

S. HRG. 108-222

**UNITED STATES-CUBA ECONOMIC RELATIONS**

---

---

**HEARING**

BEFORE THE

**COMMITTEE ON FINANCE**

**UNITED STATES SENATE**

**ONE HUNDRED EIGHTH CONGRESS**

FIRST SESSION

SEPTEMBER 4, 2003



Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 2003

90-657—PDF

---

For sale by the Superintendent of Documents, U.S. Government Printing Office  
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800  
Fax: (202) 512-2250 Mail: Stop SSOP, Washington, DC 20402-0001

COMMITTEE ON FINANCE

CHARLES E. GRASSLEY, Iowa, *Chairman*

ORRIN G. HATCH, Utah	MAX BAUCUS, Montana
DON NICKLES, Oklahoma	JOHN D. ROCKEFELLER IV, West Virginia
TRENT LOTT, Mississippi	TOM DASCHLE, South Dakota
OLYMPIA J. SNOWE, Maine	JOHN BREAUX, Louisiana
JON KYL, Arizona	KENT CONRAD, North Dakota
CRAIG THOMAS, Wyoming	BOB GRAHAM, Florida
RICK SANTORUM, Pennsylvania	JAMES M. JEFFORDS (I), Vermont
BILL FRIST, Tennessee	JEFF BINGAMAN, New Mexico
GORDON SMITH, Oregon	JOHN F. KERRY, Massachusetts
JIM BUNNING, Kentucky	BLANCHE L. LINCOLN, Arkansas

KOLAN DAVIS, *Staff Director and Chief Counsel*  
JEFF FORBES, *Democratic Staff Director*

## CONTENTS

### OPENING STATEMENTS

	Page
Grassley, Hon. Charles E., a U.S. Senator from Iowa, chairman, Committee on Finance .....	1
Baucus, Hon. Max, a U.S. Senator from Montana .....	6

### ADMINISTRATION WITNESSES

Larson, Hon. Alan, Under Secretary, U.S. Department of State, Washington, DC .....	2
Aldonas, Hon. Grant D., Under Secretary, U.S. Department of Commerce, Washington, DC .....	4

### PUBLIC WITNESSES

Hays, Ambassador Dennis K., executive vice president, Cuban American National Foundation, Washington, DC .....	18
Smith, Wayne S., senior fellow, Center for International Policy, Washington, DC .....	20
Falcoff, Dr. Mark, resident scholar, American Enterprise Institute, Washington, DC .....	22
Malinowski, Tom, Washington advocacy director, Human Rights Watch, Washington, DC .....	23
Reinsch, William A., president, National Foreign Trade Council, Washington, DC .....	28
Owen, Richard, Cenex Harvest States Cooperatives, Geraldine, Montana .....	30
Messina, William A., Jr., professor of economics, University of Florida, Gainesville, Florida .....	31
Peters, Philip, vice president, Lexington Institute, Arlington, Virginia .....	33

### ALPHABETICAL LISTING AND APPENDIX MATERIAL

Aldonas, Hon. Grant D.:	
Testimony .....	4
Prepared statement .....	39
Baucus, Hon. Max:	
Opening statement .....	6
Prepared statement .....	41
Bunning, Hon. Jim:	
Prepared statement .....	42
Falcoff, Dr. Mark:	
Testimony .....	22
Prepared statement .....	42
Grassley, Hon. Charles E.:	
Opening statement .....	1
Prepared statement .....	44
Hays, Ambassador Dennis K.:	
Testimony .....	18
Prepared statement .....	45
Larson, Hon. Allan:	
Testimony .....	2
Prepared statement .....	47
Malinowski, Tom:	
Testimony .....	23
Prepared statement .....	56

IV

	Page
Messina, William A., Jr.:	
Testimony .....	31
Prepared statement .....	58
Owen, Richard:	
Testimony .....	30
Prepared statement .....	64
Peters, Philip:	
Testimony .....	33
Prepared statement .....	65
Reinsch, William A.:	
Testimony .....	28
Prepared statement .....	67
Smith, Wayne S.:	
Testimony .....	20
Prepared statement .....	69

## UNITED STATES—CUBA ECONOMIC RELATIONS

THURSDAY, SEPTEMBER 4, 2003

U.S. SENATE,  
COMMITTEE ON FINANCE,  
*Washington, DC.*

The hearing was convened, pursuant to notice, at 10:04 a.m., in room 215, Dirksen Senate Office Building, Hon. Charles E. Grassley (chairman of the committee) presiding.

Also present: Senators Thomas, Bunning, Baucus, and Lincoln.

### **OPENING STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM IOWA, CHAIRMAN, COMMITTEE ON FINANCE**

The CHAIRMAN. I would like to begin welcoming our witnesses to today's hearing on United States-Cuba economic relations.

Today's hearing is on a topic that is currently generating much interest, some of it controversial discussion, of U.S. economic policies towards Cuba, or specifically designed to isolate and weaken the repressive regime of Fidel Castro.

Some in the Senate now question these policies, pointing out, despite four decades of sanctions against the Cuban Government, Castro still remains in power. They also contend that U.S. farmers and businesses are losing trade opportunities in Cuba to their counterparts in other countries.

Other Senators believe that now is not the proper time to change these policies. After all, they say Castro's repressive government still controls Cuba, and notably, human rights abuses in Cuba have become even more egregious during the past year.

My colleagues on this side of the argument contend that lifting trade restrictions will, in effect, reward Castro for his actions.

Support for easing restrictions on trade is pronounced, as we are going to hear today, in the U.S. agricultural community. Cuba is welcomed as a new export market for U.S. agricultural products.

As a Senator from Iowa, I understand the need for new markets for agricultural products. So, consequently, over the years I have backed lifting sanctions on a very narrow group of products, farm goods, to Cuba.

For example, I supported a provision through the Agricultural Appropriation Bill of 2001 that permits the sale of agricultural goods and medical supplies to Cuba.

I also backed a provision in the 2002 Farm Bill to repeal prohibitions against U.S. private financing of agricultural sales to Cuba. At the same time that I worked to expand the trade, I also found

it necessary to advocate continued pressure on Castro's regime for democratic change.

While I favor easing restrictions on agricultural exports to Cuba, I have to admit that I have questions as to just how much U.S. farmers and ranchers will actually benefit from trade to that country.

It is my understanding that Cuba has not always been a good customer. I look forward to comments from our witnesses who specialize in this area, particularly agricultural, as we address that issue.

Moreover, while I am generally convinced that expanded trade, and especially agricultural trade, will benefit both the American and Cuban people, the current political situation in Cuba greatly complicates efforts to reach this goal.

Castro's brutal disregard for democracy and human rights was clearly demonstrated just this year. Beginning in April, 75 Cuban advocates for freedom were arrested, having summary trials, and sentenced to prison.

Amnesty International characterized this year's crackdown as the worst since the early days of Castro's regime. In addition, following a summary trial, three Cubans were executed for commandeering a ferry to the United States.

The Senate, of course, quickly condemned Castro's human rights abuses. Yet, the question remains as to whether U.S. economic restrictions should be further eased at this time. Undoubtedly, those repressive measures of Castro's of the past few months will influence discussion here in Congress.

I am hopeful that today's hearing will make a useful contribution to that debate, and we will start that debate now.

Normally I would defer to Senator Baucus, but he will be here later. So, we will go ahead with our first panel. We have Hon. Under Secretary, U.S. Department of State, Al Larson, with us. He will start first. Then we will have Grant Aldonas, a regular attendee at a lot of our hearings, from the U.S. Department of Commerce as Under Secretary.

So we will start with you, Mr. Larson.

**STATEMENT OF HON. AL LARSON, UNDER SECRETARY, U.S.  
DEPARTMENT OF STATE, WASHINGTON, DC**

Mr. LARSON. Thank you very much, Mr. Chairman, Senator Thomas.

I have a long statement which I would like to submit for the record, if I may.

The CHAIRMAN. Yes.

[The prepared statement of Mr. Larson appears in the appendix.]

Mr. LARSON. I really appreciate the opportunity to discuss U.S. policy towards Cuba, and especially our policies on trade and travel. These policies are indispensable tools to help accomplish the goal we all share, peaceful transition to democracy in Cuba, characterized by open markets and respect for human rights.

The current U.S. policy towards Cuba has its roots in the Eisenhower administration and was strengthened in the Kennedy administration, the first Bush administration, and the Clinton admin-

istration, and it has been supported by every President in the last 40 years.

In May of 2002, President Bush announced an initiative for a new Cuba. It challenges the Castro government to undertake political and economic reforms, in particular to permit free and fair elections for the National Assembly. The President's policy reaches out to pro-democracy advocates and to the Cuban people more generally.

The U.S. gives more humanitarian aid to Cuba than any other country. Through the U.S. Agency for International Development, we have supported the establishment of more than 100 independent libraries in Cuba and supplied them with books.

One essential component of the President's policy towards Cuba is purposeful, effective interchange of ideas between American and Cuban nationals in order to encourage the development of an independent civil society.

To this end, there are 12 categories in the Cuban assets control regulations that provide for travel by Americans to Cuba. An estimated 176,000 Americans traveled to Cuba in 2001. We expect that the numbers for 2002 will be significantly higher.

Since the enactment of the Trade Sanctions Reform and Enhancement Act in October of 2000, the U.S. Government has licensed over \$1.6 billion worth of sales to Cuba. The latest figures indicate that from October of 2000 to the first 6 months of this year, U.S. sales of agricultural commodities to Cuba amounted to over \$285 million.

As we examine U.S. policy towards Cuba, it is important to note the nature of the Castro regime. As you mentioned, Mr. Chairman, in March and April of this year the government of Cuba rounded up 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. 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 Cuban Government systematically harasses independent labor activists. Much of the profits and returns in 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 runs a very substantial portion of Cuba's state-owned and joint venture tourist resorts.

In July of 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 the joint ventures in Cuba.

The issue of wage confiscation by the Castro regime is another area of deep concern, for companies that operate joint ventures may pay contract laborers only through state employment agencies, and must pay the employment agencies the employees' salaries in dollars.

The Cuban agencies then pay the laborers the same amount of pesos as was paid in dollars. At the current exchange rate, that

means the workers receive about 5 percent of what the state agency was paid for their services.

So the reality of the situation is that investing in Cuba remains a very risky proposition. Proceeds from foreign investment go principally to the coffers of the Cuban state. Any economic benefit derived from tourism or other joint ventures does not filter down to the average Cuban citizen.

There is also a very serious issue of the credit-worthiness of the Cuban Government. According to its own figures, Cuba owes nearly \$11 billion to the creditors of the Paris Club. In 1986, Cuba suspended payment on this debt and, despite ongoing negotiations, it has not serviced this debt since 1987.

