Will They Still Love Us Tomorrow? Canada-Cuba Business Relations and the End of the US Embargo

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This article looks at the business prospects for Canadian firms resulting from a gradual easing of US economic sanctions against Cuba. In the short term, the status quo on the embargo will mean little change for Canadian commercial interests. In the medium term, the removal of certain embargo provisions like the travel ban should provide a fertile ground for trade and investment. In the long term, once the whole embargo is finally lifted, Canadian companies should have the same competitive advantages in Cuba they already enjoy in Latin America, and especially in the Caribbean region. In general, traders will suffer more than investors from fierce US competition, but there should be growing opportunities in many business areas. Aggressive credit policies, innovative ways to acquire a greater knowledge of the Cuban market, and supply-chain integration are among the key strategies that must be developed to overcome challenges and fully exploit these opportunities. © 2013 Wiley Periodicals, Inc.

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Introduction

Like death, the end of the US embargo against Cuba is inevitable. Like death, some the questions one ponders are: What is it? When and how will it happen? How will it impact others? And what can be done to prepare for it? As far as the end of the embargo is concerned, these questions are very important to Cuba's commercial partners, since the dynamics of the competitive advantage they enjoy due to the absence of US competitors in sectors other than food would be affected. Some may stand to gain from first-mover advantages. Others will stand to lose if they cannot compete effectively with Cuba's natural US trading partners or if compensations to the US or former Cuban owners of the nationalized assets they have been using become too onerous or cumbersome. For others, it might be a mixture of both. And yet for others, piggybacking on US advances might be the best strategy to expand sales or enter the market altogether.

While the great majority of available studies, especially in the United States, tend to focus on opportunities and challenges for US companies resulting from the end of the embargo, this article looks at the short-, medium-, and long-term impacts such an event (or series of events) might have on Canada, one of Cuba's main commercial partners. The analysis weaves together US policy dynamics, Canadian diplomatic and commercial interests, and political and economic developments in Cuba. We close with a number of strategic approaches to maintaining competitive advantage as well as possible entry/exit strategies. Policy options for the Canadian government are also considered. The article is structured around a discussion of the questions posed in its opening sentences.

This is not a theoretical study. The examination of the Canadian case presented below raises issues that are of relevance to practitioners, in particular executives of Canadian companies who are looking for ways to take advantage of a gradual elimination of the US embargo. It might also be useful to policymakers in Canada, foreign firms from various countries that are doing or considering doing business with Cuba, and US companies interested in partnering with these firms when the embargo is lifted. Finally, although it is not our intention with this article, the latter can be used by other authors as a basis for comparison to test if and how our methodology and analysis are applicable to countries other than Canada and how a "model" for predicting behavior after the end of the embargo could arise. As for the methodology, we relied on both secondary data and in-depth interviews. Rather than testing a general hypothesis, we used an open-format questionnaire to conduct over 30 interviews with corporate executives, government officials, and financial intermediaries in Havana, Miami, Toronto, and Ottawa, asking respondents, among other things, to evaluate their business experience in Cuba and the significance of recent economic changes in that country, identify critical challenges and areas for improvement, and assess the competitive pressure in a post-embargo scenario. We selected companies based on their prominence in trade with and investment in Cuba and recommendations from knowledgeable government sources. Because of assurances of confidentiality and potential problems with US sanctions laws and regulations, we cannot reveal any of our sources.

What Is the Embargo? When and How Will It End?

The US embargo against Cuba is a foreign policy tool designed to deny hard currency resources to the Castro government and foster political and economic changes on the island. It is a combination of statutes and regulations whose foundations were laid down in the Cuban Assets Control Regulations (CACR) of 1963 pursuant to the Trading with the Enemy Act (TWEA) of 1917. The two most significant additions have been the Torricelli law of 1992 and the Helms-Burton law of 1996. These legislations are mostly concerned with US subsidiaries abroad trading with Cuba and foreign firms that "traffic" in US expropriated properties on the island. The Helms-Burton law codified the embargo and took the power to lift it away from the president, requiring a vote by Congress (Leogrande, 1998, p. 80). It also established as a condition for the elimination of sanctions that Raúl Castro, who formally replaced the ailing Fidel Castro as head of state in February 2008, cannot lead the government of Cuba. Either the Cuban leader or the US law will have to change.

Since the embargo is not a monolithic legislation but a set of economic sanctions, and removing them would require strong political will and broad support, lifting the embargo all at once might simply prove too difficult. The most likely scenario is for parts of it to be lifted a bit at a time, leaving a "Swiss cheese" embargo. Indeed, the easing of US sanctions has already begun. Thanks to a waiver in 2001, which was championed by politicians from farm states, the United States has become Cuba's largest foreign source of agricultural products (mainly corn, wheat, chicken, and soybeans) even if US law mandates that Havana's purchases must be conducted on a cash basis. The value of US food sales to Cuba rose from

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$4.3 million in 2001 to $392 million in 2004 and, after a couple of years of a slight downward trend, peaked at $710.1 million in 2008. However, these sales dropped to $528.5 million in 2009 and $366.5 million in 2010, to a great extent because of Cuba's economic difficulties that have limited its import volumes (US-Cuba Trade and Economic Council [USCTEC], 2011).

