

CUBAN TOURISM INDUSTRY IN THE EYE OF THE STORM

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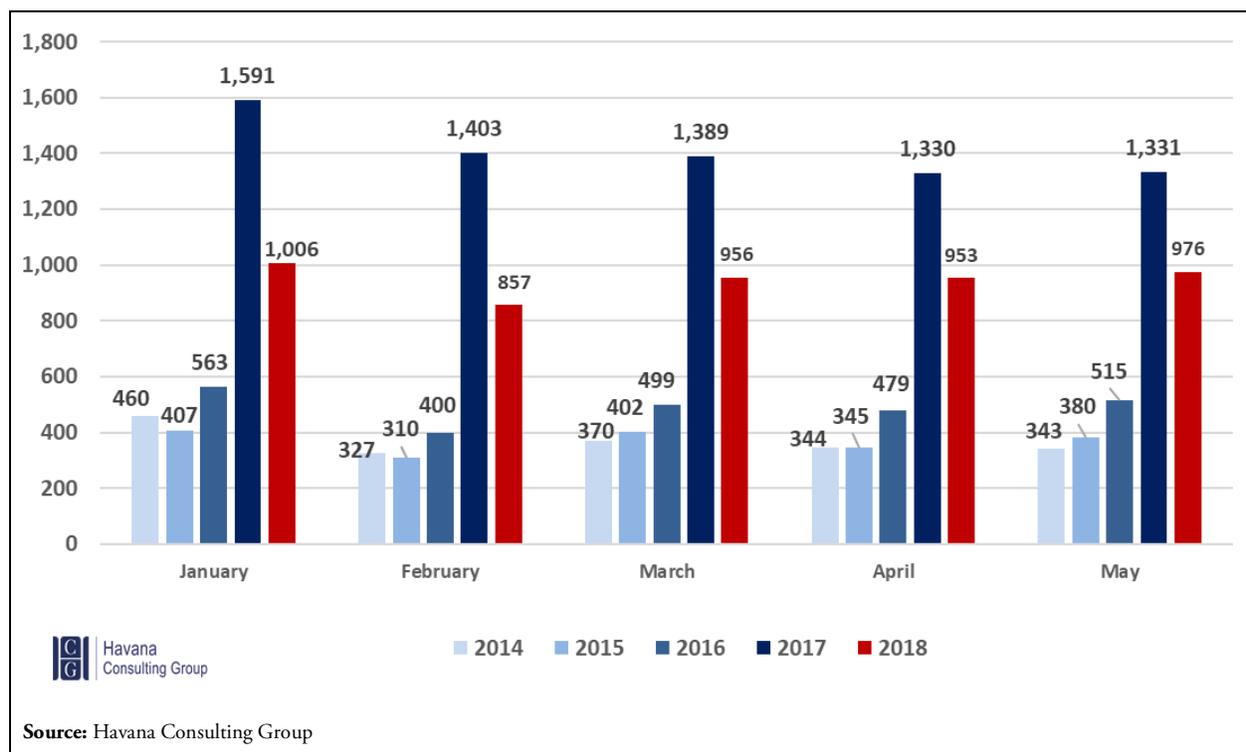
The first semester of 2018 was traumatic and devastating for the Cuban tourism industry. A combination of factors, events, bad practices and a number of accumulated and unresolved problems in the sector, caused the arrival of foreign visitors to fall abruptly, creating great uncertainty for the future of an industry that undoubtedly needs to be reformed in all its areas and business lines.

The report for the first quarter of the year showing that the arrival of tourists to Cuba contracted by 7% was not a surprise. Quite the contrary, it was a con-

firmation that the effect that generated the tourist tsunami lifted by the wave of the thaw in U.S.-Cuba relations is over. The market that has most affected the fall of visitors to the island is North America, with travelers contracting by 27.66%, based on the arrival of 182,648 passengers from the US, about 69,942 fewer than in a like period in the previous year.

