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# Hallgarten & Company

Country Review

Christopher Ecclestone  
[cecclestone@hallgartenco.com](mailto:cecclestone@hallgartenco.com)

## Cuban Mining Basta de “mambo”

# Cuban Mining

## Obama and the Cuban Mining Potential

- The first opportunity in decades to clear the air in US-Cuban relations has presented itself with the election of a new President in the United States
- Cuba has interesting mining assets in a narrow range of minerals and metals but these are only exploited at the current time in a desultory fashion. The nickel and cobalt potential put Cuba in the ranks of the leading producers either currently or potentially
- A resolution of the stalemate, which is fanned by dispossessed Cuban oligarchs, would provide the opportunity to open up the Cuban mining sector to outside investors on a much larger scale. Ironically the decline of the US mining industry means that there are virtually no US companies that could participate in any “metals-rush” in Cuba
- The new balance of power in the House and Senate makes for potential to revive the legislation sponsored by California Democrat Cal Dooley (with 23 co-sponsors) to put a sunset clause into the Libertad (Helms-Burton Act) of 2002.
- The Cuban lobby in Florida virtually disenfranchised itself by its staunch opposition to the election of the new President, while Latinos of other “histories” embraced the Democrat candidate. No signs are yet apparent on the direction that Latin American policy is going to take, but it can scarcely be more negligent towards the LatAm that exists (believe it or not!) to the south of Cuba than policy over the last few decades.

### Preamble

In January 1959, Patricio Hickey, the senior partner in our subsidiary Buenos Aires Trust Company, sat in a mansion one evening on the shores of Lake Nahuel Huapi in Patagonia with the scion of the hyper-aristocratic Alzaga Unzue family. They toasted with champagne the downfall of Fulgencio Batista. How was it that two staunch anti-Peronists should be celebrating the downfall of an erstwhile right wing leader in Cuba? In reality all over Latin America oligarchs and mere mortals celebrated the downfall of the odious Batista regime, which had long been a blot of the LatAm political landscape. Everywhere in fact the regime was unlamented in its demise, except in the US. Why was this? History has subsequently confirmed the strong links between the US mafia establishment (e.g. Meyer Lansky) and the Batista regime linked to the casinos (and associated prostitution and loan-sharking) that operated in Havana. These links extended as far as Robert Kennedy and all sorts of people were in the mix, including the New York “families” and famed entertainers of the day. The involvement of the Mafia in the Bay of Pigs “adventure” and the later assassinations of JFK (and of his assassin) have long been subjects of contention.

So an odious mafia-backed regime fell and its cohorts and confederates fled to Miami where they have remained ensconced to this day. They aren’t in Spain, they aren’t in Mexico and they aren’t in Argentina or Paraguay (the latter two being traditional haunts of ousted miscreants). No, they are in Palm Beach and they live in big mansions and to this day control the sugar trade in the US, ensuring via their lobbying that every US consumer pays massively over the odds for whatever product they buy containing sugar. The ill-gotten gains from this trade are then plowed back into the eternal campaign to get their hands back on the assets they lost when “their man” was ousted in 1960. Indeed one might well ask how the sugar, rum and cigar magnates got away with so much cash if the evil Fidel let them leave with only the shirts on their backs. No-one in LatAm would wonder; isn’t that what Swiss banks are for? Did the IRS ever bother to investigate the source of these funds? Oops, we forgot that US banks in Miami have traditionally been the long-ignored players in scooting ill-gotten gains out of LatAm (Raul Salinas de Gortari being a prime example of the “see-no-evil” policy).

Anyway time has passed, but alas the “dispossessed” oligarchs still get traction in parts of the US political firmament. Some in the Cuban community (more recent arrivals, the “Mariel” crowd and those not fortunate enough to have brought their numbered accounts with them) have started to realize that the interests of their relatives stuck back in the slums of Havana are not the same as those of plutocrats pining for their palatial plantations of yore with their semi-feudal hordes of quasi-slaves. Maybe Russian aristocrats ended up driving taxis in Paris in the 1920s, but the “dispossessed” Cuban oligarchs are scarcely lowered to dumpster-diving in the mean streets of Dade County, their glory remains intact. The winds of political change are blowing not only through Washington but hopefully also through the barrios of Miami. Maybe an icy blast may also blow ashore in Palm Beach and ruffle the feathers of the sugar magnates sitting by their swimming pools. We can only hope.

