

USA TODAY

27 December 1994

Arlington, Virginia

CUBA SEEKS PARTNERS

U.S. firms ready to tap opportunity

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CUBA: OPEN FOR BUSINESS; See info boxes at end of text; See related stories: 02B, 06B

HAVANA - Carlson, the Radisson hotel/restaurant powerhouse, wants to open a TGI Friday's restaurant in Havana, restore a historic hotel and build a lavish resort on one of Cuba's 300 pristine beaches.

General Motors, Ford and Toyota have lists of Cuban-American dealers itching to reopen once-bustling Havana showrooms.

Agriculture giant Archer-Daniels-Midland, one of the first companies to invest in Russia after the Soviet Union split up, is ready to help revive Cuba's sugar cane fields.

Wishful thinking? Not if Corporate America has its way. Economically shattered Cuba is throwing out the welcome mat to foreign investment. And dozens of U.S. companies are grabbing places in line.

For now, they are foiled by the United States' 32-year ban on trade with the last communist government in the Western Hemisphere. But companies are drawing up descriptions of projects they want to launch - and how much they're willing to invest. Sixty-nine have signed letters of intent to do business on the island 90 miles from Florida.

The letters are swathed in secrecy. Cuba refuses to say who has signed. Companies won't discuss their plans. Some don't want competitors to know their ideas; others fear protests from groups threatening to boycott any company that negotiates with Cuban leader Fidel Castro.

Still, business leaders such as Lee Iacocca continue to jet into Havana via Canada and Mexico to dine with Castro and hold investment talks with Cuban leaders in the palm-shaded courtyard of the sprawling, art deco Hotel Nacional, the bar of the tiny Hotel Victoria or in seedy Soviet-built concrete office buildings.

U.S. companies are eager to pounce on a market of 11 million people begging for everything from cookies to Kleenex to Chevrolets. The 100 members of the U.S.-Cuba Trade and Economic Council count on the group's savvy president, John Kavulich, for fresh information each month on investment opportunities.

Clearly, other countries have a head start. Japan's Mitsubishi is virtually Cuba's official carmaker, advertising its autos on billboards, in magazines and in Granma, the government's official newspaper. Canada's LaBatt's has a beer-making deal. Hotel companies LTI of Germany

and P&I of Spain have grabbed prime sites at beach playground Varadero. Australia's Western Mining and Canada's Sherritt and CaribGold have staked mineral exploration fields. Mexico's Grupo Domos spent \$500,000 for a stake in Cuba's inept telephone system. Philips of the Netherlands is marketing and distributing light bulbs in Cuba.

Last month, 1,065 companies from 46 countries crowded into the Havana International Trade Fair, where the Cuban government signed letters of intent and contracts worth \$30 million.

U.S. companies couldn't participate. But the boldest stand ready to jump-start an economic partnership that flourished until 1959 when Castro kicked out dictator Fulgencio Batista and began nationalizing industries. Until then, the USA was Cuba's biggest source of wheat, rice and dairy products, and its biggest customer for its crucial sugar crop. Cuba was a playground for 500,000 wealthy tourists who would fly down each year from Miami for dining and gambling. That year, U.S. companies did \$2.5 billion in business with Cuba, measured in 1994 dollars.

The push by business to develop deals with Cuba comes as all the nations of the Western Hemisphere - except Cuba - are poised to join hands in one giant economic trade zone. The potential pact has only heightened Cuba's determination to attract foreign dollars.

Since the 1990 demise of the Soviet Union - its chief benefactor - Cuba's GNP has plummeted 50%. Food, gasoline, oil and electricity are strictly rationed, 30% of adults are jobless and even government offices can't escape electrical blackouts.

"Economic conditions there are the worst I've seen in the 20 years I've been going there," says former Sen. George McGovern, who met with Castro last September.

Cuban officials know the country won't return to prosperity without foreign investors' help. "We can't continue like this forever," says Raul Taladrid, Cuban vice minister for foreign investment, a key figure in the drive to raise capital.

