

COLUMBUS CEO

OPEN FOR BUSINESS...ALMOST



Cuba is a mere 90 miles from the coast of Florida, the biggest market in the Caribbean.

By TC Brown

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As restrictions are eased, Ohio businesses prepare to capitalize on trade with Cuba.

Soon after James Wilson Marshall spotted shiny gold flecks in a channel of the American River at Sutter's Mill, news of the discovery spread around the world, launching the California Gold Rush of 1849.

2015 marked the first time in 20 years that Americans viewed Cuba in a favorable light.

Click forward 167 years to the other side of the continent and you will find a modern-day Gold Rush of sorts just beginning to churn—and the news of that contemporary race is spreading far and wide, too.

Today’s prospectors, however, aren’t looking to mine a precious metal; they seek a different kind of gold—lucrative opportunities to do business in the virtually untapped market of Cuba.

Before 21st century treasure hunters can strike it rich, the US government’s restrictive policies toward Cuba must change. If not for the constraints, trade with Cuba could generate \$5.9 billion annually in American exports, according to the Peterson Institute.

Nonetheless, as restrictions slowly fade, Ohio businesses, including many in central Ohio, are poised to tap into the boundless potential of this emerging market, says Luis Alcalde, a Cuban-American attorney with the local law firm Kegler Brown Hill + Ritter.

Travel and trade restrictions with Cuba have been slowly relaxed the past two years by President Barack Obama. In March, Obama and his family traveled to Cuba—the first visit by a US President since Calvin Coolidge in 1928.

Ohio’s diverse economy, which includes agriculture, fashion, manufactured goods, medicine, pharmaceuticals, biotechnology, education and consumer products, makes it “just the type of state that would benefit from the opening of Cuba as a new market and investment locale,” Alcalde says.

Alcalde is in position to know. He has been traveling extensively to Cuba and Washington D.C. since 2001. And for a while now, he and his business partner, Milton Sanchez-Parodi, a doctor and CEO of the Vista Trade Group, have worked on building relationships with government officials from both countries, looking to create support for ending the embargo the US imposed in October 1960.

In the meantime, Alcalde has built a Cuban practice at his law firm, led countless business seminars and has developed a website, keglerbrown.com/alcalde/a-focus-on-cuba/, featuring Cuban news and events designed to educate local, small-to-midsized business owners about existing opportunities on the Caribbean island.

“This is a growth market that can only go higher,” Alcalde says. “Ohio businesses are well positioned and don’t have to take a back seat to anyone when it comes to doing business in the Cuban market.”

Those who agree include the economic development experts of Columbus 2020.

“While it is largely up to Cuba to enact reforms that will open their market, if they do so, there will be great potential for our companies to enter and compete,” says Kenny McDonald, president and chief economic officer of the organization. “The Columbus region is full of growing, innovative companies. As they enter new markets, they add great jobs in our region that support growth and they become more diverse and durable over time.”

97% of Cubans say normalizing relations would be good for their country.

81% of US voters support expanding travel to Cuba.

73% of Americans favor reestablishing diplomatic relations

24% oppose

3.5 million visitors in the past year, up 18 percent since 2014

Source: Engage Cuba

James Williams, president of Washington D.C.-based Engage Cuba, sees Ohio as one of the more supportive Midwest states for opening trade with Cuba. He runs a coalition of private companies and organizations focused on ending the US travel and trade embargo of Cuba.

“Cuba has a need for agricultural products and a huge infrastructure need for just about everything you can think about,” Williams says. “Ohio, the home to many major multinational companies, should benefit.”

Engage Cuba has formed 11 state councils so far (with plans for more) that support the cause and help influence Congress to change US policy toward Cuba. Ohio was one of the early joiners, and its members include prominent business and civic leaders, including Ohio State University President Michael Drake, MD and representatives of consumer-product behemoth Procter & Gamble and the Ohio Farm Bureau Federation.

“Ohio was one of our first states and has been one of the most supportive, with polls showing 78 percent of Ohioans supporting ending the embargo, which we didn’t expect,” Williams says. “This has been an issue trapped in time, and we are trying to connect the dots for the folks in Washington.”

Those dots are being connected slowly, in large part swayed by changing public opinion.

