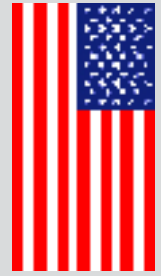




Cuba Trade & Investment News

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April 2005

Embargo Update

DIRECT MED SALES BECOMING REALITY

A small medical firm in Tennessee is poised to become the first U.S. company to make a substantial direct sale of medical goods to Cuba in more than four decades.

Wortham Laboratories Inc., based in Chattanooga, will



announce at a press conference during the Salud

Para Todos fair in Havana April 18-22 that clinical tests in Cuba for a blood-clotting medical device called FastAct have been successfully completed, and that Cuba has declared its intent to buy the product.

Cuba is interested in the medical device, used to reduce bleeding, because it saves lives and minimizes surgery time and post-surgery hospital stays, thus lowering costs.

The regulatory go-ahead is still pending in the United States, but FastAct has already been approved for use in the European Union. Thanks to this, Cuba required only clinical tests for FastAct, instead of full-blown clinical trials.

During tests in Cuba, which began in Spring 2004, company founder and surgeon Leon Wortham worked side by side with surgeons in Cuban hospitals. Also, he personally held training sessions with Cuban doctors.

This close cooperation allowed Wortham to clear the main U.S. regulatory hurdle, says Michelle Butler, CEO of San Diego-based Navarretta Group, which assisted Wortham in introducing the device to Cuba. Navarretta Group last year obtained a two-year license from the Department of Commerce for Wortham to export FastAct to Cuba.

Continued on next page (also see page 3)

Next for Wortham: Joint medical research?

In April, Tennessee-based Wortham Laboratories and Navarretta Group will discuss with Cuban officials "the potential of entering into joint research projects in the areas of cancer and AIDS," said Navarretta Group consultant Michelle Butler.

Company founder Leon Wortham also practices as a surgeon at the University of California at Los Angeles (UCLA). Butler plans to make a presentation during Cuba Action Day in Washington, April 27, about joint medical research between U.S. and Cuban institutions.

Economy

SHERRITT, CUBA EXPAND NICKEL JV

Sherritt International Corp. signed a long-expected agreement with Cuba March 5 to boost nickel production in the eastern part of the island. The partners will invest \$450 million to increase nickel and cobalt output at the Pedro Soto Alba operation in Moa, Holguín province, from 33,000 metric tons a year to 49,000 tons by 2007. The joint venture partners also agreed to upgrade a refinery in Canada that processes the entire production of Soto Alba.



Sherritt refinery in Fort Saskatchewan: Cuba invests

In an apparent sign of newfound liquidity, Cuba will provide half the investment amount, \$225 million. In previous projects, Sherritt provided the entire investment.

"The sea change is that the government decided on the strength of the economics to fund their share," said Sherritt President and CEO Jowdat Waheed.

President Fidel Castro and Sherritt International Chairman Ian Delaney were present for the signing ceremony in Havana.

Marcos Portal, the former Basic Industries and Mining minister, lost his job last fall over what officials characterized as mismanagement of nickel expansion, among others.

In the agreement, Cuba granted Sherritt ore reserve concessions for 25 years at the expanded rate of production. Cuba will also assess expanding output at Soto Alba by an additional 32,000 tons.

Soto Alba is operated as a joint venture between the Canadian company and state company Cubaníquel S.A. •

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More Embargo News

medical sales, cont'd from page 1

The main U.S. obstacle for medical sales to Cuba has been an end-use monitoring regulation, forcing the seller to make sure the products won't be re-exported or used in Cuba's dollar sector. Butler says FastAct will only be used in hospitals accessible to the Cuban population at large (also see p. 3).

State importer Alimport S.A., which handles the business side of the transaction for Cuba, last year signed a letter of intent with Wortham and Navarretta Group to buy — without stating a dollar amount — the device if it passes clinical tests. The clinical tests in Cuba, according to Butler, showed 97 percent to 100 percent efficiency of FastAct.

State agency Medicuba is overseeing the medical aspects of the undertaking.

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Early this year, Cuba Trade & Investment News arranged for more frequent and improved news flow from Cuba. This arrangement has significantly added to our overhead. We are therefore, as of June 1, 2005, raising the price of an annual subscription to \$300 (\$250 academic rate). You will realize that your and our investment is worth every cent. Subscriptions postmarked, e-mailed or faxed before June 1 will be billed at the old rate of \$215. Don't delay!

CUBA TRADE EXPERT RESIGNS

John Kavulich announced his resignation as president of the U.S.-Cuba Trade and Economic Council, after more than a decade at the helm of the influential organization he created. In an emotional letter he sent to members March 14, Kavulich emphasized the non-profit character of his New York-based organization, as well as his efforts to provide accurate information. Most of all, he expressed his frustration over recent trends in U.S.-Cuban politics, and his anger over "two-bit" players crowding the field in the United States..

It isn't clear whether publication of Kavulich's newsletter, Economic Eye on Cuba, will continue, and whether the organization will remain intact. The Council is fully funded and can continue, Kavulich said. He said he took the final decision to resign after the death of his father in August 2003.

