Towards A Sweet Reunion?

The Sugarcane Agroindustry and Brazil's Impact on U.S.-Cuban Trade Normalization

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Abstract

In 2012, the Brazilian firm Odebrecht Group was granted a contract to manage a sugar mill complex in Cienfuegos, Cuba. With this symbolic concession, Odebrecht's subsidiary became the first foreign firm to manage a Cuban sugar industry asset since the Revolutionary government first took power. Adhering to the usual logic behind the Cuban embargo, writers in Miami, Sao Paulo and beyond have condemned Odebrecht for conducting business in Cuba as undermining the efforts of dissidents. The analysis tends to stop here, failing to analyze how the engineering conglomerate has already upset the status quo of US-Cuban trade relations. While most literature on multinational investment in Cuba tends to deal with foreign direct investment as a whole, I hone my focus to the competitive relationship between two multinationals, Odebrecht Group and the U.S. based Fanjul Corporation. Drawing on economic analyses of the hobbled Cuban sugar agroindustry, I establish the incentives faced by Odebrecht Group and Fanjul Corporation to compete in Cuba. I draw on press articles and political economy literature to analyze Odebrecht's political connections, situating the firm's investments within Brazilian foreign policy. Using press articles and federal government lobbying data, I show that the Fanjul brothers have exerted a significant influence on American trade policy in the past. I argue that with the Fanjul's lobbying power as the vehicle for change, Brazil is indirectly driving US-Cuban trade normalization via its support of Odebrecht. My case study emphasizes that US-Cuban relations cannot be analyzed in the vacuum of the Florida Straits. Cuba maintains economic and diplomatic relations with an increasingly diverse set of partners, all of which stand to influence Cuba's interactions with the United States.

Introduction

> "At a time when the democracy activists on the island are facing even harsher reprisals from the brutal Cuban regime, it's pathetic that a Cuban-American tycoon feels inspired to trample on the backs of those activists in order to give the communist thugs more money with which to repress. The only little old thing that is standing in Alfy's way of realizing these sleazy business deals with the devil is US law. He doesn't talk about the arbitrary arrests of pro-freedom leaders in Cuba or the continual beatings endured by the peaceful Damas de Blanco. Oh no, for Alfy, the only hindrance to turning a profit off the suffering of the Cuban people is pesky US laws and he is working with groups to undo those laws."
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> --U.S. Congresswoman Ilean Ros-Lehtinen[1]

Florida Congresswoman Ilean Ros-Lehtinen's rancorous statements came amid a flurry of jumbled responses to a rare published interview with Alfonso "Alfy" Fanjul this February. Along with his brother José "Pepe," Alfy is co-proprietor of the largest sugar refining operation in the world under Fanjul Corporation, owning the ubiquitous sugar U.S. sugar brands Domino and C&H. In the Washington Post interview, Alfy dropped a bombshell on the politics of U.S.-Cuban relations. An active participant in pro-sanctions lobbying groups in the past, the billionaire sugar tycoon indicated that he would be open to doing business on the island under the "right circumstances," going on to complain about the half-century old Cuban embargo: How can you work a deal if you're not legally allowed to do it?"[2] Alfy's change in posture shocked even his grateful beneficiaries. Anti-Castro hardliner Marco Rubio, a past recipient of Fanjul campaign contributions, softly critiqued his patron as insensitive to the democratic aspirations of the Cuban people.[3] In a statement to the Miami Herald, the National Association of Sugar Mill

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[1] "Sugar Growers Assoc. Issues Statement On Fanjul Firestorm," *CBSMiami*, accessed November 7, 2014, http://miami.cbslocal.com/2014/02/16/sugar-growers-assoc-issue-statement-on-fanjul-firestorm/.

[2] Peter Wallsten, Manuel Roig-Franzia and Tom Hamburger, "Sugar Tycoon Alfonso Fanjul Now Open to Investing in Cuba under 'right Circumstances,'" *The Washington Post*, February 2, 2014, accessed December 15, 2014, http://www.washingtonpost.com/politics/sugar-tycoon-alfonso-fanjul-now-open-to-investing-in-cuba-under-right-circumstances/2014/02/02/4192b016-8708-11e3-a5bd-844629433ba3_story.html.

[3] Peter Wallsten, "Rubio 'surprised and Disappointed' by Sugar Tycoon's Position on Cuba," *The Washington Post*, February 4, 2014, accessed December 5, 2014, http://www.washingtonpost.com/blogs/post-politics/wp/2014/02/04/rubio-surprised-and-disappointed-by-sugar-tycoons-position-on-cuba/.

Owners of Cuba, a group of Cuban exiles who suffered expropriation during the revolution, lamented the disloyalty of their wealthiest member.[4]

In spite of the inflammatory rhetoric, it appears Congresswoman Ilean Ros-Lehtinen's analysis is for the most part spot on. The Fanjul flip-flop roughly coincides with the announcement that a subsidiary of the Brazilian engineering and energy conglomerate Odebrecht Group would be the first foreign firm to manage a Cuban sugar refining complex since the beginning of the revolution.[5] Operating the 5 de Septiembre sugar complex in Cienfuegos, a titan in the international sugar agroindustry now stands poised to cut into the Fanjul's market. Hence, even with the loosening of the Cuban embargo under the Obama administration,[6] the Fanjul brothers face a bitter irony. Those "pesky US laws" passed by the Fanjul supported anti-Castro movement now bar them from a very important investment opportunity. The Fanjuls need U.S.-Cuban trade normalization and the resumption of U.S. investment on the island to compete with Odebrecht Group.

As fairly recent events, the few writers addressing Odebrecht Group's Cuban investments and the Fanjul flip-flop tend towards demagoguery. Usually Cuban exiles or staunch conservatives, editorialists from Miami to Sao Paulo have condemned the Fanjuls and Odebrecht for engaging with the Cuban government. Arguing that any foreign business operating in Cuba supports human rights abuses, the perennial detractors of the Castro regime adhere to the logic of the Cuban embargo. By stopping the conversation there however, the authors fall short of analyzing how multinational competition has dramatically upset the status quo of U.S.-Cuban relations.

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[4] "Sugar Growers Assoc. Issues Statement On Fanjul Firestorm."

[5] "Exclusive: Cuba Opens Sugar Sector to Foreign Management," *Reuters*, November 7, 2012, accessed September 25, 2014, http://www.reuters.com/article/2012/11/07/us-cuba-sugar-brazil-idUSBRE8A61TI20121107.

[6] The Obama administration has allowed for limited travel to Cuba for Americans with Cuban family in addition to legalizing remittance flows to the island.

In this paper, I employ an inter-disciplinary approach to deepen the analysis of Odebrecht Group's sugar mill investment in Cuba. Drawing from source materials written by economists, business analysts, political economists, journalists and propagandists from Cuba, Brazil and the United States, I integrate diverse perspectives to highlight a space where economics and ideology meet. A manifestation of the Brazilian Workers Party's ideologically-tinted foreign policy, Odebrecht Group's investment in the Cuban sugar industry has accelerated the process of trade normalization between the United States and Cuba.

The paper is divided into four sections. First, I use business interviews and economic analyses of the hobbled Cuban sugarcane agroindustry to establish the incentives faced by Odebrecht Group and Fanjul Corporation to compete in Cuba. Second, I draw on international press articles and political economy literature to analyze Odebrecht's political connections, situating the firm's Cuban investments within Brazil-Cuba relations. Third, using press articles and federal government lobbying data, I argue that the Fanjul brothers cannot rely on Helms-Burton to protect them. Having exerted a significant influence on American trade policy in the past however, they can affect the Cuban embargo in the present. Finally, I discuss the significance of Odebrecht's Cuban investments to international relations in the Western Hemisphere, highlighting Brazil's ability to impact U.S. foreign policy.

