



FR-07-00

*After the Change
Opportunities for the US and Cuba*

A presentation on business opportunities following change of US-Cuba trade policy. And a frank discussion on present developments in Washington, Cuba and Miami.

Any serious presentation concerning Cuba or Cuban issues, needs to be framed within two key factors:

Cuba is a country of contradictions. And, US/Cuba politics are shrouded with inconsistencies.

Now, you could add a number of other valid truths, such as:

- The high emotions of the issue
- The political strength of the exile community in Florida
- The enviable geographical location of the island
- And others

But if we focus on the two key factors, we may be able to start understanding what most of the time is just unexplainable.

Where is Cuba today?



Cuba  data

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Economically

- Following the collapse of the Soviet Block- Economy shrank by 40%- will take years to get back to 1985 levels.
- After the collapse, Cuba lost 80-percent of its normal trading trading partners.
- Finding food is a daily battle.
- The Ave. monthly salary of about \$9.85-will buy just 9 lbs. of pork.
- Most consumer goods are rationed. Housing is desperately in short supply & buildings collapse from lack of repairs.
- The island survives largely on an estimated \$1billion of foreign remittances coming from relatives living mainly in Miami.

The Numbers Reflect the weakness

- Exports \$1.4 billion
(Russia 370-sugar; Netherlands 204-Nickel; Canada 294-Nickel)
- Imports \$2.5 billion
(Russia 465-Fuel; Spain 465-general goods; Mexico 318-gen. Goods; Canada 197-Foodsstuff)
- Main Revenue Sources-
(Remittances 1 billion; Tourism \$1.5 bill; Sugar \$1.1 Bill; Nickel \$500 Bill).





Politically

- About 450,000 persons have applied for U.S. visas under a lottery system that allows 20,000 Cubans to immigrate to the US.
- There are no opposition parties.
- No real elections.
- No free media.
- There is jail or exile for dissidents. They have Rapid Action Brigades and Neighborhood Snitch and Enforcement Squads.

At The Same Time

- The Island has become a tourism and sports powerhouse.
- Is an exporter of doctors to help 3rd. world countries.
- Has developed the most advanced biotechnology industry in the hemisphere after the US.
- Is allowing self-employment businesses (such as hairdressers and plumbers) to slowly develop.
- Is allowing private agricultural markets to compete with the government.





- Is allowing religion to be practiced without mayor restrictions.
- And has opened the door to foreign investments in a number of sectors. Although hiring must be done through a State agency that pays Cuban workers in worthless pesos, but it charges in dollars.

The present law

- US Sanctions have been enacted to compel the communist regime to change to a more democratic and free market system.
- The “Cuban Liberty and Democratic Solidarity (Libertad) Act”, (widely known as “Helms Burton”), was enacted in March 1996, immediately after the Cuban military shot down two unarmed civilian planes piloted by Cuban-Americans.
- Among other things, Helms-Burton aims
 - “to strengthen international sanctions against the Castro government”,
 - “to protect U.S. nationals against confiscation and the wrongful trafficking in property confiscated by the Castro regime”,
 - and “to provide a policy framework for U.S. support to the Cuban people in response to the formation of a transition government in Cuba”.
- It can be argued that the law was intended to operate upon the principle of 99 percent fear and one percent punishment, and its all-encompassing definition of trafficking certainly had fostered such fear.





US Strategy

- Has been based on a careful balance of producing change in Cuba, while avoiding an immigration crisis that would affect U.S. interests.
- The strategy may include protecting the country from a sudden economic collapse, while promoting people to people contact.
- Measures include allowing remittances, family travel, direct mail and cultural interchange,
- But prohibiting business deals, loans, or even facilitating ships from entering US ports after stopping in Cuba.

The new anti-embargo forces

- Recently, the U.S. business community who had remained on the sidelines on the Cuba debate is weighing in against the embargo as never before.
- Two powerful and influential coalitions of U.S. companies have launched campaigns against the sanctions established by the Helms-Burton Law. USA Engage and Americans for Humanitarian Trade with Cuba, includes the likes of David Rockefeller, Archer Daniel Midland Chairman Dwayne Andreas, the U.S. Chamber of Commerce; and companies such as Exxon, IBM, and Westinghouse.





-There is also a convergence of new voices favoring change. They include a growing number of influential Republicans like Sen. John Walker of Virginia. And some lawmakers, like Rep. Mark Sanford, SC, who voted for Helms Burton, have now changed their positions.

-At issue are a number of new Bills introduced in Congress to remove U.S. restrictions on humanitarian trade with Cuba.

-As we speak, -----

The two Arguments

-Proponents of the embargo believe that Washington must withhold legitimacy and resources from the Castro regime in order to promote a peaceful change to democracy.