Last year was the first time in two decades that a majority of Americans—54 percent—viewed Cuba in a favorable light, according to a Gallup poll. Up to 81 percent said free travel to the country should be opened and 73 percent support the reestablishment of diplomatic relations between the two countries, Engage Cuba says.

In 2014, the US Chamber of Commerce urged increased trade and an end to the embargo, calling the restrictions “the biggest foreign policy failure of the past half century.”

Drake traveled to Cuba in 2004 on an educational exchange mission focused on healthcare and health education services when he was vice president for health affairs with the University of California system.

Drake says he did not hesitate to join the Ohio Council of Engage Cuba when he was asked.

“I think it is a real opportunity for us as a university,” he says. “It’s a fascinating country and for faculty and students to be able to have a chance to participate in educational and cultural exchanges is the coin of the realm for us.”

Should the embargo be lifted, Drake believes Ohio State will be actively involved in those exchanges.

“In addition to the science and education, it’s very interesting to see the differences in politics and culture,” he says. “They also have similar problems but different points of view to approaching those problems. It was quite eye opening.”

The potential for American companies to gain real traction in Cuba began in earnest after Obama and Cuban President Raúl Castro agreed on Dec. 17, 2014, to normalize relations between the two countries. Since then, both governments have taken numerous actions to ease restrictions; although the embargo is still in place, the door for free trade and travel between both countries has been opening wider.

And these developments have ignited the interests of American businesses across the country looking to establish a foothold on the island. The clamor is growing so loudly and quickly that Cuban officials find themselves “drinking from a fire hose,” Alcalde says.

“There’s a race going on from all over the US to get to Cuba,” he says. “Cuban diplomats at the embassy in Washington are working seven days a week to accommodate all the US companies and groups who want to meet with them.”

Many central Ohio organizations are exploring potential trade opportunities in Cuba even though wanting to stay off the radar for now, still skittish over unresolved legal and political complexities between both governments, says Matt Kallner, a Columbus attorney and lobbyist.

Kallner, who represents several large local corporations including L Brands, the New Albany Co. and Worthington Industries, among others, says some current and potential clients don’t want to speak publicly, but have given him the green light to explore business opportunities.

“This is potentially a new market with a lot of people in close proximity to the US,” Kallner says. “But there are still challenges with the current status of federal law and it is very complicated. But obviously things are moving forward.”

There’s good reason for that.

Cuba is a mere 90 miles from the coast of Florida, the biggest market in the Caribbean and the third-largest country—after Canada and Mexico—close to the US. The 700-mile long island has 11.5 million people—as many as Ohio—with a literacy rate of nearly 100 percent.

The state-run country is permitting more private employment and entrepreneurship. It has also enacted a new foreign investment law and created a special development zone surrounding the Port of Mariel, 25 miles west of Havana.

In this new zone, foreign investors in manufacturing, certain business services and real estate development will be excused for the first 10 years from paying property, labor and income taxes and customs duty on equipment and goods entering the zone for investments purposes.

“This port was developed with the US market in mind,” Alcalde says.

More than 100,000 Americans have visited Cuba since January—400,000 from around the world—and more are surely coming. The number of tourists to the island has risen 18 percent in the past year, with 3.5 million visitors. That count is expected to double in coming years.

Carnival Corp. is docking cruise ships in Havana every week, visitors can now use their MasterCard on the island and Hollywood producers recently filmed part of “Fast & Furious 8” there. In June, US-based Starwood Hotels & Resorts opened a Sheraton in Havana, the first of three American hotels it will run there. Cuba announced in April that it wants 108,000 new hotel rooms by 2030.

For businesses in the United States, this evolution represents opportunity and potential. The embargo, however, is a wall that remains, though the movement to bring it down grows daily.

Politicians are waking up to the fact that companies here are eager for the possibility of a new market, with both Hillary Clinton and Donald Trump saying they support a more normalized relationship with Cuba, Alcalde notes.

“I think the embargo is two to three years away from falling, but it might not come down in one fell swoop,” he says. “It may get to the point someday that it becomes totally meaningless.”

Meanwhile, midsized to smaller businesses here are looking to boost their knowledge about Cuba and its needs. Alcalde spends much time and effort conducting seminars and taking company representatives to both Cuba and Washington D.C.

