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NEWS

Cuba on the hunt for Canadian investment

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Don't bet on a Canadian advantage if the US enters the market: Adviser.



Embassy Photo: Peter Mazereeuw

Cuba's deputy trade minister Ileana Bárbara Nuñez Mordoche.

Peter Mazereeuw

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One of Cuba's top public servants led a delegation through Canada last week as part of an effort to attract attention and investment dollars to the country.

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Ileana Bárbara Nuñez Mordoche, Cuba's deputy minister of trade and foreign investment, was scheduled to meet with government officials and business leaders in Ottawa, Halifax, Montreal and Toronto.

The delegation came to promote the new business opportunities Ms. Nuñez said will be possible now that Cuba's government has passed legislation designed to speed up and simplify how Cuba's government manages external investment, and change the way foreign investors are taxed.

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Canada's longstanding diplomatic relations with and business experience in Cuba, as well as its geographical proximity, should give Canadian investors an edge in the country, provided they can be competitive, she said.

That advantage may not hold if the United States embargo to Cuba is lifted, said an adviser to international investors in Cuba.

The Cuban government has reviewed its management of foreign investment as part of a broader effort to improve its economy over the past few years.

"We found that we have a lot of internal steps. You used to go through many national ministries and entities, and the process was too long," said Ms. Nuñez.

The government has now shortened those steps, she said, by passing its Foreign Investment Act in March 2014. It also created a variety of tax breaks and holidays for foreign investors, and created the Mariel Economic Development Zone, a special area featuring a cargo port and even less taxes and business restrictions.

"We are trying to motivate Canada's business community to come to Cuba and to see how many opportunities we have at this stage, when we are updating our economic model," she said.

The Cuban delegation included senior public servants overseeing mines and energy, tourism, industry and the Mariel Economic Development Zone. The group was scheduled to meet with Canadian public servants including deputy minister of international development Malcolm Brown and deputy minister of international trade Christine Hogan, as well as executives from several Canadian banks and Sherritt International, one of the largest investors in Cuba, said Ms. Nuñez.

Boosting US business 'difficult'

"Everybody asks that question, even in Russia," Ms. Nuñez said when asked whether US investors were poised to flood the Cuban market.

The US trade embargo on Cuba remains in place, despite the move by President Barack Obama to restore diplomatic and some economic ties with Cuba—including loosening restrictions on finance, communications, travel and remittances—in December 2014. Until that embargo is lifted, "it will be very difficult to have economic relations," with the United States, said Ms. Nuñez.

The embargo is codified in law, and as such can only be lifted by Congress.

Canadian businesses "know how we work in Cuba," and opportunity is there so long as they take it seriously, she said.

Ms. Nuñez pointed to Sherritt International and Sunwing as examples of Canadian businesses that had achieved success in Cuba.

Sherritt has invested millions in oil and energy projects in the country, and bills itself as the largest independent energy producer in Cuba. Sunwing is an airline and vacation company.

However, Canadian business experience in Cuba may not be enough to maintain an edge over US competitors should the trade embargo be dropped, said Luis Alcalde, an Ohio-based business lawyer who specializes in advising international investors eyeing the Cuban market.

The United States has several advantages over Canada and other countries, including significant cultural ties with and less physical distance from Cuba, he said.

"They are chomping at the bit in Florida and New York to try to figure out how to capitalize the opportunity," said Paul Fornazzari, a lawyer at Gowlings' Toronto office and one of the partners leading the firm's new Cuba consulting practice.

Should the US drop its trade embargo, Canadian businesses in Cuba could face an influx of new competition, he said.

'Respect their norms'

Cuba is looking for Canadian investment in its renewable energy, mining and tourism sectors, said Ms. Nuñez.

About 1.2 million Canadian tourists visited Cuba last year, about a third of the international total, she said.

The Cuban government has published a comprehensive investment guide that outlines the areas of the economy in which it wants more foreign investment, and what sorts of investor-state partnerships it is looking for in each area.

Despite the changes to Cuba's foreign investment law, most foreign companies still need to enter into some form of partnership with an arm's-length Cuban state-owned enterprise, and to have it approved by the Cuban authorities, said Mr. Alcalde.

Investors who stick to the guide and propose a project the Cuban government is looking for are likely to be approved, so long as they can come to terms with a Cuban partner enterprise, he said.

However, doing business in Cuba isn't a venture that should be taken lightly, said Mr. Fornazzari.



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“Everything has to be done through the goodwill of government.”

Investors must respect the fact that Cuban officials, workers and businesspeople may see and do things differently, he said.

“Respect their norms,” he said.

Labour and currency are two areas where businesses can get in trouble if they aren't prepared, said Mr. Alcalde and Mr. Fornazzari.

Foreign companies don't hire Cuban employees directly, but instead negotiate a deal with a Cuban employment agency, they said. The company pays the employment agency, which pays the workers.

Cubans who work under such an agency aren't paid particularly well, and aren't given many incentives to excel, said Mr. Fornazzari. Cuban workplaces often involve more collective decision-making than in North America's hierarchical business world, he said.

Don't let that dissuade you from doing business in Cuba, said Mark Entwistle, a former Canadian ambassador to Cuba and a partner at the investment and consulting firm Acasta Capital.

“There's no commercial reason not to hire Cubans,” particularly given the high quality of Cuba's education system, he said.

Foreign businesses must be prepared to negotiate an exchange of currencies with Cuba's central bank, said Mr. Alcalde.

Cuban partners and businesses must be paid with the Cuban convertible peso, or CUC, which is not widely traded outside of Cuba, he said.

Foreign companies working in the country must exchange their currency through the central bank for CUCs with which to do business, and then again to convert their Cuban income into a currency that can be used outside of the country, he said.

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