A Short History of the Cuban Sugar Industry

Whether one chooses to emphasize the suitable environment for sugar cultivation; high-clay soils, suitable latitude and elevation;[7] or proximity to the United States as the cause, the Cuban sugar sector constituted the island's main agricultural and industrial activity for much of

[7] 1. Scarpaci, Joseph L. and Armando H. Portela. "The Historical Geography of Cuba's Sugar Landscape." In Reinventing the Cuban Sugar Agroindustry ed. Jorge F. Pérez-López and Jose Alvarez Lanham (MD: Lexington Books, 2005), 12.

the 20th century. At times, the country produced enormous volumes of raw sugar, a fact which attracts sugar agroindustry giants such as Fanjul Corporation and Odebrecht Group. Bolstered by heavy Soviet subsidization and investment, Cuba produced over 8 million metric tonnes of raw sugar per annum from 1988-1990.[8] To grant some perspective, this would have represented approximately 4.7% of world raw sugar production in 2011.[9] Fanjul Corporation's subsidiary Florida Crystals, the largest refining operation in the world, produces just over 7 million metric tonnes.[10] Hence, Cuba's demonstrated potential production capacity is substantial given the island's size. With the fall of the Soviet Union however, the Cuban sugar agroindustry suffered a catastrophic shortage of fuel and other subsidized inputs which resulted in the industry's collapse. Due to the industry's economic weight, this collapse reverberated throughout Cuba and greatly exacerbated the economic woes of Cubans during the 1990's. Raw sugar production deteriorated substantially from around 8 million in 1990 to 3.23 million metric tonnes in the 1997-1998 season.[11] Without Soviet investment, the Cuban government simply could not replace deteriorating capital equipment such as mills or combines.

In part, this retraction in output was expedited by a U.S. trade policy supported by the Fanjuls. While the Cuban sugar industry has theoretically been open to foreign investment since 1995, interested multinationals were greatly dissuaded by U.S. foreign policy. Signed by President Clinton in 1996, the Cuban Liberty and Democratic Solidarity (Libertad) Act, commonly referred to as the Helms-Burton Act, codified the half-century old Cuban trade embargo into law. The act's rhetoric is drenched in the anti-Communist rhetoric characteristic of

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[8] 2. Pérez-López, Jorge F. and Jose Alvarez Lanham. "The Cuban Sugar Agroindustry at the End of the 1990s." In *Reinventing the Cuban Sugar Agroindustry* ed. Jorge F. Pérez-López and Jose Alvarez Lanham (MD: Lexington Books, 2005), 31.

[9] Author's calculations.

[10] Walter Feuchs Says, "In Sugar Price Supports, Sour Tastes for Consumers," *Florida Center for Investigative Reporting*, September 9, 2012, accessed September 25, 2014, http://fcir.org/2012/09/09/in-sugar-price-supports-sour-tastes-for-consumers/.

[11] Pérez-López and Alvarez Lanham. "The Cuban Sugar Agroindustry at the End of the 1990s," 31.

the Cold War, conditioning suspension of the embargo on a transition to democracy and a market economy. The act explicitly purposes to effect the collapse of the Castro regime by deterring foreign investment in Cuba, a pursuit in which it has failed miserably.[12] The act's most controversial provision allows for legal action against companies "trafficking" in properties expropriated from U.S companies and naturalized Cuban-exiles, including barring their entry into U.S. markets. The Fanjuls, having suffered expropriations themselves, were avid supporters of the deceased leader of the Anti-Castro movement Jorge Mas Canosa, the chief architect of Helms-Burton.[13] Over the years, they channeled significant funds into the Cuban-American National Foundation, the anti-Castro lobbying founded by Mas Canosa.[14]

Facing aging physical capital and barred from access to financial capital, the Cuban government sought to rationalize its sugar industry in 2002. Cuban sugar officials carried out a major restructuring program which concentrated sugar production into the Most of the mills' components island's most efficient sectors, prompting the dismantling of 71 of 156 sugar mills. were sold as scrap metal.[15] Although Cuba passed the reigns from the infamously corrupt Ministry of Sugar to AZCUBA, a state-holding company, the steady retraction of output in the Cuban sugar industry has continued throughout the last decade.[16] In 2011, the harvest stood at a

[12] COHA, "Helms-Burton Act: Resurrecting the Iron Curtain," June 10, 2011, accessed December 13, 2014, http://www.coha.org/helms-burton-act-resurrecting-the-iron-curtain/.
[13] Larry Rohter, "Jorge Mas Canosa, 58, Dies; Exile Who Led Movement Against Castro," *The New York Times*, November 24, 1997, accessed December 5, 2014, http://www.nytimes.com/1997/11/24/us/jorge-mas-canosa-58-dies-exile-who-led-movement-against-castro.html.
[14] Roig-Franzia and Hamburger, "Sugar Tycoon Alfonso Fanjul Now Open to Investing in Cuba under 'right Circumstances.'"
[15] 8. Jorge F. Pérez-López and Jose Alvarez Lanham. "The Restructuring of Cuba's Sugar Agroindustry, 2002-2004." In *Reinventing the Cuban Sugar Agroindustry* ed. Jorge F. Pérez-López and Jose Alvarez Lanham (MD: Lexington Books, 2005), 147.
[16] "Cuba Closes Once Powerful Sugar Ministry," *Reuters*, September 29, 2011, accessed December 15, 2014, http://www.reuters.com/article/2011/09/29/food-cuba-sugar-idUSS1E78S0AG20110929.

dismal 1.2 million tonnes of raw sugar, well below expectations. This year, the harvest is poised to once again disappoint expectations due to excessive rainfall.[17]

While even approaching the Cuban government's more reasonable goal of 4 million metric tonnes of raw sugar would require massive investment,[18] Fanjul Corporation and Odebrecht Group are obviously well-aware of the island's potential production capacity. Assuming modern production methods and a complete dedication of current land under cultivation to sugar, it is estimated that Cuba could produce 28 million metric tonnes of raw sugar.[19] Hence, with regards to corporate strategy, a revitalization of the Cuban sugar agroindustry by any party would definitely impact international prices relevant to the decisions of Odebrecht Group and Fanjul Corporation. Both corporations are highly incentivized to compete in Cuba, whether their motivation is to expand their own production or to deny other producers the chance to affect their decisions.

Sugarcane's Multiple Purposes Drive Competition

Although it is useful to portray the potential capacity of the Cuban sugar agroindustry in terms of raw sugar to illustrate growth opportunities, the modern sugar agroindustry is much more complex. Today, firms derive a very diverse set of products from the sugarcane plant. In addition to raw sugar or molasses, sucrose itself can also be distilled into sugarcane ethanol fuel. There are also numerous uses for nonedible parts of the plant. Bagasse, a pulpy substance leftover after milling is frequently burned to generate electricity in biomass energy plants. A

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[17] "Cuban Sugar Harvest Falters; Foreign Investment Sought," *Reuters*, March 4, 2014, accessed December 15, 2014, http://www.reuters.com/article/2014/03/04/cuba-sugar-idUSL1N0M10TP20140304.
[18] Jorge F. Pérez-López and Jose Alvarez Lanham. "The Restructuring of Cuba's Sugar Agroindustry, 2002-2004," 147.
[19] Gary Clyde Hufbauer and Barbara Kotschwar, *Economic Normalization with Cuba: A Roadmap for US Policymakers* (Washington D.C.: Peterson Institute for International Economics, 2014), 70.

recently developed technology, cellulosic ethanol is derived solely from inedible biomass left over from cane production. Finally, an Odebrecht Group subsidiary recently developed bioplastics. With so much potential for derivatives, it is not surprising that global sugarcane production literally outweighs production of any other crop at 2.16 billion tonnes in 2013.[20]

Over the last 20 years, the variable uses of the sugarcane crop have caused a tendency towards "vertical integration" of sugar and petroleum industry firms. Firms previously thought of as oil or petrochemical companies have increasingly expanded into production of sugarcane and its derivatives, thus vertically integrating the two industries. To use the industry jargon, vertically integrated energy firms producing sugar "flex" production of raw sugar and ethanol products, producing more raw sugar or ethanol depending on which attracts a higher price.[21]

Odebrecht's operations in Cuba exemplify the trend towards vertical integration of the sugarcane and energy industries. In addition to producing sugarcane ethanol, Odebrecht Group owns the largest Latin American petrochemical firm in Braskem, builds off-shore oil platforms, and constructs hydroelectric dams.[22] Cuban sugar industry officials explicitly recognize that Odebrecht's main interest in Cuba is the expansion of its sugarcane ethanol production: "Los representantes de Odebrecht nos han dicho que su negocio no es el grano de azúcar sino la energía."[23] Odebrecht officials have already expressed their intention to build a sugarcane ethanol distillery on site.[24] Hence, the Odebrecht's Cienfuegos sugar mill operation occurs within a larger strategy of diversified energy production.

