

**SPECIAL ISSUE: CANADA'S
NEWEST BREAKTHROUGHS**

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VIVA LA EVOLUCIÓN

Canadians can prosper in post-Castro Cuba

BY DENIS SEGUIN IN HAVANA

In a dimly lit bar in the Miramar district of Havana, two Canadian businessmen sit at a corner table sipping Cristal beer. They didn't want to be interviewed in the hotel lobby: MinInt, Cuba's version of the KGB, may be listening. "You don't talk about it," says one of the businessmen. "Everyone is very careful." Each has lived and done business in Cuba for more than 10 years; they don't want anything to screw that up.

At a private house in Havana, a group of well-connected locals gathers around a bottle of *anejo*, aged rum. Everyone seems to have a friend or relative in Toronto or Montreal, or knows someone who studied in Canada. All comments are not for attribution; even occupations are not to be disclosed. As one Cuban professional says, "We don't talk about politics on the street, not at work, not on the telephone. But when we get together at a party, that's all we talk about."

On the telephone, the Cuban diplomat goes quiet: "It is a very sensitive subject." The woman at the International Press Centre in Havana charges me an extra \$60 to upgrade my press visa just so I can ask the question: What happens when Fidel Castro dies? Then she tells me: no one in the Cuban government will answer.

For a developing country with only 11.3 million people, Cuba has been punching above its weight ever since Castro led the 1959 revolution that overthrew the Batista regime. Its principal opponent and Batista's main backer, the United States, painted a huge bull's-eye on the island, slapping it with a trade embargo that holds to this day. The Missile Crisis of October 1962 enshrined Cuba's strategic importance, while moneyed Americans and exiled Cubans who lost property in the Communist takeover made certain Washington would never forget.

Only two countries in the Western hemisphere did not sever diplomatic rela-



Ailing Cuban leader Fidel Castro greets Venezuelan President Hugo Chavez in Havana

tions with post-revolution Cuba: Canada and Mexico. Now, more than 130 countries have embassies in Havana. At the United Nations last November, 183 countries voted to condemn the U.S. embargo. There were four dissenters: the United States, Israel, Palau and the Marshall Islands—the latter two are former U.S. protectorates with a combined population of less than 100,000.

"The important thing to understand about Cuba is that it is a good place or not, depending on whether you're on the top looking down, or at the bottom looking up," observes Ian Delaney, the chairman of Sherritt International Corp. "If you're one of the millions of disenfranchised people living in Central or South America, you think Cuba is paradise."

Delaney knows Cuba like no other Canadian businessman. And Sherritt does business in Cuba like no other Canadian company; its activities there—nickel, oil and gas—account for 50% of its balance sheet.

Sherritt's relationship with Cuba is special because it started when both the company and the country were in trouble. In 1990, Delaney's Canada SherGor Enterprises Inc. acquired Sherritt Gordon Ltd. and its nickel refinery when nickel prices were in decline and mines were closing. There were only two economically viable sources of unrefined nickel at the time: Russia and Cuba. Delaney investigated, then abandoned, Russia.

Cuba was on its knees. The collapse of the Soviet Union, its sole benefactor, had devastated the economy: between 1989

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and 1993, it contracted by one-third. Castro termed this time, when the average Cuban male lost 20 pounds because of food shortages, "the Special Period." The situation was so bleak the Communist dictator agreed to make what he called "a pact with the devil" to open his country to foreign investment and, worse for a putatively classless society, tourism.

By fateful default, Delaney was invited to lunch with a group of Cuban mining engineers touring Canada. "I went to the lunch and we spent a lot of time laughing," he says. "These were good guys." One of those guys is now the Cuban minister for international trade, Raúl de la Nuez. He is also chairman of the joint venture company that Sherritt operates with the Cuban state. "We knew this was no normal relationship," says Delaney. Although most of Sherritt's output had been sold to the United States for 45 years, "Cuba meant the end of that," Delaney says. "We had to develop new markets. That was a decision we made in early 1991. I've never regretted it."

