

## **The Business Case for a Sustainable Cuba — Part I: Five Sectors Ready to Go**

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The Cuba-U.S. commercial rapprochement reached its punto de caramelo (the tipping point where heated sugar and water alchemize into candy) during the week of February 15-19, 2016. Last week saw the visit of a high level Cuban delegation to Washington (received by an equally high level delegation of US counterparts), the signing in Havana of an accord renewing commercial flights between the two nations, and the announcement by President Obama that he intends to visit Havana in March 2016.

Once the renewal of diplomatic relations had been cemented by the re-opening of their respective embassies, the vast majority of the commentary on the advancing U.S.-Cuba relationship turned towards the commercial opportunities available for both sides. A topic that has shone for its near total absence, however, has been the corporate responsibility (CR) imperatives of US companies once on the ground in Cuba. It is as if the priority assigned to establishing commercial relations completely overrides the social and environmental necessities of the Cuban people, not to mention the Cuban government's pledge to build a "prosperous and sustainable socialism." It is also surprising when one factors in the preoccupations within the United States over the deleterious effects of increasing inequality, as well as the looming dangers of climate change.

At a practical level, this omission is the understandable result of the time consuming difficulty of disentangling the 57-year-old labyrinth of measures, acts and laws that are collectively known as 'the US embargo.' Negotiators will first have to arrive at an accessible playing field, before the commercial partners can even think about modeling the 'ideal' bilateral business relationship between an environmentally and socially proactive socialist state-run system and a capitalist trickle-down and laissez-faire private sector-led system.

A look at some of the idiosyncrasies of the Cuban enterprise system can also shed light on the reasons why CR is not part of the conversation at this point in time. In a socialist system, state enterprises have an implicit responsibility to serve the well being of society by fulfilling social objectives. Explicit corporate responsibility strategies such as those practiced in capitalist countries are not considered necessary because CR is already "baked into" existing operations and long-term objectives of the socialist state enterprise system. Moreover, social welfare, education and environmental policy are considered the exclusive bailiwick of the state, and corporate proposals and attempts to engage in these areas are seen as encroachments by the private sector on the sovereign territory of the state. As a result, the foreign-owned sector tends to operate within well-guarded silos. This distrust over attempts at protagonismo (self-important and misguided agency) by foreign companies is understandable when seen in the context of the dominance of U.S. commercial interests of pre-Revolutionary Cuba. The end result is that, as counter-intuitive as it may seem, Cuban state officials fundamentally end up agreeing with Milton Friedman's assertion that "the business of business is business."

Some American companies might welcome the release from the often-impossible demands placed on them by the advocates of corporate citizenship; but before they celebrate this freedom, they should realize that the Cuban state's M.O. when it comes to 'business externalities' is to develop ever more stringent regulations and to increasingly micro-manage the commercial relationships.

Though at this point there is resistance on both sides to address the topic of the social and

environmental responsibility of U.S. companies, once operating in Cuba, at some point, the commercial partners will have to come together to co-develop a plausible answer to the question: How can Cuba achieve an optimum outcome in terms of business competitiveness, economic well-being, and the preservation of long-held social values, while also building Cuban sustainability? Hopefully, the answer to this question will provide the basic building blocks for the co-construction of a business case for a sustainable Cuba.

The case for a sustainable Cuba has existed on the Cuban side since the 1990s as a result of the 'Accidental Eden' brought about by the collapse of the Soviet Bloc, as well as by the adoption of proactive sustainability measures inspired by the 1992 Rio Conference. However, a business case to back this sustainability effort has not yet been needed because the Cuban state has managed to address environmental externalities successfully. In a post-embargo scenario, the rate of economic growth and the sheer heterogeneity of the business sector will necessitate the attraction of the right kind of sustainability-oriented partners and financing sources. These future partners will, indeed, require a business case.

Two sectors reveal strong business cases for a sustainable Cuba: sustainable tourism and organic agricultural exports. If Cuba is to remain competitive over the long term in the 'sun and sand' market, it must safeguard its magnificent culture and its comparatively pristine environment. This will take proactive planning and the right kinds of business partners and niche market targeting. Another promising sector is organic food production, the paragon of Cuba's extraordinary adaptive capacity following the collapse of the Soviet Bloc. The opening of the U.S. market to Cuban organic food products would bring a bonanza to this sector and much welcome development opportunities for the poorer food producing eastern regions of the island. The business case for sustainable tourism and for organic agriculture exports is as attractive to the Cuban partners (as a substantial source of foreign currency) as it is for foreign commercial (high-margin, high-demand niche markets).

The renewable energy sector also offers many sustainability-oriented opportunities. Cuba lacks sufficient major operational oil or gas reserves and its hydroelectric energy generating potential is low. Oil exploration in the Gulf of Mexico, though promising, has yet to show results and the preferentially priced Venezuelan oil-for-doctors program, essential to Cuba's economic growth, has come under dire threat in 2016. These threats are behind the Cuban government's objective of generating 20% of their energy output with renewable resources in the near future. This sector will provide foreign partners with a clear business case, while for the Cuban government, renewable energy is more of an issue of national security than a clear-cut business imperative.

Two additional sectors will have to operate with a great deal of attention to sustainability matters: coastal zone development (tourism, ports, waste management, fishing, urban development, etc.) and mining. Being a climate change 'hot spot' and highly susceptible to coastal erosion due to rising sea levels and warming waters (leading to the death of protective coral reefs and an increase in major hurricane activity) makes responsible development of the coastal zones of the island imperative. Nickel has been one of Cuba's major foreign currency generating exports. The siege mentality that the U.S. embargo created not only for the Cuban state, but also for foreign companies operating on the island, made it necessary to conduct business in opaque and secretive manners. However, once the embargo is lifted there will be calls for greater transparency and requirements that public foreign companies publish audited financial statements along with social and environmental balances. Fairly soon, what happens in Moa — where Canadian mining giant Sherritt has been mining nickel for decades — will no longer stay in Moa. Cuba's mining industry's operational practices, though improving, will for the first time come under the careful (and vociferous) scrutiny of global anti-mining activists.

Sustainability-oriented business partners are already starting to operate in Cuba, especially in the renewable energy, tourism and agriculture sectors. A recently announced large sustainability-oriented joint venture in the consumer goods sector stands to revolutionize the way business models have been traditionally conceptualized in Cuba. One of the first European ventures authorized to operate in the Mariel Special Development Zone (ZEDM) is that between Dutch Unilever N.V. and Cuban Intersuchel S.A. According to Unilever, the 35 million dollars plus joint venture will not only contribute to the development of the country and to the well-being of the population, but it will endeavor to protect the environment. The venture will be managed according to the Sustainable Living Plan, Unilever's business model which is based on the use of sustainably sourced materials, a commitment to consumers' well-being, improving working conditions and opportunities as well as promoting diversity and equal opportunity.

Surely many factors affected the decisions made by the Cuban government and by Unilever executives. However, what is undeniable is that this kind of partnership will provide a major stepping-stone in the development of the business case for a sustainable Cuba. Hopefully, many others will follow.

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