

COMMENTS ON “PETROLISM IN CUBA”: NOTES ON MEDICAL DIPLOMACY AND INVESTMENT RISK FACTORS

Maria C. Werlau

Roberto Orro’s paper “Petrolism in Cuba” addresses a topic that has been off the radar, but has great relevance to Cuba’s economy and is critical to sustaining its current regime. It should be widely circulated, especially in the oil and financial sectors.¹

A more in-depth look at two issues discussed only tangentially in the piece could add considerably to the topic and improve on an already excellent paper. The first is Cuba’s “medical diplomacy” or “oil-for-professionals” program, which involves sending health professionals abroad, but has also historically included teachers, engineers, architects and other specialists. The second is the considerable risks for investors in doing business with the Cuban regime, whether in the oil industry or in any other economic endeavor.

HEALTH FOR OIL: ADVANCING THE MARXIST AGENDA

For decades Fidel Castro has “exported” professionals from Cuba as “internationalist brigades” to the developing world. The purpose is twofold: to earn Cuba hard currency and gain political favor and sympathy abroad. Typically, Cuba’s medical brigades operate within the framework of government-to-government agreements between Cuba and recipient countries.

Sometime in the early 2000s, Venezuelan President Hugo Chávez—elected in 1999—agreed to greatly expand on this scheme as part of a strengthening Venezuela-Cuba alliance. Chávez would provide Venezuelan oil under preferential terms in exchange for the services of brigades of mostly Cuban health professionals—doctors, nurses, and technicians—sent to the developing world to benefit marginalized populations generally at no cost to the recipient country. In 2002 Cuba and Venezuela signed a two-year-old accord that sent around 250 Cuban physicians, nurses and technicians to Venezuela.² The program quickly grew exponentially: from 6,190 Cuban health “collaborators” serving abroad in 2002 to 31,243 in 2005.³ By March 2007 the Cuban government reported that it had around 40,000 doctors, dentists, nurses, and other medical personnel working in 69 countries, including approximately 15,000 in Venezuela. Full hospitals and specialized clinics were also being established in many countries courtesy of Chávez and Castro. Countries with leftist Presidents with strong ties to Venezuela and Cuba, such as Bolivia, Ecuador and Nicaragua, receive most of the assistance.

The scope of the project is enormous both in cost as well as reach. In 2007 the Spanish news agency EFE re-

1. Because many analysts and prospective investors have little or no background knowledge of Cuba, it would be helpful if the paper provided some context for a few items mentioned in the paper, such as the Special Period. A footnote here or there would suffice.

2. Marc Lifsher, “Cuban Doctors in Venezuela Add To Rift Growing Between Classes,” *The Wall Street Journal*, Las Salinas, Venezuela, May 13, 2002.

3. The Pan-American World Health Organization reported that 84,797 Cuban health “collaborators” served abroad during the period 2001–2005: 4,317 in 2001; 6,190 in 2002; 17,033 in 2003; 26,014 in 2004, and 31,243 in 2005. See *Salud en las Américas*, Volumen II, Países: Cuba, PAHO, Cuadro 5, p.284. <<http://www.paho.org/hia/archivosvol2/paisesesp/Cuba%20Spanish.pdf#search=%22cuba%22>>

ported that the value of these services for Cuba was \$2.5 billion per year.⁴ The Venezuelan oil subsidy/payment to Cuba is reported to have reached 100,000 barrels of crude per day.⁵

The “Misión Milagro,” launched in 2004, is also part of the health-for-oil program. The initiative provides free eye surgery, mostly for cataracts, by either flying people to Cuba or by having Cuban doctors treat patients in their home countries in donated specialized clinics. Initially, only Venezuelans were flown to Cuba for the eye surgeries; soon eye clinics were established there and in other countries to have Cuban doctors perform the surgeries on location. Patients are typically selected from poor sectors of society with the help of politically committed or “progressive” community organizations in their home countries. Since its inception in July of 2004 and through March 2009, almost 1.5 million persons from 35 countries had been treated, including over 267 thousand foreigners in Cuba.⁶ Sixty-one eye clinics with 92 surgery rooms have been “donated” by Cuba in 20 countries of Latin America and the Caribbean plus Angola and Mali.⁷ The goal is to treat no fewer than 6 million economically deprived citizens of Latin America and the Caribbean.⁸