### **Policy – much ado about nothing**

We have bewailed elsewhere the fact that US policy on “LatAm” over the last eight years has been extremely shortsighted. In fact so shortsighted that it believed, in the [Otto Reich](#) (what an evocative name) scheme of things, that Latin America began at Palm Beach and ended at the southern tip of Cuba. Beyond this “continent” there was only the freaky Hugo Chavez but he was not that important and was accorded only the requisite gum-flapping. He was clearly not enough of a pest to do anything serious about, let alone mollify, despite that fact that he had one of the largest oil reserves in the world while Cuba had cigars that American citizens aren’t allowed to smoke. Usually foreign interests have been dictated by economic concerns (and self-interest) and yet the US has largely ignored the places of relevance to its economic well-being and status in LatAm in preference for getting down and dirty in ideological struggles of dubious relevance to US citizens/taxpayers’ interests. Indeed, “troublesome” governments (Venezuela, Ecuador, Bolivia etc) have been spawned in the vacuum created by the intense mono-focus on Cuban issues.

The Great Satan was Fidel, and now his proxy Raul, Castro. Never have two so down-and-out political leaders, in so inconsequential a country, received so much focus from a major power for so long. In the meantime, US policy towards Latin America has constantly been seen through the prism of Cuban policy and all too often by Cuban émigrés who have positioned themselves in Washington as LatAm experts. This reminds us of the phenomenon in the early 1990s when hordes of Puerto Ricans in Manhattan took the A Train downtown and set themselves up as the LatAm equity analyst community on Wall Street. Having spent ten years in Latin America we can safely say that most Latins do NOT regard Cuba (or Puerto Rico) as part of Latin America but rather as a Caribbean state like Trinidad or Haiti, that has no relevance to their concerns or priorities.

The [Monroe Doctrine](#) dictated that Latin America was the US’ “backyard” and yet the policy in recent decades has been not to look beyond the flower box on the window sill let alone go to the wilderness beyond the swimming pool and check out what may be lurking back there. The Middle East may be seen in some quarters as the graveyard of US foreign policy but LatAm has a much longer claim to that title.

What can be expected from the new Obama regime? We can start by saying that Barack Obama is the first President who was born since the takeover of Cuba by Fidel. Well, he can move steady as she goes and do nothing. This would pander to the people in Florida that never voted for him in the first place, and deny those Cubans in the US who might like to visit relatives or send remittances to them the right to do so.

Or he could start negotiations and regard Cuba as a clam ready to be opened up like China or Vietnam before it. Moreover, seducing Cuba into an opening to the capitalist world would leave Hugo Chavez even more isolated. Now wouldn’t that sound like a policy move that made some sense?

Or they could go with some unilateralism. Drop the old policy overboard in the dead of night and allow the remittances and everything to flow. This might include getting out of Guantanamo and purging a source of severe international embarrassment. We might note that Nixon didn’t start talking to China on the basis

that missionaries (or AIG in its Starr guise) displaced in 1949 had to be reimbursed before he touched ground in Peking. Neither did Eastern Europe become a happy hunting ground for “forfeited” assets after the Wall came down in 1989. That would have soured the mood. Why should Cuba be any different? In fact the stumbling block at the moment seems not to be the protection/restitution of the assets of US companies Fidel may have seized but those of a gang of Batista confederates who backed the wrong horse. It is interesting to note how few of the original ownership claims from the corporate sector are still in the hands of the original owners but are now moved off to parties who are arms-length to Cuba historically. The real culprits in the *Miami Sound Machine* are the sugar magnates doing their Wizard of Oz act with a wind machine and a loudspeaker behind a flimsy curtain. Why should the US be defending their rights just because they may have become US citizens since they fled in ignominy?

