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DOMESTIC ECONOMY

UNDERSEA CABLE NETWORK TO BENEFIT CUBA'S TELEPHONE SERVICE

Source: Xinhua; July 14, 2010

The Venezuela-Cuba undersea cable network will benefit Cuba's telephone development, said Maximo Lafuente, vice president of Cuban Telecommunication Company (ETECSA) on Wednesday.

According to Lafuente, the cable will cost 70 million U.S. dollars covering 804,500 km from La Guaira, Venezuela, to Santiago de Cuba, 1,384 km southeast of Havana. It will be extended to Jamaica, the Dominican Republic and the Lesser Antilles. The Franco-Chinese company Alcatel Shanghai Bell is responsible for its operation which started two months ago. Cuba's international connection will increase with the remarkable enhancement of its transmission speed, said Lafuente. Cuba has more than 1 million mobile phone users, accounting for about 10 percent of its population.

JOBLESS IN CUBA? COMMUNISM FACES THE UNTHINKABLE

Source: AP, Anne-Marie Garcia; July 18, 2010

At a state project to refurbish a decaying building in Old Havana, one worker paints a wall white while two others watch. A fourth sleeps in a wheelbarrow positioned in a sliver of shade nearby and two more smoke and chat on the curb.

President Raul Castro has startled the nation lately by saying about one in five Cuban workers may be redundant. At the work site on Obispo street, those numbers run in reverse. It's a common sight in communist Cuba. Here, nearly everyone works for the state and official unemployment is minuscule, but pay is so low that Cubans like to joke that "the state pretends to pay us and we pretend to work." Now, facing a severe budget deficit, the government has hinted at restructuring or trimming its bloated work force. Such talk is causing tension, however, in a country where the words "neoliberal job cuts" are sacrilege and guaranteed employment was a building block of the 1959 revolution that swept Fidel Castro to power.

Details are sketchy on how and when such pruning would take place. Still, acknowledgment that cuts are needed has come from Raul Castro himself. "We know that there are hundreds of thousands of unnecessary workers on the budget and labor books, and some analysts calculate that the excess of jobs has surpassed 1 million," said Castro, who replaced his ailing brother Fidel as president nearly four years ago. Cuba's work force totals 5.1 million, in a population of 11.2 million. In his nationally televised speech in April, Castro also had harsh words for those who do little to deserve their salaries. "Without people feeling the need to work to make a living, sheltered by state regulations that are excessively paternalistic and irrational, we will never stimulate a love for work," he said. Indeed, the process of labor reform may already have started, albeit slowly.

Workers in the tourism sector say some of their colleagues have been furloughed during the lean summer months, while others have been reassigned to jobs on state-run farms. "Since we are now in the low season, the hotel where I work has sent many workers home for two or three months," said Orlando, a chef in Varadero, a sand-and-surf enclave east of Havana. "It's very hard because you're left with no salary at all," said Orlando, who like almost all state employees, didn't want his full name used to prevent problems at work. Unemployment benefits don't exist in Cuba. He added, "I'm lucky since I'm still in my job." Veronica, a receptionist at another Varadero hotel, said she feared she may be sent home in August, when her resort will be only half-occupied. "Sometimes they offer alternatives, to study in a particular course or another job," she said, "but sometimes, when (workers) are sent into the agricultural sector for instance, they just quit." With the government giving no details of its thinking, rumors have spread that as many as a fourth of all government workers in some industries could lose their jobs or be moved to farming or construction. But Labor Minister Margarita Gonzalez has promised that "Cuba will not employ massive firings in a manner similar to neoliberal cutbacks."

The government has moved to embrace some small free-market reforms. It handed some barbershops over to employees, allowing them to set their own prices but making them pay rent and buy their own supplies. Authorities have also approved more licenses for private taxis while getting tough on unlicensed ones. The global financial crisis, and the \$10 billion in damage inflicted by three hurricanes in 2008, have forced authorities to run a deficit of 5 percent of GDP, leaving them unable to pay back credits received from China and elsewhere.

Cuba slashed spending on importing food and other basics by 34 percent to \$9.6 billion in 2009, from \$12.7 billion the previous year. But so far, the moves have not been enough to rein in the deficit. Carmelo Mesa-Lago, a Cuba economics expert and professor emeritus at the University of Pittsburgh, said Cuban officials have spent months debating cuts in the labor force and economic reforms. He said they know what's needed, but face "a problem of political viability." Various government perks like cars, gas, uniforms and office supplies have become incentives to bloat the payroll, since they are based on the size of a company's work force. But low pay means low productivity. On Obispo street, a state-run cafeteria sells heavily subsidized soft ice cream and pork sandwiches for the equivalent of a few American pennies — meaning wages and tips are so tiny that the staff is complete indifferent toward customers.

Three waiters sit at the counter cracking jokes. A fourth is the only one working, making coffee for three tables. Nearby, a cashier stares into space, a cook flirts with a scantily clad teen and a supervisor sits idly by. The state employs 95 percent of the official work force. Unemployment last year was 1.7 percent and hasn't risen above 3 percent in eight years — but that ignores thousands of Cubans who aren't looking for jobs that pay monthly salaries worth only \$20 a month on average. Salvador Valdes Mesa, secretary-general of the nearly 3 million-strong Cuban Workers Confederation — the only Cuban labor union allowed — has instead written that "reorganization" will ensure redundant workers are reassigned rather than fired. He said the government wants more jobs in construction and agriculture. Still, 35-year-old computer engineer Norberto fears for his job. He thinks it's unfair to keep workers under communist domination and yet call them unmotivated. "I didn't graduate from college to now work as a day laborer or a peasant, he said. If he loses his job and gets an offer to work abroad, he said, "my question is 'Will the Cuban authorities put aside their paternalism and let me leave?'"

CUBANS BRACE FOR "REORGANIZATION" OF LABOUR FORCE

Source: Reuters, Jeff Franks; July 21, 2010

Cuba is moving up to a million employees, or a fifth of its workers, off bloated public payrolls and into jobs where they actually have to work, according to Communist Party and government sources.

The goal is to boost the island's struggling economy by targeting what President Raul Castro has called "unnecessary workers" in a five-year project to reorganize its labour force in tandem with some economic liberalization. "We hope to eliminate 200,000 jobs per year, as much as 100,000 of them over the coming year in the capital alone," a Communist Party economist said, like others asking that his name not be used. Castro said in a speech to young party supporters in April that payrolls would be cut to help modernize the economy and that there were possibly more than a million excess workers.

All state agencies were ordered in January to review payrolls with an eye to trimming unneeded positions, apparently with dramatic results. "We have 304,000 employees, of which it is necessary to reorient 79,000," Domestic Trade Minister Jacinto Angular Pardo said in an interview in the latest edition of Bohemia magazine. "We will do this gradually over five years as part of a reorganization of the company system, distribution networks and forms of administration that rid the state of unnecessary burdens and improve efficiency," he said. The plan is just getting under way, so there have been few layoffs so far, sources said. They said those being let go are offered other jobs when available. Hundreds of employees at the SEPSA security service in Havana were recently given the choice of jobs in agriculture, construction or the local version of the FBI, a worker said.

LIMITED OPTIONS

"The plan is that those over retirement age will be let go and the rest offered up to three possible jobs," said a former party leader in eastern Holguin, with similar reports coming from various other provinces. Options are limited because the state employs about 85 percent of the work force of 5 million and claims an unemployment rate of only 2 percent. Those who do not accept initial job offers will have to look for work at the Labour Ministry, get land through the government's agriculture land-lease program and take up farming, or live off family remittances and illegal activity.

They will get unemployment benefits for just six weeks, but will not be totally out in the cold because all Cubans receive free health care and education, subsidized utilities, a subsidized food ration and automatic adjustment of mortgages to 10 percent of the top breadwinner's income. Still, said an employee at the state-run telephone company, "everyone is nervous, and in particular those above retirement age." Because of the job breakup, the government is likely to accompany the plan with economic reforms that will allow more self-employment and other schemes, most of which are currently prohibited, analysts said. "This plan probably signals additional policy reforms, because current policies are not generating new jobs," said Phil Peters, a Cuba expert at the Lexington Institute in Virginia. "There are lots of options: foreign investment, self-employment, cooperatives, or small- and medium-sized businesses. All would yield more jobs and tax revenue, a lower social welfare burden, and less black market activity," he said.