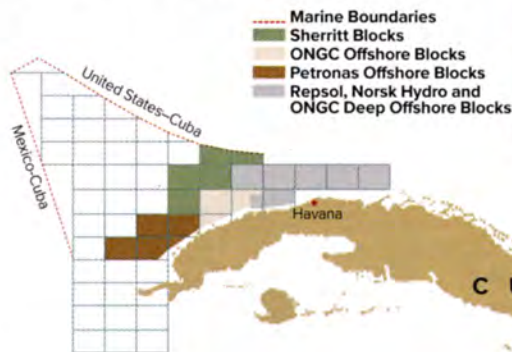
Sherritt and Cuba have done well by each other. When the company started there, nickel was trading at US\$2 a pound; now it's US\$17. Sherritt is Cuba's leading foreign-owned oil producer, pumping 60% of the national output. Cuba, meanwhile, produced 26 million barrels of oil in 2005—seven times what it produced in 1990.

But the big kill—for Sherritt, for Cuba and for anyone with interests in the island's future—lies offshore in the prospective oilfields beneath the Straits of Florida. Four giant oil companies—Spain's Repsol, Norway's Norsk Hydro, India's ONGC and Malaysia's Petronas—are hoping Cuba has got something like Mexico's Cantarell oilfield, the second-largest reserve in the world. Delaney sure hopes they strike: Sherritt is the only other company with exploration blocks. "There are very few things in this world that can shift a geopolitical basis faster than a large amount of crude oil," he says.

In February 2006, Alamar Associates, a consulting firm based in Washington, held a U.S.-Cuba Energy Summit in Mexico City's Sheraton Maria Isabel Hotel. Attending were executives of major U.S. companies including Exxon Mobil, Caterpillar and Valero, as well as representatives of U.S. ports along the Gulf of

UNDER THE SEA

OILFIELDS MAY FUEL CUBA'S FUTURE



(Above) Belarus Prime Minister Sergei Sidorsky (left) with Cuban foreign trade minister Raúl de la Nuez; Sherritt chairman Ian Delaney (right) with Fidel Castro in Havana in 1996

Mexico. A news report from KRIS-TV in Corpus Christi, Texas, put it mildly: "The development of Cuban oil resources could be a real boost for this area."

But the summit hit "a bit of a hiccup," as KRIS put it. The U.S. Treasury department's Office of Foreign Assets Control ordered New York-based Starwood Hotels & Resorts Worldwide, Inc., owner of the Sheraton Maria Isabel, to evict the 16-person Cuban delegation. The presence of paying Cuban customers was a violation of the U.S. trade embargo.

U.S. policy regarding Cuba has not kept pace with its own politics. Richard Nixon visited China 35 years ago. In 2000, Bill Clinton broke the ice with Vietnam, where a 15-year war cost 58,000 U.S. lives. Last November, George W. Bush made the same trip. But Cuba, bizarrely, remains on an outlaw footing with Iran and North Korea, an unspoken member of the "axis of evil." It is a lonely vigil.

Canada is ideally situated to benefit from U.S. enmity toward Cuba and, more important, the protracted but inevitable thawing. American business is ready to pounce. But before it does, before U.S. politics catches up with global reality, Canada has an opportunity.

John Kirk, a professor of Latin American politics, history and culture at Dalhousie University and the co-author of *Canada-Cuba Relations: The Other Good Neighbor Policy*, observes that eight leftist governments have been elected in the region in the past 18 months. Meanwhile, the reputation of the United States, in what it calls its own backyard, is at its lowest point in decades. "There is every reason for Canada to exploit the potential of the Latin American market and our potential role," says Kirk. Conversely, he adds, for Canada to ally itself with U.S. policy in any area is "political suicide."

