

**STATEMENT BY
UNDER SECRETARY OF STATE
FOR
ECONOMIC, BUSINESS, AND AGRICULTURAL AFFAIRS
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BEFORE THE
SENATE FINANCE COMMITTEE
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Thank you for inviting me to discuss United States policy toward Cuba, especially with respect to policies on trade with and travel to Cuba. These policies are indispensable tools designed to help accomplish our goal in Cuba, which I know each of you shares: a peaceful transition to democracy characterized by open markets and the respect for human rights.

My testimony today will cover:

- 1) the continuity of Cuba policy over several administrations;
- 2) new elements in President Bush's Cuba policy;
- 3) the Cuban government's harsh response to its own people's democratic aspirations: the March 2003 crackdown;
- 4) the Castro regime's use of tourism to strengthen its repressive apparatus;
- 5) Cuba as an unreliable economic partner with little market potential;
- 6) Cuba's record as a deadbeat debtor; and,
- 7) the profound counter-terrorism concern that Cuba represents.

I realize this written statement is lengthy. That reflects the importance of the issue and my interest in giving the Committee a comprehensive view.

AMERICAN POLICY TOWARD CASTRO'S CUBA

The Castro regime is bankrupt, dictatorial, and anachronistic. There is broad acceptance within the United States and among our democratic allies that the system of government imposed by Fidel Castro must change, and that the Cuban people deserve the right to exercise their fundamental freedoms, including the right to choose freely who will govern them and how they will be governed.

The Administration's policy toward Cuba is designed to encourage a peaceful transition to a democratic government characterized by strong support for human rights and an open market economy. This policy has its roots in the Eisenhower Administration and was strengthened by the Kennedy Administration and then the first Bush Administration and the Clinton Administrations. It has been supported by every U.S. President during the last forty years.

The Administration's Initiative for a New Cuba: President Bush is firmly and fully committed to encouraging a peaceful transition to democracy in Cuba. To this end, the President announced in May 2002 an Initiative for a New Cuba. The President's policy aims to promote Cuba's re-incorporation into the Western Hemisphere's community of democracies.

The Initiative challenges the Castro government to undertake political and economic reforms, in particular to permit free and fair elections for the National Assembly. It also challenges the Cuban government to open its economy, allow independent trade unions, and end discriminatory practices against Cuban workers. President Bush made clear that his response to such concrete reforms will be to work with the U.S. Congress to ease the restrictions on trade and travel between the United States and Cuba.

President Bush did not demand "all or nothing" but rather, for the first time since the Castro regime came to power, offered that the United States match incremental steps toward freedom and more open markets by the Government of Cuba with incremental steps to ease the embargo and travel restrictions. As the President said, "freedom sometimes grows step by step, and we will encourage those steps."

In his May 2002 remarks, President Bush further discussed the Cuban people's aspirations for freedom and their efforts to bring about change. The President made specific reference to the Varela Project — a document signed by more than 11,000 brave Cuban citizens who petitioned the government on May 10, 2002, for a referendum on freedom of the press, on organizing democratic elections, on freeing political prisoners, and on economic freedoms.

Pillars of Support for the Cuban People: The President's policy seeks to reach out to these pro-democracy advocates and to the Cuban people more generally; its pillars are strong support for the aspirations of the Cuban people for a democratic system that respects human rights and provides for an open, free market economy. To this end, we are seeking to deepen U.S. outreach to the Cuban people by:

- Facilitating meaningful humanitarian assistance by American religious and other non-governmental groups;
- Providing direct assistance to the Cuban people through non-governmental organizations;
- Establishing U.S. scholarships for family members of political prisoners and for Cuban students and professionals trying to build independent civil institutions;
- Modernizing Radio and TV Marti; and
- Working to resume direct mail service to and from Cuba.

The U.S. is already the country that gives the most humanitarian aid to Cuba. USAID programs have provided more than 150,000 pounds of food and medicine to families of political prisoners and other victims of repression. USAID has supported the establishment of more than one hundred independent libraries in Cuba and supplied them

with books and other materials on democracy, culture, current events, and other subject matters available in free societies.

We are working with USAID and Georgetown University to provide university grants to Cuban students. Pedro Roig has been appointed the new Director of the Office of Cuba Broadcasting, the supervisory body for Radio and TV Marti, and we are working to increase the transmission capabilities of these important broadcast media.