The government's plan in Havana calls for issuing more licenses for self employment in various trades that were frozen a number of years ago, the party economist said. He said it also appears probable the state-run retail sector will be liberalized, which could absorb some of the extra workers.

EXPANSION OF SELF-EMPLOYMENT POSES CHALLENGES FOR SOCIALIST MODEL

Source: IPS, Patricia Grogg; August 23, 2010

The announcement of a plan to expand the practice of self-employment in Cuba as an alternative for the "excess" workers who are to be slashed from the public workforce presents several challenges to the socialist model that the government is seeking to modernise.

First and foremost, the alternative must meet the expectations of people who might be interested in getting involved in private enterprise and those who have been self-employed -- known here as "cuentapropistas" -- since the mid-1990s and now, with years of experience under their belt, could take advantage of newly legalised opportunities like hiring staff or setting up small businesses. "Everyone hopes they will relax the rules for private enterprise," a plumber who has a steady clientele after working for several years on his own commented to IPS. "They (the authorities) are apparently studying the whole question very closely."

According to the National Office of Statistics (ONE), the number of people working in remunerated jobs in this Caribbean island nation of 11 million people rose last year to just over 5.7 million, including nearly two million women. And the legally registered cuentapropistas, a sector that does not include farmers who own land, numbered 143,800 last year, 30,300 of whom were women. In 2004 they amounted to 166,700, including 39,600 women. When the phenomenon was at its peak, in the mid-1990s, there were more than 200,000 cuentapropistas. But the number of people who were legally registered as self-employed gradually dropped after that, partly because the government did not renew permits for many activities that were initially allowed.

The plumber, who did not want to give his name, never applied for a permit because he worked in a public company until 2009 and, to boost his income, offered plumbing services on the side. "Last year my wife fell seriously ill, and I left the company to be able to take care of her. But I have never lacked work," he said. Like him, there are a significant number of Cubans who have chosen to work for themselves on the side, but without giving up their jobs in the public sector -- and without registering as cuentapropistas. "I hope that if I get a permit, my business and income will grow, because if they put in place a lot of restrictions or charge taxes that are too high, it won't be worth it," the plumber said. The government decided to allow more people to work for themselves because it plans to lay off more than one million workers over the next five years as part of a "rationalisation" of the labour force.

President Raúl Castro said the measure would do away with "various existing prohibitions for the granting of new permits and the commercialisation of some production." It will also allow cuentapropistas to hire paid workers, which they are currently unable to do legally. In his brief address to parliament on Aug. 1, Castro announced that in mid-July, the Council of Ministers had approved a tax regime for those who are self-employed, aimed at responding to the new economic reality and guaranteeing that cuentapropistas pay into social security, pay income and sales taxes, and pay taxes for hiring others. Information on the new tax system has not been made public, however.

Cubans do not currently pay taxes on wages, with the exception of staff hired by foreign companies who earn significantly more than state employees. People familiar with the labour system say legislative reforms supporting and facilitating self-employment, which can now include collective undertakings and joint administration by two or more people, are urgently needed.

Economist Omar Everleny Pérez said this new process must solve the problems that have burdened cuentapropistas, such as difficulties in purchasing inputs and materials, and the lack of credit or other financial aid mechanisms. Pérez said it is feasible to once again consider the creation of small and medium-sized enterprises (SMEs), which were to be allowed in the mid-1990s, before such plans were scrapped. He said SMEs fit within the concept of the broadening of the practice of self-employment, and could generate a wider range of employment alternatives, help improve living standards and boost incomes, and help decentralise certain areas of production and services.

Another benefit mentioned by Pérez in a not-yet published research study seen by IPS is the increased offer of goods and services. The economist underscores that at a global level, there is a growing tendency towards SMEs in productive sectors. SMEs are flexible and depend on highly qualified labour, one of Cuba's main advantages, said Pérez, who said they are also highly competitive. He added that the government is studying the possibility of allowing some kinds of SMEs. Several economists suggest the possibility of associations between cuentapropista companies and the state, or between self-employed individuals and cooperatives, that would allow production and its benefits to be more widely socialised. "Cuba has to turn its economic situation around in the next few years, and given the lack of capital in the economy for a broad process of investment by the state...SMEs could play a complementary role," Pérez says in his study.

CUBA'S SUBSIDIZED CIGARETTES GOING UP IN SMOKE

Source: Reuters, Nelson Acosta; August 25, 2010

Cuba is phasing out its longstanding monthly allotments of subsidized cigarettes as President Raul Castro works to jump-start the island's sputtering economy.

Beginning next month, some 2.5 million Cubans over the age of 54 no longer will get their four packs of cigarettes as part of the country's ration program, the government announced on Wednesday. "The Council of Ministers has resolved to eliminate cigarettes from the rationed family basket as of September as part of the measures gradually being adopted to limit state subsidies," an official statement said. The cigarettes "are not a primary necessity," it said.

Castro has said that communist-ruled Cuba's ration system eventually will be eliminated as he moves to modernize the economy. Monthly allotments of chickpeas, potatoes and a pound (0.45 kg) of sugar were removed from the system this year. Many subsidized items were cut in the 1990s after the collapse of former benefactor the Soviet Union plunged the island into a deep recession. But allotments of inexpensive cigarettes for Cubans born before 1956 were kept in place.

TRIMMING STATE PAYROLL

Local economists estimate the ration of rice, beans and other staples provides enough food for less than two weeks, leaving many Cubans to turn to state-run stores and markets. Castro, since taking over from his ailing elder brother Fidel Castro in 2008, has pushed to restructure the centralized economy, which has been battered by hurricanes, the global financial crisis and chronic inefficiencies. He has called for the elimination of all subsidies, and such things as state-sponsored honeymoons and vacations already have been cut. But Cubans would still enjoy free health care, education and social security.

Castro recently announced plans to lay off 1 million workers over five years, or a fifth of the labor force, and has called for more family farming, self-employment and small business creation to make up for cuts in the state's payroll. Cuba is an important tobacco and cigar producer and boasts one of the world's highest per-capita rates of smokers. Unlike many countries where cigarettes are heavily taxed, Cuba sells unfiltered black tobacco cigarettes for as little as 7 pesos a pack at state stores, or around 40 cents, while the allotted packs cost just 2 to 3 pesos. Retirees can often be seen on Havana's streets selling their subsidized cigarettes for 5 pesos a pack. "This is a blow for the elderly like me," 82-year-old Esperanza Rodriguez said. "It was like a little bit of money they gave us each month."

CUBA EMBRACES 2 SURPRISING FREE-MARKET REFORMS

Source: AP, Will Weissert; August 27, 2010

Cuba has issued a pair of surprising free-market decrees, allowing foreign investors to lease government land for up to 99 years — potentially touching off a golf-course building boom — and loosening state controls on commerce to let islanders grow and sell their own fruit and vegetables.

The moves, published into law in the Official Gazette on Thursday and Friday and effective immediately, are significant steps as President Raul Castro promises to scale back the communist state's control of the economy while attempting to generate new revenue for a government short on cash. "These are part of the opening that the government wants to make given the country's situation," said Oscar Espinosa Chepe, a state-trained economist who is now an anti-communist dissident.

Cuba said it was modifying its property laws "with the aim of amplifying and facilitating" foreign investment in tourism, and that doing so would provide "better security and guarantees to the foreign investor." A small army of investors in Canada, Europe and Asia have been waiting to crack the market for long-term tourism in Cuba, built on drawing well-heeled visitors who could live part-time on the island instead of just hitting the beach for a few days.