More embargo news on page 7

More on Cuba's Economy

'VIOLENT DROP' IN SUGAR HARVEST EXPECTED

Cuban Sugar Ministry officials say they are expecting a "violent drop" in the yield of the current sugar harvest, due to the ongoing drought. The 2004-2005 harvest could total as little as 1.5 million metric tons, down 30 percent from last year, and the lowest since 1909 when the country produced 1.56 million tons. Last year's harvest yielded 2.5 million tons.

News agency Reuters quoted sugar trade analysts saying that Cuban sugar exports to Russia, Cuba's main sugar export market, will be cut, with Brazil picking up the slack.

Fidel Castro in a speech called sugar "Cuba's ruin," and added that Cuba shouldn't depend anymore on a product that makes the nation's economy subject to climatic conditions and has historically produced a poor underclass .

One Sugar Ministry official quoted by Spanish news service EFE said that not the drought, but the lack of sugarcane and frequent breakdowns in sugar mills was to blame for the drop. Productivity, measured as amount of sugar gained per ton of sugarcane, was below expectation in most sugarmills, the official said.

Bad news is good news for sugar exporters

Cuba traditionally retains 700,000 tons of its production for domestic consumption, according to Reuters. But this year, Cuba has already begun to buy sugar abroad, mainly in Colombia. Alimport S.A. Chairman Pedro Álvarez said his company would consider buying Louisiana sugar. North Carolina broker P.S. International tried last year to sell U.S. sugar to Cuba, but failed to secure the necessary quantities.

CUBA SEEKING URUGUAYAN FOOD PRODUCTS

Uruguay's and Cuba's foreign ministers promised in Montevideo last month to analyze a trade exchange agreement under which Uruguayan companies would supply Cuba with dairy and other agricultural products. The South American nation is a major beef and grains exporter. Cuba would supply Uruguay with medicine and health technology.

Cuba expects to ratify a similar agreement, worth an estimated \$200 million, with Argentina soon.

More economy news on page 8

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Cuba on the Hill



By Dan Waltz

Turning a law on its head

I wrote last month about the (to me) surprising decision by the Office of Foreign Assets Control (OFAC) to insist that U.S. food exporters actually receive payment for their goods from Cuba before they leave the United States, instead of simply declining to extend credit to the Cuban purchaser. Well, that story continued to play front and center in this past month's U.S.-Cuban developments.

The new rules were published in February, but only took effect March 24. As the effective date approached, powerful agricultural groups made an effort to roll back the new rule, or at least further extend its effective date. Among other things, the ag lobby argued that the newly imposed rules had the effect of abrogating or invalidating contracts that had already been signed. In the past, this argument had proved effective. This latest effort proved fruitless, however. The new rules became effective on schedule.

Congress, of course, has not been passive in the face of this latest crackdown on legitimate trade with Cuba. Let's not forget that agricultural sales to Cuba were endorsed, and permitted, by Congress only a few short years ago. Many of the supporters of agricultural sales to Cuba are members of Congress who happen to be Republican on the one

Continued on page 4

Analysis: Medical exports

How to clear the monitoring hurdle

U.S. Department of Commerce regulations require U.S. medical exporters to continuously report on the end-use of their products in Cuba, thus ensuring they won't benefit Cuban government officials or end up being used in medical tourism. Michelle S. Butler, CEO of the Navarretta Group, described in detail for Cuba Trade & Investment News how medical company Wortham Laboratories Inc. successfully made its case to the Department of Commerce. Butler assisted Wortham in its application to export FastAct, a blood-clotting medical device, to Cuba (see "Medical sales," p. 1).

"It is really a step-by-step process.

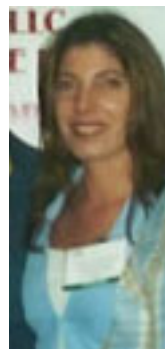
For example, in April Cuba will give 45 Cuban doctors diplomas that certify them as authorized to use [FastAct]. Right now, they are the only doctors, according to Cuban regulations, that can use the product. We trained them, and they are all from institutions that serve the Cuban people only. Hence, we are to date in compliance.

If we do our first sale in April, we are in compliance. Cuba will not allow any other doctors to use the product, not because they care about the U.S. monitoring requirements, but because the doctors are not trained. So we know they will be the only ones to use it. That is the criterion with which we applied for the [Department of] Commerce license. That was an approved monitoring method, and we will provide a report.

Furthermore, on our end, we can track how much we sell, and if that matches the amount that should be used in each hospital.

Next, after we begin small sales, we will train other doctors. However, we will work together to do the training sessions, thus certifying only those that work in hospitals and clinics that serve the Cuban people.

In addition, inherent in the product is the fact that it is most useful to the Cuban people. The most useful place for this particular product will be in rural areas. For instance, if a person is far from a well-equipped hospital, as is often the case in rural Cuba, in an emergency situation they could bleed



Michelle Butler

to death before they get to proper care. This is where the product would be of the greatest benefit.

In addition, the argument often is that Cuba will only buy superior products for the tourist hospitals. However, this product saves money over time, by cutting down surgery time as well as recovery time, and thus requires less anesthesia and pain relievers. There is an economic

benefit for Cuba to use this product as a primary product within the Cuban health care system.