Dunn & Bradstreet rate Cuba as one of the riskiest economies in the world, and only Angola, Congo, Sierra Leone, Zimbabwe, and Saddam Hussein's Iraq were a worse credit risk.

Cuba continues to harbor and support members of Latin American and European terrorist groups, as well as dozens of fugitives from U.S. justice.

In summary, Mr. Chairman, we believe that President Bush's initiative for a new Cuba represents the right way forward. It offers encouragement for real change. It offers to match steps to open and enhance freedom in Cuba with steps on our part.

The existing tools offer the best opportunity to support a transition to a new Cuba, one that would respect freedom and that would meet the standards of our hemisphere for participation in regional institutions, and, frankly, one that would be a reliable business partner for American farmers and businesses.

Thank you, Mr. Chairman.

The CHAIRMAN. Secretary Aldonas, we will call on you. Then I will have Senator Baucus make his opening statement, and then also ask questions. Thank you.

So, go ahead, Secretary Aldonas.

**STATEMENT OF HON. GRANT ALDONAS, UNDER SECRETARY,  
U.S. DEPARTMENT OF COMMERCE, WASHINGTON, DC**

Mr. ALDONAS. Thank you, Mr. Chairman, Senator Baucus, Senator Thomas, Senator Bunning. It is a pleasure to be before the committee and talk about implementation of a longstanding policy with respect to Cuba, a policy pursued over four decades by Presidents representing both parties.

As Al pointed out, the policy is still to encourage peaceful transition to a free and democratic Cuba. The Cuban Government continues to violate basic human freedoms. The recent arrest of over 100 pro-democracy advocates, sentencing 75 of them up to 28 years in prison alone constitutes the most severe crackdown on Cuban dissidents since 1959. In other words, Castro has not let up as a part of the process. I think many of the concerns that motivate that longstanding policy still exist.

Al has gone through the basic framework of our relations. What I wanted to do, is explain a little bit about framework forgery, the role of the Commerce Department, and then what we see in terms of the actual market.

Cuba is one of seven countries designated by the Secretary of State as a sponsor to international terrorism. Cuba has also been



under a comprehensive trade embargo dating from 1962 under the Trading with the Enemy Act.

We in the Commerce Department issue individual export licenses where trade is permitted under the Cuban Democracy Act of 1992 and the Cuban Liberty and Democratic Solidarity Act of 1996, pursuant to the Trade Sanctions Reform and Enhancement Act. So, there is an awful lot of legislative overlay here and it is a difficult web to wend your way through.

Having said that, the TSRA did expand what was eligible for export from food alone to a wide variety of agricultural commodities, including food for people, animals, items such as livestock, beverages, wood, and tobacco. It also allows sales to government organizations.

TSRA requires an expedited export review process for those products that are eligible, something that we have been able to do consistently at the Department of Commerce and delivered within the 39-day time limit for agricultural commodities and other things that qualify.

One point I would like to emphasize is a particular constraint that not only inhibits current trade, but also limits what I think we could do in the Commerce Department to support a peaceful transition. That is Section 908 of the TSRA which prohibits the U.S. Government from providing export assistance for exports to Cuba. In the opinion of our legal counsel, this includes our export promotion activities.

It is not that the Department of Commerce wants to engage in promoting exports in a manner inconsistent with the policy, but we do have an awful lot of background in terms of reconstruction and transition of economies from a non-market economy status to a market economy status, things that would be useful, at least from the planning stages, to develop a framework for our trading and dealings with Cuba that are currently limited by the act.

Now, the other constraint is that the TSRA requires cash payment in advance on third country financing. This is governed by the Treasury Department's Office of Foreign Asset Controls, with their individual licenses for payment. Everything requires that all transactions be in conformance with essentially cash-on-the-barrel-head requirements if you want to engage under TSRA.

With respect to the number of licenses, they have been historically low. In 2000, the last full year before TSRA went into effect, the Commerce Department approved 318 cases, with a nominal dollar value of \$479 million.

The three largest categories of cases were medical donations, at \$235 million, medical sales of \$35 million, and consolidated gift parcels, which are really for family repatriation of \$145 million.

Now, the value of the approved licenses overstates the actual trade by a significant amount. In fact, what exporters routinely do when it comes to the Commerce Department, based both on experience now and when I was in private practice advising exporters, is trying to ensure that they have the maximum flexibility under one of our licenses, and we are willing to provide that where we see there is ample room for them to conduct the trade.

But it is probably relevant to determine how much of a market cube it might represent, given the heavy hand that Castro's govern-

ment still continues to apply to the economy there. It is what actually gets shipped.

But what we did take a look at was the actual shipment data. And, so for example, in 2002, what you found was, based on these licenses that we previously issued, the actual trade was \$144 million, of which \$138 million was for agricultural commodities. So, the agricultural value corresponds to that 8.5 percent of what was actually authorized by the export licenses under the TSRA.

My point in raising that, is that there obviously has been an effort to encourage things like medical supplies, agricultural commodities to provide a market for agricultural exporters.

What we found, is there is very little room and very little opening as a result of the rule, and the state continues to blame the economy in Cuba. It has not actually provided a market that I think many had hoped among their agricultural exporters when the Trade Sanctions Reform Act went into place.

In my view, the situation is likely to get worse in the near term. Cuba's sugar industry has just reported the worst harvest in 70 years. The government of Cuba has closed about 71 of its 156 state-owned sugar mills.

There is less economic activity in the Cuban Government as a whole because of the less demand overall in Cuba. So, the near-term prospects for, I think, additional sales is quite limited.

The other problem, which Al alluded to, is the continuing problem in terms of their creditor status. Under our transaction controls, you can only acquire financing from a third country. That is not permitted under our sanctions from U.S. bank institutions. But it is very difficult to find third country financing when you are in an environment where the government owns \$11 billion, and has not been paying since 1987.

In conclusion, I want to just make clear the Department of Commerce is doing whatever it can to fulfill the commitments that Congress made as a part of the Trade Sanctions Reform Act to make sure we are doing what we can to implement effectively the intent of opening up markets, like the agricultural market.

The fact of the matter is, it seems to be limited as much by the commercial factors in the environment and the government's heavy role in the market as it is lack of effort on the part of our agricultural exporters, or an unwillingness on the part of the Commerce Department to issue licenses within the 39 days required under the statute.

Thank you very much.

[The prepared statement of Mr. Aldonas appears in the appendix.]

Senator BAUCUS. Thank you, both of you. I would like to say a few words, and then I will have a question. Then the Senators here will certainly ask questions of both of you.

**OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR  
FROM MONTANA**

Senator BAUCUS. As you both know, next week, trade ministers around the world will convene as part of the Doha Round of WTO negotiations. We all know this is a very important meeting because

it will mark the progress made so far on a range of priority issues such as agriculture, TRIPS, health, just to name a few.

The meeting in the Doha Round will serve as a reminder about how far we have come in our effort to secure a more peaceful and prosperous world through economic integration.

The global trading system is a work in progress. There are many problems and disputes yet to resolve. Yet, most trade debates are no longer about whether to integrate countries into a global economy, rather, the debate is more often focused on how to integrate the global economy.

For those of us who believe that engagement across international borders, this is a significant accomplishment. Nevertheless, as we reflect on this accomplishment, we must also note a glaring contradiction in U.S. policy.

The contradiction is the U.S. embargo of Cuba. Begun in 1960, the Cuba embargo was originally perceived as a means to win compensation for Americans with assets in Cuba internationally.

Since then, proponents of the embargo have also argued that the embargo is necessary to force Castro out of power and end his abuse of the Cuban people. By either standard, the embargo has been an utter and resounding failure.

Rather than punish Castro and weaken his hold on power, the embargo has had the opposite effect. By insulating the island from U.S. influence, the embargo has given Castro the free reign he needs to assert complete control over his country. Thus, as the rest of the former Soviet bloc reenters the global community, the Cuban people remain mired in isolation and neglect.

The embargo hurts not only the Cuban people, but the American people as well. The International Trade Commission has estimated, in the absence of sanctions, U.S. exports to Cuba could grow more than \$1 billion. Meat exports from the U.S. could be as much as \$76 million; wheat exports, \$52 million. These revenues would be a welcome relief to rural Americans in an economic crisis.

The damage, of course, goes beyond agriculture. It hurts other industries such as manufacturing, services, and tourism. Common sense alone suggests reevaluation and wisdom to manage reform.

As we look ahead towards a better Cuba policy, some will note that Cuba offers a relatively small market. In comparison to our larger trading partners, this is true. Yet, Cuba is just as big and offers even greater potential than other countries with whom we are engaged in free trade negotiations.

For example, Cuba, a country of more than 11 million people, is much larger, much closer than Bahrain, a country of only 72,000 people. Cuba is also much larger, much closer than four of the five countries in the Southern African Customs Union with which we are now negotiating. Yet, the U.S. is now engaged in the arduous and time-consuming process of negotiating a free trade agreement with each of these other countries.

In contrast, the U.S. can open economic relations with Cuba with a mere stroke of a pen; no negotiations, no drain on our negotiating resources, just a single act to end this failed embargo.

The U.S. will receive immediate and genuine economic benefit. As importantly, the Cuban people will see an immediate and genuine benefit. Will lifting the embargo cure the economic crisis in

rural America? Of course not. Will lifting the embargo solve all the problems of the Cuban people overnight? Again, of course not. But it is the only way to start.

If you look across our borders into the world, we see a host of problems, whether it is in the Middle East or in our own region. These problems affect us here in the United States. We neglect our neighbors at our own peril.

President Bush understood the importance of international engagement when he sought the renewal of trade negotiating authority. He also remarked that free trade is a proven strategy for building global prosperity, adding momentum in the political field. I could not agree more.

That is why, this February, I introduced S. 403, the United States-Cuba Trade Act of 2003, which would repeal the trade embargo. It is also why I helped to author S. 950, the Freedom to Travel to Cuba Act of 2003, which repealed the ridiculous travel ban.

This bill has already gathered 28 co-sponsors. I expect the list of co-sponsors to grow. This Congress is finally realizing that the time has come to embrace a new approach to Cuba. The old way has not worked. It is time for a change. It is time to end the embargo.

I might sum up by saying I have been to Cuba. I do not know whether all of you have been to Cuba recently or not. I suspect that the administration does not allow you to go to Cuba. But I was there a few years ago.

You can see the amazing potential in that country. It is just incredible. There are the older buildings, the Spanish architecture. I will tell you, it is going to be great for tourism when it does open up. We know it is only a matter of time and it will open up. The tourism industry will have a field day when we are able to get to Cuba.

It is true, also, that there is a lot of poverty in Cuba. Most of the people are quite poor. In my judgment, we will only be able to help them when we lift the embargo.