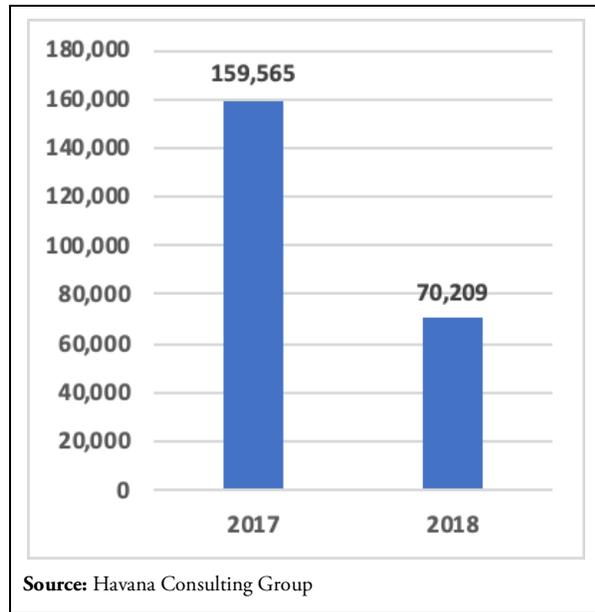
In the first 5 months of 2018, there were 2,296 fewer flights than in a like period in the previous year, for a contraction of 32.59%. See Figure 1.

Figure 1. Monthly series of flights to Cuba from the United States (January-May), 2014–2018



In terms of number of passengers, the fall of the first quarter was large, especially of US tourists. In the first quarter of 2018, only 70,209 Americans traveled to Cuba, about 89,356 fewer than in the same period of the previous year, for a contraction of 56%. See Figure 2.

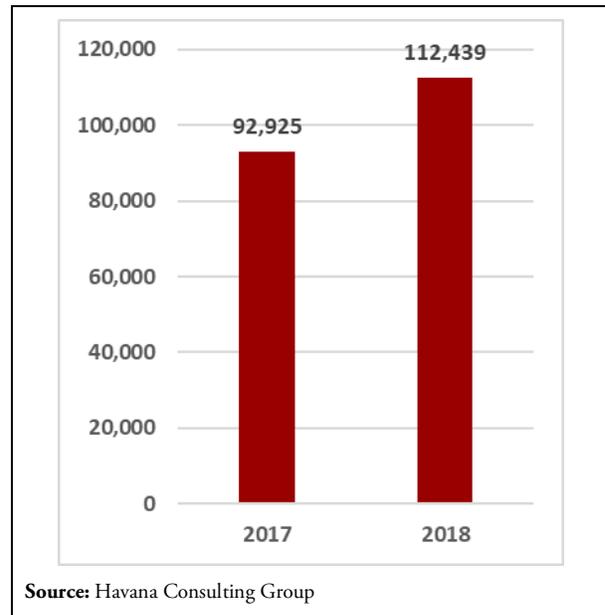
Figure 2. Comparison of the arrival of American tourists (January-April), 2017–2018



The decline would have been greater if not for the growth of family tourism of Cuban-Americans, which had a growth of 21%, reaching 112,439 Cuban-American visitors in 2018, 19,514 more than in the same period of the previous year. See Figure 3.

This collapse of North American visitors began in the last quarter of 2017, with the convergence of two important events: the crisis generated by the sonic attacks on US diplomats in Havana and the strike of Hurricane Irma, which severely affected the island’s tourist infrastructure.¹ As a result of the sonic attacks, the US Government issued travel alerts discouraging visitors to the island, adding to the travel restrictions

Figure 3. Comparison of the arrival of Cuban-American tourists (January-April), 2017–2018



imposed by the Trump administration and the prohibition of lodging in hotels administered under the structure of the armed forces.

In addition, it should be noted that in the second week of January, American Airlines stopped flying the daily route that it had to the city of Cienfuegos from Miami. Shortly after, Alaska Airlines stopped operating its daily flight to Havana,² due to the slump in the purchase of tickets as a result of the restrictions of trips imposed by the American government, which affected the segment of American travelers who did so individually and constituted the bulk of travelers on Alaska Airlines.

CANADIAN TOURISM FALLS AND EUROPEAN TOURISM SLOWS

The fall of tourism to Cuba has not only been a product of the collapse of American tourism: also contributing to the decline are the contraction and deceleration of tourists from other markets. For ex-

1. HCG Business Intelligence Unit. “Uncertainty for 2018 blemishes the record number of flights to Cuba from the US in 2017.”THCG Business Report, February 2018 N°1, THCG & TECH.