In addition, the surgeries in which it is really exceptionally useful are the types for which tourists do not go to Cuba.

One of the best uses for the product is in amputations. For instance, we have done a number of surgeries in Cuba on those getting lower limbs amputated due to complications with diabetes. Really these are not the people traveling to Cuba for surgeries. Other surgeries that FastAct has been found to be very useful in is in mastectomies. So the very nature of the product makes it most beneficial to the types of surgeries being performed on the Cuban population.

"We are slowly building the type of relationship with Cuba that is necessary to fulfill these requirements."

MICHELLE BUTLER

Continued on page 4

cont'd from previous page

As we begin sales and proceed, we will have to work closely with [the U.S. Department of] Commerce, report our activities, and make a case as to why we feel we are benefiting the Cuban people.

It will be evident from our reports to Commerce, and the analysis and surgeries done in the testing, that the focus really has been with the Cuban people. It verifies the hospitals we have been working with, which is key to Commerce reporting. Anyone who has



Leon Wortham (r., face partially covered) presenting FastAct to Cuban medical purchasers

been to these particular hospitals can verify that these products are only for the Cuban people.

It is also quite easy to calculate the number of surgeries done monthly in these hospitals and verify that against how much of our product we are selling.

These are examples of the promises we made to Commerce, and this is how we plan to ensure compliance. What we are really doing is slowly building the type of relationship with Cuba that is necessary to fulfill these requirements. That is what we plan to do, taking it one step at a time.”•

Cuba on the Hill (contd.)

hand, and thus generally predisposed to support the agenda of President Bush, but also representatives of districts or states that are predominantly agricultural. While these Republican members might support President Bush on most issues, it's actually quite easy to oppose him on the Administration's decision to make ag sales more difficult. After all, your member of Congress doesn't need to profess any great admiration of Fidel Castro or his government. Indeed, your member needn't get involved in the Cuban debate whatsoever. All your member has to do is stand up in support of the ability of American farmers to increase their export sales. Hardly a controversial proposition.

In mid-March, the House Committee on Agriculture held a hearing in large part centered on the new OFAC rule, and House Committee Chairman Bob Goodlatte (R-Va.) later pledged that he would monitor sales of U.S. products to Cuba, to ensure they are not negatively impacted by the newly imposed restrictions on payment terms. On the Senate side, Max Baucus (D-Mt.) has renewed his vow to block Administration nominees to important posts within the Treasury Department. This threat takes on added weight given the recently announced resignation of John Taylor, since 2001 the Treasury Department's Undersecretary for International Affairs. Mr. Taylor is widely respected and his position is an important one. If Sen. Baucus is serious about blocking new Treasury nominees to make a point about OFAC's implementation of the embargo, the nomination of Taylor's replacement is the perfect opportunity.

OFAC Director Robert Werner testified at the March hearing. His testimony made it clear that OFAC's new rule did not call into question the propriety of selling agricultural products to Cuba if payment is provided under a letter of credit. This is hardly surprising insofar as the statute that

prohibits the prohibition of these sales explicitly allows for payments under a letter of credit. (Is it only when discussing U.S. embargoes that I'm driven to write a sentence that includes the phrase "prohibits the prohibition"?) At the same time, Director Werner went to some pains in explaining that the same statute, requiring payment either under a letter of credit or payment of "cash in advance," did not contemplate "payment of cash against documents."

This seems to turn the statute on its head, however. After all, what is a letter of credit? It is a payment mechanism that allows a seller to ship products before receiving payment, because the seller is confident that, if he or she presents the documents required under the letter of credit, he will be paid. Stated differently, a letter of credit transaction is essentially a "sale against documents." So why is this O.K. when a letter of credit is involved, but not O.K. when the (Cuban) buyer and the (U.S.) seller reach essentially the same agreement without involving a bank? At the level of policy, this seems a distinction without a difference. Director Werner did not address this issue, however, limiting himself instead to the text of the statute and the results of an interagency consultation. As a practical matter, it appears that the Cuban purchaser Alimport is willing to continue to buy from U.S. vendors, but that the added expense and hassle of using letters of credit will limit future purchases to large contracts and large vendors. So who gets screwed by the new policy? The small farmer and small enterprise.

The Congressional calendar gets into full swing in the coming months. Cuba faded somewhat from the scene while the Presidential campaigns were in full swing. Let's see what the coming months bring.

Dan Waltz is a partner at the Washington DC-based law firm Patton Boggs LLP. He practices in the area of international trade with a focus on imports and exports generally, and embargoed countries such as Cuba more particularly.

Will LC's curb exports?

Beginning March 24, a reinterpretation of regulations by the U.S. Treasury Department forces Cuba to pay U.S. suppliers with letters of credit, instead of cash, as had been the custom for the past three years (see 'OFAC forces...', p. 8). On the one hand, letters of credit make transactions more secure for sellers. But letters of credit issued by third-country banks also add time, paperwork and cost to transactions. Will this measure curb U.S. food exports to Cuba? Alimport Chairman Pedro Álvarez has pointed out that small U.S. companies selling smaller quantities will have a harder time participating in the trade, and that the restriction is reducing the overall competitiveness of U.S. products.