President Barack Obama's friendly overtures toward Cuba during the Summit of the Americas of April 2009 were seen as a search for a real improvement in relations and, at the very least, a tangible move toward softening the embargo. Obama called for a "new beginning with Cuba" and said he would consider engaging the Castro government on a wide range of issues.[1] A few days before the summit, he had announced his decision to permit unlimited family visits and remittances to Cuba by Cuban-Americans and remove certain restrictions on US companies providing telecommunications services to the island. These measures took effect in September 2009. In the second half of 2009, American diplomats initiated informal talks with Cuban officials on prospects for a US-Cuba thaw. By the end of that year, however, relations had taken a turn for the worse as the two countries argued angrily over tighter US air security measures affecting Cuban passengers and the arrest at Havana's international airport of Alan Gross, a US government contractor accused by the island's authorities of being an American spy trying to hand out illegal satellite telecommunications equipment. The death of a jailed Cuban dissident on a hunger strike in February 2010 and the Castro regime's harsh attitude toward internal opposition afterward further derailed the rapprochement process.[2]

Long at loggerheads with each other, the United States and Cuba are going to take quite some time in finding a common ground. Washington's demands that its communist neighbor show advancements in the areas of human rights and democracy and Cuba's resistance to US interference in its internal matters are some of the most notorious nonstarters. In January 2011, following Havana's release of 52 Cuban dissidents, Obama used one of the few remaining executive prerogatives under a codified embargo to streamline licensing arrangements for, and thus expand, US-based educational, religious, and cultural travel to Cuba. Even so, chances of warmer US-Cuba ties were dealt yet another blow two months later when Alan Gross was sentenced to 15 years in Cuban prison for crimes against the state. Cuba's Supreme Court upheld the sentence in August 2011 despite US calls for the contractor's immediate release.[3]

Although Fidel Castro's definitive exit from the scene, and a Cuban government led by someone other than Raúl Castro, would speed up a relaxation of the embargo, such process will mostly depend on US domestic dynamics. The embargo has survived the end of the Cold War primarily as a domestic electoral issue linked to the role the US-based Cuban exile community has played in helping determine the electoral outcome of important swing states such as Florida and New Jersey. Cuban-American lobbying and hefty campaign contributions were additional key factors (Eckstein, 2009, pp. 127–132; Haney & Vanderbush, 2005, p. 72; Rich Kaplowitz, 1998, p. 134). What Cuban-Americans think and feel matters. They were relatively receptive or at least not outright hostile to Obama's early remarks on Cuba and welcomed the lifting of restrictions on their travel and money transfers to the island. The Cuban American National Foundation (CANF) fully supported the president's decision to increase this kind of people-to-people exchange (CANF, 2009). Moreover, US opinion polls show considerable backing for a further easing of sanctions that are considered anachronistic and ineffective, even by many Cuban-Americans.[4] Washington's Cuba policy has recently been going through a strident debate in Congress, where a series of bipartisan legislative proposals aimed to chip away at various aspects of the embargo are under consideration. Yet, pro-embargo forces, among them Cuban-American legislators and other members of the congressional group Cuba Democracy Caucus, will not go down without a fight, as demonstrated by their strenuous opposition to the aforementioned bills and their attempts to set rules for travel and remittances to Cuba back to what they were under former President George W. Bush.[5]

As for Cuba, the embargo has always provided the Castro government with a convenient target for its anti-Yankee rhetoric and with an easy scapegoat for its own failures. So why would the Cubans want to see it lifted? Economic considerations are crucial in this regard. Mainly fueled by an oil-for-doctors barter arrangement with Venezuela, substantial revenues from nickel exports and tourism, and soft credits from China, the Cuban economy witnessed a remarkable expansion between 2005 and 2007. But the country's gross domestic product (GDP) has suffered a deceleration since then and grew only 2.1 percent in 2010, according to official figures (Oficina Nacional de Estadísticas [ONE], 2011). While three major hurricanes and the world economic crisis were important causes of Cuba's economic deterioration, a GDP slowdown was projected by local economists even before the hurricanes hit the island. Problems that negatively affect the Cuban economy and pose key challenges for the future include growing fiscal and commercial deficits, a sizable foreign debt in hard currency, low productivity, a dual exchange-rate system that hinders efficiency, depressed real wages, the precarious conditions of public transportation and housing, an undercapitalized national industry, and a liquidity crunch (Comisión Económica para America Latina y el Caribe [CEPAL], 2010; Mesa-Lago, 2009; Mesa-Lago & Vidal Alejandro, 2010; Spadoni, 2012).

Given the vigorous lobbying efforts of the US business community and the conciliatory stance on Cuba of certain segments of the Cuban-American community, the most likely measures to be implemented by the United States in the near future (perhaps during the Obama presidency) are the following: (1) the authorization of direct transfers from Cuban to US banks to execute sales of US food to the island; (2) an exemption to the embargo that would allow Cuban oil to be exported to the United States and eventually to US-based oil corporations to prospect for crude in Cuban waters; and (3) the lifting of the travel ban for all American citizens.

The lifting of the travel ban, in particular, will punch a big hole in the embargo. Travel agents in the United States would be allowed to issue tickets, US airliners would freely fly to Cuba once they obtain permission from the Cuban government, and US citizens could go there and spend money. The end of the travel ban will put wind in the sails of American food producers who will want to benefit from the growing tourism market on the island. Financial institutions will also reap substantial gains once US-issued credit cards can be used in Cuba. And US hotel chains will likely push to be able to build new capacity in Cuba, which would bring to the fore the legal battles over expropriated lands. In essence, lobbies to lift parts or the entire embargo will follow from the flow of travelers.

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Canada-Cuba Relations: Pragmatism and Business Focus

Canada has maintained active diplomatic, cultural, and commercial ties with Cuba despite the isolating hard-line policies of the United States. This chance to agree to disagree with the United States, its partner in the largest bilateral trade relationship in the world, has been a cause of national pride for Canada and emblematic of the country's sovereignty in foreign affairs (Sagebien, 1996). Canada's relatively positive stance on Cuba, its emphasis on business dealings and engagement, and its traditional opposition to the US embargo were the pillars of what two prominent Canadian scholars described as "the other good neighbor policy" (Kirk & McKenna, 1997). Pragmatic concerns over commercial interests and the maintenance of overall good relations with the Castro government have, by and large, been more important than moral posturing over human rights violations and democracy promotion. The Helms-Burton law did not provide the checkmate to Canadian foreign direct investment (FDI) activities in Cuba that was expected by its supporters (Spadoni, 2001). Yet, the law's extraterritorial reach added risk to the commercial equation of Canadian firms and forced them to continually weigh the importance of their business interests in Cuba versus the importance of interests in the United States.