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[20] Ben McKay, Sérgio Sauer, Ben Richardson and Roman Herre, *The Politics of Sugarcane Flexing in Brazil and beyond* (Amsterdam: Transnational Institute, 2014), 2.
[21] Ibid, 2.
[22] http://odebrecht.com/
[23] José Jasán Nieves Cárdenas, "Azúcar Cubano Con Receta Brasileña," *Progreso Semanal*, January 27, 2014, accessed November 2, 2014, http://progresosemanal.us/20140127/azucar-cubano-con-receta-brasilena/.
[24] Hufbauer and Kotschwar, *Economic Normalization with Cuba*, 70.

As demonstrated by their recent activities, the Fanjuls also view Cuba's failing sugar agroindustry as a significant opportunity to expand their biofuels portfolio. Fanjul Corporation has lobbied assiduously for tax credits and other government incentives for the production of biofuels.[25] Moreover, in 2013, Florida Crystals partnered with the University of Florida to build and organize North America's first cellulosic ethanol plant.[26] Similar to Odebrecht officials, Alfonso emphasizes his companies' energy credentials when speaking on Cuban investment: "[A Fanjul Corporation subsidiary] is also the largest renewable energy company in the U.S., producing energy from sugar production and other green waste. These will be key skill sets to bring to the table in an effort to grow the Cuban economy."[27] Fanjul Corporation's biofuels interests put them in direct competition with Odebrecht Group in Cuba.

Recent victories of the environmentalist movement explain both competitors haste to expand ethanol production. Over the past decade in particular, the environmentalist movement has gained traction worldwide, spurring many of the world's largest energy consumers to articulate targets for renewable energy usage. Although the binding requirements were repealed this year, several E.U. countries had already met their 20% renewable portfolio standard (RPS).[28] In the United States, 29 states and Washington D.C. have mandated an RPS, in addition to other incentives for biofuel use.[29]

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[25] Retrieved from Lobbying Spending Database at OpenSecrets.org

[26] Ryan Tracy, "Florida Plant to Produce Advanced Ethanol," *Wall Street Journal*, July 31, 2013, accessed December 15, 2014, http://online.wsj.com/news/articles/SB10001424127887323681904578640450212016598.

[27] Note: The author lists the source for this quote as "CubaNews." I was unable to find the article on the CubaNews site. However, the Fanjul's lobbying efforts and research in cellulosic ethanol production should be evidence enough of their investment interests in Cuba. See "Alfonso 'Alfy' Fanjul, Entrepreneur, Real Estate and Sugar Empire. (born Havana)," *The History, Culture and Legacy of the People of Cuba*, September 9, 2014, accessed November 2, 2014, http://www.thecubanhistory.com/2014/09/alfonso-alfy-fanjul-entrepreneur-real-estate-and-sugar-empires-born-havana/.

[28] Bruno Waterfield, "European Commission to Ditch Legally-Binding Renewable Energy Targets," January 22, 2014, accessed December 15, 2014, http://www.telegraph.co.uk/finance/newsbysector/energy/10588121/European-Commission-to-ditch-legally-binding-renewable-energy-targets.html.

[29] Retrieved from Database of State Incentives for Renewables and Efficiency at http://www.dsireusa.org/

The Obama administration has also prioritized environmental legislation at the federal level, mandating an RPS for the federal government by executive order.[30] Moreover, Obama's administration allowed the longstanding 54 cents per gallon ethanol import tariff to expire in 2012, following a drought which greatly reduced production of corn-based ethanol.[31] This has allowed sugar-based ethanol, whose production and use per energy unit involves half the carbon emissions of corn-based ethanol, to enter at the U.S. competitive prices.[32] Perhaps the best evidence that this momentum will persist is a recent statement released by the Pentagon: "We are actively integrating climate considerations across the full spectrum of our activities to ensure a ready and resilient force."[33] With the U.S. military and policymakers increasingly incorporating climate change into their decision making, demand for ethanol and other relatively low emissions fuel alternatives will rise dramatically in the long term. Indeed, Odebrecht and the Fanjuls have already placed their bets, emphasizing publically their commitment to renewable energies.[34]

Interestingly, U.S. concerns about climate change and energy policy have begun to accompany the embargo's utter failure to effect regime change as the most prominent arguments U.S.-Cuban trade normalization. Jonathan Benjamin-Alvarado for instance, argues that ethanol imports from Cuba should definitely be present in considerations of U.S. energy security.[35]

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[30] Emily Atkin, "Obama Executive Order: Federal Government Must Triple Renewable Energy In 7 Years," December 5, 2013, accessed December 2, 2014, http://thinkprogress.org/climate/2013/12/05/3024081/obama-order-federal-government-triple-renewable-energy-2020-2/.

[31] Hufbauer and Kotschwar, *Economic Normalization with Cuba*, 70.

[32] "Ethanol's Mid-Life Crisis," *The Economist*, September 2, 2010, accessed December 15, 2014, http://www.economist.com/node/16952914.

[33] Coral Davenport, "Climate Change Deemed Growing Security Threat by Military Researchers," *The New York Times*, May 13, 2014, accessed December 15, 2014, http://www.nytimes.com/2014/05/14/us/politics/climate-change-deemed-growing-security-threat-by-military-researchers.html.

[34] Answering critics who expressed doubt regarding Fanjul Corporation's environmental commitment, Pepe Fanjul answered that: "People's consciousness of the environment in every country in the world, let alone the United States, has changed and developed. We're all changing as time goes by." See Damien Cave, "A Dance of Environment and Economics in the Everglades," The New York Times, July 31, 2008, accessed December 15, 2014, http://www.nytimes.com/2008/07/31/us/31sugar.html

[35] Jonathan Benjamin-Alvarado and Brookings Institution, *Cuba's Energy Future: Strategic Approaches to Cooperation* (Washington, D.C.: Brookings Institution Press, 2010), 93.

Nonetheless, if the U.S. embargo on Cuba persists, Odebrecht's investments in Cuba leave it ready to export sugarcane and cellulosic ethanol to the relatively environmentally conscious E.U. Moreover, if the embargo is lifted in the next decade, Odebrecht stands poised to export ethanol and other sugarcane derivatives right into Fanjul Corporation's backyard: Florida and other southeastern coastal states where low transportation costs from Cuba would ethanol a very competitive fuel option. In conclusion, the Cuban sugar agroindustry is a vital field of competition between Fanjul Corporation and Odebrecht Group. Odebrecht's investments on the island are sufficiently menacing to mobilize the Fanjuls' lobbying apparatus.