Alcalde and Sanchez-Parodi led Ohio’s first Congressional trade mission to Cuba in October. They brought Congressman Tim Ryan, State Rep. Sean O’Brien and 13 businesses executives from northeast Ohio to Havana and the Mariel Special Development Zone to explore opportunities in the fields of industry, energy and tourism.

“The big multinational companies have information but the smaller companies need help and need to start thinking about exports and how they can go about it in different markets,” Alcalde says. “Our whole approach with our Cuba practice boils down to this: ‘Let me take you to look at the water; you decide if you want to drink once we get there.’”

Needs of the country revolve around new infrastructure, new and upgraded energy reservoirs and enhanced modes of communication—and a lot of all of the above. Those essential needs piqued the interest of Ohio businesses like SkyClimber in Delaware, which manufactures high-rise scaffolding and services and repairs wind turbines and cell phone towers.

The country is likely to need many new commercial buildings and other developments like dams or bridges, says Todd King, partner, vice president and general manager of SkyClimber.

“For us this sounds like a developing country that will need a number of things that are in our wheelhouse,” says King, whose company already does business in 70 other countries. “We are trying to figure out our potential risks and the obstacles and barriers of doing business there now.”

Cuba’s proximity and its potential growth and needs are major attractive factors, King says.

“Right now it is one step at a time. We may make a trip down there to see the market and meet with government and business leaders to determine the right business model to pursue,” King says. “There is a lot of market intelligence we need to gain, but this could be low-hanging fruit.”

Agricultural products represent another critical necessity for the Cuban people, which could easily translate into potential for local farmers. For humanitarian reasons, the US government lifted restrictions in 2000 to allow the Caribbean island to import agricultural items, medical supplies and food products.

In fiscal year 2014, Cuba imported nearly \$2 billion in agriculture commodities, with US products representing about \$300 million, or 16 percent, of that market share. It is difficult to calculate how much comes from Ohio fields, but US market share fell to about 10 percent in fiscal year 2015, largely due to competitors in Brazil and Argentina being able to offer credit for their transactions with Cuba.

“For a country that close to us and to have only that size of the market share is ridiculous,” says Yvonne Lesicko, vice president of Public Policy for the Ohio Farm Bureau Federation. “For us it would be a very quick boat across the water versus them bringing products in from countries much farther away.”

That downward trend can be reversed if financial restrictions the US government imposes are erased, she says. Currently, banks cannot offer credit for business deals.

But the situation is changing, slowly.

In April 2015, Obama removed Cuba from his administration’s list of state sponsors of terrorism, which will increase that country’s access to international financing. Congressional committees have also considered legislation that would allow private financing for agriculture sales, though nothing has been finalized yet.

“Our limited amount of exports are restricted and everything has to be done entirely by cash trade,” Lesicko says. “It’s a difficult way to trade when you have competitors who can offer credit. The credit component is a key factor for the future.”

The Farm Bureau fully supports and is actively engaged in working to normalize relations and trade with the island. Should that happen, Ohio farmers would be ready, Lesicko says.

Not only does Cuba need access to seed and fertilizer, it is in “desperate need” of technical assistance and equipment, Lesicko say

“They need tractors, simple as that,” Lesicko says. “With its proximity it is a very easy market for us to grow in. We are a state in the right position to have the necessary transport and the farmers with the savvy and we see it as a market that could expand significantly.”

Overall, Ohio is 10th in the nation in terms of agricultural exports, with soybeans at the top, at 36 percent. Soybean meal and oil are products the Cubans will need, says Kirk Merritt, executive director of the Ohio Soybean Council.

Ohio farmers produced about 250 million bushels of soybeans last year, representing about \$5 billion in revenue when logistics, processing and financing is factored in. Although soybeans are grown across the state, the most productive areas are central and northwest Ohio, Merritt says.

About 13 percent of Cuba’s imports in 2014 were soybeans. Soy products—meal for animal feed, oil for cooking—will become more valuable as the country’s livestock sector develops more fully and the standard of living improves.

“Our sales in Cuba have declined over the years because it is all a cash-in-advance transaction,” Merritt says. “They have found other sources for soybeans that don’t require cash. There are discussions in government to ease these restrictions.”

Travel restrictions must also be relaxed for the markets to really open up, Merritt says.

