



THCG Business Report



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A few opening words



Dear readers:

After five months of waiting and much speculation about the Cuban policy review process, President Donald Trump has put in place "new rules of the game" to reach a new agreement with the Cuban government consistent with the spirit of the 1996 Helms-Burton Act. President Trump's speech in Miami has put the negotiations on a more realistic and direct scenario. The change was aimed at avoiding trade with companies under the business structure of the Cu-

ban Armed Forces (FAR) and trying to favor trade with the self-employed at a time when there are only a few months before Raúl Castro leaves power. The message was intended for the new leaders about to gain command: if they want more, they have to move a piece, put the house in order and make adjustments so that we can continue the game. However, he kept practically all the chips that had been moved so far in the same place - without returning to the Bush era - leaving the door open.

Meanwhile, a middle class is emerging in Cuba as there is a re-balancing of economic power, after almost 60 years. Boosted by the growth of Cuban entrepreneurs, the new middle class shows strong economic autonomy, great ability to innovate, and a tremendous capacity to generate wealth. In our first article, we will show what have been the fundamental factors that have given rise to this middle class. We will also analyze the dimension of the market that entrepreneurs have created within the economy, the impact of the Cuban exiles' contribution in this development and the new balance of power that has emerged in the national economy from the growth of the private sector.

In our second article, we present an analysis of investment opportunities in tourism infrastructure. The article reflects the main bottlenecks that affect the current Cuban tourist industry and the great changes of strategy that it requires. It also explores the aspects that must be prioritized as part of the renovation process: modernization of buildings, telecommunications and transportation, as well as the development of new products to attract new tourist segments with greater purchasing power. In this context, we analyze the great investment opportunities presented by the mega tourist project in the port of Havana.

Our third article analyzes the resurgence of Spain as one of the main commercial partners of the island. In the study, we show the new scenario of swaps of the Cuban external debt with Spain for equity and the opportunities presented in the financing of exports and investments in the island. The analysis shows the reasons why the island has become a priority market for Spanish companies, due to the growth of Spanish investments not only in the tourism sector, but also in energy projects, in the ZEDM, and other strategic areas of the economy.

In the fourth article we offer an overview of the current state of the logistics sector and the investment opportunities in several of its modalities. The study shows the difficulties that exist in the infrastructure supporting railways, airports, ports, tourism, and

agriculture, among other sectors. It also reflects the country's major problems regarding storage and distribution of domestic goods and the need for modernization and overall increase of the transportation fleet carrying different types of cargoes. The study offers a strategic perspective on the investment niches with greatest opportunities in the logistics sector.

Then in our fifth article we make an in-depth analysis of Cuba's foreign trade related to exports and imports of goods and services, as well as the trade balance. The analysis shows the high dependence of the Cuban economy on fuel imports from Venezuela and how the poor performance of the agricultural sector in the production of food require the allocation of a high volume of resources to be able to finance food imports. In addition, the report analyzes the low share of capital goods within total imports, which is consistent with the low rate of gross capital formation (investment) Cuba has had in recent years.

This is followed by a forecast of the volume of sales that the Cuban rum brand Havana Club could have if it were able to enter the North American market. The report analyzes the evolution of the brand under the economic and strategic guidance of the French company Pernod Ricard since 1993, its range of products and the growth of its brand value. The article also makes a comparative analysis of the sales performance of Bacardi and Havana Club rums and their trends in recent years. In addition, it shows the impact that the entrance of the Cuban rum in the North American market might have, basing the analysis on four possible scenarios.

Finally, the last article shows the boom in the consumption of branded products on the island and the transformation of the market in the face of such brands. In addition, it shows the ranking of the top 10 national and foreign brands most recognized by Cuban consumers and the main factors influencing such behavior. Also, it analyzes the limitations on the use of publicity in the media and the changes that are taking place for its future reintegration. Finally, study analyzes the growth in trademark registrations in the country, both domestic and foreign (mainly North American) and the successes that Cuban entrepreneurs have had creating their own brands.

Subscribe to THCG BUSINESS REPORT and be ahead of the competition. Deepen your knowledge about the Cuban market and learn the ins and outs of a market that has become fashionable but has been largely unknown to outsiders for more than 50 years.

Without further ado, we hope that you will enjoy our third issue for 2017 of THCB BUSINESS REPORT, with confidence that the unique and unpublished information that we offer about the Cuban market will help you in making decisions regarding the possibility of doing business in the island.

Sincerely,

Emilio Morales
President and CEO
Havana Consulting Group

A handwritten signature in black ink, appearing to read 'Emilio Morales', written over a thin horizontal line.

ABOUT THCG BUSINESS REPORT

The team of expert consultants who prepare this Business Report is composed of experienced analysts and researchers with vast knowledge of the internal dynamics of the Cuban economy, the social and political situation, and the legal framework as well as the island's international and commercial relations. The team consists of some of the most prolific and cited authors in the academic world, experienced journalists who have taken Cuba's pulse for an extended period of time, executives who are familiar with the world of business in the U.S. as well as in Cuba, and lawyers who are

well as in Cuba, and lawyers who are able to navigate the peculiar Cuban legal environment. It is important to listen to experts particularly at a time when Cuba is attempting to reform its economic system to improve efficiency and create sustainable economic growth that improves the standard of living of the population. Frank, clear, and independent analysis and opinions are needed, based on the most recent information available. The experience and authority that The Havana Consulting Group offers fills this demand.



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