

Memorandum

September 15, 2009

To: Members of the Press
From: Philip Peters, Lexington Institute
Subject: Cuba's tourism sector – is it ready for Americans?

The question that always comes up about Cuba's tourism sector is: Is Cuba ready for Americans?

The short answer is: No, not immediately – but they have some excess capacity, they have increased their capacity before, and they could do it again.

Dramatic tourism growth in the 1990's

Before Cuba's socialist revolution, tourism was a vibrant part of the island's economy. But the socialist government shunned tourism due to its aversion to gambling and the organized crime that came with it, and due to its turn to a planned Soviet-style economy.

Cuba made some small moves to promote tourism in the 1970's and 1980's, but the promotion of tourism as a strategic economic priority only came in the 1990's when Cuba was devastated by the loss of Soviet economic support.

As a result, Cuba had only 275,000 visitors in 1989, the year the Berlin Wall fell – far below the potential of an island with spectacular scenic, architectural, historical, and cultural attractions. Within one decade, by 1989, visits had increased nearly sixfold to 1.6 million, and last year 2.3 million foreign visitors arrived in Cuba.

Tourist arrivals in Cuba

1989	275,000
1999	1,603,000
2008	2,348,000

This surge in tourism was possible because of a concomitant increase in Cuba's tourism infrastructure. There were 12,000 hotel rooms suitable for foreign visitors in 1989; that number tripled to 37,000 by 2001 and stands at 48,000 today.

Hotel capacity (rooms)

1989	12,000
2001	37,000
2008	48,000

What to do with the Americans?

Cuba's tourism infrastructure is built to handle the market it now serves, mainly Canadians and Europeans.

Visitors to Cuba by country of origin, 2008 arrivals (2,348,340 total)

Canada	818,246 visitors	35 percent
United Kingdom	93,932	8
Italy	126,042	5
Spain	121,166	4
Germany	100,964	4
France	90,731	4
Mexico	84,052	4
Argentina	47,405	2
United States	41,904	2
Russia	40,621	2

The sector is still developing, slowly moving from its initial "sun and sand" focus to a more diverse offering that emphasizes higher value-added market segments – golf, Canadian winter "snowbirds", eco-tourism, boutique hotels, and more.

There is no doubt that Cuba's capacity would be stretched by the U.S. demand that would result from an end to travel restrictions.

But Cuba does have excess hotel capacity now – in 2008, the tourism ministry reports that its hotels had a 60.2 percent occupancy rate.

In addition, a small but significant contribution would be made by those Cuban citizens who rent rooms in their homes. There are about 5,000 of these "bed and breakfasts" now; most are far from luxurious, but many have loyal and happy clienteles and this sector would surely expand if demand were to increase, accommodating part of the U.S. surge.

Cuba's experience in the 1990's may teach us how it would respond fully to an end to U.S. travel restrictions. Then, Cuba was in an economic crisis and had no cash to build hotels. But based on the island's market potential, it was able to attract foreign capital, which it used to build the first wave of new hotels as joint ventures with foreign investors. Later, as the economy improved and Cuba accumulated some working capital, it used its own money to build hotels.

Today, only about one eighth of Cuban hotel capacity is in joint venture hotels, where a foreign partner owns part of the business. The predominant model is full Cuban ownership in association with a foreign company (such as Melia or Barcelo) that has a management contract to run the hotel, train the employees, carry out marketing efforts, and put its brand on the property.

If the United States ends travel restrictions, Cuba could surely increase its capacity again. Based on its financial condition and economic priorities, it could use its own capital to build hotels, or it could again form joint ventures with foreign investors to build the capacity to handle the surge in U.S. visitors.

I'm available at any time to discuss or to provide further information.

Philip Peters

Vice President, Lexington Institute, Arlington, Virginia

703 522 9639 or peters@lexingtoninstitute.org

Blog: The Cuban Triangle – <http://cubantriangle.blogspot.com/>