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Canada has substantial investment, trade, and cultural links with Cuba. The accumulated value of Canada's FDI in Cuba was estimated at more than C$1 billion in 2001,[6] the largest stock among all foreign investors on the island at that time. Since 2005, Venezuela has launched many investment projects with special concessions from the Castro government and will likely become Cuba's top source of FDI. As shown in Table 1, there were 211 active international economic associations (*Asociaciones Económicas con Capital Extranjero,* or AECEs) in Cuba at the end of 2008, most of them joint ventures. The total number of AECEs dropped by almost 50 percent between 2002 and 2008, mainly as a result of Cuba's increasing selectiveness toward FDI deals and its unwillingness to create a more attractive business environment. During this period, there was a reduction of joint ventures with almost all countries except Venezuela and China. Companies from Spain and Italy significantly reduced their presence in the Cuban market. Canada also was no exception. The number of AECEs with Canadian firms decreased from 75 in 2000 to just 26 in 2008.[7] Apart from the aforementioned reasons, several Canadian companies exploring for precious and base metals in Cuba reportedly interrupted their operations in the early 2000s because of the sudden fall of mineral prices and poor results, but none of those projects were revived when prices recovered and reached record levels a few years later (Ritter, 2010a). Havana's officials revealed that 218 AECEs operated in Cuba at the end of 2009, the first increase since 2002.[8]

Canada's largest investor in Cuba is Sherritt International, with a diversified portfolio in oil, nickel, energy, and agriculture. The list of Canadian companies that have pursued investment projects on the island includes Cerbuco/Labatt (beer industry), YM Biosciences (medical products), Tokmakjian (automobiles, engines, parts for buses and trucks), Leisure Canada (tourism), Intelcan (airport infrastructure), Tembec (paper), Durabond (construction), and Pebercan (oil). It is worth noticing that Pebercan terminated all its oil activities in Cuba in February 2009 after its Cuban partner, state-owned firm Cubapetroleo S.A., or CUPET, prematurely revoked a 16-year-old oil production–sharing contract set to expire in 2018.[9] A more worrisome development whose full implications remain to be seen is that some Canadian firms have recently become targets of Raúl Castro's crackdown on corruption that has already hit a number of state and foreign entities in various sectors. In September 2011, pending investigation into alleged illegal business practices, Cuban authorities ordered the shutdown of the Havana offices of the Ontario-based Tokmakjian Group, the exclusive distributor of Hyundai and Isuzu vehicles in Cuba and a partner in two joint ventures that remanufacture engines of Soviet-era transportation equipment. Tri-Star Caribbean of Nova Scotia, considered a competitor of Tokmakjian on the island, had suffered the same fate two months earlier.[10] As for Sherritt, the company pulled out of a soybean processing joint venture with the Cuban corporation Coralsa in 2007, but continued to be active in the Cuban market. During 2008, Sherritt completed a 4,000-ton brownfield expansion of its Moa nickel plant in Cuba and drilled 13 onshore oil wells using specialized directional drilling techniques. While additional expansion plans in oil, nickel, and electricity production were temporarily put on hold in response to falling commodity prices and deteriorating market conditions, Sherritt announced in early 2011 that it was reviewing options for an upgrade of its nickel facility and the construction of a sulphuric acid plant at Moa. The company also said it expected to drill up to eight development wells in Cuba that year and continue to work on the construction of a new 150-MW power generation facility at Boca de Jaruco to be completed in 2013.[11]

Cuban official sources (Table 2) indicate that Canada was Cuba's fourth-largest merchandise trading partner ($726 million worth of bilateral trade) in 2009 behind Venezuela, China, and Spain. Canada was Cuba's third

TABLE 1 International Economic Associations in Cuba by Country, 2000–2008

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008
Spain	97	104	105	98	91	77	73	63	57
Venezuela	11	11	7	6	N.R.	5	10	26	31
Canada	75	70	60	52	44	41	40	37	26
Italy	55	57	57	51	47	40	30	24	23
China	8	10	12	10	N.R.	10	12	11	N.R.
Total (all countries)	392	400	403	342	313	258	237	230	211

Source: Compilation of the authors from data of Ministerio para la Inversión Extranjera y la Colaboración Económica (MINVEC). N.R. = Not reported.

TABLE 2 Cuba's Merchandise Trading Partners in 2009

Destinations of Exports	US$ M	Origins of Imports	US$ M	Bilateral Trade	US$ M
Venezuela	533	Venezuela	2,605	Venezuela	3,138
China	516	China	1,172	China	1,688
Canada	434	Spain	752	Spain	907
Netherlands	237	USA	675	Canada	726
Spain	155	Brazil	509	USA	675
Russia	88	Italy	324	Brazil	578
Brazil	69	Mexico	303	Italy	353
N. Antilles	59	Canada	292	Mexico	318
France	45	Vietnam	276	Germany	305
Singapore	35	Germany	275	Netherlands	303
Others	708	Others	1,726	Others	2,797
Total	2,879	Total	8,909	Total	11,788

Source: Oficina Nacional de Estadísticas (ONE), 2010.

largest export market ($434 million) and its eighth largest import market ($292 million) that year, moving down from fifth place in 2008. Canadian sources (see Table 3) show that Canada's exports to the island rose from $254.7 million in 2001 to $718 million in 2008 but plunged notably in 2009–2010.[12] It should be emphasized that such a steep decline was not due to a loss of competitiveness of Canadian products. Cuba began to experience severe financial problems around mid-2008 that resulted in less purchasing power and forced the Castro government to implement austerity measures and significantly curtail its investment plans in key sectors such as energy, transportation, and housing. Cuba imported about $8.5 billion worth of goods in 2010, approximately $5.7 billion less than in 2008 (ONE, 2011). Put simply, the economic pie is now smaller for all of Cuba's trading partners and will remain so until the Cuban economy shows concrete signs of improvement. Even a country like the United States, whose sales to the island are limited to agricultural products, saw its revenues decreasing by nearly half as a result of Cuba's import cuts.

Finally, Canada sends more tourists to Cuba annually (945,000 in 2010) than any other country, well ahead of European source markets like England, Italy, Spain, and Germany. The island is the second-largest destination for Canadians travelers to Latin America after Mexico. More than one third of all international tourists in Cuba are Canadians. University, sports, and cultural exchanges between the two countries are numerous. Canadian universities have the largest number of non-Spanish-speaking university exchange programs with Cuba.

