues per employee."

While Cubacel has a long way to go to reach the first goal, it's very close to the second. The company has 144 employees, and average revenue per employee exceeds $167,000.

Ernie Lalonde, Sherritt's vice-president of investor relations and corporate affairs, confirmed that Cubacel would like to have a much bigger presence on the island.

"There is an ongoing discussion between Cubacel and the Cuban government over the terms and conditions of expansion of Cubacel's operations," Lalonde told *CubaNews* in a phone interview from Toronto. "But these discussions have not advanced to a stage where the specifics of financing have been resolved."

INVESTING IN CUSTOMER LOYALTY

At present, the Cubacel network is composed of 35 radio base stations, three transmitting stations, two microcells and 23 "minilinks." It uses Ericsson AMPS/D-AMPS technology and is divided into western, central and eastern divisions.

For the moment, all mobile phone numbers in Cuba begin with the "880" or "885" prefix, which is consistent with the country's recent switch to a seven-digit format.

Over the past few years, Cubacel has signed international roaming agreements with at least a dozen foreign operators including Telcel (Mexico); TCP (Argentina); Telefónica Moviles (Spain); North-West GSM (Russia); Telecom Italia and several Canadian companies such as Bell Mobility, Telus Mobility, MT&T, Cell Express Plus and Newtel.

Because of the trade embargo, no roaming agreements have been signed with any U.S. telecom provider, though American visitors can use their own cellphones on the Cubacel network provided the handsets have dual-mode capability.

"The telephone equipment Cubacel uses is acquired from foreign suppliers and sold to the client for cellular use," says the annual report. "The company continually offers technical seminars on quality to the entities that promote its image."

One such entity is Havanautos, a state car rental agency that recently equipped 300 of its luxury vehicles with cellphones.

"In general, the most effective publicity is word-of-mouth, which represents more than 60% of all contracts," says Cubacel, noting that between 1996 and 2000, it spent an average $12.70 to win over each new roaming client, $84 to sign up each new permanent client and $10 to retain each of those clients.

Such efforts have apparently paid off. Cubacel says its average monthly subscriber bill rose from $43.38 in 1997 to $81.42 in 1998. The following year it had climbed to $93.36, and in 2000 it jumped to $116.66.

Customers can choose from a dozen plans, all of which require a one-time $120 activation fee. The most basic is "Seguridad 30," aimed at those who want cellular service strictly for emergencies. At $20 per month, this plan includes only 30 minutes of airtime, with additional minutes costing 70 cents each.

At the other end of the price spectrum is "Elite," which costs a whopping $435 a month and includes 1,455 minutes. Anything over that costs 28 cents a minute during peak time and 23 cents a minute during off-peak hours.

Cubacel says "churn" or client turnover has been kept at under 25% a year. Between 1998 and 2000, the main reasons for cancellation of service were a reduction in clients' business operations (26%), non-payment (25%) or because the client left Cuba (15%).

MARKETING TO AIRLINE PASSENGERS

For several years, Cubacel has been marketing its services via leading hotel chains and its website at *www.cubacel.com*. It even offers discount coupons on boarding passes and ticket jackets of airlines flying to Cuba in the hopes of securing passengers' loyalties by the time they step off the plane.

Sales offices are located at José Martí International Airport, Havana's Vedado commercial district and 14 other locations.

Yet Cubacel's continued growth is almost completely dependent on a continued influx of foreign investment and tourism into Cuba, and this year, both are way down.

"Cubacel's market is heterogenous and unstable, depending directly on an increase of foreign exchange in the country, which results from new investments or tourist activity," the company concedes in its report. "As a consequence, all sales projections are based fundamentally on the behavior of these two sectors of the economy."

What would really boost Cubacel's bottom line would be a lifting of the U.S. travel ban. If that happened, several million tourists a year would soon be vacationing in Cuba — and many of them would conceivably want to stay in touch. Perhaps that's one reason Sherritt is quietly lobbying to have the embargo lifted.

CUBACEL NOW OFFERS INTERNET ACCESS, TOO

In the meantime, Cubacel has expanded into the Internet business through a new subsidiary known as ISP Conmutado Cubacel.

As is the case with mobile, these services are strictly controlled and open only to visiting executives, foreign embassies or Cubans who work for joint-venture companies.

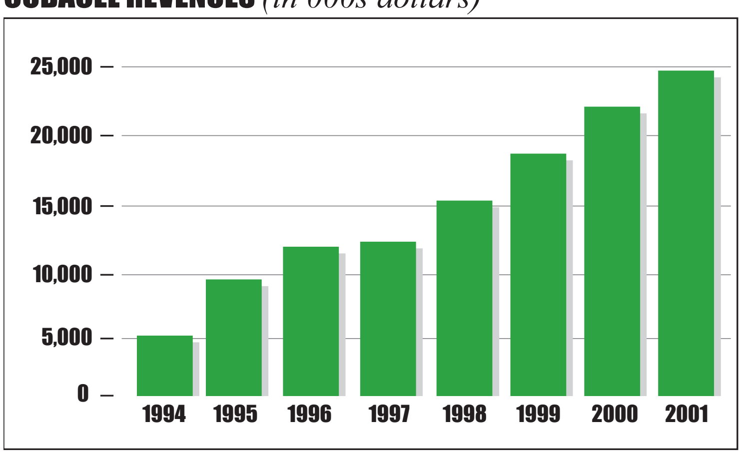
Seven different plans are currently available. These range from an e-mail account only, costing $5 a month and $1.50 per hour of use, to an "executive package" that costs $55 a month and includes 80 hours of Internet access, with each hour costing an additional $1. The most expensive is a "premium package" which costs $150 a month and allows unlimited Internet access.