No one denies that Cuba has human rights issues. But with its controversial detention of terrorist suspects at Camp Delta on the Guantánamo Bay naval base, the United States has slipped from the moral high ground. "Americans could benefit from Canada's relationship with a lot of countries," says Delaney, who, like all of Sherritt's corporate officers, their spouses and minor children, is barred from entering the United States under the anti-Cuba Helms-Burton Act of 1996. "They are not behaving very well internationally these days, nor are they held in particularly high regard. Canada has a really good reputa-

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Young Cubans lounge outside a Havana building: "Long live Fidel," reads the graffiti

tion internationally, especially in the Third World. And Cuba is no exception."

According to the Department of Foreign Affairs and International Trade, Cuba is Canada's largest export market in the Caribbean and Central America, and the third-largest in Latin America after Brazil and Venezuela. In 2005, two-way trade between Canada and Cuba surpassed \$1 billion. Canadian exports—mainly machinery, cereals, vehicles, salt, sulphur and earthstone—were worth \$447.5 million while imports—nickel, tobacco, fish and seafood, copper and beverages (mainly rum)—were worth \$552.9 million. Between January and November 2006, Canadian exports to Cuba reached \$467.5 million, an 18.5% increase from the same period in 2005.

Welcome, but not very sexy. Still, these statistics ignore Canada's principal export to Cuba: tourists. Last year, almost 600,000 Canadians visited the sun-drenched island, the most-represented foreign nationality there.

Walter Berukoff is president of Leisure Canada, a Vancouver-based development company whose business plan hinges on tourists from an under-represented nationality. "Right now there are about 40 million visits to Florida every year," he says. "Imagine if Cuba got 10% of that. It's a ferry ride from the Florida Keys." Berukoff cites a PricewaterhouseCoopers predic-

tion that Cuba will receive six million U.S. visitors as soon as the embargo drops.

Infrastructure is an issue; there aren't the hotel rooms to accommodate those numbers, not to mention Cuba's unreliable electrical grid. But that is eminently solvable. Cuba's pluses are many: it's warm, it's close and it's huge (1,250 kilometres long). "If you took all the Caribbean islands, they would fit on the land mass of Cuba," says Berukoff. That's a lot of oceanfront.

Leisure Canada plans to break ground on its first Cuban property, in 2008, a joint venture on the last stretch of available beach in Miramar. That's about five years later than first expected. Berukoff blames the delay on title research, though none of Leisure Canada's development deals involve properties that might be part of a U.S. claim. "All of Old Havana is claimed by somebody," he says.

Which is how Berukoff hopes to make a killing. Once the embargo ends, U.S. hotel chains will be looking to buy Cuban properties. But they won't want to get mired in a land claim, and will thus pay a premium for extant, claim-free properties. Says Berukoff: "We investigated back to the original Spanish land grants and we have U.S. legal opinion to back us up."

On a recent rain-swept Sunday afternoon, the ballroom at the Hotel Nacional de Cuba is

crammed with locals looking for deals. It's the annual foreign-embassy fundraiser, and members of Havana's diplomatic corps are out in force, peddling their respective wares. The Vietnamese are doing a brisk trade in women's undergarments, the Russians are selling chocolate, the British are proffering shortbread and tea. Canadians, for some reason, are selling costume jewelry and cosmetics. The cause is worthy—a Havana orphanage—but charity is not what's motivating the Cuban shoppers. An employee of the Canadian Embassy explains: "The average markup in a Cuban convertible-peso store is 220%. So they would pay twice as much for this stuff at a Cuban store, if they could even get it there."

Cuba is not prepared for life in a market economy. Its people live a surreal existence by the standards of developed countries. There are two monetary systems—the peso, worth about 4¢, and the convertible peso, worth about \$1.28—and as a result the underground economy is as large as the official one.

