

Back into the fold

Cuba's re-entry into the international fold has garnered plenty of headlines in recent months; the question now is whether the Caribbean island has anything for Australia's intrepid exploration to sink its teeth into.

Despite being largely isolated from international investment since Fidel Castro's rise to power in 1960, Cuba does retain a positive reputation in the global mining sector, thanks to nickel laterite operations which currently produce around 60,000 tpa.

One of those operations – Moa Bay in the island's east – is part-owned by Sherritt International Inc but the Canadian diversified miner remains the only foreign resources company to find its feet in the country.

Given the US sanctions and Australia's own disputes over sovereign debt through the Paris Club, Australian investment in Cuba has been difficult and trade between the two countries was only \$14.1 million last year. However, when former Australian Trade Minister and now Special Envoy Andrew Robb led the first ever Australian business delegation to Cuba in March, it heralded a potential new era for trade and investment between the nations.

"It has never been a huge strategic relationship but there are a number of significant opportunities related to industries Australia has proven itself in; mining, oil and gas, agriculture, tourism and even retail," Austrade Trade Commissioner – Mexico, Central America and the Caribbean, Chris Rodwell, said.

Prior Industries chief executive Kim Prior was instrumental in arranging the trade mission and after nearly 30 years operating in Cuba, she said her company was beginning to see more interest from fellow Australians.

"Over the last 18 months I had been getting more and more referrals of companies interested in Cuba who required consultants and information," Prior told **Paydirt**. "It became clear there needed to be a proper vehicle for informing Australians of the opportunities so we have established the Australian Cuba Business Council with board members in four



Australian Special Envoy Andrew Robb with Kim Prior of Prior Industries and Rodrigo Malmierca Díaz, Cuban Minister of Foreign Trade and Foreign Investment

Australian states."

Prior and the Business Council arranged the trade mission and found further support when Robb expressed his interest in joining the mission.

"Minister Robb saw the value of the mission and we worked to develop a programme for the entire mission," she said. "It was a great success with participants from agriculture, infrastructure and energy among others."

Prior believes ample opportunities await Australians willing to show interest in Cuba but success will only come through commitment over time.

"It is a very different country to work in and there are probably only 6-12 Australian businesses operating there," Prior said. "It is mainly companies from Europe, Brazil, Venezuela and Canada but there is no reason why Australia can't be competitive with them. There are huge areas for synergy particularly in industries where we have expertise such as agriculture, tourism, biomedicine, mining and infrastructure."



In March, Robb led Australia's first ever trade mission to Cuba

With Cuba increasingly being welcomed back into the international trade fold, Australian companies must move quickly if they are to secure a position in the country's future.

"Australia has to push itself before the US comes in. Companies already there also need to work hard to keep their market share," Prior said. "Cuba's new Ambassador to Australia, Jose Manual Galego Montano, is very dynamic and has a brief for trade development so the opportunity is there."

Rodwell said that despite the transformation of the US relationship garnering the recent headlines, Cuba's economic transformation has been ongoing since the collapse of the Soviet Union, previously the country's most important ally and trading partner.

"There has been an opening of the economy and improved productivity, particularly in some industries such as tourism," he said. "More recently, the Cuban Government has allowed for wider opportunities for foreign investment across infrastructure, energy, manufacturing, oil and gas and mining."

In resources, Cuba is known as having prospective geology but Australian explorers have been largely locked out of the country. However, a few have made the journey.

One is Cazaly Resources Ltd joint managing director Clive Jones, who visited Cuba several years ago to ascertain its prospectivity before diplomatic relations thawed.

Jones told **Paydirt** he was impressed by the opportunities on offer.

"There is certainly potential in the place and it is interesting to see the current political situation," he said. "The problem we encountered was that you couldn't get more than 50% ownership

of an asset, which was a real showstopper for investment but if they change that legislation it may be enticing."

Prior said the Cuban Government had addressed the full foreign ownership impediment by passing Law 118.

"The passing of Law 118 is good legislation regards foreign investment," Prior said. "It is very clear and positive for foreign companies

and shows the Government is doing a lot more to make Cuba more attractive for foreign investment both directly and through established companies.”

As well as granting foreign companies 100% ownership of assets – although still subject to foreign investment approval by government – the new law provides tax incentives including no tax on dividends, no income tax for the first eight years and a 15% tax rate thereafter.

“There is also a reduction in duties for the importation of capital goods in the start-up phase,” Prior said. “In many ways, Law 118 is a lot more attractive for foreign investment than legislation in other Latin American countries.”