-Opponents, on the other hand, believe that Cuba must be treated as a proud, sovereign country where pressure to improve human rights and achieve political pluralism can be achieved only through dialogue and exchange.

-The two sides generally share the same ultimate goals of a peaceful evolution to a society with full respect for human rights, genuinely representative government institutions, and an open economy, but disagree on how to achieve this goal. The disagreement has become increasingly bitter since the passage of Helms-Burton.

In the mean time..In Miami





- The exile community is divided in a number of issues.
- From Humanitarian Aid, to remittances & Travel, to the embargo itself.
- A poll by the Miami Herald and the St. Petersburg Times claim that 40% of the exiles would like to see a change in policy.
- And to top it off-The exiles are without a leader since Jorge Mas Canosa died in 1997. There is confusion and competition instead of cooperation.

Need to integrate into world market

- Since 1985, the Island has been desperately struggling to develop new trading partners.
- During the past few years Cuba has made a special effort to boost its diplomatic and trade ties with its neighbors in the Caribbean, including the mostly English speaking Caribbean Community.
- They have already notched a few diplomatic victories by securing equal treatment as a member of the Association of Caribbean States, and by successfully lobbying for the creation of a Cuba-CARICOM nations joint commission to manage their cooperation efforts.
- In addition, Cuba has re-established diplomatic relations with the majority of Caribbean countries, and has signed collaboration agreements with formerly anti-Castro St. Vincent and Dominica.





Cuba's Tourism Threat

-Given Cuba's geography and natural resources, its Caribbean neighbors can not ignore its potential as a giant tourist attraction.

-The island has more than 2,000 miles of coastline, with 280 pristine beaches, a large number of historical attractions, coral reefs, lush mountains, some of the region's best fishing and hunting, and a notable ecosystem.

-From 1994 to 1996 Cuba's yearly tourism revenues grew at a rate of almost 19 percent to \$1.45 billion Dollars, and has become the fastest expanding sector in the Cuban economy.

-During the same period, the rest of the Caribbean experienced a revenue growth rate of 4.8 percent. It is projected that 1,300,000 tourists from Canada, Europe and Latin America will visit Cuba this year.

Lack of Western Commercial Infrastructure

-For almost 30 years Cuba's governmental, commercial and social structures were designed to function within the sphere of the former Soviet Block.

-All of the country's economic organizations were created to respond to the demands and orders which generated from those markets, and





therefore, lack the fundamental organization necessary to effectively respond to the characteristics and requirements of the western commercial markets.

-To help compete in the world markets, Cuba has introduced a number of “ market reforms”.

-But for Cuba to effectively compete in these markets, it must do much more. It must decentralize its enterprises, develop adequate communications networks to allow for the efficient exchange of information, and dismantle its obsolete Centralized Economy structure, which is inherently incompatible with fundamentally capitalistic sellers and buyers.

Functioning in the Free Markets

-Another obstacle is the incompatibility of the Cuban *Empresario* with its counterpart Western educated businesspersons trained in the art of Market Economies, which rewards them for such UN-communist qualities as trade aggressiveness and opportunism.

-The Cuban *Empresario* is facing a quite different business culture than those they experienced during the Island’s tenure with the former Soviet Block countries. The management of an enterprise with a Centralized Economy creates inherent limitations in competitive markets, which require independent actions and offensive initiatives.





General Business Opportunities & Issues

In a recent report completed for the Florida Ports Council, it was estimated that trade opportunities for Florida could represent about \$2 billion in trade during the first year, and quickly grow to over \$5 billion within the first five years.

A quick review of the market opportunities:

- Cuba already has the largest number of hotel rooms in the Caribbean market.
- Its climate, the fertility of its soil, and the proximity to the American market, make Cuba a potential candidate for future exports of all types of fruits, seasonal vegetables, coffee and tobacco products.

In 1989, Cuba produced:

- A million tons of citrus products
- More bananas than Costa Rica
- And more coffee than El Salvador
- There is a significant shortage of housing-which may approach 700,000 units.





- Cuba has developed an interesting capacity for textile products. There are a number of weaving mills, knitting plants, and apparel manufacturing facilities throughout the country.
- About 37% of the world's nickel reserves are located in Cuba.
- There are over 200 other mineral deposits, which have not been exploited due to the lack of capital; they include products such as lead, zinc, gold, and copper.
- In 1959, 25% of all U.S. rice exports went to Cuba. Today, Cuba imports about 350,000 tons of rice mainly from Asia.
- 31- deep-water ports will stage the island for cargo generating from Florida ports.
- The railway system, with over 9,000 miles of track, with the same gauge specifications as the American system, will present unique opportunities.
- To say nothing of the 6 million heads of cattle needed to replace the countries lost herd.
- All together, the country needs about \$10 billion in order to bring its infrastructure up to date and be able to compete in the Western Hemisphere.

