

# TIME

ONTARIO HYDRO UNPLUGGED  
THE U.S.: SNEAKING INTO CUBA

## THE DEATH OF PRIVACY

**You have no secrets.  
At the ATM, on the  
Internet, even walking  
down the street, people are  
watching your every move.  
What can you do about it?**



# Checking into Cuba?

After years of being locked out of the island, U.S. hoteliers link up with those who have the keys

By **BERNARD BAUMOHL**

**F**OR AN OFFICIALLY EMBARGOED "Enemy" of the U.S., Cuba seems to be getting pretty popular with American tourists and businessmen. There were 29 Yanks officially registered at the Hotel Nacional when a terrorist bomb went off in the lobby of the hotel July 12. Last year 1,500 executives visited the island, up from 200 five years ago. They were not there for a suntan. Yet, insists Richard Newcomb, the Treasury Department official who enforces the U.S. embargo, "Cuba is off limits to nearly all U.S. commercial transactions. There is no front door or back door to Cuba for Americans to do business."

How about a side door? A growing number of U.S. hoteliers, including Days Inn and Choice Hotels International, owner of Comfort Inn, as well as U.S. investment banks have spotted an opening in the form of joint ventures with foreign companies. They are tiptoeing through it to secure a foothold in a Cuban tourism industry that continues to grow without an American presence.

The opening was created in 1994 when Treasury concluded in a little-known ruling, unrelated to the travel industry, that an American company can invest in a foreign firm that has business in Cuba—as long as the U.S. investor is a minority holder and the foreign company doesn't earn most of its money in Cuba.

This year 1.2 million visitors—mostly Canadians, Italians and Latin Americans—are expected to drop about \$1.3 billion on the island, which offers the requisite capitalist vices of beautiful beaches, discos and even golf. There are also a surprising number of Americans, whom Cuban officials wave in through Mexico or Jamaica—no need to get your passport stamped. Even after years of steady growth, the number of vacationers continues to increase 15% annually, the fastest pace in the Caribbean. Tourism has replaced sugar as Cuba's main source of hard currency. That is one reason tourist hotels were the targets of the antigovernment bombings, which caused moderate damage and three injuries.



## CUBAN HOSPITALITY

U.S. firms have been quietly making connections they hope will give them a spot in a growing market

AMERICAN COMPANY	FOREIGN PARTNER	BUSINESS ACTIVITY
Days Inn (Now owned by HFS)	Realstar Group (Canada)	Its Delta Hotels affiliate operates two resorts
Choice Hotels International	Journey's End (Canada)	Managed three hotels until May and is now looking at five new hotels
Robertson Stephens & Co.	Leisure Canada	Building 11 luxury resorts with golf courses and marinas

Unencumbered by the notion that they may be operating out of expropriated property, foreign hotel companies like Club Med (France), Sol Melia (Spain), Golden Tulip (Netherlands) and Delta Hotels (Canada) grabbed prime spots and locked up lucrative hotel-management contracts. Cuba now has some 200 hotels offering 27,000 rooms—more than Puerto

Rico and the Bahamas combined. "It's a profound disappointment that we are enjoined from building hotels and a tourism infrastructure there, while our competitors from around the world are allowed to enter and pick the fine sites," laments Marilyn Carlson Nelson, vice chairman of Carlson companies, a \$20 billion travel firm that owns Radisson Hotels.

Desperate to avoid being frozen out, leading U.S. executives are taking matters into their own hands. "Most of the large hotel companies have already quietly established a relationship in Cuba or are at least working on doing so," says Michael Stein, a Miami-based lodging-industry consultant for Arthur Andersen.

Hoteliers like Radisson adamantly deny any such dealings. But some observers aren't buying it. "Definitely, all the executives from the large hotel chains have been down there checking out properties and talking to hotel managers in Cuba," says Ernest Preeg, former U.S. ambassador to Haiti and now with the Center for Strategic and International Studies in Washington. "These companies have some very detailed plans on how they are going to proceed, because even without the U.S. market, tourism there is going to grow."

Though still fearful of a political backlash from the anti-Castro Cuban-American community as well as from Republican Washington, many U.S. hotel executives are committed to moving ahead. They are convinced that the uncertainties, including disputes over confiscated property, can be resolved in the future. And none of the foreign hoteliers seem to be violating the controversial Helms Burton act, which would make them targets in U.S. courts if they were found to be operating on property confiscated from Americans or U.S. corporations.

Companies such as Days Inn, one of the world's largest hotel franchisers, and the San Francisco investment-banking firm Robertson Stephens & Co. have bought into foreign hotel firms with Cuban connections (see chart). Choice, a giant hotel franchiser based in Silver Spring, Md., has a four-year-old partnership with Journey's End, an Ontario firm that has extensive hotel experience in Cuba. "Our joint-venture partner thinks there is a lot of opportunity in Cuba, and we would definitely explore this," says William Floyd, Choice's CEO. "It's nice to say that we are getting in on the ground floor, though we are a lot closer to the basement. But there is a lot of potential down there." Choice (1997 sales: \$2.8 billion) has more than 4,000 hotels.

Robertson Stephens bought nearly 20% of Leisure Canada, which is building

11 luxury hotels in Cuba. "There are U.S. hotel companies too that are negotiating with us, and we will have an announcement [soon]," says Walter Berukoff, chairman of Leisure Canada. One U.S. casino giant is in talks about opening a Cuban resort. "We're in the process of making an investment in Cuba through a foreign partner right as we speak," says its CEO, who didn't want to be identified. "Everyone is interested in Cuba. When the U.S. government finally lifts the restrictions, the Bahamas and Puerto Rico may as well close their doors."

In June, GE Capital and Westbrook Partners, a New York real estate investment company, invested \$200 million to acquire a "significant" stake in Allegro Resorts, a large hotel operator based in the Dominican Republic. Allegro officials have flown to Cuba and looked at hotel properties. "We're definitely keeping our eyes and ears open on what's going on in Cuba," said a hotel spokesperson.

At last count there were 240 joint ventures in Cuba, involving 57 countries in 40 different areas of the economy, valued at \$5 billion. "It is actually easier to do business in Cuba than in the free world," says Nicholas Crespo, president of Miami-based Latin America Hospitality and Consulting. "Once you have the confidence of Cuban officials, you have easy access to Cuba."

The Cubans are trying to sound more and more like the Chamber of Commerce. "The return on investment in tourism in Cuba is more rapid than any other type of investment," says Ricardo Alarcon, head of Cuba's parliament and a top adviser to Premier Fidel Castro. "Business people going to Cuba are making money, making profits. American companies have begun and will continue seeking ways to protect their legitimate business interests." Cuba now permits outsiders 100% ownership of their investments and full repatriation of profits.

To be sure, any investment in Cuba inherently carries risk. Anti-Castro Cuban nationals argue that any investment now merely amounts to the support of an illegal regime and thus may not be honored if a new, presumably democratic, government takes over.

The big payoff really won't come until Americans are free to return to Cuba. It's a country with a strong American legacy. Ernest Hemingway lived there for 20 years, writing classics including *The Old Man and the Sea*. This was the hideaway for millionaires and the Mob, the Du Ponts and Al Capone. In fact, prior to the 1959 revolution, Cuba was the single biggest destination in the Caribbean for Americans. It may yet be again. ■

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