Rodwell said while the Australian Government didn’t want to get “caught up in the hype” of Cuba’s economic liberalisation, it wanted to make sure opportunities were not overlooked.

“We already have companies such as Prior Industries and previously Worley-Parsons who have worked in the nickel industry there for more than 15 years. I think Australian companies can take heart and learn lessons from that,” he said. “But companies do need to take into account that although there has been reform it is still a heavily centralised planned economy and the Government will have a significant role in any major project, particularly because of their role in labour markets.

“The role for Austrade is clear because relationships with government are absolutely necessary and we have a very productive relationship with the Cuban Government which was borne out in the trade mission.”

So, if foreign ownership is now possible, where do the opportunities lie? Jones, Prior and CSA Global principal consultant – nickel, Mick Elias, all pointed to the stainless steel additive as the most obvious place to start.

“Cuba’s mineral economy is overwhelmingly dependent on nickel and cobalt produced from its huge lateritic deposits located mostly in the Oriente region in the east of the island,” Elias told **Paydirt**. “These deposits, which comprise more than 800mt, have fed three processing plants of which two are still operating.”

Prior Industries first headed to the Caribbean island in the late 1980s to refurbish one of the nickel laterite plants and remains a consultant to the sector.

Prior said there was a surprising level of technological sophistication in-country



The Moa Bay nickel-cobalt-potash operation is Cuba’s largest resources project. In the December quarter, the JV sold 4,237t of finished nickel, 559t of cobalt and 60,461t of fertiliser product

and opportunities still existed for further development.

Jones observed both laterite and sulphide nickel prospects and also spied some gold opportunities.

“The rocks are good and I would encourage explorers to have a look but because it has been closed for so long and the geological survey had no money, there has been literally no work done so any explorer would be starting from a very low base,” he said. “Although, perversely, having closed regimes like this is perhaps good for global exploration; it means their jewels are only released slowly over time.”

Prior said the Ministry of Mines and Energy was welcoming of foreign explorers.

“Cuba is interested in companies having a look but there are some things to be aware of,” she said. “One of the obvious things is that the process is slow, so you can’t just turn up and expect to be granted ground. Companies have to make the necessary preparations and have a reasonable idea of what they want.

“The mines department has a list of projects that are a priority but that doesn’t mean they wouldn’t find other projects for you if requested.”

Jones was impressed by the capabilities of the mines department.

“The bureaucrats were excellent and they are very keen to attract investment and they want to do things,” he said.

Rodwell said juniors could find opportunities but would have to be willing to speak with government.

“If junior miners are interested I would urge them to look at how the relationship with government works because they would likely have to build projects in partnership with the Government.”

Elias said accessing reliable data was the most difficult.

“The Cuban resources industry is somewhat opaque,” he said. “In 2009,

the Cuban Government announced plans for rebuilding of the incomplete Las Camariocas plant as a ferronickel smelter in a JV with the Government of Venezuela, at a cost of \$US700 million. The plant, with a capacity of 68,000 tpa [21,000 tpa nickel] was to be completed in 2013, but there is scant information regarding its progress.”

Away from nickel and cobalt, the US Geological Survey identifies prospectivity for copper and gold but, again, data is difficult to access.

“A number of small to medium-size copper and gold deposits are known but production status is unclear,” Elias said. “The Delita gold deposit is the largest of several on the Isla de la Juventud (the Island of Youth) with some 53t of contained gold. Small copper deposits are known in Cuba with Mantua, in Pinar del Rio province, the most attractive with a grade of 3.4% copper.”

Jones said he identified laterite and sulphide nickel potential and some gold prospects while visiting the island and still remains interested, if the fiscal regime is encouraging.

“It is as good a place as any and will attract reasonable investment if it gets the regime correct. But it is only a small country so there isn’t going to be a flood,” he said.

Raoul Castro’s more liberal economic outlook and the end of the US blockade would suggest the fiscal terms are becoming more favourable.

Prior thinks those investors who are early movers into Cuba will be surprised by the level of technical capacity within the country.

“They are such well educated people, whatever technical person you want, you can find them,” she said. “They want to see skills and technical development and longevity in what they’re committing to.”

In a country that has been suspicious of free market trade for so long, commitment to investment would appear to be a crucial component of successful Cuban ventures.

“You have to do what you say you are going to do,” Prior said. “You need to show your face a few times because there are plenty of companies that have come in and then failed and disappointed because it is high risk, high return. Cuba is not unsophisticated economically speaking.”

– Dominic Piper