
CASE STUDY

“Foreign Businesses Tread Carefully as Cuba Opens Up,” by Marc Frank in Havana, FT.com, February 1, 2015.

Overseas business will have to tread carefully as the economy starts to open up.

With a view of the sea sparkling in the distance, Ceiba Investment enjoys some of the best corporate office space in Cuba’s rundown capital city.

Complete with high-speed internet, boutiques, travel agencies and banks, the Miramar Trade Center, a sprawling complex of six modern edifices in an upmarket district of Havana, is home to international construction firms, Russian oil companies, Canadian and European banks and traders.

But even in this rarefied environment, success does not come easy for foreign companies on a Caribbean island that has a long history of communist rule and is only slowly opening up its economy. Businesses say they are hampered by regulations and US sanctions related to international finance.

As American companies begin to explore new opportunities here in the wake of the historic decision by Cuba and the US to renew diplomatic relations, they can learn much from those already with a foot in the door. International behemoths such as Bouygues, Nestlé and Anheuser-Busch InBev have interests in Cuba. There are 200 operating investment projects in Cuba, ranging from joint ventures to management agreements and oil exploration, according to government statistics.

But while many have been successful, some 60 per cent of the businesses set up by foreigners since the fall of communism in eastern Europe have closed, according to government statistics. Some of them, analysts and diplomats say, were forced out by the government.



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“Cuba is one of the only places where every direct investment requires the authorisation of the highest government body. It’s also different since nearly everything is owned by the state,” said Sabastiaan Berger, a Dutch corporate lawyer with more than 15 years’ experience in Cuba and chief executive of Ceiba, whose investments include the Miramar Trade Center and hotels.

“Can you do business here?” asks Cameron Young, a Canadian lawyer and Mr Berger’s partner. “Of course. The trade centre is full. But,” he added: “Your state partner is also the supplier, the employer of your staff, the buyer, the regulating authority and the entity that taxes you. So it’s a complex place to enter into a normal business transaction.”

Just ask Michel Villand, a Frenchman who in the 1990s invested his fortune in a joint venture pastry business, Pain de Paris, with two factories and a number of retail outlets. He says he was forced out of business in 2007 because his venture was a success and his Cuban partners decided they wanted it all.

“Founding a joint venture in Cuba if you are a small or medium-sized foreign business is the same as putting a noose around your own neck,” he wrote in his memoir *My Business Partner Fidel Castro*, which details the trials and tribulations he says he suffered.

The fate of Coral Capital, Ceiba’s only real competitor in the country and a partner in Havana’s upmarket Saratoga Hotel, also illustrates the pitfalls that await the unwary. The company was raided and closed in 2011 as part of a drive against corrupt trading practices.

Foreign executives, dozens of Cuban staff, officials and businessmen, found themselves behind bars. Some pleaded guilty, plea bargained and co-operated, others fought the charges. After being held without charges for more than a year, Coral capital’s foreign managers were convicted of minor infractions in 2013 and deported.

Stephen Purvis, a British architect and former head of development projects at Coral Capital, said a defendant caught up in the corruption dragnet had falsely denounced him as part of a plea-bargain arrangement.

Initially accused of “revealing state secrets” and “illegal activities”, he was held at the infamous Villa Marista state security interrogation centre for months. He eventually wound up at the Condesa prison for foreigners, charged with “economic crimes”. He never saw the specific charges against him and a lawyer was not present during his interviews.

Mr Purvis described Cuba’s legal system as Kafkaesque. “The process is contrary to any western concept of fairness and they blatantly ignore all the relevant international laws.”

Patience, persistence and perseverance is the advice an Asian diplomat offers those eager to invest—advice veteran hotel manager Eric Peyre agrees with. He supervises three hotels in Cuba for the French firm Accor.

“In my more than 20 years working as foreign manager in the Cuban tourism industry, I have never seen anyone lose money at the end of the year,” he said.

Success is certainly possible, says trade finance banker William White, the former head of the Republic Bank’s office in Cuba. But, he adds: “Be ready to put up with a lack of economic information, delays in obtaining decisions from the state, and regulation which can hamper and delay business operations.”

Source: FT.com, February 1, 2015.

Case Questions

- 6-15. Research updates on the business environment. Pick a company you are familiar with and do a SWOT analysis for considering entering the Cuban market.
 - 6-16. What entry strategy do you think would work best for this company?
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