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FOREIGN SERVICE DESPATCH

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TO : THE DEPARTMENT OF STATE, WASHINGTON.

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SUBJECT: Economic Summary for April, 1955

The seasonal stimulus of the sugar harvest continued to buoy up the Cuban economy during April, although the restricted 1955 crop was rapidly drawing to completion as the month ended. Increased sugar sales to markets other than the United States and the general firming of the world sugar market have been most encouraging to business in general. Continued improvement in the domestic political climate, as Congress and the Administration moved during April toward enactment of the general amnesty law which became effective May 7, had a further salutary effect on business confidence.

In general, trade and production volumes during April compared favorably with the same month last year. Private construction activity, a major supporting factor in the Cuban economy during the past year, continued at a high level but the volume of new building permits has started to taper off. Preparations have been made to intensify the government's bond-financed public works program during the "dead season" which inevitably follows completion of the sugar harvest. The recent improvement in national revenue receipts, reflecting both a slight rise in national income and better fiscal administration, was sustained during April and it is probable that only a small budgetary deficit will be registered for the current fiscal year. Cuba's international reserve position, under some pressure during 1954 because of depressed sugar sales on the world market, was further improved during April and moderate internal monetary and credit expansion continued.

SUGAR:

The main item of interest in Cuban sugar circles during the month of April was the purchase by Russia of additional sugar. Its total purchases are now expected to be well in excess of 500,000 Spanish long tons. As a result, the world market price has shown buoyancy. To meet the Russian demand, Cuban trade and government circles expect the International Sugar Council to again increase the total world sugar quota by another 10 percent in its next meeting, which is in June.

As of April 30, 1955, only 35 mills out of the 161 operating mills had terminated the 1955 crop but 150 mills had terminated as of May 8. Production of sugar and blackstrap molasses through April 30, 1955, equaled 4,228,557 Spanish long tons of sugar and 187,529,869 gallons of blackstrap molasses.

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Due to the continued drought throughout the Island, the production of hi-test molasses continued apace. By the end of the first week of May, 130,000,000 gallons had already been produced by the 42 producing mills as against 89,000,000 gallons on April 30. This, together with the production of blackstrap molasses, is causing an acute molasses storage problem. Nevertheless, the Cuban Government is anxious that another 60,000,000 to 75,000,000 gallons of hi-test molasses be produced in addition to the 190,000,000 gallons already sold.

Exports of sugar from January 1 to April 15, 1955, equaled 1,262,322 Spanish long tons, of which the major portion or 855,393 Spanish long tons were shipped to the United States.

As of April 30, 1955, the Cuban Sugar Institute had assigned 116,037,967 gallons of its 1955 crop blackstrap molasses for local use or manufacture. Of this quantity, 74,173,525 gallons were to produce absolute alcohol, 32,508,562 gallons to produce alcohol for domestic home use and 6,878,000 gallons for liquors, drugstores, laboratories, and so forth.

#### RICE:

Because of the continued slow movement of rice into consumption, it is becoming more and more apparent that the total consumption of rice in Cuba for the crop year ending June 30, 1955, will show a drastic drop from previous levels. Because some Cuban rice producers have had the tendency to overcrop their land, as well as to bring to harvest rice during unseasonable periods of the year, the Cuban Agricultural and Industrial Development Bank found it necessary to issue strict rules governing its loans to rice growers. These rules included adequate technical assistance, one crop per year, crop rotation, and the planting of rice during specified periods of the year.

#### POTATOES:

Cuba found itself in the fortunate position of having over 200,000 hundredweights of surplus Irish potatoes on hand when the severe freeze in Alabama opened up a profitable market for the Cuban potatoes in New York for a few weeks. In order that grade and quality be maintained, the Cuban exporters requested and obtained the services in Cuba of three inspectors from the United States Department of Agriculture for a period of three to six weeks.

#### BEEF:

Because of the continued drought, which is now extending into its seventh month, the Cuban Government has authorized the importation of beef into Cuba until July 31, 1955, and has provided that such imports be free of all types of duty. It is expected considerable quantities of beef will be imported from the Dominican Republic and Central America, but the major portion of Cuba's requirements is expected to be supplied by the importation of "utility" beef from the United States. The first beef to arrive under the new authorization was a shipment of 15,000 pounds of fresh beef from

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Costa Rica.

