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FOREIGN SERVICE DESPATCH

FROM : AMEMBASSY, HABANA

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DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

March 9, 1956

DATE

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SUBJECT: ECONOMIC SUMMARY FOR FEBRUARY, 1956 CL-2 Army-4 Navy-3
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Business in general in Cuba continued to be very good during February, with trade and production volumes in most lines significantly above the corresponding month last year. Satisfactory progress was made on the sugar crop, private construction activity remained at a high level, a new boom was starting in the minerals area, and plans were advanced for important investments from abroad. Business confidence was further stimulated by the apparent intent of the Government and the Opposition to discuss their political differences over the conference table.

Work on the 1956 sugar crop progressed satisfactorily during February and all but four of Cuba's 161 mills were grinding by the end of the month. No labor difficulties developed and weather conditions were generally favorable for harvesting. Because of abnormally dry weather during the past several months, the sugar yield is somewhat lower than usual. Some mills are finding it difficult to meet their production quotas due to a shortage of cane. By the end of February it was becoming apparent also that there may not be enough surplus cane available to produce as much hi-test molasses this year as last.

Rice prices in the interior tended to strengthen as the fall-winter harvest came to an end with relatively small stocks in the hands of all but the largest millers. A somewhat smaller spring and summer rice crop is forecast and trade circles expect further price gains for domestic rice during the next few weeks.

Wholesale and retail trade in general was good during February, comparing favorably with the same month last year. Marked gains were reported in textiles, pharmaceuticals, household appliances, electrical equipment, and agricultural machinery. Smaller but satisfactory improvement was noted in department store sales and in automotive lines.

There were indications during late February that a new boom was getting under way in the minerals area, concentrated in Oriente Province and related especially to copper prospects. There were numerous reports in this regard of investment interest by Cuban, American and European capital, of increased survey and other technical work, and of active buying and selling of properties.

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On the petroleum scene, final plans were announced during the month for the expansion of the Esso Standard refinery in Habana from 9,000 to 35,000 barrels per day capacity. With the Shell and Texaco refineries, now under construction at Habana and Santiago respectively, prospects now are for Cuba's total refinery capacity to increase six-fold to about 85,000 barrels by late 1957 or early 1958. The new investment in these three refinery projects is expected to total 70 to 75 million dollars, one of the most important additions to foreign investment in Cuba since the 1920's.

After many months in the doldrums, Cuba's textile industry has recently showed signs of new vitality. Production of cotton and rayon goods increased during February, responding to greater demand, and Cuba's lone woolen mill prepared to go into full production after resolving long-standing labor difficulties. Amendment during the month of the Industrial Stimulation Law, to provide in effect that duty-free imports of raw materials of all sorts be substituted for by similar domestic products, will apparently stimulate national production of viscose yarn, although the rayon weavers reportedly continue to object strongly to buying domestic viscose instead of a variety of imported synthetic yarns.

Private construction activity remained at a high level during February and the near-record volume of new building permits issued in Habana during the month indicated that the boom in this important area may continue for some time. However, construction materials are coming into short supply and there is concern in building circles that crippling shortages may arise. A black market in cement developed even before the February 28 cut-off date for duty-free imports, despite normal deliveries from domestic production and imports double the volume of last year. It is generally expected that duty-free cement importations will be authorized again in the near future.

Following the establishment of higher customs duties on copper wire and cable, referred to below, announcement was made of final arrangements for a wire mill in Habana. The new industry is a joint venture of American and Dutch capital, with important local financial support from the official Agricultural and Industrial Development Bank (BANFAIC). The original investment in this wire mill is to be 1,250,000 pesos and plans call for production by the end of the present year.

Agitation continued during February over the difficult telephone situation, with frequent press editorials demanding an early solution to the problem. Explanations of the American-owned telephone company, that changes in rates and operating terms are essential to attract capital for the necessary expansion of service, have met with mixed reactions. Observers expect the Government to make some decision on this problem within the next few weeks.

Prospects for the early development of the Isle of Pines as a major tourism center improved during the past month as an American private investor, who recently acquired large land holdings there, announced plans for spending 30 million dollars in hotels and other tourist attractions. The Government is preparing to expand its public works program in the Isle of Pines to provide

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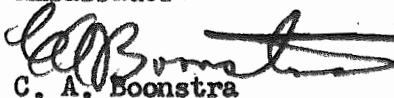
better highways, improved port facilities, etc. The tourist business in Habana and Varadero continued at near peak levels during February, with most hotels reportedly filled.

In tempo with the upward movement of economic activity in general, the money supply increased moderately during February. The recently-noted tightening of commercial credit continued, however, and draft collections were significantly slower than at this time last year. Apparently to help ease this situation, there was substantial internal credit expansion by the National Bank during February after several months of a generally neutral position. The National Bank's holdings of public securities, both in portfolio and for account of the State, were increased appreciably and a smaller but significant increase was registered in rediscounts and other advances to private banks.

As the result of recent negotiations at Geneva between Cuba and the United States under the GATT, changes in Cuban customs duties on 65 products went into effect on February 15. Tariff increases to provide greater protection to domestic industry were established for several items, notably copper wire, tires, and paper products. As compensation, import duties were reduced on other items including industrial machinery, pumps, motors, and truck frames. In announcing the new rates, the Ministry of State referred to the excellent relations between Cuba and the United States and expressed satisfaction that the negotiations had achieved results beneficial to both countries and helpful to Cuban economic development. Subsequent to the announcement of the results of those negotiations, the Cuban-British trade agreement of 1953 was modified, as applicable, to adjust to the new tariff rates.

After protracted negotiations, started late last year in Habana and concluded during February in Bonn, the Cuban-West German Trade Agreement was extended in modified form to March 1, 1957. West Germany's commitment to purchase Cuban sugar for consumption was reduced to about half that during the two previous years. To compensate partially for this curtailment, West Germany agreed to purchase additional quantities of other Cuban products such as tobacco, minerals, coffee, fruits, hard fibers, hides, etc. West Germany will continue to enjoy the customs and other benefits provided by Cuba in the basic Agreement.

For the Ambassador:



C. A. Boonstra
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