2. Alaska Airlines. “Alaska Airlines will discontinue flying to Havana, Cuba.” November 2017. <https://newsroom.alaskaair.com/2017-11-14-Alaska-Airlines-will-discontinue-flying-to-Havana-Cuba>

Table 1. Arrivals from main European markets, 2016–2017

Main European Markets	2015	2016	2017	Growth 16/15 (%)	Growth 17/16 (%)	Growth (17/16)- (16/15)
Germany	175,264	242,355	243,408	38.28	0.43	-37.85
Italy	137,727	191,585	228,028	39.10	19.02	-20.08
France	138,474	187,468	209,642	35.38	11.83	-23.55
United Kingdom	155,802	194,815	205,727	25.04	5.60	-19.44
Spain	107,368	153,340	169,507	42.82	10.54	-32.27
Russia	43,387	65,386	105,946	50.70	62.03	11.33
Total	758,022	1,034,949	1,162,258	36.53	12.30	-24.23

Source: Havana Consulting Group

ample, the largest tourist-issuing market to Cuba, Canada, had a decline in travelers of 5.39% in 2017, following on a contraction of 7.78% in 2016, marking a downward trend from the main issuer of tourists to the island for more than 20 years and still represents 25% of the total number of tourists traveling to the country.³

Meanwhile, the six main European tourist-emitting markets to Cuba as a group showed a growth of 12.30% in 2017, mainly as a result of strong growth in tourists from Russia (62.03%), Italy (19.02%), France (11.83%) and Spain (10.54%). Nevertheless, if we compare this 12.30% growth figure for 2017 with the growth rate for 2016 (36.53%), we can see a significant slowdown in growth of 24.23 percentage points. See Table 1.

This strong slowdown in European tourism is another important element to take into account in the possible failure to meet the projection of 5 million tourists for 2018 that the Cuban Ministry of Tourism has made.

OTHER FACTORS THAT AFFECT THE CUBAN TOURISM INDUSTRY

The Cuban tourism industry presents problems of quality of services and land and air transport that make its product lose attractiveness compared to the offers offered by several of the most important competing destinations in the region, such as Cancún and Riviera Maya in Mexico; La Romana and Punta

Cana in the Dominican Republic; the Bahamas; and Jamaica.

Quality of Service

The decline in the quality of the service of the tourism offer has been an important factor in the 7% fall in visitors in the first quarter of the year. This is demonstrated by the ratings given by tourists to the service in Cuban hotel networks. A study conducted by HCG in 2017 of the evaluations given by 347,833 tourists through the specialized agency TRIPADVISOR during the period March 2016–February 2017 rated the island with a score of 3.5 out of a possible 5, well below the Cancún tourism network, which was evaluated at 4.20 and the Dominican Republic at 4.05 for the same period.

The Cuban market score decreased by 2.41% in the last four months of the period evaluated compared to the first. See Table 2.

In the last year, several press reports noted the serious problems in the quality of service to tourists in several hotel chains that have 4 and 5-star hotels in the country managed by Cuban and foreign companies. The most notorious problems mentioned were the lack of hygiene (lack of water and cleanliness) and the poor/indifferent treatment of customers by service personnel.⁴

Earlier this year, press items reported these same problems. English tourists staying at the Sol Río de Luna Hotel and Mares Resort in Holguín complained about the poor hygiene of the room, mold

3. Perelló, José Luis. “Un recuento del turismo en Cuba. ¿Convertir las crisis en oportunidades?” Diciembre 2017. <http://progresosem-anal.us/20171207/recuento-del-turismo-cuba-convertir-las-crisis-opportunidades/>

4. AFP. “Falta de agua, mala limpieza, camareros displicentes: hoteles de cuatro y cinco estrellas en Cuba.” Febrero 2017. http://www.diariodecuba.com/cuba/1486918933_28882.html

Table 2. Evaluation given by tourists visiting Cuba to their hotel network according to TRIPADVISOR. March 2016 - February 2017

Traveling rating Cuba Hotels TRIPADVISOR (2016-2017)	Mar-May I	Jun-Aug II	Sep-Nov III	Dec-Feb IV	Annual	IV/I (%)
General rating (347,833)	3.54	3.51	3.52	3.46	3.50	-2.41
5* rating (162,623)	4.09	4.06	4.15	4.00	4.07	-2.13
4* rating (143,206)	3.70	3.66	3.65	3.60	3.64	-2.56
3* rating (35,899)	3.33	3.32	3.28	3.21	3.29	-3.45
2* rating (6,105)	2.91	2.86	2.84	2.90	2.83	-0.16

Source: Havana Consulting Group based on data from TRIPADVISOR.

due to humidity, lack of hot water, electricity problems, etc. One of the tourists became ill with pneumonia and others suffered from food poisoning.⁵

These poor practices are mentioned frequently in social networks, creating a volatility of views among customers that damages the image of Cuban tourism.