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Albeit with a clear priority on enhancing trade and other business opportunities, Prime Minister Chrétien's policy of "constructive engagement" toward Cuba somehow tried to balance friendly commercial relations with pressures for economic reforms, democratization, and a better record on human rights. But Cuba's rebuff of Chrétien's efforts in 1998 to bring about the release of four high-profile dissidents put a "chill" over relations between the two countries that, with ups and downs, would continue for several years (Kirk & McKenna, 2006, p. 202; Wylie, 2005, pp. 19–20). Prime Minister Martin's and Prime Minister Harper's policies of official silence and relative benign neglect, except for occasional reprimands on human rights abuses, have not had much effect on Cuba either. For that matter, neither the hard line of the United States nor the conditional approach of the European Union achieved any marked success. The Castro regime is resilient in times of crisis, resistant to outside influence, and keen on picking its own friends. Harper's Conservative government is perceived as more friendly to the United States than previous Liberal administrations and is thus less likely to fawn over Cuba. More "chills" might occur even though the essentials of the

TABLE 3 Canada's Exports to Cuba, 2001–2010 ($US M)

Product	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Meslin and wheat	14,942	3,113	—	1,729	27,571	16,421	28,707	68,385	41,993	49,190
Sulfur	—	—	—	—	—	—	6,983	85,235	11,968	31,440
Peas	12,984	16,820	6,611	19,808	6,592	8,343	20,256	58,175	8,617	19,916
Potassium chloride	2,688	2,831	2,622	1,917	5,001	10,415	7,826	23,798	6,813	17,742
Parts of automatic data processing machines	6,784	7,081	10,703	19,543	22,803	23,386	16,196	21,029	12,487	10,159
Input/output units	4,225	3,836	3,464	4,539	2,520	3,762	3,818	3,985	1,783	7,762
Copper wire	—	v	3	0	12,317	30,904	23,969	13,656	2,452	7,349
Printing machines	—	—	—	v	—	—	1,924	5,824	1,747	7,324
Parts for work trucks	206	374	1,737	3,081	4,386	6,323	7,055	7,634	5,470	6,842
Motor vehicle parts	9,284	5,287	2,957	2,901	4,832	6,076	15,188	15,174	5,511	6,742
Parts for diesel engines	2,535	1,382	2,577	3,788	4,435	4,341	15,940	8,724	14,276	6,050
Bovine cuts	1,530	1,001	537	—	12	456	211	6,414	1,230	5,865
Parts of boring or sinking machinery	5,396	5,547	18,435	6,640	36,540	11,082	8,995	13,678	2,432	5,713
Worn clothing	2,600	189	2,348	4,526	8,959	6,256	4,641	11,813	8,186	5,701
Process units	2,546	1,784	1,976	1,796	6,074	6,377	983	217	96	5,520
Potatoes	737	2,341	2,430	2,877	3,037	1,162	211	1,752	1,635	4,449
Washing and cleaning preparations	443	1,098	642	171	96	177	188	433	913	3,841
Milk/cream powder	5,940	3,179	6,156	4,588	6,543	2,236	7,586	11,873	1,141	3,732
Additives for mineral oils	13	216	1,691	2,124	1,926	4,160	8,694	6,674	1,124	3,241
Parts of typewriters and processing machines	0	2	1	4	0	6	7,005	5,679	1,754	3,211
Newsprint	1,221	6,203	7,840	5,332	2,813	8,507	8,016	3,376	791	3,129
Frozen chicken	11,585	4,378	1,792	688	409	399	396	360	452	114
Parts of machinery for handling minerals	720	84	151	428	488	410	11,026	556	50	527
Total exports	254,688	178,713	195,334	253,330	369,749	453,231	524,107	718,036	278,396	378,966

Source: Industry Canada, Trade Data Online.

bilateral relationship, as Klepak (2009, p. 266) argued, are expected to remain unaltered. In the end, Canada's foreign policy toward Cuba, whether warm or cold, is not likely to stimulate much change in the internal dynamics of the communist island. Nevertheless it could provide, as it has historically, a counterpoint to the US approach. Canada maintains open channels of communications with the US and Cuban governments, knows how they think, and is therefore uniquely positioned to play a constructive role (Warren, 2008).

In April 2009, on the eve of his departure for the Summit of the Americas, Prime Minister Harper expressed his support for Obama's decision to lift restrictions on Cuban-American travel and remittances to Cuba. While pointing out that, as a conservative, he was by no means an admirer of the Castro regime and communism and regretted the lack of democratic changes on the island, Harper unequivocally stated: "That said, I think there's a lot of evidence to say that the historic American approach to Cuba has not worked." Pragmatic commercial interests, though, proved to be once again of most importance as he added: "Cuba has great potential. The No. 1 reason for the Cuban regime to reform is for the benefit of its own people and for Cuba to recognize its economic potential. The fact that we've planted some flags there, made some connections there would help if substantive change came to the island."[13] Proving the premier's point, shares of Sherritt International rose 24.5 percent on Obama's move.[14]

Stressing the importance of Latin America for his government, Harper indicated in his "Mini Throne

Speech" of February 2007 that Cuba was a crucial piece of Canada's agenda for the region and that US-Cuba dynamics were going to be watched closely. Even if US-Cuba relations have worsened since late 2009, Harper has actually been less active in engaging Cuba than the Obama administration, to the point that he was accused of pursuing a stance more in line with the failed policy of George W. Bush (Kirk & McKenna, 2009).[15] At a time when the Castro government is struggling with mounting economic troubles and Obama's Cuban honeymoon appears to be over before it really began, Ottawa must strive to develop an independent and truly constructive approach toward Havana that builds upon its consolidated bilateral connections, especially in the area of development assistance, and serves its national interests.