An Avalanche of New Developments, When Added Together





May Give us a Window to see Where Cuba Could be In the Next 3 to 4 Years.

For Example:

- The president of the OAS said that he will push to have Cuba re-integrated into the organization.

- Leaders from 25 countries in and around the Caribbean have asked the U.S. to lift the embargo against Cuba.

- Cuba was accepted as a full member of the Latin America Trade Pact-ALADI.

- Last year, Cuba announced that it had allowed foreign entities to begin operating a private power plant. Eventually the new power plant will generate about one tenth of the power generating capacity of the island.

- Rare talks took place in Cuba on their \$3.5 billion debt to the Paris Club, And
Russia announced that Cuba's debt of over \$20 billion would not impede relations between the two countries.

- Last year, President Clinton announced new measures to promote people-to-people contacts, these included:
 - Fewer restrictions on flights to Cuba and on remittances to Cubans-
Charter flights were added from New York and Los Angeles.





- A direct mail service with the island.
 - A system that would allow Private Cuban entities to buy U.S. food and agricultural products.
 - Under the new rules:
 - Vessels carrying licensed goods would be spared any sanctions.
- And
- US Citizens can now apply for specific licenses to accompany their goods to Cuba or service their merchandize.
- US agricultural interests started a campaign to widen access to the Cuban market.
- U.S. firm Genesis Medical Technologies started testing a needless injection system in Cuba,
- York Medical said that a venture to bring drugs developed by Cuban research institutions to market was midway through clinical trials on three anti-cancer medicines.
- In June of last year, a Gallup Poll found that 71-percent of all Americans favored renewing diplomatic ties with Cuba.
- Pharnma-Chem a Ft. Lauderdale pharmaceutical co. was authorized to ship prescriptions and over-the counter drugs to Cuba.
- The head of the US Chamber of Commerce traveled to Cuba to review future business opportunities.





In the same month, -SmithKline Beecham signed a deal with Cuba to sell meningitis B vaccine developed in Cuba in the USA.

-Earlier this year, 75 American companies participated in a trade show in Havana. The show promoted laboratory equipment, medicines and medical devices.

-Gov. George Ryan of Illinois became the first U.S. governor since 1959 to be allowed to visit Cuba. Gov. Ryan visited with a 40-person business delegation which included amongst others, Caterpillar, Archer Daniel Midland, Deer & Co., and brought \$1 million worth of humanitarian aid.

-Also, the House Ways & Means Committee has asked the International Trade Commission to provide a study on the embargo's economic effects in the United States and Cuba.

-And in Nov., just before the Elian Gonzales crisis hit the news, President Clinton announced that he could favor easing the trade embargo against Cuba under the right circumstances.

-Add to this, yesterday's Miami Herald Editorial calling for a lifting of travel restrictions to Cuba.

So Where do we go from Here??

-Your guess is probably as good as mine. But one thing is certain.





-The Cuba of the future will look quite different that the Cuba of the last 40 years.

-The question is HOW, and HOW FAST??

NOTE UPDATE PARTS & PIECES LATER FROM HERE:

June 27, 2000

U.S. business eyes Havana

Clinton expected to ease curbs BY ANA RADELAT

Special to The Herald

Part 3 of a 3 part series

WASHINGTON -- Sensing that Congress and the president are willing to poke holes in the 40-year-old embargo against Cuba, hundreds of U.S. lawmakers, farm leaders and corporate executives have rushed to Havana in recent months to explore business opportunities.

Even if Congress fails to ease sanctions against Cuba, President Clinton will probably take additional steps before leaving office in January, according to administration officials and business consultants with interests in Cuba. Although the fall of the Berlin Wall heightened interest in trade with the island, Pope John Paul II's journey to Cuba in 1998 gave travel there ``legitimacy and acceptability," said Geoff Thale, an associate with the Washington Office on Latin America, a nonprofit group that advocates easing the embargo. ``Before the pope's visit, it was a bigger political risk," Thale said.

Afterward, President Clinton eased restrictions on the sale of medicines, allowed U.S. food sales to nongovernmental entities on the island and relaxed restrictions on American travel. And even though the 1996 Helms-Burton Act stripped the president of much of his authority over the Cuba embargo, Clinton can still license specific transactions.

LICENSING AUTHORITY

Using that licensing authority, Clinton may broaden permitted transactions to include the sale of food to the Cuban government under certain conditions, some business consultants say.

