



CUBA NEWS

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Foreign employers get - a bit - more leeway at Mariel

BY JOHANNES WERNER

Although foreign investors at the Mariel Special Development Zone (ZEDM) are still forced to hire Cuban employees through a state agency, they will be able to negotiate salaries, contract self-employed Cubans, and hire as many foreign workers as they want. Also, Cuban workers will pocket most of what their employers pay the agency.

Speaking at the FECONS construction fair in Havana, Mariel Zone chief executive Ana Teresa Igarza said that workers will receive 80% of what employers pay the agency, and employers will negotiate salaries with the agency, without having to adhere to any fixed scale.

Previously, foreign joint ventures paid salaries under to a fixed scale in convertible pesos (CUC) to state agency ACOREC, which passed on only a fraction to workers, in non-convertible Cu-

ban pesos (CUP). Under that arrangement, foreign companies bore high labor costs and had few means to provide incentives to Cuban employees; in a legal gray zone, "many employers" have been paying hard-currency "gratifications" to good workers, Igarza recognized.

Igarza didn't say whether under new regulations the state agency will offer employers a choice of workers. However, the new rules do not put any limits on hiring foreign workers, and the new foreign investment law also allows contracting self-employed Cubans through the state agency, according to reports in official media.

The state agency is designed to help foreign investors, because "many don't know the country, and they will be offered suitable workers," Foreign Trade and Investment Ministry official Deborah Rivas defended its continued existence.

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Cuba seeks Paris Club talks, Moody's downgrades Cuban debt

BY VITO ECHEVARRIA

Just 24 hours after Reuters broke the news that the Cuban government restarted conversations with the Paris Club of lenders, New York-based Moody's Investors Service on April 23 downgraded the country's credit rating from "Caa1" to "Caa2".

"Caa2" means Moody's considers Cuba's financial obligations to be "of poor standing and subject to very high credit risk."

Fitting the mold of Cuban efforts to raise its credibility among international lenders, Reuters on April 22 reported that a Paris Club delegation quietly visited Cuba late last year.

Moody's used two rationales in the downgrade: that Cuba could lose cheap oil imports from Venezuela because of that country's "elevated risk of an eco-

nomic and financial collapse", and the risk of "an abrupt and disorderly (post-Castro) political transition" in Havana.

Various observers were puzzled by Moody's move.

"It doesn't seem to me that the Moody's shift is based on a careful analysis of the situation in Cuba today," said Geoff Thale, program director at the Washington Office on Latin America (WOLA), a long-time advocacy group against the embargo. "In the mid-term, Venezuela is probably going to have to address internal economic issues and reduce the level of subsidized oil sales. But I think that's a mid-term process, not a short-term one, and not one likely to generate dramatic economic shocks. My sense is that the Cubans are aware of this, and are seeking to diversify from whom they

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FOREIGN EMPLOYERS —FROM PAGE 1

tence in a press conference with local media last week.

Igarza said the new employment agencies' main aim, according to the new foreign investment law passed in March, is not to collect, but to "offer a service" — "to supply and facilitate the personnel best qualified for the activity."

"This will make investors feel motivated because they have to pay less, and workers as well because they receive larger salaries than those before, and therefore productivity is incentivized," Igarza said, according to official news reports.

In negotiating salaries, employers must consider the high level of education among Cuban workers, Igarza said dur-

ing her speech. The Foreign Investment Ministry's Rivas said that negotiations will be based on comparable salaries in Latin America and average salaries in Cuba. If an example cited by Igarza is an indication, Mariel jobs could pay more than 10 times as much as the median salary in Cuba. The 20% fee will go towards the cost of providing services, such as maintaining offices, Igarza said.

In a hint of how the government is planning for a currency merger, Igarza said that during the transition the workers will be paid in soft-currency CUP, at a rate of 10:1 for each hard-currency CUC the employer pays the agency. Observers have predicted a CUC devaluation in that range as part of the ongoing currency reform; the current exchange

**Mariel Zone
Chief Executive
Ana Teresa Igarza:**
"This will make investors feel motivated, and workers as well."



rate is 25 CUP per CUC. The CUC will eventually be pulled out of circulation.

During the same speech, Igarza said the Mariel Zone administration is working closely with foreign investors on 15 projects, which could materialize as early as this year. □

Mariel Zone administrators working on 15 projects

BY JOHANNES WERNER

The administrators of the Mariel Special Development Zone (ZEDM) are working closely with foreign investors on 15 project applications, the ZEDM chief executive said during a fair in Havana, according to official media.

Ana Teresa Igarza didn't specify the investors, but she said they hailed from Spain, Russia, Italy, China and Brazil, and that they involve "traditional industries," food production and biotechnology.

She added that investors' feasibility studies are "maturing," that she

ists after a presentation on Mariel at the annual construction industry fair (FECONS) in Havana, according to official website *Cubadebate*.

In March, official weekly *Opciones* quoted Igarza saying that as of the end of January, her office received 138 requests, including 66 requests for information and 72 applications for projects. Thirty-five projects were pre-approved, 17 were under consideration, and 20 were declined, she said at the time.

Rejection

Not all foreign applicants are content with the Mariel Zone administration. The Cuba representative of a multinational interested in establishing a small service center at Mariel told *CubaNews* his company's proposal was rejected in a meeting with ZEDM officials. The rejection left him puzzled.

"What do they expect? Do they think companies will come and plunk down \$50 million right away?" he said, adding that he will now "wait and see."

Even so, the fact that an investor received an official rejection is news in itself and an indication that new rules are in force. In the past, foreign investors often went through endless negotiations, only to never receive an official response.

During her presentation at FECONS, Igarza particularly invited foreign building material companies to open operations at Mariel, to support construction in Cuba. Particularly needed are production of light panels, ceramic flooring, toilets and sinks, plumbing parts, light

and heavy metal structures, and steel pipes.

The only publicly announced commitment at Mariel, so far, is that of a Brazilian biotechnology company affiliated with Grupo Odebrecht, which said in January it would open a joint venture with Cuban state company BioCubaFarma to produce monoclonal antibodies for a cancer vaccine. Grupo Souza Cruz, a Brazilian subsidiary of British American Tobacco, said at the time it was considering opening a tobacco manufacturing facility for its Brascuba joint venture at the Special Development Zone.

More delegations

In March, executives of 31 Brazilian companies were in Cuba to explore options of opening shop at Mariel. According to a March press release by Brazilian export agency Apex, the Cuban government has lined up Mariel-centered delegations from China, Spain, France, Russia and Vietnam, beginning in June.

In other Mariel news, the government published regulations regarding environmental liabilities of companies operating in the Mariel Zone operations; the main body of regulations came out in November.

The Mariel Zone is the showcase of a renewed effort to lure foreign investment to the island. As GDP growth continues at a lackluster pace three years into economic reforms, the government is seeking to catch up using investment from abroad. Anchored by a Brazilian-built container terminal, the 180-square mile Mariel Zone received a \$290 million loan from Brazilian development bank BNDES for infrastructure construction. □



Mariel Zone rendering

Courtesy ZEDM

expects some of their applications to be ready by the end of June, and that some could start operating at Mariel as early as the second half of this year.

"They're quite advanced, there are approximately 15 we continuously and closely work with. The objective is for them to present the documents as soon as possible," Igarza told journal-

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get their oil. While Cuba benefits from subsidized prices, I think the most beneficial part of its oil arrangement with Venezuela is that it pays by exporting medical services, rather than in hard currency. Cuba is exploring whether there are other oil exporters who might consider this kind of arrangement – Angola, for example.”

Fellow Cuba watcher Jonathan Benjamin-Alvarado of the University of Nebraska at Omaha agrees. “There is significant concern about the negative turn of events for [President Nicolas] Maduro in Venezuela,” he said. “But does Moody’s know anything more than what is already known? Yes, Venezuela is in crisis, but in all likelihood a *Chavista* or *Chavista*-lite candidate would .. prevail in an election.”

Moody’s second rationale “seems even less persuasive to me,” said Thale. “Raúl Castro is clearly intent on ensuring an orderly and stable transition. There are no signs that the transition, when it takes place, will lead to protracted internal leadership conflicts, or ruptures among the ruling elite in the Party, the government, or the military. Nor are there any signs that popular discontent, over the economy or anything else, is likely to explode when Raúl retires, and lead to an ‘abrupt and disorderly political transition’.”

Benjamin-Alvarado agrees. “When Raúl steps down in 2017, the transition will be as it was with Fidel: smooth and efficient,” he said. “The entire trajectory

of policy change and transition is to avoid shocks and drama.”

On a more technical level, University of Texas energy analyst Jorge Piñón points out that the powerful ratings agency may have based its downgrade on an inflated cost calculation for Cuba. The Moody’s analysts seem to have overlooked the fact that Cuba is also a fuel exporter, thanks to a joint venture refinery in Cienfuegos that re-exports some of the Venezuelan crude in the shape of diesel, gasoline and jet fuel.

“Cuba’s (government) does not report petroleum exports for political reasons related to the U.S. embargo, therefore Moody’s interpretation of the data,” Piñón wrote in an email message, suggesting that Cuba’s downside risk to oil supply disruptions from Venezuela is closer to \$3.7 billion a year than the \$6.5 billion cited by Moody’s.

