

Florida Trend

The Issues, People and Ideas that Define Florida Business

Cuba: Today and Tomorrow

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Forty years after Fidel Castro seized power, some Floridians still see the Cuba of their youth in memories of loved ones' faces, and grieve for a land devastated by communist oppression. Others, including many businesspeople, see a market of 11 million people, hungry for almost everything, lying tantalizingly close to Florida. Treading delicately between the political sensibilities of both groups, a state-commissioned study has produced perhaps the most detailed, industry-by-industry look yet at Cuba's resources, industries and profound needs.

Those familiar with conditions on the island aren't likely to be surprised by some of the information in the study, which was carried out by the professional services firm Arthur Andersen. But the details make for interesting reading: Cubans suffer from dire shortages of decent housing (at least half a million new homes are needed), safe drinking water, telephone service (there are fewer than six phones per 100 people), and fuel and electric power (outages are common).

All hospitals and most hotels have their own generators. Few water and sewer improvements have been made since Castro came to power in 1959; many major systems have failed. In some areas, water is available only at certain times of day, and raw sewage flows down roadside gutters.

The study details environmental nightmares. In Havana, it reports, 67 factories and other sources dump untreated waste into the Almendares River. The discharges include organic matter from a poultry slaughterhouse, in addition to toxic wastes from a medical lab, a shoe-polish factory and an asbestos-cement plant. All in a country that prides itself on exporting interferon, meningitis B vaccine and medical equipment; and whose government says biotechnology is its fourth largest export. The other top exports are raw sugar, No. 1, along with nickel, citrus and seafood.

In contrast to its dilapidated water and power infrastructures, Cuba has a relatively good transportation system, with protected, deep-water ports, 21,000 miles of highways, five international airports and more than 9,000 miles of railroad track. Tourism is up, and hotel construction is brisk, with as many as 50,000 tourist-quality rooms projected by 2000. Fifteen foreign hotel chains manage 30 hotels with 8,100 rooms, or about 40% of hotel rooms on the island.

The Miami-based Florida Trade Data Center, run by Enterprise Florida and the Florida Ports Council, commissioned the \$250,000 study. "There was a sense that there was a lack of good information on the status of Cuba's infrastructure, seaports, highways, railroads," says Henry Yaniz, the center's vice president for

marketing and business development. The study took 1 1/2 years to complete, and is not your typical economic analysis: No one from Arthur Andersen went to Cuba for information. Much of the data is five or even 10 years old because that was often the best available. The report's authors warn that Cuban government data can't be trusted. Other information came from unnamed sources. "We had friends who had friends, and we got into some awesome files," is all Arthur Andersen's Jorge Diaz, the partner who headed the project, will say. For example, the report includes aerial photographs of Cuba's port facilities.

The report is carefully apolitical: It avoids any discussion of how the embargo might be lifted or the fact that the United Nations still lists Cuba as a major violator of human rights. But it clearly proceeds on the assumption that eventually, U.S. trade will resume with Cuba: Castro will die or be overthrown, or the U.S. will lift its embargo and trade with Cuba as it has with Vietnam and China.

Certainly Florida ports and many Florida businesses could benefit; the study describes opportunities for cruise companies, telecommunications firms, professional services, transportation, construction companies, electric power providers and agriculture (coffee, tobacco and rum). "The day relations are normalized, Florida is in a position to be a conduit for trade. How can we be ready?" asks Yaniz.

The report warns that Florida "must prepare to maximize its opportunities" or get left behind. In 1959, Cuba was the destination for 40% of all cargo moving through Miami's Customs district, and 85% of Cuba's exports came to the U.S., according to the study. But today, Russia is Cuba's top trading partner for both imports and exports; Canada is its No. 2 export destination. China, Japan, and most European and Latin American nations already have trade relationships with Cuba, putting the U.S. at a disadvantage.

Florida can't even depend on its proximity to Cuba. Currently, Miami International is the only U.S. airport authorized to handle charter flights to Cuba. But Newark, N.J., San Francisco, Los Angeles and New Orleans also are pushing to become gateways. President Clinton earlier this year announced he wanted to ease trade restrictions with Cuba, by, among other things, adding more charter flights and re-establishing direct mail service.

The researchers at Arthur Andersen aren't the only ones looking ahead. A high-level U.S. Chamber of Commerce delegation plans to make its first visit to Cuba this year. And quietly and delicately, a number of Florida businesspeople are preparing for life after Castro. Miami consultant Teo Babun, an authority on the Cuban economy and a key consultant on the report, helps companies develop strategic plans for investing in Cuba after the embargo. Miami attorney Antonio Zamora, who once advised the Cuban American National Foundation, a lobbying organization, now opposes the embargo and visits Cuba from time to time to keep up with legal changes there. Tourism has brought the condo and timeshare industries to Cuba, for example, and Zamora hopes to learn about Cuba's new real estate law. (There's been none since 1959.) This spring, using a research visa, he was scheduled to attend a conference in Havana of lawyers - Cuban, Spanish, Mexican, Dutch and U.S. - who advise or would like to advise foreign investors.

Investment manager Thomas Herzfeld goes a step further. His closed-end Herzfeld Caribbean Basin Fund, listed on Nasdaq under CUBA, is small but poised for Cuba to re-emerge. Investors in the \$8.5 million fund

own shares in Florida companies Herzfeld considers well-positioned to gain from trade with Cuba, including Florida East Coast Industries (railroad), Florida Rock Industries (building materials), Carnival and Royal Caribbean cruise lines and Watsco, the nation's largest distributor of residential air conditioners. It also invests in non-U.S. companies around the Caribbean expected to grow regardless of the Cuba situation.

"Other things we're looking at once the embargo is lifted is direct investment in Cuba," says Herzfeld, president of Miami-based Thomas J. Herzfeld Advisors. He has a new, even more targeted product, the Cuba Fund, in SEC registration. So, he's asked, has Herzfeld visited Cuba recently for first-hand research? At that point, present-day political realities set in. "I never answer that because it's a lose-lose question," he says. "If I say yes, all my friends and neighbors get angry; and if I say no, the shareholders get mad."

To order the Arthur Andersen study, call the Florida Trade Data Center at 305/876-9747, extension 0, or e-mail hyaniz@ftdc.org. Summaries of the study cost \$95 each. Two full reports were produced: one on Cuba's ports and one on other industries - telecommunications, transportation, power, agriculture, tourism, etc. Each report costs \$495.