Odbrecht and the BNDES: A Love Affair

Although Odebrecht Group is privately held and family controlled, the Fanjuls are not facing off with some Mom and Pop Shop. Odebrecht Group is an international powerhouse, due in large part to robust support from the Brazilian state. Over the company's history, the most important source of support has been the Brazilian Development Bank (BNDES). A publically held bank, the BNDES was founded in 1952 to finance large investments in the transportation, steel and energy industries. While the bank's role is ever-evolving, it serves principally as a source of patient capital where equity markets are lacking.[36] In this sense, the BNDES has filled the void left by international investors who are too nervous or flighty to take on large investment projects in Brazil. Over its history, Odebrecht Group[37] has won a multitude of government

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[36] Kurt von Mettenheim, *Federal Banking in Brazil: Policies and Competitive Advantages* (London: Pickering & Chatto, 2010), 11.

[37] Here I intend to refer to the companies owned and operated by the Odebrecht family. The names of Odebrecht Group and its subsidiaries have changed over time, but the parent company has always been owned and controlled primarily by Norberto Odebrecht, the original founder, and his family. Currently, Norberto's son Emilio sits atop the board of directors and Norberto's grandson Marcelo acts as CEO.

contracts in infrastructure and energy, many financed in part if not in totality by the BNDES. Tellingly, Odebrecht Group actually built the BNDES headquarters.[38]

The company lobbies very effectively, maintaining a cozy relationship with the politicians and bureaucrats in charge government contracting.[39] While Odebrecht, like any corporation, spreads its donations across all parties depending on their chances in elections it has channelled the majority of its campaign contributions in the last decade to the center-left Brazilian Workers Party's (PT), supporting former president Luiz Inácio "Lula" da Silva and his protégé, current president Dilma Rousseff. Under PT administrations, Odebrecht's approach to securing public contracts has been especially effective. A 2011 political economy analysis found that Odebrecht and other public works firms have received especially high returns on their electoral investments under PT administrations. From 2002-2010, each real donated to PT campaigns yielded between 14 to 39 reis in public contracts within three years.[40] Through effective lobbying, Odebrecht Group secured an active role in the Belo Monte hydroelectric dam project, financed via a $10.8 billion loan, the largest in BNDES history.[41] More recently, Odebrecht Group emerged the principal winner of contentious stadium construction projects in

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[38] Juan Forero, "A Bank That May Be Too Big for Brazil," *The Washington Post*, December 14, 2013, accessed December 15, 2014, http://www.washingtonpost.com/world/the_americas/a-bank-that-may-be-too-big-for-brazil/2013/12/14/5fa136d8-5c4f-11e3-8d24-31c016b976b2_story.html.

[39] In 1993 it was uncovered that the company's construction subsidiary maintained a fixed fee schedule for kickbacks from of Brazil's Joint Budget Committee. The General Rapporteur could expect a standard 3% fee for contracts directed to Odebrecht, while other members received rates from 1-3%. Odebrecht's influence in Brazilian congress was so pervasive that it could actually dictate standardized prices to corrupt politicians. See F. Daniel Hidalgo, Taylor C. Boas, and Neal P. Richardson. "The Spoils of Victory: Campaign Donations and Government Contracts in Brazil," *The Journal of Politics* 76.2 (Apr. 2014): 415-429.

[40] Ibid.

[41] "Brazil's BNDES Approves $10.8 Bln Loan for Amazon Belo Monte Dam," *Reuters*, November 26, 2012, accessed December 15, 2014, http://www.reuters.com/article/2012/11/26/bndes-belomonte-idUSL1E8MQ76I20121126.

preparation for the 2014 World Cup, receiving some $675 million in subsidized loans from the BNDES.[42]

Beyond the domestic front, the foreign policy pursued by successive PT administrations has been instrumental to Odebrecht's international expansion. Under the Lula administration, BNDES activity became explicitly intertwined with Lula's primary foreign policy goal: the promotion of Brazilian economic development via the economic integration of Latin America. This new linkage between Brazilian foreign policy and economic development was made very explicit. For example, Lula's campaign propaganda boldly asserted that "A ação diplomática do Governo Lula é concebida como instrumento de apoio ao projeto de desenvolvimento social e econômico do País."[43] The president's ideas are echoed by an aptly named 2004 BNDES policy brief "Integração da América do Sul: o BNDES como agente da política externa brasileira." In its new role, the BNDES began to act as a traditional export bank.[44] It provided subsidized credit lines to friendly governments for large-scale infrastructure projects and other Brazilian exports on the condition that a certain percentage of inputs involved were "made in Brazil."[45] In addition to these large infrastructure investments, the Brazilian government aggressively promoted regional trade agreements such as Mercosur to lower protectionist barriers to Brazilian exports.

While explicitly mentioning it would risk poking the bear, the Brazilian government's push for economic integration in Latin America attempts to counter hegemonic influences exerted by the United States in the region. In his examination of PT campaign propaganda, Brazilian scholar Adhemar Mineiro notes that Mercosul was portrayed as fundamental to

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[42] Blake Schmidt, "Brazilian Builder Odebrecht Emerges as World Cup Winner," *Bloomberg*, June 10, 2014, accessed December 15, 2014, http://www.bloomberg.com/news/2014-06-10/brazilian-builder-odebrecht-emerges-as-world-cup-winner.html.
[43] João Paulo de Almeida Magalhães, *Os anos Lula: contribuições para um balanço crítico 2003-2010* (Rio de Janeiro, Brasil: Garamond, 2010), 140.
[44] Kurt von Mettenheim, *Federal Banking in Brazi,* 158.
[45] Given the globalized nature of value chains today, it should be noted that "made in Brazil," or any country for that matter, is an increasingly problematic.

counteract attempts by the U.S. to establish its own free trade agreements.[46] Lula has publically stated in 2010 that regional integration will enhance Brazil's position in trade negotiations with the E.U. and the U.S., whose agricultural subsidy programs put Brazilian firms at a distinct disadvantage.[47] Moreover, after rapidly expanded lending activity under two successive PT administrations, the BNDES now ranks among the world's largest development banks. In 2013, it made twice as many loans as U.S. dominated World Bank and now maintains the largest portfolio in Latin America of any bank.[48] Displacing the U.S., the PT has attempted to make Brazil the go-to financier for large scale development projects in Latin America.

Hence, using cheap credit lines as a lure, the Lula administration paved the way to newly unprotected markets for Brazilian businesses, all of which comprises a newly defiant Brazilian foreign policy.[49] In theory, access to new markets would allow a swath of Brazilian firms to achieve greater scale and efficiency, and thus compete more effectively in international markets. In practice however, Lula's defiant foreign policy goals involved a conspicuous shift of BNDES loan disbursements towards financing the international activities of selected well-heeled firms, mostly large construction, mining, and agroindustry companies.[50] Odebrecht, as would be predicted by their lobbying activity, secured a slew of international BNDES loans. The company has carried out BNDES-financed infrastructure projects in several countries, including Angola, Argentina, Bolivia, Venezuela, and Cuba.

[46] João Paulo de Almeida Magalhães, *Os anos Lula*, 278.
[47] "Lula Da Silva Calls for an Enlarged Mercosur to Better Defend the Region's Interests," *MercoPress*, December 20, 2014, accessed December 6, 2014, http://en.mercopress.com/2010/12/20/lula-da-silva-calls-for-an-enlarged-mercosur-to-better-defend-the-region-s-interests.
[48] Forero, "A Bank That May Be Too Big for Brazil."
[49] Here I refer to countries which integrated to Mecosur, removing a variety of protectionist policies such as tariffs.
[50] Robson Coelho Cardoch Valdez, "A internacionalização do BNDES no Governo Lula, (Universidade do Rio Grande do Sul: Porto Alegre, 2011)

The Brazilians Are Flexing and So Should You!