All plans include an e-mail address and 6 MB of storage. Subscribers access the Internet by dialing into Cubacel's dedicated server.

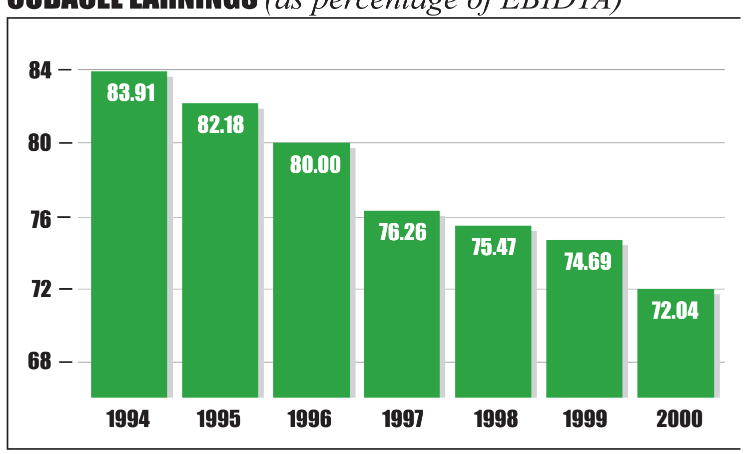
At present, ISP Conmutado Cubacel is only available in the Havana-Varadero corridor, though the company reportedly plans to expand Internet access to the rest of Cuba over the next few years. □

Details: Cubacel, Calle 28, No. 510, e/5 y 7, Miramar, Havana. Tel: +53 7 880-2222. Fax: +53 7 880-0000. Internet: www.cubacel.com.

CUBACEL REVENUES *(in 000s dollars)*



CUBACEL EARNINGS *(as percentage of EBIDTA)*



Cubacel revenue growth from 1994 to 2001 (left) and earnings as a percentage of EBITDA (earnings before interest, taxes, depreciation and amortization).

BUSINESS BRIEFS

TOBACCO INDUSTRY: $47 MILLION IN LOSSES

The Cuban government says the island's tobacco industry suffered $47 million in losses as a result of two back-to-back hurricanes that ravaged Pinar del Río province this year, including damages to 11,172 curing houses.

Vice President Carlos Lage, meeting with members of Cuba's National Association of Small Farmers, urged tobacco growers to produce the best crop in Cuban history, in order to neutralize the effects of the two hurricanes. Lage said that the tobacco industry is increasing yields, reducing costs and improving quality, although he added that producers are far from reaching their potential.

Official figures show that 6,043 of Pinar del Río's 14,500 curing houses were totally destroyed. On the other hand, most leaves were moved to safer storage before the storms struck, veteran growers said.

"The effect is minimal," Felipe Cabrera of the San Luís tobacco company told AP, adding that less than 1% of the tobacco harvested in this community last spring was soaked by rain. And because tobacco-growing season had not begun, no major harm was done to crops, except for about 5% of seedlings to be used for planting.

"The government has provided all of its resources to ensure production isn't delayed," said Alejandro Robaina, 83, Cuba's best-known tobacco producer. "The weather will always create difficulties, but we are going ahead with the production."

Simon Chase, marketing director at Hunters & Frankau, the exclusive U.K. importer and distributor of Cuban cigars, told BBC that cigar prices were likely to rise as a result of the hurricane damage.

"We're talking about a very serious problem," said Chase. "At the moment, everything looks pretty bad. It's early yet, but this could have an impact on prices in 2003." Cuba currently exports about 100 million cigars a year.

IBEROSTAR ADDS HOTEL TO CUBA PORTFOLIO

The Spanish chain Iberostar will begin managing the four-star, 410-room Hotel Bella Costa in Varadero by year's end. The hotel is owned by Cubanacán S.A. and was previously run by the German chain LTI, which has reduced its commercial activities in Cuba to only three hotels.

Iberostar already runs the 272-room Hotel Taíno and the 296-room Hotel Barlovento, both owned by Cuban tourism entity Gran Caribe, as well as the 312-room, all-inclusive Hotel Daiquirí, located in the Jardines del Rey tourism complex. It also expects to assume administration of the five-star, 400-room Iberostar Palace by 2004.

LULA WIN COULD FORTIFY BRAZIL-CUBA LINKS

Last month's overwhelming election victory of Luiz Inacio "Lula" da Silva as president of Brazil will probably strengthen bilateral relations between that country and Cuba.

"I expect political and economic ties will be much stronger with Lula, but I think this warming trend will remain gradual, not turn red-hot," said a Brazilian diplomat at the recent 20th Havana International Fair, noting the friendship between Lula and Fidel Castro.

During the event, Brazil's Banco Nacional de Desarrollo Económico y Social (BNDES) announced it would lend Cuba $60 million to buy wireless telecom equipment for mobile operator Cubacel *(see page 10)*.

The bank's export chief, Renato Sucupira, said BNDES will also finance a venture to produce ethanol, and a separate project to expand Cuba's nickel industry.

In October, BNDES authorized a $25 million loan to enable Cuba to buy 297 Mercedes-Benz chassis for urban buses and is considering an additional $10 million credit for tourist buses. The chassis will be produced at a plant in São Bernardo do Campo, near São Paulo.

