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ASPECTS OF THE CUBAN ECONOMY

Part VI: Castro Policies as Related to Secondary Exports and Industries

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If a nation depends on one product for 80% of its exports, the imbalance may endanger its economic well being and the remaining 20% may represent its best hope for stability and progress. This has been true of Cuba, where sugar, along with its derivatives, has dominated exports, and the other 20% of income from foreign sales has come from minerals, tobacco, coffee, and a scattering of other commodities.

Out of an average income of about 650 million pesos [1 peso=US$1.00] per year from exports during the 1950's, Cuba's sugar products accounted for about 525 million pesos. For an indication of the comparative importance of sugar, consider that one of its related products, blackstrap molasses, averaged 21 million pesos in export sales, a figure three times as great as that for Havana cigars.

Mineral Resources

Cuba has not always been a sugar island. During the first half of the 19th century, Cuba was the third most important copper-producing country in the world. The island also was important once for its iron ore, and is today one of the world's principal potential sources of this mineral. It is a major source of nickel. It also has been the major

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producer of chromite in the Western Hemisphere and during World War II was second only to the Soviet Union as a world producer.

In the Western Hemisphere today, Cuba is second only to Brazil as a manganese producer, and has ranked sixth in world production. It also has ample resources of nonmetallic minerals, particularly limestone, marble, and clay. But it has no known coal beds and its known and probable petroleum resources are negligible. The hydroelectric potential being small, nearly all power needs must be met through the importation of petroleum and its products--fuel oil and diesel oil. However, there may be some untapped supplies of natural gas and installation of nuclear reactor power plants could be undertaken with foreign assistance to lessen the dependence on imported oil.

If this description of Cuban mineral resources should lead to an optimistic appraisal of their worth, let it be recorded that while the United States was predominant on the island between 1902 and 1950, the total value of Cuba's mineral production was about 460 million pesos--less than the value of one-year's average sugar crop in the 1950's.[1]

Castro has charged that United States interests, in order to retain ample mineral reserves on the island, adopted a policy of underdevelopment of the Cuban resources. The American reply has been that production costs and various technical difficulties retarded development except in times of war when demand and prices were high enough to warrant making the large investments and taking the great risks involved in the development of many Cuban mines. As for petroleum, the Castro Government is doing everything it can to prove that American exploratory companies "hid" existing oil fields because the "monopoly" preferred to import petroleum from its flourishing Venezuelan fields. The proof, as of this time, has not been produced and Cuba remains dependent upon foreign sources of petroleum.

A proposal for installations of nuclear reactor power plants came first from a United States company during Batista's last years in power. It was not favorably received but that does not mean that Castro will not accept

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[1] During the 383 years of Cuban history before the Spanish-American War (1899), mineral production had an estimated value of 31.7 million pesos and during the American occupation (1899-1902) of 6 million. I am indebted for these estimates and other data to the following sources: Antonio Calvache, Historía y Desarrollo de la Mineria en Cuba, Havana, 1944; Gustavo Gutierrez, El Desarrollo Economico de Cuba, Junta Nacional de Economia, Havana, 1952; The U.S. Department of Commerce, Investment in Cuba, 1956, U.S. Printing Office; Report on Cuba, Truslow Mission, International Bank for Reconstruction and Development, 1951; Historía Economica de Cuba by H. E. Friedlander, Havana, 1944; Geografia de Cuba, by Levi Marrero, Havana, 1951; and Banco Nacional de Cuba monthly reports, 1959-60.

such an offer from the Soviet Union. Political rather than economic considerations have determined Cuban power and fuel policies since mid-1960.

Castro's tactics in the oil controversy and his pressure on the petroleum industry and the mining industry are a piece of the same political cloth. In economic terms, Cuba's national interest requires a maximum production and sale abroad at the highest possible price in hard currencies of its minerals; whatever petroleum is available, of course, is needed at home.

If the product of Cuba's mines were increased and successfully marketed, the country's dependence on the sugar industry would be less acute. A thriving and growing mining industry would benefit Cuba because it isn't seasonal as the sugar industry is. One of the unfortunate facts about tourism and coffee production is that their seasons of greatest activity coincide with that of the sugar industry's; more than anything else Cuba needs to find year-around employment for more of its workers.

Cuba's estimated reserves of 3,134 million tons of lateritic and other types of iron ores are bringing no employment to the Cuban people, no taxes to the Government, no foreign trade divisas, because no one has been found ready and willing (or able) to cope with the technical problems involved in their exploitation. Since the ore is contaminated by chrome, nickel, cobalt, and alumina, it cannot be smelted economically until a method is developed to remove the contaminants and recover them as by-products. Research on this problem was conducted for many years by the Bethlehem Steel Company after it purchased the Pennsylvania Steel Company, which between 1909 and 1919 conducted full-scale iron mining operations in Oriente Province.

