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A new, increasingly business-minded Cuba is emerging.

Miguel Angel Morales Menendez was born in 1974. By then his grandfather, Ramon Menendez, had lost the business that made him a personal fortune.

After he arrived in Havana in the early half of the 20th century from his native Asturias in Spain, Ramon Menendez launched a mom-and-pop store in a colonial building in the

city's old quarter. Soon it became a coffee shop and bar. As the business grew, it launched branches, and Ramon bought buildings to rent for housing.

But it all came to an abrupt end after the bearded rebel army of revolutionaries marched into Havana in 1959. Ramon died in Havana, an octogenarian.

"His business was all that he talked about," recalls his grandson, Miguel Angel.

Now, in the same old colonial house where his grandfather's business began, next to the Havana Cathedral, Miguel Angel has revived it. Under the same name, La Moneda Cubana, the business has become one of the privately owned restaurants that are prospering under Cuba's economic reforms.

By the beginning of this year, the number of small-business owners like Miguel Angel had grown four-fold since September 2010, when the law was changed.

Much more timid market reforms were launched more than two decades ago, only to be reversed. Will that happen again?

"Definitely not," says Kirby Jones, whose Alamar Associates offers consultancy for U.S. companies that want to do business in Cuba. "These have been extraordinary changes."

The rise of small businesses has reached critical mass, Jones argues: "There's no going back now to the old ways. There's no way you're going to get that toothpaste back in the tube."

The business growth means major new industrial projects, golf courses with ambitious real-estate complexes, a blossoming of small businesses throughout Cuba, and deep-water oil exploration.

Fidel Castro's intestinal ailment has obliged him to cede power to his brother Raul. A small but rapidly growing private sector is being promoted by Raul. The aim, he says, is to "erase the notion once and for all that Cuba is the only country in the world where you can live without having to work."

It is too early to say whether Cuba will follow in the footsteps of China or Vietnam. But it surely will not follow the road that the former Soviet Union and its allies took when they collapsed two decades ago. As Raul Castro has often said, the progress of the reforms must be "without any haste but without any pauses, either".

Oil on the horizon



The pace of change might not be blinding, but it is quickening. Since last year, Cuba and the Spanish oil company Repsol have been betting on what could be the major single development in the Cuban economy. Repsol is contracting the Chinese-made, semi-submersible rig Scarabeo-9.

“A well has been spudded in January,” a Repsol spokesman said. “The results will be available shortly. And there are other companies waiting their turn to use the Scarabeo once Repsol has finished. They include Gazprom of Russia and the Malaysian state company Petronas.”

Jorge Piñon, a Cuban-American, is a former president of Amoco in Latin America. He now works as an academic and consultant on Cuba’s energy industry. Repsol already drilled a well in Cuban deep waters in 2004 but, though oil was found, the amount was not regarded as commercial. “But the fact that Repsol is still involved in Cuba tells me that there is a high probability of hydrocarbons,” Piñon says.

By his reckoning, Repsol already has spent about \$100 million in Cuba. And the U.S. government estimates that Cuba could have 4 billion to 6 billion barrels of crude reserves yet to be discovered. But Piñon adds a cautionary note: “Until you’ve drilled, you can’t really be sure about any potential reserves.”

Nor would a Repsol discovery launch an instant oil boom.

“It would take another three to five years to develop the reservoirs,” Piñon says. “The short-term impact of any discovery would be political rather than economic.”

Politics, however, is the very name of the game in the tangled relationship between Washington and Havana.

A lever in Mariel

Whatever the result of the oil exploration, Cuba also is adding a powerful lever to its economy in the port of Mariel, about 50 kilometers west of Havana. The development there is likely to have a major impact on the entire region.

If all goes according to plan, Mariel will be Cuba’s largest port, by far. Mariel will be run by Almacenes Universales, a Cuban military enterprise, in association with the Brazilian construction giant Odebrecht.

According to Odebrecht, “A total of \$957 million will be invested over four years to transform the Port of Mariel into an international container terminal, of which \$682 million will be financed by the Brazilian government and the remainder by the Cuban government”. Construction began in the first quarter of 2010 and should be concluded by 2014.

“More than 30 kilometers of highway will also be rehabilitated, and dredging works will be executed on the entrance channel and maneuvering basin of the future terminal, which will handle one million containers (TEU) per year. The project currently employs 2,700 workers and should create 3,000 direct jobs and some 5,000 indirect jobs.”

Mariel will be one of Cuba’s “Special Development Zones,” which aim to boost exports, substitute imports, promote high-technology business and, of course, increase the number of jobs. The idea is not to recreate the state-controlled market enclaves of China in the 1980s, but rather to make the special zones outgoing springboards for integration with the surrounding economy.

Golf and real estate

Golf is expected to form another springboard for Cuba’s new economy, in conjunction with luxurious real-estate developments, along the lines of those in the Dominican Republic or Barbados.

The current leader in the race to be Cuba’s first post-revolutionary golf-based resort is Britain’s Esencia Group, head by Alexander Macdonald of Boisdale, a Scottish aristocrat who blends salsa music with whiskey in his chain of upscale London-based restaurants.

Esencia is developing The Carbonera Club in association with the Cuban state company Palmares. Golf, tennis and ocean sports will feature in 170 hectares that will offer villas and apartments for sale in what could be the first housing sales to foreign buyers since the Revolution.