Sucupira told Reuters that BNDES hasn't had problems collecting payment on similar loans in the past.

The Brazilian company Busscar and two Cuban state entities operate Transbus Indústria S.A. The venture, which in 2001 produced 400 urban, tour and mini buses, was idled this year due to a lack of orders and financing.

The only other Brazilian investment on the island is BrasCuba, a cigarette venture involving state entity Tabacuba and Rio de Janeiro-based Souza Cruz S.A. *(see page 1)*.

Sucupira said bilateral trade came to $167 million last year, and that Banco do Brasil is providing Cuba a long-term credit of $15 million a year to buy food.

MINVEC: $5.4 BILLION IN FOREIGN INVESTMENT

Marta Lomas, Cuba's minister of foreign investments and cooperation (Minvec), claims that in the last 10 years, Cuba has received $5.4 billion in foreign investment and $1.835 billion in sales of goods and services, of which $768 million are Cuban exports.

In 2001, she told reporters last month, the Cuban government closed 24 major deals with foreign companies; these came from Spain ($104 million in investment); Canada ($70 million) and Italy ($47 million).

In addition, Cuba concluded 198 *"produccio-nes cooperadas"* and 17 management contracts. It also ratified double taxation accords with China and Lebanon, and signed promotion and investment protection agreements with the 15-member Caribbean Community as well as Cambodia, Croatia, Denmark, Finland, Honduras, Mexico, Mozambique and Qatar.

Lomas said more than 4,000 Cuban professionals and technicians are providing medical and other services throughout Latin America, the Caribbean, Africa and the Middle East.

TEHRAN, HAVANA HOPE TO EXPAND RELATIONS

Cuban Vice President Juan Almeida Bosque has called for an expansion of cultural, economic and political ties between Iran and Cuba.

The Iranian news agency IRNA said that in a Nov. 7 meeting with Tehran's ambassador in Havana, Ahmad Edrisian, the Cuban vice-president praised the pace of progress in bilateral relations. He said President Mohammad Khatami's September 2000 visit to Cuba and Fidel Castro's May 2001 trip to Iran "was an indication of the firm political will of both sides to promote mutual relations."

Abelardo Moreno, Cuba's deputy minister of foreign affairs, also attended the meeting.

CASTRO SEEKS TIES WITH BLACK U.S. FARMERS

President Fidel Castro hopes to create trade links with thousands of black American farmers as a means of securing their political support for lifting the embargo.

Both the NAACP and the National Association of Black Farmers, which represents more than 12,000 growers in 38 states, had a four-hour meeting with Castro on Nov. 13.

Kweisi Mfume, president and chief operating officer of the National Association for the Advancement of Colored People, also met with Pedro Alvarez, president of Cuba food importing agency Alimport. The agency has purchased over $230 million worth of U.S. agricultural imports under a 2000 law allowing such purchases on a cash-only basis.

"President Castro seemed very interested and had around him all the people in the government who could make that happen," Mfume told the Associated Press.

He added that the NAACP, with around 500,000 members, is exploring the possibility of establishing a branch in Cuba. "We hope to build a bridge between the NAACP and the people of Cuba, many of whom are descendants of Africa," said Mfume.

"SISTER CITY" CONCEPT PAYS OFF FOR CUBA

Representatives from 147 cities in 20 countries attended last month's 10th Annual Meeting of World Municipalities for Cooperation and Solidarity with Havana.

At the event, Glasgow Mayor Alex Mosson and others condemned the U.S. embargo and promoted various cooperation projects with Cuban municipalities.

The sister-city concept isn't just a symbolic or political instrument for Cuban authorities; it represents tangible support. Over the last 10 years, foreign municipalities have donated $144 million to Cuba; of that, $51 million were invested in various community projects.

In addition, 24 municipalities from Spain's Catalonia region and six from Barcelona have established sister-city ties with various Cuban cities. In the United States, some 26 cities have formal ties with their Cuban counterparts *(see CubaNews, July 2002, page 1)*. Last month, the Boston suburb of Cambridge became a sister of Cienfuegos, a large city on Cuba's south coast.

Details: Lisa Valanti, President, US-Cuba Sister Cities Association, 320 Lowenhill Street, Pittsburgh, PA 15216. Tel: (412) 563-1519. Fax: (412) 563-1945. E-mail: uscsca@aol.com.

U.S. ENTREPRENEUR PLANS MAGAZINE ON CUBA

Massachusetts entrepreneur Rob Sequin hopes to launch *Havana Business Journal*, a full-color publication with original Cuba-related news and display advertising aimed at individuals and small businesses.

"As sanctions against Cuba are eased,

Americans will need information regarding business and travel opportunities," said Sequin, CEO of CubanVentures. "The *Havana Business Journal* will provide wire news, original content and resources, and will have five sections: agriculture, business, entertainment, politics and travel."

CubaNews has agreed to advise Sequin, whose experience is mainly in wireless and Internet marketing technologies.

According to Sequin's business plan, advertisers will pay for print display ads and online ad placements with CubanVentures.com, a website that will complement the printed publication with section-specific directories as well as discussion boards and chat rooms.

"Non-U.S. travel agencies and Cuba-related portals offer links and limited online content, but do not offer print publications," Sequin explains. "Our first-mover advantage affords us the opportunity to develop strategic alliances and cross-promotional relationships with many of the established players, thus acting as barriers to entry from competitors."