Air Transport

Air transport is another one of the serious problems that the tourist industry of the island faces. The company Cubana de Aviación has serious difficulties with its own air fleet and with aircraft leased from third parties.

Recently, on May 3 of 2018, the Institute of Civil Aeronautics of Cuba (IACC) decided to suspend the operation of the complete fleet of six Antonov AN-158 aircraft operated by Cubana de Aviación, acquired in Russia between in 2013–2014, in order to avoid “the occurrence of accidents or serious aviation incidents”, according to a resolution signed on April 30 by the president of the IACC, Brigadier General Armando Daniel López.⁶

Among the most serious problems mentioned in the resolution that forced the Cuban authorities to take out of service these six aircraft are:

1. The occurrence of failures in complex systems, involving mechanical, electrical, hydraulic components, as well as in computer algorithms and

aircraft control and measurement blocks, on which the manufacturer is working to execute modifications, improvements, adjustments and changes in maintenance programs. Also design and manufacturing errors in the structure of these aircraft, such as serious problems in the control system, and strength cracks in the frame of the aircraft CU-T1714.

2. Detection of a rise in the operating temperature of the D-436 engines of all aircraft, leading to a communication from the manufacturer to stop the operation of the engines of aircraft CU-T1716. This defect was found in the majority of the engines of the aircraft in the fleet, an issue that makes the operation of these aircraft impossible.
3. The lack of reliable supply of components and spare parts for these aircraft.

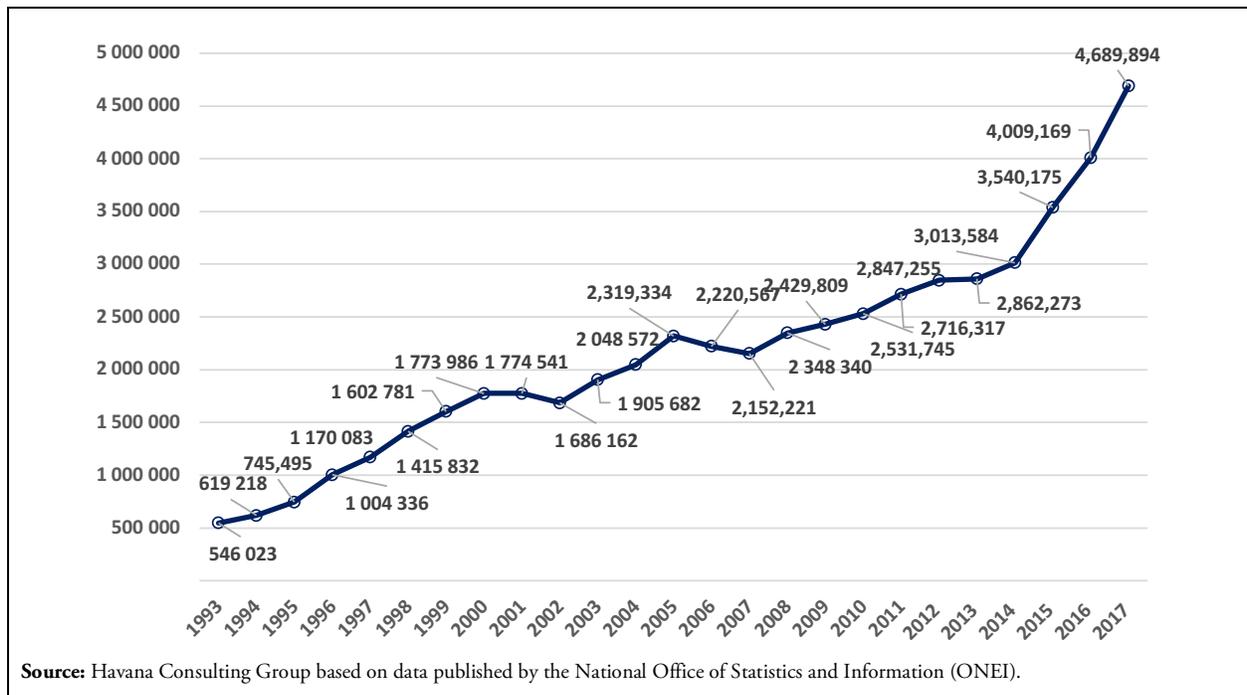
The crisis, which generated a great deal of dissatisfaction by the population, became known in March, when the Cuban authorities suspended internal flights between Havana and nine airports in the east of the country, extended also to the Isle of Youth.⁷

The suspension of these flights severely affected the internal air transport that serves Cubans living on the island as well as international tourists who visit the country, generating millions of dollars of losses to the Cuban economy.