These conditions might include prohibiting sales that benefit Cuba's tourism industry or allowing limited sales for a trial period.

Moreover, Clinton will probably allow Cuban Americans unlimited travel to the island to visit their relatives, a State Department official said. They are now restricted to once-a-year visits unless they can obtain permission for additional travel for humanitarian purposes.



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José Cárdenas, director of the Cuban American National Foundation's Washington office, called the pope's visit a ``catalyst" that led to increased U.S. contacts with Cuba.

``In the beginning of the administration [Clinton] held to the traditional U.S. approach of isolating the Castro regime. Now they're virtual cheerleaders [for increased U.S. contacts with the island]," Cárdenas said.

VISITS ENCOURAGED

A State Department official agreed that the Clinton administration ``encouraged various official delegations going down."

``It's a central part of our people-to-people policy," the official explained.

Meanwhile, dozens of lawmakers who want U.S.-Cuba policy to change are flying to Havana. The Washington Office on Latin America hosted an April trip to Cuba for Reps. Joe Moakley and Jim McGovern, Massachusetts Democrats who have long criticized the Cuba embargo. In February, the group took Reps. Michael McNulty and Maurice Hinchey, New York Democrats.

Pastors for Peace, an interdenominational group of religious leaders who maintain that embargo restrictions are unconstitutional, has organized travel for the all-Democratic Congressional Black Caucus, whose members have made five trips to Cuba in the last 18 months. Their travel was largely funded by private foundations.

``Feeling that lifting the trade sanctions on Cuba for food and medicine is on the horizon, I wanted to make the trip there to lay the groundwork for South Carolina to take advantage of this new market," said Rep. James E. Clyburn, D-S.C., chairman of the black caucus. ``And believe me, I am not alone."

DELEGATES TRAVEL

When Clyburn was in Havana this month, he ran into Sen. Blanche Lincoln and Rep. Marion Berry, Arkansas Democrats, who were traveling with a 16-member delegation of Arkansas farmers.

While Cuba has always attracted liberal Democrats, it now has bipartisan appeal.

Sen. Arlen Specter, R-Pa., visited last year, as did Illinois Gov. George Ryan, also a Republican. Both men discussed business opportunities with Cuban officials during their stay.

``It serves neither the U.S.'s nor Cuba's interest to continue the embargo on vital supplies like food and medicine," Senate Minority Leader Tom Daschle, D-S.D., said during his trip last August.

In the last two years, representatives of U.S. Wheat Associates have visited Havana five times. They brought wheat donations on their first two visits, but now they are trying to sell.

NEW MARKET

Dawn Forsythe, spokeswoman for the group, acknowledges that the Cuban Catholic charity CARITAS and other nongovernmental groups in Cuba -- which are allowed by law to buy U.S. agricultural goods -- ``are not set up to handle" the volume of wheat U.S. producers want to sell to Cuba.

Yet the opportunity to reach a new market compels the American wheat growers to keep trying, Forsythe said. The American Farm Bureau Federation, the Texas Farm Bureau and the U.S. Feed Grains Council have also sent delegations to Cuba since the pope's visit.





Representatives of the U.S. Cane Sugar Refiners' Association also visited. Nicholas Kominus, president of the association, said his members are preparing for the day they can import and refine Cuba's "high quality" sugar. "If you're in the industry, going to Cuba is like going to Mecca," he said.

LAYING GROUNDWORK

The U.S. Chamber of Commerce has also sponsored two trips to the island in the past year, laying the groundwork for the day that its members are allowed to trade with the island.

Chamber Vice President Craig Johnstone predicts the embargo will be lifted because it is "unhelpful for Cuba and unhelpful for the United States."

Meanwhile, the chamber, the largest U.S. business group, has initiated several projects with Cuban officials. One would bring Cuban entrepreneurs to the United States. Another would begin talks between the Cuban government and some of the American companies that lost property during Castro's nationalizations.

The Clinton administration is wary of independent efforts to settle such claims, but it was more supportive of the first U.S. trade show in Havana. Peter Nathan, president of PWN Exhibicon, organized a January health trade fair, which was attended by 309 business people from 97 American companies.

Since licensed sales of medicine and medical products are permitted under law, trade show participants signed contracts worth between \$3 million and \$5 million at the event. Since then, trade fair participants have received another \$15 million to \$20 million in orders from the Cuban government, Nathan said.

Nathan, who produced the first U.S. trade shows in Communist China and the former Soviet Union, said embargo restrictions made the Cuba exhibit the most difficult of all his ventures.

Yet he is planning a food and agribusiness show for American producers in Havana next year.

"There's just so much interest," Nathan said.