Too much traction has been given for too much time to a group whose days in the sun have past. Now that their political power is in eclipse the moment to strike is at hand. Having Cuba open up is the best way to win over the rank and file of the Cuban émigré population and forever take the blinkers off policy in the region. Time to call an end to the mambo.

### Mining in Cuba

Beyond the relevance of Cuba to US/LatAm politics our particular interest is in its mining potential. Cuba has a history of mining extending over a period of three hundred years. During the period 1900 to 2002 mining has been a permanent activity and, during WWII, the mining of manganese, some copper, and nickel was most important. The nickel resource comes from extensive laterite deposits that are considered among the largest reserves in the world. Cuba ranks with Canada, Russia, Australia and New Caledonia.

Cuba is an important nickel and cobalt producer, ranking sixth in the world in terms of nickel and (fluctuatingly) accounts for 8% of the world's cobalt production. Cuban mineral production is largely state-controlled, although the government has made steps to amend the mineral laws and legislation, which will hopefully change the industry's structure. In 1993, Geominera was formed as a private company that utilized state funds. Geominera focus on gold and base metal exploration, whilst foreign investors are currently developing nickel/cobalt and gold resources.

Cuba 2006 Production (USGS stats)		
		t.
Chromite		27,900
Cobalt		
	Oxide	4,300
	Sulphide	4,000
Nickel		75,000

### Cobalt

In 2006, production of cobalt (including ammoniacal liquor precipitate, oxide, and sulfide) increased to 4,300 tonnes compared to 4,055 metric tonnes in 2004 and 3,982 tonnes in 2003. This is largely a byproduct of Sherritt's JV with the government mining company at Moa Bay.

### Silver

Holmer Silver (a private Canadian company that used to be listed on the Alberta Stock Exchange) has been working for several years on plans for its Loma Hierro Silver Project. Holmer holds a 50% interest in Plata Cuba S.A. (which holds Loma Hierro) while Geominera S.A. (the state mining enterprise) held the remaining 50%. The Loma Hierro silver laterite deposit is located in the Pina del Rio Mining camp in

western Cuba. The probable reserves are 550,000 tons grading 10 ounces of silver per ton and exploration indicates potential to increase these reserves. According to the company there are approximately 10 million oz 'in situ' with the resource distributed in 8 separate deposits over a one square km area. A bankable feasibility study was completed in 1999 by Rescan Engineering Ltd, a member of the Hatch Group. The deposit is amenable to open pit mining and preliminary metallurgical tests indicate that the ore can be readily treated with excellent recoveries. In January 2008 RJK Explorations Ltd. (RJX.v) announced that it has entered into discussions with Holmer Silver Co. with a view to pursuing opportunities jointly in Cuba, but nothing has transpired since that time as far as we can tell.

## **Gold**

Holmer (again in league with Geominera) has been exploring for gold on their Dora Francisco concession in Pinar del Rio. This property, which surrounds the Loma Hierro concession, includes two former copper-zinc producers with remaining reserves and several significant showings of silver and gold.

A state-owned enterprise was mining for gold at the Castellanos gold mine in the early 1980s with annual production being about reported as 17,600 ozs. There is also the Delita gold deposit in Isla de la Juventud was being studied for possible open pit and underground operations; the estimated resource at Delita was about 1.5 million ozs with high proportions of antimony and arsenic.

## **Copper**

The Matahambre and the Mina Grande El Cobre copper mines remained closed during the year. The Mantua copper project was owned for a long time by Geominera, Miramar Mining Corp., and Northern Orion Resources. In September 2002 Northern Orion announced that it had entered into an agreement with Newport Exploration Ltd. whereby Newport could acquire an undivided 50% interest in the Mantua Copper Project in Cuba from Northern Orion. However, negotiations dragged on and the deal fell through in May 2004. The Mantua mine produced 15,000 oz gold in 1999. A substantial copper resource has been identified beneath the current Mantua orebody. Production at the Mantua mine began 1998 – the mine has proven and probable reserves (December 1998) containing 320,000 t grading at 2.2 g/t gold. The copper reserves have been estimated at 7.5 Mt grading at 2.74% copper.