Travel: One essential component of the President's policy toward Cuba is the purposeful, effective interchange of ideas between Americans and Cuban nationals, in order to help encourage development of independent civil society. To this end, there are 12 categories in the Cuban Assets Control Regulations that provide for travel by Americans to Cuba. The Administration has taken steps to refine, and in some cases eliminate, categories to ensure that travel is appropriate and producing authentic opportunities for exchanges between Americans and ordinary Cuban citizens.

Licensed by the Department of Treasury's Office of Foreign Assets Control, these categories apply, for example, to universities for degree programs, journalists, professionals conducting research in their professional area, athletes, cultural groups, religious organizations, those engaged in humanitarian projects designed to benefit directly the Cuban people, and individuals directly involved in the sale of U.S. agricultural commodities or the sale of medicine or medical supplies, among others.

Estimates for 2001 are that 176,000 Americans traveled to Cuba. We expect that the numbers for 2002 will be significantly higher. However, these estimates are difficult to project with precision.

Agricultural Sales: A further element of our policy toward Cuba is guided by the Trade Sanctions Reform and Export Enhancement Act (TSRA) of 2000, which mandates the issuance of licenses, except in certain limited circumstances, for the sale of U.S. agricultural commodities to Cuba on a cash basis or through third-country financing. Under TSRA, the U.S. government reviews and issues license applications for travel to Cuba to individual U.S. agricultural producers and distributors wishing to discuss sales of agricultural commodities to the Cuban government or other entities located in Cuba. Such licenses are normally valid for one year and permit individuals representing the licensed entity to make unlimited trips to Cuba for the purpose of arranging sales of approved agricultural commodities.

Since the enactment of TSRA in October 2000, the U.S. government has licensed over US\$1.6 billion worth of sales to Cuba and the latest Department of Commerce figures indicate that from October 2000 through the first six months of 2003, U.S. sales of agricultural commodities to Cuba amounted to over US\$285 million.

So, the United States is actively seeking meaningful engagement with the people of Cuba and has, in accordance with the law, permitted agricultural sales to Cuba. At the same time, we are using our political and economic leverage to promote real change. This is

reflected in the Administration's Initiative for a New Cuba, which is aimed squarely at enhancing freedom and opportunity for the Cuban people.

THE RECENT CASTRO CRACKDOWN AND THE NATURE OF THE REGIME

The Cuban government has responded to the Cuban people's democratic aspirations with a troubling further crackdown on fundamental freedoms. Despite Cuba's growing civil society movement, the Government of Cuba actually increased its control over economic and political life.

In June 2002, Castro responded to the Varela Project's call for reform by offering his own constitutional amendment, which passed the National Assembly and made socialism the "incontrovertible" model for Cuba. In January 2003, uncontested elections were held for the National Assembly, wherein one candidate pre-selected by Castro's administration was chosen for each seat. The outcome of the vote was never in doubt.

In March and April of this year, the Government of Cuba rounded up over 100 key political activists, including independent journalists, labor leaders, economists, librarians, writers, and heads of human rights groups. In secret, summary trials, 75 of them were sentenced to prison terms averaging 20 years. The accused were not allowed a proper defense and in many instances were given only a few moments to meet with the so-called "defense attorney", just before the trial began. The Castro regime's actions are the most egregious acts of political repression in the Americas in a decade.

Political figures from around the world; governments, including the United States; international organizations; non-governmental organizations; and the Vatican raised their voices condemning Castro's repression and calling for the immediate release of the 75 imprisoned members of the peaceful opposition. These appeals fell on deaf ears in Havana.

In March, the European Union (EU) condemned the arrests of the 75. On April 30, the European Commission decided to postpone indefinitely consideration of Cuba's bid to join the "Cotonou" agreement, an economic agreement between EU member states and former colonies and territories of the EU which sets out the general framework for development cooperation. On June 5 the EU announced its decision to implement the following actions: limit bilateral high-level governmental visits, reduce the profile of member states' participation in cultural events, invite Cuban dissidents to national-day celebrations, and proceed with a re-evaluation of the EU Common Position.

Among those expressing concern about the Cuban government's actions were the Director General of the United Nations Educational, Scientific, and Cultural Organization (UNESCO); then U.N. High Commissioner for Human Rights Sergio Vieira de Mello; the United Nations Special Rapporteur on Freedom of Opinion and Expression; and the Organization of American States Special Rapporteur for Freedom of Expression.