A couple of questions I now have to ask of you. A basic question, is this. I think most observers would agree that the embargo really has not accomplished its purpose. Castro is still pretty strong. He does not seem to be loosening his grip on power. Maybe with age and time passage, eventually there might be a change. But he certainly, today, is very strong in controlling Cuba. The embargo has not been a catalyst for political change in Cuba, either.

In contrast to the policy of embargo, we have also sometimes in our country pursued engagement with other countries. A good example, is China. There was a big debate, do we engage China or not engage China? China has human rights abuses, and it may be greater than those of Cuba. I do not know. They use some form of prison labor. All the abuses we talk about in China, to some degree, appear in Cuba.

I listen to statements of some of the evils and problems that we have with Cuba, and I am reminded of those of a similar country, China. Yet, we engaged China. PNTR, I think by most accounts, has worked. It has worked quite well. The same is true of other countries.

Take Vietnam. We engaged Vietnam, a former Communist country. And certainly China is a potential threat to the United States than Cuba is. Vietnam. I do not know. It is a long ways away. We also passed NAFTA, which is engaging Mexico. Now, Mexico is clearly not a Communist country. It may harbor terrorism, who knows. Not harbor. There may be a couple of terrorists there.

But it does not make any sense to me, if we embraced Mexico, particularly if we embraced China, and engaged with Vietnam and other former Communist countries, the former Eastern bloc countries, why in the world are we not also engaging Cuba? Why do we not lift the travel ban? Why do we not just keep to ourselves? Why not?

Mr. ALDONAS. Well, Senator, if I could, a couple of things. One, is just to be clear, the President actually could not lift the embargo at this point with a stroke of the pen because of the 1996 act. At this point, that act by Congress represented the codification of the regulations, the embargo, that was then in place.

So, at this point it will require more than just action by the administration to establish the predicate for the lifting of the embargo. I appreciate that you have introduced legislation that you just have as a part of it. But to make clear, it is a joint responsibility in terms of managing the relationship with Cuba.

To your point, which I think is absolutely right, Senator Baucus, about the distinction between China—I think Mexico is an instructive example as well—the difference, fundamentally, is when there is an opening where you can divide the economic interests of the individuals in the society from those of the state, that is where you start to sow the seeds of political pluralism. That opening exists in China. It exists in Vietnam. I will tell you, at one point I was a young foreign service officer.

At one point I was young, but at one point I was also a foreign service officer in Mexico. [Laughter.] It was a time when there was actually more state ownership of the economy in Mexico than there was in virtually every other country in the world, except Cuba.

The opening with respect to Mexico and NAFTA has worked precisely because, starting with Magill de Madrid, and later on with Carlos Salinas, you actually had the encouragement of an open market that allowed individual freedoms in the marketplace.

The problem that I see, and I see it, Senator Baucus, reflected in the figures that we see in our export licenses, is that, even absent the embargo, the heavy hand of the state, Castro's regime, on the economy does not leave the opening that I think existed in China and that I know existed after de Madrid and Salinas in Mexico.

The reason I say that part, is if you look at the investments by Europeans and Canadians who certainly are as interested in the Canadians as we are in terms of encouraging the right kind of changes in Cuba, as a practical matter, they actually have not made an awful lot of money and it has not gotten down to the benefit of the average Cuban.

The enterprises are run jointly with the military and the receipts go, not to fund the livelihood of individuals in Cuban society, but the repressive regime. So, one of the worries I have is that, even in the absence of the embargo, the way the state runs the economy

in Cuba means that the benefits from opening that trade relationship would flow directly back to Castro's repression.

Senator BAUCUS. Well, frankly, my first reaction to that is, well, so what if there is more state control of, say, Mexico back in that time? Other countries trade. That is their choice. Businesses have that choice. Businessmen can choose whether they want to trade or not. I think Americans, who are in the land of the free, should have the freedom to decide whether we want to trade with Cuba or not.

My guess is, too, that if we were to sell products to Cuba, even though we say the economy is struggling, just as in some sense ours is struggling, that if there is a willing buyer and a willing seller, you have got a deal here. The Americans want to sell agricultural products.

If Cuba could find the wherewithal to buy them, let us buy them. Credit worthiness. That may be an issue. It probably is an issue. But that is a judgment, again, for the businessman to take. If he wants to take that transaction or not, that is his choice, it just seems to me. Why do we limit ourselves?

I also hope that it is not true—the first part I know is true. The first part is, about two-thirds of the members of Congress favor lifting the embargo. About two-thirds. Yet, the President said he would veto it. Why? Why would the President want to do so?

Mr. ALDONAS. Well, my reaction is, I know the President has articulated what he thinks is the appropriate strategy for trying to encourage a peaceful change there.

I guess the only conclusion I could draw, Senator Baucus, is that from his perspective, that simply lifting the embargo is not the appropriate thing to do to reward the kind of behavior we have seen within recent weeks in Cuba with respect to their people.

Of course, I agree with you, if there is a willing buyer and a willing seller. What I see in our trade right now with Cuba, even though we have opened up substantial possibilities for trade in agricultural commodities, that very little takes place between willing buyers and willing sellers.

In fact, there may be willingness on our side, but there is not a willingness, or indeed a freedom, to trade and exercise their opportunities as individuals in the marketplace in Cuba, and much of the trade goes on with, in fact, state-owned enterprises.

Senator BAUCUS. Yes. My time is up. This is no place to debate. But it is my impression, having been there, that Castro uses the embargo very effectively.

Senator THOMAS?

Senator THOMAS. Thank you. Thank you, gentlemen, for being here.

To whom do they owe the \$11 billion?

Mr. LARSON. They owe that to a series of creditors in Europe, Japan. They owe us a certain amount. I have got the details in my testimony.

Senator THOMAS. It is a number of them.

Mr. LARSON. A number of foreign governments.

Senator THOMAS. What do you think would actually happen in trade were these restrictions eliminated today? What would be the

volume, what would be the credit, what would be the business aspect of trade?

Mr. LARSON. I think it would be very limited, for reasons that Grant has set out. The first point, is that we are in a policy stance. It is not a total embargo. There are opportunities for travel, as we both mentioned in our testimony, and for trade. We have seen a certain amount of trade that takes place.

But I do believe that the bankruptcy of the regime—and I am speaking purely in a financial sense for the moment—is such that there are real limits. Their economy is going downhill. They have not honored their credit obligations for the last 17 years or so. So, there is a very limited capacity for them to finance, out of their own resources, expanded trade.

Senator THOMAS. Current trade, agricultural trade. How is that working?

Mr. LARSON. Well, again, if it is with us, it is basically cash on the barrel head. In part, what they are doing is not paying people to whom they owe money in order to pay for these specific shipments.

Senator THOMAS. In terms of travel, I understand people-to-people exchanges have been canceled because of abuses of the exchanges. I have some people in Wyoming who had educational travel. Now they are unable to do that. Why is that?

Mr. LARSON. Well, we are licensing specific types of travel, including universities, journalists, professionals, athletes, cultural groups. A year ago, in other words, for 2001, we had 176,000 Americans that traveled to Cuba. We think the numbers will be somewhat larger for 2002.

But these are subject to license. I think what we need to do is understand the specific circumstances that are involved with any individuals whose license applications were denied to be able to give you the right answer to your question, sir.

Senator THOMAS. Yes. Well, I have written a letter on behalf of these people. They were doing educational things and they were suddenly not able to do that. They were not asking for more than they had in the past. So, that seems to be something that we ought to take a look at.

Mr. LARSON. Senator, I will make sure you get a full answer to your question.

Senator THOMAS. All right.

It is interesting, going to sanctions and these sorts of things. They generally have not worked. We have sanctions on China. They canceled a Boeing contract, and they bought Airbuses from France.

This seems to be a little bit different situation, and I question my friend's two-thirds for it, frankly.

Mr. LARSON. Me, too.

Senator THOMAS. It is an open question. For the most part, we have been more successful in opening up things by dealing with people. So, I think we need to continue to look at the best way to get business, an open business movement here over time. Thank you.

Mr. LARSON. Sir, if I could just add one quick comment. We do keep these issues under review. I did want to amplify just a little

bit on the differences between China and Cuba, if I may, because they are stark. For all of the issues that we may have with China, this is a country that is working with us productively in the Security Council, the United Nations, and is working for us on the war on terrorism.

Senator THOMAS. WTO.

Mr. LARSON. They are in WTO as a constructive member. And they have an emerging private sector. They are in the process of economic, and arguably political, change. It is really quite remarkable.

In Cuba, as Grant said, the situation has moved dramatically in the other direction. Increasing crackdown, even in the last year, by a regime that already was as controlling a regime as you could find.

Senator BAUCUS. Thank you.

Senator Bunning?

Senator BUNNING. Thank you. Thank you, Mr. Chairman.

I would like to put my opening statement in the record, without objection.

Senator BAUCUS. Without objection.

[The prepared statement of Senator Bunning appears in the appendix.]

Senator BUNNING. I probably am the only member of this committee that has ever lived in Cuba. I spent a complete, whole winter in Cuba. The Cuban people are good people and they have been suppressed for over 40 years.

You have brought out a few facts in your testimony about the risks of doing business. I would like to emphasize a couple of things that are in not only your testimony, but other things that we have discovered.

In 1999, a Canadian company reportedly lost \$9 million when the Cuban Government suddenly terminated an agreement to renovate a power plant in Cuba. In April 2002, Venezuela suspended oil shipments to Cuba due to default on payment. In 2002, Guinea detained a Cuban ship trying to get payment, and kept the ship in port because Cuba did not pay their debts.

In 2001, the Dutch seized a Cuban ship as a step towards settling debts owed to that country. As you stated, they owe nearly \$11 billion to other countries' banks and private suppliers.

Cuba reportedly owes \$20 billion in arrears to the Russians. Cuba has defaulted on loans to Chile, Spain, France, Italy, Japan, and Canada.

Now, you wonder why we do trades with Cuba with cash on the barrel head? You understand the lack of economic well being of the Cubans in the private sector to do any business at all, except through the military and through the Cuban Government, which then controls the amount of money that is paid to the Cuban people.

So if we think by doing business, whether it be agricultural sales or any other commerce with the Cuban Government we are going to lift the standards of living for the Cuban people, we are mistaken completely.

Yes, we do have some travel to Cuba. Yes, in observing that travel, in observing those who have traveled, it is so sad to see what



has happened to that wonderful country that was fully invested by the United States at one time. All those government entities and all those private enterprises in Cuba were taken by the government, and obviously that was the original reason for the embargo.

In 2001, in your testimony, you said Canadian taxpayers had to pay nearly \$22 million U.S. currency to cover exporters' bills on which Cuba defaulted.

