

ECONOMIC EYE ON CUBA©
20 January 2003 To 26 January 2003

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PESO UNCHANGED IN VALUE AGAINST U.S. DOLLAR- Republic of Cuba government-operated Cajas de Cambio S.A. (CADECA) sold the Convertible Peso (equal to US\$1.00) for 27 Pesos and purchased the U.S. Dollar for 26 Pesos in the city of Havana from 3 December 2001. This is the highest value of the U.S. Dollar against the Peso since 1997. The percentage of Republic of Cuba nationals with access to U.S. Dollars is highest in Havana (population 2.19 million) where approximately 20% of the Republic of Cuba's 11.217 million citizens reside. The official international exchange rate of one Peso to one U.S. Dollar, in effect for more than thirty years, remains unchanged. The government of the Republic of Cuba maintains a fixed exchange rate for its international dealings and a more flexible exchange rate for domestic use. The government of the Republic of Cuba does not fluctuate the value of the Peso for commercial transactions regardless of any fluctuation with the value of the U.S. Dollar or other currencies on the international market. The Peso and the U.S. Dollar circulate freely in the Republic of Cuba.

<i>CADECA Buy (Havana)</i>	<i>CADECA Sell (Havana)</i>	<i>From / To</i>
26	27	3 December 2001 to Present
26	26	24 October 2001 to 2 December 2001
25	25	22 October 2001 to 23 October 2001
23	23	8 October 2001 to 21 October 2001
22	22	4 July 2001 to 7 October 2001

MEMBER ADVISORY: INCORRECT STATEMENTS BY CONSULTANT- The following are written statements by a Washington, D.C.-based consultant who is a sponsor of a February 2003 conference planned for two days in Cancun, Mexico, and one “fully hosted” day in the city of Havana, Republic of Cuba. The first statement is false. The second statement fundamentally misstates the self-proclaimed socialist character of the government of the Republic of Cuba, as confirmed by the electorate in a recent referendum; and equates the commercial, economic, and political environment for companies located in the United States, Canada, Japan, and United Kingdom, among other countries, with the commercial, economic, and political environment for Republic of Cuba government-operated companies.

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“Although the U.S. law allows for the sale of agricultural and medical products, this has not happened. Part of the reason has to do with the Cuban pharmaceutical business itself. But as much, if not more, has to do with the fine print of the U.S. law. Unlike the sale of agricultural products, there is a caveat to the sale of any medical products. In the case of the latter, the seller must provide certification to the U.S. Government of the end user - which patient is consuming which pills or being examined by which product. This condition has proven to be insurmountable. U.S. firms do not have the resources to undertake such verification if indeed one could devise a suitable plan to undertake such an exercise. And the Cuban Government objects on grounds of principle. A change in the U.S. law must be made if any such sales are ever to occur.”

Fact: United States-based companies, through non-United States-based subsidiaries, sold healthcare products to the Republic of Cuba through 1992. The Cuban Democracy Act (CDA), signed into law in October 1992, **a)** prohibited the continuation of healthcare product exports to the Republic of Cuba through non-United States-based subsidiaries of United States-based companies and **b)** re-authorized the direct export of healthcare products from United States-based companies to the Republic of Cuba. Neither the CDA nor the Office of Foreign Assets Control (OFAC) of the United States Department of the Treasury requires information as to *“which patient is consuming which pills or being examined by which product.”* The OFAC and the Bureau of Industry and Security (BIS) of the United States Department of Commerce do require that United States-based companies verify (for example, a letter from Republic of Cuba government-operated MediCuba) that the product is **1)** not being re-exported **2)** not being used for torture **3)** not being used for biotechnological research and **4)** not being used in U.S. Dollar-generating activities. Within the provisions of the CDA, United States-based companies have sold, and continue to sell, healthcare products to the Republic of Cuba.

“CIMEX [Republic of Cuba government-operated Corporacion Cimex S.A.] and all these entities I mentioned operate as free from Government control and oversight as any private sector firm in any country in the world. They borrow on the international financial markets for their own account, they are audited by leading Western accounting firms, and they are flexible to undertake any business deal they want.”