In addition to Lula's attempts to flex Brazil's newly acquired clout in Latin America, Odebrecht has also managed to reap significant benefits from the Brazilian government's rather unique energy policy. Following 1973 OPEC oil embargo, Brazil's military dictatorship aggressively promoted ethanol development to ensure energy independence, first mandating the use of ethanol blends with gasoline with the 1975 Pró-Álcool program.[51] Successive Brazilian governments have continued these policies, giving rise in 2003 to the development of "fuel-flex" vehicles with engines that can handle any ethanol blend. As one of Brazil's most highly competitive industries, the Lula's business-friendly foreign policy identified ethanol as a worthy international business opportunity, using subsidized BNDES loans and other incentives to increase the competitiveness of Brazilian producers.[52] For instance, the BNDES owns 14% of the conglomerate's biofuels subsidiary, Odebrecht Agroindustrial.[53] Both Lula and President Rousseff have touted their political commitment to renewable energies, a fairly simple task considering Brazil was already one of the world's largest producers of ethanol and hydroelectric energy due to decisions made under the dictatorship.[54] Today, Brazil ranks among the largest producers of ethanol worldwide, second only to the United States. In 2013, Brazil produced 27% of the world's ethanol, with almost all of Brazilian ethanol distilled from sugarcane.[55]

[51] Ben McKay, Sérgio Sauer, Ben Richardson and Roman Herre, *The Politics of Sugarcane Flexing in Brazil and beyond* (Amsterdam: Transnational Institute, 2014), 7.
[52] João Paulo de Almeida Magalhães, *Os anos Lula*, 278.
[53] Thiago Bronzatto, "A Odebrecht Vai Perder Tudo O Que Investiu Em Etanol?," *Exame*, February 17, 2014, accessed November 17, 2014, http://exame.abril.com.br/revista-exame/noticias/perda-total-2.
[54] Note that this does not necessarily entail the protection of Amazon rainforests from development.
[55] Ben McKay, Sérgio Sauer, Ben Richardson and Roman Herre, *The Politics of Sugarcane Flexing in Brazil and beyond* (Amsterdam: Transnational Institute, 2014), 4.

While it succeeded in catapulting a few Brazillian firms into international markets, the business-friendly foreign policy pursued by successive PT administrations has been subject vehement criticisms due to a perceived ideological bias in loan-recipient countries. Critics portray Odebrecht Group as capitalizing on political ties between leftist Latin American governments, a beneficiary of "state capitalism."[56] In Cuba alone, the BNDES has financed $692 million of the Odebrecht-managed $1 billion update of the Mariel port infrastructure, a $150 million update of Cuba's airports, in addition to the $120 million Cienfuegos sugar complex deal. While it claims to be apolitical, Odebrecht leveraged longstanding ties between the Castros and the PT to access Cuban markets, forged as a result of the Castros' support of Brazilian leftist parties during the dictatorship. Lula has traveled to Cuba numerous times, engaging with the Castro's both as an aspiring politician seeking advice and as Brazil's president. Moreover, critics allege that Odebrecht "provided former president Lula with an all expenses paid trip" to support the negotiations of the Cienfuegos sugar complex deal.[57] If this is true, Lula could be said to have acted more or less as a private consultant, trafficking influence garnered while acting as Brazil's chief diplomat.

While Lula's role in negotiating Odebrecht's contract remains unclear, economists have characterized the Mariel Port and Cienfuegos projects as "state-to-state deals" between the Cuban government and their ideological allies in the PT.[58] In the party lines of the PT and Cuban Communist Party, two leftist[59] governments are portrayed in a symbiotic relationship, promoting

[56] Rodrigo Constantino, "Dilma Anuncia Mais Recursos Para Cuba: O 'capitalismo de Estado' Alimenta O Socialismo," *Veja,* January 28, 2014, accessed December 15, 2014, http://veja.abril.com.br/blog/rodrigo-constantino/economia/dilma-anuncia-mais-recursos-para-cuba-o-capitalismo-de-estado-alimenta-o-socialismo/.
[57] Eric Ehrmann, "Silver Spoon Socialists Flex Muscles In Brazil," *Huffington Post*, May 11, 2012, http://www.huffingtonpost.com/eric-ehrmann/silver-spoon-socialists-p_b_1504736.html.
[58] Richard Feinberg, *The New Cuban Economy: What Roles for Foreign Investment?* (Washington, D.C.: The Brookings Institute, 2012), 20.
[59] I hesitate to use the word socialist as both the Cuban government and the PT have distanced themselves from the term. The PT purged socialism from its campaign propaganda well before Lula's first successful presidential

international solidarity. In a speech inaugurating the Mariel Port update, president Dilma Rousseff affirmed that Brazil gains from partnership with Cuba: "Queria aproveitar para agradecer ao governo e ao povo de Cuba pelo enorme aporte ao sistema brasileiro de saúde por meio do programa Mais Médicos."[60] A highly contentious PT brainchild, the 2013 "More Doctors" program has imported 14,000 foreign doctors, 11,000 of which are Cuban, to work in poorly served communities within the Brazilian public health system.[61] In trading medical supplies and expertise for subsidized oil and development projects, the Cuban government remains very much in its political comfort zone, acting similarly as it has with other left-leaning Latin American partners such as Venezuela, Bolivia, and Ecuador. Of course, critics of this relationship offer a very different interpretation. Brazil is portrayed as the latest patron state in a succession of leftist governments duped into subsidizing the Cuban government, namely the Soviet Union and Venezuela. Moreover, the financial details of state-to-state deals are notoriously untransparent, a prominent critique of the PT's interaction with the Cuban government.[62]

By operating within and perhaps contributing to define the PT's business-friendly foreign policy via effective lobbying, Odebrecht has secured a great deal in Cuba. The Cienfuegos mill management contract grants Odebrecht unprecedented access to the day-to-day operations of AZCUBA and autonomy in making adjustments. Odebrecht Group can experiment with mill operations and calmly decide if they are sufficiently profitable to merit further expansion.

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campaign. The Cuban government has taken to using the phrase "updated socialism" to indicate its increased openness to market forces.

[60] See speech at https://www.youtube.com/watch?v=s8aCgR2QPoo

[61] Vincent Bevins, "Brazil's President Imports Cuban Doctors to Ease Shortage," *Los Angeles Times*, January 6, 2014, accessed December 15, 2014, http://www.latimes.com/world/la-fg-ff-brazil-doctors-20140106-story.html#page=1.

[62] Eduardo Miltão, "BNDES Já Repassou R$ 1 Bi Para Odebrecht Construir Porto Em Cuba," *Congresso Em Foco*, May 27, 2014, accessed December 15, 2014, http://congressoemfoco.uol.com.br/noticias/bndes-ja-repassou-r-1-bi-para-odebrecht-em-porto/.

Although Alfonso Fanjul has met with Cuba's foreign minister and toured state-run farms, Fanjul Corporation is sidelined in comparison to Odebrecht.[63] In effect, Odebrecht can evaluate the "potential capacity" of the Cuban sugar agroindustry in uniquely concrete terms, building trust with Cuban sugar industry officials in the meantime.[64] Better yet, Odebrecht has managed to minimize its labor costs by operating in Cuba. Various economists have noted that the Cuban dual currency system, whereby government employees are paid mostly in the grossly overvalued "moneda nacional," represents an implicit tax on workers.[65] In working with AZCUBA, Odebrecht's managers deal experienced and well-educated Cuban workers without paying anywhere near the wages they would in Brazil.