Moody’s did not respond to requests for comment.

The Paris Club

The Moody’s downgrade came just a day after Reuters reported that Cuba is in talks with the Paris Club of international creditors. According to Reuters, the Cuban government is ready to negotiate the restructuring of \$5 billion to \$18 billion in debt held by the Paris Club (which includes various western European countries, Canada, Australia, Japan, Russia and USA). Part of the Paris Club creditors’ – as well as investors’ – expectations are about Cuba agreeing to show more financial transparency.

The Cuban government is secretive

about its hard-currency reserves and debt, arguing the United States would use the information against it.

Cuba has renegotiated its debt in bilateral agreements, obtaining a pardoning of much of its defaulted debt with Germany, Japan, Mexico, South Africa, and — most notably — Russia, which agreed last year to drop \$29 billion in old Soviet claims, leaving Cuba to pay \$3.2 billion over 10 years. As part of that agreement, Russia promised to help Cuba reach a settlement with the Paris Club. A debt rescheduling with the Paris Club could considerably cut Cuba’s lending costs, allow the country to reinsert itself in the international financial system, and open the door a crack to multilateral lenders such as the World Bank and International Monetary Fund.

Investors who possess a fraction of the distressed Cuban debt are wondering if that news will positively impact their holdings. A portion of Cuba’s illiquid debt, currently sold for pennies to the dollar in international markets, was generated as far back as the 1980s with the export credit agencies in Spain (Cesce) and France (Coface), as well as similar entities in Canada, Japan, Germany and South Africa.

One high-profile investor, British multimillionaire Nicholas Berry, bought as much as 148 million euro in illiquid Cuban debt some years back, hoping that a future Cuban government will honor such debt instruments at full value, as part of the island’s full integration in in-

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Entrepreneur hopes to revive Spanish claims

BY JOHANNES WERNER

Jordi Cabarrocas believes the “next” Cuban government will be ready to make amends with people whose properties were confiscated in the 1960s.

The Catalan entrepreneur has spent years and millions of euros of the money he reaped from the sale of his technology company to prop up 1898 Compañía de Recuperaciones Patrimoniales en Cuba, a 13-year old, Barcelona-based law firm with a narrow aim: Help families with claims filed in Spain get what they believe is fair compensation for property confiscated by the Cuban state five decades ago.

“Cuba eventually will have to settle,” in order to build trust in its finances and get into business with foreign investors, he says.

Politics aside, there is a major legal obstacle: As opposed to the

United States, the Spanish government actually settled property claims of Spanish citizens with Cuba in 1986, and over the course of 15 years, Cuba paid Spain \$15 million in cash and \$30 million in goods. Cuba delivered, despite tough conditions during the ‘Special Period’, plus some rough patches with the complex transactions involving the goods Cuba used to pay.

From the Cuban standpoint, that’s it — done deal.

“When the government of Spain settled, they extinguished any rights,” says Robert Muse, a Washington-based lawyer who represents U.S. claimants in Cuba. International law defers little power in such cases to individuals, and nearly all power to states, Muse says.

But Cabarrocas and his lawyers disagree. They interpret the settlement as just an “economic palliative.” The \$45 million represents only an

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Spanish claims, round two?
Jordi Cabarrocas

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ket performance of this debt. “Generally, news like (the Cuba-Paris Club talks) lead to positive performance and momentum, and this may also be the case for Cuban debt,” said Morten Bugge, managing partner of the Denmark-based emerging markets hedge fund Global Evolution A/S, which holds an undisclosed amount of Cuban debt. “This may lead to speculation in the non-performing (Cuban) debt. I doubt, however, that there will be any major impact.”

Bugge, like others, feels that Cuba has a lot at stake in negotiating with the Paris Club — namely, recouping its reputation in the global financial sector, especially if recent investments on the island, such as the Mariel port expansion, are to attract job and revenue-generating ventures with international

investors. “There is a very poor history, performance and trustworthiness with the (Cuban) government and Central Bank,” said Bugge. “Deals/agreements are often not being honored, liquidity of the debt is extremely poor, and with increased regulation with most funds, which also include liquidity provisions, as well as various ethical screening factors, such as ESG, where Cuba scores very low, it limits even further the possible investor base going forward.”

Some note a more practical motivation for Cuba to proceed with Paris Club negotiations. “Cuba is perhaps thinking that if they can achieve major debt rescheduling haircuts and high level of forgiveness now, then perhaps this is a better option than waiting, in which case any economic recovery would impair the chances of debt forgiveness,” said Exotix’s Bartlett. □

CUBA AND THE PARIS CLUB

As of the end of 2012 — before a \$32 billion settlement with Russia — Cuba owed the Paris Club \$35 billion, roughly 10% of all outstanding debt and the third-largest amount, following Greece and Indonesia.

Previous talks faltered in 2000.

Paris Club monthly sessions in Paris consist of a one-day meeting, during which the wealthy creditor nations discuss particular debtor countries. They may also include negotiation meetings with one or more debtor countries “that have met all conditions for a negotiation,” according to the Paris Club website. The Club asks debtors to “restore a sound macroeconomic framework that will lower the probability of future financial difficulties.”

The risks Cuba won't take with currency reform

BY DOMINGO AMUCHASTEGUI

Since last year's announcement concerning the currency unification process in Cuba, scores of analyses, studies, interviews and predictions have been published. Most of them insist on short-term implementation (this year, 18 months, or 2016, max), and are concerned about ripple effects that may lead to an inflation spiral, the suppression of Cuba's social programs, or worse.

A good example of such predictions was *The Economist* (Americas View, The Americas, Oct. 2013), stating that “Any increase in the value of the unified peso would increase [Cubans'] spending power. This could stoke inflation and lead to widespread shortages. The concomitant fall in the value of the CUC [convertible peso], meanwhile, would be fiercely resisted by those with savings in the harder currency.” A warning along similar lines was made by Cuban economists, in the sense that “The economic authorities will have to avoid any inflation (...) and lessen, although not entirely eliminate, the effects of devaluation.” (Vidal Alejandro, Pavel and Pérez Villanueva, Omar Everleny, report at a conference sponsored by Brookings Institution and several Cuban institutions, Dec. 2013).

The Cuban government rejects the notion of “shock therapy,” “big bang” or “Day Zero,” and even those who suggest this very possibility are cautious. Emilio Morales — who is not precisely on friendly terms with the Cuban government — stresses that “shifting to a single currency cannot turn into a sort of ‘shock therapy,’ if political suicide is to be avoided” (Morales, Emilio, Cuba: Doors to Monetary Unification, Havana Consulting Group, Nov. 2013).



Worst-case scenarios are not something that Cuban leaders and experts ignore or dismiss; the lessons from the many IMF-sponsored monumental disasters in dealing with monetary/currency recipes are not forgotten. In Argentina, the Plan Austral triggered hyperinflation of 5,000% by 1989; the Cruzado Plan in Brazil led to similar results, with 230 to 500% hyperinflation. And there is always the IMF austerity package (el paquete), as implemented by President Carlos Andrés Pérez of Venezuela in February of 1989, unleashing mass-scale demonstrations that were brutally repressed, with hundreds or even thousands of people killed and wounded (we know the political outcome of this one).

No one can be dismissive of such lessons. And this is why, whatever the policies may be, there will be four key pillars that the Cuban reformers will not jeopardize: a. Shock therapy is not an option; b. no more egalitarian practices or designs will be put in place; c. no one will suffer destitution; and d. the most important social programs will not be sacrificed or eliminated.

Step by step

Any discussion about ending Cuba's dual monetary system needs to deal

with two sets of circumstances. First, the legacy of structural problems from the past — in particular of the last 25 years — and the policies put in place to cope with the deep crisis triggered by the downfall of Soviet-style socialism in Eastern Europe and the Soviet Union. Second, the reform policies transforming the domestic as well as the external sector of Cuba's economy, aimed at a complete redesign to a mixed economy (although the reforms and changes are still at a too early stage to discuss how successful they are).

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BRIEFS

CHINESE PRESIDENT SET TO VISIT CUBA

Chinese Foreign Minister Wang Yi visited Havana April 20 to prepare with Cuban officials for a visit by President Xi Jinping, as part of a planned Latin America tour. The last visit of a Chinese president to Cuba was in 2008, when Hu Jintao showered the island with investments and loans. Xi Jinping visited Cuba in 2011 as vice president, signing various investment agreements. "We need to work in a coordinated fashion to ensure the full success of this visit, so China-Cuba relations may enter a new development stage," Wang said, according to the Chinese foreign ministry. Wang, who met with President Raúl Castro, emphasized that his government will continue to "enhance mutually beneficial cooperation" in exchange of political experiences, trade, investment, agriculture, infrastructure, energy, and mining. Wang added that the two countries should also focus on "new growth points," such as tourism, renewable energy and biotech. Meanwhile, Agustín Lage, director of the Center for Molecular Immunology (CIM), traveled to Beijing and Guangdong to attract Chinese biotech and pharmaceutical companies to Mariel. Lage told *Prensa Latina* that he is talking to Chinese companies that have long relations with Cuba.

OPEC FUND GRANTS \$50M IN LOANS

The OPEC Fund for International Development (OFID) will grant close to \$50 million in loans for water rehabilitation projects in Cuba over the next two years, official daily *Granma* reported.