U.S. exporters can be found on opposing ends of the opinion spectrum regarding the letters of credit issue. Cuba Trade & Investment News asked two food and commodity traders about the forced letter-of-credit transactions. Both executives are with small-to-midsize Louisiana companies that signed letter of credit-based sales contracts with Alimport in March.

Robert "Bobby" Hanks, president of Louisiana Rice Mill LLC, in March signed an agreement to sell 10,000 metric tons of milled rice to Alimport. The privately owned rice processor is based in Mermentau, a small town in Southwest Louisiana.

Peter J.H. Legemaate, president of AnPro Trading LLC, in March signed an agreement to sell 160 metric tons of powdered milk to Cuba. AnPro, based in Metairie, specializes in exports of dairy products and ingredients.

"The letters of credit put us at a huge disadvantage. This was a topic during our negotiations with Alimport. It takes five to six days to put together the paperwork, plus a few more days for the bank to review the papers. Documents are generated when the goods are loaded. However, transit time from U.S. ports to Cuba is two to three days. When the vessel arrives, it's ready to discharge. But if the letter of credit isn't there, the goods will have to remain in the vessel. This means substantial cost in demurrage.

"Letters of credit are a secured method of payment used worldwide to avoid non-payment or non-performance issues. The cost is relatively small and can easily be absorbed in the total cost/price of the goods. I really don't understand why this would be a disadvantage for U.S. companies. European and other countries are using the same payment methods in their trade with Cuba. We can be very competitive due to our logistical advantage. This advantage will remain to exist, even with payment through a irrevocable letter of credit at sight and the related costs that come with it. If the cost of a letter of credit makes or breaks a deal, my strong advise would be not to do the business at all, since obviously you are not making enough money in the first place."

Cuba has paid reliably in the past. So we prefer cash-for-documents over letters. If the law [sponsored by Sen. Larry Craig] passes, both Alimport and U.S. exporters would like to go back to the previous method."

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Embargo Update
U.S. BLOCKING CUBA SALES
Although the Department of Treasury rejected a formal embargo on U.S. food sales to Cuba when it announced Feb. 22 that goods must be paid in cash while they still are in American ports, Cuba said it would have continuing contact and, if possible, continue to buy U.S. foodstuffs through Alimport S.A. as an alternative to cash. It made it clear it wants the payment process to be completed as quickly as possible.
Despite Cuba's embargoes, U.S. sales likely will be disrupted after a 30-day grace period Treasury imposes after March 24. Cuba will face the risk of having its goods seized.
Continued on page 2

CONGRESS PREPARES FOR BIG BATTLE
A resolution (H.R. 2005) proposed by Sen. Larry Craig (R-Id.) that would remove the embargo on Cuba food sales may be introduced to the Senate floor in the first week of March. Supporters of the Agricultural Export Facilitation Act of 2005 include a diverse Republican base of rights and farmers who have previously taken positions on Cuba. High-profile backers such as Finance Committee Chairman Chuck Grassley (R-Iowa), Intelligence Committee Chairman Pat Roberts (R-Kan.), and Foreign Relations Committee Chairman Nick Rahall (R-Ohio) indicate the bill will be re-introduced yet in a form of embargo-easing legislation.
As of late February it was still unclear whether H.R. 2005 will have congressional momentum. Rep. Tom Moran (R-Ky.) on Feb. 9, can succeed. In order to speed up the process and increase the likelihood of success, Rep. Tom Amodeo (R-Miss.) is at it. He has considered introducing a more narrowly focused bill that would focus exclusively on the terms of payment. That bill would be attached to bigger bills.
Some observers believe that under the best circumstances, it could be a year before the bill is passed. It is hard on the President's side. There is the question of how long it will take for the bill to be passed. It is hard on the President's side. There is the question of how long it will take for the bill to be passed. It is hard on the President's side.

MEMORIO ASSOCIATION BACKS CUBA
Cuba is expected to begin negotiations with Moscow soon regarding a 10-year partnership with the South American trade bloc, as Socialist Tiberio Viquez announced Uruguay's president March 1.
Despite the odds, Moscow member that had signed an association with Cuba.
The Moscow association's importance is primarily political, showing that Cuba is breaking through the U.S. blockade and making a move from the rest of the hemisphere. Although Cuba's trade exchanges with Brazil, Argentina, Uruguay and Paraguay are still relatively weak, they have grown recently and are expected to get a boost by a Moscow connection.

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STATE SPREADS NEW WEALTH

Expressing its optimism about the country's newfound economic stability, the Cuban government made a series of announcements aimed at reducing poverty and inequality of incomes, which exploded after the collapse of the Soviet Union and a decade of crisis and economic reforms.

The measures are sending a message that the "Special Period" is nearing its end, commented official newspaper Juventud Rebelde. "This is a returning of things to their place, an effort to put the focus back on the basic needs of the people, and not because they had been forgotten," the Communist Youth newspaper said.

The key announcement, in a nation where some basic goods such as cooking oil and soap can only be bought with hard currency, was the strengthening of the local currency (see box).