It may also help the country embrace golf tourism. Investment firms have for decades proposed building lavish 18-hole courses ringed by luxury housing under long-term government leases. Cuba currently has just two golf courses nationwide, but the Tourism Ministry has said it wants to build at least 10 more. Endorsing 99-year property agreements might be a first step toward making some golf developments a reality, but also makes it easy to imagine a Cuban coastline dotted with timeshares, luxury villas and other hideaways that could serve as second homes. "I think this is huge. This is probably one of the most significant moves in recent years relative to attracting foreign investment," said Robin Conners, CEO of Vancouver-based Leisure Canada, which plans to begin construction next year on a luxury hotel in Havana and also wants to build hotels, villas and two championship golf courses on a stretch of beach in Jibacoa, 40 miles (60 kilometers) to the east.

Cuba has allowed leases of state land for up to 50 years with the option to extend them for an additional 25, but foreign investors had long pressed tourism officials to endorse 99-year deals to provide additional peace of mind to investors. The longer leases also mean lower interest rates on international banking mortgages. John Kavulich, a senior policy adviser for the U.S.-Cuba Trade and Economic Council in New York, said Mexico has used similar leaseholds to encourage foreign investment despite restrictions on non-Mexicans owning coastal property — but that the similarities end there. "I don't think it's going to open a floodgate. I think it may turn on a tap so that people know there's water," he said. "Certainly it's an improvement. However ... making one change isn't a panacea to solving the issues that companies have in evaluating their opportunities in Cuba." But developers cheered the move, including Andrew Macdonald, CEO of Britain's Esencia Hotels and Resorts, which is awaiting Cuban government approval to start construction on the Carbonera Country Club, a \$300 million beach development outside the resort of Varadero. "It's exceedingly good news," Macdonald said. "It's been a long road. But having said that, it's very important for the country that they get each step right and this is a very big step for them." After so many setbacks in green-lighting the project once and for all, Macdonald said he has stopped predicting when construction will begin, but "we hope the approval process will happen very quickly now."

The island's ever-weak economy has been rocked by the global financial crisis and a sustained drop in prices of the country's chief natural resources. Cuban officials have tried before to balance their drive for an egalitarian society with an appeal to foreigners seeking to own a piece of paradise. Scrambling for revenue in the late 1990s, the government authorized private foreign ownership of posh apartments in Havana and even signed a \$250 million deal for beachfront apartments and timeshares with a Canadian company. Many of those projects stalled, however, failing to draw enough foreign investment. Meanwhile, some overseas businessmen bought Havana apartments but allowed Cubans to live in them — violating rules barring islanders from doing so. The government eventually bought out most of the residences it had hoped would be owned by foreigners.

The decree allowing expanded sale of farm products, meanwhile, could have far greater impact on ordinary Cubans. It authorizes them to produce their own agricultural goods — from melons to milk — and sell them from home or in kiosks. They must pay taxes on any earnings. The decree is the first major expansion of self-employment rules since Castro said in an address before parliament Aug. 1 that the government would reduce state controls on small businesses — a big deal in a country where about 95 percent of people work for the state. Chepe, who was jailed for his political beliefs in 2003 but later paroled for health reasons, said the decree would stamp out inefficiencies that plague the state farming system, calling it an "intelligent move." "In Cuba, the problem has not only been production, but also distribution," he said.

Cubans already sell fruits, pork, cheese and other items on the sides of highways, fleeing into the bushes when the police happen past. Friday's measure would legalize such practices, while ensuring the state takes a cut of the profits. The new rules are consistent with other efforts by Castro's government, which has allowed minor free-market openings while also seeking to eliminate black-market income. Authorities have approved more licenses for private taxis while getting tough on unauthorized gypsy cabs. They also made it easier to get permits for home improvements and increased access to building materials, while more strictly enforcing prohibitions against illegal building.

FOOD & AGRICULTURE

U.S. FOOD SALES TO CUBA IN STEEP DECLINE

Source: Reuters, Marc Frank; July 27, 2010

* U.S. prohibition on credit to Cuba hits food sales

* 2010 drop follows 24 percent decline in 2009

U.S. food sales to Cuba fell by 35 percent from January through May compared with the same period in 2009, as the cash-strapped nation cut imports and bought from countries offering credit, a U.S.-based trade group said on Tuesday. The steep decline followed a 24-percent drop in sales to the island in 2009 after record sales of \$710 million in 2008. Cuba imports about 60 percent of its food, and the United States has been the Communist-led island's main provider for years despite political tensions and the almost five-decades-old U.S. trade embargo.

The Caribbean nation is required to purchase agricultural goods with cash under a 2000 exemption to the embargo, but Havana is cash-strapped due to the impact of three hurricanes in 2008, the global financial crisis, lower tourism revenues and declining earnings for nickel and other exports. U.S. food exports to Cuba through May were \$182.3 million compared with \$278.2 million during the same period last year, according to figures released by the U.S.-Cuba Trade and Economic Council, a New York-based group monitoring trade between the two countries.

The report said Cuba was turning more to countries such as Brazil, France, Canada, Russia and China where it could purchase food on credit, and to state-run companies from private ones in many countries. Legislation under consideration in the U.S. Congress would lift restrictions on Americans traveling to Cuba and some regulations on the food sales. A broad coalition of farm, business and human rights groups have backed the bipartisan bill as an important step toward ending the U.S. embargo and promoting trade and change on the island.

Cuban officials have encouraged visiting U.S. trade delegations to work to abolish the travel ban and lift food sale regulations, arguing that boosting American tourism to the island would give Havana more money to buy U.S. goods. But John Kavulich, who heads up the U.S.-Cuba Trade and Economic Council, said he doubted improved regulations would increase sales due to Cuba's chronic economic problems. "Changes to the existing laws and regulations governing United States agricultural products and food products will not result in meaningful increases in exports," he said, while not commenting on the travel ban. U.S. exports to Cuba include corn, wheat, chicken, soybeans and powdered milk.

CUBAN FOOD OUTPUT DOWN DESPITE AGRICULTURE REFORMS

Source: Reuters, Marc Frank; August 3, 2010

Cuba's food production fell 7.5 percent in the first half of the year despite reforms instituted by President Raul Castro and even as the Communist-run country cut food imports, the government reported this week.

The report was not a surprise to Cuban consumers who have complained of shortages all year, particularly in staples such as rice and beans, which were down 1.7 percent and 27 percent, respectively. The National Statistics Office reported on its web page www.one.cu that, from January through June, there was a decline in just about all types of food production -- from rice, potatoes, malanga and other vegetables to pork and eggs. Production of a few items rose, including yucca, milk, non-citrus fruits and bananas.

The government has repeatedly said it would begin cutting food imports this year, though no data was available. Vietnam, the island's main rice supplier, announced when the year began that Cuba had reduced orders by 100,000 tons for 2010. Overall agriculture production is below 2005 levels, according to the government, even though Castro has made increasing food output a priority since taking over for older brother Fidel Castro more than two years ago.

Cuba is in the throes of a financial crisis in part because it spends heavily to import two-thirds of its food. "It is not easy to find root vegetables and rice is scarce, making matters worse, especially at the end of the month when the ration is used up," Margarita, a retiree who did not want her full name used, said in a telephone interview from eastern Holguin province. Santiago de Cuba housewife Olga Machado said things were not much better in Cuba's second largest city. "The biggest problem is that everything seems to come and go, forcing you to dedicate a great deal of time to guarantee there is food at home," she said.

BARE-BONES BASICS

Sugar production was not included in the report but this year's sugar harvest was the worst in more than a century, resulting in a 20 percent cut in the rationed sugar quota of five pounds per month. The country maintains a World War Two-style food ration that provides the bare-bones basics for a few weeks, after which residents must shop at state-run markets.

President Castro has raised prices the state pays for produce, leased state lands to farmers, decentralized decision making, allowed provincial producers to sell more of their produce directly to consumers and reorganized huge state farms and cooperatives that occupy 60 percent of the land. However, a decades-old system where the state provides fuel, pesticides, fertilizer and other resources to farmers in exchange for 70 percent of what they produce remains unchanged and often holds back production.