**MERCHANDISING:**

The general pick-up in retail sales registered throughout the Island in first quarter 1955 continued to be evident in April in medium-priced outlets but showed some signs of slackening in high- and low-priced outlets both in Habana and the other Provinces. Some degree of stability returned to the market for household electrical appliances which had suffered from price cutting in the first quarter. But though increases in sales were registered in comparison with April 1954, prices and sales contracts still were extremely competitive. Sales of heavy construction equipment were up nicely but of agricultural equipment were down in some cases as much as 15 percent from April of last year owing primarily, it is believed, to the extreme length this year of the dry season. Motor car sales continued to show increases over the same period of last year though not up to the 20 to 30 percent gains registered in first quarter. Sales of automobile tires also showed improvement in April, 5 to 10 percent increases over such sales for the corresponding month of 1954 being reported by most outlets.

**TEXTILES:**

There was a slight increase in the rate of production of cotton woven goods in Cuba in April in comparison with both the first quarter rate and the rate for April 1954. The rate of production of rayon goods was unchanged from the first quarter but was 10 percent to 15 percent above the corresponding rate for April 1954. Lingerie and hosiery industries' rates of production varied little from those of the periods mentioned. Output of Cuba's rayon plant, operating at near capacity, also was unchanged. The seasonal improvement which occurred in wholesale sales of textiles in March continued through April though total sales for the month were reported to be approximately the same as for April of last year.

**CONSTRUCTION MATERIALS:**

During April, 280 building permits with a total value of 4.4 million pesos were issued. This is slightly below the total of 4.6 million pesos for the same period of 1954 and roughly equivalent to the figures for the preceding months of this year. Work on private construction projects is continuing at a high level.

Although European mills are still able to offer slightly better terms than the United States concerns, local suppliers of United States products report an ever-growing volume of orders, chiefly for heavy items. Tubular and wire products are still imported almost exclusively from Europe. Although exact figures are not available for April imports, the tonnages are probably equal to those of previous months or even greater.

The cement plant at Mariel produced a near-capacity total of 214,700 barrels during April, and its shipments amounted to 223,083 barrels of "El Morro" cement. An additional 115,125 barrels of gray cement were imported,

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of which 40,125 barrels came from Belgium, 39,500 from Germany, 21,750 from the Dominican Republic, and 13,750 from Puerto Rico. No official announcement has been made as to whether the temporary waiver of import duty will be extended beyond May 31, but the expectation is that another extension will be granted.

#### MINING:

Production rates of Cuban mines in April were unchanged from the first quarter. But whereas copper, chrome, and iron pyrites were being mined in slightly greater quantities than in April of last year, production of manganese was down 25 percent from that period and iron mines were inactive for the tenth straight month. Nickel, presently the most important of Cuban minerals, has experienced no change in its rate of production for the past two years. Expansion of the United States Government nickel plant at Nicaro and activity of the Freeport Sulphur Company at Moa Bay, which in several years will more than double Cuba's production of nickel, were under way in April. Zinc concentrate which was not exploited in Cuba a year ago was being produced at a rate of 300 tons per month.

#### PETROLEUM:

Approximately 28,000 feet of Cuban oil wells were drilled in April. In the previous month drilling amounted to 18,000 feet. For April of 1954 it was scarcely 2,000 feet. Twenty-one rigs were active in April 1955 as compared with five rigs in April 1954. April 30, 1955 completed one year since the discovery of oil at Jatibonico, Camaguey Province. Of 18 wells drilled there in the 12-month period, 15 are producers and three are dry; three more are unfinished or testing. Estimated capacity production of the 15 producing wells is reported to be 2,500 barrels per day of 14-15 gravity oil. Drilling has not confined itself to Jatibonico. There has been considerable activity in Las Villas and Habana Provinces also. Productive capacity of two wells in Habana Province was reported on May 1, 1955 to be about 100 barrels per day of 26 to 29 gravity oil. Texas Oil Company in April announced plans to construct a 20,000-barrel per day refinery in Cuba. The Texas plans, together with the Esso and Shell projects announced earlier, would raise Cuba's oil refining capacity from its present level of 8,000 barrels per day to about 65,000 barrels per day by 1958.

#### TRANSPORTATION:

Inbound cargo arriving at the Port of Habana during April totaled 233,000 metric tons, slightly less than the figure for the preceding month but equal to that of April 1954. Imports of automobiles and steel from the United States continued at approximately the same levels as in preceding months.

At the end of March, the Peninsular and Occidental Steamship Company announced the suspension of its service between Tampa, Key West and Habana. In the four months of operation, the service had not been able to attract sufficient business to make the run profitable.

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A regular fortnightly cargo service between Cuba, Canada and the United States was inaugurated on April 30 by the Flota Mercante Gran Colombiana. Ships of this company will operate between Habana and the ports of Montreal, Three Rivers, Halifax, St. Johns and Boston.

