

Building Products and Construction Sector Profile^[1] - Cuba

1. Sector Overview

Decades of under-investment have resulted in massive infrastructure needs across the country and have severely depleted the housing stock with an estimated deficit of 600,000 homes. Compounding these problems, four hurricanes, three in 2008 and one in 2012, worsened the housing stock situation, compromised infrastructure and partially destroyed industrial and public facilities. Overall losses were estimated by the government in US\$10 billion in 2008 and \$6.9 billion in 2012.^[2] The island's chronic lack of liquidity since 2008 was aggravated by the need to use hard currency reserves on the country's restoration efforts.

Over the past three years, major efforts and resources have been focused on the reconstruction of economic and social infrastructure, damaged homes and on strengthening the local building products industry. Resources made available so far for restoration have not been sufficient; the accumulated needs of housing and financial resources are well over the country's real capacity. The impacts of the global economic crisis, the US Embargo against Cuba and internal inefficiencies have also affected the economy.

As a result of reforms introduced by the Cuban parliament (Economic Guidelines of April 2011), Cuban state companies are expected to set their own rules but a large share of planning and control are retained by the state. The goal of the Guidelines is to provide more efficiency and generate fresh resources, which are required to gradually improve Cuba's financial balance. The Guidelines also allow and encourage self-employment in specified sectors, including the construction sector, and many Cubans have opened small private businesses and cooperatives. The State is trying to encourage foreign direct investment and intends to introduce changes to the investment law in March, 2014. The following sectors are open to foreign investment: oil and gas, mining, energy, packaging and tourism. Cuba is also encouraging investment in a location, its new Special Development Zone of Mariel.

In November 2011, Cubans were granted the right to buy and sell houses and cars from/to other Cubans, build houses and purchase materials, directly from state stores or private Cuban businesses, to build and renovate residences. New banking regulations, authorizing credits and some small financing for private home renovations were also approved.

In September 2013, the Cuban government announced a restructuring of the construction sector by separating the ministerial functions from the entrepreneurial activities. Starting in January 2014, the Ministry of Construction's core business will be focused on regulating and overseeing the application of the government's policy in the construction sector. Three new Entrepreneurial Groups will be created to lead construction activities in the island: Grupo Empresarial de Construcción y Montaje Industrial (Industrial Assembling and Construction Holding Organization), Grupo Empresarial de Diseño e Ingeniería de la Construcción (Construction Design and Engineering Holding Organization) and Grupo Empresarial de Materiales de Construcción (Building Products Holding Organization). Most actors in the construction sector in Cuba will operate under the umbrella of these three organizations. Currently, 60 percent of construction work in Cuba is undertaken by enterprises connected to the Ministry of Construction. The remainder is performed by other entities under the civilian branch of the armed forces (through a tourism company), transport, utility and telecommunications sectors as well as by foreign investors, mainly in the tourism and real estate sectors.

Cuba produces cement, ceramic tiles, ductile iron, steel rods, asbestos-cement, marble, wooden and PVC doors/windows and sanitary furniture and fittings. It imports most of the other building materials it requires. As a result of the 2011 Guidelines, local authorities have stressed the urgent need to develop a solid building materials industry in order to face the challenges of Cuba's rising construction needs and current limited exports of cement, marble and tiles. Strong foreign investment in this subsector is expected in the short term.

Customs duties for building products applied in Cuba are in line with those contained in the 2008 Harmonized Customs Tariffs System and are generally assumed by the local importers.

2. Sector Opportunities

The construction sector in Cuba offers a wide range of opportunities for Canadian companies from the sale of materials, tools, construction equipment, building technology and engineering services to a deeper level of involvement from construction companies and service providers or joint ventures with local partners to undertake infrastructure work or resorts. There are also opportunities in the local building product industry through the sale of industrial machinery, spare parts and special heavy equipment and/or the participation in association contracts with local state companies to build new manufacturing plants.

Tourism

There are opportunities for the construction, operation and commercialization of high-end hotels with a minimum of 80 to 120 rooms in the following resort areas: Trinidad, Ancon, Las Caletas, Santa Lucia, Ciego de Avila, Covarrubias, Guardalavaca and Cienfuegos.

There are also opportunities for the construction and management of real estate developments associated to golf courses.

Social Housing

There are opportunities for the construction and rehabilitation of social housing, schools, hospitals and other facilities.

Infrastructure

In the longer term, significant procurement opportunities will exist as part of the rebuilding/expansion projects of Cuba's infrastructure: airports, ports, sewage and water distribution, roads, railways, mining, oil and gas. The largest projects at present are undertaken by the Brazilian company Odebrecht (Construction of a major port in Mariel and the refurbishment of several airport terminals in the island), a Venezuelan firm PDVSA (expansion and modernization of Cienfuegos refinery) and a Canadian firm Sherritt International Corporation (expansion of Moa's nickel facility and oil exploration on the northern coast of Matanzas).

Building Products Industry

Cuba is looking for foreign investors for the following investment projects in the local building product industry:

- New manufacturing plant for manufacturing asphalt blankets for roofing. Amount: \$26.5

Million.

- New manufacturing plant for flat aluminum sheets to build drywall for residential housing and resorts. Amount: \$17 Million
- Modernization and expansion of the cement manufacturing plant in Nuevitas, Camaguey.
- Modernization and expansion of the white cement manufacturing plant in Siguaney, Sancti Spiritus. Amount: \$87 Million.

