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FOREIGN SERVICE DESPATCH

FROM : AMEMBASSY, HABANA

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TO : THE DEPARTMENT OF STATE, WASHINGTON.

June 9, 1955  
DATE

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SUBJECT:

Economic Summary for May, 1955

Production of Cuba's 1955 sugar crop was completed during May and the general decline in the over-all tempo of economic activity which corresponds to the dead season in the sugar industry will soon be making itself felt. However, compensatory spending by the government, particularly in the field of public works, is expanding to provide support to the economy and the continued high level of private construction activity constitutes another buoyant factor of major significance. Business confidence in general appears to be relatively high, reflecting particularly the improvement during recent months of Cuban sugar sales to markets other than the United States.

Indications are that national income during May, and during the first five months of 1955, was running moderately above that of last year. Sales and production volumes in most lines during May compared favorably to the corresponding month of 1954 and bank clearings were at an all-time high level for that month. National revenue collections continued to be very satisfactory and the 1954-55 deficit on budgetary operations will be modest compared to the substantial deficits recorded in the two previous years.

SUGAR:

During the month of May, Cuba terminated the production of its restricted 4,400,000-Spanish-long-ton crop. Unconfirmed reports indicate that blackstrap-molasses production was approximately 197,000,000 gallons. After reaching the permitted production of 190,000,000 gallons of hi-test molasses, all producing mills closed down but some, which were in the position to produce further quantities, were permitted to reopen when an additional 25,000,000 gallons were sold to Publicker Industries of Philadelphia. Exports of sugar from January 1 to May 15, 1955, equal 1,631,660 Spanish long tons, of which by far the major portion or 1,007,608 Spanish long tons were shipped to the United States. Among other foreign recipients, Russia stands first, having lifted 124,134 Spanish long tons of sugar.

RICE:

During May, delegates representing the Governments of the United States and Cuba met in Habana to renegotiate the joint Rice Agreement of December 17, 1952. Details of the joint Agreement are expected to be made public

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during the first fifteen days of June.

**POTATOES:**

Due to the late freeze in Alabama, Cuban surplus potatoes found a ready market, for a short time during the month of May, in the United States. It is estimated that approximately 140,000 cwt. of Cuban potatoes were shipped during the month to the United States and Puerto Rico.

**BEEF:**

Due to the extended dry-spell, the Cuban Government authorized the importation of beef up to and including July 31.

**GENERAL MERCHANDISING:**

Retail sales throughout the Island for each of the first five months of 1955 have shown increases compared with corresponding months of last year. However, signs of slackening apparent in April in medium- and high-priced outlets were more pronounced in May when a few decreases were reported. There also had been signs of slackening in motorcar and truck sales in April. These signs were erased in May as new gains of 50 percent and above were recorded. Motorcar and truck sales for the first five months of the year have more than doubled in many cases and there has been an over-all reduction in the percentage of delinquent payments. Sales of appliances and other electrical equipment, household and industrial, also registered increases of up to 10 percent in comparison with the previous May. Sales of agricultural machinery were up 5 percent to 10 percent from April but about equal with such sales for May a year ago.

**TEXTILES:**

Production of rayon weaving mills in Cuba for May 1955 was at near capacity, unchanged from the previous month and 15 percent to 20 percent above that for the corresponding month of 1954. Production of cotton mills at about 65 percent capacity was unchanged from either the previous month or the same month of 1954. The Cuban rayon plant continued to operate at near capacity as it has for the past two years. Production of lingerie and hosiery mills was at about 65 percent of capacity, also unchanged from April and from May of last year. Wholesale sales of textiles and textile products were reported to have declined 5 percent to 10 percent from such sales for May 1954. Rayon and cotton goods printed in Cuba, since inauguration of such activity in March, were reported to be having no difficulty in displacing similar-quality imported goods in the market.

**MINING:**

Construction and other activity leading toward expansion of the Cuban nickel industry continued in May while production of the mines was unchanged from the rate maintained steadily for the past two years. Production of

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copper, chrome, and iron pyrites was unchanged from the previous month and the first quarter but was slightly above that for May of last year. Production of manganese also was unchanged from the previous month but was off 25 percent from May 1954. Production of zinc concentrate, initiated in February of this year, continued at 300 tons per month. Iron mines were inactive for the eleventh straight month.