The venture is in the process of raising seed money to develop the website's back end and to publish the premier issue of *Havana Business Journal* in early 2003.

Sequin says that once the U.S. embargo is lifted, "CubanVentures.com will likely become an attractive acquisition target by Terra Lycos, AOL or any number of Latin American entities that will want to capitalize on our content and community."

Details: Rob Sequin, CubanVentures, 19 Covey Drive, Yarmouthport, MA 02675. Tel: (508) 760-2599 or 737-1654. E-mail: rob@cubanventures.com. Internet: www.cubanventures.com.

CTP MAKES NEW CUBA DATABASE AVAILABLE

The University of Miami's Cuba Transition Project is developing several databases that will interest anyone following events in Cuba.

The first of these, Cuba On-Line, is now fully operational and available free of charge to academic institutions, the media and the U.S. government. Cuba On-Line, a database of historical and current information on Cuba, includes statistics, biographies, speeches, original information, a chronology from 1492 to the present, and a comprehensive bibliography on most Cuba-related topics. It currently holds more than 3,000 searchable documents.

Over the next few months, the CTP will add three more databases, on transition studies; laws of Cuba and legal issues, and foreign investments and joint ventures.

Details: Jaime Suchlicki, CTP, University of Miami, PO Box 248174, Miami, FL 33124-3010. Tel: (305) 284-2822. Fax: (305) 284-4875. Internet: http://ctp.iccas.miami.edu.

2 CANADIAN UNIVERSITIES WIN CUBA GRANTS

Two Canadian institutions, the University of New Brunswick and the University of Guelph, will each receive grants of C$750,000 for educational programs in Cuba. UNB, located in Fredericton, will receive its grant over a six-year period to help Cuba develop a biomedical engineering education program.

"In order to sustain a health system, it is necessary to develop expertise in new technology," said Andy Scott, a member of Parliament from Fredericton. "By helping to develop education and professional skills, this project will enable Cubans to acquire modern and up-to-date biomedical capability."

The University of Guelph, in Quebec, will use its grant money to support environmentally sustainable development in Cuba, in cooperation with Havana's Instituto Superior Politécnico José Antonio Echeverría.

"Cuba is probably the most advanced country in promoting sustainable agricultural production through soil conservation, the use of organic soil and biological pest control," said Professor Lambert Otten, director of Guelph's School of Engineering and project director.

"We will be working with Cuba's Agriculture Ministry in developing a low-cost system to produce compost from municipal solid waste for crop production. We expect to learn a great deal from them."

Both Cuba-related grants are being funded by the Canadian International Development Agency's University Partnerships in Cooperation and Development (UPCD) program.

Details: Jennifer Litzgus, UPCD, 350 Albert Street, Suite #600, Ottawa, Ontario K1R 1B1, Canada. Tel: (613) 563-1236 x243. Fax: (613) 563-9745. E-mail: jlitzgus@aucc.ca.

U.S. NOW CUBA'S 10th-LARGEST TRADE PARTNER

The United States will have exported $160 million worth of food commodities to Cuba in 2002, edging out Brazil as the island's 10th-largest trading partner. Total Cuban trade in 2001 was $6.448 billion, of which more than $5 billion was with the island's top 10 trading partners that year: Venezuela, Spain, China, Canada, Russia, Holland, France, Mexico, Italy and Brazil.

These statistics and others are all contained in the government's *Anuario Estadístico de Cuba*, which contains 19 chapters, 267 tables and 24 maps and is available on CD for the first time. The CD costs $50 and is being offered for sale through Cuba's Buro de Investigaciones Sociales y Económicas (BISE).

Details: BISE, Calle 25, No. 858 esq. a A, Vedado, La Habana. Tel: +53 7 66-2709. Fax: +53 7 66-6076. E-mail: bise@bise.one.gov.cu.

J-V INAUGURATES CONDO PROJECT IN SIBONEY

The Edificio Simona, a luxury apartment building with 70 units, has opened in Havana's upscale Siboney district, four years after the founding of Inmobiliaría Havana with Cuban, Italian and Spanish capital.

The same company recently broke ground on another project, the 30-unit Edificio Marcia, which is also located in Siboney.

The venture's success will likely lead to additional investments in Cuba, said general manager Salvador Costa Arístegui, a Spaniard.

Construction took only 15 months, Arístegui told the Cuban weekly *Opciones*, though he didn't say how much is being invested in the venture. The Simona's tenants are mostly foreigners living in Cuba, and others hoping to apartments on a short-term basis. Among other amenities, the building has an electronic gate, ground-floor pool and a 70-car garage.

Inmobiliaría Havana is currently in negotiations to build — in alliance with state entities Cimex and Cubanacán — a 300-room hotel in Trinidad, a 150-room property in Varadero, and a 125-room aparthotel in Havana.

"Our experience in Cuba has been very positive, which is why we'll continue betting on the real-estate business in this country," said Arístegui.

More than 50% of Simona will be rented out and will remain the property of the joint venture, which is owned by Cuba's Ministry of Construction and the Italian-Spanish firm Virise S.A., represented at the inauguration ceremony by its president, Sergio Capelli.

QATAR, CUBA TO COOPERATE IN OIL, GAS SECTOR

The wealthy Gulf state of Qatar will set up a joint technical team with Cuba to identify areas where the two countries can cooperate in the hydrocarbon sector.