The social pyramid we recognize at home is inverted: in Cuba, a hotel doorman or bartender (tipped with convertible pesos) earns about 10 times as much as a brain surgeon (paid in pesos). There is no property as we know it, no mortgages, no credit cards. For a city of 2.5 million people, Havana is a dream to drive in: there is no traffic because cars are unaffordable. The morning rush hour involves hundreds of people standing on the street trying to hitch a ride to work: not just labourers but teachers, doctors, even police.

Cuba's economic state is also a matter of perspective. From a western market-oriented view, "It's a different business environment," explains one well-placed source. "The decision-making process is different, the buying process is different. In Canada, if you find a good product at a good price, you go for it. Here there's a socialist process. For any westerner coming here to sell goods or services, one has to remind oneself that this is different."

But, says Dalhousie professor John Kirk, from Cuba's point of view, it is behaving pragmatically given the many challenges it has faced, especially considering where it started out from in 1989. According to official government statistics, Cuba's GDP growth was the highest in Latin America in 2005 at 11.8% and in 2006 at 12.5%. *The Economist* magazine puts it at just 9.5%—but even so, Cuba's growth would still be the second-highest

in the region, after Trinidad and Tobago.

One thing everyone can agree on: Cuba's credit rating is in the toilet. It stopped paying its foreign creditors in 1986, so it only gets short-term financing.

Which is why joint ventures like Sherritt's are optimal for Cuba. The foreign party brings the money and the know-how, and the state brings the property and the workforce. With literacy at 97% and free health care, Cubans are motivated to succeed, especially when working for a company controlled in part by foreigners, because they receive a convertible peso top-up. (It's rumoured that prospective employees pay bribes to Cuban officials to get choice jobs, particularly in the high-value, low-skill tourist sector.)

"By comparison to other small, developing countries, Cuba has huge capacity on the human capital front," says Julia Sweig, director of Latin America studies at the Council on Foreign Relations, a U.S. think-tank. "And that sets them up to not just be a home to maquiladoras [Mexican-style factories], where they're going to have to compete at the low value-added level with China, but to compete at a much higher level...potentially moving into a Singapore direction. That's not a

great model on the democratic front, but it may be on the economic front."

At the private house in Havana, the *anejo* is flowing. "So what happens when Castro dies?" One guest, who is friendly with one of Castro's sons, says that *El Jefe* is already gone. "The system is in place and is already functioning." He points to the leftist political shift in the region in recent years: Argentina, Bolivia, Brazil, Chile, Ecuador, Nicaragua (now governed by former Sandinista leader Daniel Ortega), Uruguay and, of course, Venezuela. There, Hugo Chavez's petrodollars have stimulated a new kind of foreign exchange with Cuba: doctors for diesel. "The revolution is being recycled," says the host.

Last summer, when the ailing Fidel Castro handed power to his younger brother and co-revolutionary, Raúl, official Washington and anti-Castro observers were left wondering, "Why aren't the Cuban people rising up against their oppressors?" But with free medical care, free education, and practically guaranteed employment, they don't feel oppressed. One woman, highly educated and fluent in English, tells a visitor that, during her

high-school years, she and her classmates would work on a construction site on the weekends. "Now, I work in that building," she says. "And every time I go into the building, I say, 'I helped build this.'"

Not that these people don't want to see change. But they don't want to become Americans. And they definitely won't stand by and let "the worms"—as right-wing Miami Cubans are known locally—take charge. Which is why an invasion is out of the question: Cubans will not greet anyone as liberators.

Most Cubans today have never known life without Fidel. Paradoxically, without him, change may come more quickly. According to Sweig, Castro's successors will have to address issues of democratic participation and greater economic opportunity simply because they're not Fidel. "They don't have the charisma, the historic dominance that he's had," she says. "They have to start delivering on these bread-and-butter issues. That's no state secret. Everybody's talking about it."

No one is certain how Cuba's next chapter will read. But there is every indication that Canada and Canadian business could benefit from writing itself into that narrative. CB