

# ALAMAR

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## DOING BUSINESS IN CUBA AND LESSONS LEARNED

By

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*This paper is an expanded version of the testimony originally presented by Kirby Jones before the International Trade Commission of the U.S. Department of Commerce.*

I have been traveling back and forth to Cuba for 34 years. My first trip was in 1974 as a Special Correspondent for CBS News to participate in an interview with President Fidel Castro. Since that time I have worked as a consultant to U.S. firms interested in doing business in this market. In total, I have taken to Cuba representatives of more than 500 US companies.

I have seen a lot of changes in Cuba in these years and I believe these changes to be profound and deep.

Those who maintain that Cuba is but an out-of-date left over country which fanatically is clinging to a rigid and static state controlled economy are either simply misinformed, are wrong, or are purposely misrepresenting the economic reality in Cuba to promote and to achieve their own political agenda.

This does not mean that Cuba is without its economic and financial problems. It has plenty. But Cuba has instead proven itself --more than once--to be willing to implement radical changes in the manner in which it manages its economy in order to adapt to a new world economic order.

## **HISTORY: 1960-1990**

The first example of these changes occurred in the early 1960s when the US severed relations with Cuba. Up to that time, the Cuban economy had been captured by, and was largely controlled by U.S. interests which owned its utilities and telecommunications, much of its land, its main sources of sugar production, its mines and natural resources, and its tourism facilities. In other words, the U.S. largely controlled and owned the Cuban economy.

When the U.S. pulled out, Cuba was left high and dry. As is well known, Cuba turned to another patron and for the next thirty plus years was tied closely with the Soviet Union and COMECON.

In the mid to late 1970s, I took to Cuba several hundred U.S. business executives to meet with those Cuban officials who were then responsible for particular products and services. President Carter had lifted the ban on travel and had allowed foreign subsidiaries of US firms to do business with Cuba. At that time in Cuba, everything was centrally controlled by the government with a system of state enterprises with annual quotas of production. There was little if any flexibility. While these state officials

were well informed about their products, they were unable to undertake purchases outside of the state mandated quantities.

It was frustrating for Americans. Even if the Cuban officials wanted to do something different or new, they were unable to do so because they were boxed in by their state plans or bi-lateral trade agreements with COMECON.

From the 1960s to the early 1990s there was a Cuba with no private sector at all, the holding of U.S. dollars and other hard currencies was illegal, subsidies propped up and supported every aspect of economic life, 85% of all trade was carried out within a closed economic community, no foreign businesses were present, no advertising was allowed, no street vendors or markets existed, no foreign tourism of any significance existed, no U.S. products were to be seen, and the skyline of Havana barely changed from year to year because there was no real construction

But then in the early 90s the Soviet Union collapsed and yet once again Cuba faced an economic crisis. But this time there was no patron waiting in the wings to enter the vacuum; in fact quite the reverse.

Cuba's economy fell by 35% and it was all alone to cope with what was nothing short of an economic disaster. But it was worse than even that. Unlike the Republics of the former Soviet Union, Cuba had no access to emergency financial support from international financial institutions and the most powerful economic and political power in the world was using every measure to undermine the Cuban economic system.

## **A NEW ECONOMY**

But now just 18 years later, there is essentially still another Cuban economy – a third economic version, different from the previous two. But this time it is one that is not dominated by one single country as it was by the United States until 1959 nor dependent on one economic system as it was on the Soviet Union until the early 90s.

Rather it is a mix of capitalism and socialism – and not just a little dose of capitalism.

Influences from the U.S. are evident throughout Cuba. More than 150,000 Americans had been visiting Cuba each year until the severe travel restrictions were enacted in summer, 2004. Since the end of 2001 Cuba has purchased or signed contracts for \$ 2.7 billion of agricultural and food products from the United States.

Hard currencies (and Cuban convertible pesos) have been spent by Cubans in shopping malls to buy food, television sets, VCRs, and other appliances-and they get much of the dollars and other hard currencies from United States in the form of what has been (despite the last regulations of 2004) more than \$800 million a year sent by Cuban-Americans to their families. One now sees billboards advertising commercial products; beach resorts; cell phones; e-mail connections to almost all businesses and Government offices; DHL delivery service; CNN, the Disney Channel, and ESPN on television; hotel construction by Sol Melia, Barcelo, Iberostar, and Novotel; car dealerships selling Peugeot and Saab cars; Benneton stores; condominiums; business centers and new offices; open air markets; private bed and breakfasts; small private restaurants; American Eagle and Gulfstream International charters; Western Union; Miami radio can be heard on Cuban taxis; and American TV programs are circulating on DVDs three days after they show on US television.