Abdallah Bin-Hamad al-Attiyah, Qatar's minister of energy and industry, told the *Gulf Times* that Cuba "has significant hydrocarbon resources, including gas" and that Qatar could help the Cubans develop oil and gas reserves.

"I will visit Cuba very soon, maybe earlier than the formation of the technical team itself," said al-Attiyah, adding that a recent meeting between officials of both nations in Doha was basically "to know each other well, since the two countries have little knowledge of each other's industrial and energy sectors."

Bilateral cooperation was boosted recently with a visit by Qatar's emir, Shaykh Hamad Bin-Khalifah al-Thani, to Havana, and Castro's reciprocal visit to Doha — an event followed by the opening of embassies in both nations.

Qatar, with fewer than 800,000 inhabitants, enjoys a per-capita income of $20,000 a year, one of the highest in the world.

As to whether Cuba could emerge as a potential buyer of Qatari liquefied natural gas, the country's energy minister said "one need not be a good seller always; one can explore investor avenues as well."

CUBA HOPES TO LURE WEALTHY ARAB TOURISTS

The Cuban government hopes to attract rich tourists from across the Arab world, and to that end co-sponsored a recent conference in the United Arab Emirates.

The Dubai meeting — hosted by Mohebi Aviation, a subsidiary of the Zainal Mohebi Group — was attended by travel agencies and media reps from various Gulf countries, as well as Carlos Gómez Gutiérrez, Cuba's vice-minister of tourism, and Enrique Enríquez, Cuba's ambassador to Qatar.

Escapades, a unit of Mohebi Aviation, said it will soon launch holiday packages to Cuba, in cooperation with the Cuban Ministry of Tourism, local hotels and tour operators.

At the moment, only a few thousand Arabs visit Cuba every year, partly due to the lack of direct flights to Cuba. Travelers must fly via Europe, with the trip taking 16 to 18 hours.

Details: Samuel J.S. Poddar, Mohebi Aviation, Dubai, UAE. Tel: +971 4 534444. Fax: +971 4 533393. Internet: www.mohebi.com.

GEOGRAPHY

Granma suffering from emigration, environmental decay

BY ARMANDO H. PORTELA

Granma is one of five provinces created in 1976 following the breakup of the old Oriente province. It is Cuba's 6th-largest province, covering 8,372 sq kms (3,234 sq miles), or 7.5% of the country's total land area.

The territory combines the low Cauto River valley, with marshes, crops and grazing lands, and the steep mountains of the western Sierra Maestra, the highest and most extensive mountain range in Cuba.

Deep black soils, once considered among the island's most productive, cover the low plains of the Cauto River valley, but these days the soil quality has been ruined by poor drainage, desertification and high salinity — all miseries resulting from mismanagement and over-regulation of water resources in recent decades.

Since 1959, Granma has endured considerable environmental damage. Deforestation, excessive use of water resources, overgrazing in mountains and improper waste disposal have taken the greatest toll.

"The lack of cooking fuel as a result of the economic hardships [of the 1990s] forced dwellers to cut down trees along riverbanks and burn the wood," acknowledged Cuba's official daily *Granma* over a year ago.

"The resulting destruction caused tremendous erosion, dangerous landslides, contamination of the water table and liquidation of the natural fauna, among other misfortunes."

(The newspaper, like the province, is named after the boat that carried Fidel Castro and his band of revolutionaries from Mexico to Cuba in 1956.)

Salinization of soils is a severe problem prompted in part by river damming and irrigation, along with a sharp decline in rains and runoff. Roughly 277 sq kms (107 sq miles), or over two-fifths of all farmland in the province suffer some degree of saline intrusion.

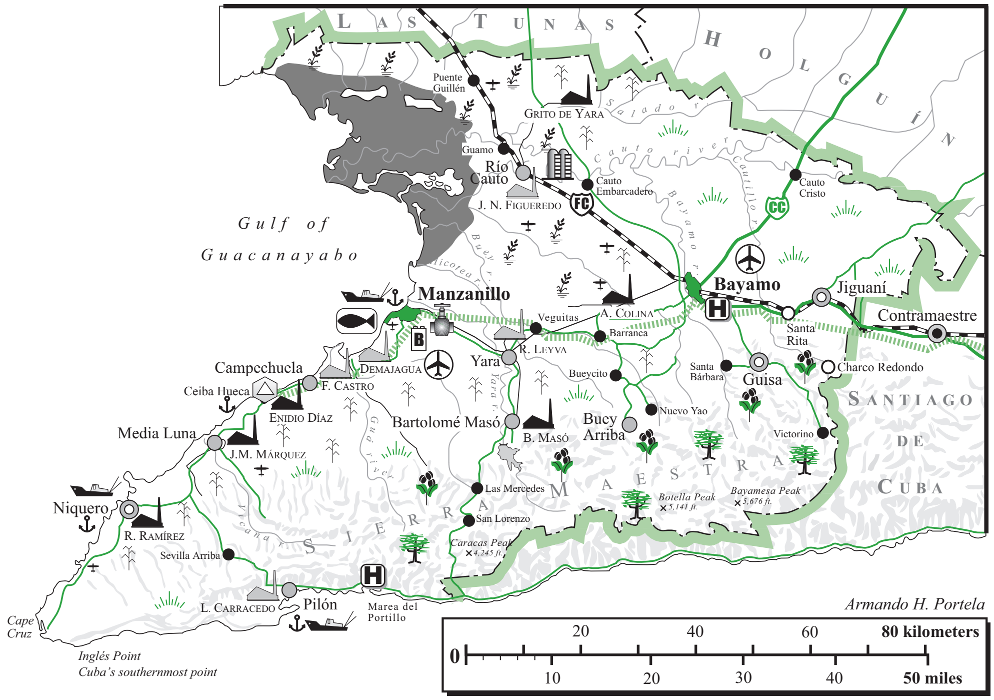
Salinization has also poisoned some aquifers in low lands. Average runoff in the lower Cauto River valley has shrunk by 60% over the last 40 years — leading to critical water shortages for farmers and residents alike.