Now, the question is, if we lift the embargo and lift the travel sanctions, what will be better? That is my question to both of you.

Mr. ALDONAS. Senator, if I could, I think the answer is nothing because of, like I say, this real heavy hand that the state imposes on its economy. And I do not mean, by focusing on economic issues, to take away from what they are doing in terms of political repression as well, because it is of a piece.

The fact that you mentioned about your experience, when the Cuban people have the opportunity to exercise their freedoms, it is an enormous amount of energy, an enormous amount of initiative that comes out.

Miami is the best example of it. But, as a practical matter, they do not have that treatment in Cuba, to have the ability really to engage in the sorts of things that will unleash that freedom and see the economy grow. Until we see those conditions, nothing is going to change. Changing the embargo is not likely to have that particular impact.

Senator BUNNING. How would easing the travel restrictions assist, other than the Cuban Government, to get more hard dollars, hard-earning dollars into Cuba? How would it help, if at all?

Mr. LARSON. Well, again, Grant and I agree that it would not help. One of the reasons, the important reasons why, is that the tourist sector is so dominated, not only by the state, but in many instances by the military component of the state, that we do not believe the economic benefit of the increased travel and exchange would flow to the Cuban people in any event. It would, rather, in our judgment, strengthen the state, strengthen Castro, and strengthen the military.

Senator BUNNING. My time is up. I can tell you that, if Cuba were an open society, it would be probably a most-sought tourist attraction, because I was there when it was; the beaches, the different clubs and those things that were in Havana, and even in Santiago and many other places were such that Americans flocked to that country, not only for recreational purposes, for gambling and things which were legal at that time in Havana and in Cuba.

But until we can get a less repressive and more open society, I see no reason—I have got as many farmers in Kentucky as my good friend in Montana does, and they would like to trade. But what they are doing is just supplying the Cuban Government with dollars and not helping the workers who we are actually trading with at all. Thank you.

Senator BAUCUS. Senator Lincoln?

Senator LINCOLN. Thank you, Mr. Chairman. Thank you for providing us the opportunity today to discuss what I see to be really better than a 40-year-old failed policy. I think it is time for us to jump into the 21st century and recognize the neighbors that are as close to us as Cuba is, and we can have a much better impact on.

My colleague from Kentucky talks about less repressive and a more open society. Yet, that is hard to do as we continue to isolate the Cuban people. We allow that to happen because, quite frankly, the embargo, as Senator Baucus mentioned, certainly gives President Castro the ability to blame somebody. He blames the U.S., and continues to blame the U.S.

Creating that isolation for the Cuban people does not help the Cuban people at all. I do not have the extensive knowledge that my colleague from Kentucky has from having lived in Cuba, but I have visited once.

I took a group of Arkansas farmers down there because, quite frankly, particularly in these economic times, and particularly in terms of agriculture, we are a very good point in case of the damage that has been done.

When the sanctions were imposed over four decades ago, Arkansas lost its number-one export market less than 90 miles from our U.S. borders. More than half of my State's rice exports were stripped away virtually overnight.

We are talking about building an economy. We are talking about being an active part in the global economy and trying to maintain the kind of productive—\$167 million, increasing almost 4,000 jobs in my State alone. You could expect to export nearly half a million pounds of rice annually.

That would do a tremendous for a State where we are usually last to see the economic upswing and the first to see the downswing. I think that when we are talking about being a part of a global economy, we are talking about the trade negotiations and the others that we are going right now, it is inexcusable for us to just simply take Cuba off the table, I guess, whether it is through the trade sanctions or through the travel.

I guess one question I would have is, in terms of the travel restrictions that exist, I think I am correct, but I do not know. You should correct me if I am not. People can still travel to Iraq. U.S. citizens can still travel to Iraq, Iran, and North Korea, can they not?

Mr. LARSON. First of all, people can travel into Cuba. We had 170,000 some that went.

Senator LINCOLN. I heard.

Mr. LARSON. You have to do it under license.

Senator LINCOLN. Do you have to be licensed to travel to those other three countries?

Mr. ALDONAS. On Iran, I would want to check.

I can certainly say, with respect to North Korea, they are subject to the most severe restraints on any kind of transactions or travel. What you have, is they are subject to the same sorts of embargo constraints that were imposed on Cuba many years ago in the trade with them.

Iraq is a problem right now, I think, for security reasons.

Senator LINCOLN. Obviously.

Mr. LARSON. But also because I think there is, from the State Department's perspective, you do not want people traveling on a U.S. travel document where you know that the security environment says that you will be at risk. But that is obviously not a legal-imposed restriction.

Senator LINCOLN. Well, I was just wondering if there is an assumption by the State Department and others that there is equal danger. I do not know what the past has been in terms of the travel restrictions.

Mr. LARSON. I understand that Iran is also subject to licensing in travel.

Senator LINCOLN. The same kind as Cuba.

Mr. LARSON. The other quick point, if I could, Senator, is the issue of which policy has failed, is an interesting and challenging one. But it is important to note that the Europeans, Canadians, and others have had the different approach to Cuba.

I think many of them, if you asked them privately, would say that their policy of openness has failed in two respects. One, it has not brought the commercial advantages that they had hoped it would.

In fact, they had all of the problems that are documented in our testimony, and that Senator Bunning highlighted as well. Also, their policy of openness has not encouraged change of a political sort in Cuba. In fact, as we all know, things have gotten very much worse in the last year.

So it is not an easy set of issues, but I think it is important to stress that the policies of the Europeans and the Canadians are ones that have met with a lot of disappointment.

Senator LINCOLN. Has there been any effort to work collaboratively with other countries like Canada where, if we work together, the results would be good?

Mr. LARSON. Well, one thing that we have tried was to get a better recognition with the Europeans, and indirectly with the Canadians, on the issue of protection of expropriated property. There was a tendency earlier for the Europeans to not take seriously the claims of American citizens whose property in Cuba was expropriated.

While the formal conclusion of the discussions we had with the Europeans did not end up succeeding, there was a very helpful increased recognition on the part of the Europeans that we had some very valid and serious claims here. I think there is more sensitivity to that than there was earlier.

Mr. ALDONAS. Senator, if I could add two points. One, is about isolation. Maybe you could say we successfully isolated ourselves with our policy, because Cuba is open for business with the rest of the world. But there is not an lot of business that goes on. There is not a lot of economic opportunity. Again, it is as a result of this repressive hand that is imposed on individuals' lives by the Cuban Government.

In that sense, they are not isolated from the world markets, but you do not see the results that you would expect. I just want to go back to the point I made earlier. It really is about whether or not the government is willing to allow those inroads.

I think, in the case of the Castro regime, that they have looked at the lessons that they have seen in this area, including China, including Mexico, and elsewhere in Latin America, and they recognize that they cannot let up on the lives of average Cubans without losing it all. I do not think they are willing to do it, even on the economic front, to any great extent.

Senator LINCOLN. And you feel like it has been successful?

Mr. ALDONAS. I am not saying it has been successful in encouraging any sort of change in people. But the absence of that policy is not going to make a material difference, in my estimation.

Senator LINCOLN. You feel like continuing it will?

Mr. ALDONAS. Well, the one thing that I would say in response is, you did raise the point, and I know Senator Baucus did as well, that you were behind, and Senator Baucus has put together legislation that would encourage a set of changes.

The President, too, is interested in seeing a change. He has articulated the process by which we can get to that result. It may not match either the timeframe or the pace, or the particular guidelines that Senator Baucus' legislation will, but he has taken that approach as well, which is essentially to identify for the Cuban Government, as I understand it, sort of, what is the predicate for getting us to that point where we both can join, in fact, to try and make a better future for Cubans?

Senator LINCOLN. Do you think that has been a real priority for this administration?

Mr. LARSON. Well, if I could amplify, then. We have stated this policy that we are prepared to support political and economic reform and we are prepared to take steps if, and when, they do. That is not an all-or-nothing proposition. I think that is a very important thing.

In trying to blame us, in trying to blame the embargo, it is easy for Castro, or could have been easy for him to say, well, these hurdles that have been set are way too high.

What the President's new initiative on Cuba said, is we want to see movement towards economic and political reform, and as you take steps, we will take steps. For whatever reason, in the year plus since the President announced his policy, the Cuban Government has gone in exactly the opposite direction. They have made this very sharp political crackdown.

So, at this point the results or the response from Cuba has been disappointing. Nevertheless, there is a policy stance that says if you are prepared to move in the right direction of political and economic reform, we are prepared to take steps of our own.

Senator BAUCUS. Time is running out here.

Senator LINCOLN. I had another question, but I will wait my turn.

Senator BAUCUS. It is my understanding that the administration is increasing the remittances, private remittances, that are going to Cuba as payments for families, to Cuban families, but is not allowing and is cracking down on travel.

Your basic argument is, and I hear you, is two-fold. One, it is a repressive regime. Dollars are not getting to the people. Second, it is a repressive regime and Castro runs the country with an iron fist. The dollars are not getting to the people and it is a repressive regime.

Well, frankly, I do not understand that argument. It seems to me the question is, it is either that, or the logical extension of that argument is, well, we want to continue the embargo, we want to isolate ourselves from Cuba, that is, not give ourselves the possibility, from an American business point of view, to making a business

judgment as to whether we want to trade or not trade, or do business or not do business. That should be an American provincial viewpoint, it seems to me.

Second, if remittances are increased—I see some heads shaking, they do not increase. But if they are increased, it just seems to me that that is a little bit inconsistent with the argument that, well, we do not want tourist dollars to go to Cuba because it ends up in the pockets of Castro and his people.

Mr. LARSON. Yes. There is no change on the policy on remittances.

Senator BAUCUS. All right.

Mr. ALDONAS. But to go to the distinction, Senator. I mean, I appreciate what you are saying. Obviously, there is some flow of U.S. dollars to individuals in Cuba.

I think the distinction is worth drawing, which is reflected in the numbers that we are talking about in terms of trade. Engaging in business does not mean the dollars are going to flow directly to individual Cubans. Even when our friends in Canada and Europe have engaged in investment, where the dollars have flowed is directly back to the military, directly back to the police that do these crackdowns over time.

Senator BAUCUS. Well, another point is, engagement takes time.

Mr. ALDONAS. Fair enough.

Senator BAUCUS. Any other questions?

Senator THOMAS. Just one. I see the Senator is gone over there. But she was talking about selling rice to Cuba. Can they not do that now?

Mr. LARSON. Again, we are prepared, under license, to see agricultural exports sold to Cuba on a cash-on-the-barrel-head basis. There has been a significant amount. I believe the number I gave in my testimony was a total of \$280 million of sales have been made over the last two or 3 years on that basis.