In a speech on Sunday to the National Assembly, Castro blamed administrative errors and a continuing drought for the production shortfalls. He ruled out market solutions as being too capitalist. Many farmers and farm experts think Castro will have to make bigger changes if he wants more food production. "Until the state frees up farmers to own outright the land, sell directly what they produce and purchase what they need to do it, production will not significantly improve," said a local agriculture expert, asking his name not be used.

CUBAN COFFEE HARVEST BEGINS WITH HIGH HOPES

Source: Reuters, Marc Frank; August 6, 2010

*Harvest forecast up 20 pct at 7,200 tonnes

*Recovery plan sees tripling output by 2015

Cuba's coffee harvest began this week with high hopes the all-but-destroyed crop would begin a sustained recovery as part of President Raul Castro's efforts to lower food imports and increase exports.

Friday's official daily Granma quoted Deputy Agriculture Minister Ramon Frometa as forecasting an increase of 1,200 tonnes of semi-processed beans over last year's 6,000 tonnes, the lowest output since well before the 1959 revolution when production reached 60,000 tonnes. The poor performance came despite a series of reforms aimed at increasing agricultural output undertaken by President Raul Castro, who took over for his brother Fidel Castro two years ago. Since then, the state has leased abandoned coffee plantations to hundreds of individuals to grow coffee. And local agriculture committees, granted more powers under the reform, have worked to better prepare the crop.

The state also has tripled the price it pays farmers for their beans, and added an additional premium for the highest quality product. Cuba's National Assembly last week discussed the dismal state of the coffee crop and, for the first time, blamed state bungling and not the U.S. embargo or the revolution's success in creating more attractive employment in the cities. "There has been a lack of will and aggressiveness to overcome the obstacles we ourselves have created and which hamper fulfillment of plans and output," a report by the parliament's economic committee stated. The committee reviewed a five-year recovery plan that would increase coffee production to 22,000 tonnes by 2015.

Cuba imported around 30,000 tonnes of coffee in 2009 at a cost of \$45 million, while coffee exports garnered a mere \$3.4 million, according to the government's 2009 statistical abstract. Picking begins in August and ends in March, though most beans are harvested from October into January. Communist Cuba's 35,000 growers, in exchange for low-interest government credits and subsidized supplies, must sell all of their coffee to the state at prices that historically have been below what the beans fetch on the black market. Local analysts said that system led to low production and the diversion of 10 to 20 percent of the crop.

AGRICULTURAL PRODUCTION FALLS 7.5 PCT IN CUBA

Source: EFE; August 10, 2010

Agricultural production in Cuba fell 7.5 percent in the first half of this year compared with the same period in 2009, according to a report released on the Web site of the National Statistics Office, or ONE.

Farming output - excluding sugar, which is treated as a separate industry - fell by 9.7 percent on the communist-ruled island, while livestock production was down 4.8 percent, ONE said. The harvests of tubers, roots, vegetables, beans, rice and citrus declined, and bananas were the only product experiencing a notable increase of 48 percent. The fall in the broader agricultural sector so far this year comes along with a bad situation in the sugar industry, where the 2009-2010 harvest was called by government-run media the poorest since 1905 although the precise figures have not been made public.

In an Aug. 1 speech to the national legislature, President Raul Castro referred to the "failure" of the sugar sector and other agricultural areas "due to errors of leadership and also ... the effects of the drought." Dissident economist Oscar Espinosa Chepe said that the drop in agricultural and livestock production "shows signs of a continued reduction since 2008" and the results have been "disastrous," given the hurricanes that severely affected the country in that year and the subsequent drought. "Consequently, the dependence on abroad in food matters is deepening, just when the nation seems to be lacking financial resources," according to an analysis released to the foreign press by Espinosa, a former political prisoner paroled on medical grounds in 2004. In his opinion, Cuba "urgently (needs to make) radical changes in productive areas, in marketing and the acquisition of supplies for agriculture."

During the first half of this year, the Cuban government put more than 1 million hectares (2.5 million acres) of idle lands into the hands of new producers to work as part of its policy to spur food production and reduce imports. The law for distributing land in this way was approved in 2008, after the announcement that half of Cuba's arable land was idle. Raul Castro, who succeeded ailing older brother Fidel in January 2008, has insisted on several occasions that food production is a matter of "national security" and has reiterated his determination to boost the island's agricultural production. Cuba has been importing more than 80 percent of the food its 11.2 million citizens consume, and in April it emerged that the country spends more than \$1.5 billion each year on food purchases from abroad.

SUPPLY STORES OPEN IN LATEST CUBA FARM REFORM MOVE

Source: Reuters, Marc Frank; August 16, 2010

- * Tools, inputs can be freely purchased for first time
- * President Raul Castro has given priority to farm reforms
- * Objective is to revitalize food output, reduce imports

Cuba is opening stores in the countryside where farm supplies are being sold freely for the first time as the Communist government moves to reform and revitalize long-centralized agriculture, farmers said. The reforms by President Raul Castro, who took over the presidency from his elder brother Fidel Castro in 2008, are also preparing to scuttle a decades-old state farm produce contracting system in a bid to increase food output and reduce costly imports, according to at least one senior official.

Raul Castro, who has also opened the door to more private initiative in retail and small manufacturing, has made food security a signature issue in his cautious efforts to revive productivity in Cuba's stagnated and battered economy. The Caribbean island, badly hit by damaging 2008 hurricanes and the global economic downturn, imports 60 percent of its consumed food, a huge burden on its economy, while export crops from sugar to coffee and citrus are in tatters.

Farmers in Cuba's interior said the new direct-sale supply stores were just starting up. "There are only eight to 10 items at the moment, but I was told eventually there would be 80," Alberto, a farmer in central Camaguey province who bought two machetes and a sharpener at one of the stores, said in a telephone interview. The stores -- with their current offerings of picks, hoes, shovels, machetes, work clothes and gloves -- are basic in their range of goods and a far cry from local hardware shops in many countries, reflecting both Cuba's poor manufacturing and lack of foreign exchange to purchase supplies abroad. "What's important is that they are beginning. I hope that little by little we will be able to purchase the indispensable equipment and supplies that we need," said Alberto, asking like other farmers that his last name not be used.

In Cuba's long-centralized agriculture system, farmers must produce certain crops or livestock to sell back to the state at fixed prices in exchange for state-assigned supplies. Farmers and consumers complain the cumbersome system sometimes results in rotting crops and farmers going without timely supplies of animal feed, pesticides and fertilizer. Some Cuban economists say the state's monopoly over farm supplies and output holds back production because it does not reward better farmers and penalize unproductive ones, providing little incentive for development or improvement. They have called for more market mechanisms to provide farmers with timely supplies and distribute farm products.

MOVE TO DECENTRALIZE

President Castro has already opened stores where farmers can purchase rudimentary tools and supplies with state coupons they receive in exchange for their products, but these will apparently be replaced by the new outlets where anyone can purchase goods at will in the local currency. "I went to buy some fencing, but was told for now it was only available in the coupon store and I do not have enough to buy what I need," said another farmer, Roberto, from eastern Holguin province. In his reforms so far, Castro has boosted what the state pays for produce, leased state lands to farmers, decentralized decision-making and allowed farmers to sell more of their produce directly to consumers, though often at fixed prices.

Economy Minister Marino Murillo announced in May that the government had approved a five-year plan to modernize the economy and "create in the majority of municipalities supply markets where farmers can acquire directly the necessary resources to produce, substituting the current system of assigning resources centrally." Family farmers and private cooperatives are by far the largest private sector in the communist country where the state controls the bulk of economic activity. These 500,000 farmers, who account for 70 percent of the food produced using just 41 percent of the land, have pushed for more freedom to sell their produce and obtain supplies.

SUGAR

EL SECTOR AZUCARERO DE CUBA, TENDRÁ QUE ELIMINAR PUESTOS DIRECTIVOS INNECESARIOS

Source: EFE; 22 de Julio, 2010

El Ministerio del Azúcar de Cuba tendrá que eliminar puestos directivos "innecesarios" y solucionar el subempleo para revitalizar el sector, que este año tuvo la peor producción en un siglo, según publica hoy el diario oficial Granma.