Also, the government announced it would begin to produce chocolate, distribute 12.5 million electric stoves, pressure cookers, electric rice cookers and electric pressure cookers, offer 100,000 sets of bathroom fixtures, and provide cheap door gaskets and thermostats for all malfunctioning refrigerators over the next four months. This comes after recent news that state-run shoe stores, laundromats and barber shops would open this year, offering goods and services in non-convertible pesos.

During three speeches in March, Castro also alluded to raising salaries and pensions, eliminating blackouts, adding more imported food items to government ration booklets, replacing rationing altogether with a better system of food distribution, and building new housing.

U.S. TARGETS CUBA'S ECONOMIC ACHILLES HEEL

Washington is stepping up efforts to disrupt the Caracas-Havana axis, which has — literally — provided much of the fuel for the current economic revival of Cuba.

The Bush Administration's announcement of a containment strategy comes after Venezuelan President Hugo Chávez has begun to diversify Venezuelan oil exports by signing agreements with China, India and France; currently, Venezuela exports 60 percent of its oil to the United States.

The Miami Herald in March reported that President George W. Bush was taking a personal interest in Chávez' actions. The article said that various tactics are currently being pursued by the administration, ranging from pushing neighbors such as Brazil to distance themselves from Venezuela, to discrediting Chávez for alleged corruption.

Washington's main strategy consists of identifying "acceptable" leftist governments such as Chile's and Brazil's, and putting pressure on them to separate themselves from "demagogic" ones such as Venezuela's and Cuba's. So far, the approach hasn't had any visible effect. Brazil, for instance, recently announced a military aircraft sales to Venezuela.

Both Chávez and Fidel Castro have said that there are assassination plans against the Venezuelan president, and that the United States would ultimately be held responsible. U.S. officials dismissed the allegations as "wild."

Central Bank boosts peso

The Central Bank announced March 18 it would increase the value of the non-convertible peso vis-à-vis the U.S. dollar, lowering the cost for buying one U.S. dollar at CADECA exchanges from 27 to 25 non-convertible pesos. This is the Central Bank's first change since it froze the rate in 2001, when the non-convertible peso slipped from 21:1 to 27:1.

Then, the Central Bank divorced the convertible peso (CUC), which had been pegged to the dollar since 1994. The CUC is now tied to several major currencies.

One week later, Fidel Castro announced the Central Bank would increase the convertible peso's value vis-à-vis foreign currencies by 8 percent, "for now." As of April 9, one convertible peso will buy US\$1.04; one dollar will buy only 80 centavos (CUC).

While the Cuban economy has gaping holes, such as an out-of-whack trade balance, the peso revaluations are not without a financial rationale. They come at a moment of extreme weakness for the U.S. dollar. Also, Cuban Central Bank President Francisco Soberón told AP that the government in 2004 registered the first budget surplus in a decade, and that he expects another surplus this year.

In November, the Central Bank stopped the internal circulation of the dollar and introduced a 10-percent surcharge on the sale of dollars on the island. Including the 10-percent surcharge, the dollar actually loses almost 20 percent of its value.

Observers interpret the measures as part of a move towards the eventual creation of a single, convertible currency for Cuba.

The revaluation of the peso is boosting the government's hard-currency reserves and provides a small improvement for all Cubans. But it also reduces the value of dollars sent to the island and hoarded by Cubans, and diminishes the buying power of foreign visitors. An estimated 60 percent of Cubans are receiving remittances.

Cuban authorities have nothing "against citizens who own and receive dollars from abroad," Soberón said, adding that there's "nothing illegal or illicit" about it. But he said that the government has a "moral obligation to seek improvements for the entire population."



Cuba divorces its CUC from the dollar

More on the Economy

EU RESUMES HIGH-LEVEL CONTACTS



Commissioner Louis Michel

of relations 19 months ago. The renewed diplomatic activity marks an end to the so-called cocktail war. It was preceded by efforts on part of the new Socialist government of Spain to get the EU to move away from its low-intensity sanctions policy.

EUROPEANS CONCERNED ABOUT DEBT DELAYS

The tightening control of hard-currency flows by Cuba's Central Bank is beginning to worry some European observers.

"Local authorities are keeping a tight lid on [Cuba's] hard-currency reserves, to the point of creating concerns about delays in servicing French and Spanish lines of credit," says the February issue of *Lettre de Havane*, a newsletter about the Cuban economy published by the French embassy.

FRENCH FOOD EXPORTERS HOPEFUL FOR '05

French trade observers are hoping that a combination of factors, including new U.S. restrictions, will boost French food sales to Cuba in the second half of this year. Cuban and French officials met in Paris in February to talk about delays in debt service and French food exports. Cuban imports from France, to a large degree food, plummeted from a high of 280 million euro in 1998 to 70 million euro in 2004.

FOOD FAIR NETS FEWER CONTRACTS

Some 250 foreign companies from 10 countries participated in this year's edition of the International Food Fair (Alimexpo) March 8-12. According to official daily *Juventud Rebelde*, more than \$8 million worth of contracts were closed at the fair in Havana. Last year's fair yielded a record \$21.5 million in contracts.