Castro, in the same vein as in his attacks on the petroleum industry, has contended that American "interests" intentionally neglected to develop Cuba's vast iron ore reserve, and to install an integrated steel facility, which would have called for two or three blast furnaces, three to five open hearth furnaces, coke ovens, and fabricating plants. Plans have been drawn up envisaging an annual production of up to 1.5 million tons of pig iron and 500 thousand tons of ingot steel. All the coke or coking coal required would have to be imported.

Castro maintains that Cuba has available large quantities of high-grade iron ore; that the country now imports more than 200 thousand tons of steel products annually; that Cuba's three principal plants producing and shaping steel are inadequate even today and certainly unable to meet future requirements of up to 500 thousand tons a year; and that furthermore Cuba is in a good position to become an exporter of steel. He, therefore, has sought assistance from the Soviet bloc; geological surveys are said to be under way and plant equipment is said to have been ordered from factories in Communist Europe.

It is possible that Communist Europe can supply the personnel to develop such a Cuban industry whether or not it is economically sound. Given the political motivation, the Soviet Union could do for the Cubans what the United States failed to do--create a modern, efficient steel industry suited to Cuba's size and resources and capable of meeting the requirements of an industrialized Cuba and producing a surplus for export to the nearby Caribbean and Central American countries.

But as is the case of the unproven petroleum deposits, the plan for steel is at the moment no more than a propaganda talking point. Not a single new job has been created, no new sources of wealth have been opened, no new revenues added, no new exports shipped.

Castro, meanwhile, has succeeded in closing a major mining enterprise started in 1957 as a "new industry" with preferential tax treatment from the Batista Government. This is the Freeport Sulphur Company's $75 million mining project near Moa Bay on Cuba's northeast coast. It was seized by the Cuban Government on August 14, 1960, as Dr. Castro's 34th-birthday present.

The Freeport Sulphur Company, which had operated manganese mines in Cuba 25 years ago, became interested in Cuban iron ores as a source of nickel and cobalt. The company developed an extraction process and a production plan which called for mining and processing of the ore at Moa Bay and final refining at a $44 million plant built for the purpose at Port Nickel, Louisiana. Freeport put almost $20 million of its own money into the project and had the help of nine banks, four steel companies, and two automobile manufacturing concerns in the necessary financing. Planned capacity was 50 million pounds of nickel and 4.4 million pounds of cobalt annually. The Moa Bay end of the operation employed up to 2,000 men.

The Moa Bay-Port Nickel operation was short lived. Only a few shiploads of concentrate had reached Louisiana before operations at Moa Bay were suspended last March after the Cuban Government started to collect a 25% export tax on minerals. Another factor that weighed in suspension of operations was the Cuban Government's restrictions on foreign exchange. These would have required the Port Nickel plant to pay for the Moa Bay processed ore in dollars. The Moa Bay plant, however, would receive the equivalent in pesos from the Cuban National Bank. Thus Moa Bay would have earned only peso profits for the parent company. This simply wasn't the deal the American investors had made with the Cuban Government (Batista) in 1957. It was a "new deal" for Cuba and for them--and the American concern would not buy it.

In seizing the Moa Bay plant the Cuban Government deprived the Louisiana plant of a source of processed ore but it did not augment the Communist bloc's supply of refined nickel and cobalt. It is possible that the Soviet Union is able and ready to use the Moa Bay plant's processed ore. For political reasons, though this seems unlikely, the Sino-Soviet bloc may be prepared to buy the ore even if it cannot economically refine it. But, up to late August 1960 the only visible product of Castro's policies and action regarding the $120 million investment in Port Nickel and Moa Bay was nothing--nothing for the investors and nothing for the Cubans. As a result of Castro's intervention, 2,000 Cubans are jobless or doing made-work at low pay on government projects; Cuban ore of value is unused; a vast complex of modern equipment is idle.

Although Cuba has produced in recent years no more than 5% of the world nickel supply, if the Moa Bay-Port Nickel operation had been allowed to proceed on schedule it would, in 1960 and 1961, have made Cuba an important producer of this vital metal and of cobalt. Both metals have many uses, civilian and military, for the electronics, jet plane, missile, steel, automobile, telephone, and household appliance manufacturers. It is not too unlikely that the Soviet Union would wish to see the United States deprived of added supplies of these metals and that Castro obligingly did just that for Moscow.