Both mines are located west of Havana in the Pinar del Rio province in western Cuba.

The aforementioned Holmer also has the San Fernando property, located in central Cuba, covers a mine with significant copper-zinc reserves at shallow depth and several geophysical and geochemical anomalies.

## **Nickel**

If Cuba has renown in any metal it is nickel. Unrefined nickel plus cobalt are Cuba's largest exports at around \$2 billion in revenue last year. Cuban nickel is considered to be Class II with an average 90 percent nickel content. The ore is processed on the island in two formerly U.S.-owned plants at Nicaro and Moa Bay. Plants are also located at Punta Gorda and Las Camariocas. Holguín Province, where the Moa Bay mines are located, is estimated to contain 34% of the world's known reserves of nickel, or some 800 million tons of proven nickel plus cobalt reserves, and another 2.2 billion tons of probable reserves.

The Moa Bay mines were once the property of Freeport in its pre-McMoran manifestation. They were initially started up during WW2 and largely paid for by the US government. Of the \$119mn in capital of the Moa Bay Nickel Company, some \$100mn had come from the US government and the rest from Freeport. The processing plant was closed down in 1947.

The whole nature of the Cuba/US nickel industry evolution was strange and uncommercial to say the least. It is well worth reading up on for anyone who wants to put the controversies in perspective. The

muddled (and very Latin) nature of the arrangement is summed up in this extract from a [memo](#) from the Deputy Assistant Secretary of State for Inter-American Affairs, Mann to the Assistant Secretary of State for Inter-American Affairs, Cabot, in March 1953.

*“The Batista Government like the Prio government wants Nicaro to continue as a permanent Cuban industry. It is willing to grant tax exemptions and other privileges because Nicaro is a non-profit United States Government-financed industry, contributing to hemisphere and free world defense and to the Cuban economy. The Cuban group which purchased participation in the operating company was sponsored by the Prio Government, and its initial spokesman, Inocente Alvarez, was close to Prio and does not have the confidence of the Batista Government. The Batista Government informed us in July 1952 that it viewed the Prio letter as irregular and as having no validity, and that the United States Government need not feel obligated by it.”*

So what do we have here.... We have the corrupt Batista government not wanting to accept a deal by a previous government. Sound familiar? We have one of the world’s largest nickel deposits being worked as “a non-profit United States Government-financed industry”.. pardon our French, but what the hell type of enterprise is that? Batista then tells the US it doesn’t need to feel any obligation to the previous holders. “Does not have the confidence...” that is Latin-speak for “hasn’t contributed to our Swiss bank account or isn’t related to us by marriage”. Here we are 50 years later, and the US is desperately concerned about the rights of previous holders under an infamously corrupt regime that had expropriated the mine from the previous awardees. Ah, now we get it...

### Iron Ore

We might mention in conclusion the iron ore resources of Cuba. These have been viewed as very substantial in the past. There were a variety of companies at the beginning of the 20<sup>th</sup> century exploiting the Mayari and Diaquiri deposits of “brown” iron-ore. One estimate at the time put the size of the Mayari deposit at 600 million tonnes of 46% iron. The biggest mines were exploited by the Spanish-American Iron Company that was a subsidiary of Pennsylvania Steel Company. Interestingly at that time, “mayari” steel was almost a brand name due to its natural alloy properties emanating from the mineral mix that contained 0.2% to 0.7% chrome and 1% to 1.5% nickel. The Cuban ore was also low in phosphorus. As far as we can work out there is no exploitation of iron ore in Cuba at the moment.



### Sherritt International (S.to)

Sherritt International trades on the TSX. It is a diversified natural resource company that produces nickel, cobalt, thermal coal, oil and gas and electricity. It also licenses its proprietary technologies to other metals



companies. The company has gone through a variety of iterations over the decades and while Cuba haters/lovers have voodoo dolls with the company's name on them the company is not as Cuba-centric as they might like to imagine. In fact it is definitely not as Cuba-centric as they are..