Cuba's priorities for investment are:

-- Agriculture. Cuba needs help reviving its sugar crop, which yielded 4 million tons this year, down sharply from 8.4 million in 1990.

-- Tourism. This year, Cuba likely will collect \$800 million in tourism revenue from 500,000 visitors. Each spends an average 10 days on the island. Cuba wants 2 million tourists by 2000, so it must double top-flight hotel rooms. Cuba has tapped many beaches for development, along with a scattering of still-virgin keys.

-- Energy exploration. Cuba is slowly rebuilding its supply of refined oil, decimated in 1990 when Russia pulled the plug. Cuba is eager to strike deals with oil giants that would be allowed to drill in petroleum-rich areas, sharing the oil they find with Cuba.

In their quest for investment, Cuban government ministers have jetted off to London, New York and Toronto armed with thick notebooks that list sites in Cuba where companies can build hotels and factories, and explore for minerals. The government publishes a monthly magazine filled with ads from industries seeking foreign partners.

Cuba openly craves the capital clout big U.S. companies can provide. The government has an ambitious wish list of Fortune 500 firms, from GM and Ford to Gerber and Microsoft, it hopes to attract once the embargo is lifted.

A handful of U.S. industries are allowed to deal with Cuba. These include telecommunications, pharmaceutical and publishing companies. Last month, AT&T, MCI, Sprint, WilTel and LDDS launched direct-dial, long-distance service between the USA and Cuba. Johnson & Johnson sold badly needed medical supplies to Cuba last spring. Eli Lilly is donating more this month, likely in hope of snagging the next big pharmaceutical deal.

Peter Blyth, executive vice president of Minneapolis-based Carlson, thinks Cuba will quickly become U.S. travelers' top destination in the Caribbean once the embargo is lifted.

That's why GM, Ford and Toyota are so eager to ship rental cars. Cuba is roughly the size of Florida and boasts dramatic mountains, lush rain forests and creamy beaches lapped by turquoise water.

President Clinton made it clear at this month's Summit of the Americas he is not bending in his opposition to loosening trade restrictions.

But some Cuba watchers say U.S. corporations have the collective clout to end a stalemate. Their demands to do business helped convince U.S. officials to open relations with Russia, China, North Korea and, most recently, Vietnam.

Blyth, who has lobbied on Capitol Hill for the USA to open trade with Cuba, says the time is right. "There is tremendous potential out there," he says. "And there's nobody in a better position than (U.S. companies) to take advantage of it."

Cuba seeks business partners Cuban officials are eager for U.S. companies - especially consumer products companies - to set up business in their country. Companies Cuba most wants:

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| Rubbermaid | IBM | American Home Products |
| Whirlpool | Hewlett-Packard | Gillete |
| Ford Motor | Procter & Gamble | Avon |
| General Motors | Kellogg | McDonald's |
| Coca-Cola | Sara Lee | Wal-Mart |
| Phillip Morris | Campbell | Sears |
| PepsiCo | Heinz | Kmart |
| Microsoft | Colgate-Palmolive | AT&T |
| Compaq | ConAgra | Bell Atlantic |
| Xerox | Quaker Oats | ITT |
| General Electric | Gerber | |
| Westinghouse | Johnson & Johnson | |

Cuba's trade drought

In billions
 1985 1994 Exports \$6.5 \$1.7(1) Imports \$8.8 \$2.3(1)
 1 - estimate

[Illustration]

GRAPHIC,color,Suzy Parker,USA TODAY,Source: U.S. - Cuba Trade and Economic Council(Bar graph); PHOTO,color,Judy Griesedieck; PHOTO,b/w,Micheline Maynard,USA TODAY

Boston Globe

1 March 1994

Boston, Massachusetts

SOME US BUSINESSES JOIN CALL TO END CUBA EMBARGO

Author(s): Sally Jacobs, Globe Staff Date: March 1, 1994 Page: 1 Section:

NATIONAL/FOREIGN

HAVANA -- It is late afternoon in a dim corner of the intimate Victoria Hotel, and a young blond American businessman is huddled over a stack of documents across from a Cuban official. The American is prohibited by law from doing business. He can not open an office or sign a deal.