Cuban health professionals are required to actively support political agendas of the Cuban government in the countries where they are sent. In fact, the Cuban government has trained paramilitary personnel to send to Venezuela as technical staff in the health field.⁹

The Chávez-Castro alliance is clever and extremely effective in advancing the Bolivarian agenda, of which Chávez is the leader and Fidel Castro the intellectual

mastermind. It justifies the huge subsidies from Venezuela that are vital to Cuba’s ailing economy, thus helping keep the Cuban dictatorship in power. Meanwhile, it supports friendly governments by serving key local constituencies, wins influence and favor internationally, and boosts the image of the Castro and Chávez and their respective regimes.

Results cannot be underestimated. Most recipient countries show their appreciation by affording the Chávez and Castro dictatorial regimes international legitimacy and refraining from condemning them in international bodies for their human rights violations. In addition, it dissuades them from providing assistance and support for human rights and opposition movements in either country. In some cases, such as Venezuela, Bolivia, Nicaragua, Ecuador and Honduras, the populist mechanism has arguably played a key role in co-opting grass roots groups to support increasingly radical agendas by presidents who won election on more moderate platforms.

The rewards can be very high. In Bolivia, just two years after Evo Morales’ election to the presidency, the 53% support with which he was elected turned into a 67% support in a recall referendum to keep him in power. In January 2009 he received voters’ backing for his project for a new constitution aimed at giving greater rights to the indigenous majority population, to the detriment of business interests and those of the resource-rich eastern provinces.¹⁰

The unique concept of internationalist brigades is only possible in a totalitarian state. To guarantee a steady pool of exportable health services personnel, Cuban

4. Mar Marin, “Cuba may seek foreign investment in strategic sectors,” EFE, La Habana, July 4, 2007.

5. Susan Kitchens, “Castro’s Medical Mercenaries,” *Forbes*, November 14, 2005. <<http://www.forbes.com/home/forbes/2005/1114/204.html>>

6. Persons treated: Caribbean: 65,714; Cuba: 173,793; Venezuela: 635,401; Other Latin America: 668,532; Angola: 4,508; Mali: 6,714. Cuban government website on international cooperation, Cuba Coopera, <<http://www.cubacoop.com/cubacoop/misionmilagros.htm>>

7. 23 in Venezuela, 15 in Bolivia; 3 in Ecuador, Guatemala, Honduras and Nicaragua; 2 in Haiti; 1 in Panama, Paraguay, Uruguay, Peru, St. Lucia, St. Vincent, Suriname, Mali, and Angola. Cuba Coopera website.

8. “Médicos cubanos operarán de la vista gratis a 12,000 panameños,” *Efe* (Terra Actualidad), 22 de noviembre de 2005.

9. In 2005 it was reported that 600 members of paramilitary groups from the central provinces of Cuba were receiving intensive instruction in medical specializations with the purpose of sending them to Venezuela. See Guillermo Fariñas, “Entrenan a paramilitares como técnicos de la salud para trabajar en Venezuela,” *Cubanacán Press*, Santa Clara, Cuba, 24 de febrero 2005, www.cubanet.org.