Senator BUNNING. I have one additional question, if I could.

Senator BAUCUS. Go ahead, Senator.

Senator BUNNING. Could either of you address, in the early 1990's, Castro made some changes, economic changes. What do you think caused that occurrence? Why have the policies, now that the Bush administration, in my opinion, has kind of reached out and said, we will go step-by-step with you if you relax some of these restrictions, and said we will, in turn, relax some of our restrictions and try to get more dollars into your country. But it has got to go to the people.

So, what was the cause in the early 1990's? Castro seemed to have made some changes, economic changes, and things like that?

Mr. LARSON. I think the short answer, Senator, is that after the collapse of the Soviet Union, subsidies that had been coming from the Soviet Union to Cuba dramatically decreased. They faced real economic pressures as a result of that.

One of the responses that they took was to make some very tentative experiments in giving a little bit more economic opportunity and freedom to small-scale entrepreneurs, including letting families essentially run hostels or have a small business where they could put up people in their houses.

What has happened in the years since those experiments that they undertook, has been a reversal, of course, on the economic side. When there was a very courageous effort on the part of democracy advocates in Cuba in the last year or two to petition the government to seek modest change, to try to exercise political rights of expression, there was this dramatic crackdown this year that resulted in more than 100 arrests, some extraordinarily severe punishments in trials that were secret.

I think that, from my vantage point, it is very similar to what Grant said earlier, that the government has come to the view that even tentative experiments in promoting more economic freedom create pressures for change, including the political side, and they're not prepared to run the risk that these political pressures would get out of hand. So, they want to clamp down, both on the economic and on the political side.

Mr. ALDONAS. If I could just add, Senator. I think, to the extent that if you are Castro and there are other flows of income that might come from, whether it is narcotics or whether it is support for terrorism, or whatever it might be, or an option that might give your people some freedom, Castro stayed in power through repression for a very, very long time for a reason.

I think he is very concerned about the lessons that he would draw from experiences elsewhere in the world, where a little bit of opening on the economic side has led to some profound changes on the political side. I think he has got income flows available to him from sources that he can rely on and control himself rather than relying on individual freedom and people operating in the marketplace.

Senator BUNNING. Thank you.

Senator THOMAS. Thank you, gentlemen. We appreciate it very much. We have a couple of more panels and we have to move on.

On our second panel, we have Ambassador Dennis Hays, executive vice president, Cuban American National Foundation; Wayne Smith, senior fellow, Center for International Policy; Mark Falcoff, resident scholar, American Enterprise Institute; and Tom Malinowski, Washington Advocacy Director, Human Rights Watch.

Thank you very much, gentlemen. We will, I believe, just go as you are listed in the program here. So, Ambassador Hays, please.

**STATEMENT OF AMBASSADOR DENNIS HAYS, EXECUTIVE VICE PRESIDENT, CUBAN AMERICAN NATIONAL FOUNDATION, WASHINGTON, DC**

Ambassador HAYS. Thank you, Senator.

It is a great pleasure to be here. I would ask permission to submit my written statement and make a few comments along the way.

Senator THOMAS. Absolutely.

[The prepared statement of Ambassador Hays appears in the appendix.]

Ambassador HAYS. In any discussion of Cuba, I think it is important to remember that there is a sharp distinction between the people of Cuba and the Castro regime, which is has been over the Cuban people for the past 40 years.

The organization that I represent has been very straightforward in saying that we support just about anything that reaches out, supports, and helps the Cuban people.

But we do draw that very sharp line and we oppose anything which supports or helps the Castro regime, because we believe that will only contribute to the cycle of misery and poverty that has existed these past four decades.

I also always have to say I am one who will say that the embargo has succeeded. It has succeeded under the terms on which it was set up. It is important to remember that embargoes against dictatorships work in a specific way, to deny resources or to make resources more difficult for that regime to obtain.

Embargoes, by themselves, do not lead to the overthrow of repressive regimes. It did not in Iraq and it would not anywhere else, and it certainly would not in Cuba.

Embargoes are important, however, to promote internal reform. Senator, your question about what happened in the 1990's is very clear. Castro himself would tell you that they were forced to undertake reforms because of the economic difficulties that they felt at that time because they were not able to get funds from the United States and other sources to replace the Soviet subsidies.

I spend a lot of my time working with the sort of intersection between wishful thinking and unintended consequences. One of the parts that I put under wishful thinking, is there is a very strong belief, almost a given, that trade and travel, by themselves, promote democracy and undermine the repressive regimes.

I have spent a number of years looking very carefully at this. I have yet to find any evidence anywhere at any time that this is, in fact, the case. I always put out a request or a challenge.

If others have information, academic papers, studies, analyses that show this, please bring it to my attention, because I do not think it exists. So, it is very important to remember when you talk about programs like this that that really is not a factor.

What you do get, is unintended consequences. The unintended consequences is believing that we are doing things to help open up Cuba when, in fact, what we are doing is allowing the regime to continue to tighten down on the people.

One of our ongoing concerns is that, in all of the discussions that we hear, we usually have a basic acceptance of Castro's rules. That is, we say we want freedom to travel, but what we are saying is we want to be free to allow Castro to decide who does and does not make it to Cuba.

Members of the U.S. Congress have not been able to go to Cuba because Castro will not give them a visa, because he thinks that, politically, they are not going to be receptive to his message.

Members of this panel and their organizations cannot go. Amnesty International cannot go. The Red Cross, Human Rights Watch, Reporters Without Borders. Basically, anyone the Castro regime feels is not going to be helpful to their cause is denied a visa.

One request that I would make is, when delegations from the Senate or the House of Representatives go to Cuba, that they take somebody from Human Rights Watch or Amnesty International

with them and allow them at least the entre to get in to do the work that they do in every other country in the world.

The second half of this is, when we talk about tourists going to Cuba—and again, we do not oppose all travel to Cuba, but we do oppose tourist travel to Cuba—is that the American tourist unwittingly moves into an unsavory situation that I do not believe that they would accept if they knew the full ramifications.

What American wants to go to a beach where the citizens of that country are denied access to that area? What American wants to go to a hotel where there is blatant racial discrimination in hiring, where unions are illegal, where it is illegal for a citizen to criticize their own government to a foreigner, and on, and on, and on? This is not something that I think most of us think of when we think in terms of tourism.

Much has been discussed about the European and Canadian experience. Most of it has been bad. If you look at the recent action of our allies, and I for one have spent a lot of time talking to the Europeans and Canadians. I believe that they have the best of intentions, but I believe that they also have come to recognize that what they hoped to accomplish has not, in fact, taken place.

Cuba is bankrupt. It owes everybody. They are basically in the situation of paying their Visa bill with their Mastercard, and paying that with a Discover card, and now they are trying to get an American Express card, i.e., us, to engage and take over from the Europeans, Canadians, and others who have given up on that sinking ship.

I do want to speak very briefly—I know our time is limited—to put a second half to this argument. There are things that I think we can, and should, be doing. As I mentioned, we support anything that helps the Cuban people to empower themselves, to get out from underneath what they have been under. We encourage groups of individuals to go to Cuba.

If they are going to work with church groups, with nascent entrepreneurs, with people who are interested in forming labor unions, any of these groups that create an amount of civil space inside Cuba, is something I think we can all agree with. Whatever part of the spectrum we come on this question, we can all agree that there are things that we can do to help the Cuban people.

I look forward to hearing your questions, and at this time I would like to pass it over to my colleagues.

Senator THOMAS. Thank you very much.

Mr. Smith?

**STATEMENT OF WAYNE S. SMITH, SENIOR FELLOW, CENTER  
FOR INTERNATIONAL POLICY, WASHINGTON, DC**

Mr. SMITH. I was in the American embassy from 1958, until we broke relations in January of 1961, so I have been on both sides of this issue. I have some of the cables we wrote back in 1960 that went into the language of the embargo established in October of 1960.

I think the policy at that point, and for some years after, made sense. At this point, it no longer does. I think the present policy is utter nonsense.



It is a policy of threats and efforts to isolate and strangle them economically and to bring about regime change. That will not advance the cause of human rights and a more open society. In fact, as we have just seen in the recent crackdown, it is more likely to have the opposite effect.

The crackdown did not come about, after all, because of liberalization on the part of the United States. I think we could accomplish far more through the reduction of tensions and a cautious policy of engagement.

We hear people talk about Cuba as an economic risk, but American businessmen are not going to march into the island with bovine smiles and simply sign contracts. They will be very cautious in their dealings. But they should have the possibility of looking into it.

As for the evidence that Dennis calls for that you accomplish more through trade and travel than through efforts to force an outcome, I would point to the difference between China, Vietnam, and various other countries all during the Cold War.

We had trade, travel, and diplomatic relations with the Soviet Union. President Nixon began our opening to China decades ago. That helped to bring about the changes, the evolution in China.

Why is it that you have China and Vietnam now, and a number of other countries, that are moving in the right direction? The one country that is not moving in the right direction, the one former Communist state that is not moving in the right direction, is Cuba, where we maintain an embargo and a hard-line policy.

Someone said that we can trade—I think it was Mr. Larson—with China because there is a possibility of opening there and dealing with the citizens. That was developing with Cuba. Cuba, in the beginning of the 1990's, started a process of reform, economic reform. It was moving along very nicely. Banking reforms, self-employment law, and so forth.

The next thing was to be the small business law, which really would have been a major step. What happened? Well, then came the Helms-Burton Act in 1996. That was the end of the small business law.

It gave the hard-liners in Cuba the argument that, in the face of this new American threat and aggression against them, it is no time for more socioeconomic experiments. So, it was banned. Castro plays David to our Goliath beautifully. Our policy gives him that opportunity, almost on a daily basis.

Why are we continuing this policy? Not because of human rights and democracy. We are continuing it because of the perception that you must keep to the hard line in order to hold the votes of the Cuban-American community in Florida, a key swing State. But that has changed.

I will end right here. That has changed. Recent polls indicate 55 percent of the Cuban-American community believe the embargo has failed and that we should begin to look for a new policy. They are no longer opposed to travel, so the way is open to change. The perception that has thwarted any change of policy no longer holds.

Thank you.

Senator THOMAS. Thank you, sir.

[The prepared statement of Mr. Smith appears in the appendix.]

Senator THOMAS. Dr. Falcoff?

**STATEMENT OF MARK FALCOFF, RESIDENT SCHOLAR,  
AMERICAN ENTERPRISE INSTITUTE, WASHINGTON, DC**

Dr. FALCOFF. I appreciate this opportunity, Senator Thomas, to discuss the important subject of U.S. relations with Cuba. But, in the interest of time, because we have been told we only have 5 minutes, I will try to get right to the point.