MEXICANS TO BOOST HOTELS IN SUMMER

Promising to fill new hotel rooms on the island, six Mexican tour operators joined forces with Aeroméxico to offer direct flights from Mexico City to beach resort Cayo Santa María during Mexico's summer vacations this year, the tourism ministry announced. Aeroméxico will fly once a week, from July 19 through Aug. 9, non-stop from Mexico City to the resort on the Jardines del Rey archipelago off the north-central coast. In 2013, hotel occupancy in Cuba dropped 4.5 points from the year before to a lowly 44.8%.

SPANISH GROUP SELECTS NEW HEAD

The Association of Spanish Entrepreneurs in Cuba (AEEC) elected a new president, relieving Victor Moro Suárez who headed the 20-year old organization since 2002, Spanish news agency efe reported. The AEEC is the only association of its kind in Cuba. The new president, Xulio Fontecha, won in a 88-47 vote and will be in office for a three-year period. A native of A Coruña, Fontecha has lived in Cuba for 23 years.

CUBA CONFERENCE POSTPONED

Organizers Tony Zamora and the International Law Section of the Florida Bar Association re-scheduled a conference on legal and economic change in Cuba for Nov. 20 and 21 in Orlando.

The conference had been planned for May 8-9.

Titled "Cuba 2014: What the U.S. Legal and Business Communities Need to Know", the event provides an update on the economic changes and opportunities arising, with a special focus on law.

Zamora said he is seeking sponsors for the conference, in addition to the Florida Bar Association and Cuba Media LLC, the owners of this newsletter.

For more information, send a message to arzlav@att.net.

He heads Epromext, S.L., a distributor of heavy machinery and construction equipment. Fontecha told efe he plans to "relaunch" the association at a time when Spanish companies, pushed by the economic crisis at home, are seeking markets abroad. Two hundred and thirty Spanish companies have a presence in Cuba; thirty more have engaged in joint ventures with state companies on the island. The AEEC has 180 members.

CURRENCY REFORM —FROM PAGE 1

Other currency-reform observers pay special attention to the Chinese experience and how relevant it could be for the Cuban economy. But they are missing one crucial point: China, after transitioning through a two-tier economy from 1978 to 1994, had completed most of its reforms and enjoyed two-digit economic growth when, as a culmination, it started the unification of both currencies. Cuba, instead, starts its currency unification when its reform process is hardly at a take-off stage.

The Cuban reforms will have to develop along three parallel lines: a. Doing away with all dysfunctional and outdated institutions, policies and mechanisms from the 1980s and 1990s; b. move forward in the implementation of the reforms already adopted and proceed to the many others that are still pending; and c. implement the currency unification, which will act as an effective detonator in driving a. and b. — the whole reform process — at a greater speed.

Cuban leaders have insisted on a gradual pace, without following a rigid foreign model. Instead, they practice trial-

and-error "Cuban style," experimenting with pilot projects and limited areas, assessing results, making corrections, and moving ahead slower or faster, depending on results. The process has already begun in agriculture, interacting with the tourist industry, within select state companies and services, the sugar industry, with transport co-operatives, salaries, and limited sales to the population, operating under a variety of exchange rates, ranging from 5 Cuban pesos (CUP) to 12 CUP per convertible peso (CUC).

The currency unification process will entail too many complexities, and there are no short-term solutions at hand. This is why important Cuban economists (Pavel Vidal, Omar Everleny, Morales and others), despite some gloomy predictions, insist on the importance of gradualism.



A British economics journal, after highlighting that the Cuban unification process may take many months and years, describes Cuba's gradual pace as "promoting prudent and timely economic reforms, which Fidel was so reluctant to do" (World Finance - The Voice of the Market - London, Nov. 2013).

So when and how will the dual currency system come to an end? A highly qualified expert on Cuban affairs, Julia Sweig, director of Latin American Studies at the Washington-based Council on Foreign Relations, has this to say: "I'm betting by the time [Raúl Castro] steps down in 2018, if not before, and despite the vagueness of the official language, Cuba will have a single currency" (Retrieved from Siegelbaum, Portia, CBS News, Oct. 22, 2013). □

Former Cuban intelligence officer Domingo Amuchastegui has lived in Miami since 1994. He writes regularly for *CubaNews* on the Communist Party, Cuba's internal politics, economic reform, and South Florida's Cuban community.

How 'cuentapropismo' pushed a Havana consultant to Miami

BY DOREEN HEMLOCK

His reports from The Havana Consulting Group increasingly make headlines: "Americans now second to Canadians for travel to Cuba;" "Remittances now drive the Cuban economy."

So who is Emilio Morales? How does the 44-year-old computer engineer and marketing guru who founded the group in 2010 see Cuba's market evolving? And what are his business plans?

CubaNews reporter Doreen Hemlock sat down with Morales at his Miami home and found a recent immigrant, frustrated by the difficulties of practicing market re-

Emilio Morales

Photo: Hemlock



search in his native Cuba.

"I couldn't start a consulting business in Havana, so I had to come do it in Miami," Morales said, referring to restrictions for engineers and other professionals to open private practices.

Morales has made a name for his four-year-old firm by publishing reports on Cuba for free, online. The studies draw from government data, direct surveys and Morales' own experience in Cuba, including years in market research at CIMEX, the big state enterprise that runs retail chains.

One report this April estimated the number of travelers from the United States to Cuba at 173,550 in the first

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SPANISH CLAIMS — FROM PAGE 3

estimated 10 to 20% of the total value of Spanish property confiscated after the revolution, according to the 1898 lawyers. Also, he tells clients that, according to Spain's supreme court claimants did not extinguish the right to their property with the settlement, and that they are free to seek more payment from the Cuban government.

What's more, only half of roughly 1,000 families settled in 1986, most of them holders of relatively small claims. According to Cabarrocas, there are about 500 holdouts who didn't accept the agreement.

Some of the holdouts are big-name families from Cuba. Members of the Fanjul family of sugar fame, for instance, had Spanish citizenship at the time of the expropriation, and they filed claims in Spain.

But it doesn't matter whether you're a holdout or not, Cabarrocas argues, because the problem goes beyond legal intricacies and may require a political solution by the "next" Cuban government.

"We understand that it's the next Cuban government that has the problem. One of the first things it will have to do is resolve the inherited property problem, ingrained for more than 50 years, to reactivate the economy. The big companies, before they do that, will use as a premise that this problem is resolved. That's what has happened in other countries when they passed from a planned economy to a market economy."

Ancient history?

Needless to say, the Cuban government doesn't share Cabarrocas' outlook. What's more, Cubans who hold title to homes they have been living in all their lives, but that happen to have been confiscated after the revolution, don't look

at such claims with kindness, and perceive them as ancient history.

In that sense, Cabarrocas emphasizes that homes and land make up only 36% of his clients' claims, with business assets accounting for the lion's share.

Nor does Cabarrocas expect the "next" Cuban government to be able to pay cash (rather, return of confiscated assets is the likely outcome, 1898 tells potential clients).

The long view

Even so, the type of compensation for claimants "will be part of a grand negotiation, where the most adequate way of payment in each case will be agreed," Cabarrocas says. "That could be recovery of goods, compensation or indemnization."

"We take a long view," Cabarrocas says about his business plan, looking at a time "after the first elections" in Cuba for a full resolution and a return on his investment — 30% of each settlement, according to 1898's agreements with claimants.

So how long will he be able to wait?

"I know this goes counter to the principles of typical businesses," he says. "But we have a perspective of 10 years."

Cabarrocas, 54, seems far removed from contentious political issues in Cuba — both materially and emotionally. An industrial engineer from a family of Catalan entrepreneurs without a close connection to Cuba, he built his fortune by becoming the first Apple computer distributor in Spain. Since selling his Apple franchise, he invested in hotels and started two helicopter service companies.

Now he puts most of his time into 1898 (the company's name refers to the year of Cuba's independence from Spain),

traveling through Spain, Latin America and the United States, to connect with people whose families have Spanish claims against Cuba.

He presents his emotional detachment as an asset, and he readily professes his belief that those who will be in charge of the future Cuba "are on the island."

Cabarrocas' ideas have not always been welcome among the people he seeks to represent.

"The problem in Miami was, they demanded politics from us. But we want to distill a technical message," says Cabarrocas, adding, with a laugh, that he "got kicked out of offices" in Florida.



Some 200 people attended a recent 1898 meeting in A Coruña

Photo: La Opinión de A Coruña

His main aim over the past few years has been to assemble a client base of families who filed Spanish claims against Cuba.

"We are seeking to represent many persons — the more, the stronger our position will be," he says.

Cabarrocas' timing certainly isn't bad. Talk of economic reform in Cuba and the new foreign investment law have triggered speculation and renewed interest in claims. At a meeting in early April

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HAVANA CONSULTANT — FROM PREVIOUS PAGE

quarter this year, up from 159,450 in the fourth quarter last year – making the USA the No. 2 source of visitors to Cuba after Canada. The Associated Press and other media jumped on the data.

Another report found that Cubans abroad send gifts and cash valued at more than \$6 billion, exceeding help from oil exporting Venezuela and now representing Cuba's No. 1 economic support, Morales wrote.