In April, the Inter-American Commission on Human Rights stated its profound concern, and in May, 17 OAS member states issued a declaration citing the arrest and severe sentencing of 75 Cuban citizens who were exercising their fundamental rights. In April,

the U.N. Human Rights Commission adopted a resolution on the human rights situation in Cuba, calling for a visit to Cuba by a personal representative of the U.N. High Commissioner for Human Rights. The Cuban government refused to allow a visit.

Both the Chilean House and Senate passed resolutions opposing the crackdown, as did the Central American Parliament (Parlacen), a Guatemala-based regional forum made up of 20 legislators from each of the member Central American countries.

Among those imprisoned was noted Cuban poet Raul Rivero. Part of the evidence against him that resulted in a 20-year prison term was that he owned two plastic chairs that U.S. diplomats had once sat in.

In another case, Edel Jose Garcia, an independent journalist, was sentenced to 15 years in prison for writing articles on, among other topics, the poor physical condition of a school building in Havana. Mr. Garcia was harassed repeatedly during 1997, 1998, and 1999, enduring short-term detentions, interrogations, and official warnings.

These are only a few examples of the types of people recently incarcerated by the Castro regime, and the accusations lodged against them that led to prison sentences averaging 20 years.

Cuba's legal and institutional structures are at the root of and serve to facilitate the human rights violations that the regime has systematically engaged in over the years.

The rights to freedom of expression, association, assembly, movement, and the press are strictly limited under Cuban law. The spreading of what the Cuban government refers to as "unauthorized news" and "insult to patriotic symbols" is penalized under Cuban law under the guise of protecting "state security." The Cuban government controls the courts; by so doing, it undermines the right to a fair trial by restricting the right to a defense.

First hand accounts, as well as reports issued by Amnesty International, Human Rights Watch, and other non-governmental organizations, indicate that the Cuban government routinely engages in arbitrary arrests and detentions of human rights advocates and subjects them to interrogations, threats (including that of losing their jobs), degrading treatment, and unsanitary conditions in detention facilities.

Prison conditions in Cuba are harsh and life-threatening. Political prisoners are thrown into small, damp cells infested with rodents. Prison officials beat, isolate, and frequently deny appropriate medical treatment to prisoners.

A case in point is that of Marta Beatriz Roque, an economist and leading Cuban dissident who headed an umbrella organization consisting of over 300 independent groups. Ms. Roque was one of the activists arrested in March of this year and sentenced to 20 years in jail on trumped up treason charges. According to family members, Ms. Roque's health, never good, has deteriorated significantly. The Cuban government has denied her the medical attention she needs. Like Ms. Roque, there are many other political prisoners

under similar conditions, such as well-known poet Raul Rivero, Jose Daniel Ferrer Garcia, Jorge Olivera, Roberto de Miranda, and Oscar Espinosa Chepe.

Labor Rights: The Cuban government also systematically harasses independent labor activists. Any attempt by workers to form unions outside the government controlled “Confederation of Cuban Workers” is promptly suppressed. Independent labor leaders face loss of employment and even imprisonment. Cuban workers do not have a right to choose the place or nature of employment. They have no right to form labor unions of their own choosing, strike, ask for better working conditions, criticize work rules, or complain to supervisors. Cuban workers do not have the right to freely negotiate wages.

Seven of the 75 arrested in 2003 were independent labor leaders. Among them was Pedro Pablo Alvarez Ramos, President of an independent labor union, the United Cuban Workers Council. Mr. Alvarez, sentenced to 25 years in prison, was accused in his trial of communication with unions from other countries, including some in Latin America and Europe.

The Cuban government’s persecution and imprisonment of independent labor leaders and its refusal to permit freedom of association were addressed in June of this year by the International Labor Organization’s Committee of Experts on the Application of Conventions and Recommendations. The Committee criticized Cuba’s labor record and urged the Government of Cuba to accept an ILO direct contacts mission. The Cuban government rejected all of the Committee’s conclusions and indicated that it would not agree to the contacts mission.

U.S. labor leaders also continue to excoriate the Cuban government for its abysmal labor practices. AFL-CIO President John Sweeney has written Fidel Castro on more than one occasion deploring the government’s repression of workers’ efforts to exercise their rights and to organize outside government-controlled unions. Mr. Sweeney called upon the regime to release imprisoned labor activists.