5. CUBAENMIAMI. “Turista inglesa se queja de enfermarse por la humedad y el moho en un hotel de Holguín.” Enero 2018. <http://www.cubaenmiami.com/turista-inglesa-se-queja-de-enfermarse-por-la-humedad-y-el-moho-en-un-hotel-de-holguin/>

6. Cartaya, Rolando. “Aeronáutica Civil ordena suspender aviones de Cubana por riesgo de ‘graves accidentes.’” MARTI NOTICIAS. Mayo 2018. <https://www.martinoticias.com/a/ordena-aeronautica-civil—varar-aviones-de-cubana-por-riesgo-de-graves-accidentes/175467.html>

7. Cartaya, Rolando. “¿Por qué se pararon los vuelos nacionales en Cuba?” MARTI NOTICIAS, Marzo 2018. <https://www.martinoticias.com/a/compra-de-aviones-defectuosos-a-rusia-acaba-varando-vuelos-nacionales/169718.html>

Figure 4. Historical series of the arrival of tourists to Cuba, 1993–2017

A similar situation occurs with aircraft leased from third parties, which also present serious problems. In this regard, the crisis had its climax with the recently tragic accident on May 18 of an aircraft leased by Cubana de Aviación from the Mexican company Global Air, in which 111 persons, including crew members, lost their lives. The negative impact caused by this accident generates great uncertainty about the future of the Cuban tourist industry. Erasing this bad image will take time and capital investments.

CUBA MISSES ON EARNING HUNDREDS OF MILLIONS OF DOLLARS ANNUALLY FOR LACK OF STRATEGIC VISION

Cuba has missed on earning hundreds of millions of dollars annually because it does not have an air fleet in operational condition and sufficient aircraft to respond to the growing demand for travel by tourists in the last 25 years. Foreign airlines are taking advantage of this deficit and have seized this market.

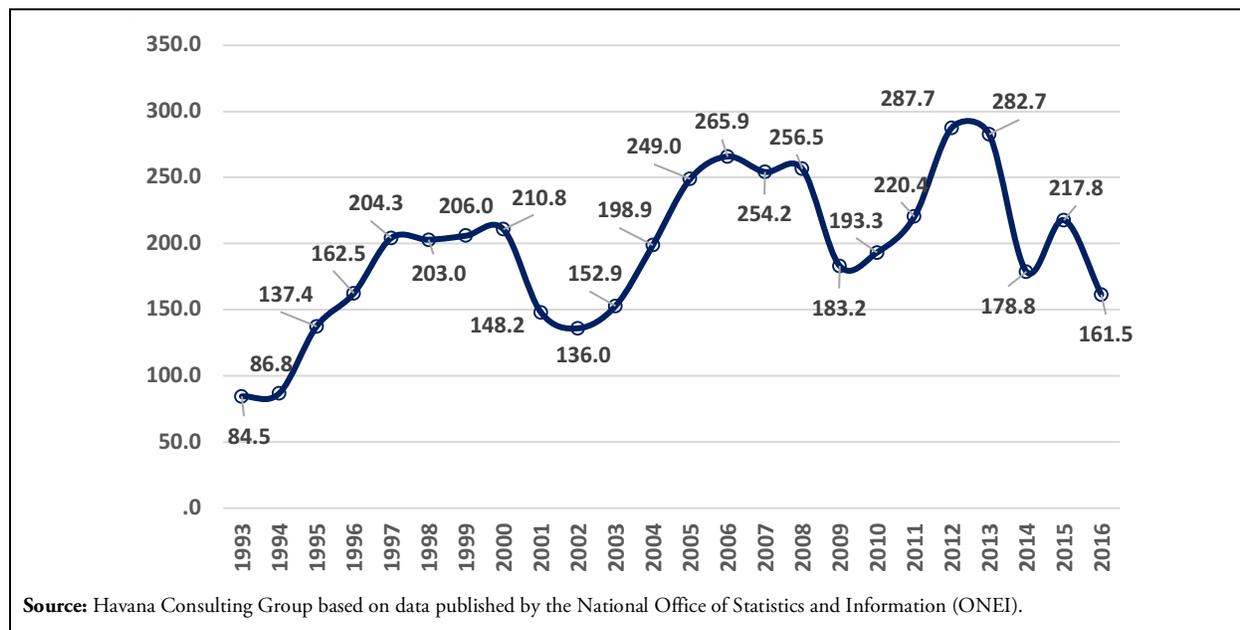
If we analyze the statistics on the arrivals of tourists to the country from 1993 to 2017 we will confirm the growth of tourists. The number of arrivals of tourists to Cuba in 2017 was 8.56 times the number