Odebrecht Group also bears minimal risk if the Cienfuegos project incurs losses. Technically, the Cuban government is on the hook for the subsidized BNDES loan. If the loan is never repaid however, precedent suggests Brazilian taxpayers and consumers will likely bear any losses incurred. Since 2000, the BNDES has received various capital injections from the Brazilian treasury in order to ramp up lending activity. Unlike a standard commercial bank however, the BNDES is not necessarily held responsible for ill-conceived investments.[66] For instance, an anonymous source at the BNDES revealed that one such $13.5 billion injection

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[63] Roig-Franzia and Hamburger, "Sugar Tycoon Alfonso Fanjul Now Open to Investing in Cuba under 'right Circumstances.'"

[64] It is very difficult to conduct a financial analysis of the Cienfuegos investment project because the Cuban government either does not produce or does not publish relevant statistics. However, one can rest assured that Odebrecht's financial analysts currently are in possession of the best available data. See "¿Cuál Es El Negocio Entre El Gobierno Cubano Y El Magnate Azucarero Brasilero Odebrecht S.A.? " *CubaSindical*, accessed November 2, 2014, http://www.cubasindical.org/news/infopress/y14/05151402.htm.

[65] Feinberg, *The New Cuban Economy*.

[66] As the largest source of corporate financing in Brazil, the BNDES is treated much like U.S. banks deemed "too big to fail." Similarly to the U.S. bailouts of large commercial and investment banks during the 2008 recession, capital injections into the BNDES and BNDES lending in general are woefully un-transparent. The details regarding the most recent injections will likely not emerge for some time.

occurred in June this year in order to sustain the bank's already planned lending activities.[67] This November, the BNDES once again tactfully expressed that its returns have been subpar when an unnamed BNDES official informed the press that the BNDES would be forced to "withhold a significant amount of disbursements in the short term" without a capital injection."[68]

Standing by the PT's political commitment to renewables, the Rousseff administration has indicated its willingness to bail out Brazilian ethanol producers. Spurred by subsidized BNDES lending and other government incentives, large ethanol firms including Odebrecht Agroindustrial expanded sugarcane production on a massive scale between 2005 and 2013, precipitating a 69% increase in land area dedicated to sugarcane cultivation in Brazil.[69] When U.S. shale drilling reduced the profitability of ethanol investments however,[70] the BNDES mitigated its losses in part by securing cheap loans for renewable energy investment from the French and German development agencies, totaling $541 million.[71]

On top of BDNES measures, the Rousseff administration recently increased Brazil's required ethanol blending requirement from 25% to 27.5% in order to spur domestic demand for ethanol.[72] Hence, while it seems increasingly possible that the BNDES will have to scale back lending activities due to concerns over Brazil's ballooning government deficit, the PT has shown

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[67] "Brazil to Inject Capital into BNDES in One Installment -Sources," *Reuters*, June 20, 2014, accessed December 15, 2014, http://www.reuters.com/article/2014/06/20/bndes-brazil-capitalization-idUSL2N0P11FH20140620.

[68] Alonso Soto, "Brazil's BNDES May Cut Lending without More Gov't Capital-Source," *Reuters*, November 5, 2014, accessed December 15, 2014, http://www.reuters.com/article/2014/11/05/brazil-bndes-loans-idUSL1N0SV2D520141105.

[69] Ben McKay, Sérgio Sauer, Ben Richardson and Roman Herre, *The Politics of Sugarcane Flexing in Brazil and beyond* (Amsterdam: Transnational Institute, 2014).

[70] Juan Forero, "Brazil's Ethanol Sector, Once Thriving, Is Being Buffeted by Forces Both Man-Made, Natural," *The Washington Post*, January 1, 2014, accessed December 15, 2014 http://www.washingtonpost.com/world/brazils-ethanol-sector-once-thriving-is-being-buffeted-by-forces-both-man-made-natural/2014/01/01/9587b416-56d7-11e3-bdbf-097ab2a3dc2b_story.html.

[71] Richard A. Kessler S, "Brazil's BNDES Taps France for Renewable Energy Project Financing," *Recharge*, November 22, 2014, accessed December 6, 2014, http://www.rechargenews.com/wind/1384422/Brazils-BNDES-taps-France-for-renewable-energy-project-financing.

[72] "Biofuels International - Industry News," accessed December 8, 2014, http://www.biofuels-news.com/industry_news.php?item_id=8582.

it will unconventional measures to support large ethanol firms such as Odebrecht. Ironically, Odebrecht Group's CEO Norberto Odebrecht has publically supported a scaling back of BNDES subsidized lending in order to spur the development of alternative equity markets in Brazil.[73] After a decade of heavily subsidized expansion under the PT's business-friendly domestic and foreign policies, Norberto appears ready to begin severing ties with the BNDES, having achieved sufficient scale to compete internationally.

Y los cubanos, que piensan?

As for the Cubans, they can hardly contain their excitement. With very little skin in the game, Cuban authorities gain access to the state of the art industry technology, Odebrecht engineering and management expertise as well as a $120 million line of cheap credit courtesy of the BNDES.[74] Moreover, acquiring high-tech industrial technology fits neatly into the Castro regime's propaganda efforts. Early in the revolutionary period, the regime portrayed the sugar industry as a means to generate capital for a rapid industrialization, thus preventing an economically dependent Cuba from resubmission to the capitalist imperial yolk. The 1970 "10 Million Tonne Harvest" propaganda campaign fell within this pursuit, appealing to moral incentives and nationalism with the hopes that these would generate higher yields in the *zafra*.[75] The idea predates the revolutionary period however: "The concept of moving upstream to develop an industry that relied on raw sugar production as a gateway for higher value-added products—thus reducing the dependency on a single export commodity—has been a permanent

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[73] Further BNDES loans for construction of a special free trade zone at Mariel Port by Odebrecht are pending approval.

[74] Partnering with Odebrecht will also allow the Cubans to stretch the BNDES line of credit as far as possible. As an enormous multinational, Odebrecht buys combines and other physical capital in bulk. If they are purchasing 400 combines, they can easily tack on a few more in order to secure favorable prices for the Cuban industry officials.

[75] Daisy Valera, "AZCUBA: Sugar for Growth?" *Havana Times*, January 23, 2014, accessed November 9, 2014, http://www.havanatimes.org/?p=101421.

feature of the thinking of sugar industry leaders, analysts, and Cuban government officials for most of the twentieth century."[76] Undeniably, the sugar industry is highly symbolic in Cuba.

Hence, Odebrecht's modernizing influence and focus on sugarcane's energy derivatives address the deep wound a Cuban political ideology. More importantly, Odebrecht energy focus addresses Cuba's imminent need to establish alternative energy sources as recent political instability in Venezuela jeopardize its subsidized fuel imports. For the Fanjuls, the satisfaction of Cuban sugar industry officials is a scary prospect. If Odebrecht management contract yields sufficient returns to continue modernizing the industry, the Cubans will lose incentive to engage with other potential partners.

Worse, a potential deal with the Fanjuls would entail serious cognitive dissonance for the Cuban Communist Party. The Cuban government would be seen to engage with the enemy, their perennial antagonists in international politics. Alfy and Pepe Fanjul's father was among the richest sugar barons in pre-Castro Cuba. In addition to their mansions, the Castro regime expropriated 10 sugar mills and 150,000 acres of prime land from the Fanjuls, a fortune whose roots stemmed from the colonial era.[77] The Fanjuls have declared their intention to recover the sugar-related properties, a primary motivation behind their involvement in the anti-Castro exile movement. Going further, the Fanjuls have actually invoked the Helms-Burton Act, filing claims with the State Department against Sotheby's art auction when a painting from their mansions appeared on the market.[78] In a Fanjul deal, one can imagine the Cuban Communist Party's "updated socialism" slogan quickly succumbing to allegations of "the final capitulation,"

[76] 2. Pérez-López, Jorge F. and Jose Alvarez Lanham. "The Cuban Sugar Agroindustry at the End of the 1990s." In Reinventing the Cuban Sugar Agroindustry ed. Jorge F. Pérez-López and Jose Alvarez Lanham (MD: Lexington Books, 2005), 38.
[77] See "They come to Washington often, meet quietly with individual members, usually without staff present," said the lobbyist close to industry executives.
[78] Timothy L. O'brien, "The Castro Collection," *The New York Times*, November 21, 2004, accessed December 15, 2014, http://www.nytimes.com/2004/11/21/business/yourmoney/21smug.html.

as the Cuban government returns to consort with the same *latifundistas* whose lands they expropriated in the first place. Needless to say, the issue of expropriations increases the messiness of doing business in Cuba.[79]

Meanwhile, Back in Miami…

Odebrecht's investments in Cuba highlight the overlapping nature of private and public sector categories, yet also expose tension between them. The Cienfuegos sugar mill project is simultaneously a private sector investment, an affirmation of the PT's leftist ideological commitments, and an extension of Brazil's assertive, pro-business foreign policy. However, in working with Latin America's leftists, the avowedly apolitical Odebrecht Group incurred the wrath of the Miami's ideologically entrenched Cuban exile community.