#### PETROLEUM:

Approximately 22,000 feet of oil wells were drilled in Cuba in May, a decrease of 6,000 feet from the amount of drilling in the previous month but still far in excess of such activity for the corresponding month of last year. A 75-bbl. per day well brought in at Jatibonico May 29 raised to 16 the number of producing wells in that field. Twenty-one rigs were active in May 1955 as compared with 5 rigs in May 1954. Consumption of petroleum products in Cuba in May and for the first five months of the year was reported to have increased slightly over the same period of last year.

#### CONSTRUCTION MATERIALS:

New building permits issued during the month in Habana Province totalled 376 with an estimated value of 5 million pesos, as compared with 3.3 million pesos for the same period last year, and 4.4 million for April of this year. Included in this figure is the sum of 370,000 pesos to be spent for building materials for 79 new dwelling units in Guanabacoa and 220,000 pesos for enlarging and improving the building now occupied by a leading Habana bank.

Imports of steel are continuing at about the same level as in previous months. European mills have had to increase their prices and extend delivery dates, and consequently United States suppliers did not experience any drop in sales during May when they also had to extend delivery dates on most heavy items.

The cement plant at Mariel produced 217,600 barrels during May and shipped a total of 218,107 barrels. Cement imports for the month amounted to 230,991 barrels, an increase of 100 percent over last month's figure. Of this total, Belgium supplied 110,607 barrels, Germany 114,169 barrels, and England 6,215 barrels. The newly-completed cement plant at Santiago de Cuba began operating at the end of the month. This plant has a maximum capacity of 80,000 barrels a year, but for the present it is only grinding clinker imported from Puerto Rico. The customs exemptions on cement imports were again extended until July 31, 1955.

#### TRANSPORTATION:

Inbound cargo at the Port of Habana totalled approximately 284,000 metric tons during May, the highest figure registered for any month of 1955 and substantially above the total of 230,000 tons for May 1954. This gain was due in large part to the increased importation of building materials.

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The Japanese freighter MITSUI recently called at the Port of Santiago de Cuba with cargo from the west coast of the United States. It will also call at Habana. This is the first postwar visit of a ship of this line, and the possibility of offering regular service to Cuban ports will depend upon the outcome of this initial voyage.

The Habana-Santiago Bus Company recently purchased twelve new General Motors coaches for use on the Habana-Santiago de Cuba route. These buses are air-conditioned and will make the trip in 12 hours as against 14-hour schedules for older equipment.

#### CIVIL AVIATION:

On May 27 it was announced that control of Compañía Cubana de Aviación was being returned to the stockholders and that the former president, who had been on leave of absence, would resume active control of the enterprise. The airline's indebtedness to the Agricultural and Industrial Development Bank (BANFAIC) has been refinanced by the Economic and Social Development Bank (BANDES) which assumed the responsibility for administration of the nine-million-peso fund allocated to Cubana and the Habana airport under the Economic and Social Development Plan.

#### LABOR:

In the first half of May the CTC sent two delegations to Washington to enlist the support of American labor organizations, government officials, employers, and congressmen on behalf of Cuba's interest in the matter of pending sugar legislation. The two missions returned with reports of a sympathetic attitude on the part of American labor towards their point of view, although to judge from their statements as to what American labor had actually said, it had promised little more than not to press for revision of present sugar legislation before its expiration at the end of 1956. The two missions were well pleased with the treatment they received from all parties in Washington and generally succeeded in giving the impression in Cuba that their trip had been very worthwhile.

The Federation of Bank Workers put in strong demands to their employers as the collective labor contract for the industry expired. The demands included: a salary increase of 20 percent, group life insurance of \$5,000 per employee, seniority bonus pay, double pay on vacations, and the revision of the list of "confidential" jobs not covered by union membership. For a while there was an attempted slow-down in a few banks, and a movement started among the workers not to handle the checks of one of the Cuban-owned banks; but by the end of the month, negotiations were being conducted temperately. While the union seemed to a certain degree motivated by rivalry among leaders trying to insure their union positions, banking seemed to be flourishing and there appeared a good prospect that some of the union's demands would be met.