of tourists who arrived in the country in 1993. See Figure 4.

However, if we analyze the income generated by international transportation of tourists, the results show a totally different behavior. In 1993 the income of the tourist sector associated with international transport was 84.4 million dollars, while in 2016, some 24 years later, it was 161.5 million dollars, an expansion of only 1.91 times in that long period of time. See Figure 5.

These results denote the lack of strategic vision of Cuban authorities in the tourism business, specifically in the area of air transport. Justifying this debacle by blaming it on the US embargo has been one of the habitual practices of the Cuban government, which uses this excuse to justify this crisis and others. But the truth is that the embargo does not prohibit the purchase of aircraft and spare parts by Cuban civil aeronautics authorities that would permit updating the aircraft fleet. The lack of liquidity and the repayment risk in granting loans to the island are two factors of great weight when foreign business enterprises are considering granting loans to Cuban companies.⁸

Figure 5. Historical series of Cuba's income in the tourism sector for the concept of international transportation, 1993–2017



The real reason behind the problems of the tourism industry lies on the poor management of the business,⁹ in the lack of strategic vision in the Cuban tourist industry, in the monopolization of Cuban civil aviation in the hands of a state company without autonomy to decide their investments and their strategic projections, in bad management preparation of its executives and in corruption.

Undoubtedly, Cuban civil aeronautics has lost a quarter of a century a golden opportunity to generate hundreds of millions of dollars for the country every year.

Currently, the island's tourist industry has been receiving 4.7 million foreign tourists annually and an increasingly growing number of Cubans traveling abroad and who have also increased the demand for domestic flights.

Since the new immigration law was implemented in 2013 through the end of December 2017, some 819,749 Cubans have traveled abroad, making 2,656,111 trips.¹⁰ This has meant a sum of 1.59 trillion dollars just for air tickets. How much has the Cuban airline industry foregone by not having a fleet of aircraft in good condition to meet this great demand?

CORRUPTION ANOTHER IMPORTANT FACTOR IN THE PROFOUND CRISIS OF CUBAN CIVIL AERONAUTICS

Corruption is another factor that has contributed to the crisis. In 2010, Major General Rogelio Acevedo was dismissed as part of a corruption scandal involving dozens of IACC officials, who had set up a business to transport goods and passengers using government-owned aircraft for their own benefit.

8. The Economist. "Why airliners in Cuba and Iran crash so much." May 2018. <https://www.economist.com/gulliver/2018/05/28/why-airliners-in-cuba-and-iran-crash-so-much>

9. Azam Ahmed y Semple Kirk. "Las razones detrás de la crisis de la aviación cubana." The New York Times. Mayo 2018. https://www.nytimes.com/es/2018/05/22/avion-cuba-crisis/?ref=collection%2Fsectioncollection%2Fnyt-es&action=click&contentCollection=america-latina®ion=stream&module=stream_unit&version=latest&contentPlacement=3&pgtype=collection

10. Agencia Cubana de Noticias. "Crecen viajes de cubanos al extranjero tras actualización migratoria" ESCAMBRAY, Enero 2018. <http://www.escambray.cu/2018/crecen-viajes-de-cubanos-al-extranjero-tras-actualizacion-migratoria/>

These officials had clandestinely sold cargo space on the Cuban airline Cubana de Aviación to Latin American companies to transport their merchandise from one country to another, pocketing the proceeds. They also frequently reported that a plane was out of operation because it was being repaired in Canada, when in reality the aircraft was transporting passengers or goods to other destinations. As this private business expanded, these officials actually began buying small planes to compete and “steal” the market from Cubana de Aviación. The first deal was aimed at the Mexican market and the purchase of the aircraft cost several million dollars.¹¹