In March 2012, Florida state legislators passed a law which prohibited state and local governments from hiring companies with business ties to Cuba. Signed by Governor Rick Scott, the law obviously targeted Odebrecht USA's $512 million contract to build Miami's planned "Airport City" expansion.[80] Defending its "shovel-ready project," Odebrecht challenged the law which was rapidly ruled unconstitutional for interfering with federal foreign policy.[81] This did

[79] While Odebrecht's deal very purposefully involves a mill constructed after the Revolutionary government's wave of expropriations, it is interesting to note that the issue of expropriation represents a bound to their expansion on the island. Even if the company's experiment goes swimmingly and the Cuban government allows Odebrecht to purchase sugar industry assets, the company will even tually run into expropriated assets. In any case, Odebrecht would still have consolidated a competitive advantage against Fanjul Corp. Due to the deterioration of expropriated sugar industry assets—after 2002, it is very likely that at least a few of the Fanjul mills have been sold as scrap metal—full restitution of those assets is a very unlikely, and would anyways be an undesirable legal outcome for victims of expropriation. Thus, satisfied claims will likely take some form of financial compensation. This is good news for Odebrecht since expropriated assets could likely be purchased with a negotiable sum. One can imagine a future courtroom in which expropriation claimants face off with a room-full of Cuban lawyers paid for by Odebrecht.

[80] Odebrecht USA had recently constructed Miami Airport's north terminal which according to Odebrecht, won the "best project" award in Engineering News-Record magazine's global projects competition.

[81] Patricia Mazzei, "Florida Won't Appeal Ruling against Law Banning Public Hiring of Firms Tied to Cuba," *Miami Herald*, September 5, 2013, accessed December 15, 2014, http://www.miamiherald.com/2013/09/05/3607685/florida-wont-appeal-ruling-against.html.

not conclude the controversy however. A former pro-embargo Cuban foreign policy advisor to President George W. Bush, Miami's Aviation Director Emilio González has ever since stalled the project inexplicably, prompting Odebrecht USA to sue the county to recover $11 million it spent on planning.[82]

Despite that Odebrecht did eventually lose the contract, the Airport City incident is an instance where Brazilian foreign policy encroached on United States foreign policy, revealing its inefficacy. Simply put, the Helms-Burton Act lacked the necessary teeth to punish Odebrecht Group's Cuban investments. The law's Title III provision to protect expropriated U.S. properties is universally condemned is universally condemned by all U.S. allies in the Europe and the Western Hemisphere and is thus usually waived by the President.[83] Unable to rely on federal foreign policy, local Florida politicians took upon themselves to assemble opposition against Odebrecht, and when their efforts failed, they were forced to resort to bureaucratic sabotage. Hence, Odebrecht's investments in Cuba, a representation of Brazilian foreign policy, incurred no legal repercussions from the American government despite their flagrant flouting of stated U.S. foreign policy goals. Odebrecht USA lost its project, but the firm is not barred from securing other projects in the U.S. Moreover, when compared with the long-term potential of their Cuban investments, the Airport City contract pales in comparison.

The Fanjuls *can* Impact U.S. Trade Policy

With a state-supported titan moving into their backyard, Pepe and Alfy Fanjul must act now to protect Fanjul Corporation. Past lobbying efforts have only indirectly affected Odebrecht.

[82] Patricia Mazzei, "Odebrecht Says It May Sue Miami-Dade over Stalled Airport City Project," *Miami Herald*, July 9, 2014, accessed December 15, 2014, http://www.miamiherald.com/2014/07/09/4226485/odebrecht-says-it-may-sue-miami.html.
[83] Feinberg, *The New Cuban Economy*, 6.

Opposition to Odebrecht's Airport City project emanates principally from politicians affiliated with the U.S.-Cuban Democracy PAC, a pro-embargo group which the Fanjuls have bankrolled in the past.[84] However, given the marked ineffectiveness of Helms-Burton to deter Odebrecht's investment in the Cuban sugar agroindustry, the Fanjuls must accept trade normalization to gain access to the Cuban sugar agroindustry while the opportunity still exists. Business demands pragmatism after all.

Fortunately for the Fanjuls, precedent suggests that the Fanjuls have significant resources to mobilize towards trade normalization. Despite their attempts to keep a low profile in the press,[85] several journalists have documented the Fanjuls' access to politicians at the highest levels of government. The Fanjuls spread their bets across both parties; Alfy donated generously and acted as co-chair to Clinton's Florida campaign in 1992, while Pepe served on Republican presidential candidate Bob Dole's finance committee in 1996. In an incident verified publically by the Fanjuls, Monica Lewinsky revealed that Alfy's favors indeed bought influence.[86] Faced with an Everglades restoration project which would dramatically cut Fanjul profits, Alfy was able to spend 22 minutes on the phone with President Clinton to express his opinions.[87] Alfy maintains close relations with former Secretary of State Hilary Clinton as well.[88] Given Hilary's

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[84] Roig-Franzia and Hamburger, "Sugar Tycoon Alfonso Fanjul Now Open to Investing in Cuba under 'right Circumstances.'"

[85] Excerpt: "They come to Washington often, meet quietly with individual members, usually without staff present," said the lobbyist close to industry executives. See Peter Wallsten and Tom Hamburger, "Sugar Protections Prove Easy to Swallow for Lawmakers on Both Sides of Aisle," *The Washington Post*, December 7, 2013, accessed December 15, 2014 http://www.washingtonpost.com/politics/sugar-protections-prove-easy-to-swallow-for-lawmakers-on-both-sides-of-aisle/2013/12/07/f5959c06-5ac4-11e3-bf7e-f567ee61ae21_story.html.

[86] Somewhat comically, it took a sex scandal for concrete evidence of Fanjul political access to come to light. When Monica Lewinski testified that the President took a call from someone named "Fanuli" during their conversations, the Fanjuls were forced to respond publically.

[87] Marie Brenner, "In the Kingdom of Big Sugar," *Vanity Fair*, February 1, 2001, accessed December 15, 2014, http://www.vanityfair.com/business/features/2001/02/floridas-fanjuls-200102.

[88] Roig-Franzia and Hamburger, "Sugar Tycoon Alfonso Fanjul Now Open to Investing in Cuba under 'right Circumstances.'"

expressed open attitude towards Cuba, there is little doubt that Alfonso will provide generous financial support to her presidential campaign.