But the firm's biggest venture is yet to come. Morales and his team have been working for three years to develop an online database on Cuba set to launch within months, likely named THCG Explorer.

The database aims to serve a broad range of users, from travelers to academics. It will offer map-linked places of interest across Cuba as well as market indicators — in all, more than 40,000 data points, many with photos and charts. The site will be available by subscription, with access to different tiers of information. Prices might range from \$5 per month for more basic travel data to \$5,000 per year for large companies and researchers seeking in-depth and historical information, said Morales.

From Cuba to Argentina and South Africa

It's a circuitous journey that took Morales to Miami, including time living in Argentina and South Africa and two master's degrees in business taught in Cuba by professors from Spain.

He was raised in Havana's Playa district in the Kohly neighborhood, known in the 1950s for well-heeled professional families. His father is a doctor specialized in statistics and his mother a nurse. (Both his parents and a sister, an industrial engineer, live in Cuba. Another sis-

ter, a doctor, lives in the United States)

Morales studied computer engineering at a top tech school in Cuba, the Instituto Politécnico José Antonio Echevarría, known by the initials of its main campus CUAJAE. He followed his father's footsteps to work in IT at Cuba's health department, starting at entry level.

At 26, Morales was sent with colleagues to Argentina on a software project, marking his first time overseas and seeing "capitalism up close – how businesses grow, how they pay their people well."

He returned to Havana, enrolled in an executive MBA program and did his thesis with a classmate who worked

"Cuba has to re-insert itself into the world, not the world into Cuba."

in marketing at Havana Club rum, collaborating with France's spirits company Pernod Ricard. That experience sparked his fascination with marketing and branding, he said.

Next came a series of episodes marked by dashed hopes.

He began working with Canadians on a software project for Cuban hospitals. But after a top Cuban athlete tested positive for cocaine at games in Canada and Cuban leader Fidel Castro decried a possible plot by anti-communists, the project and Canadian funding "fell apart," Morales said.

He jumped at a chance to export Cuban equipment and services and moved to South Africa with his wife. "I didn't

speak English," Morales recalled. "I enrolled in a course for diplomats at the University of Pretoria and paid for it myself...It was hard to work for the Cuban government."

Problems deepened, Morales said, when infighting in Havana led one Cuban group to ask him to alter another Cuban group's proposal on a bid in South Africa. He balked, and "that cost me dearly," he said.

Soon, he was called back to Cuba, his passport held. Months later, he received a letter congratulating him for his service in South Africa and stating he was assigned other tasks.

Frustrations as a marketer in Cuba

Morales took refuge in a second master's, this time in marketing. He wrote his thesis on the South African venture. He freelanced a bit, including work for a Canadian who never paid and skipped town.

"Many foreigners go to Cuba and try to colonize Cubans" in need, Morales lamented.

At home, with a wife and child, Morales fretted over work. Help came from the man drafted as his thesis adviser, Angel Hernández Gómez, chief of market research for CIMEX. Hernández offered him a job at CIMEX. Soon, both were approved to do research for other entities. They worked hard and earned well in the early 2000s, Morales said – until one day, permission ended. The consulting gigs were over.

Morales said he threw himself into a CIMEX project to improve state restaurants. He visited Cancún, México and came up with an ambitious proposal to start four franchise-style chains for dif-

See Havana consultant, page 15

SPANISH CLAIMS — FROM PREVIOUS PAGE

organized by 1898 in A Coruña — the capital of Galicia, a region of Spain that has sent tens of thousands of migrants to Cuba — close to 200 people showed up, according to local media.

Even so, convincing the heirs who hold claims to be represented by 1898 is a long-term and costly effort in itself. To be able to do so, Cabarrocas opened three offices in Spain, one in Mexico, and one — most recently — in Miami.

The Miami office is headed by attorney Nick Gutiérrez, offspring of a sugar family that lost their properties after the revolution.

1898 has signed up 80 families, representing what Cabarrocas describes as claims worth about \$1 billion — inflation-adjusted. That's quite a feat, because the families of the original claimants are

spread wide and far, and for legal representation 1898 needs approval of 51% of the heirs.

Obtaining this majority is "an ant-like exercise," he says.

A 30-percent cut

Cabarrocas' approach is straightforward. The company will get 30% of whatever compensation their clients receive.

His company doesn't buy or trade any claims; it just represents the claimants. Representation can be canceled at any time (although, given the sometimes large number of family members involved in the decision-making, this is a rather unlikely move). At one point, before Cabarrocas joined the company, 1898 paid claimants. But he stopped the practice, he says, because it created a credibility problem. Nor do they charge any pre-pay, he adds.

Cabarrocas is one of two large share-

holders in the company, together with 60 minority shareholders. None of the investors hold claims against the Cuban government, to avoid emotions and conflicts of interest.

Muse suggests 1898 may be barking up the wrong tree.

"Those who haven't settled could first go to their own government," the Washington lawyer suggests. "Maybe Spain should compensate its citizens. Maybe [the Spanish government] wants to put in the balance" of unpaid claims.

"That doesn't mean the government of Cuba can't meet them and do whatever it likes. It would just be unusual," he adds.

So what about the Cuban government?

Says Cabarrocas: "I am thinking about contacting the Cuban embassy in Madrid soon." □

A game changer: Completing the National Expressway

Of all needed improvements to Cuba's neglected communications and transportation grids, finishing the National Expressway is perhaps the most obvious.

By cutting down distances and travel time across Cuba, its impact and impulse on the economy would be instantaneous. Built out to four to eight lanes, a continuous National Expressway would be the backbone of the transport system, reducing travel time from Havana to Santiago de Cuba to 6.5 hours from the current 12.5. The distance between the two main cities and economic hubs in the island would be cut to 495 miles, from about 620 miles before the highway was built.

With four lanes at its narrowest segments (two each way) and proper bypasses to other cities, towns and economic hubs

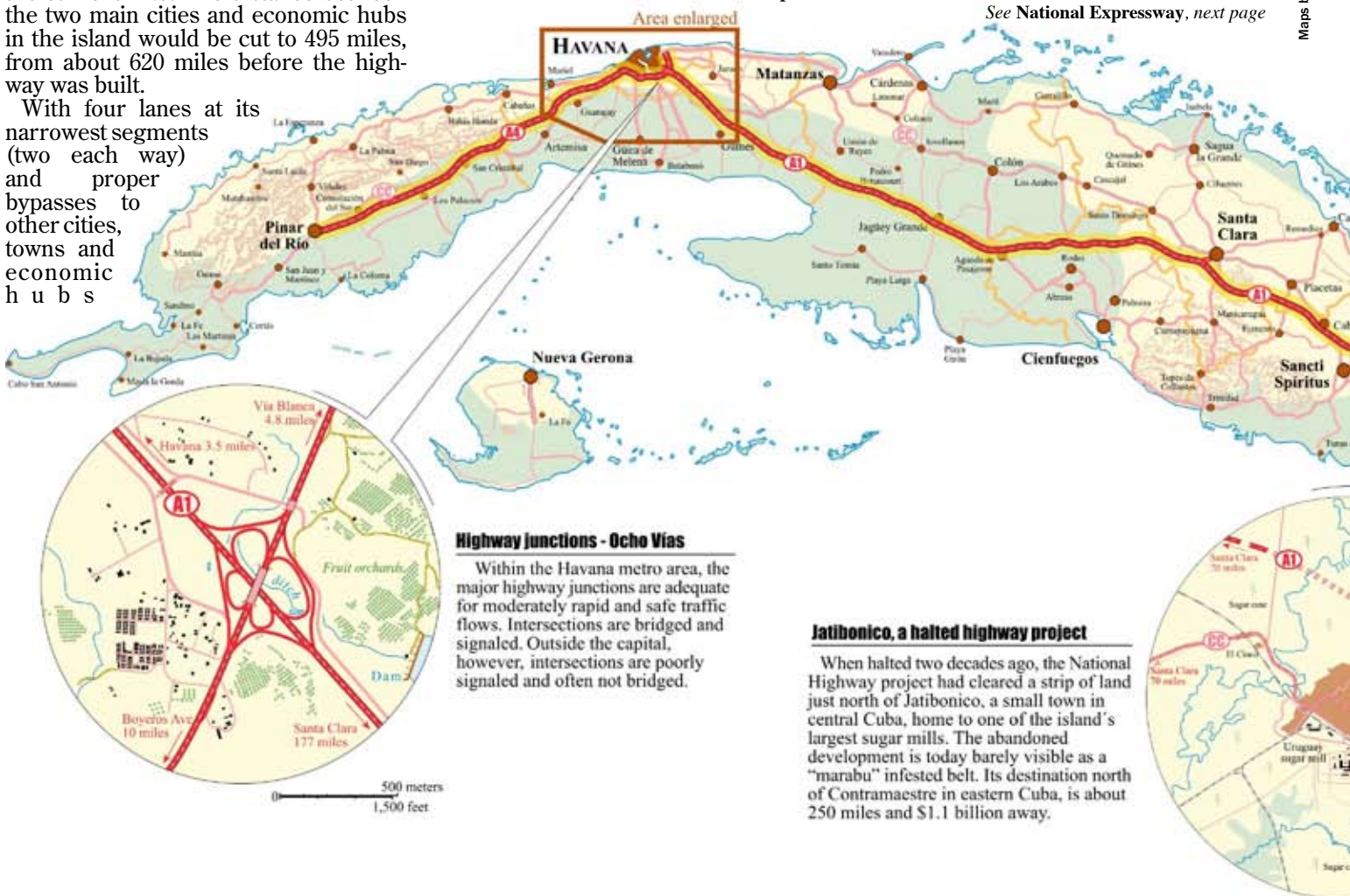
An existing 96-mile segment west of Havana, called the East-West Expressway (A4), makes the westernmost city of Pinar del Río (138,000 inhabitants) reachable in 1.5 hours; the new Mariel Special Development Zone and container terminal can be reached in one hour.