Sexual Exploitation of Minors: Also of significance to our discussion is the fact that the Cuban regime turns a blind eye to the sexual exploitation of minors by foreign tourists. As the State Department’s Report on Trafficking in Persons noted this past June, state-controlled tourism establishments and independent operators facilitate and even encourage such sexual exploitation.

CASTRO USES TOURISM, FOREIGN INVESTMENT, AND COMMERCE TO STRENGTHEN THE REGIME

Tourism: There is a legitimate discussion about the policies that the United States and the international community should use to achieve the change in Cuba that we all seek. Some believe that easing restrictions on tourist travel to Cuba could promote a democratic transition by allowing Cuban citizens greater contact with Americans.

The concept is admirable: that more contact between our citizens will have a liberalizing effect on Cuban society and help encourage the processes of political and economic change. The record shows, however, that this is not the case. Canadians and Europeans, whose commitment to democracy is no less than our own, have traveled to Cuba by the millions over the last 10 years, yet Cuba is no freer, there is no less repression of human rights activists, and Cuba's economy is no more open.

The reality is that the regime attempts to confine foreign tourists to isolated beach resorts or in other ways minimize the opportunity for communication with Cubans other than those hand-selected by regime officials for political acceptability. In both urban and beach settings, Castro's security apparatus works to afford little opportunity for tourists to engage Cubans except in the most tightly controlled circumstances. As unbelievable as it may sound, the average Cuban citizen is not allowed by Castro's regime to visit or stay at tourist resorts, nor can they eat at any resort restaurants.

Further, as discovered by the investigations of the U.S. Interests Section in Havana, many tours are arranged through Cuban governmental entities whose trained "tour guides" work very hard to ensure that visiting Americans come away with the "right" impressions. Each day's activities are planned so that participants have little opportunity to see anything beyond the carefully orchestrated itinerary. These carefully orchestrated visits seek to persuade the visitor of the average Cuban's contentment with the regime and to convey a negative image of the effect of U.S. policy on the lives of the average Cuban. For the regime, these exchanges are propaganda opportunities and a means to generate revenue.

Much of the profits from the tourism industry contribute directly to Cuba's state apparatus and its state-run ventures. The Cuban government controls the tourism industry, and Cuba's Armed Forces Ministry run a very substantial portion of Cuba's state-owned and joint-venture tourist resorts. Profits from such enterprises provide the life blood for the regime and its repressive apparatus, providing revenues that Cuba's inefficient sugar mills and other state enterprises cannot.

Broader travel to Cuba by Americans beyond those presently authorized under the Cuban Assets Control Regulations would provide great financial benefits to the regime. The Castro regime realizes that increased foreign exchange revenues can come only from tourism. Other traditional sources of foreign exchange, especially the sale of commodities such as sugar and nickel, cannot provide such income. Increased tourism, therefore, is Cuba's strategic plan for the future, aimed at balancing its national account.

Foreign Investment and Commerce: In Cuba, the government controls all significant means of production and remains the dominant employer in the country. The GOC permits only carefully controlled foreign investment in joint ventures, and very limited self-employment opportunities for Cubans.

Due to the end of the substantial Soviet subsidies in 1991, Cuba's economy went into a tailspin. Official Cuban statistics indicate that GDP contracted by about 35 percent over

a five-year period; gross domestic investment fell from 26.7 percent to 5.4 percent of GDP; and hard currency international debt increased by nearly 42 percent. The financial pressure was so strong that Cuba was forced to take partial “survival” steps to open its economy, only to reverse them when state control appeared to be slipping.

In order to try to pull out of this economic nose-dive, between 1993 and 1996 the Cuban government implemented several “elements of capitalism”, part of which was limited “self-employment”. A number of Cubans became small entrepreneurs within specific categories allowed by the state. Reaching a high of over 210,000 in 1996, the number of small entrepreneurs in Cuba decreased by more than 25 percent from 1996 to 2003, due to onerous and excessive regulation and taxation.

In recent years, the GOC has increasingly repressed activities that in any way compete with state enterprises. It has acted to punish, through arrests and seizures, minor regulatory violations that were previously ignored. Paladares (home restaurants), pedicabs (bicycle taxis), and those who rent rooms in their homes have been particularly hard-hit recent targets. These small entrepreneurs are harassed and their businesses actively disrupted in an effort to force them out of business.