The US State Department advises he not come here at all. But John S. Kavulich 2d has been dropping into town every few months, well, just in case. "American businesses are positioning themselves to stampede into Cuba," declared Kavulich, a Washington consultant doing market research for six US firms. "The groundwork is completely laid, the strategy is set. If the embargo were lifted at 10 a.m. on Monday morning, by 10:01 there'd be a line of American companies at Cuba's front door."

Angry that the US trade embargo against Cuba has blocked them from the Cuban market, which Havana recently opened to foreign investment in an effort to ease the country's economic crisis, some American businesses are calling for an end to the 32-year-old restriction. As towering tourist resorts rise steadily along the island's perimeter, some Americans fear they have already lost out on the best properties and choicest opportunities.

Cuban development officials, who can be seen huddling with cellular phone-toting foreign investors throughout this capital city, hint that the Americans may be right. But Cubans, who largely blame the embargo for their immediate economic problems, do not like the situation, either.

"Sometimes I think Americans are becoming more Latin," mused Raul Taladrid, deputy minister of the state committee for economic cooperation, staring out his office window toward the United States, 90 miles away. "Americans are supposed to be so pragmatic, so rational. But these days you are looking like Sicilians ruled by passion, like you have a vendetta and Cuba has to pay for what it did. It makes no sense."

Nor is the unlikely alliance of Cubans and capitalists alone in its criticism of American foreign policy. As Cuba has deteriorated steadily since the collapse of the Soviet Union, a growing and curiously diverse group of voices has begun to call for an end to the embargo. And with the recent lifting of the embargo on Vietnam, the chorus has grown even louder.

Late last year, the United Nations voted, 88-4, for lifting the embargo, its second such vote. In Miami, home of the politically potent exile lobby that has long prevailed over American foreign policy toward Cuba, several moderate Cuban-American groups have recently emerged and are calling for an easing of the embargo and the start of talks between the two countries.

So, too, have analysts at the Inter-American Dialogue, the Rand Corp. and the 20th Century Fund supported scaling back the embargo in return for concessions, saying it is the best way to

foster democratic change. Meanwhile, activists nationwide have launched a drive to lift the prohibition on citizen travel to Cuba. Members of "The Freedom To Travel Campaign" are openly -- and illegally -- traveling to Cuba.

And now, American businesses -- long silent before the powerful influence of Cuba's conservative exiles represented by the Cuban American National Foundation -- are speaking up. Some are expected to testify at congressional hearings March 15 in support of a bill calling for an end to the embargo. The legislation is sponsored by Rep. Charles Rangel, Democrat of New York.

"The bottom line is unilateral economic sanctions don't work," said John Howard, director of international policy and programs for the US Chamber of Commerce, which represents about 215,000 companies. "They are self-defeating. The major beneficiaries are our competitors, and the people who are hurt the most are US companies. And after 30 years, it hasn't improved the human rights situation, so it's not likely to now."

United Technologies Corp., which has called for an end to the embargo, estimates that it would have a \$10 million market in Cuba, mostly in elevators, escalators and air conditioning. "The fact is our foreign competitors get a leg up on us. They get to trade with Cuba, and we don't," said Jim Linse, UTC spokesman in Washington. "We've lifted the embargo against Vietnam; we should be reviewing our situation in Cuba."

Despite such opposition, there seems little likelihood that either the embargo or the 1992 Cuban Democracy Act, which prohibits subsidiaries of American corporations from doing business with the island, will be lifted. Although some State Department insiders are believed to favor an easing of the embargo, the Clinton administration has maintained a hard line.