El rotativo, portavoz del gobernante Partido Comunista de Cuba, indica que los problemas industriales perjudicaron la producción debido a roturas, falta de preparación de los técnicos, poca exigencia de los jefes e incomunicación con los trabajadores, entre otros factores. "Los pobres resultados de la zafra 2009-2010 evidenciaron que sistematizar la eficiencia y bajar los costos exigen eliminar además escalones de dirección innecesarios y lograr un vínculo más directo y fluido con la base productiva", señala el periódico. Además, subraya que para "reordenar la agroindustria azucarera" el Ministerio del Azúcar "está también obligado a solucionar las pérdidas y deudas bancarias acumuladas así como los problemas de subempleo en las fuerzas disponibles".

En mayo pasado Granma anunció el descalabro de la industria azucarera tras la zafra más pobre de su historia desde 1905, con indicadores de "pésima" eficiencia y producción, cuyos detalles no han sido divulgados por las autoridades cubanas. La crisis, que conllevó a la sustitución del titular del Azúcar, plantea ahora una revisión de las estrategias del sector, que en la última campaña sólo cumplió el 56 por ciento de la "norma potencial de molida" de caña prevista. El diario critica este jueves la existencia de "manifestaciones de indisciplina" y "falta de exigencia" de los jefes intermedios a la hora de que se cumplieran "las orientaciones y las normas técnicas".

En ese sentido, también cuestiona "el constante movimiento de jefes ubicados en puestos determinantes en la industria", y destaca que "la capacitación y adiestramiento del personal demandan mayor seriedad y rigor". "Si bien el proceso inversionista no dispone en la actualidad de recursos financieros para enfrentar el actual grado de descapitalización en la industria azucarera, es imprescindible distribuir lo que se tiene con inteligencia y sabiduría", añade. En la temporada 2008-2009, la isla produjo 1,4 millones de toneladas de azúcar y facturó más de 600 millones de dólares gracias a esa industria, que en otras épocas llegó a ser considerada la "locomotora" de la economía cubana. Entre 2002 y 2004 el sector azucarero sufrió una profunda reestructuración en la isla, con la reducción de centrales (fábricas), la eliminación de más de 100.000 plazas de trabajo y la disminución de la superficie de cultivo.

CUBA READIES TO DIVE INTO OFFSHORE OIL EXPLORATION

Source: Reuters, Jeff Franks; July 30, 2010

- * Offshore drilling rig expected in Cuba in early 2011
- * Oil companies preparing for full-scale exploration
- * U.S. companies forbidden by U.S. trade embargo

A Chinese-built drilling rig is expected to arrive in Cuban waters in early 2011, likely opening the way for full-scale exploration of the island's untapped offshore fields. Companies with contracts to search for oil and gas in Cuba's portion of the Gulf of Mexico have already begun preparations to drill once the Scarabeo 9 rig gets to the communist-led island.

An official with Saipem, a unit of Italian oil company Eni SpA ENI.M told Reuters on Friday the massive semi-submersible rig should be completed at the Yantai Raffles YRSL.NFF shipyard in Yantai, China by the end of this year. The journey to Cuba will take two months, and once it arrives it will be put into operation almost immediately, said the official, who asked not to be identified. It will be used first as an exploratory well for a consortium led by Spanish oil giant Repsol YPF (REP.MC) (REP.N), which drilled the only offshore well in Cuba in 2004 and said at the time it had found hydrocarbons.

Cuba has said it may have 20 billion barrels of oil in its offshore, but the U.S. Geological Survey has estimated a more modest 4.6 billion barrels and 10 trillion cubic feet of gas. Repsol has been mostly silent on the long delay in drilling more wells, but it is widely assumed in the oil industry it was due to the longstanding U.S. trade embargo against Cuba. The embargo limits the amount of U.S. technology that can be used, which complicates finding equipment because U.S. companies have long dominated the offshore oil business. Construction of the Scarabeo 9 was begun by Norwegian firm Frigstad Discoverer Invest Limited in 2006, but the company was purchased by Saipem in 2007. The rig was due to be completed by September 2009, but has been delayed because of modifications requested by Saipem, the Saipem official said.

PREPARATIONS UNDERWAY

The official said it was also slowed because the shipyard "had taken on too much work" with other projects. Repsol is said to be planning at least one exploration well and possibly another. The rig will then be passed to other companies with contracts to drill in Cuban waters.

Cuba's portion of the Gulf of Mexico has been divided into 59 blocks, of which 17 have been contracted to companies including Repsol, Malaysia's Petronas PETR.UL, Brazil's Petrobras (PETR4.SA) (PBR.N), Venezuela's PDVSA and PetroVietnam. Repsol is partnering with Norway's Statoil STL.OL (STO.N and ONGC Videsh Limited, a unit of India's Oil and Natural Gas Corp (ONGC.BO). Diplomats in Havana have said Malaysia's Petronas will get the rig next, after Repsol completes its drilling.

Petronas, which has four exploration blocks, has conducted seismic work and built offices for a battery of employees who will come to Cuba for the project, sources said. It also is talking to a possible partner in Gazprom Neft (SIBN.MM), the oil arm of Russian energy company Gazprom (GAZP.MM), whose chief told shareholders last month the company wants to join Petronas in the Cuba project. ONGC Videsh, which has two blocks of its own, separate from its consortium with Repsol and Statoil, has already solicited bids for equipment including sub-sea wellheads and casing pipes for its planned exploration.

Russian oil firm Zarubezhneft has two nearshore blocks it said it plans to drill next year, but also has an agreement with Petrovietnam to participate in exploration of its three offshore blocks. Zarubezhneft opened an office in Havana in June, according to Russian state news agency Ria Novosti. A number of international oil service companies have solicited information about Cuban regulations on issues ranging from safety equipment to finance and taxes, diplomats said.

OIL SPILL CONCERNS

Cuba's state-owned oil company Cupet has been silent about the offshore activity and rejected requests for interviews. A government official said the requests were denied because Cupet did not want to speak during the BP oil spill in the Gulf. The spill has never reached Cuba, but it has heightened safety concerns both in the government and among oil companies with offshore blocks, sources said.

The prospect of drilling in Cuban waters has also raised pollution fears in Florida, which is just 50 miles (80 km) away from the island's maritime boundary. The Saipem official said the Scarabeo 9, which is capable of operating in water depths up to 3,600 meters (11,811 feet), is built to Norwegian standards, meaning it has extra equipment to shut off blown-out wells not required in the United States. Due to the U.S. trade embargo, U.S. oil companies are not allowed to operate in Cuba. Later this month a group from the Houston-based International Association of Drilling Contractors is scheduled to visit Cuba. The group has said it wants to discuss offshore safety issues with Cuban officials and get an overview of deepwater prospects.

Despite five decades of hostile relations, Cuba has said it would welcome the involvement of U.S. companies in developing its offshore fields. Oil expert Jorge Pinon at Florida International University in Miami said U.S. oil service companies would like to enter the Cuban market because it is a new market close to home. "For the U.S. offshore oil industry, Cuba is basically an extension of the Gulf of Mexico. It's not like Angola -- they can provide service from Houston or Freeport or Mobile." (Editing by Todd Eastham)

CUBA PLANS 7 GULF OF MEXICO OIL TEST WELLS-US GROUP

Source: Reuters, Marc Frank; August 17, 2010

- * Drilling of exploration wells scheduled over 2011-2012
- * Estimates vary for Cuba's Gulf of Mexico oil reserves
- * China-built rig expected on island by early 2011

Cuba plans to drill seven exploratory oil wells in its Gulf of Mexico waters over the next two years, according to a U.S. organization that visited the Communist-ruled island to discuss energy development.