The main assets of Sherritt in Cuba consist of the Moa Bay nickel venture and some offshore oil production. Moa Bay gets the Sherritt critics all bent out shape. Frankly they probably couldn't name the former owners of the mine who might have a claim but that doesn't stop them airing their opinions. As for the oil concessions, we have seen no indication that they belonged to anyone but the Cuban government in their unexploited state pre-1959.

The history of Moa Bay has already been related. Its current status relates to Sherritt's operations in Cuba. The Moa JV is 50% owned (the partner being General Nickel). Its current status is:

- Mining and processing facility in Moa, Cuba; refinery in Fort Saskatchewan, Alberta; it has approximately 25 years mine life remaining
- Phased expansion at Moa underway
- Full capacity after Phase 2 of ~ 48,800 tpa of Ni + Co (100% basis)
- Phase 3 in a conceptual stage

In late 1994, the Canadian company Sherritt International Corporation executed a joint venture mining concession and distribution agreement with the government of Cuba with rights to extract and export nickel and cobalt ores from the nickel mine at Moa Bay. The mine uses open pit mining to extract lateritic nickel and cobalt ore, which is processed onsite into mixed sulphides containing nickel and cobalt. These mixed sulphides are shipped to the east coast of Canada, where they are then transported by rail to the Alberta facility for refining into finished nickel and cobalt. Currently, the Moa Joint Venture produces approximately 37,000 tonnes of nickel and cobalt annually. In FY07 the mine produced 31,392 tonnes of finished nickel and 3,574 tonnes of finished cobalt.

The terms of the joint venture allow Sherritt to repatriate to Canada a fixed level of profits from the processed metals but the agreement also requires that a percentage of the profits be reinvested in Cuba. As a result, Sherritt has, over time, built itself a presence in Cuban non-mining ventures through investments in such things as oil and gas production and power generation.

According to the company it has invested over half a billion dollars in the nickel ventures which would appear to be an enormous sum for the relatively skimpy payback. Production of mined nickel (nickel content of nickel oxide, nickel-cobalt sulfide, and nickel-cobalt ammonium liquor) was 71,944 t in 2004. Production of nickel and cobalt came from three operations—two produced nickel oxide, and one, the intermediate product nickel-cobalt sulfide.

Sherritt planned to increase production of contained nickel plus cobalt by 16,000 tpa to a total of 48,000 tpa by 2010. Sherritt estimated proven and probable nickel ore reserves to exceed 27 million metric tons and estimated production to last for an additional nine years at current production rates. The diabolical fall in the nickel price in recent times should ensure lower output and thus longer mine life. However, if claimants to the mine fancy their chances in a more liberated climate for business in Cuba, they had better hope that events evolve quickly or nothing will be left for them to chew on. The other string to the company's bow in nickel is its Ambatovy JV (of which Sherritt holds 40%) in Madagascar which is scheduled to be producing 65,600 tpa of nickel and cobalt by 2013. We would not be surprised to see this plan slowed in light of the current woeful nickel price.

Infinitely more juicy than nickel is Sherritt's Cuban oil joint venture that was producing around 31,000 barrels per day (1Q08). This makes the JV the largest domestic oil producer in Cuba, representing two-thirds of total production. It amuses us to think that the émigré crowd have no claim upon these assets (though never let that stop them from claiming what they don't own... remember they studied at the feet of the Great Fulgencio himself.. or was he made in their likeness.. whatever..).

The company has signed production-sharing contracts for four offshore exploration blocks and vertically integrated operations, with seven production sharing contracts in the deepwater zone in the Gulf of Mexico northwest of Havana. These blocks cover approximately two million acres with proven and probable reserves of 50.5 million barrels.

