

THE IMMINENT OPENING OF CUBA AND ITS POSSIBLE IMPACT ON THE ECONOMY OF THE USVI

by

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INTRODUCTION:

Good afternoon to all.

Senator Janette Millin Young, other Senators; ladies and, Chief Economic and Fiscal Policy Adviser to the Governor of the gentlemen in the viewing and listening audiences, my name is Simon B. Jones-Hendrickson USVI, the Honorable Kenneth E. Mapp. Many of us will testify today on the opening of Cuba and its possible impact on the economy of the USVI. The pivotal question is, what are we going to do about it? In other words, how do we prepare ourselves for this eventuality? I will give a brief background on the tourist economy in Cuba and from those developments offer some suggestions that we may wish to pursue. Of course, the Commissioner of Tourism, Beverly Nicholson Doty is the person best positioned to give the strategic approach to what we may wish to do. My suggestions are being couched in the context of a holistic approach to locating tourism in the economic development of the Virgin Islands.

First, it must be made abundantly clear that while there will be changes in the political and economic relations between the USA and Cuba, there are, to date, no final definitive arrangements between the two countries as they pertain to cruise ship calls and scheduled air flights. To effectuate the anticipated growth in demand for tourism in Cuba, it will have to deal with the demand for its product in Havana, and the other areas outside the capital. It is conceivable that the increase in USA-based tourists will

generate capital expenditures in the hotel sector and may have an agglomeration effect such that other hotel brands and other countries will want to expand their capex in Cuba. In the short run Cuba will have to loosen the restrictions on hotels and hotel type arrangements such that the hotel sector will not be solely government run and operated. This will take time and given all of the competitors in the region, this breathing room will help us in our future development. From the latest intelligence information, Cuba has been working actively on expanding and improving its marinas and has begun a major effort to decentralize its tourism product.

What does this mean? It means that for us here in the USVI and the wider Caribbean, that we all will feel the effect of some shifts in the tourism product. Will it be a seismic shift? YES. Cruise ships have a tendency to go where they see opportunities and the least cost and where they can exact greater subsidies from governments. Some of this will undoubtedly play itself out in the region among the major and not so major players. Recent Cuban reports indicate that USA-based tourists increased in excess of 30% over the first five months of this year. According to the Caribbean Tourism Organization (CTO), Cuba has leapfrogged to be the “second most popular tourism destination in the region after the Dominican Republic...”

The Caribbean Hotel and Tourism Association (CHTA) in a White Paper entitled ***“Cuba: The Great Disruption for the Good of the Caribbean,”*** **June 2015**, notes:

There is ample time and opportunity for the net effects to be positive for the Caribbean as a whole. But as for the individual effects by country, those will depend on both individual and collective action in avoiding the longstanding Caribbean malaise of “business as usual”. [CHTA, JUNE 18, 2015, page 1]

For too long we have taken tourism for granted. Sometimes, as I often say, we want tourism but we do not want the tourists. Some people still see tourism as an industry where servility is the norm and where service is an after effect.

The CHTA further states that:

Relatively little effort has been spent on turning the most tourism dependent region in the world into the most tourism competent. The coming Cuban disruption just might be the tonic that the countries need individually and collectively to build the kind of strategic approaches to tourism development that will yield sustainable results for its citizens. [CHTA, JUNE 18, 2015, page 1]

WHAT IS THE CUBAN TOURISM PLANT TODAY?

In a January 6, 2015 Reuter's article entitled "Cuba will attract more Tourists with (the) US deal, (but) Needs to Modernize," [Feature – Cuba will attract more tourists with US deal, needs to modernize.

<http://mobile.reuters.com/article/idUSL1N0UD1FO20150106>].