Sarah Stephens, executive director of the Center for Democracy in the Americas, said meetings between energy experts she brought to the island in July and Cuba's state oil monopoly Cubapetroleo (CUPET) left no doubt about the Caribbean nation's determination to develop its offshore oil reserves "Repsol, a Spanish oil company, is paying an Italian firm to build an oil rig in China that will be used next year to explore for oil off the shores of Cuba," she told Reuters in a written response to questions. "Whether it's available in commercially viable amounts we do not yet know. We were told by sources in Cuba that seven such wells will be drilled over 2011-2012. If this drilling finds significant oil, you could have production taking place as early as 2014 and as late as 2018," Stephens said. Her non-profit group, based in Washington D.C., says it works to improve U.S. policy toward the Americas including Cuba. It opposes existing U.S. sanctions against the island.

Cuba's government has declared its interest in developing the country's offshore oil resources but rarely gives details of its plans in public. The energy analysts on the trip to Havana included Michael A. Levi, Director of the Program on Energy Security and Climate Change at the Council on Foreign Relations, Ronald Soligo from Rice University, and Lisa Margonelli, Director of the Energy Policy Initiative at the New America Foundation. Cuba estimates it has up to 20 billion barrels of oil in its offshore areas, but the U.S. Geological Survey has estimated a more modest 4.6 billion barrels and 10 trillion cubic feet of gas. Mexico and the United States, which share the Gulf of Mexico with Cuba, have been producing oil and natural gas from under its waters for decades. Cuba currently produces about 60,000 barrels of oil per day (bpd), all from onshore wells. It receives about 115,000 bpd from ally Venezuela on favorable terms.

OIL EXPLORATION MOVES

Speculation about Cuba's deep water exploration plans and statements concerning imminent drilling have increased since Repsol YPF <REP.MC> drilled the only offshore well in Cuba's untapped waters in 2004. It said at the time it had found hydrocarbons, but not in a commercially viable amount.

Industry sources blame delays in further oil development on problems with financing and fear of sanctions under Washington's 48-year-old trade embargo on Cuba, which also put a 10 percent cap on use of U.S. technology on the island. But they say it appears serious exploration will finally get under way next year. Part of Cuba's Gulf of Mexico zone is within 50 miles (80 km) of Florida, where U.S. politicians have raised fears that Cuban drilling could lead to an accident like the huge BP <BP.L> <BP.N> oil spill off the Louisiana coast. Norway has been training Cuban personnel for offshore oil exploration for a number of years.

U.S. President Barack Obama's administration has said it would allow U.S. companies that handle accidental oil spills to operate in Cuban waters should the need arise. The China-built drilling rig is expected to arrive in Cuban waters early next year and companies have begun preparations to drill once the Scarabeo 9 rig gets to the island. Preparatory work was moving ahead at the port of Mariel, just west of Havana, the staging area for drilling operations, diplomatic and industry sources said.

Cuba has divided its share of the Gulf into 59 blocks, 21 of which are already under lease to seven companies. Repsol has announced that its consortium with Norway's Statoil <STL.OL> and ONGC Videsh Ltd <ONGC.BO>, a unit of India's Oil and Natural Gas Corp, will drill at least one well early next year. The Indian firm has started accepting bids to sink another well on two blocks it is exploring separately.

Diplomats in Havana have said Malaysia's Petronas <PETR.KL> is also planning to use the China-built rig. Petronas, which has four Cuba exploration blocks, has conducted seismic work and built offices for a battery of employees who will come to Cuba for the project. Venezuela's state oil company PDVSA has said it plans to sink its first exploratory well in Cuba's offshore next year. Other companies with blocks there are Vietnam state oil and gas group Petrovietnam and Brazil's Petrobras <PETR4.SA>, while firms from Russia, China and Angola are in the process of negotiating exploration rights.

CUBA, MEXICO URGED TO COOPERATE ON GULF DRILLING

Source: Reuters, Marc Frank; August 25, 2010

- * Cuba courts membership of global oil drilling body
- * Gulf of Mexico cooperation would help avoid oil mishaps
- * Cuba plans seven offshore test wells over 2011-2012

Cuba's oil industry wants to work with its counterparts in the United States and Mexico to promote safe drilling practices and avoid the kind of well blowout and spill seen recently in the Gulf of Mexico, a leading drilling industry expert said on Wednesday.

Lee Hunt, President of the Houston-based International Association of Drilling Contractors, told Reuters during a visit to Havana he would like to see Cuba's state oil company join the organization to be able to exchange information with its neighbors on drilling techniques, safety and regulation. "Cubapetroleo (CUPET) is interested in joining and we have an interest in them being a member of the international drilling community," Hunt said in an interview, after two days of talks in Cuba with local industry officials and regulators.

The association officials, making their first visit to communist-ruled Cuba, said they were told the island was planning the drilling of seven test wells in 2011 and 2012 in Cuba's offshore Gulf of Mexico acreage, confirming earlier reports of this development plan. [ID:nN17125278]. Spain's Repsol YPF <REP.MC> has announced that its consortium with Norway's Statoil <STL.OL> and ONGC Videsh Ltd <ONGC.BO>, a unit of India's Oil and Natural Gas Corp, will drill at least one well early next year using a Chinese built rig owned by Saipem, a unit of Italian oil company Eni SpA.

The three consortium companies and Saipem are all associates of the drilling contractors' group, Hunt said. "We are promoting the concept that there is one Gulf, shared by the United States, Mexico and Cuba and want a trilateral industry dialogue on safe practices to ensure unfortunate events such as have occurred in Mexico and more recently in the United States do not happen off the shores of Cuba," Hunt said. Due to the U.S. trade embargo against Cuba, the Houston-based Association of Drilling Contractors, representing 90 percent of the world's drilling companies, will need approval from U.S. President Barack Obama's administration for CUPET to actively join it as a member. But exceptions for states under U.S. sanctions have been granted in the past, for example, to Iran's oil company. "It is in the interest of everyone to promote communications that will prevent blowouts, spills and fires," Hunt said. "A good relationship with the Cuban oil industry is very much in the interest of the American public as it will be drilling within 40 miles (65 km) of Key West next year," he added.

FEARS OF ANOTHER GULF SPILL

Florida politicians have raised fears that Cuban drilling could lead to an accident like the BP <BP.L> <BP.N> oil spill, the world's worst offshore oil accident, off the Louisiana coast in the Gulf of Mexico. The Obama administration has said it would allow U.S. companies that handle and clean up accidental oil spills to operate in Cuban waters should the need arise. Hunt said safety recommendations made by his organization to the U.S. administration in the wake of the BP spill were already in place in Cuba. "The Cuban oil industry has put a lot of research, study and thought into what will be required to safely drill ... they are very knowledgeable of international industry practices and have incorporated many of these principles into their safety and regulatory planning and requirements," he said.

CUPET estimates it has up to 20 billion barrels of oil in its offshore areas, but the U.S. Geological Survey has estimated a more modest 4.6 billion barrels and 10 trillion cubic feet of gas. Cuba currently produces about 60,000 barrels of oil per day (bpd), all from onshore wells. It receives about 115,000 bpd from ally Venezuela on favorable terms. The China-built drilling rig is expected to arrive in Cuban waters early next year and companies have begun preparations to drill once the Scarabeo 9 rig gets to the island. Cuba has divided its share of the Gulf into 59 blocks, 21 of which are already under lease to seven companies.

Diplomats in Havana have said Malaysia's Petronas <PETR.KL> is also planning to use the China-built rig. Venezuela's state oil company PDVSA has said it plans to sink its first exploratory well in Cuba's offshore next year. Other companies with blocks there are Vietnam state oil and gas group Petrovietnam and Brazil's Petrobras <PETR4.SA>, while firms from Russia, China and Angola are in the process of negotiating exploration rights.

OIL EXPLORATION IN CUBA EXPECTED TO GO AHEAD

Source: FT.com, Marc Frank; August 29, 2010

Preparations for full-scale oil exploration are gaining momentum in Cuba's Gulf of Mexico waters just 50 miles from the US, testing the limits of the trade embargo on the Caribbean nation.

Cubapetroleo, the state oil monopoly, says seven exploration wells are scheduled for the Cuban waters up to the end of 2012. A new Chinese deep-water rig, owned by Saipem, a unit of Italian oil company Eni SpA, is scheduled to leave its shipyard by the end of 2010 for the two-month trek to Cuba. The rig was built to get around the 10 per cent limit on US technology demanded under the US trade embargo of Cuba.