For example, those with rooms to rent are required to pay taxes on common areas of their household, as well as on the actual room rented. All renters must now obtain authorization to serve food to their guests, even if they never offered meals in the past. Tax on a single room in Havana is US\$200 per month — the equivalent of the annual average wage for Cubans. Small, privately-operated restaurants are forced to buy from official government suppliers at high prices, and stiff fines are levied against those who exceed the officially mandated limit of 12 seats. That is the rule for all paladares except those protected by the regime, including the military.

The self-employed cannot hire others, except in the case of street-side food stands or paladares. They cannot do business with foreign investors. They are restricted to specific categories, such as taxi driving, doll repair, bicycle repair, flower cutting, and room rental. While evidence of the Cuban entrepreneurial spirit, this group of small businesses is subject to heavy, ad hoc Cuban government control. Such a sector cannot yet offer a realistic base upon which to pin an investment or trade strategy.

In the early to mid-1990s, as part of its effort to replace lost Soviet subsidies, the regime proactively turned to joint ventures — also known in Cuba as “economic associations” — with foreign investors. Of 540 “economic associations” formed since the Cuban government issued the first legislation on foreign investment in 1982, only 397 remained by the end of 2002. In addition, the number of “joint ventures” formed each year has been steadily declining since 1997. According to the Economic Commission for Latin America and the Caribbean (ECLAC), foreign direct investment flows decreased from US\$448 million in 2000 to US\$39 million in 2001 and stagnated in 2002.

Countries whose nationals have joint ventures in Cuba have consistently complained to the Cuban government about the excessive overhead; banking, customs, and utility

charges; payment of salaries in dollars to the state that then pays employees in pesos; and the difficulties encountered with state firms not meeting payments. These “associations” clearly do not operate on the principles of competitive private firms and bear little resemblance to joint ventures one might find in the U.S. or other OECD countries.

In July 2002, the European Union, through its embassies in Havana, transmitted to the Cuban government a point-by-point document that outlined the problems encountered in operating joint ventures in Cuba. Titled “The Legal and Administrative Framework for Foreign Trade and Investment by European Companies in Cuba,” the paper noted the difficulty in obtaining such basic necessities as work and residence permits for foreign employees -- even exit visas and drivers licenses. It complained that the Government of Cuba gave EU “joint-venture partners” little or no say in hiring Cuban staff, often forced the joint venture to contract employees who were not professionally suitable, and yet reserved to itself the right to fire any worker at any time without cause. It noted administrative difficulties in securing financing and warned that “the difficulties of state firms in meeting their payment obligations are seriously threatening some firms and increasing the risk premia which all operators have to pay for their operations with Cuba.” The Cuban government offered no response to this document.

The issue of wage confiscation by the Castro regime is another area of concern and should give any responsible foreign investor pause. Foreign companies operating joint ventures may contract laborers only through state employment agencies, and must pay the employment agencies the employees’ salaries in dollars. The Cuban agencies then pay laborers the same number of pesos as was paid in dollars. At the current exchange rate, the Cuban laborer receives only about 5 percent of what the state agency is paid for their services.

All evidence indicates that the Cuban government has no intention of moving toward a truly capitalistic or an open and entrepreneurial economic model. In July 2003, Cuba’s Central Bank mandated the use of the convertible peso as the only currency with which parastatal entities can make transactions. No longer can Cuban state businesses hold dollars or any other foreign currency, as has been the case for the last ten years. Now, when foreign currency is needed, they must purchase it from the Cuban Central Bank at prices set by the government. This is clearly a movement away from a somewhat market-oriented approach back towards still more control by the central government.

For those who still think that Cuba might in the future adopt a capitalistic model, it is useful to listen to Castro himself. In January of this year, prior to his departure for China, he told NBC’s Andrea Mitchell, that while a number of reforms had been implemented in Cuba, “we’re not headed towards capitalism.” The Cuban government did introduce some reforms as a temporary “policy of survival” during the so-called “special period” in the early 1990s when Russia ended its subsidies; they were aimed at revitalizing a crippled Cuban economy, but they were neither permanent nor comprehensive measures in any way characteristic of a market-based, democratic society.