94% OF COMPANIES EXPORTING TO CUBA WANT NO CHANGE TO TSRA PAYMENT TERMS- A survey (conducted 14 January 2003 through 24 January 2003) of senior-level executives from 307 United States-based companies (healthcare product, food product, agricultural product) that have exported products to the Republic of Cuba or reasonably (according to the companies) expect to export products to the Republic of Cuba in 2003 has the following measures:

94% of United States-based companies that have exported products to the Republic of Cuba do not want a change in the cash-only provision and non-United States-origin financing provision contained within the *Trade Sanctions Reform and Export Enhancement Act (TSRA)* of 2000 and within the Cuban Democracy Act (CDA) of 1992.

96% of United States-based companies that reasonably expect to export products to the Republic of Cuba do not want a change in the cash-only provision and non-United States-origin financing provision contained within the TSRA and CDA.

Since September 2002, given the Republic of Cuba’s systemic shortage of foreign exchange (a result of selected commercial, economic, and political structures), resulting in chronic payment delays or defaults for commercial debt, United States-based companies have requested that members of the United States Congress and representatives of United States-based organizations

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cease efforts to change payment provisions contained within the TSRA. Specifically, cease efforts to a) authorize United States-based companies to provide payment terms- 30 days, 60 days, 90 days; discounts for early payments (2% net 10 days; 2% net 30 days), etc., and b) authorize United States-based financial institutions to lend funds for exports to Republic of Cuba government-operated entities.

Throughout 2002 and throughout 2001, the government of the Republic of Cuba and Republic of Cuba government-operated companies failed to maintain payment schedules on commercial debt, commercial debt guaranteed by government agencies, and government-to-government obligations in countries including Canada, France, Spain, Mexico, Japan, Chile, and Brazil among other countries.

Since December 2001, when the first agricultural products (valued at US\$4.5 million) were delivered to the Republic of Cuba under provisions of the TSRA, and for the period January 2002 through December 2002, when approximately US\$155 million in agricultural products and food products were delivered to the Republic of Cuba, United States-based companies have reported no payment collection problems. As a result, due to an absence of payment risk (due to provisions of the TSRA), the Republic of Cuba has become one of the safest export markets in the world today for United States-based companies.

If new payment terms and United States-origin financing are authorized for agricultural product and food product exports to the Republic of Cuba, the potential incremental increase U.S. Dollar value would be outweighed by a 100% increase in risk. Given the government of the Republic of Cuba's chronic shortage of foreign exchange and despite the best of intentions, there would exist a substantial likelihood of payment delays or defaults as discharging payment obligations on a timely basis to United States-based companies would need no longer be required. Non-United States-based companies with outstanding obligations from Republic of Cuba-based companies would demand that those obligations be rendered current prior to payments being made to United States-based companies.

Mr. Jack Cassidy, Vice President of Greenwood Village, Colorado-based **CoBank** (2002 assets exceeded US\$24 billion), the "*only internationally recognized cooperative bank that is dedicated exclusively to serving U.S. agricultural and rural America,*" has reported that given the current credit rating of the government of the Republic of Cuba, CoBank would not participate in financing agricultural product exports to the Republic of Cuba.

Any report of a payment delay or payment default would result in efforts by members of the United States Congress and representatives of the Executive Branch to re-legislate or re-regulate the TSRA in a more unattractive manner to United States-based companies, resulting in a substantial lessening of commercial interest toward the Republic of Cuba.

In November 2002, a senior-level executive of a United States-based company which has engaged in TSRA-authorized transactions with Republic of Cuba government-operated entities said, "*Rather than focus upon increasing risk to U.S. companies, which is what a change in the TSRA would mean, the focus should be on expanding the range of 'cash only' products that can be exported to Cuba. In this way, we can continue with 'baby steps' towards re-developing a normal commercial basis. Only one default will be necessary for members of the U.S. Congress, the Bush Administration, the media, and commentators to say 'told you so.'* The result would be an end to any widespread support for changing the commercial landscape between the two countries. Let's not mess with what is working for everyone. Sure, perhaps without payment

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terms and financing our total exports are 10% to 15% less than with payment terms and financing, but I would rather go to bed knowing that I am going to get paid than go to bed wondering if my competitor in Canada will be paid or will I be paid.”