“The Carbonera Club is close to achieving approval by the authorities,” Macdonald says. “It’s taken rather a long time, but that’s not a problem. It’s important to get things right.”

A source at the Carbonera Club said the property will be positioned to be competitive within the Caribbean region for properties of similar specifications and amenities. The launch prices will be similar to those of Dominican Republic’s Punta Cana resorts, starting at about \$2,800 per square meter (\$260 per square feet) and rising to \$4,750 per square meter. These prices are in accordance with the views of analysts of the regional real-estate market, the source added.

Macdonald says: “We expect the prices to rise in proportion with the interest from international buyers that we have received, since all know that the purchases will offer good capital-return opportunities as demand exceeds supply and Cuba regains its natural position as the jewel of the Caribbean.”

Esencia is backed by two heavyweights of international architectural design, Rafael de la Hoz of Spain and Britain’s Conran & Partners. In addition, Esencia has a renewable

energy division, Havana Energy, that features biomass projects and is led by Brian Wilson, a former British energy minister.

Esencia's travel division features bespoke tours now supported by plans for a chain of bijou hotels in a country where accommodation has long been scarce for travelers with a sense of adventure. And the company's trading division represents Cuban products such as rum, shellfish and cigars.

The old guard of investors

Companies such as Repsol, Odebrecht and Esencia form part of a new wave of investors attracted by Raul Castro's movement for reform. The largest foreign investor remains Canada's Sherritt International, which produces oil and nickel — the latter is the nation's leading export — as well as electricity produced by natural gas in a combined-cycle power plant. In tourism, Spanish hotel chains such as Barcelo, Blau, Iberostar, Melia and Riu operate under management contracts; the French drinks group Pernod-Ricard produces Havana Club rum; Spain's Altadis, a unit of Britain's Imperial Tobacco, produces and exports the legendary cigars.

Canada's Cerbuco bottles beer for the local market; Switzerland's Nestle bottles mineral water and soft drinks; and Mexico's Altex produces flour for domestic consumers.

Cuba also has formed overseas joint ventures. It has investments in the production of pharmaceuticals in Brazil, China, India and Iran; in hospitals in Algeria and China; in construction projects in Angola and Vietnam; and a hotel in China. Cuba also has invested in Angola's oil industry and in several companies in Venezuela.

U.S. Embargo

The U.S. embargo is solid. With the exception of cash purchases of food and medicines, Cuba can't trade with the United States. Nor can it use the U.S. dollar or welcome regular U.S. tourists. Ships that dock in Cuba are not allowed to visit U.S. ports within the next six months.

The U.S. Treasury Department applies the embargo on Cuba throughout the world. Raul Castro was not allowed to stay in a Hilton hotel in Trinidad last year. Repsol opted to pull its American Depositary Shares out of Wall Street. Spain's Telefonica and BBVA bank have been under pressure from the U.S. authorities because of their links to Cuba. And Odebrecht could be facing a problem in Florida under a local law supported by the Cuban-American lobby.

- *With reporting by Gerardo Arreola in Havana.*

THE KEY LIES IN CARACAS

Right now, the key to the Cuban economy lies in Venezuela. Trade between the two countries reached more than \$6 billion in 2010, twice as much as the previous year and three times more than the \$1.9 billion with China.

Cuba supplies Venezuela with a wide range of services provided by 40,000 professionals stationed there. They include doctors, sports trainers, computer engineers, agronomists and security specialists. In return, Venezuela receives oil on highly preferential terms under a swap agreement.

Cuvenpetrol, a joint venture by the two governments, operates a Cuban refinery at Cienfuegos that is being expanded from 65,000 barrels per day to 150,000. Another Cuban refinery is to be upgraded and a third to be built by Cuvenpetrol.

Cuvenpeq plans petrochemical projects in Cuba that will involve Chinese and Japanese engineering. A regasification plant to receive liquefied natural gas (LNG) aims to provide fuel for the nation's power plants.

Another binational company, Telecomunicaciones Gran Caribe, laid an undersea fiber-optic cable to provide speech, data and image communications between Cuba and Venezuela. The project was to have been concluded by last summer, but no news has emerged. Reports that some of the project's executives were arrested and charged with fraud have been neither confirmed nor denied.

But a big question mark hangs over cooperation between the two countries. President Hugo Chavez hopes to win re-election this year in Venezuela, but the opposition to his rule is more united than ever, and the re-emergence of his cancer casts a big doubt on his physical ability to contest the election.

Jorge Piñon, a U.S.-Cuban former top international oil-industry executive, now an academic and consultant on Cuban energy, takes a somber view.

"Cuba consumes about 150,000 barrels a day of oil and produces about 50,000," Piñon says. Basically, Venezuela makes up the rest with exports provided in exchange for services under the swap agreement. "But for practical cash-flow purposes, Cuba receives at today's prices about \$3 billion of oil that does not impact its balance of payments," Piñon says.

"If Venezuela were to change its contractual arrangement with Cuba, there's no doubt in my mind that the Cuban economy would collapse. That is why people on both sides of the political argument are increasingly agreeing that no obstacles to finding oil should be placed in Cuba's ways."

"Cuba once was dependent on oil from the Soviet Union, and it is now on Venezuela," Piñon says. "It needs to be independent."