Putting the Cuban nickel and cobalt resources back into its orbit

To those with fertile imaginations Cuba conjures up images of rum and cigars, but even those remain forbidden fruit for US consumers as long as the troglodytic Helms-Burton Act remains extant. What also remains off-limits for the US industrial consumer is Cuban cobalt and nickel. I thought it timely to visit the theme of Cuba as it relates to US resource security, one of my recurring themes.

I should be remembered that the US has little, to no, Nickel or Cobalt resources of its own. In fact dusting off the history books one would see that the Moa Bay complex in Cuba was actually developed during the Second World War to plug the US supply gap in these two important metals. Ox-like stubbornness since 1960 by the US “powers that be” might have been justified up until 1989 but subsequent to that the US should have been thinking of its own best interests in getting the Cuban resources in these two metals back into its orbit. Instead it has let petty self-interest of the fallen Cuban oligarchs cut off its nose to spite its face.

Cuba has a history of mining extending over a period of three hundred years. Since 1900 mining has pretty much been a constant activity and, during WWII, the mining of manganese, some copper, and nickel/cobalt was most important.

Cuban mineral production is largely state-controlled, although the government has made steps to amend the mineral laws and legislation. In 1993, Geominera was formed as a private company that utilized state funds. Geominera’s focus is on gold and base metal exploration, whilst foreign investors are currently developing nickel/cobalt and gold resources. I even
ran into a Cuban delegation at a London mining event recently and went away with a CD of Cuban salsa music for my troubles.

According to the USGS, other minerals produced in the country included asphalt, bentonite, cement, chromite, clay, crushed stone, feldspar, gypsum, iron ore, lime, limestone, marble, salt, sand, steel, sulfuric acid, volcanic ash, and zeolite.

**Nickel & Cobalt**

Cuba is an important nickel and cobalt producer, ranking sixth in the world in terms of nickel and (fluctuatingly) accounts for 8% of the world’s cobalt production. The nickel resource comes from extensive laterite deposits that are considered among the largest reserves in the world. Cuba ranks with Canada, Russia, Australia and New Caledonia.

Unrefined nickel, plus cobalt, is Cuba’s largest export, in some years generating as much as $2 billion in export revenues. Cuban nickel is considered to be Class II with an average 90% nickel content.

The ore is processed on the island in two formerly US-owned plants at Nicaro and Moa Bay. Plants are also located at Punta Gorda and Las Camariocas. The province of Holguín, where the Moa Bay mines are located, is estimated to contain 34% of the world’s known reserves of nickel, or some 800 million tons of proven nickel plus cobalt reserves, and another 2.2 billion tons of probable reserves.

**Sherritt’s Cuban Nickel/Cobalt Asset**

The Moa Bay mines, now owned by Sherritt International (TSX: S), were once the property of Freeport in its pre-McMoran manifestation. They were initially started up during WW2 and largely paid for by the US government. Of the $119mn in capital of the Moa Bay Nickel Company, some $100mn had come from the US government and the rest from Freeport. The processing plant was closed down in 1947.
The back story to the squabbles over this asset are that Moa Bay Mining, a Cuba-based subsidiary of Cuban American Nickel, obtained a loan in 1957 to finance development of the mine in Cuba and a processing plant in Louisiana. This was some rather diabolically bad credit analysis on the part of the lenders. But so what else is new at Citibank! In 1960 the government of Cuba expropriated the assets of Moa Bay Mining. A predecessor company, Freeport Sulfur (which eventually morphed into Freeport-McMoRan) distributed assets to the bank creditors to settle outstanding debt, including the debt of Cuban American Nickel. The principal asset of Cuban American Nickel is the US$88.35 million claim against the government of the Republic of Cuba. Citibank heads the creditors committee.

Moa Bay gets the Sherritt critics all bent out shape. Frankly they probably couldn’t name the former owners of the mine who might have a claim but that doesn’t stop them airing their opinions. In late 1994, Sherritt executed a joint venture mining concession and distribution agreement with the government of Cuba with rights to extract and export nickel and cobalt ores from the nickel mine at Moa Bay. The Moa JV is
50% owned (the partner being General Nickel). Its current status is:

- Mining and processing facility in Moa, Cuba; refinery in Fort Saskatchewan, Alberta;
- By some estimates, 20 years mine life remaining
- Phased expansion at Moa underway with acid plant as current priority
- Capacity, after Phase 2, of ~ 48,800 tpa of Ni + Co

This Phase 2 involves the addition of an extra 9,000 tpa of capacity and is dependent upon prices. Now that prices are looking much better in the Nickel space we would not be surprised to see this moved forward. Compared to the big buck capex required to make additions to the global nickel supply situation, this would be a cheap outlay for what would be a 25% hike in output.