In 2011, 15 executives and officials of the company Cubana de Aviación and the joint venture tourism company Sol y Son were sentenced to three to 10 years in prison for various economic crimes related to this corruption scheme.¹²

In 2014, 13 employees of the companies Aviaimport SA and ECASA were sent to jail. These employees had pocketed about 11 million dollars dealing with imports of spare parts for aircraft.¹³

These examples are evidence of lack of controls, poor management and bad practices that have provided the opportunity to IACC officials to profit personally from their official positions. Cuban aviation officials have profited from contracts with the aforementioned Mexican airline that owned the Boeing 737 aircraft that crashed earlier this year. The reports of 9 audits carried out in 2008 and 2009 of aircraft used by the contractor by engineer Ernesto Rodríguez Martín, Inspector of Operational Safety of Cubana de Aviación, revealed a fire in the cockpit of one aircraft, heavily worn tires, the explosion of a tire during a landing, lack of general safeguards, hydraulic leaks in the brakes, inactive meteorological radar and poor preparation of the crews, among other

problems. In view of these facts, the expert had recommended “not to contract under any circumstances” the services of Damojh-Global Air.

In fact, several press reports already mention that behind the accident there is a history of corruption.¹⁴

CONCLUSIONS

The factors discussed above suggest that the Cuban tourist industry is in the eye of a great storm. This situation should lead the Cuban authorities to a deep reflection on how to reform the industry and reverse these poor results, particularly since this sector is one of the most important of the country’s economy.

The accumulation of many unresolved problems over the years is the great challenge for the new government in reforming the sector, where not only has the lack of financing been one of the main obstacles, but the system has been vitiated by bad practices, bad strategies, lack of professionalism and even corruption problems.

To change this reality, a profound reform is required that would put into practice modern management techniques and decentralize the state’s tourism business, giving way to the entry of private companies that would generate competition that would raise the quality standards of the industry. In addition, multi-million dollar investments are required to remodel and maintain many of the hotels that have been operating in the country for more than 15 years.

The reform should also include a substantial improvement in the remuneration system of the industry’s labor force, as well as making investments in a strong training plan for all management and service personnel who are in direct contact with the public, with the goal of correcting the low quality of the service and of the tourist offers, which are currently inferior in terms of quality of services to the largest competitors in the Caribbean.

11. Tamayo, Juan. “Cubana de Aviación es centro de escándalo de corrupción”. Abril 2010. <http://www.elnuevoherald.com/ultimas-noticias/article2004259.html>

12. Vincent, Mauricio. “Un nuevo caso de corrupción en Cuba lleva a la cárcel a 15 directivos de diversas empresas”. El País. Junio 2011. https://elpais.com/internacional/2011/06/07/actualidad/1307397608_850215.html

13. Méndez Piña, Pablo Pascual. “Nuevo escándalo en la aviación civil cubana.” Agosto 2014. http://www.diariodecuba.com/cuba/1408831735_10105.html

14. Xantomila, Gabriel. “Exigen comparecencia de Ruiz Esparza por caso del avionazo en Cuba.” La Prensa. Mayo 2018. <https://www.la-prensa.com.mx/policia/313700-exigen-comparecencia-de-ruiz-esparza-por-caso-del-avionazo-en-cuba>

Additionally, it is necessary to make a profound reform in the Cuban air transport sector, from the administration of the airports to the passenger transport business, which with a fleet of aircraft in optimal condition and good management could generate hundreds of millions of dollars of profits to the island's economy.

It makes no sense for a country that is one of the largest tourist destinations in the Caribbean (4.7 million tourists), with growing domestic tourism and a growing domestic market for air transport, to have the range of serious problems that have been exposed in the last months.

The contraction by 38.77% of flights to Cuba from the US in the first 5 months of the year augurs a strong decline in American tourism to the island in 2018, even with the increase in the cruise industry (which generates very little income for the country). This decline has hit both state companies and the private sector, especially hostels and restaurants (paladares).

Under this adverse scenario regarding travel from the US and the bad image that the Cuban air transport crisis has generated, the goal of reaching 5 million tourists in 2018 seems to be impossible.