I assume that the purpose of this hearing is to discuss the financial implications of a fuller and freer set of commercial innovations in that country, so I am going to restrict my comments to that.

Cuba is not, and is not likely to become, an important market for U.S. agricultural exports, or indeed U.S. exports of any other kind, any time soon. Cuba is a tropical island that once achieved great prosperity as the result of a special arrangement that allowed it to sell its sugar harvest at a subsidized price to the United States.

That arrangement ended 40-some years ago when the Cuban quota was divided up among other countries. Meanwhile, the Cuban industry itself has fallen into ruins, thanks to the neglect of physical plant, poor management, and low workforce morale. The dictator was forced last year to close nearly half the country's mills.

The most recent harvest was the smallest in more than 50 years. There are other economic activities on the island, most notably tourism, nickel, tobacco, and some biomedical products.

Nonetheless, none of these are likely to produce the kind of resources that would restore Cuba to the status of a major Latin American market for the United States such as it was in 1958.

This is particularly true of the present environment, where the principal objective of the government is to preserve an economy of scarcity for purposes of political control.

Cuba is broke. In fact, it is more than broke. It is living on arrears, which is to say, obligations it does not pay to its other creditors. The cash it is using to buy U.S. foodstuffs now is being diverted from obligations to Japan, Argentina, France, Holland, even to Colonel Chavez in Venezuela.

Castro's game here is obvious. Having defaulted to Eastern and Western Europe, Japan and Latin America, his last ploy is to run up a huge bill with the United States, on which, in time, he will also default, this assuming the Congress grants him lines with the Commodity Credit Corporation so that we taxpayers can pick up the bill for his default 5 or 10 years from now.

To be sure, Cuba needs American agricultural products. Some estimates put as much as 20 percent of the population on the ragged edge of starvation. This is so because Castro refuses to allow sufficient free market incentives in the agricultural sector, not because Cuba is incapable of feeding itself.

Thanks to nearly 50 years of Communism, Cuban living standards more nearly resemble those of Africa than Latin America. It needs humanitarian assistance, including food aid.

I think many of our purposes would be better served by appropriating half a billion dollars each year to purchase agricultural products outright which could be distributed to the Cuban people free of charge by the Catholic church or other recognized humanitarian organizations.

This would give the lie to the notion that the United States is trying to starve the Cuban people because they do not like its political regime. It is true, Castro might reject this aid. He has already rejected European assistance, except on his own terms. But I think the offer should be made seriously and in good faith.

If accepted, it would allow us to open a line of communication with the Cuban people over the heads of its government. If rejected, we could leave it to Castro to explain to his own people why his pride, his principles, his sovereignty, his dignity demand that they should go hungry. Thank you.

Senator THOMAS. Thank you.

[The prepared statement of Dr. Falcoff appears in the appendix.]

Senator THOMAS. Mr. Malinowski?

**STATEMENT OF TOM MALINOWSKI, WASHINGTON ADVOCACY  
DIRECTOR, HUMAN RIGHTS WATCH, WASHINGTON, DC**

Mr. MALINOWSKI. Thank you, Mr. Chairman, Senator Bunning. Thank you for giving us the opportunity to address Cuba before you today.

My organizations, Human Rights Watch, has been monitoring the situation there for about 15 years. I am not going to dwell on it here today. You all know that we are seeing right now a merciless dictatorship at work. I think we all have to agree that no one should have any illusions about the Cuban Government or romanticize any aspect of that system, or make any excuses for it.

We should agree that this horrific crackdown that we have seen over the last few months is certainly not the fault of the United States or the fault of the embargo. Responsibility lies with Castro, period, and we should begin there.

But I think we also need to be very tough-minded and strategic in assessing whether the all-out embargo currently in place is the best available tool for achieving our goals of change. In our view, it simply is not. That is why we have supported efforts in the Congress to ease at least some of the most onerous aspects of it, including, especially, the travel ban.

I say this, Mr. Chairman, as someone who generally does support targeted economic sanctions against countries that systematically violate human rights. My organization, for example, applauded members of this committee and other members of Congress for supporting the recent strengthening of sanctions against Burma.

But it does seem to us, at the same time, that any American policy designed to promote human rights in another country has to meet a couple of basic tests.

First of all, is it more likely to be effective than the alternatives? Second, does it advance the interests of people who are actually struggling to defend human rights in the country concerned? I am afraid the embargo, after 40 years, clearly fails to meet both of those tests.

First of all, we have got to take into account that so many of the dissidents who are struggling for change in Cuba, whose voices are not represented here today, do want to see the embargo eased, including many of those who were imprisoned and sentenced to long sentences in the last few months.

We have got to consider why they feel this way, why so many of Castro's victims feel so strongly that this needs to change. First of all, I think they understand that the embargo is indiscriminate rather than targeted, so it enables Castro, as others have said, to shift blame to the United States for the Cuban people suffering. It isolates the Cuban people from the world, thus making it easier for the government to control what they see, hear, and know.

Finally, and to me most importantly, it is bitterly opposed by most nations around the world. So, it enables the Cuban Government to divide the international community, leading, ironically, to less international pressure on Castro, not more.

Now, that said, I want to stress that I do not think that simply ending the embargo is, by itself, a strategy for change in Cuba. We need to be clear about that as well. We need to ask ourselves, I think, one fundamental question: what does Castro fear most from the United States? I do not think it is ending the embargo. I do not think it is the continuation of the embargo.

I think what he fears is the prospect that the United States might someday agree with its allies in Latin America, Europe, and Canada on an effective common strategy for promoting change.

For that reason, I would argue that our Cuba policy should not even be directed at Havana now. It should be directed at the Latin Americans, the Europeans, and the Canadian, aimed at forging a common strategy.

We ought to be urging the Latins to speak more forcefully about Cuba, to stop backing Cuban membership from U.N. bodies. We should be pressing the Europeans and the EU to impose the same kinds of targeted sanctions on visas and assets on Cuba that they impose on other dictatorships around the world.

We ought to be talking to our allies about common rules governing investment in Cuba that might diminish the power of the state here. There is an opportunity now to do those things and we are not seizing it.

We are not seizing it because of the embargo, because the embargo makes us hindered in pressing our allies for effective, common, multilateral measures to press the Cuban Government for change.

I think the Bush administration knows this. We have urged the State Department, on a number of occasions, for example, to work with Latin countries to try to get Cuba off of the U.N. Human Rights Commission, and they barely try because they know that no one is going to listen to the United States so long as the embargo is in place.

So, finally, I would say that the alternative to the policy of dumping sanctions on Cuba, which I believe is what we have now, is not necessarily a policy of no sanctions.

It ought to be possible to forge a middle path that isolates the government and the people of Cuba that, so long as we are not willing to wind down that kind of policy, we are not going to convince our allies to rise up to it. Thank you.

[The prepared statement of Mr. Malinowski appears in the appendix.]

Senator THOMAS. I have a question, and if I could quickly have an answer.

Mr. Hays, have you had problems with the licensed travel that has been in effect, and should we continue that policy?

Ambassador HAYS. We very much oppose any travel that smacks heavily of tourism, which unfortunately there were many, many examples of. But at the same time, we support what we would call true people-to-people, purposeful travel.

I said that I would be happy to support the applications of anyone who makes such a proposal. But it has to be that they are dealing with the Cuban people, not taking the standard tour that the Cuban regime is offering.

Senator THOMAS. Mr. Smith, you indicated, of course, that the U.S. has not given ground or moved. Is there any evidence of interest in Cuba? They are the ones that are being damaged. We could live without Cuba. But have they made any changes, made any effort to work with us?

Mr. SMITH. They have in the past.

Senator THOMAS. In the 1960's.

Mr. SMITH. During the Carter administration, yes. Occasionally under Clinton, and even now under the Bush administration. When we announced that we were going to send prisoners to the Guantanamo Naval Base, the Cuban Government immediately announced that it would not object to that. It would fully cooperate. If any of the prisoners escaped, the Cubans would return them.

After 9/11, the Cubans indicated their total rejection of terrorism and their willingness to cooperate with us in the campaign against terrorism. They have recently indicated a willingness to sign agreements with us for full cooperation in the interdiction of drugs and the campaign against terrorism. The Bush administration, of course, has rejected all of that.

Here, 2 weeks ago, I think it was, the United States complained that broadcasts from Havana were interfering with U.S. broadcasts to Iran. So, we went to the Cubans to complain.

The Cubans said they were not making the broadcasts and that they would look into it. They did. They found that the broadcasts, indeed, were coming from the Iranian embassy in Havana. Now, rather than, as you might have expected, telling us what we could do with it, they asked the Iranians to stop, and they did. There are signs of a willingness on the part of Cuba to cooperate with us. There has been no response from the United States.

Some have characterized the President's speech last year as reaching out to Cuba. I know the Cubans did not see it that way. Neither did I. Neither did most of us. We saw it as a matter of trying to dictate to the Cuban Government what it should do.

Now, I want to see, I think we all do, Cuba move towards a more open society and greater respect for human rights. But we will not accomplish that through the President's policy.

Senator THOMAS. Thank you.

Dr. Falcoff, if marketing does not work, what about travel?

Dr. FALCOFF. Well, the way I feel about this, Senator, is I had a long discussion recently with a very high-level Cuban defector, probably one of the highest level defectors we have ever had, the former chief of staff of, General Raul Castro. We talked among ourselves about this. He said he thought that lifting the travel ban alone would be bad.

If you want to do anything, lift the whole embargo, he said, and take the excuse away from Castro and reposition the United States internationally with its allies. But if you just lift the travel ban, all you are doing is feeding resources to the regime while it continues to complain about the embargo.

I have, in the past, favored lifting the travel ban. I now feel that that should all come in one fell swoop, not in pieces, because I do not think we accomplish much politically by doing it that way.

Senator THOMAS. Thank you.

You indicated, through a deal with the people and not the government. In this kind of a regime, how can you do that?

Mr. MALINOWSKI. Well, what I want to do is to stop isolating the people. I want to start isolating the government.

Senator THOMAS. I know. That is my question. How do you do that?

Mr. MALINOWSKI. Take the issue of travel, for instance. I take all the points about the restrictions that the Cuban Government places on travel. We have seen this throughout the world. Every totalitarian regime seeks to limit the exposure of its people to people from the outside world. Cuba is the only place where we seem to be, in effect, making it easier for the government to perform that task.

In the bad old days of the Soviet empire, we had all kinds of targeted sanctions in place against the governments of Poland, Czechoslovakia, and the Soviet Union on human rights and other rights, but we never prevented Americans from traveling to those countries. And organizations like mine, for example, took advantage of that to be able to get in under the radar screen and to do some very good work with dissidents.

Senator THOMAS. Does Castro have any control over who can go there?