POPULATION

Granma has an estimated 835,200 inhabitants, or 7.4% of Cuba's total population. With annual growth of averaging only 0.3% in the last seven years, Granma's population is stagnant. Low birth rates and high emigration keep figures depressed *(see chart, page 15)*.

Bayamo is the provincial capital, with around 145,000 inhabitants. Ironically, it is one of Cuba's fastest-growing cities, having jumped from only 20,178 residents in 1953 to 71,500 in 1970 and 100,600 in 1981.

The No. 2 city, Manzanillo, has 105,000 residents. Other key cities are Niquero (21,000), Jiguaní and Guisa (20,000), Campechuela and Media Luna (18,000), Río Cauto and Bartolomé Maso (15,000) and Yara (12,000).



This is the 6th in a series of monthly articles on Cuba's 14 provinces by geographer Armando H. Portela, who has a Ph.D. in geography from the Soviet Academy of Sciences.

ECONOMY

The end of massive Soviet subsides to Cuba in the early 1990s hit Granma particularly hard, since the provincial economy depended heavily on large inputs of energy, machinery and raw materials. Since then, croplands and industries have been gradually abandoned, while Granma's infrastructure, public-service sector and environment have all declined dramatically in the last decade. As a result, many *granmenses* choose to leave their province in search of better opportunities.

Granma is Cuba's largest rice producer, with an average output of 180,000 metric tons in the 1980s, or 40% of the island's total. But in the 1990s, yields fell drastically as state-run rice paddies suffered from lack of machinery, spare parts, fuel, pesticides and fertilizers. The degradation of soils and water resources are also to blame for the sharp decline in rice production.

The nationwide downsizing of Cuba's sugar industry has forced the closure of five of Granma's 11 sugar mills. These include Francisco Castro Ceruto (formerly Dos Amigos), Luís E. Carracedo (Cape Cruz), Ranulfo Leyva (Sofía), José Nemesio Figueredo (Río Cauto) and La Demajagua (Salvador).

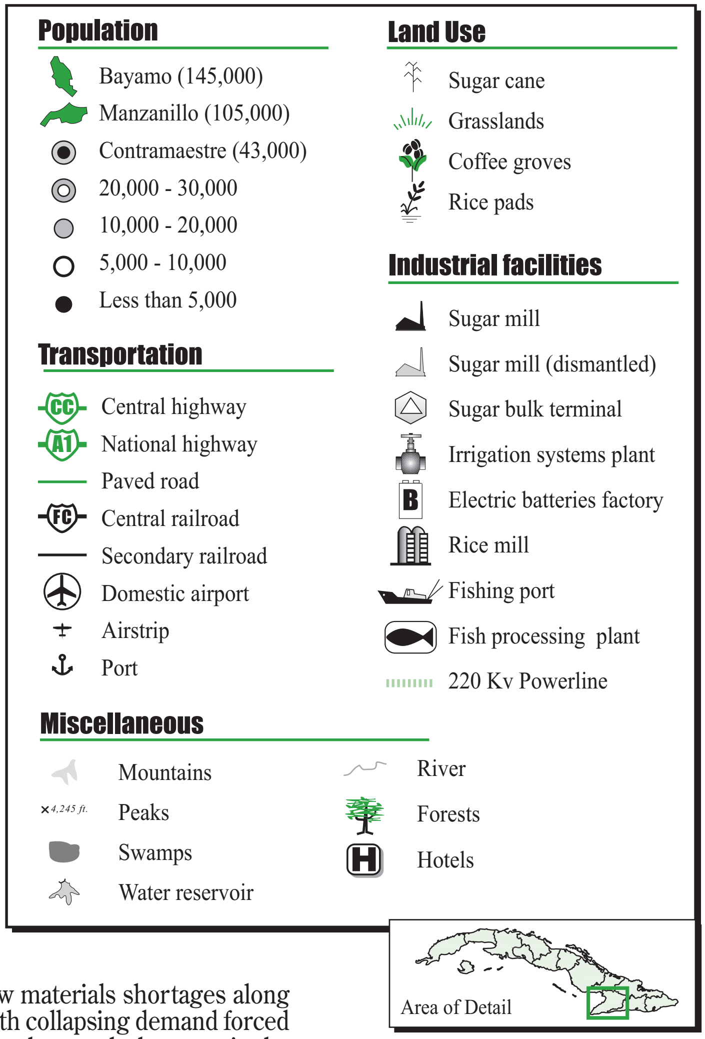
Ironically the records show excellent yields and a combined production of 150,000 tons from these mills 50 years ago. At least 40,000 hectares of sugar cane are to be abandoned and roughly 8,000 people, or 1.6% of the provincial labor force, are being laid off.

