



U.S. Chamber of Commerce

*International Division
1615 H Street, N.W.
Washington, D.C., 20062-2000
telephone: +1-202-463-5460
fax: +1-202-463-3114*

**Comments on the Economic Effects of U.S. Restrictions on Trade
with and Travel to Cuba**

by the

U.S. Chamber of Commerce

for the

**U.S. International Trade Commission
Investigation No. 332-552,
“Overview of Cuban Imports of Goods and Services and Effects of
U.S. Restrictions”**

June 2, 2015

The U.S. Chamber of Commerce welcomes the opportunity to present comments to the U.S. International Trade Commission on the Economic Effects of U.S. Restrictions on Trade with and Travel to Cuba. The U.S. Chamber of Commerce is the world's largest business federation, representing the interests of more than 3 million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations. We applaud recent efforts to ease restrictions on U.S. exports and travel to Cuba as a first step toward a policy more likely to bring positive change to Cuba and the Cuban people. We also commend members in both the House and Senate for introducing bills ranging in scope from lifting the travel ban and facilitating the sale of agricultural or telecommunication products to definitively lifting the embargo.

Our previous approach to relations with Cuba over a half century, though rooted in the best of intentions, failed to empower the Cuban people and isolated us from our trading partners in this hemisphere and around the world. Additionally, the Cuban government has used this policy as a rationale for restrictions on its people. As a result, unfortunately and unintentionally, those most deprived were the Cuban people themselves.

This policy enabled the Castros to maintain a monopoly driven by scarcity. It allowed the government to ration food and, apportion jobs and other benefits to the favored few, while impoverishing those less faithful to the government. Only new sources of job creation will break the government monopoly on the economy, which would ultimately create greater opportunity for U.S. companies.

The U.S. Chamber has long supported engagement with Cuba because we believe in the positive impact the power of free enterprise, when unleashed, can have on a society. It is for this reason that we have long supported a change in U.S. policy toward Cuba, one that seeks more opportunities for companies and individuals to interact with Cuba and Cuban society.

Why Cuba Matters

Getting U.S.-Cuba policy right is important because our response will send a signal to the wider world about American values and how the U.S. helps neighbors who have suffered oppression and poverty. It matters in terms of the refugee crisis that could follow an economic meltdown 90 miles south of Key West.

From the business community's viewpoint, U.S. policy towards Cuba is an anachronism. The U.S. embargo began in October 1960. Implemented to pressure Castro to democratize, the embargo made a martyr out of a tyrant and has helped

prop up the Cuban regime. Cuba's poverty is the direct result of a half century of Marxist mismanagement, but the embargo allows the regime to blame it on Washington. Few people argue that the Cuban dictatorship could have withstood five decades of free trade, free markets, and free enterprise, powered by entrepreneurial citizens.

Political and economic freedoms go hand in hand. The Chamber's own mission statement commits us to "advance human progress through an economic, political, and social system based on individual freedom, incentive, initiative, opportunity, and responsibility." It is on the basis of these values that we support closer economic engagement with Cuba. We are convinced that additional commercial and person-to-person contact would facilitate a transition to democracy and full civil liberties.

Public opinion has shifted in favor of increased trade and travel to Cuba. Recent polls by Benenson Strategy Group and SKDKnickerbocker, found that most Americans support expanding trade, travel, and diplomatic relations with Cuba. A large majority of Americans – 72 percent – support expanding travel and trade by Americans and having diplomatic relations with Cuba. And, 64 percent of those surveyed supported ending the embargo writ large. Finally, it is worth noting that a recent poll by Bendixen & Associates found that a vast majority of Cubans – 97 percent – welcome closer ties with the United States.

The Obstacles

The U.S. embargo on Cuba was codified in the 1963 Cuban Assets Control Regulations (CACR), which established a comprehensive set of economic sanctions, including a prohibition on most financial transactions with the island. These sanctions were made stronger with the Cuban Democracy Act (CDA) of 1992 and the Cuban Liberty and Democratic Solidarity Act (commonly referred to as the Helms-Burton legislation) of 1996.