Mr. MALINOWSKI. He will always have control. But I think he will have less control if the volume of travel is great.

Senator THOMAS. Senator, do you have any questions of this group?

Senator BUNNING. I do.

Senator THOMAS. You do? All right.

Senator BUNNING. Short ones. Unless you have already asked them. I do not know. I apologize. I had a tobacco meeting in the back.

Ambassador Hays, I read that you have been recently quoted as stating, "I do not see any evidence that trade undermines repressive regimes. It creates partnerships with repressive regimes which continues people's miserable lives." Please elaborate on this, if you will.

Ambassador HAYS. Thank you, Senator.

One of the arguments that is often used for lifting the embargo or lifting the travel ban, is that this is the best action that we could take in order to spread American values to a repressive regime. This is one of those things where it should be true. I wish it were true.

I have spent a lot of time looking, but I could find no academic body of evidence, no analysis, no anything that actually makes that

case, that repressive regimes can be undermined through trade and travel.

In fact, quite the contrary. What you find, is that you have business relationships and then you have businesses that have a stake in continuing a status quo. So, rather than rocking the boat, they are interested in preserving the existing situation.

What I think can be done, is you have to push a little harder. You cannot just say that lying on the beach brings democracy. What we say and what we support, is that people who are prepared to go in there, as members of the Czech parliament, as members of this body have done, and take things to help specific individuals to empower them to stand up on their own two feet and fight the regime, that is what is helpful, but not simply just as a byproduct of tourism.

Senator BUNNING. Mr. Smith, may I ask you, were you in the State Department in 1958?

Mr. SMITH. I was. I was third Secretary of Embassy in Havana.

Senator BUNNING. Oh, were you? Did you eat at the Yank Steakhouse, which is right across the street from the embassy?

Mr. SMITH. The what?

Senator BUNNING. Yank. Or how about El Carmel, the restaurant?

Mr. SMITH. Yes, sure. El Carmelo. Yes. Nearby.

Senator BUNNING. Just wanted to make sure you knew the good restaurants that I knew when I was there.

I know you are not in favor and think that this is a bad deal for the Cuban people. I wish I could believe that. Were you with the State Department when they were informing the State Department here that Fidel Castro was a Marxist and that his regime, after it took power in late 1959—

Mr. SMITH. Who was informing?

Senator BUNNING. You, as a part of the State Department policy and people in Havana?

Mr. SMITH. Senator, the CIA, before Congress in 1959, stated that they had no evidence that Castro was a member of the Communist Party. I worked in intelligence research, the Bureau of Intelligence Research at the State Department before I went to Havana from 1957 to 1958. I participated in a very small way in the analysis which brought that conclusion forward.

But the other conclusion was that Castro had such gargantuan international ambitions, that he might turn to a more powerful patron to help him achieve those objectives. I think that is what happened.

At a given point, Castro decided that the United States was going to oppose him, as it should have in his quest to stem the revolution in Latin America, and he began to turn to the Soviet Union and he became a Communist. He was not when he first came to power.

Senator BUNNING. It is amazing. When I was in Cuba, everybody knew that he was a Marxist. He had been going to the University of Havana and they had tried to scout him. I wish the Washington Senators had been more successful in signing him as a pitcher, but they were not. But there was no doubt that he was a Marxist.

Mr. SMITH. Senator, he was a Leftist, without question.

Senator BUNNING. All right.

Mr. SMITH. Maybe Marxist. All right. Fine. But he was not a member of the Communist Party.

Senator BUNNING. No. Not officially. But his beliefs were very close.

Dr. Falcoff, I am going to ask you one question. You mentioned in your written testimony that the size and condition of the Cuban economy makes it unlikely to become a major market for U.S. agricultural. If trade between America and Cuba were to be liberalized, do you see any American businesses that would be substantially economically enhanced?

Dr. FALCOFF. I have looked at the report of the International Trade Commission. What I have seen in that report, is that no American industry would be substantially benefitted.

Senator BUNNING. Because of the size of Cuba.

Dr. FALCOFF. Let me be specific, Senator. If you mean increase in percentage numbers, no more than one integer. There is nothing that even gets up to nine percent, whether they look at the air traffic of American airlines, whether it is the sale of rice.

Remember, Cuba was a very wealthy Latin America country in 1958. It could buy what Senator Lincoln wants to sell, rice. Today I could not be a big market for us to sell rice or chickens.

They could not be that today. They have nothing that we need or want. We used to buy their sugar harvest. It was the whole thing. We bought it at a subsidized price. Those days are gone forever.

Senator THOMAS. Thank you. We appreciate very much this panel. We will enter on into the final panel.

Mr. Bill Reinsch, president, National Foreign Trade Council; Richard Owen, Cenex Harvest States Cooperatives; William Messina, Jr., Professor of Economics, University of Florida; and Philip Peters, vice president, Lexington Institute, in Arlington, Virginia.

Thank you, gentlemen. We will move right on. We appreciate your being here.

Mr. Reinsch?

**STATEMENT OF BILL REINSCH, PRESIDENT, NATIONAL  
FOREIGN TRADE COUNCIL, WASHINGTON, DC**

Mr. REINSCH. Thank you, Mr. Chairman. It is a pleasure to be here. I assume my full statement will be placed in the record.

Senator THOMAS. Yes, sir. It will, indeed.

[The prepared statement of Mr. Reinsch appears in the appendix.]

Mr. REINSCH. Thank you.

I am here on behalf of the National Foreign Trade Council, which is an association of more than 300 companies engaged in international trade and investment to support an open, rules-based trading system, and also as co-chairman of USA Engage, which is a broad-based coalition of over 670 American companies in trade and agricultural organizations that support sanctions reform.

Our basic position is simple. We believe that the 40-year-old U.S. economic embargo of Cuba is one of the most dramatic failures of



modern U.S. foreign policy. The regime it intended to undermine is as solidly in power as ever.

Its leader rules with unchallenged, arbitrary brutality, and the people remain economically deprived and politically dispossessed. We believe that, instead, the United States is far more likely to achieve its objectives in Cuba through a policy of engagement through people-to-people programs, education and health exchanges, and commercial engagement, all without the promise of influencing the future course of events in Cuba.

In contrast, the main achievement of the embargo has been to provide Castro with a blanket excuse for its enormous failures. Having chosen not to engage Cuba, the U.S. has advocated the possibility of influencing its development.

This has resulted in a perverse dynamic that perpetuates and deepens the stalemate. Each time there is a prospect of improved relations, the Cuban Government takes an action which it knows will prevent any change in U.S. policy, and each time we have reacted exactly as Castro wants by having an embargo or stopping movement for engagement.

We think this is a vicious cycle which should be broken so we can address the real issue, which is how to prepare for a post-Castro transition. There are radically different courses that post-Castro Cuba can take, not all of them to our liking: civil war, domination by drug lords, military rule, or rule by another figure from the same regime who might compensate for a charisma deficit with even more repression.

How we deal with Cuba as it approaches this transition—and it is an inevitable transition—is going to affect our standing there and also our standing in the region and beyond.

The United States should be seen to be working constructively towards peaceful transition of free market democracy in Cuba. By moving now to engage Cuba, the United States will be able to deploy its most powerful arsenal of soft power engagement before we are overtaken by events.

Today, we support enactment of S. 950, which would repeal the prohibition on American's freedom to travel to Cuba. Ending the travel ban does not reward Castro. It punishes him by building pressure that will lead to a free people and a democratic government.

These travel restrictions are perhaps the most counterproductive of all U.S. sanctions on Cuba. They hurt families on both sides of the Florida Straits, and restrict the freedom of American citizens who are accustomed to traveling throughout the world without restraint.

Recently, the Office of Foreign Assets Control amended its travel regulations to eliminate certain people-to-people and educational exchanges with Cuba, which we think are the most important in our arsenal of soft power.

As a result, programs conducted by some of our country's most prestigious institutions have been eliminated. In addition, these new regulations would deny licenses to companies that specialize in organizing foreign educational travel designed to support American values.

We also endorse further efforts to liberalize food and medicine exports to Cuba, which I think one of my colleagues will talk about, so I will not go into that further here.

Let me conclude, Mr. Chairman, with a third point that is related to Cuba that we hope the committee will also consider. That is repeal of Section 211 of the Omnibus Appropriations Act of fiscal year 1998.

Without going into extensive detail, this section has put the U.S. out of compliance with its WTO and Inter-American Convention obligations with respect to the protection of trademarks.

As you know, we have lost a WTO case on this matter. If the section and its implementing regulations are not repealed, we will be effectively allowing Castro to steal 5,000 U.S. trademarks lawfully registered in Cuba and to develop and export counterfeit products.

From a broader perspective, we will also be compromising the strong position the U.S. has taken on behalf of intellectual property protection worldwide, something which I know is a serious concern to this committee, in particular.

In conclusion, let me just say, Mr. Chairman, over the years we have learned from painful experience that, while they make us feel better, unilateral sanctions almost never achieve their objectives, are usually counterproductive, and are costly to Americans, as well as to their foreign targets.

There is no better example of this than the 40-year-old sanctions in Cuba. It is time to realize that isolation has not punished Castro. It helps him stay in power. As a people, we have always been outspoken in the defense of freedom and democracy. We should have the confidence and determination to take our predictions and the institutions that embody them directly to the Cuban people. We may be surprised at the result.

Thank you, Mr. Chairman.

Senator THOMAS. Thank you.

Mr. Owen?

**STATEMENT OF RICHARD OWEN, CENEX HARVEST STATES  
COOPERATIVES, GERALDINE, MONTANA**

Mr. OWEN. Thank you, Mr. Chairman. I appreciate the opportunity to speak to you today on a great issue affecting not only farmers in Montana, but across the United States.

My name is Richard Owen, and I am from Geraldine, Montana, where I produce wheat and barley. I am a member of a local cooperative, Montana Farmers Union, Montana Grain Growers Association, and a director of a regional cooperative that is owned by 325,000 farmers in 28 States from the Great Lakes to the Pacific, and from the Canadian border to Texas, and is the third largest United States grains exporter.

Through a combination of factors, our National supply of grains and oilseeds far exceeds our National demand. So we in the United States depend on export trade. Yet, United States exporters do not find the welcoming arms of other countries that we anticipated after passage of the 1996 farm bill.

Whether there are subsidies issues, as in the case of the European Union, biotech issues with some Asian countries, or the fact that other countries can feed themselves like those in South Amer-

ica, the expectation and promise that more trade opportunities will arise for the American farmer is not yet true.

As the United States continues to try to negotiate better trade arrangements with countries specifically in the western hemisphere, it misses the opportunity to look a gift horse in the mouth. Not far from our largest agricultural export facilities of the Gulf Coast and the mouth of the Mississippi River, lies Cuba.