Granma ranks No. 3 in Cuban coffee production, just behind Guantánamo and Santiago de Cuba. But the coffee plantations, located in the Sierra Maestra, have been neglected and yields are generally poor.

Cattle ranching is also a traditional pillar of Granma's economy. Mostly concentrated in the mid-Cauto valley, near Bayamo, nearly 210,000 hectares (519,000 acres) of grazing lands sustain over 400,000 heads of cattle, or roughly 10% of the national herd. Both the pasturelands and the herd have decreased noticeably in the last decade as a result of the economic crisis. Unattended grazing lands are heavily overgrown with thorny brushes and rendered unusable, while mortality, poaching and low birth rates have decimated the cattle mass and lowered dairy production.

In the mid-1980s, grazing lands covered 330,000 hectares (815,00 acres) and supported close to 680,000 head of cattle. In its heyday, fresh milk production averaged 85 million liters a year, and Granma was a traditional dairy producer. The old Patagrás factory at Bayamo, founded in 1928, supplied the domestic market with a well-accepted variety of cheese. In 1930, Nestlé founded and operated a milk canning facility at Bayamo, which is still functioning as a state entity.

The province is also home to some factories of national significance. An oversized aluminum pipe and sprinkler factory in Manzanillo was opened in 1977 to supply Cuba's irrigation needs. It was designed to provide irrigation systems for 200,000 hectares a year — enough to irrigate over half the island's croplands within a decade — but the ambitious project never came close to fruition. The combined effect of energy and



raw materials shortages along with collapsing demand forced the plant to slash output in the 1990s.

An electric battery plant built to produce 450,000 units a year opened in Manzanillo two years later. Factory bosses recently replaced the plant's original Japanese technology with more modern Italian equipment. It currently assembles 225,000 lead-acid batteries a year — enough to cover 70% of Cuba's needs. In association with Spanish investors, it also produces 25,000 batteries a year for export.

The fishing port of Manzanillo is one of the most important in Cuba; fisheries are also significant in Niquero, with white shrimp, lobster and kingfish in the Gulf of Guacanayabo among the leading exports. Yet over-exploitation, pollution and the loss of coastal habitats have led to a decline in volume and quality, especially with regard to shrimp.

INFRASTRUCTURE

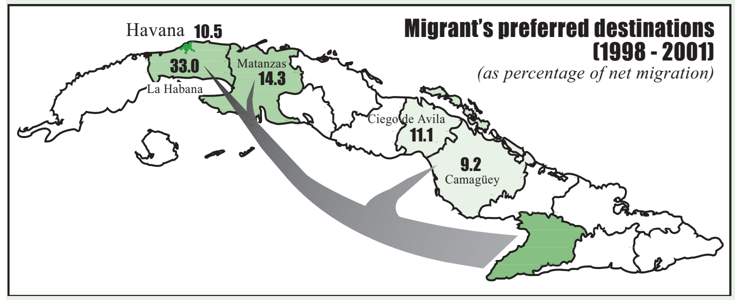
The two-lane Central Highway and the Central Railroad link Granma to the rest of Cuba. A network of narrow secondary paved roads — most in very poor shape — reaches all major settlements and economic hubs. The mountains are accessible via dirt roads. The sugar bulk-loading terminal at Ceiba Hueca, 25 km southwest of Manzanillo, regularly handled 6% of Cuba's sugar exports before the industry's downsizing this year.

Bayamo and Manzanillo airports handle only domestic air traffic.

TOURISM

Granma's tourism industry is relatively undeveloped. The lack of facilities, nearby international airports and accessible beaches severely limit Granma's attractiveness for investment.

The province currently has 474 rooms in acceptable hotels. This includes a 204-room property in Bayamo, and two hotels with a combined 270 rooms at Marea del Portillo, a scenic spot along the province's south shore. A handful of rustic cabañas are scattered in the Sierra Maestra. □



Fleeing Granma

If massive emigration is somehow a form of social frustration, then the province of Granma is giving troublesome signals.

Idle industries, impoverished farms, a labor shortage, poor public services, a rapidly deteriorating environment and difficult access to dollars deprive Granma of much of the attraction needed to keep its people at home.

Defying government efforts to curtail the stampede, around 48,000 people — 5.9% of the provincial population — left Granma between 1991 and 2001. This figure is important, considering the province's low birth rate and Cuba's critical housing shortage.

Over the same decade, Granma's population grew only 3.7%. Unreported changes of residence — a growing trend over the last few years, regardless of Cuban law — could push net migration totals significantly higher.

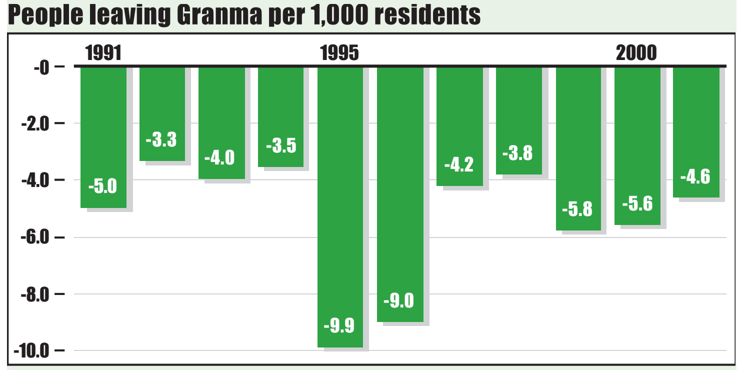
While the emigration pattern has plagued Cuba's eastern provinces for decades, it quickened during the past decade, peaking in 1995-96. This coincided with the worst phase of Cuba's economic crisis, euphemistically called the "special period."