However, four decades after its initial segments were opened to traffic near Havana, the National Expressway remains incomplete and underused, which is both a suspend-

If the total length open to traffic is considered finished, the Expressway is 58% complete. But that definition of “complete” ignores the lack of essential safety features along the operational road and some arguable layout decisions that reduce the benefits of the expressway.

Both A1 and A4 lack essential services, such as sufficient gas stations, repair shops, eateries, convenience stores,

Maps by Armando Portela



DRIVING TIME AROUND HAVANA



The network of highways built around Havana since the 1950s—and specially in the 1970s—cut travel time sharply. They have a radial pattern converging on the capital from all cardinal points. This layout expedites traffic to agricultural and tourist zones, to other cities and towns, to the oil fields near Matanzas, to the new Mariel Special Development Zone, and to military garrisons in the outskirts of the capital. However, all these thoroughfares need serious improvements to become economically practical.

NATIONAL EXPRESSWAY—FROM PREVIOUS PAGE

lodging, or recreation stops along its route. There are five small gas stations between Havana and Santa Clara (the most used segment) and two more along the 96-mile A4, between Havana and Pinar del Río.

Safety is also a concern. The road is not fenced, and wandering cattle is not an uncommon sight, also, it is not off-limits for horse carts, bikes or slow agricultural machinery, which pose a real threat — specially at night-time — to rapid traffic.

On some stretches both A1 and A4 are in

need of resurfacing or even major repairs. Not by chance did the Cuban road authority reduce the top speed to 100 kmh from 120 kmh (62 mph from 75). Although it was recently painted, signalization on the Expressway is generally

poor, a problem that grows with distance from Havana.

Unfinished accesses to the road are major nuisances, especially frequent rural dirt roads that cross the highway, without warning. □



TOURISM

Cuba's tourism industry: Recovery at last?

BY DOMINGO AMUCHASTEGUI

After the 2008-2009 global recession, growth of Cuba's tourist industry (\$1.8 billion in revenues in 2013, the second-largest source of hard currency) ground to a halt and its numbers have remained stagnant for almost five years, slightly above 2.5 million tourists, unable to surpass the goal of 3 million tourists a year. By August 2013, José Manuel Bisbé York, commercial director of the Tourism Ministry, even had to acknowledge a decline of 1.3% compared to 2012.

But 2014 might signal a recovery. Although in 2013 visitor numbers — 2.851 million — fell short again of the 3-million goal, 2014 looks promising. During the first quarter, tourism grew 5%, for a total of 1.2 million visitors. Alexis Trujillo, first vice minister of tourism, predicted this year will break the 3-million mark.

The stagnant figures in the 2008-2013 period were not exclusively related to the world recession, economic turmoil in Spain, or Iberia airlines canceling flights from Spain to Cuba. Some of the problem was homemade, as Cuban authorities showed a considerable lack of initiatives to access new markets, such as seeking new flight connections, attracting more cruises, or conducting publicity campaigns, as well as in providing better service.

After one-and-a-half years of inaction on this issue, an official at the Ministry of Tourism said at a press conference in February that they were working on 13 golf real estate projects. (To be sure, plans for billions of dollars worth of golf projects have so far remained just that — plans)

Meanwhile, leisure activities remained scarce and mismanaged, showing that sun and beaches are not enough. Other options connected to environmental, historical and cultural tourism also remained limited in scope. Cuba has not maximized tourism at its more than 200 protected areas, biosphere reserves, wildlife refuges, national parks, and historical sites — resources that place this destination in a competitive advantage over Costa Rica or the Dominican Republic.

During this very same period, Old Havana, the Number One destination of foreign visitors and the crown jewel of Cuban tourism, was rocked by a corruption scandal involving dozens of officials and bureaucrats that were arrested and tried, with negative repercussions on the normal functioning of all its institutions. Finally, the City Historian's Office



of Havana was deprived of all its powers concerning marketing, financial operations, budget administration and all other fiscal activities and placed in the hands of an entirely new corporation under the direct supervision of the Council of Ministers. The Historian's Office — with Eusebio Leal still at its helm — remained in charge of restoration policies and projects, its design and implementation, but prevented from handling funds and resources of Habaguanex, the state company running all of Old Havana's tourism enterprises.

New initiatives aimed at recovery

Promotion and publicity. Cuba participated in more tourist fairs around the world than ever — Madrid, Paris, Berlin, London, Milan, Lisbon, Moscow,

May 6-10, Havana will be the venue for Cuba's annual International Tourism Fair (FITCuba 2014), where hundreds of tour operators, travel agents, experts and media will meet to discuss what is new about the Cuban market. The delegation of France, the guest of honor of FITCuba 2014, will be presided by the Minister of Tourism, Sylvie Pinel.

Buenos Aires, Bogotá, and Brazil — displaying new options, in addition to its "sun and beaches" programs.

Cruise lines. A discreet take-off involved several small companies like Variety Panorama (Greece), Thomson Dreams (UK), Star Clipper (Germany), and Cuba Cruise (Canada). It's a small and modest re-start, but the important issue is that the political and economic decision has been made to renew attention to the cruise industry.

Flight services. Cuban authorities are investing at least \$176 million in the expansion and overhaul of five airports; they are also continuing renewing its air fleet with medium-range Antonov AN-158. Several European airlines have started regular flights to Cuba together with an increased number of charter flights from Scandinavian countries,

Germany, Poland, Belgium, Russia and other countries. Frequencies have multiplied and not just to Havana or Varadero, but to the many resorts in Cuba's keys. Cayo Coco and Cayo Guillermo, north of Ciego de Avila, were receiving 39 flights a week early this year. The airport of Holguín, serving surrounding resorts, had 252 flight arrivals in January, 28% more than in the same month of 2013.

Lodging. New construction has brought the total to 335 hotels with more than 60,000 rooms. Sixty-five percent are 4-5 stars; the Meliá Marina and the Paradisus in Varadero feature a new line of super-luxury standards, a first for the Cuban tourism industry.

Leisure activities. Yachting is becoming a top activity. Phase One of a new marina at Varadero, just opened with a capacity for more than 400 vessels, is planned to become the biggest in the Caribbean, with 1,300 berths at buildout.

Golf is finally becoming a top priority. The much-delayed golf projects — many observers were betting that they would never be implemented — have finally received the green light.

A host of activities such as fishing, scuba diving, sailing, tours, family activities have been added as permanent programs at different resorts. Building on the success of the Habano Festival and the Hemingway Fishing Tournament, annual competitions and tournaments, and even a haute cuisine event — the Varadero Gourmet — have been added to the agenda. Italian-run night clubs have been recently inaugurated in Varadero, Cayo Santa María, and Cayo Largo del Sur, sponsored by Italian tour operators Alpitur and Eden Viaggi.

New nature, history, and culture circuits have attracted tens of thousands of tourists — mostly from Western Europe — to the Baracoa-Guantánamo, Trinidad-Sancti Spiritus, Camagüey, and Viñales areas.

Hotel management is being upgraded, not just with better-trained and qualified Cuban personnel, but also through new European management companies such as Pestana from Portugal, and — more significantly — by transferring the administration of several hotels (Arenas Doradas and Barlovento in Varadero, and Presidente in Havana — all run by state company Gran Caribe) to Spain's Roc Hotels. At the same time, a greater role of the rising Cuban private sector has been promoted by MINTUR in B&Bs, restaurants, transportation, and other activities. □

AG SALES

U.S. exporters push for more openings, as food sales continue decline

BY JOHANNES WERNER
AND VITO ECHEVARRIA

U.S. food and agricultural sales to Cuba continued their downward trend in 2013, with a 23.7% drop, according to U.S. trade data. Reacting to the news, exporters say they will increase their lobbying efforts in Washington for more openings.

U.S. agricultural and food sales totaled \$348.75 million last year, down from \$457.3 million in 2012, according to U.S. trade statistics analyzed by the New York-based U.S.-Cuba Trade and Economic Council.

U.S. sales to Cuba peaked in 2008 at \$710 million.

The most-sold U.S. product to Cuba in 2013 was frozen chicken — accounting for \$144.4 million, or 41.4% of all sales — followed by soybean oil cake (\$69.3 million), corn (\$57.5 million), and soybeans (\$39.4 million).

U.S. export data do not include bank, transport and other charges.

No improvement this year

Observers believe that 2014 will not be much better, with some trade groups calling for the Obama administration to amend the law that permits U.S. food exports to Cuba, TSRA (Trade Sanctions Reform and Export Enhancement Act) of 2000.

John Kavulich, senior policy advisor at the Trade and Economic Council, blamed the slide on lack of interest on Cuba's side, as it prefers dealing with

nations that provide preferential treatment.