Cuba has over the last ten years undertaken what could be called a substantial program of privatization. Cuban officials are loathe to use that term, but if one defines privatization as the selling of state assets to private investors, then Cuba is a highly privatized economy. Foreign private investors are involved in virtually every sector except education and medical services. And some foreign investors have enjoyed 100% ownership of their investment under a BOT agreement.

While it is clear that Cuba has, in recent years, began a process of investment concentration on strategic sectors, there are hundreds of joint ventures in Cuba and over 500 firms have offices or representatives in Cuba. There are joint ventures in mining with Canada; telecommunications and cell phones with Italy; oil exploration with the Canada, India, China, Norway, Malaysia, Brazil, Venezuela, Vietnam, and Spain; bottled water and consumer goods with Switzerland; port management and cigar distribution with Spain; beer production with Canada; construction companies with France; rum production with France; office construction and citrus agribusiness with Israel; building renovations with Italy; and freight forwarding with Germany – just to name a few.

Cuba has removed subsidies from almost all its former state enterprises which now must succeed on their own or go out of business. Sugar, which had been the backbone of the Cuban economy for centuries, has been cut way back with hundreds of sugar mills closed because of inefficiency. At the same time, Cuba is spending millions of dollars to develop a software industry and assume a greater role in the rapidly emerging service-oriented business world.

Cuba has created dozens of free-standing holding companies. CIMEX is the largest and most powerful with annual revenues of about \$1 billion and operates dozens of companies and joint ventures. Others include Cubalse, Cubanacan, Habaguanex, Gaviota, ITH, TRD Caribe, and Caracol. Many of these compete against each other for business.

These entities operate as free from day-to-day Government control and oversight as any private sector firm in any country in the world. Some borrow on the international financial markets for their own account, many are audited by leading Western accounting firms, and they are flexible to undertake any business deal they want.

But they only have one shareholder; the Government of Cuba. If they make their profit targets and operate with acceptable margins, they keep going. If they do not, people are fired, new management is inserted, and changes are made. What could be more capitalistic than this?

This is what the U.S business community will find as it conducts business in Cuba and what some U.S. firms now are learning and what hundreds more non-U.S. firms already know.

## **BUSINESS ENVIRONMENT**

But this does not mean doing business with Cuba is or will be easy. It has to be remembered that Cuba is a developing country. It is still relatively new to capitalistic practices, it still is in a learning process, and the mechanisms of doing business within the private sector (so familiar to U.S. executives) do not have years of development in Cuba.

Not unlike any other country, Cuba has its own – sometimes frustrating – bureaucracy: it can be slow, can change its mind, seem unwilling at times to do what seems to an outsider to make good business sense, and can still be slow in accepting new ideas.

U.S. firms thinking that they will simply walk in, set up offices, hire staff, open a bank account, order phones and start marketing and selling are in for a rude awakening. It takes three years, for example, for a foreign company to be accredited to open an office or to hire its own staff. U.S. firms will have to exercise a hefty degree of patience, learn the rules, know how to adapt, and find out how things may have to be done differently than what they have experienced in more mature market economies.

They will have to form alliances with Cuban entities, but which ones? They will have to get to know the international firms already there which are on one level potential partners, and on the other also potential competitors. These foreign firms are already well established, have a track record, and are trusted by the Cubans. In other words, U.S. firms will be entering a market which has developed its own style and community largely immune, until recently, from any U.S. business influence and involvement.

No such business environment exists in any other country in the world.

Having said that and at the risk of contradicting myself, a common remark from many business executives with whom I have traveled to Cuba and advised during a number of negotiating sessions is that the Cuban officials and executives are “just the same as business executives all over the world.” What makes this observation more than just a superficial comment is that it signifies that Cuban business executives have, in one way or another, arrived. That is to say that in just over a dozen years of experience dealing with Western companies, Cubans are perceived as being on the same level as those executives from any other country.

U.S. executives will find that meetings start on time. After a few pleasantries and the service of coffee or juice, it is down to business. The Cuban negotiators can be expected to be knowledgeable about the products, services, and prices with which they deal. Some U.S. company representatives have made a mistake in assuming otherwise.

And finally, Cubans like to do business with people they know and like – just the same as all other business executives. The first round of purchases that Cuba made at the end of 2001 were largely with U.S. firms which were already well known to the Cuban officials. These U.S. firms had spent the time and effort to undertake a real business development program looking ahead to the day when business might be possible. And indeed, when that did happen, the development effort paid off.

## **FIDEL AND (NOW) RAUL CASTRO**

No discussion about Cuba can be complete without addressing one additional aspect of Cuba: its leader (until February 24), President Fidel Castro. I first met President Castro in 1974: I have known him now for more than 30 years.

Make no mistake: all the changes that I have outlined above were accomplished under the guidance of Fidel Castro. Far from being

dogmatic and inflexible about the economy, he has rather shown a remarkable flexibility and adaptability.