Another important source of nickel for the United States has been the Nicaro nickel plant, a property in which the United States Government originally invested an estimated $85 million when it constructed the plant to assure a supply of the metal during World War II. The ammonia-leach process plant was completed by 1944 and by April 1947, operated for the United States Government by Nicaro Nickel Company, a subsidiary of Freeport Sulphur, it had produced 63 million pounds of nickel in the form of an oxide, a green powder 76.8% nickel. The plant was closed from April 1947 to January 1952 when it was reopened under the operation of the Nickel Processing Corporation, owned by the National Lead Company (60%) and Cubans (40%).

The plant itself and several ore bodies are owned by the Cuban Nickel Company, whose stock is held by the United States Government, the General Services Administration being its custodian. But the ore used in the plant came mainly from mines owned or controlled by the Freeport Sulphur Company under a 20-year contract to supply at least a third of the requirements of the Nicaro plant.

When Castro seized the Moa Bay Mining Company, belonging to the Freeport Sulphur Company, he very possibly meant to deprive Nicaro of its main supplier.[2] The plant has produced from 25 million to 30 million pounds

[2] After this Report was written, the United States Government announced that it would close down the Nicaro plant because the Cuban Government had imposed "confiscatory" export taxes on its product. A Department of State spokesman, estimating the present value of the plant at $110 million said that it had employed or contributed to the employment of 2,800 Cubans and that in its years of operation had contributed $80 million to the Cuban economy through the wages it paid and the purchases it made. Negotiations for sale of the plant to Cuba broke off when the Cuban Government offered less than $6 million for the plant.

of nickel oxide annually and some sinter with a high nickel content.

The political aspects of Castro's move against the nickel industry are similar to those involved in his seizure of the oil refineries. The Castro pact with Communist China calls for Cuban exports of nickel. Just as Cuba's contract for importation of Soviet oil set off a chain of events that culminated in seizure of the refineries, the agreement to ship nickel to China is related to the take-over of the means of its production.

By his moves against the nickel industry, Castro had increased the Government's holdings and has possibly strengthened its economic trading position somewhat. But Cuban resources have not been increased; no more jobs have been made; no more revenue added; no new sources of wealth found for the nation. These are transfers of existing wealth, developed by foreigners, from private owners (or the United States Government) to the Cuban State.

The Texaco, ESSO, and Shell refineries were added to the Cuban economy in 1957. The total investment was about $70 million. The total capacity was approximately 85 thousand barrels a day. Cuba's requirements were approximately 60 thousand barrels of which 2.5 thousand could be supplied by Cuban-owned refineries. Thus there was an exportable surplus.

The refineries provided the kind of operation small countries seek--an operation in which jobs are made, taxes paid, exports increased. It is one way for a small island without significant petroleum resources of its own to get ahead in the oil business. The oil companies gained and Cuba gained.

The refineries could operate unrestricted by United States quotas on crude imports; they had a growing market for their products in motorized Cuba; they had what they believed was a secure location for their investment. Cuba for its part had a steady new source of wealth, employment, and revenue.

On June 29, 1960, the Texaco refinery in Santiago de Cuba was seized; the Cuban flag was raised over ESSO and Shell plants in Havana on July 1. An acquaintance of mine, Navy Commander Onelio Pino, was placed in charge of ESSO, and Fernando Guerra of Shell. Both represented the Cuban Petroleum Institute (ICP) of the National Institute for Agrarian Reform. (Pino had navigated Castro's yacht in the expedition from Mexico to Cuba to start the insurrection against Batista. He is related by marriage to Alfonso Gutierrez Lopez, a Mexican oil exploration contractor, the head of ICP.)

A few days later I asked Commander Pino what he expected to do with the ESSO plants. "At least we'll keep the men employed," was his reply. For the claim of the Castro Government was sabotage: the oil "monopolists" had plotted to deprive Cuba of fuel by closing down their refineries. Actually it was the incoming Soviet crude petroleum that had touched off the crisis which led to the seizures. First refused the foreign exchange needed to buy incoming shipments of crude oil (primarily from Venezuela), the companies had resisted Cuban demands that they process oil that Cuba had purchased from the Soviet Union.

Tobacco

There was a time when tobacco and coffee operations contributed more importantly than now to Cuba's gross national product. Tobacco still is the island's second most important export crop and its third main industry tied to the land (after sugar and ranching), and it certainly is the island's oldest agricultural activity. Columbus brought back from his first voyage a sample of Cuban tobacco; its cultivation began late in the 16th century and tobacco entered the smuggling trade in the 17th.