10. Country Profile: Bolivia, BBC News. http://news.bbc.co.uk/2/hi/americas/country_profiles/1210487.stm.

doctors may not leave Cuba without a ministerial authorization. When authorized, they are rarely allowed to travel with their families. In order to work overseas, Cuban doctors must agree to contribute the sizeable part of their wages to the Cuban state or they cannot travel back to the island. In most countries, the Cuban health professionals are typically sent to far-flung areas where local workers refuse to work due to insecurity, remoteness, poor conditions and food, and low salaries. Their workload is very heavy; they often work from early morning until night, sometimes seven days a week, and live in poor areas in shabby accommodations, deprived of privacy (usually sharing with numerous expatriates), and lacking recreational activities. They are not allowed to speak to the media, are under unrelenting surveillance by their Cuban keepers, their passport and documents are retained and, in some countries, they are forbidden to leave their homes after a certain hour. Paid a small fraction of the wages/fees the Cuban government gets for their work, they receive a stipend in local currency that oftentimes barely guarantees basic subsistence. Their families in Cuba receive a monthly sum that is usually considerably higher than the average salary they would get in Cuba, usually under \$US 20 per month. An additional compensation is held in a bank account in Cuba until their return and may only be accessed if he/she completes the assignment or number of years of service, and returns to the island.

The medical program is officially part of the Bolivarian Alternative for the Americas (ALBA),¹¹ which seeks the political, economic, and social integration of the Caribbean and Latin American countries in “an alternative model to neoliberalism,”¹² essentially meaning Marxism-Communism. Importantly, the program is

inserted into the Foro de Sao Paulo framework. The Foro, was organized in 1990 by Fidel Castro and Brazilian President Luiz Inacio “Lula” da Silva, then head of the Brazilian Workers’ Party, to reinvigorate and unite leftist forces and devise new strategies to face the challenges following the demise of communism in Eastern Europe and the absence of Soviet support.¹³ Since its first meeting in 1990 in Sao Paulo, Brazil, its yearly gatherings are huge affairs and its member organizations include the radical left, such as communist parties and terrorist and radical groups.

The Foro adopted the idea to mostly give up armed struggle and instead follow an electoral path to power. An overt Marxist platform remains hidden until sufficient control has been established. The false legitimacy of attaining power through democratic mechanisms prevents a direct confrontation with the United States. Once in power, the democratic process is manipulated by calling for constituent assemblies that will allow the president to be reelected for life, concentrate power in the executive branch, allow rule by decree, and weaken the citizenry’s freedoms. Once democratic institutions are greatly weakened and a repressive apparatus is well in place, the Marxist agenda is to be fully embraced and democratic institutions dismantled altogether.

Co-opting key sectors of society, even fueling mob rule, and staging electoral fraud when necessary, are part of the plan. The strategy is to energize and capture groups and movements that decry the lacks or injustices occurring in the neoliberal model, building constituencies around populist social causes. Health care is central to people’s lives. Sending doctors to care for poor and remote populations and providing the services free, especially restoring people’s eyesight, cannot

11. In Spanish, the “Alternativa Bolivariana para las Américas” (ALBA). Cuba’s officials and the Cuban media consistently report on the medical programs and international missions within the context of ALBA.

12. The stated purpose of this alternative model is “to correct the disparities and disadvantage of underdeveloped countries compared to the developed countries.” Fernando Ramón Bossi, “Constructing the ALBA from within the peoples.” <http://www.alternativabolivariana.org/modules.php?name=Content&pa=showpage&pid=258>.

13. For more on the Foro de Sao Paulo, see “Cuban Policy in Latin America,” Staff Report, Focus Cuba, Cuba Transition Project, Institute for Cuban and Cuban-American Studies, University of Miami, Issue 51, January 22, 2004; “Fidel Castro Hosts ‘Terrorism Summit’ in Havana,” *The Orlando Sentinel*, December 5, 2001; Adolfo Rivero Caro, “Foro de Sao Paulo: La Internacional Socialista,” *El Nuevo Herald* (Agencia de Prensa AIPE, Venezuela Analítica), December 5, 2001; Gonzalo Guimaraens, “Foro Social Mundial: las “redes,” sus metas y estrategias,” Guaracabuya (Órgano oficial de la Sociedad Económica Amigos del País), < <http://www.amigospais-guaracabuya.org/oaggg069.php>>.

but elicit practical adoration from those receiving care. Developing these instant armies of loyalists, if not militants, is well worth the investment.