The mine uses open pit mining to extract lateritic nickel and cobalt ore, which is processed onsite into mixed sulphides containing nickel and cobalt. These mixed sulphides are shipped to the east coast of Canada, where they are then transported by rail to the Alberta facility for refining into finished nickel and cobalt. This is clearly “going the long way” necessitated by US obstruction. Currently, the Moa Joint Venture produces approximately 37,000 tonnes of nickel and cobalt annually. The Moa JV produced 34,264 tonnes of nickel and 3,792 tonnes of cobalt in 2012.

The terms of the joint venture allow Sherritt to repatriate to Canada a fixed level of profits from the processed metals but the agreement also requires that a percentage of the profits be reinvested in Cuba. As a result, Sherritt has, over time, built itself a presence in Cuban non-mining ventures through investments in such things as oil and gas production and power generation.

The Cuban deal allowed Sherritt to vertically integrate its
long-held refining plant into an economically cogent structure with the Moa Bay upstream supply. At times in the past Sherritt was disadvantaged in not owning a supply source for Fort Saskatchewan and even had to mothball the plant for lack of feedstock.

**Helms-Burton – let’s do the Time Warp again!**

In the vain search for legislative backing for their efforts, the émigré crowd clings to Helms-Burton, a piece of Congressional legerdemain that is well past its use-by date. The chief implication of this for Sherritt has been in the banning of Sherritt executives from traveling to the US as punishment for involvement in the “exploitation” of the Moa Bay assets. At some points in time since the legislation’s implementation as many as eleven executives of Sherritt have been under travel bans imposed by the State department. This has been a policy that has come in for heavy criticism by the Canadian government.

The onset of the Obama Administration produced an almost immediate thaw in relations with Cuba with the formerly hard-line Hillary Clinton leading the charge. The chief measures were the relaxation of travel restrictions on Americans visiting Cuba and the freeing up of remittances. Meanwhile Cuba started unraveling some of the “cradle-to-grave” subsidies that are so distortive of the local economy. The tone of the regime is less stentorian than it was under the “almost late” Fidel Castro.

After this first flush of activity by the Obama Administration (which paid off in part with a Nobel Prize) pretty much nothing further has happened as the President started to obsess about Florida votes. As the years have rolled past it has become clear that Cuba has done more to loosen up than the US has. The gum-flapping of the émigré community on the issue has shown that they neither represent a US consensus position nor even the Cuban-American community any more. Many of them
have even dispersed to States like New Jersey leaving Miami to the “Nuevos Latinos” and the Haitians who, if anything, feel rightly peeved with the excessive attention (and immigration loopholes) doled out to the Cuban community. The Cuban “community leaders” represent as always the best interests of the former plutocrats of Batista’s Cuba.

Conclusion

The irony of the restrictions on trade with Cuba is that the very group that most oppose opening trade with the current Cuban regime also would like to be positioned as first off the diving blocks in a situation where Cuba does become accessible to US investors again.

The problem with this ambition is that what happened in Vietnam will most likely happen in Cuba with those foreign companies prepared to balk at US “stern looks” get themselves positioned and by the time the “opening” happens the US ends up last in line at the dessert table. In the case of Vietnam, it was a surge in outsourcing of manufacturing from Japan and Taiwan that achieved the fait accompli.

With Hillary Clinton looking like a leading candidate for the US presidency we might well wonder whether she might pick up on “unfinished business” with regard to the opening of Cuba. The lesson is obvious from the pitfalls of the Obama regime, that if she does something she needs to do it fast and let the benefits become apparent in time for the next election. Cuba is a treasure house and a complete opening of relations would likely spawn a “gold-rush” (metaphorically speaking) that might be beneficial for all concerned. Certainly the outlook for nickel and cobalt at the global level would be transformed by such a development.