The reality of the situation is that investing in Cuba remains an arduous, frustrating, and risky proposition fraught with state intervention. Proceeds from foreign investment goes principally to the coffers of the Cuban state. Any economic benefit derived from tourism or other joint ventures hardly filters down to the average Cuban citizen, who is still required to use a “ration book” for his/her monthly quota of food.

CUBA IS AN UNRELIABLE ECONOMIC PARTNER WITH POOR MARKET OPPORTUNITIES

Cuba remains essentially a closed, state-controlled, inefficient economy. The Castro regime has proven itself an unreliable commercial partner and deadbeat debtor to a wide range of business and assistance partners around the world.

Today’s Western Hemispheric consensus is built on democratic and free-market institutions and norms. In the trade arena, this is central to NAFTA, the FTA with Chile, our on-going negotiations with Central America, and the FTAA. Politically and diplomatically, these principles are enshrined in the Inter-American Democratic Charter. That Charter itself makes clear that nations not adhering to the principles should not be considered members in good standing.

The U.S. should actively seek to expand trade with democratic Latin American states, where our commercial ties clearly can contribute to lasting developmental progress. Unilateral opening on trade with Cuba, the only nation in the hemisphere not considered to be an adherent to the Democratic Charter, offers little hope in that regard.

The suggestion made by some Cuban officials that Cuba is likely to buy US\$1 billion in agricultural imports is an exaggeration at best.

All indications are that the Cuban government is shifting the country’s resources out of export production and into meeting domestic food needs. After halving the land used for citrus production in 2001, Havana announced formal plans to take land from its other export crops and use it to meet these domestic needs. Later in 2002, the Cuban media announced that the land devoted to the cultivation of sugar, tobacco, and coffee would be greatly reduced as well. The new policy will probably increase by more than 50 percent the land area aimed at meeting domestic food demand.

The move away from export crops is expected to further reduce Cuba’s ability to finance imports, since it could easily translate into several hundred million dollars in lost annual export earnings. This domestic policy shift will likely push Cuba’s total annual imports well below US\$1 billion, and any future purchases of U.S. agricultural commodities to under US\$400 million annually, even if trade sanctions were ended.

While Cuba’s estimated per capita 2002 GDP of \$2,300, based on purchasing power parity (PPP) basis, appears comparable to that of other, more democratic states in the region, it is extremely misleading as to the situation of the average Cuban. One problem is the lack of reliable statistics, resulting from the Cuban government’s tight control on

all economic information.

Moreover, macroeconomic indicators in state-state run societies like Cuba cannot reliably be used to draw inferences about the economic welfare of a country or its citizens. The nominal local currency GDP series is not compatible with U.S. GDP estimates at neither the official rate (1:1) nor the unofficial market rate.

The reality is that the purchasing power of the average Cuban is extremely limited. The average monthly income of a Cuban worker is on the order of US\$13 a month. It is interesting to note that formally the highest paid sector in Cuba's work force is the police. A policeman's salary is set at twice the average salary of a doctor or engineer. In Cuba, a policeman's salary is more than a cabinet minister's. While the regime boasts about the emphasis it places on education, police salaries are four times those of teachers, which only underscores the priorities of the regime.

Anecdotal evidence indicates that a sizable portion of the farm products sold to Cuba may well go to the regime's elite, to European tourists, or to the so-called "dollar stores". Few Cubans have the resources to shop at "dollar stores".

The vast majority of Cubans live on a monthly allocation of 2.5 kilograms of rice, 1 kilogram of fish, 1 kilogram of beans, and 14 eggs. Every two months, individuals are entitled to one bar of hand soap and one bar of laundry soap. The ration book provides only enough sustenance for ten days at most.

Yet, official Cuban government statistics and press reports indicate that Cuba's 2002 food imports were around US\$800 million, plus another US\$100 million in other agricultural products. Most of these imports came from Venezuela, Spain, China, Canada, Italy, France, Mexico, the United States, Brazil, and Japan.

Presently, Cuba is in the worst economic crisis since the early 1990s. Cuba's sugar cane industry, which is still Cuba's largest employer and one of its main export commodities together with nickel, is in a dismal state. Cuba has seen a decline in sugar output since 1990, from 8.04 million tons in 1990 to about 2.1 million tons in 2003. The 2003 harvest is the lowest since 1933; the GOC missed its projected 3.6 million ton target by 41.7 percent.