In 2000, the embargo was partly eased. Under the Trade Sanctions Reform and Export Enhancement Act (TSRA), the sale of agricultural exports to Cuba was permitted, but with a variety of restrictions and licensing requirements. TSRA allows for one-year export licenses and requires that Cuba pay U.S. exporter's cash-in-advance via third-country banks. In the four years after TSRA, U.S. exports to Cuba rose from less than \$5 million in 1999 to \$392 million in 2004, and U.S. agricultural products captured 42% of the Cuban market.

In 2005, the Bush administration tightened TSRA's terms of cash-in-advance payment to require payment before the goods departed a U.S. port. Subsequently, U.S. agricultural sales to the island decreased by nearly 9%; and while exports recovered to a high of \$711 million in 2008, a combination of factors, including U.S. exporters to Cuba not being able take advantage of private U.S. financing of their sales, direct payments by Cuban banks being prohibited, and all payments needing to be routed through third-country banks, forced the Cuban government to increasingly look to other markets to import their goods. In fact, in 2014, imports from the United States reached a low of \$299 million, less than what was exported to the island from the U.S. in 2004.

A 2007 U.S. International Trade Commission report states that small exporters avoid the Cuban market because of the complexity of TSRA regulations. Indeed, cash-in-advance payment rules have left small and medium-sized enterprises (SMEs) out in the cold when it comes to exporting to Cuba. SMEs generally lack and are reluctant to create relationships with foreign banks, so these requirements create an additional impediment to the sale of U.S. products to Cuba.

The Opportunity

U.S. exporters are missing out on significant opportunities to do business with a Cuban economy made up of 11 million consumers, roughly the population of Ohio. While the Cuban economy is small and underdeveloped, firms from other countries today operate freely on an island that is only 90 miles from U.S. shores and is a natural market for U.S. goods and services. Prior to the embargo, the United States accounted for nearly 70% of Cuba's international trade. Cuba was the seventh largest market for U.S. exporters, particularly for American agricultural products.

The embargo forced Cuba to seek out new sources for its domestic consumption. The U.S. International Trade Commission estimated in 2001 that the Cuba embargo costs American exporters up to \$1.2 billion annually in lost sales. This sum has likely grown over the past fourteen years, a period in which U.S. global exports grew by 123%.

Venezuela is now Cuba's main trading partner, cornering a quarter of Cuba's total trade; the European Union is second; followed by China; and Canada, with an economy one-tenth the size of the United States, sells more to Cuba than the United States does. Cuba is continuing to diversify its commercial and business relationships around the world, even with distant trading partners such as Malaysia and Vietnam.

Perhaps more important than the diversification of trading partners, is that it has become apparent that the Cuban government is undertaking a series of economic reforms. During a U.S. Chamber delegation trip to Havana in May of 2014, Chamber President & CEO Thomas J. Donohue was able to see these changes first hand, remarking in his speech at the University of Havana on May 29, 2014:

“Over the course of this trip, we’ve met with Cubans who are clearly seeking to build a better life through private sector economic activity. Their efforts to start their own businesses show that the spirit of entrepreneurship and enterprise is alive and well in the hearts of many of Cuba’s citizens... Efforts to reduce the government workforce by 600,000 are noteworthy—and so is the simultaneous expansion of private employment. Cuba has come to the realization that the government doesn’t have to control all facets of the economy, and we are pleased to see some state enterprises transition into private cooperatives.”

These meaningful and important changes create an even greater opportunity for U.S. companies to engage the Cuban market—increasing exports to the island, while creating more people-to-people contact with Cuban entrepreneurs.

During the visit, the delegation also visited the new Port of Mariel, which was built in partnership with the Brazilian government and the Brazilian conglomerate Odebrecht for roughly \$800 million. This mega-project is aimed at creating a multimodal trading hub for trade between Cuba, the Caribbean, and the United States. In addition, Odebrecht has recently announced that it will carry out a \$207 million expansion of the international terminal at Havana’s Jose Marti Airport.