European Union Development Commissioner Louis Michel and Britain's Foreign Office Minister Bill Rammell became during visits to Havana the highest-ranking European officials to visit Cuba since a freeze

VENEZUELA PROMOTES EXPORTS TO CUBA

Banco Industrial de Venezuela (BIV) is allocating \$65 million to support production by Venezuelan manufacturing companies for the Cuban peso market, according to Venezuelan news reports. At least 13 Venezuelan companies have agreed to export a range of consumer goods, including 100,000 sets of bathroom fixtures, to Cuba beginning in May, as part of the Cuban government's efforts to make more goods accessible to the population at large. The amount of financing by BIV, a state economic development bank, may be increased to \$100 million from other sources. The financing will help Venezuelan companies to buy raw materials, hire additional workers, and expand production facilities.

Venezuela's Banco de Comercio Exterior (Bancoex) recently extended a line of credit of \$17 million for Cuba to purchase Venezuelan products and services.

CUBAN MERCOSUR BID ON AGENDA FOR JULY?

Uruguay's foreign minister said his government will analyze a Cuban application to become an associate member of Mercosur, and come to a conclusion before July. The minister added he would like to put Cuba's application on the agenda when his country takes the rotating presidency of Mercosur in July.

Cuba applied for a loose "4 + 1" association with the South American trade bloc three years ago; in March, Cuba renewed its formal application. All four full members of Mercosur — Brazil, Argentina, Paraguay and Uruguay — have expressed their willingness to consider a Cuban association. However, opposition party representatives in Uruguay maintain that a democracy clause in the Mercosur agreement prevents even a loose association of Cuba with the trade bloc.

Cuba's possible joining of Mercosur could complicate negotiations between the United States and Brazil over the creation of a Free Trade Agreement of the Americas (FTAA).



More on the Embargo

CANF SAYS IT'LL SEND MEMBERS TO CUBA

The Cuban American National Foundation (CANF), a leading anti-Castro group in exile, is breaking with a longstanding tradition and announced it would send representatives to the island for a dissident meeting in Cuba May 20. CANF officials will apply for visa with the Cuban Interests Section, said CANF Director Alfredo Mesa. As of late March, the Cuban government hasn't reacted to the announcement. Another Miami-based group, *Movimiento Democracia*, also said it would send delegates to the event.

U.S. OFFICIALS DETAIN CUBAN CARDINAL

Cuban Cardinal Jaime Ortega, traveling with a diplomatic passport issued by the Vatican, was questioned, detained for three hours, and threatened with deportation Feb. 25 by immigration officials at the Miami International Airport. Ortega said he had been subjected to the same kind of treatment in Dallas last year. The Dept. of Homeland Security said the cardinal fits the State Department's criteria for foreigners that present a "threat to the safety and security of the United States." The State Department, in turn, blamed Homeland Security.

OFAC forces letter of credit use; Cuba continues to buy

Although the Bush Administration is now effectively forcing Cuba to use letters of credit as payment, Cuban food purchases in the United States are poised to continue. It is unlikely, however, that the brisk growth pace of the past three years can be maintained.

Food importer Alimport S.A. said that the higher cost and complexity of letter-of-credit transactions will reduce the competitiveness of U.S. products and make small purchases impossible. It is too hard to get letters of credit for small transactions, Alimport Chairman Pedro Álvarez said.

"This stops small contracts," he told AP. "A letter of credit for a boat with \$5 million [in goods] is not the same as a letter of credit for a container with \$20,000, or \$25,000."

However, Alimport immediately began signing contracts with U.S. companies using letters of credit as payment method and expressed its interest in continuing purchases.

Álvarez in early March signed two contracts using letters of credit to buy 10,000 metric tons of U.S. rice and 160 tons of powdered milk from two Louisiana companies.

In a Feb. 22 "final rule," the U.S. Treasury Department's Office of Foreign Assets Control (OFAC) reinterpreted the definition of "cash in advance," stopping the three-year old custom of cash-for-documents payments. But two weeks later, OFAC confirmed that Cuba can pay with letters of credit. Under this type of arrangement, the cash is only turned over after a loaded ship is in transit to Cuba, which would prevent the possible seizure of Cuban goods by U.S. courts on behalf of people with claims against Cuba. However, letters of credit may add up to 2 percent cost to a purchase, as well as delays that may cause demurrage costs.

U.S. exporters have mixed feelings regarding letters of credit (see page 5), but large companies are determined to continue sales to Cuba.

"I'm very optimistic about this," said Chris Aberle, national sales executive for Iowa-based FCStone Group Inc., adding that his company has existing orders that he would like to see converted to letters of credit. "I've put a lot of effort into this [market], and made lots of trips to Cuba."

\$250M OF CONTRACTS MUST BE RENEGOTIATED

One day before new payment rules kicked in, the Treasury Department's Office of Foreign Assets Control (OFAC) rejected a petition by 33 food exporters and farm groups, forcing 50 exporters to renegotiate some \$250 million worth of pre-existing contracts with Cuba.

"The practical effect of the February 22 Final Rule is that a large number of American exporters may not carry out their obligations under existing contracts with the foreign buyer," the petition said.

The contracts cover wheat, corn, rice, chicken, soy meal, soy oil, soybeans, peas, milk, shortening, mayonnaise, margarine, chocolate, crackers, canned evaporated milk, apples, cattle, animal feed, pork fat, port hams, lentils, chick peas, tomato paste, spices and other consumer food products.

