

CLIENT ALERT

Tangible Signs of Progress

President Obama's announcement that he and Secretary John Kerry will travel to Cuba at the end of this month has sparked some interesting developments. President Obama's decision to re-establish diplomatic relations, to include Cuba in the Summit of the Americas, to negotiate the re-opening of the U.S. Embassy in Havana and the Cuban Embassy in Washington, DC, and many other significant steps in a new approach to Cuba since December, 2014, will ultimately and over time, lead to the U.S. changing its policy and the eventually lifting the U.S. embargo by Congress.

There are tangible signs of progress. Commercial flights and ferry service from the U.S. could resume as early as this summer, bringing even more American travelers to Cuba. U.S. cellular companies now provide service on the island, and internet access has improved. The first U.S. factory on Cuban soil in more than half a century will soon open. And serious talks have begun on issues such as investor protections, telecom regulations and environmental protection. These developments can have a powerful cumulative effect.

Some challenges to the normalization of economic relations include Cuba's laws, regulations, and policies that, like the US, require modifications to encourage US investment. These include adjustments to Cuba's foreign investment laws, including the repatriation of profits, tax laws, labor laws, as well as mechanisms for the resolution of disputes. U.S. agricultural exports to Cuba are hampered by the U.S. prohibitions on offering credit and insistence on pre-payment by the Cubans.

But the main detriment to normalization is the U.S. embargo which continues to impede investment in the state sector that constitutes approximately 75 percent of the economy and dominates not only tourism, but also agriculture, manufacturing, mining, and construction. The non-state sector, which is currently the area that U.S. policy is encouraging investment in, has limitations. It is composed largely of micro businesses including: construction, farming, food preparation and sales, bed & breakfasts, transportation (both goods and people), repairs, and professional services. Among the most dynamic sectors are the renowned private restaurants (*paladares*) and the classic car operators who cater to tourists.

President Obama may be seeking to make his opening toward Cuba "irreversible" for a future president and prepare for a post-Castro Cuba. We expect that the President will continue normalizing relations. Experts predict that during his visit to Havana the President will announce a new round of amendments to U.S. policy by using executive orders that may include making it easier for Americans to travel, and allowing the use of dollars on trade transactions, among others.