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FINANCE:

Cuba's international reserve position continued to strengthen during May and the official reserves held by the National Bank increased moderately to 531 million dollars on May 31, a level only about two percent below that of a year previously. The volume of peso notes in circulation contracted about one percent over the month to 430 millions, reversing the moderate but regular expansion which had been under way since January. The National Bank's reserve-liable deposits decreased by about three percent to 280 millions, with the drawing down of the State's accounts to meet Treasury Notes and other short-term obligations more than offsetting an increase in reserve deposits by the private banks. As a result of the above-mentioned changes, the official reserve ratio improved during May from 73 to almost 75 percent, as compared to about 80 percent on May 31, 1954.

Provisional estimates place the total volume of commercial bank deposits at an average level of about 750 millions during May and, similarly, bank loans at about 450 millions. Largely because of a reduction in the National Bank's discount portfolio and the mentioned retirement of Treasury Notes held by the National Bank, there resulted a moderate net internal credit contraction by that agency. Clearing transactions, exclusive of official items, totalled 402 millions during May, a record high for that month and a volume about 25 percent above May, 1954. Although certainly indicative of improvement in business volume and national income, relative to last year, the high levels of clearing transactions being recorded also reflect a continued secular trend toward more widespread utilization of modern banking facilities and should, therefore, be discounted somewhat. Draft collections, for no apparent reason, have been somewhat slower during early 1955 than a year previously and that situation seems to have continued through May. Generally speaking, however, collections are still fairly satisfactory.

National revenue collections continued to be relatively good during May with total budgetary receipts for the month estimated at about 21 millions including transfer items. Even excluding transfers to budgetary account of non-budgetary funds, receipts during May were about 10 percent above the corresponding month last year, demonstrating moderate improvement in national income as well as better fiscal administration. Customs and related revenue collections in Habana were about 15 percent higher this May than last year, indicating a continued strong demand for imports. With fiscal 1954-1955 nearly completed, it is now assured that the budgetary deficit for this year will be very modest compared to the deficits of more than 30 millions registered in each of the two preceding fiscal operations.

Concern in business circles that balance of payments difficulties, deriving from uncompensated imports stimulated by the government's compensatory spending policies, may be leading Cuba toward exchange or trade controls has diminished during recent months with the improvement in Cuban sugar sales on the world market. With the apparent intent of further strengthening business confidence on this score, the President of the National Bank released a statement on May 12 to the effect that Cuba had no need for exchange or trade controls or for currency depreciation, that any such measures would be contrary

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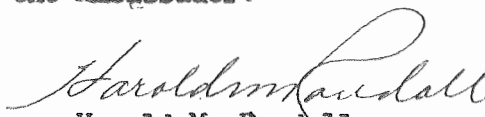
to the over-all economic policy, and that balance of payments difficulties could be satisfactorily met when necessary with other and less drastic means.

The government's special public works program, financed from the bond issue for the four-year, 350-million "Economic and Social Development Plan", was intensified during late May as the dead season in the sugar industry started. Additional allocations during May and early June added about 13 million pesos to 27 millions previously provided from this source for public works, largely in the field of highway construction.

The Habana Tunnel Development Company, a private entity which last year received a concession from the State for the construction and operation of a vehicular toll tunnel under the Habana harbor entrance, announced on May 9 that the construction contract for a 28-million-peso tunnel project would be granted to the French construction firm, Société des Grand Travaux de Marseille. After approval by the official National Development Commission, the construction contracts were signed on June 6. The tunnel, which will open the largely unoccupied area east of Habana for urban development, is to be completed within 30 months. Reportedly, an American construction firm is to do the excavation work for the tunnel on a sub-contract basis and another American company will provide general technical supervision for the project. Financing is to be arranged essentially through a bond issue of the semi-official National Financing Agency.

Following the recommendation of the National Economic Council, a Presidential Decree promulgated on May 14 authorized Cuba's membership and stock subscription in the projected International Finance Corporation, the international direct-investment agency being organized under the auspices of the International Bank for Reconstruction and Development. Later in the month, Cuba was one in the first group of 14 states to formally file for membership in this new financing entity.

For the Ambassador:

  
Harold M. Randall  
Counselor of Embassy  
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