One entity that can no longer count on the Cuban market is the WestStar Food Company, based in Corpus Christi, Tx. In 2003, WestStar was part of an early wave of U.S. companies supplying Cuba, selling nearly \$1.2 million in dry beans that year. Since then, WestStar sold Cuba (through state food import agency Alimport) dry beans from Texas and other states like North Dakota. But two years ago, the sales stopped.

"I have not exported any beans to Cuba (since 2012), said WestStar managing partner Patrick Wallesen. "I don't know of any U.S. company that has sold (dry beans to Cuba) in two years. They are probably buying mainly from China, also some from Brazil, Mexico, and perhaps small amounts from Canada. Alimport has been pretty open that they are not buying from the U.S. because of the TSRA cash-in-advance situation."

Seeking bigger change

Others call for more drastic revisions to revamp U.S. food exports to Havana.

"Cuba needs credit, and the U.S. prohibits it," said Jay Brickman, vice president of Jacksonville-based shipping company Crowley Maritime, which transports U.S. food to Cuba. "Many U.S. products like rice and beans are very expensive in the world market. Cuba will settle for less quality and lower prices."

Mark Albertson, director of strategic market development at the Illinois Soy-

bean Association, wants credit to become the major Cuba-related trade issue discussed in Washington.

"We are no longer pushing to change the interpretation of 'cash in advance', because we have set our sights much higher," said Albertson. "It is abundantly clear that the U.S. is ready for a much bigger change. Instead, we are pushing to amend the TSRA to allow credit sales. It is also important for us to get the U.S. to allow Cuban imports, starting with backhaul shipments on our agriculture exports. There are a number of other items we want to change about U.S. trade policy with Cuba. We are also working closely with a number of national agriculture groups. The Illinois Soybean Association has been meeting with Illinois and U.S. policy officials regarding more open trade policies with Cuba. It is encouraging that our ideas have been very well received by all."

Meanwhile, Brickman noted another factor in lower Cuban purchases. Throughout the 2000s, Cuba was hoping that by making significant U.S. food purchases, Congress, including lawmakers from conservative farm belt states, would call for an abolition of the trade embargo against Havana. But that didn't happen.

"Cuba did not achieve its political goals in buying from the U.S.," said Brickman. "It did get a lot of criticism from its traditional trading partners. (As a result), it swung back to (trading with them)." □

Cuba is seeking foreign investors to boost its ailing sugar industry.

Due to pending claims against mills built before 1959, the portfolio is restricted to eight plants built in the 1980s (see map).

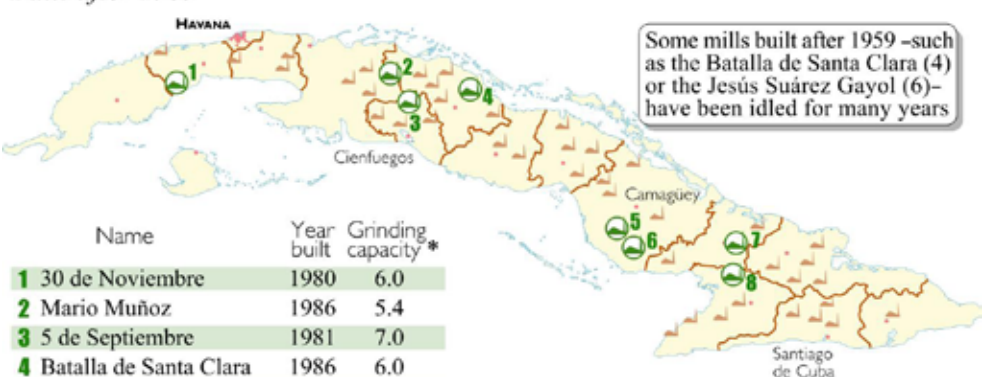
A 15-year production administration agreement signed last year by a subsidiary of Brazil's Grupo Odebrecht is leading the way.

Under the deal with state holding Azcuba, Companhia de Obras e Infraestrutura (COI) wants to boost sugar production from currently 40,000 tons a year to 150,000 tons at the 5 de Septiembre mill near Cienfuegos.

COI also plans to feed electricity to the national grid, as well as to produce ethanol, if approved by the Cuban government.

SUGAR MILLS OPENED BY THE CUBAN GOVERNMENT TO FOREIGN INVESTMENT

Built after 1959



* In thousand metric tons per day

Other active mills built before 1959

Cuba has officially 71 active sugar mills. However, only two-thirds (those shown on this map) have reported grinding at least once over the past few years.

Graphic by Armando Portela

REAL ESTATE

Cuba's new foreign investment law: property rights

BY JOSÉ MANUEL PALLÍ, ESQ.

Perhaps the most important question raised by Cuba's new approach to foreign investment in real estate is the one related to the nature of the rights a foreign investor who develops real estate in Cuba — and those who purchase the residential units from the developer — can acquire over the land and the improvements built on it.

This is a question that cannot be answered simply by reading the new law and its companion documents. It requires placing the question squarely in the midst of the Cuban legal system as a whole, taking into account the very particular (and evolving) socio-economic model that legal system supports. But you do get, from just reading a number of articles or sections of the new law, a hint (and a strong one, in my humble view) of what the nature of those “property rights” may turn out to be.

Opening up housing to investors

Chapter VI of Cuba's new foreign investment law (*Ley 118/2014*), which covers foreign investment in real estate, is couched in the same language found in Chapter VI of *Ley 77/95*, which the new law supersedes. The new Chapter VI has only one article (article 17), which is identical to article 16 in the old law but for the fact it omits a clause that used to ban foreign investment in the area of housing to be used by Cuban individuals who resided permanently in the island. The omission of that little clause is what appears to open that area of the Cuban economy to foreign capital.

The version of Chapter VI found in the old foreign investment law included two additional articles: one covering investments which consisted in plainly acquiring real estate as an entrepreneurial activity per se, which the law considered to be a form of direct foreign investment (article 17 of *Ley 77/95*); and another article related to the terms and conditions governing the acquisition and transfer of real estate, which the article said would be set in the document whereby the investment was approved by the Cuban authorities, and should conform to the property laws of Cuba (article 18 of *Ley 77/95*). The new Chapter VI contains one single article, the aforementioned article 17 (16 of the old law).

I do not read as much into the omission of the second of these two articles in the new Chapter VI as I do with regard to the restrictive clause omitted from the text of article 17 in the new law. It seems clear, from reading the procedures



whereby approvals for foreign investment are obtained, that these approval documents are always used for purposes of fixing the terms and conditions to any foreign investment the Cuban government approves.

Creating confusion in foreign minds

But I do wonder what the omission of an article similar to article 18 of the old law may mean in the context of the new law. Why choose to no longer characterize the acquisition of real estate for entrepreneurial purposes as foreign direct investment, if that is what the omission of old article 18 in the new law means? And my concern is not with the Cuban legal system itself, or with the way any of its laws are drafted; what I dread is the confusion they may create in the minds of those who tend to take for granted that what they understand to be the case is exactly what others should understand is the case. And that confusion can be lethal when you are dealing with property rights.

Article 2 of Cuba's new law is a glossary (listing the definition of terms) that includes the definition of what “administrative concessions” are. It suggests that when a state-owned asset is to become part of an approved foreign investment, the title document the foreign investor gets is in the nature of an administrative concession, making it a title subject to an expiration date, and potentially restricted by contractual obligations the beneficiary of the concession agrees to, and not an outright conveyance of the title to the property in question.

Transfer of state-owned assets

Most Cuban lands are state-owned assets. So, when one reads in article 18.2 of the new law that the transfer to the Cuban investing side of the ownership or other property rights over state-owned assets, in order for the Cuban side to be able to contribute those rights into the foreign investment, is done subject to the principles established under the Cuban constitution, it is important to be aware that the Cuban constitution does not understand or define ownership rights the way we do in the U.S.

Article 18.1 (d) seems to highlight this fact when it singles out usufruct and *superficie* rights among those the foreign investment concern can have over the land contributed by the Cuban inves-

tor. Both of those “property rights” or *derechos reales* — as rights directly exercisable over things, land included, are called in Civil Law parlance — are lesser in nature and in extent than what we in the United States call private property (or ownership) rights.

Unlike U.S., and more like China

But this does not mean they are worthless; they can be extremely valuable, and yet fall short of being as strong as U.S. rights are. You just need to know what you are dealing with, without deluding yourself through wishful thinking.

The new foreign investment law may trigger a reaction similar to November 2011, when Cuba decided to facilitate the transfer of housing rights to third parties. Back then, many jumped to the conclusion that there was now an American-style real property market opening up in Cuba, without noticing that, under Cuban laws, a right to housing falls far short from what we in the United States call fee simple title over a house.

As was the case back then, the fact that neither the Cuban constitution nor its civil laws have changed and the concept of property rights remains in Cuba the one that befits a society built around socialist principles should be a good reason for caution. But so it is in China and in some other countries where property rights are as different from ours as Cuba's are. Still, foreign investors in those countries crave for opportunities to invest in their real estate assets.