Construction Services

Cuba is promoting construction service exports to foreign countries, mainly to Latin America, the Caribbean and Africa. It has announced that it is open to establishing partnership contracts with foreign companies or investors to operate abroad.

3. Sector Challenges

The Cuban market is very price sensitive. There is generally no willingness to pay more for better quality. Lack of financing and export credits (other than short-term credit) also makes this market very challenging for foreign suppliers, including Canadians. Due to the liquidity crunch, Cuban importers will likely be requesting longer payment terms for the next two years (2014-2015) that can vary from 360 to 720 days.

Transactions requiring foreign currency (i.e. most import contracts signed with foreign suppliers) over 5000 CUC (approximately \$6,500 CAD as of February 2014) must be approved by Cuba's Central Bank Foreign Exchange Commission. This extra level of bureaucratic control, approval by the Central Bank, assures that funding is available.

4. Canadian Participation

A number of Canadian firms are active in the Cuban construction sector, which allows them to provide both consulting and construction services. Contact details for these firms can be obtained from the Canadian Embassy in Havana, with permission of the Canadian firms.

In addition, given its geographic proximity, Canada is well placed to supply construction materials to Cuba. It should be noted that the long-standing U.S. embargo against Cuba means that most U.S.-made construction products are prohibited from being exported to Cuba.

5. Competitor Analysis

Significant potential exists to increase Canada's construction-related exports to Cuba. Currently, Spain, and other European suppliers, Mexico and Brazil are Canada's main competitors in the market. As explained above, U.S. firms are not present in this segment of the industry in Cuba.

For tourism-related projects, a number of Canadian companies have been supplying products through the import agencies related to the sector and also through some foreign contractors such as Bouygues Batiments (France) and Odebrecht (Brazil).

6. Other Government Departments Market Strategies And Activities

As with all sectors, partnerships in the construction sector involving Canadian stakeholders are key

to Canada's overall trade strategy. The following organizations are the main partners with which the Canadian Embassy in Havana is working closely.

The Canadian Commercial Corporation (CCC) has a long and successful track record in Cuba and supports a number of Canadian exporters selling into the Cuban market. The Embassy uses CCC's network in Canada to disseminate construction-related business leads. CCC opened a regional office for the Caribbean and Central America in Cuba in 2010 with hopes to find ways to expand its overall business activities in Cuba and throughout the region. For the time being CCC Cuban business activities essentially remain focused in the tourism and sugar sectors.

Export Development Canada (EDC) continues to be active in supporting Canadian companies with their exports in Cuba. EDC is open on a restricted basis to support short term business under its Trade Finance Obligation (TFO) Program and on a case-by-case basis under its Financing Program. EDC operates on a case-by-case basis to finance projects that can, pursuant to their regular due diligence process, be adequately structured and can generate incremental foreign exchange. No medium or long term financing has been provided in recent years mainly due to credit and legal risks in Cuba.

DFATD's regional offices, industry associations and sector event organizers (such as Construct International) are also partners with which the Embassy of Canada will be developing its market plans and strategies. Industry associations have been very helpful in the past in hosting Cuban buyers or introducing their members to potential buyers.

7. Key Events

Construct International 2014

Toronto, Canada

December 3-5, 2014

Construct International is Canada's largest annual building design and construction show for commercial and residential markets. It provides an excellent showcase of Canadian expertise and capabilities, and the Cuban Ministry of Construction (MICONS) has been a regular visitor. Given the number of separate entities—and separate sectoral responsibilities—within MICONS, the Embassy has encouraged repeated participation by MICONS, in particular by IMECO, which is the purchasing arm of the Ministry of Construction.

FECONS 2014 (International Construction Fair)

Havana, Cuba

April 8-12, 2014

Held every two years in Havana, FECONS is Cuba's only construction sector fair. Although small, the fair serves as a good launch pad for companies interested in developing the Cuban market.

Organizer: Palacio de las Convenciones

Address: Apartado 16046, La Habana, Cuba

Tel.: (53-7) 271-3630, 271-9065

E-mail: pabexpo1@palco.cu

Web: www.fecons.netcons.com.cu

FIHAV 2014 (International Havana Fair)

Havana, Cuba

November 2-8, 2014

FIHAV is the largest annual international multi-sectoral trade event celebrated in Cuba. Excellent

opportunity to meet with key players and decision makers in the Cuban market.

Organizers: Ministry of Foreign Trade and Investment, Cámara de Comercio and Palacio de las Convenciones.

Address: Apartado 16046, La Habana, Cuba

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8. Canadian Government Contacts

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Bouygues Bâtiment International S.A.

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Construimport

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COI - Companhia de Obras e Infraestrutura S.A. (ODEBRECHT)

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Malecón esq. G, Vedado, La Habana, Cuba

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Tecnoimport

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[1] The Government of Canada has prepared this report based on primary and secondary sources of information. Readers should take note that the Government of Canada does not guarantee the accuracy of any of the information contained in this report, nor does it necessarily endorse the organizations listed herein. Readers should independently verify the accuracy and reliability of the information.

[2] All monetary amounts are expressed in US\$ unless otherwise indicated.