In the 19th century, after the Spanish monopoly was abolished, there were close to 10 thousand tobacco farms (called vegas) in Cuba producing up to 70 million pounds annually. In the 20th century, production has ranged from 97 million to 35 million pounds, and in recent decades the average has been about 60 million of which 60% is exported for an annual average income of 40 million pesos. The relative importance of tobacco has been declining while the sugar industry has been in the ascendancy.

In contrast to the sugar industry, tobacco operations declined because they did not attract United States capital and management. Tobacco, with few exceptions, continued to be a purely Cuban business. The principal exception was an American-owned and American-managed company in the Vuelta region of Pinar del Rio, where Cuba's finest tobacco is grown, mainly for the world-famous Havana cigars. A modern operation, it paid such large returns to workers and share-croppers that the National Institute for Agrarian Reform could find no immediate excuse to organize it into a co-operative.

Some $2.6 million of United States money went into this enterprise to make it efficient and profitable for the Cuban growers. In the main, tobacco was a less attractive investment for Americans than sugar both because its profits were likely to be smaller and because its traditional methods of operation were inefficient. Skilled labor worked too hard for too little because handwork was the rule. The workers themselves resisted the introduction of machinery which would have eased the workload.

A result was higher and higher prices for the Cuban cigar abroad and fewer and fewer buyers. The growing market of middle-class and lower middle-class smokers in Cuba and outside of Cuba was ignored until about ten years ago, when Cuban manufacturers imported American machinery to produce cheaper, milder, blonder, cigarettes to compete with the United States brands which had won the Cuban market.

Cuban exports of leaf tobacco have been rising, though currency restrictions and red tape of the Castro regime are discouraging buyers in Tampa, Florida, and in other places. The market for Cuban cigars, however, has been diminishing steadily. During the first years of the 20th century, 200 million Havana cigars were sold annually to foreign buyers; in the year just before Castro, the sale was between 35 million and 45 million a year. There has been a sharp drop since the Castro take-over. (Castro has predicted a rise in production for trade with Eastern Europe.)

With the growing population in Cuba and the rising standard of living, domestic consumption of cigars and cigarettes increased enough to more than make up for the decline in export sales so that there was an increase in production during the past decade. But the drop in exports was a blow to the national economy. Before World War I, tobacco exports brought in an average of 145 million pesos annually, accounting for 25% to 31% of total Cuban exports; in recent years the value of tobacco exports was only 30 million to 42 million pesos annually--5% to 6% of total exports.

About 7 thousand farms were planted to tobacco when Castro took over. They utilized 154 thousand acres of land in small plots requiring intensive cultivation by sharecroppers. Not many owners of land devoted to tobacco were latifundistas under the definitions set forth in Castro's Agrarian Reform Law. But few were permitted to keep their land. The provisions of the law were ignored as sharecroppers organized INRA co-operatives and seized the land. Usually they ejected the owner, but if he had been popular and revolutionary enough he might be enrolled as a member of the co-operative. Many of the tobacco co-operatives I visited in Cuba operated on an acreage well under the maximum set by law for private holdings.

Each co-operative, with INRA financing and direction, furnished fertilizer and tools (if they were not already available on the farm). An administrator handled the drying, sorting, wrapping, and marketing of the crop. INRA officials claimed that the co-operatives were highly successful and would in 1960 grow and export more tobacco than had been possible under the old system. Castro later added that the exports would go to the Communist countries in exchange for machinery.

Coffee

Cuban coffee once was famous for its quality and it still deserves to be. But now if you want Cuban coffee you had better go to Cuba for it. There are two reasons why little Cuban coffee is exported. First, there has been a marked rise in the Cuban population and in per-capita coffee consumption. Second, like tobacco, the coffee industry failed to attract foreign investment because it was a stagnant business beset by outdated operations and labor policies.

In 1827 the capital invested in the coffee business was equal to that invested in the sugar industry. In 1833, the United States took nearly all of the 64 million pounds of Cuban coffee exported. The Cuban coffee industry declined because of competition from Brazil, Venezuela, Costa Rica, Guatemala, San Salvador, and because sugar production absorbed Cuban energies. Competition was the decisive factor. The Truslow Mission reported in 1951:[3]

> "Coffee culture in Cuba can only be described as backward. There is little or no terracing of the slopes to prevent erosion, slight attention to plant selection, very little fertilization, and fairly primitive preparation of the harvest for market . . . . Drying floors are varied . . . many are simply dirt. Coffee dried on a dirt floor is always rated as of the lowest quality and brings the lowest prices. Only a small amount of washed coffee is produced . . . usually the unhulled coffee is taken to a central station for processing.
>
> "Transportation of the crop is a major problem, since there are few roads into the mountains where the coffee is grown. Usually the coffee has to be packed by burros to some central point. The Mission found that it cost as much as $4.00 per quintal to get the coffee into Guantánamo from some of the more distant farms."