State-Cuban party-investor

Two important things to take into account and be careful with: Before a parcel of state-owned land is approved for use in a foreign investment setting, it must first be placed in the hands of a Cuban national who is to be a party in the foreign investment; and the terms and conditions to which that parcel of land will be subject to (which will define what the foreign investor will be able to do and not do with it) are found in the document whereby the investment is approved by the Cuban authorities AND in the administrative concession that entitled the Cuban national investor with whatever rights it holds over the parcel.

As always, I must point out I am not a Cuban lawyer, but just a lawyer who was born in Cuba, and it is from a Cuban lawyer who currently practices in the island that you should seek answers.

José Manuel Pallí is president of Miami-based World Wide Title. He can be reached at jpalli@wwti.net; you can find his blog at <http://cubargiejoe.com>

SPORTS

Cuban star batter to play pro leagues in Japan

BY JOHANNES WERNER



Cepeda

Following up on a new regulation that allows Cuban athletes to perform as professionals abroad, the Cuban Baseball Federation lets left outfielder Frederich Cepeda, 34, play for the Yomiuri Giants for one season, under an agreement

between the Federation and its Japanese counterpart that may be expanded to include Cuban coaches.

Pending a visa, Cepeda could begin wearing the Giants' No. 23 jersey by mid-May, the club said in a press release.

The press release quotes Cepeda, who rose from beginnings in Sancti Spiritus to become one of the most consistent batters on the Cuban national team, as saying it was his "dream" to play baseball in Japan.

The Giants did not reveal details of the contract.

The Giants, often called the "New York Yankees of Japan," are owned by media conglomerate Yomiuri Group.

Cepeda was part of the Cuban team that won the gold medal at the 2004 Summer Olympics and second place at the 2006 World Baseball Classic and 2008 Summer Olympics. He was an all-star player at the 2009 World Baseball Classic, where he achieved an outstanding .500 AVG with three home runs in six games and 24 at-bats. Cepeda has led the National Series in Cuba in bases on balls in two of the last three seasons.

'The beginning of a path'

This is not the first time a Cuban player performs in Japan's pro leagues. From 2002 to 2004, Omar Linares was on the roster of the Chunichi Dragons. Also, last year several veterans were allowed to join the Mexican league.

In an effort to stem the tide of defections and raise the competitiveness of Cuban athletes in international events, the Council of Ministers in September approved a measure that allows athletes

to enter professional contracts abroad.

Cuban athletes, according to the new rules, now have the "possibility to be contracted by other teams abroad, ... without being treated like merchandise." Athletes performing abroad will be "protected" by the National Sports Institute (INDER) or Cuban sports federations.

Limiting the time they can spend abroad, the new rules oblige Cuban athletes to participate in "fundamental competitions" on the island as well as in the national team. Baseball players must play for a team in the Cuban national series, allowing them to compete abroad only from May to October.

The Council of Ministers described the changes as "only the beginning of a path."

While the new "policy for remuneration of athletes, coaches and sports specialists" represents a major philosophical change in the government's approach to top athletes, U.S. embargo regulations prohibit U.S. professional teams to pay Cubans who are based on the island.

Cuban baseball has been constantly losing talent to Major League Baseball.

□

BRIEFS

FOREIGN INVESTMENT LAW PUBLISHED

Two weeks after the National Assembly passed it, the Cuban government published the new foreign investment law. Some regulations and other norms accompanying the law also appeared in the Gaceta Oficial's Extraordinary Edition No. 20, earlier than expected.

Article 17, about investment in real estate is the framework for billions of dollars worth of upscale condominiums and apartments the Cuban government would like to see go up on the island. The law seems to open up much of Cuba's housing sector to foreign investment.

CHAMBER OF COMMERCE GETS NEW LEADER

Orlando Hernández Guillén was appointed president of Cuba's Chamber of Commerce. An experienced top official, he has worked 40 years in the field of foreign trade. He has been Director of Trade Policies, vice minister, first vice minister, ambassador to Japan, and advisor to the current minister of foreign trade and investment, Rodrigo Malmierca.

A grand-nephew of famous poet Nicolás Guillén, his upbringing and

family environment were very close to the leadership of the old Communist Party. Hernández is a strong candidate to become minister, but he has been hampered by health problems.

BRAZILIAN OFFICIAL FOCUSING ON BIOTECH

Cesario Melantonio Neto, Brazil's new ambassador in Havana, said in a recent interview that currently 90% of Brazilian imports from Cuba consist of biotech and pharmaceuticals. "Cooperation between both countries' labs is very important," he said. Brazil is also seeking other "sectors of the Cuban economy that may fit the demands of the Brazilian markets" as "the best way to level current trade imbalances." Brazil exports more than \$600 million to Cuba, while it imports only \$90 million from the island.

CUBAN SURVEY LOOKS AT ENTREPRENEURS

The Faculty of Psychology at the University of Havana conducted a survey of small business owners (*trabajadores por cuenta propia*; private entrepreneurs). Respondents overwhelmingly see themselves as "useful to society." Other perceptions:

- It's a disparate group, with taxi and *paladar* owners earning high incomes,

and street vendors earning low incomes.

- Owners are mainly white, middle-aged men.

- Reasons for becoming a business owner: increased income, social autonomy and the possibility of individual decision-making, larger independence.

- Younger entrepreneurs are strongly motivated to improve their personal and family welfare.

PORTUGAL SEEKS BUSINESS OPPORTUNITIES

Portugal's minister of foreign affairs visited Cuba to "create space for a deepening of economic relations." Luis Campos Ferreira met with Foreign Minister Bruno Rodríguez and Foreign Trade and Investment Minister Rodrigo Malmierca, as well as the ministers of industry and energy. Portugal is planning to send a business delegation to Cuba, Portugal's foreign ministry said in a press release. Portugal's Grupo Pestana is managing a hotel at Cayo Coco and would like to add a historical hotel in Havana, according to press reports. Pestana just announced it will participate in charter flights this summer from Lisbon to Cayo Coco with Euroatlantic Airways.

RETAIL

Havana bars: The next wave of private innovation

BY RICHARD E. FEINBERG

Among investors focused on Cuban markets, private bars and clubs are the new big thing. Within the last 18 months, enterprising Cuban investors have spiced up an already vibrating Havana night life by opening a variety of chic watering holes.

By all accounts, many investors are achieving their primary goal: rapid returns on risk capital.

And middle-class Cubans — not just tourists and expats — are enjoying the widening diversity of options for evening destinations.

Stiff competition, narrow market

For the emerging private sector — promoted by Raúl Castro since he took over from his ailing brother Fidel in 2008 — the previous big story was the *paladares*, privately run restaurants generally located within family homes. But so many enterprising Cubans seized the opportunity to earn gastronomic profits that the restaurant market quickly turned terribly competitive.

Many fine-dining *paladares* cater primarily to well-heeled tourists, charging prices that are moderate by international standards but far out of the reach of nearly all Cubans. Most Cubans working for the state receive the miserable wage of \$20 per month — roughly the cost of a single *paladar* meal.

Facing this dual challenge of stiff competition in the restaurant space and the narrow tourism market, innovative Cuban entrepreneurs seized upon nocturnal entertainment as an exciting solution. Havana is not without bars, often featuring Buena Vista Social Club-style bands in Havana Vieja that appeal to middle-age tourists — but not to hip young Cubans or international travelers looking for the latest music video or mixed cocktail creations.

The newly launched bars/clubs feature flat-screen TVs with contemporary sounds. Dancing begins around 10 pm and whirls well into the early morning hours. Some of the bar-hopping crowd may be exiting the *paladares*, in search of the after-hours fun for which Havana

is so famous — but with a contemporary beat.

Significantly, the new upscale bars are also attracting Cubans — by keeping their prices within the range of what could be labeled the Cuban middle or upper-middle classes.

Entrance or cover charges are minimal and local beers sell for the equivalent of \$2, *tapas* for just \$2 - \$6, heavier fare for \$6 -15. These prices still lock out most Cubans, but are within the range of perhaps five percent of the 2 million Habaneros. (Alas, the Cuban government does not publish statistics on income distribution.)

Even if a Cuban couple limits their consumption to two beers each and a few snacks, how can they afford an evening on the town? Where do they find the \$20 — the equivalent of a full month's state salary? The sources of this middle-class purchasing power: profits from their own thriving private businesses, wages and tips earned in the tourist trade, bonuses granted by joint ventures, or remittances sent by generous family and friends living abroad. Cubans who served overseas — as diplomats, military attachés, or medical personnel — can accumulate savings. And privileged offspring of senior government officials are known to enjoy free beverages and bites.

As recently noted by AP correspondent Peter Orsi, the elites of the remarkably

large and talented Cuban creative class — painters, dancers, musicians, film makers — also earn a good living; the *farándula* — the inbred creative classes — congregate at Café Madrigal, Privé, and Espacios.

In Havana these days, trendy bars are not the only visible indicators of Cuba's prosperous upper-middle classes and their lucky, beautiful children. Expensive daycare centers and domestic housekeepers, 21st century cars with private license plates replacing the iconic but decrepit 1950s Chevrolets, and expensive cell phones with e-mail service — all signal the emergence of new money.

At the new nocturnal watering holes,



El Cocinero upstairs

Photos: Richard Feinberg

successful Cubans mingle comfortably with foreigners: the resident expatriate community of diplomats and business executives as well as tourists — mostly Europeans and Canadians, but also increasingly Americans, permitted to travel legally to Cuba under people-to-people educational programs licensed by the Obama administration.