Reparatory work is moving ahead at Mariel, a port west of Havana, the staging area for drilling operations, diplomatic and industry sources said, and some companies have opened bidding for well casing. "It is ridiculous that Repsol, a Spanish oil company, is paying an Italian firm to build an oil rig in China that will be used next year to explore for oil 50 miles from Florida," Sarah Stephens, executive director of the Center for Democracy in the Americas, said. Ms Stephens, whose Washington-based organisation opposes US sanctions, led the first US energy-related fact-finding mission by congressional staff and experts to Havana in July. They concluded Cuba was determined to sink wells and with them the embargo.

Embargo opponents in Washington are backing legislation that would allow US groups to participate in Cuba's offshore oil development, while proponents plan legislation that would impose sanctions on the

foreign groups that do. Florida politicians, who have banned drilling off their coast, and Cuban-American lawmakers, have raised fears of an accident such as the one on BP's Deepwater Horizon rig. According to industry and diplomatic sources, companies from Spain, India, Norway and perhaps Malaysia – all US allies – have already contracted the rig, while others, from Vietnam, Venezuela and Brazil are not far behind.

Russian and Chinese companies are negotiating to obtain offshore blocks or partner with the other companies. Repsol drilled the only offshore well in Cuba's waters in 2004. It said at the time that it had found hydrocarbons, but not in a commercially viable amount. Since then, according to Manuel Marrero Faz, oil adviser to Cuba's Ministry of Basic Industry, extensive seismic work has revealed 15 sites with a high probability of oil.

Mr Marrero estimates Cuba has up to 20bn barrels of oil in its offshore areas, while the US Geological Survey puts the figure at a more modest 4.6bn barrels and 10,000bn cu feet of gas. Cuba currently produces about 60,000 barrels of oil per day, all from onshore wells. It imports about 115,000 b/d from ally Venezuela on favourable terms. The Obama administration has refrained from denouncing Cuba's drilling plans and appears to favour limited co-operation.

The administration recently said it would allow US companies that handle and clean up oil spills to operate in Cuban waters should the need arise and granted approval for executives from the Houston-based International Association of Drilling Contractors to visit Cuba last week. Lee Hunt, association president, told the Financial Times he was impressed by Cuba's preparations and regulatory regime, which included measures his group had proposed to the Obama administration after the BP disaster. He added: "There is one Gulf shared by three countries. We are promoting co-operation between their industries to insure the unfortunate events that occurred in Mexico and more recently in the United States do not happen here".

Jorge Piñon, a visiting research fellow at the Cuban Research Institute of the Florida International University, said more should be done to wean Cuba from energy dependence on Venezuela and insure safety. "The United States should enable oil companies working in Cuba access to equipment and technology that would allow the monetisation of Cuba's hydrocarbon resources in a safe and responsible manner," Mr Pinon added.

FOREIGN INVESTMENT

FOREIGN INVESTOR GET 99-YEAR LEASE ON STATE LAND

Source: Cuban Standard, Johannes Werner; August 30, 2010

In an effort to "expand and facilitate the participation of foreign investment in international tourism," the Council of State published a much-expected decree that provides a legal framework for residential construction by foreign investors, granting leases on state land for up to 99 years.

Cuba, which offers only two golf courses, hopes to broaden its tourism base with the move, attracting a wealthy clientele. Decree-law 273, published in the Gaceta Oficial No. 33 on Aug. 26, reverts a decade-old de facto freeze on foreign residential construction after a short-lived experiment with condominium projects in Havana. The new law is expected to trigger golf and marina condominium construction far away from urban centers. At least four projects have been on the drawing boards of foreign investor groups for months and, in some cases, for years. "I think this action is very significant for several reasons," says Antonio Zamora, a Miami lawyer who has researched foreign real estate investment in Cuba for more than 10 years. "First and foremost, it happened. It signals that the Raúl government is moving to open up the economy towards the Vietnam model. Fidel and his group are not opposed or cannot stop the moves."

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The government will begin negotiations with foreign investors about construction of up to 16 golf courses and condominium communities in January, Tourism Minister Manuel Marrero announced on Aug. 1. The 16 projects “have already been approved by the Council of Ministers, are in the process of implementation, and it’s being concluded,” Marrero said in early August. Foreigners interested in development projects on the island must go through three stages — identifying a Cuban partner, obtaining approval from the foreign investment and tourism ministries, and finally getting the go-ahead from the Council of State. According to Marrero, negotiations on four golf course projects are “very advanced.” They include one in the eastern province of Holguín, one in western Pinar del Río, and two located between Havana and the beach resort of Varadero. The new regulations could spawn an unprecedented construction boom of as many as 7,000 golf course condominium units, estimates Antonio Zamora. The government designated about 80 sites as suitable for golf course development, according to Zamora.

The new regulations will also open up opportunities for construction of marina-only condominium projects, Zamora suggests, adding that the government is pondering as many as six residential developments connected to marinas. This could add another 4,000 units, he believes. Many details remain foggy; a body of regulations surrounding foreign condo communities has yet to be published. The government hasn’t said how often or quickly owners might be allowed to sell. No regulations exist regarding owners being able to lease their properties. And there is no information yet as to what kind of taxes and fees the government would charge. Also, Cuba has yet to announce whether it will relax sticky regulations such as how long and under what conditions foreigners are allowed to stay in the country at a time, and under what conditions foreign part-time residents will be allowed to bring, sell or re-export personal property such as appliances, furniture and automobiles. Currently, foreigners are allowed to stay up to six months at a time. Finally, the probably most controversial issue is the potentially large influx of Cuban American property buyers. Due to U.S. restrictions, Cuban Americans cannot legally buy property in Cuba, but observers expect wealthy Cubans living abroad to be the largest potential group of buyers. Says Zamora: “Real estate sales, golf and marinas can’t work well without Americans. Perhaps there is also a role for Cuban Americans in this effort.”

While Cuban officials steadfastly deny to be following any foreign model, the experiences of Vietnam and China provide a glimpse as to what should be expected from Cuban real estate regulations for foreigners. Vietnam grants considerable freedom to foreign developers, but foreign apartment buyers are fairly restricted. As in Cuba, ownership in Vietnam is technically a long-term lease from the state. Foreign apartment owners are allowed to own only one piece of property at a time, and can’t sell before one year. Non-resident owners in Vietnam cannot lease their property. China is even more restrictive when it comes to foreign real estate buying. Only foreigners who have worked or studied in China for more than one year can buy homes or apartments. Foreigners cannot lease their properties. However, exempted from lease restrictions are Chinese citizens living overseas.

Cuba’s decree-law 273, aiming to provide “greater security and guarantee to the foreign investor in the real estate business,” is based on the legal concept of “usufructo.” The concept allows foreigners to buy, mortgage and sell properties, or pass them on as an inheritance during the life of the lease. Cuba’s usufructo approach isn’t novel. Mexico, whose constitution until recently prohibited foreign ownership of land near the coast and borders, introduced a similar land use concept for foreigners in the 1990s. Decree-law 273 modifies articles 221 and 222 of the 1987 Surface Law in Cuba’s civil code. Article 221 now stipulates that the state must issue a “surface right” title for each property subject to usufructo, including information about the property’s limits, conditions of use, and the time period, structure, nature and destination of the buildings or the specific activity planned for the property.

Article 222 specifies that state-owned land can be leased for up to 99 years; stipulates that, in case the land is leased for a shorter period, the contract can be extended to up to 99 years; and states that the state can sell properties to Cuban companies planning to build tourism-related homes or apartments on the land.

