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Featured Story

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When President Barack Obama established diplomatic relations between Cuba and the United States in December 2014, many thought the early business opportunities would be in sugar, cigars, and new tourist hotels. But one of the first big U.S. ventures in Cuba was a music festival in 2016, a Coachella-scale event that attracted almost a half-million people to Havana's waterfront to hear bands from the United States, Cuba, and other nations.

The four-day event, staged by the New York-based nonprofit Musicabana Foundation, was the culmination of thousands of hours of behind-the-scenes work in maneuvering through legal and diplomatic issues, not to mention bridging a cultural and political divide that has shown recent signs of widening. Indeed, after workers in the U.S. embassy in Havana earlier this year suffered attacks on their

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health that caused hearing loss and brain damage, Secretary of State Rex Tillerson said the administration was considering closing the embassy. The Cuban government has denied attacking the embassy, but the controversy underscores the fragility of the nascent diplomatic relationship between the United States and Cuba. While music may not be the main business between the two nations in the future, the festival offers important lessons in how to pursue business opportunities in Cuba.

Although music festivals are big business—Coachella ticket sales in 2016 were $94 million—Musicabana organizers recognized from the beginning that a music event in Cuba would be fortunate just to break even.

Building cultural ties was their primary goal, but Musicabana organizers still had to be mindful of financial issues since staging music is an expensive undertaking. Early on, Musicabana organizers acknowledged they wouldn't be able to sell tickets to the event in a country where the average monthly salary is the equivalent of $25. Buying a $375 festival ticket, the price for the cheapest ticket sold for the 2016 Coachella, would be incomprehensible for the average Cuban. With most of the country struggling just to put food on the table, it will be a long time before U.S. businesses can sell much of anything to individual Cubans.

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Organizers responded by making the concert free for Cubans and attempting to make up the difference by selling $295 tickets to foreigners, mainly from the United States. They also put together packages that included air travel and hotel accommodations with prices upward of $4,000.

Central Planning and Bureaucracy

"The first thing I tell people is 'You're not in Kansas anymore," Akerman attorney Pedro Freyre told Billboard in a 2016 interview. Freyre called it a learning experience for American businesses. "Cuba has its own rules, and it plays by, and enforces, them," Freyre told the magazine.

In the United States, a big festival would require enormous logistics and coordination among companies providing sound and lighting, security, food, insurance, parking, and ticket sales and processing, on top of obtaining permits from multiple government agencies.

That's not the case in Cuba. For Musicabana, all those arrangements—security, food, setting up the venue—were handled by one government agency, the Institute of Music, a division of the Ministry of Culture. On the surface, that might sound like the process was streamlined, but mostly it was bottlenecked. Cuba remains a state-controlled economy and every transaction has to wind its way through the nation's bureaucracy. Just getting the country's bureaucrats to respond to the initial proposal for the festival took six months.

> ” Expert guidance is needed to navigate the labyrinth of regulations.

Whatever U.S. businesses want to sell in Cuba, whether it is music or wheat, they have to get permission from the Cuban government at every turn. In many cases, they may have to make the Cuban government a partner in the enterprise with the accompanying frustration of negotiating business deals with bureaucrats who have little appreciation for free enterprise.

Cuban officials want to strengthen business and cultural ties with the United States, but they want to do so on their own terms, which means preserving their cultural and political values. Americans also have to make allowances for Cubans' unfamiliarity with market economics and private business contracts, a dismissive attitude toward bedrock concepts such as intellectual property, and a legal system with few civil remedies. It will take them some time for Cuba to catch up to the outside world.

First Stop: U.S. Government

The U.S. government also is a checkpoint. The United States wants to keep tight controls on travel and business dealings with Cuba. Although the two nations now have embassies, a U.S. embargo remains in place. It allows events such as Musicabana and sales in certain categories such as agricultural products and food, medicine, and—fortunately for Musicabana—performances, —but there will be no open market between the two nations unless Congress lifts the embargo that has been in place since the Kennedy administration. The embargo has loosened in recent years to allow more exceptions—a small U.S. tractor factory has opened in Cuba, for example—but U.S. exports to Cuba were a paltry $247 million in 2015, with agricultural products leading the way.

The embargo and several related laws make every transaction with Cuba a minefield of compliance, and penalties can be severe. Every transaction must have the approval of the U.S. government. The Office of Foreign Assets Control (OFAC), a department of

the U.S. Treasury, enforces the embargo, working closely with the U.S. Department of Commerce's Bureau of Industry and Security. Expert guidance is needed to navigate the labyrinth of regulations.

OFAC also enforces travel restrictions. Officially, tourism is off limits for U.S. citizens but the U.S. government has left huge loopholes in this prohibition. Travel is approved for educational purposes, professional research, and some other categories, including cultural and athletic performances.

Trump Administration Doubles Down on Restrictions

Earlier this year, the Trump administration tightened the restrictions, prohibiting U.S. businesses or citizens from doing business with companies controlled by the Cuban military. Large swaths of the Cuban economy, including many major hotels, are controlled by the military and this new requirement is sure to slow down engagement. The administration also is requiring most visits to the island to be organized by U.S. government-approved tour organizers and guides who may have to show itineraries to prove that trips adhere to their ostensible purpose.

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All this suggests patience. Cuba remains a relic of the Soviet empire, dedicated to a centrally controlled economy and Marxist ideology. Absent a revolution, that will not change anytime soon. More likely, Cuba gradually will adopt a hybrid free-market system, much like China, which allows free enterprise when

it suits the Cuban government.

Events such as Musicabana help both sides learn about each other and build trust. Politics is unpredictable and perhaps the relationship with Cuba will blossom. In the meantime, businesses that may want to someday buy or sell in Cuba should be patient, watch regulatory and policy developments, and be ready to act on opportunities when they open up.