Production fell off until it was not equal to the domestic demand. In the 1926-30 period Cuba imported more than 16 million pounds of coffee annually. Then production increased so that there were coffee exports of 13 million pounds annually from 1936-40. An Institute of Coffee Stabilization was created, at the growers' request, in 1934, to stabilize prices through a combination of import and export quotas, subsidies, and plain price-fixing. As a result many coffee trees were destroyed; later replanting took place. Production continued to rise: the 1949-50 crop was the largest in Cuban history.

The planting and picking is done largely by sharecroppers and migrant labor, both badly paid. The landowners begin to collect most of their revenue after the trees have produced for three or four years. But few become very wealthy and few can be called latifundistas. It remains to be seen whether Cuba under Castro can return Cuba's coffee to the status of an important export commodity. The possibility seems slight, considering the state of the world coffee market.

The Balance Sheet

In welcoming the economic embrace of the Soviet bloc, Castro has wiped out the Cuban holdings of individual and corporate United States investors with stakes in the development of Cuban resources. The effect on the

[3] Report on Cuba, Truslow Mission, International Bank for Reconstruction and Development, 1951.

United States economy as a whole, however, has been negligible. In contrast, his step-by-step destruction of every economic tie with the United States may have implications of disaster for the Cuban economy.

This report has briefly discussed some of the national assets Castro might logically have moved to develop to reduce his country's unbalanced dependence on the sugar industry. In respect to these, as in respect to the sugar industry, there is so far no evidence that Castro has constructive plans to assure Cuba's economic well-being. He has seized assets but he has not created jobs nor has he increased production or improved Cuba's position in the markets of the world.

Conceivably the Soviet Union will help Cuba develop its own steel industry and possibly the Communist bloc will be able to use Cuba's nickel. On paper the Cuban Government may be richer by the amount of property--foreign and Cuban--that it has intervened, expropriated, and nationalized. But for Cuba the steps taken so far have been of no economic advantage, whatever their political advantage to Castro in demonstrating a Left-oriented nationalism that defines United States investment as exploitation.

The political-economic policies of Castro have lost to his country a needed United States market for sugar, an outlet for iron ore, a once flourishing tourist trade, and a major source of capital investment.

It may be gratifying to Castro that profit remittances (averaging $65.3 million yearly in the 1946-54 period) no longer will leave the country. But profits are not automatic and there is no guarantee that once-profitable enterprises will continue to earn their way under Cuban Government control. Meanwhile, Castro has effectively shut off the flow of United States capital investment in Cuba. An indication of the level of that investment is contained in the following table.

Table 1.—United States Direct Investments in Cuba, Selected Years

[In millions of dollars]

Investment	1929	1936	1946	1950	1953	1954
Agriculture	575	265	227	263	265	272
Petroleum [1]	9	6	15	20	24	27
Manufacturing	45	27	40	54	58	55
Public utilities	215	315	251	271	297	303
Trade	15	15	12	21	24	35
Other industries [2]	60	38	8	13	18	21
Total	919	666	553	642	686	713

[1] Includes investments in a refinery and in marketing facilities.
[2] Does not include U. S. Government direct investments in mining — [Nicaro]

Source: U. S. Department of Commerce, Office of Business Economics

One vast United States enterprise--the naval base at Guantánamo--is not included in the recapitulation of investments. However, the base, in which the United States Government has invested $75 million to $100 million, has over the years pumped a steady stream of dollars into the Cuban economy. It regularly employs about 3,600 Cubans, most of them under Civil Service regulations, and pays them from $7 million to $8 million annually. The city of Santiago de Cuba and the towns of Caimanera, Guantánamo, and Boqueron, all would be hard hit if the United States were to shift most of the American personnel and dependents, totaling some 6,000, and stop using the base for training and recreational purposes. The pronouncements of the Castro Government in regard to Guantánamo indicate that the regime may prefer to have the base remain in Cuba and use its presence for propaganda purposes.

As of this writing, Castro has effectively seized control of the Cuban economy and in the pursuit of his revolutionary policies is ending the economic ties that bound Cuba to the United States and other countries of the West. So far his policies have not been expressed in the kind of positive action that transforms resources into wealth, jobs, and economic well-being. Having destroyed the economic edifice of the old Cuba, he still has to demonstrate that out of the debris he can build a new economy that will make good his promises to Cuba's underprivileged people. Few who have been on the Cuban scene as disinterested observers are optimistic.

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