REQUEST TO RE-AUTHORIZE DIRECT CORRESPONDENT BANKING FOR TSRA TRANSACTIONS- Representatives of United States-based companies, representatives of United States-based organizations, and Members of the United States Congress are expected to request that the Office of Foreign Assets Control (OFAC) of the United States Department of the Treasury in Washington, D.C., re-authorize limited direct correspondent banking between the United States and the Republic of Cuba for transactions permitted by the *Trade Sanctions Reform and Export Enhancement Act* (TSRA) of 2000, which re-authorized the direct commercial (cash only or non-United States-origin financing) export of agricultural products and food products to the Republic of Cuba, irrespective of purpose; and for transactions permitted by the *Cuban Democracy Act* (CDA) of 1992, which re-authorized the direct commercial (cash only or non-United States-origin financing) export of healthcare products, with restrictions upon use (products may not be re-exported, used in torture, used for biotechnological research, or used for services which must be paid for in U.S. Dollars).

The proposed type of limited direct correspondent banking would require that all fund transfers originating in the Republic of Cuba be received by the United States-based financial institution designated by the United States-based company in advance of the loading of products to be exported to the Republic of Cuba. A purpose of the proposed type of limited direct correspondent banking is to eliminate risk to United States-based companies.

The re-authorization of limited direct correspondent banking will decrease from approximately 72 hours to approximately 24 hours the time within which United States-based companies receive payments for products exported to the Republic of Cuba.

The re-authorization of limited direct correspondent banking will decrease transaction costs (bank fees, facsimile fees, overnight courier services, etc.) for United States-based companies associated with exports to the Republic of Cuba.

UPDATE ON AGRICULTURAL AND FARMSTEAD EQUIPMENT EXPORT INITIATIVE- An increasing number of Members of the United States Congress, representatives of United States-based agricultural organizations, and representatives of United States-based companies are supporting executive branch consideration and legislative branch consideration to authorize the export of agricultural and farmstead equipment from the United States to the Republic of Cuba, on a cash-only basis or with non-United States-origin financing.

The definition of “agricultural and farmstead equipment” was determined in consultation with the St. Louis, Missouri-based Farm Equipment Manufacturers Association (FEMA) and the Milwaukee, Wisconsin-based Association of Equipment Manufacturers (AEM).

The Miami, Florida-based Cuban American National Foundation (CANF), the largest organization within the United States representing individuals of Cuban descent, does not object to the export of agricultural and farmstead equipment from the United States to the Republic of Cuba, provided such exports are on a cash-only basis or with non-United States-origin financing.

The Honorable George W. Bush, President of the United States, can issue an executive order to authorize the export of agricultural and farmstead equipment from the United States to the Republic of Cuba.

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The authorization to export of agricultural and farmstead equipment from the United States to the Republic of Cuba, on a cash-only basis or with non-United States-origin financing, would be similar to the *Trade Sanctions Reform and Export Enhancement Act* (TSRA) of 2000, which reauthorized the direct commercial export of food products and agricultural products from the United States to the Republic of Cuba, irrespective of purpose. The TSRA authorizes foreign subsidiaries (not branches) of United States-based financial institutions to provide financing for exports to the Republic of Cuba and authorizes non-United States-based financial institutions to provide financing for exports to the Republic of Cuba. The authorization to export agricultural and farmstead equipment would also need to specifically authorize travel to the Republic of Cuba for the purpose of marketing agricultural and farmstead equipment, as provisions of the TSRA restrict the current categories for travel to the Republic of Cuba.