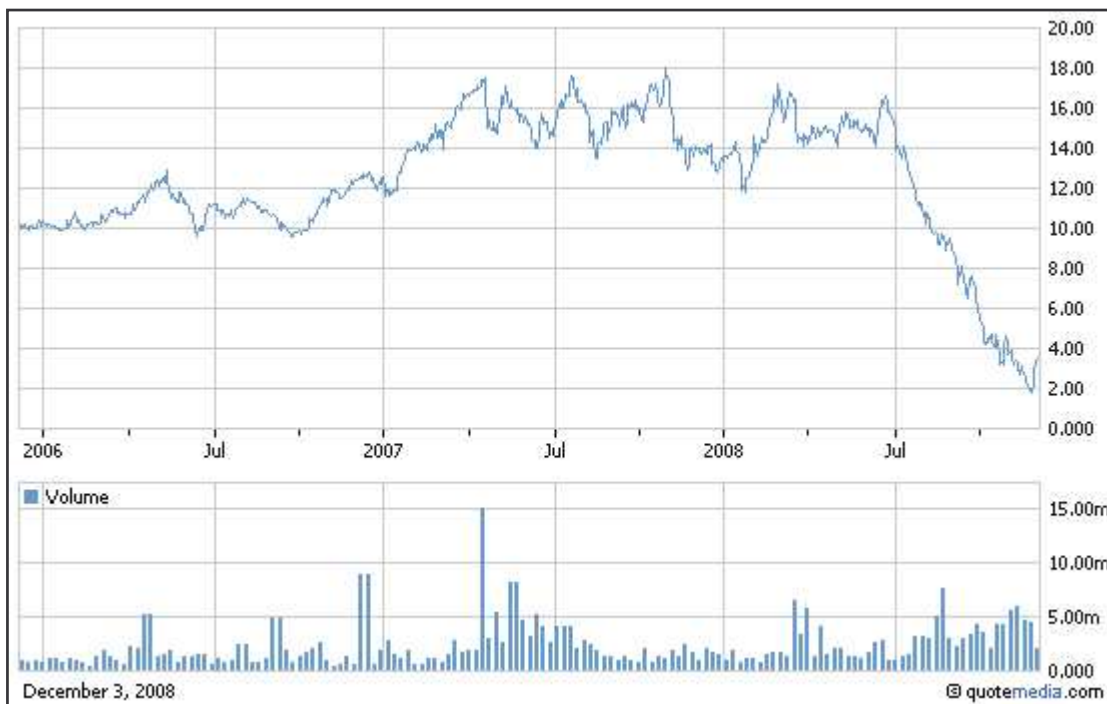
The current strategy is:

- Program to maintain production with Enhanced Oil Recovery (EOR)
- ~7 billion barrels of original oil in place (enough to make even Exxon salivate)
- Key to reserve addition is increasing recovery
- EOR pilot construction commencing in 2008

With \$303mn in revenues in FY07 and \$87.5mn in 1Q08 alone, the Cuban oilfield business is highly lucrative for Sherritt.

Sherritt also runs a power generation system with 376 MW of gross production capacity with generation derived from gas supplied from Cuba's north coast by CUPET (Cubapetroleos). This figure represents about 12% of Cuba's total power output. It is going ahead with a 150 MW expansion via a combined cycle system, bringing total capacity to 526 MW with construction expected to start in Q3/08. The only other power investment is in Madagascar.

The company was even involved in the cellular telephone business until September 2003 when it sold its 40% indirect interest in Telefonos Celulares de Cuba (Cubacel) to Telefonica Antillana, a Cuban government agency. Sherritt received 80% of the US\$43 million selling price for its Cubacel interest with the remaining 20% going to the private holder of the minority interest in the venture.



Above can be seen a recent price chart. Like everyone else's it looks dire however the devil is in the details and for some strange reason (and we don't think it was last week's equity rally, the stock's price nearly doubled on the eve of the Obama announcement of the new Secretary of State (i.e. Hillary Clinton). The stock price stood at \$1.77 on the close of the 25<sup>th</sup> of November and was \$3.44 two days later. Not a bad rally indeed. This took the company's market capitalization to just over C\$900mn.