There is also evidence to suggest that the Fanjuls are not opposed to play dirty in foreign politics to achieve their goals. In a recently leaked Wikileaks embassy cable, Dominican Republic embassy officials allege that Pepe Fanjul spread disinformation in an attempt to prevent a free trade deal between the U.S. and the D.R. that would have affected the Fanjul Corporation bottom line.[89] Along with other sugar growers, the cable details that Pepe Fanjul attempted to stir up Dominican nationalist sentiments by spreading rumors that the United States would revoke visas of Dominican politicians who opposed the trade deal.[90] Sugar lobbyists also campaigned vigorously with newspaper ads, running personal attacks against the U.S. ambassador.[91] If this is true, one could presume that the Fanjuls would employ similar means to secure investment opportunities in Cuba. The Fanjuls are no strangers to the corrupt political processes, and would likely use lobbying strategies appropriate to the Cuban context to effect trade normalization.

Departing from anecdotal evidence, the Fanjuls role in sustaining the U.S. tariff-import quota on raw sugar offers a quantifiable example of the Fanjul's ability influence U.S. trade policy. By restricting imports, the sugar program ensures a minimum price for domestic sugar growers. Universally condemned by trade economists,[92] this supply restriction significantly inflates domestic sugar prices which have at least doubled the international price for over 30

[89] The deal was eventually put into place, despite its opponent's best efforts.

[90] The embassy official described this lie as "patent absurdity."

[91] Adam Playford, "Wikileaks: Fanjuls among 'Sugar Barons' Who 'Muscled' Lawmakers T," *Palm Beach Post*, January 2, 2012, accessed October 8, 2014, http://www.palmbeachpost.com/news/news/wikileaks-fanjuls-among-sugar-barons-who-muscled-l/nL2wg/.

[92] Except by those employed directly by sugar industry lobbying groups.

years.[93] Echoing previous studies, trade economist Michael Wolhenant's econometric estimate of the cost imposed on consumers by the higher domestic prices is around $2.8 billion a year, or $40 a year for a family of four.[94] Domestic producers on the other hand benefit immensely from inflated prices; the program nets Fanjul Corporation tens of millions annually.[95]

Interestingly, Fanjul Corporation's foreign operations also consume a significant portion of the quota allocation to foreign countries. Despite the fact that Brazil is by far the largest sugarcane producer in the world, the US government grants 16.9% of the sugar import quota to the Dominican Republic compared to Brazil's 13.9%.[96] The Fanjuls' Dominican subsidiary Central Romana Corporation is the country's largest sugar exporter, producing 70% of raw sugar on the island.[97] Thus, not only do the Fanjul's reap benefits domestically from inflated prices, they also control a large portion of the valuable[98] quota allocations.

As the sugar program is clearly untenable from a consumer welfare perspective, the sugar lobby ensures its continuation by pouring their profits straight back into the political process. The sugar lobby is routinely the highest spending agricultural sector at the federal level, with Fanjul Corporation alone spending $990,000 in 2013.[99] In the U.S., lobbying interest groups do not simply bribe politicians. There is no explicit quid quo pro agreement, yet as the New York Times notes: "The less defensible a federal policy is on its merits, the greater the likelihood that

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[93] By raising the price of raw sugar, the import quota is also in part responsible for the prevalence of high fructose corn syrup in America as substitute sweetener.

[94] Michael K. Wohlgenant, "Sweets for the Sweet: The Costly Benefits of the US Sugar Program," in *American Boondoggle: Fixing the 2012 Farm Bill*, ed. Barry K. Goodwin, Vincent H. Smith, and Daniel A. Summer. (Washington, DC: American Enterprise Institute, 2012)

[95] "America's Sugar Daddies," *The New York Times*, November 29, 2003, accessed December 15, 2014 http://www.nytimes.com/2003/11/29/opinion/29SAT1.html.

[96] Hufbauer and Kotschwar, *Economic Normalization with Cuba*, 68-69.

[97] http://www.centralromana.com.do/

[98] In the U.S. sugar program, each sugar-exporting country is allotted a certain portion of the total quota. As a one percent uptick in quota allocation promotes industry growth at home, the quota allocations entail intense negotiation among sugar-exporting countries.

[99] Data retrieved from the Center for Responsive Politics (opensecrets.org).

it generates (or originates from) a great deal of cash in Washington, in the form of campaign contributions."[100] The U.S. sugar program is a concrete example of Fanjul Corporation's ability to exert influence over U.S. trade policy via lobbying.

Under pressure from Odebrecht, the Fanjuls have already begun to use their influence to impact U.S.-Cuban trade normalization. Thus far, these were steps to influence the public dialogue around U.S.-Cuban relations. Early in 2012, Alfy joined the board of the Brookings Institution with a $200,000 donation, visiting Cuba twice thereafter in April 2012 and Feburary 2013 as part of a Brookings delegation of academics and business leaders.[101] Although it makes no mention of Fanjul Corporation, Richard Feinberg's Brookings report on foreign investment in Cuba published in December 2012 does reflect Alfonso's interests. Outlining policy recommendations for the U.S., Fienberg argues that: "[the U.S. can begin planning with interested U.S. firms approaches to resolving outstanding expropriation claims, as a prelude to the resumption of U.S. investments on the island."[102] Among the most widely read think-tanks in Washington by policymakers, Alfonso thus supports an argument indicating that lawmakers should work with him.

In addition, Alfonso's statements to the Washington Post are undoubtedly a political calculation considering the Fanjuls' previous aversion to media exposure. Recent polls have shown that a majority of American voters as well as a majority of Floridian voters now support trade normalization with Cuba.[103] By subjecting themselves to public scrutiny, the Fanjuls strongly communicate their new preferences to aspiring candidates, hoping to capitalize on

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[100] "America's Sugar Daddies."
[101] Roig-Franzia and Hamburger, "Sugar Tycoon Alfonso Fanjul Now Open to Investing in Cuba under 'right Circumstances.'"
[102] Feinberg, *The New Cuban Economy*,78.
[103] Rick Gladstone, "Majority of Americans Favor Ties With Cuba, Poll Finds," *The New York Times*, February 10, 2014, accessed December 15, 2014, http://www.nytimes.com/2014/02/11/world/americas/majority-of-americans-favor-ties-with-cuba-poll-finds.html.

evolving preferences among voters. Hence, Fanjul Corporation's $1 million annual contribution to American democracy will increasingly attract candidates from both parties dedicated to peeling back the U.S. embargo. As they increasingly divert funds from the likes of Maro Rubio to solid, anti-embargo candidates, the Fanjuls well-oiled lobbying apparatus will contribute to an acceleration of U.S.-Cuban trade normalization.

Conclusion

Odebrecht Group's operation at the 5 de Septiembre have mobilized Fanjul corporation's lobbying power towards securing access to Cuba, generating momentum towards U.S.-Cuban trade normalization in the process. A case study of Odebrecht's investments reveals that U.S.-Cuban relations cannot be analyzed within the vacuum of the Florida Straits. A burgeoning economic force, Brazilian policymakers have asserted Brazil as an alternative pole to the United States in Latin America, attempting to build their own sphere of influence. In Cuba, the business-friendly foreign policy pursued by successive PT administrations actually impinged on United States foreign policy—the Helms-Burton Act and the Cuban embargo. Although Helms-Burton was passed in a moment of perceived U.S. hegemony after the fall of the Soviet Union, Odebrecht's investments highlight the complete ineffectiveness of the law to deter foreign investment in Cuba. Inspiring fear that U.S. corporations may be denied access to important opportunities, Brazilian foreign policy produced a sense of urgency in the redefinition of a half-century old, well-entrenched U.S. foreign policy. Hence, while many authors choose to emphasize U.S.-Brazilian cooperation in Brazil's recent prominence, Odebrecht's Cuban investments are an instance where Brazilian actors have forced adjustments to U.S. foreign policy.

By emphasizing external influences on U.S.-Cuban relations, this case study invites future research into how other international actors may exert influence. Future research should consider China's role in Cuba with respect to U.S.-Cuban relations. As the world's the world's most powerful emergent economic force, China's investments throughout Latin America are extensive, rivaling those of the BNDES.

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