POULTRY FROM THE U.S. NOW AVAILABLE ON CITY OF HAVANA INFORMAL MARKET- Residents in the city of Havana report that poultry sourced from United States is now available on the informal market. Frozen leg quarters sourced from Chicago, Illinois-based Chicago, **Koch Foods, Inc.**, (2002 revenues approximately US\$538 million) is available for US\$25.00 for a 15-kilogram box and US\$40.00 for a 22-kilogram box. The products from Koch Foods, Inc. and frozen chicken leg quarters sourced from Laurel, Mississippi-based **Sanderson Farms Inc.** are being distributed through Republic of Cuba government-operated Peso ration stores in Havana, where the approximately 2.2 million residents receive subsidized food rations, including approximately 1.5 pounds of chicken per month at 70 centavos (approximately US\$.03) per pound. In June 2002, frozen chicken leg quarters sourced directly from United States-based companies were included in the ration for the first time since 1961.

LARGEST HOTEL IN CUBA MANAGED BY ARMED FORCES SUBSIDIARY- On 21 January 2003, H.E. Dr. Fidel Castro Ruz, President of the Republic of Cuba, attended the inauguration of the US\$80 million, 944-room, five-star (considered two-stars to three-stars by United States-based travel agents) Playa Pesquero Hotel. The largest hotel property in the Republic of Cuba, the Playa Pesquero Hotel consists of two-story buildings on 71 acres of beach-front property within 102,300 acres of land in Holguin Province (800 kilometers east of the city of Havana) previously owned by the Sanchez-Hill family, which was expropriated by the government of the Republic of Cuba without compensation in 1960. The Playa Pesquero Hotel was to have been managed by Palma de Mallorca, Spain-based **Sol Melia** (2002 revenues approximately US\$800 million), but a reported financial dispute has resulted in the property being managed by Republic of Cuba Revolutionary Armed Forces-operated Gaviota S.A., which also owns the property.

The northern coast of Holguin Province is the third-largest tourism area in the Republic of Cuba, following Varadero (140 kilometers east of Havana) and Jardines de Rey (500 kilometers east of Havana). The northern coast of Holguin Province has eighteen hotels with a combined 4,799 hotel rooms (considered primarily one-star to three star by United States-based travel agents) and an additional 20,000 hotel rooms (primarily one-star to three-star by United States-based travel agents) are planned to be developed on 58.5 kilometers which includes 41 beaches and 22 bays. On 28 October 1492, the explorer, Mr. Christopher Columbus, landed in the area.

2002 TOURISM REVENUES REPORTEDLY DECLINE 18%; PROFIT MARGINS QUESTIONABLE- Gross direct tourism revenues and indirect tourism revenues were reportedly approximately US\$1.5 billion in 2002, representing a decrease of approximately 18% compared to gross direct tourism revenues and indirect tourism revenues of US\$1.85 billion in

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2001. A substantial reduction in expenses (including as the result of postponement of hotel maintenance, the increased use of Republic of Cuba government-operated companies to manage hotels, and the increased use of Republic of Cuba-produced products) reportedly resulted in gross direct tourism profits and indirect tourism profits of approximately US\$350 million in 2002, compared to approximately US\$400 million gross direct tourism profits and indirect tourism profits in 2001. The Ministry of Tourism of the Republic of Cuba reported 1,683,716 visitors in 2002, compared with 1,774,541 visitors in 2001, a decrease of 5.11%.

Visitor arrivals reportedly increased in December 2002 compared with December 2001 and visitor arrivals have reportedly increased thus far in January 2003 compared with January 2002. However, the period September 2001 through January 2002 was negatively impacted as a result of the terrorist attacks in the United States on 11 September 2001. Thus, any comparisons need also be evaluated in terms of visitor arrivals in December 2000 and January 2001.

CHINA REPORTS 10.3% INCREASE IN RICE EXPORTS TO CUBA IN 2002- The General Administration of Customs (GAC) of the government of the People's Republic of China reported that 216,282 metric tons of rice was exported to the Republic of Cuba in 2002, an increase of 10.3% compared to 195,922 metric tons of rice exported to the Republic of Cuba in 2001. The rice was purchased (with financing) by Republic of Cuba government-operated Empresa Cubana Importadora de Alimentos (Alimport), under the auspice of the Ministry of Foreign Trade of the Republic of Cuba. The GAC reported that the Republic of Cuba was the fourth-largest export market for rice from the People's Republic of China, after the Ivory Coast (739,676 metric tons), Indonesia (243,355 metric tons), and Russia (217,186 metric tons).