But it is not just the changes in economic policy and management of the economy that are important. While the new government under Raul Castro is still led by several long-time officials, it is also true that throughout the government, Fidel Castro has brought in an entire new generation of Ministers, Vice Ministers, and middle level officials and managers.

Sixty percent of the members of the new National Assembly are under 50, the Foreign Minister is in his early 40s, the Vice President of the Council of State who continues to manage the economy is in his mid 50s, and the specialist team from Alimport who sit across the table to negotiate with U.S. company executives is a team of mostly young men and women in their 20s.

This is the new generation and these individuals will last for many years to come.

These changes in Cuba are profound, deep, and will last. The role of the foreign investor is established and its tentacles reach into virtually every aspect of Cuban economic and social life; the use of the hard currency based convertible peso, as every-day currency is established; the growth of the Cuban holding companies is well founded; and there are procedures and policies which are also well established and codified.

All of this -- initiated under Fidel Castro -- is now not dependent on Fidel or Raul Castro. We have seen the so-called post Fidel era developing before our eyes for the last 20 months and now can better view the future business environment.

For those who still wait for some so-called post-Castro era, as if all will change and be somehow different, is not at all a productive business plan. Nor quite frankly is it a productive political strategy either. For Fidel Castro has already implemented much of the very transition that some still say would come only after he no longer leads Cuba.

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**U.S.-CUBA BUSINESS**

I have been no less than amazed by the speed with which changes have occurred and are continuing. These changes include not only the fundamental and basic changes to the Cuban economy and how it is structured and managed but also the changes in the political landscape and dynamics with regard to U.S. and Cuba bilateral relations.

In no way has there been greater change than in the trade that has developed between the United States and Cuba since end of 2001 and today. After 40 years of no trade and in just a bit over six years, the US has become the country which supplies more food to Cuba than any other and Cuba has become the 25<sup>th</sup> largest market for US agricultural products. Until recently Cuba has ranked in the top ten of the largest export markets for U.S. rice and for U.S. poultry and has been the top export market, for example, for North Dakota's export of beans. Cuba has climbed from position #22 to be the 8<sup>th</sup> largest tourist destination in North and South America.

Contracts for more than 7.8 million MT worth over \$2.7 billion (including shipping and services) have been signed comprising 300 different items including wheat, rice, corn, soybeans, tomato sauce, eggs, chicken, ground turkey, chewing gum, plywood, live cattle, wine, organic fertilizer, and rice. These have been bought from 158 different companies from 37 states. Every one of these companies has been paid in full.

Twenty-three different U.S. ports have been used for over 1000 ship journeys of which over 74 % have been with U.S. owned or chartered vessels.

The rulings in early 2005 by the Administration that payments by Cuba must be made to U.S. firms before shipping has, however complicated an already cumbersome process and has caused Cuba to cut back on some imports from the US. Until these restrictions are lifted and corrected, there will likely be a leveling off of trade and perhaps a decrease.

But this one-way trade will continue and there is no end in sight: thus far, over 1400 companies from 45 states have been in contact with Cuban officials. Pedro Alvarez, President of Alimport, which imports all U.S. agricultural products for Cuba, has stated that U.S. firms could provide 40% of Cuba's agricultural needs which annually reach over \$1.6 billion.

All of this is not to say that Cuba has no economic, financial, and social problems. It has many. Like all developing countries, Cuba has major foreign debt obligations; foreign currency exchange regulations are shifting; domestic pricing policies for imported consumer food products have inhibited market growth; transparency regarding foreign investment is a long-standing concern; while legalization of the use of hard currencies



has solved some problems, it also has created other serious long-term financial and social concerns; housing and public transportation is still lacking; and limits are placed on entrepreneurial expansion.

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Given these developments, this progress, and these continuing problems, one fact remains: Cuba has opened its doors to the entire world and the world has walked in. Cuba has also made it clear that the same door is open to the United States.

## **LESSONS LEARNED**

After my 34 years of escorting to Cuba representatives of hundreds of companies and participating in direct negotiations and discussions with Alimport and other Cuban entities regarding several different products, I can share some lessons learned:

### **1. START SMALL:**

U.S. firms should not try to bite off too much too soon. Remember, the Cuban officials probably may not know much about you. Yes, they may know your company, but they do not know you as people. Conversely, U.S. company executives do not know the Cuban system or the Cuban officials either. There is a level of confidence that needs to be developed. U.S. firms need to show they are reliable and honest partners and Cuban officials need to show the same: will the U.S. firm deliver the product promised in a timely and reliable manner? Will Cuban officials pay on time?