Future Prospects for Canadian Business in Cuba

Short Term: Status Quo

In the short term, there should be neither further US moves to soften the embargo nor meaningful liberalization of the Cuban economy despite Raúl Castro's attempts to tackle the most pressing problems. Cuba's business environment has deteriorated since 2008 but, embargo aside, was always a complex one with all the inefficiencies, red tape, and distortions of a state-controlled economy. The Economist Intelligence Unit (EIU) ranked Cuba among the world's worst business environments between 2005 and 2009 (EIU, 2010). Major challenges of doing business in Cuba include expensive payments for the wages of Cuban workers while the state pockets most of the money, concern over judicial issues since the government is partner and also judge, excessive utility costs due to the state monopoly on services, widespread theft, a repeated need to renew visas and work permits, and payment delays. In September 2008, Pebercan reported that its Cuban partner had been late in making payments on many occasions, forcing the company to negotiate several debt-rescheduling agreements between 2002 and 2007.[16] To make things worse, Cuba has a crippling foreign debt and very limited access to external financing. Although large and small foreign investors and traders were once welcome to set up businesses on the island, recent policy has tended to favor large established players.

A common view is that Raúl Castro, who has expressed interest in the Chinese model of liberalization, will implement significant free-market economic reforms while retaining political power in the hands of the Cuban Communist Party (PCC). Among the economic measures he has enacted so far there are a few structural or "near-structural" reforms, in particular the expansion of small-scale self-employment activities, the offering of fallow state land in usufruct to residents to plow, and the legalization of home and car sales. However, Raúl's alleged admiration for the Chinese path of capitalist reforms has not translated into rapid and sweeping changes to Cuba's economic system. A more gradual and relatively narrow acceptance of market mechanisms within the existing socialist framework is currently taking place (Peters, 2009; Ritter, 2010b; Spadoni, in press). While calling for increased state firms' operational autonomy, deeper changes in agriculture, the creation of a wholesale market for self-employed people and microcredits made available to them, and the possibility for Cubans to travel abroad as tourists, the *lineamientos* (policy guidelines) approved at the Sixth Congress of the PCC in April 2011 made clear that central planning will remain paramount and that accumulation of private property will not be permitted.[17] Overall, liberalization within Cuba in the short term is more likely to address problems of the domestic sector with the primary goal of improving living conditions for the population and maintaining stability. We do not expect the general business environment to improve much. But once Fidel Castro (85 years old) passes away and Raúl (80) consolidates his rule further, we expect the reform process to pick up speed.

Credit for commercial transactions with Cuba is particularly difficult to find, and many traders end up assuming the majority of the risk associated with unmet payment commitments. The Canadian government's credit lines are often maxed out. While fostering some

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discipline, Fidel Castro's decision in mid-2003 to launch a round of centralization into the hands of the Cuban Central Bank made the payment process more cumbersome for foreign companies and joint ventures dealing with state agencies. It also led to tightened government control over bank accounts in Cuba of both local entities and foreigners (Mesa-Lago, 2005, p. 26). Cuba's new banking rules enacted in July 2009 eliminated the requirement for state enterprises to obtain Central Bank approval for expenditures in excess of $10,000, turned over management of such transactions to government ministries, and authorized the release of some funds in foreign business accounts that had been kept frozen for months due to growing liquidity problems. In the summer of 2010, nonetheless, there were still hundreds of millions of US dollars in bank accounts with temporary holds and Cuban authorities were trying to retain business by offering overseas firms monthly payments over five years at a 2% interest rate.[18] The island's financial system remains overly centralized, but an even greater problem at present is that Cuba is running dangerously low on cash.

The short-term prospects for Canadian traders will depend on Cuba's ability to weather the current economic malaise and foster a recovery. As described in Table 3, Canada supplies Cuba primarily with agricultural products and various kinds of equipment for mining activities, electricity generation, transportation, telecommunications, and paper making. Nickel accounts for the vast majority of imports from the island, which also include copper waste, cigars, frozen lobsters, rum, and aluminum waste.

Cuba continues to buy foodstuffs on a cash basis from the United States to the detriment of its traditional suppliers from Europe and Canada. Canada's annual sales of frozen chicken to Cuba, valued at $11.6 million in 2001, have dropped to a trickle since then. Exports of wheat and peas, also hurt by US competition, regained instead the lost ground and reached record levels in 2008. In the case of wheat, French suppliers have suffered more than Canadians. Another positive sign for the latter is that US exports of wheat to Cuba plunged dramatically from $134.9 million in 2008 to just $17.8 million in 2010 while Canadian sales remained relatively strong. Furthermore, in recent years Cuba has invested heavily in the upgrade of its electricity and transportation systems. This has translated into tangible business opportunities for Canadian firms. Between 2005 and 2008, Canada exported an average of about $20 million a year worth of copper wire to Cuba for the rehabilitation of the island's electrical grid. During the same period, the Castro government purchased thousands of small diesel power generators from Germany, South Korea, and Spain that were grouped into clusters and connected to the electrical grid.[19] Canadian exports of equipment for diesel engines increased substantially. Similarly, sales of motor vehicle parts rose notably when Cuba began to revive its transportation sector in 2005.

Other important Canadian export products to Cuba include sulfur, potassium chloride, parts of automatic data processing machines, parts of boring and sinking machinery, textiles, additives for mineral oils, and newsprint. A great deal of machinery represents Sherritt's purchases in basic industries like mining and oil. Sulfur, which can be used in ore processing and petroleum refining, was Canada's largest export good to Cuba in 2008 with $85.2 million worth of sales. But almost all Canadian exports plummeted in 2009 as the island could no longer sustain its import levels. A partial recovery took place in 2010. Under the current conditions, the only real opportunities for Canada might be to insert its goods and services into Cuba's trade diversion strategies with Venezuela and China or into the Cuban regime's plan to boost domestic food production and substitute imports. For instance, Canadian sales of potassium chloride to Cuba for the production of fertilizers increased nearly fivefold in 2005–2008 and, after a brief and intense drop, picked up again in 2010 as Raúl Castro put agriculture at the top of his reform agenda.

