



INSIGHT-Cuba Inc. open to foreign capitalists, but within limits

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By Daniel Trotta and Marc Frank

HAVANA, June 8 (Reuters) - Communist Cuba's newfound interest in foreign capital has its limits, as Philippe Pouletty found out.

A French doctor, venture capitalist and founder of biotech company Abivax, Pouletty is working with Cuba's Center for Genetic Engineering and Biotechnology to develop a therapeutic vaccine to treat chronic Hepatitis B that could be on the Asian market in two years and in Europe after that.

But when he pitched the idea of floating a company on the pan-European stock market Euronext with the Cuban state as a shareholder, that was clearly too much, too soon.

"I told him in a half serious, half joking mode, that I had a capitalist proposal," Pouletty said of his conversation with Cuban revolutionary leader Fidel Castro's eldest son, Fidel Castro Diaz-Balart, a science advisor to the government.

"His response after more than 30 seconds was 'That's indeed very intriguing, but if you want us to reach an agreement quickly, that's not the fastest route. It's a few years too soon.'"

Instead, Abivax agreed to buy vaccines at a predetermined price and pay royalties to Cuba when the product is on the market.

Pouletty's story offers a peek into the mindset of Cuba Inc.

Convinced their country needs capital, Cuba's leaders are welcoming businesses under a foreign investment law passed a year ago, but they want tight control over the pace of change.

U.S. business interest in Cuba has exploded since December, when President Barack Obama and Cuban President Raul Castro announced they would restore diplomatic relations after decades of hostility.

"In the morning on Dec. 17, Cuba was still a word spoken in U.S. business circles with hushed tones. By the afternoon, half of corporate America was rambling around forming a Cuba team," said Mark Entwistle, a former Canadian ambassador to Cuba and now a partner at Toronto-based merchant bank Acasta Capital who advises companies interested in Cuba.

Among those joining a recent New York state delegation to Cuba were executives from JetBlue Airways Corp, Pfizer Inc and MasterCard Inc.

Most U.S. companies are still blocked by the 53-year-old trade embargo, although Obama has relaxed it for some imports, travel and telecommunications. That has allowed for minor deals such as Netflix streaming movies in Cuba and Airbnb listing Cuban rental properties online.

If Obama can convince Congress to end the embargo, U.S. firms would be free to do business here, though they would still face major obstacles, including a multi-layered bureaucracy, an unpredictable legal system and highly regimented labor market.

Many foreign companies have thrived over the years. They run hotels, build ships, refine oil and pack meat. Some have a share in bottled water, beer, soda, rum and cigar businesses.

Canada's Sherritt International is perhaps the most vested. It has been here since 1992 and generated 73 percent of its C\$1.136 billion revenues in 2014 from Cuba-related businesses.

Sherritt mines nickel in Cuba and refines it in Canada in a 50-50 joint venture with Cuba's government. It also produces 20,000 barrels per day of oil that it sells to Cuba and has a one-third interest in an electricity joint venture.

Even in a business subject to price swings, Sherritt says it has always made a profit or at least broken even with Cuban nickel.

"We would tell others that Cuba's a great place to do business," said Sean McCaughan, vice-president for investor relations, even though the embargo means top Sherritt executives are banned from setting foot in the United States and the company is cut off from U.S. capital markets or shipping through U.S. territory.

Other companies have failed miserably in Cuba and were forced to leave or had their executives imprisoned and their assets confiscated. Petty bribery can land people in jail.

And at least one billionaire real estate mogul came away from a recent trip to Cuba unimpressed.

"I didn't find there were lot of great opportunities. It was like going back in time," Stephen Ross, chairman and founder of The Related Companies, told CNBC television. "You need a government that really wants change, that really wants business, and really wants to see growth, and you don't really have any of that feeling at all."

LISTEN AND ADAPT

Those who have been successful have simple advice: be flexible and listen to Cuban officials, because they will tell you exactly what they want.