The article expresses the same conclusions that I came to, after having been to Cuba and stayed at one of the famous hotels in Havana. The hotel is close to the famous "Malecon," the seafront promenade like our Waterfront here in Charlotte Amalie or the Strand Street promenade in Frederiksted. The article notes that inside the Famous Hotel Nacional, for instance:

"... many of the rooms are shabby and musty, the WIFI is costly and weak, customer service is often indifferent, and the food, while plentiful, is generally dull."

The article continues, “Although Havana is loaded with charm, great music and architectural jewels, there is a shortage of quality hotel rooms and restaurants, hire cars, taxis and other services.”

<http://mobile.reuters.com/article/idUSL1N0UD1FO20150106>]

Havana, according to the Cuban hotel data and verified by Collin Laverty, President of Cuba Educational Travel in the article cited above, notes that Havana, which would be the hub of any major tourism development only has:

“four or five really nice hotels...in which you can count on for a really nice quality experience, and (he states that he) thinks that (they) need to increase five, six-fold.” (Furthermore), Laverty notes that there are “capacity issues at the airport with everything from luggage getting off flights to customs process...”
[\[http://mobile.reuters.com/article/idUSL1N0UD1FO20150106\]](http://mobile.reuters.com/article/idUSL1N0UD1FO20150106).

According to Cuban government data, international tourism contributed \$2.3 billion to the revenue stream in 2013; this was a 21% increase over the \$1.9 billion in 2009. In that year, there were 52,600 hotel rooms across Cuba, but again between 2009 and 2013, only 2000 rooms were built. Since that time, according to an article entitled “*Cuba as a Destination: Ready for the Tsunami?*” The **Cuban News Agency, (ACN)**, August 26, 2015, states that in Cuba, today, “*there are now 63,000 rooms - of which almost 70 percent are four and five star hotels - Cuba will continue to invest in adding new and better installations in the coming years. The estimates indicate that by 2020 the island will have over 85 thousand rooms.*”

There is no doubt that Cuba will attract lots of tourists who will go for the novelty of going there after the long embargo. Many persons will go for the Educational tours, like I did when I visited two times. In fact *La*

Casa del Caribe and the Ministry of Culture have been pushing educational tours and conferences. Other ministries have been pushing conferences and symposia on the environment, in both Havana and Santiago. The University of Havana Regional, Social and Economic Research (*Coordinadora Regional de Investigaciones Sociales y Economicas (CRIES)*) and the Social Science Research Council (SSRC) as well as Cuban-American groups associated with the University of Miami have also been pushing for more educational conferences on the island. People-to-people trips and educational tours with an emphasis on culture and other educational aspects are also encouraged. The SSRC of Brooklyn, New York, is a not-for-profit organization with a mission of advancing social science research through the world.

It should be clear that even with the easing of the diplomatic relations between the USA and Cuba, the majority of travelers will still be persons of Cuban-American descent.

In 2013, again citing the Reuters article, *“Of the roughly 450,000 U.S. citizens who went to Cuba..., some 350,000 (or 78%) were Cuban-Americans who typically have relatives there.”*

According to the Cuban government figures, *“a record of more than 3 million tourists visited the island in 2014, an increase of 5.3% from 2013.”* Who are the people who visit, outside of Cuban-Americans?

“Canadians have led the way in recent years. About 1.1 million visited in 2013, many of them skipping Havana and flying straight to Varadero east of the capital for a beach holiday with a similar feel to other Caribbean locations. In the second place was Britain, with fewer than 150,000, and Germany and France were third and fourth,” respectively.
<http://mobile.reuters.com/article/idUSL1N0UD1FO20150106>]

There are still limitations as far as the money economy is concerned. US dollars, Canadian dollars and several European currencies can be exchanged at the Havana Airport into Cuban Convertible Pesos (PCC, in Spanish). Since 2004, US dollars are not accepted in Cuba, as they once were. US tourists cannot access U.S. bank services or pay with U.S. credit cards; they are not accepted. US dollars are subject to a 10% tax for changing them. Cash is the name of the game. In fact when we visited, we had to exchange our money at the Airport and got a tourist rate of exchange which was different from the rate of exchange of the peso applied to the ordinary Cubans.