Last year, because of poor efficiency, the Cuban government shut down 45 percent of its sugar mills, displacing over 100,000 workers. Cuba's sugar industry woes are likely to continue. Its rigid, command-economy production system and poor management and working conditions make it very unlikely that Cuba's sugar industry can reverse this downward trend.

Financial information on Cuba is inherently unreliable. However, as reported by the Banco Central de Cuba, Cuba's official hard-currency foreign debt reached a record-high US\$12.210 billion dollars by late 2002, of which, US\$10.9 billion is owed to its Paris

Club creditors. In 1986, Cuba suspended payment on this debt, and despite on-going negotiations, has not serviced it since 1987.

In addition, Cuba is renegotiating US\$1 billion commercial credits in arrears. The Government of Russia maintains that Cuba owes it roughly US\$20 billion in convertible ruble debt; however, the Government of Cuba does not acknowledge this debt. There are more than US\$6.3 billion in unsatisfied certified property claims by American citizens; and an unknown but very large set of liabilities to Cuban nationals whose property was confiscated by the regime. Cuba's per capita foreign debt, including its ruble debt to the former Soviet Union, is approximately US\$3,000.

Limited existing data show that Cuba owes: US\$1.7 billion to Japan in public and private debt; US\$1.58 billion to Argentina in public and private debt; US\$400 million to China in public debt; US\$400 million to Mexico in public debt; and US\$173 million to Canada in public and private debt. There are widespread, public reports of payment problems with Japan, Spain, Italy, France, Britain, South Africa, Argentina, Chile, Mexico, Venezuela, and others.

Cuba also has defaulted on large amounts of debt to the private sector. For example, in October 2002, Cuba defaulted on a US\$750-million refinancing agreement with Japan's private sector, after having signed a debt-restructuring accord with Tokyo in 1998. Japan, Cuba's second largest creditor behind the former Soviet Union, had expected to see in 2003 the first payments on part of the US\$1.7 billion owed it by the Castro regime.

In May 2003, Madrid acknowledged, in response to a Spanish parliament inquiry, that Cuba, Spain's top foreign debtor government, presently is in default on an estimated US\$816 million.

In 2001, France's export financing agency, COFACE, suspended Cuba's US\$175 million credit line after Havana fell more than a year behind on annual loans for the purchase of French agricultural products and capital goods.

In October 2002, Cuba suspended all payments on US\$380 million owed to Bancomext, the Mexican government's export financing bank. Only a few weeks ago, Bancomext froze Cuban assets in German and Italian banks in an effort to secure payment of what Cuba owes.

The short-term portion of Cuba's petroleum debt with Venezuela's PDVSA (state petroleum company) rose to about US\$375 million in May 2003. The Castro regime has fallen behind on payments to PDVSA repeatedly since Fidel Castro and Hugo Chavez signed a trade agreement in October 2000. PDVSA supplies approximately 35 percent of the island's oil under generous financing terms that have amounted to about a 20 percent price subsidy in recent months.

In 2002, Cuba fell into arrears on US\$100 million in short-term credit lines from Panamanian banks and trading companies based in the isthmus's Colon Free Zone. In

July 2002, only months before the September agricultural trade fair in Havana, Cuba's International Financial Bank failed to honor US\$6 million in checks for payment of sugar-related debts to Panama companies.

It is no surprise that in the latter part of 2002, citing chronic delinquencies and mounting short-term debts, Moodys lowered Cuba's credit rating to Caa1 – "speculative grade, very poor". Dunn and Bradstreet rate Cuba as one of the riskiest economies in the world; only Angola, the Congo, Sierra Leone, Zimbabwe, and Saddam Hussein's Iraq were worse.

Actually, private companies in other countries and even governments have resorted to extreme measures in an attempt to recover Cuban debt owed to them.

Take for example the case of Canada's Adecon Ship Management, a firm that provides refinancing and administrative services to shipping companies. The Cuban government has continued to ignore Canadian Federal Court orders to pay some US\$2.2 million in debts to Adecon. The Cuban regime detained an Adecon director sent to Havana in 2000 to negotiate a settlement and only released him after the intervention of the Canadian Government. Adecon now tracks Cuban ships around the world seeking to have them impounded in order to leverage payments from the Cuban government. In the 2000-2001 fiscal year, Canadian taxpayers had to pay nearly US\$22 million to cover exporter's bills on which Cuba has defaulted. Canada's so-called "constructive engagement" has accomplished little and cost the Canadian taxpayers much.