Earnings in the nine months to September 2008 were \$302mn, a slight increase from the \$287mn in the equivalent period of 2007. This is understandable considering that the realized price for nickel was \$19.81 per lb in the 2007 period and \$11.28 in the first nine months of 2008. However cobalt (which has now cooled dramatically) was averaging \$41 per lb in 2008 and only \$28 in 2007. Though Sherritt's cobalt volumes are one tenth of those for nickel. The EPS in the latest period was \$1.12. Both nickel production and sales volumes were up was despite a production halt for Hurricane Ike. Nickel has plunged further of late and operating costs are up (or at least were 25% higher in 3Q08 than 3Q07) so we expect nickel to be barely profitable until the metal turns up in a meaningful way. We expect full year earnings of around \$360mn, giving an EPS for FY08 of \$1.23. Earnings could halve in FY09 though. However the current P/E is a mere 3 times and halved earnings would take it to 6 times. Not bad for an option on the Cuban situation evolving favorably.

We would suspect that Sherritt is the consummate (only?) Cuba play out there. The company knows the territory and is well positioned for any opening of the Cuban economy. We see no reason why it's electric or oil assets should be under any threat in an opening of relations with the US (in fact they make it a juicier takeover target). The mining assets are not something that Citibank would want and we are dubious its claims would get much traction on an opening of the mining sector (because renunciation of claims would presumably be a large part of the conditions). We rate Sherritt as a **Speculative Long** at this point in time.

### **Better the China you know than the Chavez you don't?**

We were recently called by a journalist from a major publication enquiring as to our view on the supposed takeover of Chinese nickel interests in Cuba by Venezuela. This got us thinking about Cuban mining, hence this note.

As part of the 16 agreements signed with Cuba in 2004, China's state-owned Minmetals Corp was to invest more than \$500 million to complete the construction of the mothballed Camarioca ferronickel plant in eastern Cuba. The plant, which had a production capacity of 22,500 tpa, had been built and financed by the Soviets but was left unfinished when the Soviet Bloc collapsed. In addition to the plant completion, Cuba pledged to supply China with 4,000 tpa of nickel from 2005 to 2009. However, nothing has happened since then. Does this not sound like the dynamic Minmetals that let Noranda get away??!! Cuban officials claim that eventually Camarioca could produce 68,000 tpa of ferronickel annually (utilizing 21,000 tpa of nickel).

China was also interested in establishing a new joint-venture company with the Cuban Government to prospect for nickel in Cuba and for the development of new nickel deposits in Camaguey and San Felipe. Cuba and China were to own 51% and 49%, respectively, of the new company. The status of this effort is unclear.

The latest evolution of this story is that, in January 2007, the Cuban government announced that Venezuela had replaced China in local plans to produce ferronickel at a partially completed Camarioca plant in eastern Holguin province. The two countries announced at the same time that there were plans to produce stainless steel in Venezuela using Cuban ferronickel. These plans call for \$500 million to be invested in the ferronickel part of the project and \$600 million in the steel plant.

This is somewhat boggling....but then again bogglement comes with any matter Chavez gets mixed up in. While he has recently nationalized the SidOr steel mills (from Argentina's Techint group) it makes little sense as to why he might be getting into the nickel business considering that Venezuela has no nickel processing expertise of its own, only 20,000 tpa of nickel emanates from Vz (most of which is Anglo-American's Loma de Niquel mine) and a steel industry that does not require the size of output that the Cuban plant might be likely to produce. How this meshes with the takeover of SidOr is not clear and what

has been achieved in the 22 months since the announcement is also a mystery. We should not forget that Chavez is traditionally long on grandstanding and short on delivery.

In a sweet twist, Chavez may be competing for the Cuban nickel resources against Russia's Norilsk, just as Chavez is launching a major charm offensive towards the Russians. In mid-November it was reported that Norilsk is considering the possibility of becoming an operator in a metals plant construction project in Cuba. At that time Norilsk's CEO, Vladimir Strzhalkovsky said it would take between six and nine months to complete a feasibility study, after which Cuba would apply to Russia for a loan to implement the project. Just like old times!