"We are always prepared to consider specific licensing requests based on extraordinary or unique facts that would justify such a request," OFAC Director Robert W. Werner said at the end of his March 23 rejection letter to the petitioners.

Shippers: New payment rules wreak havoc

Like food exporters, U.S. shipping companies contracted by Alimport S.A. have been forced to insist on payment via letter of credit as well, after the United States effectively prohibited Cuba to pay cash-for-documents.

The payment method is a completely new procedure for an industry that usually invoices on a pay-as-they-go basis.

"They're telling me I need to be paid upfront. But that's impossible, because there's no bill due (in advance)," said Gary Frankston, vice president of New Orleans-based Dan-Gulf Shipping Inc.

The change is creating considerable delays in shipping and affecting payments, shippers say.

"Ocean carriers such as my firm are now being faced with lengthy delays in receiving payments," Frankston said. "This increases our operating costs, therefore increasing product cost."

The new rules went into effect March 24.

NEW SET OF BILLS AIMED AT REVERSING OFAC 'CLARIFICATION'



Sen. Saxby Chambliss

A rebellion against the Administration's Cuba policies reaching deep into the GOP continued in Washington. On March 16, Sen. Saxby Chambliss (R-Ga.) and Rep. Jo Ann Emerson (R-Mo.) introduced identically worded standalone bills in the Senate and House to reverse the Feb. 22 reinterpretation of the term "payment in advance" for Cuba by

the Treasury's Office of Foreign Assets Control (OFAC). Chambliss is chairman of the Senate Agriculture Committee." The Chambliss/Emerson bills are a slimmed-down version of similar bills presented in February by Sen. Larry Craig (R-Id.) and Rep. Jerry Moran (R-Ks.). The Craig bill would allow Cuba direct payments to U.S. banks. Neither of the bills are expected to pass before six months from now.

Sen. Max Baucus (D-Mt.), ranking member of the Senate Finance Committee, said in a released statement March 24 that he would keep his word and block any significant Treasury Department nominations.

CONFERENCES & EVENTS

- 12th International medical technology fair (Salud Para Todos), Havana, April 18-22
- Organizational meeting, Emergency Coalition to Defend Educational Travel, Washington, D.C., April 26
- Cuba Action Day, Washington, D.C., April 27
- 5th Interantional conference on law and informatics, Havana, May 9-13
- 25th International Tourism Fair, Havana, May 10-13
- 9th International music fair (CUBADISCO), Havana, May 25-29
- 9th International fair for tourism products and services (TECNOTUR), Havana, June 1-4
- ExpoCaribe 2005 (general trade fair), Santiago de Cuba, June 19-24
- International furniture, fashion and design fair (FIMAE), Havana, July 6-10
- 8th International Transportation Fair (FIT 2005), Havana, Sept. 21-24
- 5th International Encounter of Nature Tourism in Cuba (TURNAT), Pinar del Río, Sept. 26-29
- 23rd Int'l Havana Fair (FIHAV), Havana, Oct. 30-Nov. 6

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

More on the Embargo

U.S. COURT RULES AGAINST CUBATABACO

Putting back the spotlight on an eight-year old legal dispute, the Second Circuit Court of Appeals in New York denied Cuban tobacco company Cubatabaco S.A. the right to hold the trademark for its famous Cohiba cigars in the United States, thus granting New York-based General Cigar Co. the right to the name. The appeals court reversed an earlier ruling from a lower court that had stopped General Cigar from selling Cohiba cigars. The ruling has larger implications, since it basically denied any Cuban state company to secure and maintain a trademark in the United States, based on embargo regulations. Both nations are signatories of the Paris Convention on patents and trademarks. Cubatabaco's lawyers appealed the ruling, adding that the company is ready to take the case before the Supreme Court. The suit will first go back to a New York District Court.

General Cigar registered the Cohiba trademark in the U.S. in 1981 and sells Dominican-made cigars under that name. The company is being taken over by Swedish Match Co.

PERNOD RICARD SUES EXILED RUM MAKER

French liquor giant Pernod Ricard SA filed suit in Miami against a small Bahamas-based rum maker with operations in the Dominican Republic, asking it to drop claims that its Matusalem rum is of Cuban origin. The Miami-based Álvarez family, which owns Ron Matusalem Ltd., lost its rum business in Cuba after the revolution. Pernod Ricard has the exclusive rights to market Cuba's Havana Club rum internationally.