Latin America is the first battleground for the Foro. Cuba and Venezuela are paving the way with Venezuela’s vast oil revenues to slowly carve out a “Bolivarian ‘gran patria,’” which Hugo Chávez plans to reign over.

The decline in the price of oil and the global recession have diminished Venezuela’s resources to fund the plan. But, the commitment by the Cuban and Venezuelan leaders to remain in power and extend their influence has not. Therefore, although the resources spent on this initiative may dwindle to some extent, at least for the time being it is hard to imagine that it will not continue moving forward.

This mechanism demonstrates how oil money can actively obstruct—indeed, subvert—democracy. Ecuador, Nicaragua and Honduras, all big recipients of the generous Cuba-Venezuela support, have followed similar paths as Chávez in Venezuela in the last decade and Fidel Castro in Cuba five decades ago. This has consequences that directly and insidiously act against the interests of the United States and, in fact, of all democracies.

INVESTMENT RISKS IN CUBA’S OIL SECTOR¹⁴

With respect to opportunities for foreign investors in Cuba’s oil sector, Orro makes a passing reference to uncertain prospects for drilling and exploration by mentioning the unsubstantiated and apparently outlandish claims by the Cuban government of huge oil

reserves. But his paper generally ignores the risks that exist in the sector—in drilling and exploration as well as in refining and power generation.

It is well known that there are considerable risks for investors for doing business with the Cuban regime. For good reason, Cuba’s business climate is ranked one of the worst in the world by the Economist Intelligence Unit and other reputable sources.¹⁵

One such risk is inherent in the Cuban government’s requirement that foreign investors enter into partnerships with the state and agree to hire workers from state employment agencies, paying hard currency to Cuba for the workers’ salaries while the workers receive a minor fraction in worthless local currency. Then, there is the question of collusion with the state to repress worker rights and engage in other practices that violate universally recognized human and labor rights. This situation opens the door to future lawsuits, including large class actions, against the investors who act as accomplices to these schemes.

Yet, the risks for investors are even more immediate, even in the prized oil sector. Stories abound of foreign joint venture partners being kicked out arbitrarily and without compensation and of exporters to Cuba scrambling to collect unpaid trade debts.¹⁶ The Canadian government, i.e., Canadian taxpayers, have paid millions to settle export insurance claims for trade deals that Cuba failed to honor, and those were the lucky exporters who had insurance.¹⁷ Since March 2009, by government decree, foreign entities in Cuba

14. The information on Pebercan used in this section has been summarized from: “Cuba unable to pay debt to Pebercan for oil purchases,” Press release, Pebercan, Inc., *Cuba Business*, June 26, 2008; “Termination of production sharing contract,” Press release, Pebercan, Inc., Montreal, February 10, 2009; Gerardo Arreola, “Cuba cancela contrato con una petrolera canadiense,” *La Jornada*, January 25, 2009; John Kipphoff, “Pebercan, Sherritt Plunge as Cuba Ends Oil Contract,” Bloomberg, January 26, 2009; “Sherritt, Pebercan shares sink on Cuba contract,” Reuters, Toronto, January 26, 2009; “Cuba revokes Canadian oil producer’s contract,” Reuters, Calgary, Alberta, January 23, 2009.

15. Business environment rankings, Economist Intelligence Unit, June 19, 2009. <http://viewswire.eiu.com/site_info.asp?info_name=BER_graph&page=noads>.