The governments of Portugal, Norway, and the Netherlands have also resorted to the impoundment of Cuban ships to try to collect money owed them.

The lessons in all of this are that Cuba is not a trustworthy business partner; that Cuba has very limited potential as a market under a command and control system; and that trading with Cuba principally benefits the regime, not the people. Cuba's bankrupt economy will not become a large and growing market for agricultural goods until its government adopts political and economic reforms. Abandonment of Cuba's Stalinist-inspired system -- a measure unlikely to be taken by the Castro regime -- is key to creating a consumer base that would sustain a mutually beneficial trade relationship with the United States and the rest of the world.

FIGHT AGAINST TERRORISM/CUBA AN UNRELIABLE NEIGHBOR

Cuba remains implacably hostile toward the United States and has a well-earned place on the list of state sponsors of terrorism. Cuba continues to harbor and support members of Latin American and European terrorist groups, as well as dozens of fugitives from U.S. justice.

Steps to further open up trade with Cuba, without clear steps on their part to address this dangerous reality, would not serve U.S. foreign policy interests, or preserve our leverage to help improve the safety of our own citizens.

Castro and his key officials are not only openly critical of the war against terrorism; they have worked to undermine it. Not surprisingly, in Iran in May 2001, Mr. Castro reportedly expressed his interest in working with that country “to bring the United States to its knees.”

The Castro regime also actively and intentionally worked, through human or electronic means, to distract attention and resources from our on-going counter-terrorist efforts. In the months following September 11, it repeatedly attempted to distract and mislead our intelligence and international law enforcement agencies with “walk-in” informants purporting to have reliable information about pending terrorist attacks against the United States or other Western interests.

CONCLUSION

Some may believe that the time has come to open up unilaterally to Cuba and to change our fundamental policy — that forty years have passed since the U.S. instituted the embargo and the same despotic regime remains in power. However, foreign policy decisions need not be judged by a standard of time. For example, the U.S. policy of containment toward the former Soviet Union lasted fifty years, but it finally met with success. Today the former Soviet states are developing their own democratic institutions.

Pressure on Cuba, internal and external, is mounting and now is not the time to reduce it. Moreover, Cuba has been offered a chance to change its policies, which would be matched by steps from others. The U.S. is far from the only country or body encouraging Cuba to make deep and critical changes.

President Bush’s Initiative for a New Cuba represents our view of the way forward. It offers encouragement for real change, and offers to match steps to open and enhance freedom with steps on our part. These existing tools offer the best opportunity to support a transition to a new Cuba, one that respects freedoms, that meets the hemispheric standards for participation in regional institutions, and that will become a reliable business partner for U.S. farmers and other U.S. business sectors.

In July 2002, recognizing that proposed legislation to lift the travel restrictions and/or permit U.S. financing of Cuban purchases of agricultural commodities was not in the U.S. interest, Secretary Powell and then Treasury Secretary O’Neill wrote to the Chairman and Ranking member of the House Committee on Appropriations to inform them of the joint recommendation to President Bush that he veto any proposed legislation that would alter or change current policies toward Cuba. Given the situation in Cuba today and the recent actions undertaken by the Cuban government to crush any peaceful opposition to the regime, this policy and perspective have not changed.

In a speech at Georgetown University earlier this year, Oswaldo Paya (phonetic “Pie-yah”), the author of the civil society Varela Project, made the point that the question should not be whether or not the embargo should be lifted, but when and how. The real

problem, he told Secretary Powell in a meeting at the State Department, is not the economic embargo but the information embargo that Castro has placed on Cuban citizens. He felt that U.S. policy should not change in any fundamental way until the Cuban people enjoy their fundamental rights and can interact with Americans on the basis of equality and free will. The Cuban people, Paya said, want the United States to extend its hand to Cuba freely, but the hands of Cubans must similarly be free.

The changes in Cuba which Paya and others on the island advocate have not taken place. To lift the embargo unconditionally when the Castro regime has thumbed its nose at the international community and the President's offer to work towards easing restrictions on an incremental basis would be to reward a ruthless dictator who remains the main obstacle to democratic change in Cuba.

Thank you.