News from the Sales Department

++Louisiana Gov. Kathleen Blanco signed a letter intent by food importer Alimport S.A. for the purchase of \$15 million worth of goods over 18 months from the state, which has served mostly as a stopover for exports to Cuba over the past three years. At least two companies in the 17-member delegation signed sales agreements with Alimport S.A. during the trip. **AnPro Trading LLC** of Metairie agreed to sell 160 metric tons of powdered milk; **Louisiana Rice Mill** of Mermentau will deliver 10,000 tons of long-grain rice to Cuba over the next 12 months. Both transactions, valued at \$2 million, will be executed with third-country letters of credit, thus complying with new U.S. regulations. Alimport also signed an agreement with the Port of New Orleans to use the port for shipping its U.S. purchases. A previous Louisiana delegation in December produced a \$9 million purchase agreement for red snapper and tilapia from the Kenner-based **LA Fish Co.**++



Gov. Blanco

++**Vietnam Northern Food Co.** will sell 100,000 metric tons of higher-quality 15-percent broken rice to Cuba this year, Reuters reports. The sale, worth an estimated \$25.8 million, is part of an agreement that originally included 425,000 tons of 25-percent broken rice. Cuba recently requested the higher-quality rice, according to Reuters. Vietnam Northern Food, a state company, allows Alimport S.A. deferred, interest-free payment in 540 days for the rice purchases. Cuba last year contracted to buy 400,000 tons of rice from Vietnam, up from its usual 250,000 to 300,000 tons, and some 200,000 tons from China.++

++**San Diego Unified Port** Commissioner **Kourosch Hangafarin** resigned after a recent Cuba trip, when the port chairman told him he was not authorized to sign the letter of intent. The letter of intent, signed Feb. 25 with Cuba's Alimport S.A., encouraged more shipping of food and medicine through the port. Hangafarin blames a communication problem.++

++**Vermont's** November agreement to sell powdered milk, apples and cows to Cuba is hampered by visa delays. Powdered milk, which comes from a national pool, began to be shipped in February. But Cuban inspectors, who were to travel to Vermont, New York and Maine to pick out apples, could not get their visas in time, said Vermont Secretary of Agriculture **Steve Kerr**. Kerr said the Cubans informed him they will wait until next year. Visa problems also are holding up the sending of 50 Jerseys and 50 Holsteins to Cuba. Cuban cattle inspectors have not been able to secure visas, Kerr said.++

Correction

Albert A. Fox, Jr. is considering running for the House seat currently held by Jim Davis (D-Tampa). Fox has been involved in U.S.-Cuban relations since 1998. In our March issue, we misspelled Fox' name.

Company Briefs

Toronto-based **Sherritt International Corp.** said net income in 2004 almost doubled to a record US\$123 million from US\$68.6 million in 2003, thanks mainly to higher nickel prices. Sales increased 20 percent to US\$898 million.

Sherritt, Cuba's largest foreign investor, mines and processes Cuban nickel and cobalt, is involved in oil exploration on the island, and operates power plants in Cuba.

Sherritt stock, traded on the Toronto Stock Exchange, has risen 42 percent in the past year.

In other news, President Jowdad Waheed said he expects the expanded Boca de Jaruco plant to be operational before the end of the year. The 33 mw gas-fired power plant east of Havana, which Sherritt has been operating since 1999, will add 85 mw with the expansion. In a second phase, Sherritt plans to add another 75 mw.

The company said it will decide on the second phase before the end of the year, adding that Sherritt has promised to go ahead if new gas reserves at the nearby Santa Cruz oil field are confirmed.

Boca de Jaruco, of which Sherritt owns 33 percent, jointly with Cuba's **Unión Eléctrica** and **Cubapetróleo**, is one of two power plants the Canadian company operates in Cuba. Sherritt is also in negotiations with Cuba to build and operate a coal-fired power plant in Mariel.

Sherritt said it would invest this year US\$84 million in electricity generation in Cuba, and US\$105 million in oil and gas production.

Canadian airline **Air Transat** grounded five of its Airbuses after the rudder on a plane flying from Cuba to Québec nearly fell off. The Airbus 310, flying from Varadero to Québec, reported problems half an hour into the flight, and returned to Varadero. An Air Transat spokesperson said the plane's rudder "partially fell off." None of the 261 passengers or nine crew members were injured.

Spanish hotel operator **Sol Meliá SA** reported a 57.4-percent boost in net income to \$90.8 million for 2004, on revenues of \$1.34 billion, up 5.1 percent.

Sol Meliá's management of 23 Cuban-owned hotels yielded \$13.3 million

in basic management fees in 2004, up 6.6 percent. Incentive fee revenue rose 42 percent, to \$6.2 million. The company didn't break out other revenues of the four Cuban hotels it partially owns. Sol Meliá said that despite an intense hurricane season, occupancy in its Cuban hotels was up 8 percent, thanks to growth of European and Canadian feeder markets.

Sol Meliá, which operates 23 hotels on the island with 8,476 rooms, is the largest foreign investor in Cuban tourism. The company didn't add any capacities last year, but signed an agreement to add one 240-room hotel in 2005.

Cuban Government Minister Ricardo Cabrisas spent a busy week in China in March, following up on investment and trade leads generated during the November visit of Chinese Premier Hu Jintao to Cuba. Among others, Cabrisas met with executives from oil companies **Sinopec** and **China National Petroleum Corp.** (CNPC), mining company **Minmetals**, hotel builder **Suntime International Group**, telecommunications company **China Putian Corp.**, aircraft exporter **China National Aero-Technology Import and Export Corp.** (CATIC), **China International Trust and Investment Corp.** (CITIC), and export insurance provider **China Export and Credit Insurance Corp.** (Sinosure). No further details were released.



Melia Habana: Overall occupancy rose 8% in 2004

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