16. See, e.g., Marc Frank, “Western businessmen bitter as Cuba closes doors,” Reuters, May 31, 2005.

17. Jose de Cordoba and Carla Vitzthum, “Canadian Woes with Cuba,” *The Wall Street Journal*, June 28, 1999; Peter Foster, “Invest in Cuba, then try to collect,” *National Post*, Canada, April 14, 1999; John Turley-Ewart, “Canadian firm gets Cuban ship detained: Adecon owed \$3M,” *Financial Post*, August 6, 2002; John Turley-Ewart, “The high price of dealing with Cuba: Castro takes Canadians for millions of dollars,” *National Post*, Canada, January 6, 2003. Marc de Man (Gottlieb & Pearson, Montreal), “Enforcement of Cuban maritime debts in the Canadian courts,” *The Maritime Advocate*, Issue 7, April 1999, http://www.maritimeadvocate.com/i7_debt.htm.

cannot withdraw hard currency deposits beyond a certain small amount without government approval.¹⁸

Not even the oil sector has been immune from defaults and arbitrary decisions by the Cuban state partner. Canadian company Sherritt, Cuba's biggest foreign player—responsible, among other things, for over a third of Cuba's oil production—has faced longstanding payment arrears with respect to contracts in the oil sector.

Just four years ago, in 2005, Canadian companies Pebercan and Sherritt International—both longtime partners of the Cuban state—had discovered oil reserves in the Gulf of Mexico under Cuba's control; Fidel Castro publicly reported the reserves to be in the order of 100 million barrels. As Pebercan and Sherritt's stock soared, scores of news reports came out expounding on the golden opportunities denied to U.S. investors in deals such as the subject one as a result of the embargo. But, very soon, the Canadian partners began discovering a less and less rosy picture. Tellingly, news of the souring tale has been quite scarce.

Just days after the oil discovery was announced, the Cuban government decreed that all revenues from state-run ventures had to be channeled through the central bank and “must be tightly controlled to ensure their optimum use.” The companies, whose joint ventures with its Cuban partner, the state enterprise Cupet, were responsible for 60% of oil production in Cuba, were also required to sell all their oil production to the Cuban state. Less than two years later, in December of 2006, Pebercan announced that Cupet was two months in arrears on some US\$69 million in oil payments, US\$32 million of which was owed to Sherritt. The negotiations resulted in a payment by Cuba in

2007, but soon there were new arrears. In the midst of intense negotiations, by November of 2008, US\$108.5 million was past due. Finally in early 2009, the Cuban government cancelled its 15 year-old oil production contract with Pebercan, due to expire in 2018. Cuba agreed to pay US\$140 million to Pebercan, of which \$60 million would go to Sherritt. Pebercan is being dissolved. Sherritt remains in Cuba and, as Cupet, has remained silent on what happened.

Aside from academic studies pointing to oil's effect on development and democracy, valuable as they are, a reality check on due diligence issues is a necessary complement for potential investors in Cuba's oil sector. In fact, it may be a matter of life and death for them.

A final comment. I found the last part of the paper to take away from the rest of the work, which has great value added. Orro ends his piece with what is mostly a commentary on how to fix or improve the Cuban economy and turns to U.S. policies on travel, remittances, and humanitarian relief. As we know, the “embargo” is a simplistic reference to what is a complex web of measures and factors that make up U.S. policy towards Cuba. By touching on certain aspects of that policy and not others, he digresses from the central thesis of the paper without doing justice to the complex policy debate surrounding the embargo. Instead of this superficial treatment, I believe it would have been more productive to consider a potential or future lifting of U.S. sanctions as the starting point to consider the impact of U.S. investment in Cuba's oil sector. The policy questions can be left to the scores of books, papers, panels, news reports, etc., on the embargo, which abound, including at this conference.

18. Resolution No.1/2009, Central Bank of Cuba, March 27, 2009, forbids withdrawals from the accounts of foreign firms, whether or not in Cuba, and of joint venture enterprises and other forms of international economic associations. The only exceptions are transactions having to do with the payment of employees in Cuba. Wilfredo Cancio Isla, “Cuba refuerza control de su sistema bancario” *El Nuevo Herald*, 21 de abril del 2009.