“There is no replacement for a face-to-face encounter when you are trying to sell something,” he says. “We wouldn’t expect Cuba to replace China as the top buyer of our soybeans, but it is a really good opportunity to increase demand in a market that is very logistically accessible. It could be a top 15- or 20-tier market for us.”

The Ohio council is working closely with the American Soybean Association and other state groups to encourage Congress to ease all the restrictions on travel, financing and the availability of credit, Merritt says.

That push for change is strong and picking up steam. Just since January, the US government announced changes that:

- Make it easier for US companies to film movies, finance exports and do business with Cuba on public infrastructure projects.
- Permit “people-to-people” travel on an individual basis.
- Expand the use of US dollars in financial transactions.
- Permit Cuban nationals to open US bank accounts.
- Begin full US postal service to the island.

In October, two consultant companies, Datamyne Inc. and NEXCO, will host a “Preparing for Trade with Cuba” conference in Miami so that US-based businesses can gain a better understanding of Cuba’s cultural and business climate at the “leading edge of the momentous shift in US-Cuba relations.”

The seminar will feature experts in law, trade regulations, foreign investments, international business and logistics so business executives can explore the best ways to leverage new opportunity in Cuba.

Cuba has created a guide for foreign investors in practically all economic sectors, including transportation, energy, infrastructure, manufacturing, biotechnology, housing, food production and tourism. It’s a great playbook for local business executives who should be looking at investment possibilities now, Alcalde says.

“Foreign companies are cautious in part because there is no history of judicial decisions,” Alcalde says. “But investors are looking for the advantage to be first, too.”

Things are moving, but impediments exist and the people of Cuba will also need to be able to increase their buying power for future progress.

“For the Cuban market you will need to have long-term vision and be able to navigate all the complexities,” Alcalde says.

The hunt for treasure is underway; the rush cannot be far behind.

Engage Cuba

The belief that change is near helped drive the creation of Engage Cuba, a nonprofit coalition of private companies and organizations focused on ending the trade and travel embargo against Cuba. Just over a year old, the group is making serious headway, says its president, James Williams. He leads a quiet, in-the-background national campaign arguing reform in relations is needed for the Caribbean island.

“This is a big-tent coalition that believes that this policy in place for 55 years hasn’t worked and we need to try something different to benefit the national interests and support the development of the Cuban people,” Williams says.

The group sponsors seminars and trips to the island, constantly working to expand support across the country while creating relationships between US businesses and Cuba and lobbying Congress to lift the embargo. Ohio was one of the early states to create a state council with Engage Cuba; Idaho is the latest to come on board, giving the organization 11 supporting states.

“Things are moving incredibly fast,” Williams says. “And now in the last couple of weeks we have 52 co-sponsors in the Senate to lift the travel ban and there is similar legislation in the House with 130 co-sponsors.”

For American business leaders looking toward investment, Engage Cuba advises them to first consider the interests of both countries’ governments and also what each country is allowing in terms of trade right now, Williams says.

Williams believes the embargo is on its deathbed. He says Cuba “will eventually open up, so companies should build a foundation now for what might become robust trade over time.”

No longer off limits, but not quite open

It’s getting easier to get there from here, and even to do a little business, but Cuba is still not the free market most Americans would like to see it become.

Travel and trade opportunities have been expanded greatly during the administration of President Barack Obama, but Congressional action is required to fully open the Caribbean island nation for business by lifting the embargo imposed in 1960.

The Obama administration made regulatory changes in January, June and September 2015, as well as this past January and March. The US Department of Treasury says those changes were “targeted to further engage and empower the Cuban people by facilitating authorized travel to Cuba by persons subject to US jurisdiction; certain authorized commerce and financial transactions; and the flow of information to, from and within Cuba.”

Reasons for which the United States now permits travel to Cuba without prior authorization include:

- family visits
- official business of the US government, foreign government and certain intergovernmental organizations
- journalistic activity
- professional research and professional meetings
- educational activities
- religious activities

- public performances, clinics, workshops, athletic and other competitions and exhibitions
- support for the Cuban people
- humanitarian projects
- activities of private foundations or research or educational institutes
- exportation, importation, or transmission of information or information materials
- certain authorized export transactions

Source: US Department of Treasury Office of Foreign Assets Control.

TC Brown is a freelance writer.

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