In mid-November, Norilsk Nickel and Cuba's Cubaniquel signed a memorandum of understanding on cooperation in prospecting for solid serpentinites at Cuba's Nicaro Mines. They also agreed to exchange specialists and share experience in mining, marketing and environmental issues.

### **Citibank in the mix – as usual**

Moa Bay Mining, a Cuba-based subsidiary of Cuban American Nickel, obtained a loan in 1957 to finance development of the mine in Cuba and in a processing plant in Louisiana. This was some rather diabolically bad credit analysis on the part of the lenders. But so what else is new! In 1960 the government of Cuba expropriated the assets of Moa Bay Mining. A predecessor company (Freeport Sulfur) of Freeport-McMoRan later distributed assets to settle outstanding debt, including the debt of Cuban American Nickel. The principal asset of Cuban American Nickel is the US\$88.35 million claim against the government of the Republic of Cuba.

Citibank N.A., a subsidiary of Citigroup Inc., is a substantial shareholder in New Orleans-based Cuban American Nickel and hence owns the claim certified by the Foreign Claims Settlement Commission. Other shareholders in Cuban American Nickel include: BNY Mellon Bank, HSBC Bank USA (a subsidiary of HSBC Holdings plc); and Bankers Trust, a subsidiary of Deutsche Bank AG; and three Louisiana-based banks.

On the scale of things in the recent Citigroup debacle (with its attendant bailout in the tens, if not hundreds, of billions of dollars) it almost generates a chuckle to think that this bank may be owed some tens of millions of dollars by the Cuban government and that this is ostensibly holding up progress in the Cuba rethinking in the US. Then add to the mix a bunch of foreign-owned banks whose own governments have zero interest in claims against Cuba.

Citibank has taken responsibility for the Moa Bay certified claim and has a representative on the Joint Corporate Committee on Cuban Claims.

### **The “power” of private equity firms?**

Powergen has been another contentious asset class in Cuba. The vast bulk of Cuba's power industry was owned by American companies in 1959 (never let the words “colonialist enterprise” cross our lips) and most of this was the Cuban Electric Co. which was purchased in the 1960s (thus after the Revolution) by Boise Cascade. In November 2004, the Boise Cascade sold its paper, building products, and timberland assets to Madison Dearborn, a private equity investment firm. Boise Cascade Corporation then renamed itself OfficeMax, which it had acquired in 2003. However OfficeMax hung onto the Cuban claim and actually ended up in 2007 court fighting against individuals' claims against the Cuban government as it felt that it too was entitled to restitution from blocked bank accounts in the US.

Corporations being what they are we suspect they would rather be talking about getting their hands on the electricity assets (though not Sherritt's) rather than sitting on a high-horse defending the rights of Palm Beach's oligarchs to getting back their tobacco plantations.

## Conclusion

In writing this note our main goal has been to highlight that an opening of the Cuban economy could be in everybody's interests. Believe it or not, even the old oligarchs camped out in Miami and parts thereabouts would have an innate advantage in the land-rush back into Cuba. That they may not get back the toys they accumulated under the corrupt Batista regime is neither here nor there for they don't have them currently so the difference is merely academic. For "lesser" Cuban émigrés there is the prospect of their relatives left behind getting some economic enhancement and greater social and commercial interchange.

For mining companies the opening of Cuba offers the potential to bring a vast nickel resource into reach of the majors. While not belittling the Sherritt efforts thus far, the resource can scarcely be said to be intensively exploited. The same holds for the other minerals on the island. The potential for a major expansion in activity in the sector in Cuba is significant.

Who stands to lose out? Well, if Cuba becomes "just any other" LatAm (or should we say Caribbean?) country then the class of intermediary/pundit/lobbyist/agitators who have serially wheedled their way into the halls of power supposedly to free the Cuban populace from its oppression and instead having remade US policy towards the continent in their own shape will be sent packing to the obscurity they deserve. Wrack our brains as we might, we fail to see anybody else who would be worse off from an opening of the Cuban economy, with eleven million Cubans and a flock of the more enterprising émigrés being the ultimate winners.

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