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## A few opening words

Dear Readers:



2017 begins with much uncertainty in what could happen in Cuba-US relations, amidst a scenario where the Cuban economy has entered a recession and the new US administration has announced a profound revision of policies toward the island. For the time being, the era of the thaw has entered a phase of temporary freezing, whose outcome seems unpredictable.

Meanwhile, 2016 leaves a record of an explosion of US flights to Cuba. In our first article of this first report for 2017, you will learn the statistics of the number of flights to the island, the number of passengers that traveled from the US, and the impact caused by the entry of regular flights into the tourism market. You can also learn the statistics by airline, origin, destination and the volume of business that is generated by travel between the two countries. The article also analyzes the challenge of this avalanche of flights and tourists from the US, not only to the limited infrastructure of Cuban airports, but also to the tourist infrastructure in the lodging sector.

In our second article you will be able to evaluate the investment potential that exists in the telecommunications sector, given the accelerated growth of cellular telephony in the country, generated by the growth of the number of domestic customers, as well as by the increase in the arrival of tourists to the island. The need to offer high quality services -- calls, Internet, messaging, email, SMS, etc. -- to the 8 million customers that constitute the market (adding local customers and tourists) plus the impending entrance of Internet services to the homes of Cubans, has turned the island's telecommunications market into one that needs large investments in technology and infrastructure.

In our third research article, we take stock of the Cuba-China relationship in the thaw era. The article puts in perspective the pragmatism of the Chinese authorities with respect to the few investments that China has made in the island in the last few years. In the study you can see how imports from Venezuela have fallen and those from China increased. The study takes stock of which sectors China has prioritized for investment and puts China's perception of investing in Cuba in perspective. Finally, the article discusses how China could manage the pace and magnitude of investments in the island, in view of the possible scenarios that could arise under the relationship between the Trump administration and the Cuban government.

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In the following article we analyze the impact of the repeal of the "dry foot, wet foot" policy on shipments of remittances to Cuba. The study examines the impact that this policy change will have on the Cuban economy over the next four years, putting in context the role that remittances currently play in the country's economy and the role that migration has had on the volume of remittances. The analysis includes an assessment of the measures and actions that could be implemented by the Cuban government to increase remittances, counteracting the adverse impact of the "dry foot, wet foot" policy change on remittances. Finally, the study puts into perspective business opportunities for companies that currently operate in the Cuban remittances market and for those that are considering entering the market.

In the fifth article of our report, we present a study that reveals how Cuban entrepreneurs have created a long-distance wholesale market, given the government's failure to start this market as promised at the beginning of the reforms seven years ago. The study estimates the volume of foreign merchandise that Cuban entrepreneurs move to meet the needs of the market. The article describes the routes most used for the shipment of goods, the products that are acquired, the frequency with which purchases are made, and the process of distribution and sale of merchandise, once it has arrived in the country. The study delves into the overall system developed by Cuban entrepreneurs to handle the mechanisms of purchase, distribution and sale of goods, as well as business financing.

Then, in our sixth article, we provide you with information on the first product that Cuba has exported to the US after almost six decades of prohibitions: marabú charcoal. Will this transcendental event be an isolated one in the commercial history between both countries or will it be the first step that will open the floodgates for the export of Cuban products to the US? In the article you will be able to learn about the main foreign markets for Cuban charcoal and the amount of domestic consumption, among other aspects of interest.

Finally, the report presents an in-depth analysis of the need for investment in renewable energy to reduce dependence on fossil fuels for electricity generation. The study analyzes the accelerated growth of electricity consumption by the residential sector in the last 15 years, in contrast to the lack of growth in demand by the industrial sector. It does this by conducting a comparative analysis of remittances and their impact on energy consumption, coupled with the investments carried out by the government in the same period of time. The report also puts into perspective the need for foreign investment in renewable energy projects. For this purpose, it analyzes the cost-effectiveness of each of the modalities of electricity generation that exist today in different regions of the world, which can provide guidance to evaluate which are the most suitable for the Cuban market.

Subscribe to the THCG BUSINESS REPORT and be ahead of the competition. Deepen your knowledge about the Cuban market and learn about a market that is becoming fashionable but has been largely unknown for more than 50 years.

We leave you to enjoy the first issue of 2017, with the certainty that this year will bring exciting new developments in the relations between the two countries, just as we remain committed to giving you original and insightful information about the Cuban market, through the analyses and forecasts of our experts.

Sincerely,

A handwritten signature in black ink, appearing to read 'Emilio Morales', written over a horizontal line.

Emilio Morales  
President and CEO  
Havana Consulting Group

# ABOUT THCG BUSINESS REPORT

The team of expert consultants who prepare this Business Report is composed of experienced analysts and researchers with vast knowledge of the internal dynamics of the Cuban economy, the social and political situation, and the legal framework as well as the island's international and commercial relations. The team consists of some of the most prolific and cited authors in the academic world, experienced journalists who have taken Cuba's pulse for an extended period of time, executives who are familiar with the world of business in the U.S. as well as in Cuba, and lawyers who are

well as in Cuba, and lawyers who are able to navigate the peculiar Cuban legal environment. It is important to listen to experts particularly at a time when Cuba is attempting to reform its economic system to improve efficiency and create sustainable economic growth that improves the standard of living of the population. Frank, clear, and independent analysis and opinions are needed, based on the most recent information available. The experience and authority that The Havana Consulting Group offers fills this demand.



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