The net exodus of people was cut sharply in 1997, when Havana began enforcing rules on admitting new residents and forcibly deported to their provinces of origin thousands of "illegal" settlers, popularly known as *palestinos* because of their deplorable living conditions *(see CubaNews, May, June, July, November 1997)*.

Even after cracking down, Havana and its surroundings continue to attract most of Cuba's migrants. From 1998 to 2001, almost 58% of all newcomers from Granma settled in the Havana metropolitan area or Matanzas province, as shown in the map above. Camagüey and Ciego de Avila attracted another 20%; coincidentally, all are the provinces most visited by tourists.

As the government tries to minimize the impact of its downsizing of the sugar industry, by far Granma's most important sector, it remains to be seen whether this will lead to a new wave of emigration — or more open forms of frustration. □

People leaving Granma per 1,000 residents



Source: Statistic Yearbooks 1998-2001

CALENDAR OF EVENTS

If your organization is sponsoring an upcoming event, please let our readers know! Fax details to *CubaNews* at (301) 365-1829 or send an e-mail to larry@luxner.com.

Dec. 2-5: 26th Annual Miami Conference on the Caribbean, Loews Miami Beach Hotel. Speakers include Sen. Bob Graham, USTR Robert Zoellick, various heads of state. Cost: $625. *Details: Caribbean/Latin American Action, 1818 N St. NW, Suite #500, Washington, DC 20036. Tel: (202) 466-7464. Fax: (202) 822-0075. E-mail: sbrannon@claa.org.*

Dec. 5-12: B'nai B'rith humanitarian mission to Havana, Cienfuegos and Santa Clara. Cost: $2,400. *Details: Stanley Cohen, International Chairman, Cuban Jewish Relief Project, 5600 Munhall, #515, Pittsburgh, PA 15217. Tel: (412) 421-4859. E-mail: stancn@aol.com.*

Dec. 6: "Transition to Democracy in Cuba: What Needs to Be Done" Carnegie Endowment, Washington. Speakers: William LeoGrande and CANF's Dennis Hays. No charge. *Details: Kaylin Bailey, National Policy Association, 1424 16th St., NW, Suite #700, Washington, DC 20036. Tel: (202) 884-7640. Fax: (202) 797-5516. E-mail: kbailey@npa1.org.*

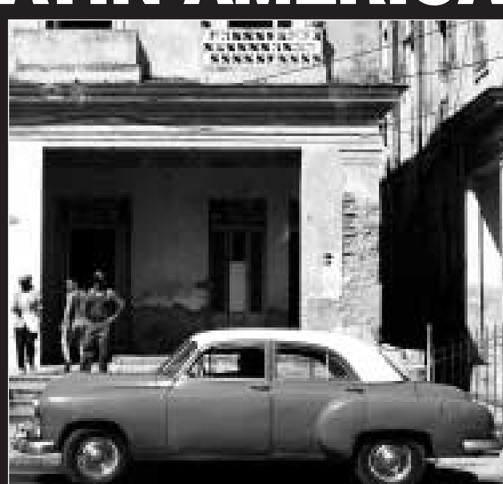
Dec. 6-15: "A Musical Journey Through the History and Culture of Cuba" Excursion to Havana, Matanzas and Pinar del Río. Sponsored by New England Conservatory of Music. *Details: Common Ground Education & Travel Services, 165 Amory St., Cambridge, MA 02139. Tel: (877) 661-7653. Fax: (617) 491-1543. E-mail: commonground@attbi.com.*

Jan. 3-17: Faces of Cuba: A Delegation with Chabot College. Cost: $2,000 not including airfare to Havana. *Details: Global Exchange, 2017 Mission St., Suite #303, San Francisco, CA 94110. Tel: (800) 497-1994. Fax: (415) 253-7498. Internet: www.globalexchange.org.*

Jan. 4-16: "Following Che's Footsteps" Reality tour takes participants to places associated with the life of Che Guevara, including Havana's Museo de la Revolución, command posts in the Sierra Maestra, and Moncada barracks in Santiago de Cuba. Cost: $1,825 from Cancún. *Details: Global Exchange, 2017 Mission Street, Suite #303, San Francisco, CA 94110. Tel: (800) 497-1994. Fax: (415) 253-7498. Internet: www.globalexchange.org.*

Feb. 17-19: U.S.-Cuba Business Conference, Westin Regina Resort, Cancún, Mexico, with fully hosted day in Havana. Sponsored by the U.S.-Cuba Trade Association, event will focus on U.S. agriculture, wood and medical products exports to Cuba. Cost: $2,390 inc. Cancún/Havana airfare. *Details: Conway Data Inc., 35 Technology Parkway S., #150, Norcross, GA 30092. Tel: (770) 446-6996. Fax: (770) 263-8825. E-mail: wdf@conway.com.*

Feb. 24-28: 5th Habana Festival, Palacio de Convenciones, Havana. "A tradition for people from all over the world who love a good smoke." *Details: Marketing Department, Habanos S.A., Calle 22, No. 115 e/1ra y 3ra, Miramar, Havana. Tel: +53 7 204-0513. Fax: +53 7 204-0549. E-mail: norvera@habanos.cu. Internet: www.habanossa.com/5festival.asp.*



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