WHAT SHOULD WE IN THE VIRGIN ISLANDS DO?

Persons who have spent time observing the developments of tourism in the USVI are aware that a major bump in tourism in the USVI was as a result of Fidel Castro's revolutionary revolution in 1959. The closure of Cuba's market to American tourists was to our advantage. Today we face a scenario that the reopening of Cuba will force us to be more on our p's and q's in the tourism/economic development space.

We have a competitive advantage and a 55-year track record since that time. We are a US flag. We have had successes in being in the top three markets in the region. We need to exploit these advantages and exploit and explore all of the synergies deriving from these advantages. The following suggestions are what may be put in the planning matrix. Commissioner Nicholson-Doty's experience and hands-on professionalism in this area will be more detailed, no doubt.

1. If we are to stay in the top three of five places of the tourism destination and amenities market, it is vital that there be a ramped up level of investment in the tourism market. We should anchor

this investment over a five-year period, in the first instance. This means that investment in the market will have to be at all levels and across the board to match the ratios of Tourism Expenditure to GDP that many of the lead markets across the region employ.

As I noted earlier, Cuba plans to have at least 85,000 rooms in its inventory by the year 2020. In other words, over the next five years Cuba plans to build an average of 4,400 hotel rooms per year. Given that the country was only able to build 2000 rooms per year between 2009 and 2013, or an average of 500 rooms per year, I find it quite unlikely that the 4,400 target will be achieved.

Of critical importance to us, however, is the lesson from this. We have to expand our hotel and villas inventory and all other room-types with a view to the quantum and the associated quality. We have to seek to attract hotel types of the four-stars and above, and at the same time consider boutique hotels. In this same vein, we have to rebrand our current inventory that is predominantly three-star hotels. So our Economic strategy will have to factor this aspect of the inventory into our matrix of development.

2. We have to seek to improve and expand our air services. Airlift is the sine qua non of tourism destinations.
3. An expanded profile of our tourists is going to be crucial as we move forward over the next five years, in the first instance. Seniors, Retirees, Churches and the links to conventions; Professionals, like Doctors and Lawyers; the Black/African and Latino, up-scale market, etc.

4. Along these lines we have to plan now to develop a new cadre of persons devoted to understanding and presenting the cultural nuances and cultural industries, our music, etc., and the relevance of culture in tourism. I am aware that there have been lots of training in this area. An added dimension will now have to be considered to keep us several steps along the path that Cuba and other destinations are following. In a similar light, we have to consider the markets that are opposite to ours from a seasonal point of view. For instance, Latin America and other southern cone countries.
5. We need to promote joint ventures with local EDC business to be ambassadors of the VI. Over any given month there are several businesses knocking on our doors to locate or relocate here because of our competitive tax advantages. When those businesses get benefits from us, it ought to be that in addition to contributions to charities of their choosing, and monies to the Territorial Scholarship Fund, and the Department of Labor, that some portion of their giving be given to promoting their VI base of operations. Legislation may be needed here.
6. We would need a more seamless manner to check in hotels. The technology of service delivery in the hotels, the service, the quality of the service, training, food preparation, authentic and exotic preparations; local delicacies, all have to be taken to a new level. As one who has travelled all over the world, literally, there is a vast difference in what we offer and what we could offer. We are better than many. Our goal should be to be in the top tier, and remain there. We have to run forward; we cannot run on the spot.

7. We need to develop greater linkages with the agricultural sector. Food is vital to the cruise ship industry. Whatever it takes, greater sourcing of things local should be encouraged, as some countries in the region have been able to negotiate with the ships to purchase their local vegetables. I am mindful of the need for reliability and quality, but all possibilities should be on the table of momentum.