The administration's strategy has sought to further isolate the economically crippled island while increasing humanitarian aid and some cultural contacts in hopes of fanning the flames of civil discontent. Under this two-track strategy, foreign ships that dock at the island are barred from US ports for six months. At the same time, US telephone companies have been authorized to negotiate with the Cuban government to provide phone service.

"Cuba today is a tragedy," said Richard Nuccio, adviser to the assistant secretary of state for inter-American affairs. "And the goal of the US government is to end that tragedy as soon as possible by offering hope and examples to the Cuban people of what an alternative future for Cuba could be."

Some Cuba watchers say that the strategy has backfired and that the embargo has become a rallying point of nationalism. At a time when the Cold War has become the stuff of history books, US policy, they say, is driven largely by emotion.

"Cuba has the same effect on American administrations that the full moon had on werewolves," said Wayne S. Smith, head of the US Interest Section in Havana between 1979 and 1982 and senior fellow at the Center for International Policy in Washington. "Cuba drives them mad. They cannot deal with it in a rational manner. Castro in a very personal way defied us. Now it's payback time."

In few places does US policy currently impact Cuba more than in its effort to develop global market relations, according to Cuban officials. Not only does the embargo seal the door to Cuban and American businesses, but it also blocks a flow of foreign currency that would come with an

opening of the US market. Cuban developers say that the United States has even threatened other countries to keep them from doing business with the island.

"If I told you who was buying our products, there would be efforts by the US government to pressure them not to buy from us," said Alejandro Silva, director of Biopreparado, a manufacturer of biotechnology products outside of Havana. "Unfortunately, we have a very powerful neighbor who does not want us to make money."

But some foreigners, clearly, are doing business with Cuba. Over the past four years, Cuba has signed on to 122 foreign ventures with countries including Spain and Mexico, and officials say that an additional 200 deals are in the works. The ventures, most in the area of tourism, mining and manufacturing, have generated about \$500 million in foreign currency.

With a healthy, well-educated work force and hundreds of miles of sandy beaches, some see Cuba as a prime investment opportunity. The Cuban government has added to the lure by granting foreigners a host of incentives such as allowing them to repatriate profits and ignore most taxes for a decade.

But there is also three decades of government management with which to contend, and some investors whisper that the melding of socialism and capitalism has not been seamless. Several have launched training programs to instill an appreciation for customer service. A few hotels now require uniforms and are teaching their staff English. But some things cannot be overcome overnight.

"Watches," explained one Spanish hotel manager, tapping his gold Rolex watch with a slender gold pen. "Cubans don't wear watches. They are very happy, relaxed people, but they have no sense of time."

American executives, and particularly those in the tourist industry, do not appear daunted. And part of the reason is money. A Johns Hopkins University study estimates that if the embargo were lifted, US trade would amount to \$1.7 billion in the first year and would increase to \$6.5 billion within a few years. Most of the trade would be in food, medical supplies and equipment. And more than a few are laying the groundwork.

The Cuban Chamber of Commerce estimates that 50 American businesses have dropped in for a visit over the past two years. Arturo Villar, publisher of Latin American Business Reports in Miami, has done business assessments for a score of American companies about post-embargo prospects, and so have many other consultants who have made a business of prospecting in Cuba. One cruise line is apparently so eager that it accidentally released to travel agents a brochure advertising service between Cuba and Florida.

"It's no secret that just about every cruise line has some kind of plan to go into Cuba when it opens up," said John Fox, vice president of corporate relations for Miami-based Royal Caribbean Cruise Lines Ltd. "The fact is that Cuba is a very attractive destination."

Maybe too attractive, worry a good many Cubans, who are watching the tide of tourism wash over their country with anxiety. As Cuba marks the 35th anniversary of its revolution, it is on a perilous path between socialism and capitalism. It is a road that winds between clusters of cumbersome black bicycles and purring Nissan tourist taxis, between luxury hotels and work-camp bunkhouses, between towering centers of biotechnology and tiny neighborhood health clinics. It is a road on which there is no turning back.