These projects are all part of Cuba’s objective of increasing foreign investment on the island and becoming an active member of the global trading community. In fact, in 2014 Cuba’s National Assembly passed a new foreign investment law aiming to increase capital coming into the country. While the law does not have all the legal certainties that U.S. companies look for when making an investment decision, including a reality that all investments must be done in partnership with the Cuban government, it is a welcomed step. In May 2015, following a historic trip by French President Francois Hollande to Havana, French companies Total and Accor announced new agreements with the Cuban government.

The Potential Impact of Recent Changes in U.S. Policy Towards Cuba

On December 17, 2014, Presidents Obama and Castro announced during simultaneous broadcasts from Washington, DC and Havana, that the two

governments would take steps to begin to normalize relations. A month later on January 16, 2015, the U.S. Departments of Commerce and Treasury revised the core regulations governing the U.S. embargo on Cuba.

These new measures, including changes by the State Department to a list authorizing the importation of certain goods and services produced by independent Cuban entrepreneurs, have the potential to unleash the power of free enterprise to improve the lives of the Cuban people. With an opening, the Cuban people can demand the right to start more businesses and to be free to do business with people in the United States and elsewhere. These new measures also make it simpler for Americans to travel to the island and evaluate the conditions needed to do business in Cuba. And depending on how the regulations are applied, they could also allow U.S. citizens and companies to support the growth of private enterprise in Cuba by supporting private sector business in Cuba.

The effects of these limited changes have become apparent. The number of Americans visiting Cuba has risen dramatically — by 36 percent — in the first few months of 2015. But real changes will not be seen until Congress acts.

Recent congressional efforts to ease restrictions on agricultural trade and telecommunication exports to Cuba represent an important first step toward restoring the competitive advantage of U.S. goods and enabling U.S. exporters to recover lost markets. In particular, easing the terms of already legal trade with Cuba — in particular, by removing the requirement for cash-in-advance payments, allowing cash on delivery, and eliminating the need to go through third-country banks — would have a demonstrable impact on the ability of America's small exporters to access the Cuban market, as would the removal of barriers on American citizens traveling freely to Cuba and on related transactions incident to such travel.

Past studies have shown that simply easing restrictions on agricultural exports to Cuba and lifting the travel ban could result in up to \$365 million in additional sales of U.S. goods, according to a March 2010 study by Texas A&M University. Making it easier for U.S. citizens to travel to the island will result in increased sales of U.S. agricultural products in Cuba as American tourists demand high-quality products and recognized U.S. brands. It could also help thousands of Cubans to improve their standard of living and their economic independence from the state.

Moreover, the Texas A&M study indicates the \$365 million increase in sales would have a total economic impact of \$1.1 billion and create 6,000 new jobs in the United States. Increased agricultural sales to Cuba will benefit not only U.S. agricultural producers, but also agribusiness firms, food processors, business services

suppliers, the financial sector, real estate, health care, oil, gas and petroleum suppliers, transportation companies, trade facilitators, and port authorities across the United States.

Conclusion

The U.S. Chamber of Commerce has long championed free enterprise and the free movement of goods and services across borders and countries. With bipartisan support, the U.S. has been very successful in re-shaping the map of economic relations in the Western Hemisphere, creating one of the densest networks of economic and business interactions in the world.

But the most glaring exception sits only 90 miles from U.S. shores. The five decade policy of an economic embargo intended to promote political change on the island has not worked; some call it a glaring failure.

The recent adjustments made to the regulations have the potential to allow U.S. companies to regain some of the Cuban market, begin to plan for a day when they may be able to operate in Cuba, and provide other support for the growth of Cuba's nascent private sector.

The Chamber believes it is time for new thinking and doing on Cuba. The Chamber urges an end to the embargo to empower U.S. businesses to openly and freely trade with the island. The Chamber believes in the power of trade and free enterprise to bring prosperity and change to communities, countries, regions.

Thank you very much.