Year	China Rice Exports To Cuba	Vietnam Rice Exports To Cuba
2002	216,282 Metric Tons	More than 250,000 metric tons (still to be reported)
2001	195,922 Metric Tons	286,928 Metric Tons
2000	225,510 Metric Tons	166,774 Metric Tons
1999	226,933 Metric Tons	150,000 Metric Tons

CHINA REPORTS 35.6% INCREASE IN SUGAR IMPORTS FROM CUBA IN 2002- The General Administration of Customs (GAC) of the government of the People's Republic of China reported imports of 459,785 metric tons of raw sugar from the Republic of Cuba in 2002, an increase of 35.6% compared to 296,101 metric tons of raw sugar imported from the Republic of Cuba in 2001. The GAC reported, for the first time, that the Republic of Cuba was largest source of raw sugar, followed by Australia (370,929 metric tons) and Thailand (191,574 metric tons).

Newly Updated Speaking Schedule

Mr. John S. Kavulich II, president of the U.S.-Cuba Trade and Economic Council, has accepted an invitation to deliver a series of presentations from 11 February 2003 through 13 February 2003 at the 30th annual **World Ag Expo** in Tulare, California. World Ag Expo attracts 1,400 exhibitors and more than 100,000 attendees from sixty countries. *For additional information, please contact Mr. Gary Schulz at telephone (559) 688-1751; facsimile (559) 686-5065; e-mail: gary@farmshow.org; and Internet at <http://www.farmshow.org>*

Mr. John S. Kavulich II, president of the U.S.-Cuba Trade and Economic Council, will be in the city of **Dallas, Texas**, on from 26 February 2003 at the invitation of a United States-based

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company to meet with executives with respect to transactions authorized under provisions of the *Trade Sanctions Reform and Export Enhancement Act* (TSRA) of 2002.

Mr. John S. Kavulich II, president of the U.S.-Cuba Trade and Economic Council, has accepted an invitation from the Austin, Texas-based **Texas Department of Agriculture** to be the inaugural guest on 27 February 2003 at 9:30 a.m. (Central Time) for the first public conference call sponsored by the *Texas Cuba Trade Alliance*. *For additional information, please contact Mrs. Nishi Whiteley, Director- International Marketing, Texas Department of Agriculture, at telephone (512) 463-5197; facsimile (512) 463-7843; e-mail: nishi.whiteley@agr.state.tx.us*

Mr. John S. Kavulich II, President of the U.S.-Cuba Trade and Economic Council, has accepted an invitation from the **Marshall School of Business at the University of Southern California** (USC) to deliver a presentation on 8 March 2003 at a preparatory gathering for the 2003 PM.Globe visit to the Republic of Cuba by students in the USC MBA Program for Professionals and Managers (MBA-PM). “PM.Globe is scheduled halfway through the MBA program and is part of the students' exposure to global economics and the challenges of doing business in a global environment. Prior to their overseas travel, MBA students take classes and undertake case studies. The culmination of their experience is a trip to a host country or countries they have already studied in depth and a more in depth analysis of companies and industry sectors that they visit during their overseas trip.” *For additional information, please contact Mr. David Dale-Johnson at telephone (213) 740-6526 and e-mail: ddj@marshall.usc.edu*

Mr. John S. Kavulich II, President of the U.S.-Cuba Trade and Economic Council, has accepted an invitation from the New York, New York-based **Tisch School of the Arts at New York University** to deliver a presentation on 17 April 2003 to students in the course, “Topics in Cuban Culture: History, Culture, and Expression through the Literary, Visual, and Performing Arts.” *For additional information, please contact Ms. Peggy Sotirhos at telephone (212) 998-1809; facsimile (212) 998-4610; and e-mail: peggy.sotirhos@nyu.edu*

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