The places

Two of the hottest Havana bars, Sangri-La and Up-and-Down (their ownership overlaps), are so packed on weekends that their overcrowded dance floors challenge even the most fluid salsa dancers. Intimate but very lively, Up-and-Down exploits the increasing stratification of Cuban society by differentiating the entry fee for the upstairs VIP lounges: a minimum of \$20 consumption per person, priced for foreigners and a thin slice of the best-heeled Cubans. The bartender at Up-and-Down is rightly famous for his designer tropical drinks laced with plentiful pours.

A combination restaurant and terrace bar, El Cocinero is a dramatic conversion of an old cooking oil factory into a two-floor industrial entertainment space. The plush first floor dining décor is dominated by a large black-and-white minimalist painting, while the al fresco upstairs features comfortable butterfly lounge chairs and a neon-lit bar. Typically, the denim-clad waitresses are youthful and attractive, and frequently with university degrees in their back pockets.

Product placement

A theatrical production of a Cuban-authored drama currently running in Havana, *Rascacielos* (Skyscrapers), is co-sponsored by the embassies of Spain and The Netherlands — and by El Cocinero and StarBien, a plush *paladar* (co-owned

See *Havana bars*, next page



Waitress at Up-and-Down

HAVANA BARS — FROM PREVIOUS PAGE**Escencia bar**

and managed by the gracious son of the minister of the interior). The commercial sponsorships earned product placements — explicit mentions in the text of the play — one dramatic signal of the growing weight and self-confidence of the emerging private sector.

Other trendy Havana dispensaries of alcohol and nocturnal diversion include Fábrica de Arte (featuring avantgarde paintings), Capricho (tasty *tapas*, serene ambiance), Escencia Havana (pre-revolution nostalgia in an 1880 villa), O'Reilly 304 (in Old Havana, superb vegetarian soup with three varieties of chili peppers), Toke (a mostly gay clientele, next to the Cabaret Las Vegas), and two new dimly lit dance clubs catering to a younger crowd, Melén and Las Piedras.

In many of Havana's new bars, the décor and the crowd are sophisticated and universal: Their Miami equivalents have similar vibes, albeit with more bling and, as one Cuban male observed, more silicon. Island-bound Cubans have less jewelry to flaunt, and may sense that the Communist government, while more permissive today than during the decades of Fidel Castro's austere rule, would still look askance at ostentatious displays of new wealth.

Small investment, quick return

Chats with owners and managers of these after-hour establishments suggest initial capital investments of roughly \$30,000 - \$70,000 (small by international standards). No entrepreneur reported commercial bank backing, which is scarce in Cuba. Rather, funds come from savings of family and friends, and in some cases money transfers from abroad — as donations, loans, or informal equity arrangements. Working within an uncertain business climate, these newly minted Cuban entrepreneurs often seek

to recoup their capital in 12-24 months, a potentially feasible goal due to low costs of labor, rent, and utilities, and often interest-free financing.

The award for the most economical opening goes to Maimané (as in the popular Cuban song, *Maimané, Maimané, todos los negros tomamos café*), a comfortable coffee and cocktail bar constructed by environmentalist and artist Paul Sosa using recycled woods and iron work. Spending less than \$5,000 to fashion the 36-seat establishment within his parents' home, Paul attracts both tourists and locals with strong \$1 espresso coffees and \$2 made-to-order mojitos.

State-owned beer garden

Not to be outdone by the dynamic private sector, Cuban state companies have recently opened two large bars. Sloppy Joe's, a revival of a pre-revolutionary saloon with a legendary 59-foot mahogany bar, once again caters mostly to tourists. More original, the government gloriously transformed an old timber and tobacco warehouse on Havana Bay into a large beer garden. The affordable prices and spectacular brightly painted murals attract Cuban families as well as foreigners. On one Sunday afternoon, the author viewed more than one Cu-

**Old warehouse, new beer garden****Paul Sosa at his bar**

Photos: Richard Feinberg

ban child watching his parents enjoy the Austrian-made tall tubes of chilled beer.

Cuban capitalists not only must confront uneven competition from state-run firms, but also face regulatory uncertainty: bars are still not an officially sanctioned category of business, so their owners must register them as restaurants — making them vulnerable to government inspectors. Not surprisingly, in this high-risk business climate, investors seek a quick return on capital. But short of an abrupt shift in government policy, it is a safe bet that bold entrepreneurs will continue to provide Havana's after-hours revelers with new and exciting entertainment options.

Richard E. Feinberg, professor of international economy at the University of California, San Diego, writes about and travels frequently to Cuba. Three of his recent publications on the Cuban economy, including Safe Landing for Cuba?, can be found at www.brookings.edu.

HAVANA CONSULTANT — FROM PAGE 7

ferent cuisines. The CIMEX board of directors reacted enthusiastically, but higher up, the plan was shelved.

In Miami, room for in-depth market research on Cuba

Frustrated yet again, he moved in 2007 to the United States, entering through a family reunification request from his wife's family. Morales said his relatives in Miami — including some whose properties were taken by the Cuban government — provided help. (Over time, his family in Cuba and the United States have reconciled, sometimes in reunions full of tears, said Morales.)

In Miami, Morales said he began meeting academics and realized that many lacked current information on Cuba. He saw an opportunity to use his skills and knowledge in a consulting business.

First, he opted to rework material for a book on marketing he had started in Cuba. In 2009, he published Cuba: Trán-

sito silencioso al capitalismo? ("Cuba: Quiet Transition to Capitalism?"), a textbook-style work with case studies.

When Virginia Tech marketing teacher Joseph L. Scarpaci read the book and contacted him, the two began collaborating. Scarpaci added new material and helped revamp the book, published in English in 2012 as *Marketing without Advertising*.

Scarpaci now serves as vice president of the consulting group. He distinguishes the firm in its focus on information and its efforts to weed out ideology.

Cuba's market evolving slowly

Morales sees Cuba's market evolving slowly until the leadership "frees up productive forces," so that Cubans can develop their own ventures, and foreign investors operate more independently.

"They have to get over their ideological taboos" that won't let entrepreneurs flourish, Morales said. "Cuba has to re-insert itself into the world, not the world into Cuba." □

CALENDAR OF EVENTS

If your organization is sponsoring an upcoming event, please let our readers know! Send details to CubaNews at johanneswerner@cubastandard.com.

May 6-10: **Feria Internacional del Turismo 2014 (FITCuba)** — Cuba's largest tourism industry fair. Morro Castle, Havana. www.fitcuba.com, Yulier Ávila Varona, jeventos@cbtevent.cbt.tur.cu.

May 8: **The Cuban 'update' and U.S.-Cuba relations.** Seminar with Raúl Rodríguez Rodríguez, Univ. of Havana. 6:30pm, Univ. of London, Senate Room, Senate House, London, WC1E 7HU. <http://cubastudies.org>

May 19-24: **Forum for Information Technology Entrepreneurs (FELTI 2014)** — Latin American forum on the business of IT, and its use in businesses, education and government. Havana, Universidad Politécnica de La Habana/CUJAE. www.felti.org.

June 3-6: **8th Cuban Cardiology Congress** — Cardiovascular Disease: Our Challenge in the 21st Century. Palacio de Convenciones, Havana. Contact: Dr. Eduardo Rivas Estany, moval@icccv.sld.cu.

June 19: **Center for Democracy in the Americas** — 8th anniversary party. Stewart R. Mott House, Washington. www.democracyinamericas.org; Vivian Ramos, vivian@democracyinamericas.org.

June 23-27: **International Convention of Cuban Industry (Cubaindustria)** — first edition of what is planned to become an annual convention and fair for Cuban manufacturers and their foreign partners. Palacio de Convenciones and PABEXPO, Havana. Details TBA.

June 23-27: **7th International Conference of Electrical Engineering (FIE 2014)** — electrical engineering conference in Santiago de Cuba. Contact: Dunia Barrero Formigo, dunia@fie.uo.edu.cu.

June 25-27: **9th International Congress of Refrigeration, Climatization and Renewable Energies (RECLIEN 2014)**, PALCO, Havana. rojo@irc.cu.

Sept. 11-21: **Habanarte** — Dance, music, theater, cinema, visual arts, crafts — the first-ever combination in this all-in-one festival, the biggest ever in Cuba. www.habanarte.cult.cu.

Sept. 22-25: **International LABIOFAM Congress 2014** — event that focuses on Cuba's pharmaceutical products, held in conjunction with the 3rd International Symposium of Cancer Therapy Products. Palacio de Convenciones, Havana. Contact: Lirka Rodríguez Pérez, labiofamcte@infomed.sld.cu.

Nov. 3-9: **32nd International Havana Fair (FIHAV 2014)** — Cuba's largest trade fair with major presence of Cuba's foreign partners. PABEXPO, Havana.

Nov. 20-21: **Cuba 2014 — What the U.S. Legal and Business Communities Need to Know.** Conference. Loew's Portofino Hotel, Orlando.

December (date TBA): **Festival Internacional del Nuevo Cine Latinoamericano** — one of the largest film festivals in Latin America. Contact: Festival Internacional del Cine Latinoamericano

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