Medium Term: Partial Liberalization in Cuba and Partial Lifting of the Embargo

Overall, the partial lifting of the US embargo on Cuba might prove more positive than negative for Canadian business. The easing of restrictions on the US food trade with Cuba and, to a lesser extent, the removal of the travel ban could intensify pressure on some Canadian agricultural producers. A study of July 2007 by the US International Trade Commission, or USITC, estimated that permitting direct wire transfers between US and Cuban banks to execute food sales, relaxing payment rules, and allowing all Americans to travel to the island would increase the US share of Cuban food imports from one third to between one half and two thirds. Two years later, an update of that study found that US agricultural exports to Cuba would have been between $216 million and $478 million higher in 2008 without the aforementioned restrictions. Wheat and rice would benefit the most among the 16 commodity groups examined (Coleman, 2009; USITC, 2007). Yet, except for frozen chicken, Canada's main food exports to Cuba have already withstood considerable US competition. Even more important, the USITC demonstrated that the end of the travel ban alone would have a relatively small impact on current US trade, which consists mostly of bulk commodities, while boosting the Cuban demand for higher value-added food products.

If successful, current US initiatives to permit Cuban oil to be sold in the United States would open up a new important market for Canadian investors in Cuba and remove certain legal issues related to the embargo. In effect, when Sherritt disclosed plans in 2007 to begin exporting a portion of its Cuban heavy crude as a consequence of anticipated production growth and limited domestic demand,[20] the issue of whether the end of the line client for these supplies would violate the embargo rapidly emerged as a source of concern. A major discovery of light crude oil in Cuba's Gulf of Mexico waters, however, would raise the likelihood of US firms being allowed to bid for exploration rights in these offshore areas and participate directly in the Cuban oil trade.

The potential lifting of the travel ban for all U.S. citizens deserves a special mention. Some US studies estimated that between 550,000 and 1.1 million Americans would visit Cuba in the short-run if travel restrictions were abolished and more than 3 million would go there annually once the market has fully adjusted (Robyn, Reitzes, & Church, 2002; Sanders & Long, 2002; USITC, 2007). With the infusion of cash from American visitors and no competition from US investors yet, the time between the end of the travel ban and the complete lifting of the embargo will establish a rather unique scenario in Cuba with good opportunities for Canadian firms on the whole. Established players, in particular, could move quickly to take advantage of changing conditions. Obviously, a flood of US tourists will probably lead to a reduction in the number of Canadian and European visitors (Romeu, 2008), some of whom like to go to Cuba because there are very few Americans. Nevertheless, travel agents and airlines from Canada and other countries could easily move people to other destinations once the Americans come in. Besides the need for more food imports, the Castro government will face tremendous pressure to improve tourism facilities and, in general, all kinds of infrastructures to make sure that Cuban consumers would not suffer from extra demand diverted to hotels and tourism enclaves. This will require some additional foreign investment. According to Cuban officials, the island would have to roughly double its hotel room capacity and build more than 40,000 new units to accommodate 3 million US tourists. But it took Cuba almost 20 years to build that capacity.[21]

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Although the presence of Canadian equity investors in new hotels could remain limited due to their exposure to the US market and potential problems with the Helms-Burton law, the participation of Canadian firms in many tourism-related areas and other sectors could expand significantly. Curiously, there are no Canadian hotel management contracts on the island at the moment despite the fact that Canada is Cuba's main source of international tourists. Moreover, Cuba has never been self-sufficient on food due to its heavy reliance on sugar, and it is doubtful that it could substitute most food imports. Thus, the island will likely continue to import large amounts of agricultural products, especially if the travel ban is removed and at least an extra 1 million US visitors must be fed with quality food. Given the good reputation of its products, Canada should be able to reap substantial benefits.

Mainly prompted by economic considerations going beyond a simple predilection for Canadian suppliers, the most noticeable feature of Canada-Cuba commercial relations is that trade tends to follow investment. Indeed, a sizable share of Canadian exports to the island target sectors that have attracted major Canadian investments, above all basic industries where Sherritt has large operations. Between 2001 and 2010, Canada sold to Cuba equipment and machinery for oil, gas, and mining worth more than $270 million. An expansion of joint venture deals with Cuban companies would therefore be beneficial for Canadian business, but this is unlikely to occur in the medium term since the Castro government continues to prefer investment projects involving Venezuelan and, to a lower extent, Chinese and a few other partners.

In general, the more holes in the US embargo against Cuba the more competition there is for Canada, but also more opportunities. Canadian investors, especially those with a foothold in the Cuban economy, will be well positioned to reap benefits from the removal of the travel ban and the need to upgrade infrastructures on the island. The dramatic growth of American tourists in Cuba should increase business for Canadian food exporters even if less stringent rules on US food sales to Havana are implemented. Exempting oil from embargo provisions will foster US participation in Cuban fields, yet it will open the US market to all companies involved. As noted before, a bigger challenge for Canada is to find ways to gain from Cuba's economic strategies that tend to favor investment and trade relations with Venezuela and China. Just to cite one example, the expansion of medical cooperation programs between Cuba and Venezuela after 2004 significantly boosted Canadian exports of medical devices to the island. Canada's sales of optical instruments to Cuba increased from $4.7 million in 2004 to $17.2 million in 2008. Canadian firms also sold to Cuba surgical and dental furniture worth $3.4 million in 2006.

Long Term: Greater Liberalization in Cuba and the End of the Embargo

Major liberalizing changes on the island and a movement toward the elimination of all US trade, investment, and financial restrictions with respect to Cuba should gather pace once Fidel Castro passes away and Raúl is replaced by a new generation of younger leaders. This new scenario will dramatically increase pressure on Canada's market share in Cuba because of US competition and, at the same time, stimulate competition among Canadian firms.

Canadian investors should suffer less than traders from a complete lifting of the US embargo (Ritter, 2010a). After all, they have been active in Cuba for years and gained very good direct market knowledge. Considering the latest trends, and whether or not it was ever truly important, Havana's appreciation for Canada's long-time investment presence on the island does not seem to carry as much weight as it used to. And there is little reason to assume that it will matter at some point in the future. Institutionalized knowledge along with quality and efficiency will be key factors to success. In a postembargo Cuba that relies heavily on free-market mechanisms and practices, there should be opportunities for Canadian companies to expand their investment activities, establish new enterprises, and work on joint projects with firms from Canada and other countries. Canadian hotel groups, no longer worried about their exposure to the US market, could participate more vigorously in the Cuban tourism industry. Canadian banks should benefit for the same reason. The Bank of Nova Scotia, which had major deposits in Cuba before the revolution along with the Royal Bank, backed away from providing loans to Canadians wishing to invest in Cuba during the 1990s largely out of fear of running afoul the Helms-Burton law and jeopardizing its investments in the United States (Kirk & McKenna, 1997, p. 16; McKenna & Kirk, 1998). Even in the telecommunications sector, where the United States would naturally become the primary supplier of services to Cuba, there could be room for Canadian firms to participate with other investors and service companies.