8. The VI is blessed with some of the best waters in the Caribbean for sailing, fishing and regattas. This segment of the industry under Tourism or in the Maritime space has to be exploited. We could easily be a hub where people come to fish, sail, make, fix and repair crafts of a certain vintage. This will be a new revenue stream that is ancillary to tourism. We have commuter aircrafts but a dearth of aircraft mechanics. In other words, if we see this thrust from a holistic point of view, when you are in the VI, the economic, technological ambience and experience, it will be such that we can satisfy your demand for the principal demand for tourism and allied services.

WHAT TIME FRAME DO WE HAVE?

The time frame to mount a strategic move in anticipation of Cuba's entry into the new tourism disruption in the Caribbean is **now**. The VI cannot compete in a head to head battle with Cuba. But we can certainly maintain our own and I am of the distinct view that we have a lead time of about at least 10 years to ramp up our tourism plant and expand the industry along lines that many of us will suggest today. From a cursory assessment of the hotels and villas on St. Croix and St. Thomas I noted the following: On St. Croix of 16 hotels and Bed and Breakfasts, there was one five-star hotel; three four-stars and 11 three-stars. This suggests

that we ought to be considering a more upscale profile of our hotel inventory and aggressively seek to upgrade our hotel and villa mix.

On St. Thomas-St. John, of 88 hotel types and villas, there were three five-stars, 35 four-stars, 35 three-stars and 15 two-stars. Here, it is very clear that this hotel-mix has to be rebranded, refurbished and upgraded to compete on a playing field of expanded tourism experience. We already have a fairly well structured mix of hotel types relative to the amenities they offer or the experience they could provide. On St. Thomas, of 57 theme hotels, there are 25 family hotels, 17 beach hotels and 15 adventure hotels. According to brands, of a selection of 39 properties, 29 or 74% are listed as Independents; four are of the Wyndham family; three of Marriott and three of the SPM, that is the Villa-type arrangements. Clearly there is some noise in these data. But, suffice to say, from this information we need to aggressively seek investments to develop a profile that would move us to a more upscale mix while bearing in mind that brands and boutique hotels could exist.

CUBA'S OPENING: WIN-WIN? OR WIN-LOSE? COMPETITION OR COOPERATION?

In the final analysis, there is no doubt that the opening of Cuba is going to have some impact on our tourism product and tourism revenue here in the USVI and the wider Caribbean. The investment drive that is now under way in Cuba will have some impact here. We are not sure yet, what that impact would be. Practically, if the investment pie is static, Cuba could command a large share.

We have to expand our tourism offerings beyond the traditional sun, sand, sea and other s's as some people have attached to us. The cruise industry has been asking us to expand our offerings. This is the time to

move in that direction, not because they are demanding, but because we believe it is the best thing to do. We need to look seriously at our overnight tourists. The cruises are fine, but they are also competing with our brick and mortar hotels. So, here is where we have to see the opening up of Cuba as a situation to have multi-destination tourism experiences. Tourists can go to Cuba but we have to develop that we in the Virgin Islands be part of that multi destination. We have to have a real Caribbean experience in the tourism industry. We have to minimize the back room styles that are alleged to still obtain in the negotiations between the cruise industry and some countries. It is possible that some airlines may want to cut us out for the short trips to Cuba. A countervailing strategy has to be developed if that were to take place.

Lastly, it is imperative that all of the actors in the Region, the Caribbean Tourism Organization, the Caribbean Hotel and Tourism Association, all begin to sing from the same Sankey if we are to experience a win-win benefit as opposed to a win-lose scenario. As we move forward over the next five to ten years, we have to jostle, and expect to be jostled. We have to elbow our way to be within the top three, we have to give and receive. And paradoxically as it may seem, we have to compete and at the same time cooperate. Whatever we do in our tourism product going forward, we have to remember that the tourism product in the USVI is currently of seminal importance to the economy and that service, not servility is of central moment in its continued expansion and improvement.

Thank you very much. I am available for any clarification and/or other explanations.