"There are foreigners who come here with an attitude of superiority. In other words, 'We're going to show the Cubans.' In general, those are the ones who fail spectacularly," said Alexandre Carpenter, co-president of cigarette-maker Brascuba, a joint venture between Cuba and the Brazilian subsidiary of British American Tobacco.

There is no escaping the state's central planning. Foreign firms in joint ventures must order raw materials a year ahead of time. Property is leased from the state, it is not up for sale.

Cuba regularly draws up a portfolio of projects it wants foreigners to help with. The latest one, issued in November, outlines 246, most of them joint ventures, that need investments totaling \$8.7 billion.

In one of the most attractive sectors, tourism, the portfolio lists five hotel construction projects; two golf resort developments; and contracts to manage 33 existing hotels.

But the government rarely tries to force its Marxist ideology on foreign partners as long as Cubans do not get rich.

"To the contrary. They demand that the business grow and generate more profits every year," Carpenter said.

One of the largest foreign firms in Cuba is Brazil's Odebrecht, which built a \$900 million port at Mariel, the centerpiece of an economic development zone designed to attract capitalist ventures with a more liberal import-export regime.

Odebrecht wants to build a plastics factory there and it also has deals to expand Havana's international airport, operate a sugar refinery, and build two hotels.

Mauro Hueb, head of Odebrecht's operations here, says the advantages of operating in Cuba include an educated, low-cost workforce and low logistical costs, and that to take advantage a company needs to learn and respect local customs.

"You have to have the capacity to adapt," said Hueb. "Here in Cuba, we consider ourselves a Cuban company."

Other successful ventures, some with U.S. stockholders, include Sherritt and French builder Bouygues. Swiss conglomerate Nestle has a bottled water and soft drinks business. Spanish hoteliers Melia Hotels International, Iberostar and NH have established footholds in tourism and global beer giant Anheuser-Busch InBev brews Cuban suds.

SOVIET COLLAPSE

Cuba's communist government first opened to international firms in the 1990s amid economic crisis caused by the collapse of the Soviet Union, its main ally and benefactor.

Results have been mixed. Cuba says around 60 percent of foreign investment projects begun since the 1990s have had to close. Sometimes it kicks foreign partners out, saying they failed to live up to their side of the deal. Sometimes the companies leave on their own.

The corporate landscape is still sparse, with only around 100 direct investment projects and a similar number of deals in which foreigners manage a Cuban company without an equity stake.

While U.S. firms hope the normalization of relations and economic reforms under way in Cuba will improve the investment climate, experts say change will be gradual.

For years, foreigners' biggest complaints have been the lack of control over labor, the uncertain legal environment, and the multiple layers of bureaucracy to get a project approved.

"Forget owning a piece of the rock. The most you can hope for is a 50-50 venture with a state-run partner," a European economic attaché said. "And that will be the exception. The rule remains a minority interest."

British-Dutch consumer goods giant Unilever became the first major corporation to enter Cuba after the fall of Soviet communism.

Desperate for hard currency and consumer products, Cuba agreed to a 50-50 venture on a factory complex but when the 15-year deal came up for renewal it insisted on majority ownership. Unilever left the country although it is now in discussions on returning, several sources familiar with the talks said.

When business goes wrong, it can be dire.

An extreme example is that of Canadian businessman Cy Tokmakjian, who served three years in jail for bribery and other charges before being freed in February.

Tokmakjian had done business in Cuba for 20 years, then suddenly was arrested in 2011 and his company shuttered as prosecutors accused him of wooing officials and their families with gifts. His company called it a "travesty of justice".

Stephen Purvis, the former development director of British investment fund Coral Capital who built hotels and planned a golf course in Cuba, was arrested in 2011 in a crackdown on corruption.

Purvis said he was falsely accused by a rival, interrogated for five days, and denied a lawyer for a month. He was eventually deported after being convicted on a minor charge.

"There is a virtual 100 percent conviction rate," Purvis said. "Once detained you will be charged and found guilty. It's just a question of what for." (Reporting by Daniel Trotta and Marc Frank; Editing by Kieran Murray)