### **2. CUBANS KNOW THEIR BUSINESS:**

As I described above, of the many comments that I have heard made by U.S., executives after first meeting their Cuban counterparts, it is that “they are just like us.” What this means is that the Cubans sitting across from you as you discuss and negotiate have done their homework and know their business. They can not be easily fooled. They may not be up-to-date on all the latest consumer products, but they do know how to do business. They are as price conscious as any U.S. executive and are smart and direct negotiators.

### **3. THE PROCESS HAS WORKED WELL:**

Despite no trade for almost 40 years, the recent trade has worked relatively smoothly for the past six years. On the Cuban side, they simplified their contracts, managed the shipping efficiently, paid all their bills on time (despite having to use a cumbersome process through third countries), and been open to receive any interested company. On the U.S. side, officials in the Commerce and Agriculture Department should be commended for the manner in which they have sifted through the various

regulations and been responsive to the needs of a U.S. business community chartering a new course.

#### **4. DON'T CONFUSE POLITICS WITH BUSINESS:**

This U.S.-Cuba of trade has been, is, and will not be temporary. For the Cuban side, officials often state they have received high quality products and good prices relative to what Cuba has been receiving and paying before. While there is a political dimension to anything that happens between our two countries, Cuba is not playing trade games for short-term political goals. One analyst once said that the first wave of buying was “but the first chapter in a one chapter book.” Nothing could be farther from the truth.

#### **5. IT IS A LONG TERM PROCESS WHICH REQUIRES PATIENCE:**

The Cubans are not interested in just any quick deal. They want to establish long term relationships with a diversified number of suppliers. If U.S. firms are selling into the peso market, which has largely been the case to this date, the Cuban process is relatively simple: Alimport is the negotiator, buyer, and distributor. But in the case of consumer products which are distributed into the hard currency market, the process is more complicated. Alimport is the negotiator, signs the contract, but is not the final buyer or distributor. Other entities play a major, if not determining, role as to whether such products will be bought. A request by Alimport for a quote for a container of products to be sold into the hard currency market, is not a firm order. Orders can only be confirmed on the basis of the interest of Alimport's clients and distributors. Demand must exist or be created.

#### **6. SANITARY AND VETERINARY REQUIREMENTS:**

This aspect of trade should not be overlooked at the start. The shipping and final transfer of products – even with a signed and agreed contract – has been delayed as these technical issues are settled. Cuba has very high standards and are strict about compliance. There is no short-cut to this aspect.

#### **7. MAINTAIN COMMUNICATION:**

As with anyone else in business, Cubans like to do business with people they know. A one time visit is not sufficient; the more face time there is, the better. If legally possible, make visits, invite Cubans to visit your facilities in the U.S. or in third countries, participate in conferences and international events where your Cuban counterparts are present. The more they know you and the more you know them, the better chance for greater business. Friendship will never weigh heavier than the fundamentals of the business, but with all of that being equal, it helps.

## **8. LOOK FOR POTENTIAL PARTNERS:**

Over 500 companies from around the world have representatives in Havana: many have years of business experience dealing with Cuba. U.S. firms would do well to search out those which could represent potential partners. This takes time and effort, but a relationship with one of these firms could easily shorten the learning curve and more quickly serve as yet another entry point into the new Cuban market.

## **9. SLOW MEDICAL SALES:**

Although the U.S. law allows for the sale of medical products, this has not happened to any great extent. Part of the reason has to do with the Cuban pharmaceutical business itself. But as much, if not more, has to do with the fine print of the U.S. law. Unlike the sale of agricultural products, there is a caveat to the sale of any medical products. In the case of the latter, the seller must provide certification to the U.S. Government of the end user - which patient is consuming which pills or being examined by which medical machine. This condition has proven to be insurmountable. U.S. firms do not have the resources to undertake such verification if indeed one could devise a suitable plan to undertake such an exercise. A change in the U.S. law must be made if any substantial sales are ever to occur.

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## **10. DON'T WAIT TOO LONG; IT IS NOT OVER:**

The early months of actual trade in agricultural products has shown that the first few companies to undertake this business were those which had undertaken several months - if not years - of business development prior to the change in the U.S. law. Nobody could have expected that a hurricane in the end of 2001 would have led to the opening of trade between Cuba and the U.S. - much less, contracts worth more than \$2.7 billion. As we look to the future, what unexpected event will open trade further? Again, nobody knows, but we can reliably predict that the unexpected could easily occur again with the result that trade will be possible in products and services not now approved. Those firms which now are willing to prepare for that day will once again be the first to capture the market.

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Kirby Jones is president of Alamar Associates, a Maryland. based firm which offers a full range of consulting services to companies and organizations which are interested in conducting business with Cuba. Mr. Jones has visited Cuba regularly since 1974 and has escorted to Cuba representatives of more than 500 U.S. firms. Several of his clients

have successfully negotiated contracts with Cuba. He also is founder and president of the U.S.-Cuba Trade Association.