The foreign investment law of 1995 specifically allows the sale of real estate to foreigners for tourism purposes and offices. However, the government has been struggling for years to establish the ground rules for foreign real estate ownership, a delicate topic in Cuba's egalitarian political system. Cuba aborted a first run on foreign condominium construction in the late 1990s. In 2000, the government poured cold water over a mini-boom in Havana, when it stopped all sales of newly built condos and bought out its foreign partners. According to Zamora, the problem in 1998-99 was that the government failed to put any provision against flipping in the contracts. Because the buildings were located in the middle of Havana, many Cuban friends and family of the owners ended up living in the new condos, which in turn caused resentment among fellow Cubans living in dire housing conditions. Even so, some 400 new units in Havana were sold in a five-year span; most of them continue to be in the hands of foreigners.

The new generation of projects is different, because they are in remote locations outside the big cities. This, in turn, might spawn another side business, Zamora suggests: The construction of workforce housing nearby. The most public of the four most advanced investor groups has been **Esencia Hotels & Resorts**. The British company announced in late 2008 it wants to build a golf course community, the \$400 million **Carbonera Country Club Resort in Varadero**. Carbonera is planned for 730 units, around an 18-hole golf course and marina. Meanwhile, a **British-Spanish group hired Foster + Partners**, the company around renowned architect Sir Norman Foster, to design a 2,000-unit community near Bahia Honda in western Pinar del Río province, around three golf courses and a 200-slip marina. **Vancouver-based Leisure Canada** is redesigning its master plan for a three-course golf resort with marina village at Jibacoa, 50 miles east of Havana, according to President and CEO Robin Connors. A later stage of the project will include cottages, Connors says. Also, a privately owned Vietnamese company, Housing & Urban Development Corp. (HUD), reportedly is planning to build at least one golf course community, including one inland, just west of Havana. Four golf projects are in advanced stages.

CUBA AND ITS PARTNERS

CUBA, VENEZUELA SIGN OVER 100 COOPERATION AGREEMENTS

Source: Xinhua; July 27, 2010

Cuba and Venezuela signed 139 bilateral cooperation agreements on Monday in northeastern Cuba. The agreements were signed during a meeting between Cuban leader Raul Castro and Venezuelan Vice President Rafael Ramirez in Cayo Santa Maria, 350 km east of the Cuban capital of Havana, the official news channel NNTV said.

The cooperation projects, which focus on food, energy, mining, healthcare and light industries, will be launched immediately. Trade between Venezuela and Cuba reached 3.138 million U.S. dollars in 2009, according to Cuban figures. Caracas supplies Havana with 100,000 barrels of oil daily, while receiving services from about 30,000 Cuban doctors and specialists in other branches. Castro and Ramirez also attended a ceremony in Santa Clara Monday morning, commemorating the assault led by former Cuban leader Fidel Castro on the Moncada Barracks in Santiago de Cuba on July 26, 1953. The date marked the beginning of the armed struggle against the regime of dictator Fulgencio Batista.

Ramirez was representing Venezuelan President Hugo Chavez during the meeting with Raul Castro. Chavez canceled his planned trip to Cuba on Sunday because of a diplomatic spat with neighboring Colombia. Venezuela broke off relations with Colombia on Thursday after Bogota accused Caracas of supporting 1,500 Colombian guerrillas in its territory, a claim rejected by Venezuela.

CUBAN CIGAR DEALER FIGHTS BANS, HARD TIMES

Source: Reuters, Marc Frank; July 5, 2010

- * Cuban cigar sales rebounding from 2009 decline
- * Habanos focusing on high end of cigar market
- * Company promoting new smoking places to fight bans

Improved economies and new tactics to fight smoking bans have led to increased sales of Cuban cigars this year, after a decline of 7.7 percent in 2009, the exclusive international distributor of the world's favorite cigars said on Monday.

"Through the end of May sales rose in practically all regions and were up overall 4.3 percent and the tendency continued in June," Manuel Garcia, vice president of sales for Habanos S.A. told Reuters in an interview. The two big exceptions were in Spain and Greece, where current economic crises have hit sales, he said. Cigar sales are an important source of income for the cash-strapped communist-led island, garnering \$218 million last year.

The company, a joint venture with British tobacco giant Imperial Tobacco Group Plc <IMT.L>, expects demand for premium cigars to fall a few percentage points in the coming years. To boost revenues, it is targeting the highest end of the market and fighting what amounts to a guerrilla war against the global spread of smoking bans. "Smoking bans and the economic environment do not allow you to smoke more, so 'smoke better' is our motto," Garcia said. "If you used to spend 15 euros (\$18.75) a day or a week on three cigars, now you might spend 16 euros (\$22.50) on two higher quality ones," he said.

Last year the number of millionaires reportedly increased significantly as the world recovered from financial crisis, which was good news for luxury products like the famed hand-rolled Cuban cigar, the Habanos executive said. "The more people with money, the better it is for us, if they smoke that is," Garcia said. Sales are strongest in the Asia-Pacific region, in particular China, where the number of wealthy is growing faster than in other regions.

CURED COHIBA

"It is all about value added, collectibles, limited editions, exclusives," said Javier Terres, the company's development vice president, in the same interview. Terres pointed to the company's latest limited edition of a specially cured Cohiba cigar, the Behike, that sells for at least 35 euros (\$43.75) and has received twice the orders as the number available. He said a significant reduction in tobacco planting and cigar production last year did not mean Habanos S.A. was on the ropes. "Although Habanos sales dropped in 2009, its share of the premium cigar market improved," Terres said, "and now accounts for 71 percent of unit sales and 85 percent of value."

The numbers exclude the United States market, where sales are banned under the longstanding U.S. trade embargo against the island. Revolutionary Cuba has never been known for backing down from a fight, so it is no surprise that Habanos is striking back against smoking bans. "Our fundamental objective is figuring out how we can get around the bans and move forward in an extremely adverse environment," Garcia said. "Even if you have money you have to find a place where you can enjoy a cigar, as it is not like a cigarette that you consume in five minutes on the run," he said.

The company has wholesale distributors in 70 countries, 142 specialized outlets called Casas de Habanos that promote cigars and other Cuban merchandise such as rum and coffee, and thousands of retailers that specialize in their product. Terres said they were all hard at work promoting what Habanos calls "Comfortable Outdoor Smoking Areas" and private cigar clubs in countries such as Germany and the United Arab Emirates. The creation of outdoor smoking areas had already reversed a downward trend in Britain, Terres said. "The turn-around demonstrates the culture of the Habano continues to exist, but in a completely new environment," he said.

CUBA, WITH EYE ON GOLF, LIBERALIZES LAND LAW

Source: Reuters, Esteban Israel; August 26, 2010

- * Foreign investors can use state land for 99 years
- * Golf course developers have pushed for the change

The cash-strapped Cuban government will allow foreign investors to use state-owned land for up to 99 years in a change that is likely to bring developments of luxury golf courses to the communist island. The new law, published in the Official Gazette on Thursday, was said to be aimed at "facilitating the process of participation of foreign investment in international tourism" by giving "greater security and guarantee to the foreign investor in the real estate business."

Cuban authorities have said that a dozen or so golf developments are under consideration as they seek ways to boost tourist revenues for the fragile economy. Before the legal change, which was decreed in July but not announced until Thursday, Cuban law permitted use of state lands for 50 years. Most land in Cuba belongs to the government.

Foreign investors who have proposed the golf developments say the 99-year limit is necessary to attract buyers and make their projects, which will feature course-side homes, financially viable. Cuba, which discouraged the sport after the 1959 revolution, has only two golf courses. Cuba attracted about 2.4 million tourists last year, and is hoping golf will bring wealthier visitors to the island.

Officials are also planning for the day when the United States, 90 miles (145 km) away, ends its longstanding ban on travel to Cuba. Legislation is pending in the U.S. Congress that would lift the ban that is part of the 48-year-old U.S. trade embargo against Cuba. President Raul Castro has undertaken various reforms to improve the Cuban economy, with the goal of ensuring the survival of the communist system installed after the revolution that put his older brother Fidel Castro in power.

Earlier this month, he told the national parliament that the government would grant more licenses for people to operate small businesses. In another decree published in the Official Gazette on Thursday, the government said it would allow small-time private vendors to sell agricultural products from roadside stands. The concept has been in use in some parts of the country since last year, but now is official national policy.