On the other hand, the removal of the embargo would mean US competition for the exploitation of nickel mines run independently by the Cuban government and untapped oil reserves as well as the possibility of US companies buying out existing Canadian investors in mining,

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oil, energy, and other sectors. A little known fact is that American entities already hold substantial publicly traded shares of several foreign firms engaged in business activities on the island (Spadoni, 2010, pp. 161–167). Sherritt is one the few large foreign investors in Cuba without US-held shares because Washington prohibits individuals and entities subject to US law to invest in third-country firms that obtain the majority of their revenues from operations within Cuba. This rule obviously will no longer apply once all US sanctions are lifted. Furthermore, even if the embargo must have been factored into their plans, some Canadian investors like Sherritt, whose Moa nickel plant was expropriated (without compensation) by the Castro government in 1960, will face critical legal issues related to the settlement of property confiscation claims by US nationals.

With little Cuban loyalty expected toward traditional suppliers, Canadian traders will certainly face fierce competition from U.S. producers in a post-embargo scenario. Cuban authorities will remain sensitive to prices and bargain hard to find the best deals (Wylie, 2010). Cuba's choice of suppliers should also increase as more financial resources from international institutions and US entities become available. Thus, Canada is not bound to have a "special relationship" with Cuba that is commercially significant over time if better credit terms are provided by competitors. Historically, the United States has been Cuba's natural market and trading partner. Estimating the benefits of the full lifting of the embargo on US agricultural exports to Cuba, two US experts found that annual sales would reach $1.24 billion within two to three years, with an additional $3.6 billion annually in related economic output (Rosson & Adcock, 2002). And given the island's need for infrastructure upgrading, industrial equipment, and other inputs, it is estimated that Cuba would receive 40% of its total imports from the United States in the early years following the elimination of sanctions and more than 60% in seven years (Lynch, Aydin, & Harrington, 2004). In short, Canadian suppliers will have to create competitive advantages just like anyone else. A problematic issue for them is that Cubans are not currently encouraging local representatives for foreign trade firms (and licenses can be arbitrarily revoked). Without representatives on the ground, it is very difficult to do business and especially to build market knowledge.

Far from arguing that Canadian traders will not be affected by growing US competition in Cuba, the actual impact of the lifting of the embargo on their commercial dealings with the island might not be as harmful as it seems at first glance (Wylie, 2010). In terms of revenues, Canada's largest export products to all countries of the world are oil and petroleum preparations, motor vehicles and related parts, natural gas, lumber, trucks, gold, newsprint, and agricultural goods. Canadian firms are already involved in most of this in Cuba. In addition, as highlighted in Table 4, a closer look at Canada's regional trade patterns reveals that the country's principal products exported to Latin America are quite similar to those sold to Cuba. Excluding Mexico, 7 of the top 15 Canadian export products to Latin America in 2008 were also top export goods to Cuba, which means that Canadians could have a natural advantage in certain sector categories. This pattern continued largely unchanged in 2009–2010 even if Havana curbed its purchases from abroad. As Canadian companies were generally able to withstand US trade competition in Latin America, there is a good chance that, after a process of adjustment, they would have the same competitive advantages in a postembargo Cuba. And if there are Canadian firms serving Latin American markets successfully, it makes sense that they would want to expand into Cuba or work with Canadians and others already on the ground once all US sanctions are removed.

With the lifting of the US embargo, Cuba will slowly become just "another Caribbean country" having access to international credits while trading with and receiving substantial investments from the United States. Canadians firms must begin to build strategies that leverage on what they already do well in the region in terms of goods and services. Moreover, supply chain, goods

TABLE 4 Canada's Exports to Cuba and Latin America, 2008–2010 (Annual Rank among Largest Export Products)

Product	Cuba			Latin America*		
	2008	2009	2010	2008	2009	2010
Sulfur	1	4	2	9	25	16
Meslin and wheat	2	1	1	1	1	1
Peas	3	5	3	14	12	14
Potassium chloride	4	8	4	2	5	2
Motor vehicle parts	6	9	10	10	—	—
Parts of boring or sinking machinery	7	17	13	13	9	11
Copper wire	8	16	7	15	21	17
Total exports**	3	6	6	—	—	—

* Excluding Mexico.
** Rank of Cuba among Canada's largest export markets in Latin America.
Source: Industry Canada, Trade Data Online.

consolidation, and shipping strategies that incorporate Cuba effectively into the trade patterns of the Caribbean area should be developed quickly. Canadian companies must have their legal teams ready for property disputes and Canadian courts and the federal government should be ready to support them.

How Should Canadian Companies Prepare?

Based on the analysis presented in the previous section, here is a list of policy options and business strategies available to the Canadian government as well as to Canadian companies to strengthen their current presence in Cuba and better position themselves for a postembargo scenario. Nevertheless, these recommendations can also be generalized to Cuba's other commercial partners.

First, Canadian traders must prepare for a rapid and aggressive export credit policy as financing will be key in protecting and expanding their market share in Cuba. They are likely to suffer losses in volume as US firms come in with vigorous strategies that involve government-backed credits on top of sizable price advantages. Cuba might also be able to reach a comprehensive debt restructuring agreement with Paris Club creditors,[22] most likely in the context of a program sponsored by the International Monetary Fund (IMF), and the United States would no longer pressure international financial institutions to avoid lending to Cuba (Catá Backer, 2006, p. 516). Thus, Canadian credit will have to be reviewed and revamped. Additionally, the Canadian International Development Agency (CIDA) is making available sizable funding for several economic projects in Cuba under the "Modernization of the State Fund" (MOSF) rubric. The MOSF programs are helping Cuban officials make tax administration more efficient, improve the quality of economic decision making, and acquire better skills for trade negotiations (Ritter, 2010a). Canada could build further on such strategies by providing more training to Cuban trade officials and assisting local authorities in their efforts to improve business management. It might even consider micro-loans (Gálvez, 2008) and stimulate liberalization by allowing Cuban financial intermediaries to manage the monetary inputs.