#### CIVIL AVIATION:

At the beginning of the month, Delta C & S began flying DC-7's on the San Juan-Habana-New Orleans-Chicago route, and on April 24, National Airlines changed to DC-7's on the Habana-New York flight. By offering this improved service both companies expect to increase passenger traffic on these routes.

As a result of meetings between government officials and technical personnel, it was announced that funds would be made available for purchasing equipment to improve the air traffic control systems at Rancho Boyeros Airport and other airports throughout the Island.

#### LABOR:

Early in April the first shipments of bulk sugar under the terms of the 1955 sugar harvest were made. Trouble had been expected at Nuevitas with a ship that was loaded there, and in fact for the first day most of the loading was done by troops. It quickly developed that opposition to bulk loading among the rank-and-file and the majority of union officers was practically non-existent and since then bulk loading has everywhere proceeded smoothly.

It turns out, however, that bulk loading, as it is being done in Cuba, far from costing labor jobs or earnings has increased them. With the sugar actually being dumped from bags at the hatches, one man is required at each hatch to dispose of the empty bags and another in the hold below to operate a centrifugal spreader. Thus, two more men are being employed per hatch. Labor leaders have commented with satisfaction on this situation, and it perhaps clears the way for permanent acceptance of bulk loading - in its present form.

By the end of the month, the CTC had decided to send a large delegation at the beginning of May to Washington to make representations to United States labor leaders, government officials and congressmen regarding Cuba's interest in pending United States sugar legislation.

#### FINANCE:

Reflecting the usual seasonal trend, moderately intensified this year by the improvement in sugar exports to markets other than the United States, Cuba's international reserves continued to increase during April to a level, at the end of the month, of 528 million dollars, a figure only slightly below that recorded a year previously. The volume of peso notes in circulation continued to expand slowly, growing from 431 to 434 millions during the month. The National Bank's reserve-liable deposits increased even more rapidly, due to heavier reserve deposits by the commercial banks, and on April 30 stood at 289 millions. The quantitative gain in international

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reserves was largely offset by the increases in note circulation and deposit liabilities and the official reserve ratio moved upward only slightly during April to 73 percent. A small contraction in the National Bank's direct and indirect credits to the State was compensated by a roughly equal increase in rediscounts and advances to commercial banks, leaving net internal credit creation by the National Bank unchanged for the month.

Provisional data indicate that the volume of deposits in commercial banks continued to grow during April. By the middle of the month, deposits totaled 744 millions which was about one percent above the mid-March level. On the same comparative basis, the volume of loans outstanding increased about two percent to 445 millions at mid-April, facilitated by the mentioned expansion in the rediscounting activities of the National Bank. Incomplete reports show that draft collections, which had slowed somewhat during recent months on domestic items, were again generally satisfactory during April. Clearings volume, exclusive of the State's transactions, moved downward from the seasonal peak in March but the April total of 392 millions was about nine percent above the corresponding month last year.

The marked improvement in national revenue collections which started during late 1954 was apparently sustained during April. According to a Ministry of Finance official, budgetary receipts during April exceeded expenditures and were about 10 percent higher than originally anticipated. Because of seasonal factors, collections will fall off during the remainder of the fiscal year but it now appears that the budgetary deficit for 1954-1955 will be small compared to the substantial deficits recorded in the two previous fiscal operations. Customs receipts during April were reportedly more than 12 percent above the same month last year, demonstrating an at least sustained level of imports and improved customs administration.

Under authority of legislation enacted by decree before the new Congress convened in January, new increases in profits taxes and in the basic sales tax were placed in effect during April. The average increase in profits taxes, covering most branches of commerce and industry, was in the neighborhood of five percent and the basic sales tax rate was increased from nine to ten percent. The additional revenue provided by these tax increases is earmarked to support the State's hospitals. Reportedly, other tax increases will be requested by the Administration to bring total additional revenue for this purpose to the planned level of 10 million pesos per year.

The government's special public works program, financed by bond issue, has been at relatively slow tempo during the sugar harvest months but preparations have gone forward for increased activity during the forthcoming "dead season". Allocations made during April brought newly-authorized expenditures for special public works this year, under the Economic and Social Development Plan, to about 27 millions.

Another step forward in the Cuban Electric Company's major expansion program was made during April as the semi-official National Financing

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Agency arranged a 10-million-peso loan, subscribed indirectly by a group of Cuban banks, to supplement an eight-million-peso credit provided a year ago. As it is the only important supplier of public power, the Cuban Electric Company's expansion is essential to the Cuban economy. The consumption of electricity in Cuba has been increasing regularly at a rate of about 10 percent per year.

For the Ambassador:

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