Second, Canadian firms should benchmark their products (quality/price) now and exploit certain advantages they have over US competitors. A postembargo Caribbean Basin–based supply chain strategy could be an attractive option. Between 2005 and 2008, Canada accounted on average for nearly 7% of the Caribbean Community (CARICOM)'s imports of food products and 4% of its imports of manufactured goods.[23] The Dominican Republic (not a member of CARICOM) and virtually every other country of the Caribbean Basin are important export markets for Canadian companies. The latter are typically smaller than US giants and capable of selling customized goods and services to niche or small markets. This could be done competitively in Cuba even if some US firms might attempt to do the same when sanctions no longer stand in the way. In agriculture, apart from the fact that the same Canadian goods are strong anywhere in the region, including Cuba, Canadian farmers receive government subsidies for pulse crops unlike their US counterparts. Canadian exports to Caribbean Basin countries also include custom medical devices, electrical equipment, electronics and telecom products, and construction material. It should be noted that Canada is a major donor to the Caribbean Development Bank and the United States is not. This has helped Canadian trade in the region, but it is hard to tell how it would eventually affect trade with Cuba in the long term.

Third, considering Cuba's urgent task of modernizing its aging infrastructures, Canada should intensify trade missions on the island targeting potential projects in energy, water and sewage, aviation, ports and airports, and telecommunications. A ministerial-led visit to explore business opportunities in these sectors might also be a good idea. Although Cuba has scaled back investments in its basic physical systems because of serious financial troubles, upgrading efforts will pick up steam once the economy rebounds from its current recession.

Although Cuba has scaled back investments in its basic physical systems because of serious financial troubles, upgrading efforts will pick up steam once the economy rebounds from its current recession.

Fourth, if direct trade sourcing has no special advantage, then Canadian firms should gather the know-how while the US embargo is still in place. Canada could seek ways for its engineering service companies to work with Cuban enterprises on plans for infrastructure modernization and new construction in anticipation of the demand for improved facilities stemming from the end of the US travel ban. This could be achieved, for instance, by leveraging Venezuelan contacts in business projects on the island and offering research support, perhaps with some government financial assistance. Forwarding integration into joint ventures might be complicated in the current investment climate, but knowledge can be gained for contingency plans. It is also worth underscoring that programs sponsored by the Canadian Commercial Corporation (CCC) have been instrumental in fostering greater knowledge of the Cuban market. Since the early 1990s, the CCC has helped many Canadian companies secure export deals with Cuba by acting as a prime contractor and granting for each contract a 100% guarantee of completion backed by the Canadian government. Havana's officials prefer government-to-government negotiations that simplify the procurement process. The CCC searches for deals involving export receivables denominated in hard currency, secure payment mechanisms (often through offshore accounts), and acceptable repayment terms.[24] Although the CCC might find it difficult to increase business because of its current level of exposure to Cuba, its project criteria are a useful guide for existing and prospective traders.

Finally, as procurement arrangements in Cuba are likely to favor American suppliers in the absence of sanctions, a strategy could be developed to position Canadian exporters as part of US-based regional supply chains that involve US ports and synergistic trade patterns linking various countries. Besides benefiting from greater economies of scale and shorter distances, many Caribbean Basin–bound US goods exploit the unmatched capacity of U.S. ports to consolidate products. Such an advantage will matter greatly when existing restrictions on ships using U.S. ports after touching Cuba are eliminated.[25] A recent study released by the Consulate General of Canada in Miami indicated that Miami acts as a gateway to Latin American trade and may provide efficiencies and service advantages to Canadian traders. The study noted: "The close integration of many Canadian and Floridian companies means that considerable Canadian value-added is incorporated into Florida-origin exports. In addition, a significant proportion of Canadian exports to Latin America and the Caribbean are trans-shipped in bond through Florida ports" (Kroll-InfoAmericas, 2008). Tampa and other southern US ports might be consolidator locations to explore further. Moreover, Canadian goods could be sold to small Latin American buyers through major US-based corporations like Wal-Mart and Costco that enjoy supply chain technologies and volume purchasing price advantages. And once the embargo is lifted, some Canadian goods will appear as components of US products exported to Cuba or may even be shipped from the United States to the island after being sold to US firms.

Conclusion

The full lifting of the US embargo against Cuba is likely to occur only when both Fidel and Raúl Castro are out of the picture, even though US domestic politics and especially the Cuban-American exile community will play a key role in any movement toward normalization. In the meantime, however, there is a good chance that the United States will at least eliminate some of the existing restrictions on travel to and trade with the island. In order to minimize the negative consequences for its economic interests in Cuba and improve its business prospects, Canada must respond quickly and strategically to the various scenarios resulting from a gradual easing of US sanctions.

When the embargo is completely removed, Cuban authorities will not make special concessions to their

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Canadian commercial partners. Yet established know-how and relationships will remain important in deepening business ties. Whatever works for Canadian traders in other parts of Latin America (and especially in the Caribbean Basin) where there is already significant US competition should become the core of their strategy for a post-embargo Cuba. Advantages can be created in terms of products and services, transportation links, supply chain efficiencies, and competitive credit terms with crucial help from the Canadian government. Moreover, when Cuba regains access to long-term external financing and money for infrastructure rebuilding comes on line, Canada's deep knowledge of the Cuban market should enhance the position of Canadian firms vis-à-vis competitors. These firms should also ensure that their lawyers are ready to address property claims and interpret legal and commercial frameworks as they develop.

In sum, the Cubans may love us now for what we did yesterday. But they will love us tomorrow only if we remain competitive and begin preparing adequately today.

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