As many other countries keep their trade options and business open with Cuba, the United States has almost none. We need to build and nurture better relationships with countries that want our products. We will not be successful in finding new markets without good relationships.

We know that some U.S. medical and food supplies are available to Cuba, but only on a limited cash basis. This is just a little tiny crack in the trade doorway. I would suggest that it is time to open wider that crack.

I know that opening the doorway to Cuba will not be the answer to the woes of American farmers, but if we take the opportunity like this and other countries, especially in Latin America, then collectively we can create a whole new market closer to home. Cuba could be the beginning.

Trade can range from simple cheap commodities like grain to the expensive and complicated like satellite technology. Perhaps just allowing travel to Cuba will be a good place to start.

Bit by bit, the United States should increase the size of the crack in the door until it is someday wide open to allow a win-win relationship for people in both countries. Studies have been done to show that this is possible. We just need a little tolerance and some compromise to make it happen.

Agriculture is the perfect to stick in the doorway of Cuba, and having at least an agricultural toehold will help all United States industries when trade opens up. It is non-threatening to the United States, but all positive for farmers and their cooperatives.

This is especially helpful to an agricultural economy that has been in a tailspin since the 1996 farm bill, as is evidenced by massive annual emergency economic assistance.

We all know that our competitors, as well as our partners, live on opposite sides of the globe, not the street like in decades past. It makes good sense to become friends with our neighbors and learn to succeed together. Here is our chance.

In closing, I believe that all producers, local cooperatives, and regional co-op exporters, as well as the organizations to which they belong, would welcome any United States effort to permit trade with Cuba. I represent these groups and I know I welcome it.

Thank you very much.

Senator THOMAS. Thank you, sir.

[The prepared statement of Mr. Owen appears in the appendix.]

Senator THOMAS. Mr. Messina?

**STATEMENT OF WILLIAM A. MESSINA, JR., PROFESSOR OF ECONOMICS, UNIVERSITY OF FLORIDA, GAINSVILLE, FLORIDA**

Mr. MESSINA. Thank you, Mr. Chairman. I appreciate the opportunity to be here, and I have lengthier comments that I would like to enter into the record.

Senator THOMAS. They will be.

[The prepared statement of Mr. Messina appears in the appendix.]

Mr. MESSINA. In 2002, U.S. agricultural exports to Cuba totaled just under \$140 million, placing Cuba in the top 50 most important agricultural export markets for the United States. U.S. shipments to the Cuba include a wide range of commodities, although soybean products, poultry, wheat and corn make up about 90 percent of the total value of what we send.

The Cuban Government is able to earn hard currency for a portion of their products purchased from the United States through their sale in dollar stores, where all transactions are conducted in hard currency. Our research estimates that the hard currency cost of Cuba's imported food products is offset by cash sales of food in Cuba.

Sales of food products, as well as non-food items in the dollars stores, represent the most important method for the Cuban Government to gain access to the estimated \$1 billion that Cuban Americans send to their families in Cuba each year.

The value of U.S. agricultural exports to Cuba for the first 6 months of 2003 is nearly 40 percent ahead of the value for the first 6 months of last year. However, shipments in June of 2003 were well below the levels of June a year ago, indicating a possible slowing of trade flows.

Furthermore, because of Cuba's overall economic situation, the total value of the U.S. exports to Cuba for 2003, in the end, may not be that much larger than 2002.

Our work in the early 1990's projected that U.S. agricultural exports to Cuba could be as high as \$1 billion per year, and the sales of agricultural inputs could reach as high as another \$700 million. Some have argued that allowing credit sales to Cuba would significantly boost U.S. sales of agricultural products toward these lofty estimates.

However, that fails to take into consideration the realities in Cuba today. The Cuban economy is a shambles and it faces serious hard currency shortages as a result of its escalating trade deficits. As a result, Cuba is considered an extremely high credit risk in global financial markets.

Under such circumstances, my sense is that relatively few U.S. firms are going to be willing to issue open credit to Cuba. Therefore, if the United States were to allow credit sales to Cuba, the next step that I would anticipate is for U.S. firms to seek access to U.S. Government export credit guarantee programs for agricultural sales to Cuba, which I suspect would be a fairly controversial issue for discussion and debate here on Capitol Hill.

Business challenges and opportunities will arise for U.S. firms and Cuban entities as well from lifting of the embargo, whenever that may occur. No State in the Nation will be impacted more significantly than Florida from such a development.

This is particularly true for Florida agricultural, when you consider that Cuba's traditional agricultural production patterns and those of Florida are almost identical, with emphasis on sugar, vegetables, citrus, and tropical fruits.

Because the Cuban Government has dramatically decreased its emphasis on sugar production in recent years, their harvest last season was the lowest level in over 70 years, so sugar will not appear to be a particular contentious issue at present.

To put Cuba's winter vegetable production potential into perspective, consider that in 1989 Cuba had nearly twice as much acreage planted to tomatoes and cucumbers as the State of Florida, though their yields were only about a third of Florida's.

However, in recognition of Cuba's production potential, several foreign firms already have entered into joint venture arrangements with Cuban entities to produce vegetables and tropical fruits for sale to the tourist industry.

Significant foreign investment also has taken place in Cuba's citrus industry, where several foreign companies, most notably an Israeli group, have invested and provided important technological and marketing assistance to the Cuban citrus industry.

I believe that a resumption in United States-Cuba trading will fundamentally alter the structure of the fresh winter vegetable industry in the United States to a degree that has not been seen since the implementation of the NAFTA and the subsequent peso devaluation. Cuba will be eager to take advantage of every export opportunity under their current situation.

In summary, the issue of United States-Cuban trade and its impact on the U.S. economy, both now and in the future, is a very complex one, and is particularly sensitive for Florida agricultural.

At some point in the future, Cuba and the United States will once again be important trading partners. Because of Cuba's important agricultural production potential, I expect that agricultural products will be a principal component of that trade.

But we should recognize that unfettered trade with Cuba will not be salvation from the low prices being experienced by U.S. agricultural in the near term or the long term. Finally, the embargo is not the cause of Cuba's economic difficulties. The problem lies in Cuba's fundamentally flawed economic model.

The Cuban people understand markets and incentives, but until their economic system undergoes major adjustments to allow markets and incentives to operate more freely, Cuba will never reach its full production potential economically.

Thank you very much.

Senator THOMAS. Thank you.

Mr. Peters?

**STATEMENT OF PHILIP PETERS, VICE PRESIDENT,  
LEXINGTON INSTITUTE, ARLINGTON, VIRGINIA**

Mr. PETERS. Thank you, Mr. Chairman. I am honored to be with you today. I congratulate you on your perseverance, sticking through all these witnesses.

In my written statement I outline three practical ideas that I think are in the jurisdiction of your committee that I think would improve our policy towards Cuba.

That is, to lift the travel ban, to repeal Section 211, as my colleague here raised, and also the Helms-Burton law, which would give the President the flexibility that some of the administration witnesses say that they need for the President to implement the

policy of calibrated steps where, if Cuba will reform, we will ease our sanctions in response.

I would like to talk about engagement with Cuba in my oral presentation, and travel. We engaged with China before any of the economic reforms there began. It is true that China is miles ahead of Cuba today in terms of its economic performance, but we started there in 1972 our policy of engagement. It was later in that decade that any economic reforms began to appear in China.

In 1976, we signed under a Republican President the Helsinki Agreement in order to promote trade, travel, exchanges, and scholarships with the Eastern bloc, with all these basically Stalinist countries that had the Soviet state economic model in place.

The point was not that these countries had reformed. The point was that act was our expression of confidence that contact would open up those closed societies.

Fostering contact and free travel with Cuba is not a concession to Fidel Castro. It is a message of confidence in our ideals. It is really the basis of our influence, the movement of people from our free society to a place like Cuba.

What we have now is a bizarre process of highly regulated contact, regulated speech—and Mr. Larson here was talking this morning about how we promote a purposeful exchange of ideas.

Imagine the U.S. Government regulating what is purposeful speech and what is not purposeful speech in Cuba on the part of American citizens. What we have is an embargo on American influence.

We should have maximum contact. I want to see leftist extremists go to Cuba. I want to see right wing extremists. I want to see centrist Americans go to Cuba so the Cuban people can see the full range of our ideas and see that this is a government that does not regulate speech. Concretely, if we would end the travel ban, we would promote the flow of ideas into Cuba and the flow of information.

In response to Senator Bunning's question, there would be very concrete benefits. We would support the revenues and expand the ranks of the private entrepreneurs in Cuba that have been in place for 10 years now that are overly regulated, unfortunately, but many of them do make a very good living as artists, as taxi drivers, as private restaurateurs, people who rent rooms in their homes. They make revenue from foreign tourists. Believe me, they want to see Americans come. They want more customers.

These are people who are independent, who are learning about markets. They have little private enterprises. We should encourage that, but we do not need a government program to do it. We should just give Americans the freedom that they are entitled to.

If we end the travel ban, we will also increase the amount of revenue that Cuba has with which to buy American agricultural products, and we would also be promoting fairness because, in conclusion, my final comment, Mr. Chairman, in addition to respecting the rights that Americans should have to travel freely, we would end the situation where this travel ban is enforced against your constituent, it is enforced against Senator Baucus' constituents, against Senator Grassley's, but it is not enforced—and the Treasury Department has been asked and has never provided informa-

tion—against Cuban Americans, who are the group of Americans who do the most travel to Cuba. That is absolutely un-American, in my opinion, to have a law that regulates travel and is not applied equally in its enforcement to all Americans.

Thank you.

[The prepared statement of Mr. Peters appears in the appendix.]

Senator THOMAS. Mr. Reinsch, a number of the witnesses have said that there really is no potential market, that the idea of opening that up and it would be a great commercial activity just does not exist. How do you react to that?

Mr. REINSCH. Well, I think it depends on how you measure. I think that Dr. Falcoff, in the previous panel, referred to single-digit growth. In today's economy, even single-digit growth is a significant element.

We have a number of our members who are very interested in business opportunities with Cuba. And not only agricultural. Our association is primarily not agricultural businesses, but people in construction and construction equipment, retail, banking, a whole variety of industries. Telecommunications would be a classic example.

I do not think that you are going to see enormous developments overnight. I think Dr. Falcoff's comments about the state of the Cuban economy, in general, are on target.

While we are trying to start a process of growth, historically it has been a significant market for us. I think, historically, it has significant potential, but you have to measure that potential in terms of years. The short-term opportunities are limited, but there is no question that there are some of them that are there.

Senator THOMAS. Mr. Owen, I certainly agree with you on agricultural. The fact is, we can sell agricultural goods now, can we not?

Mr. OWEN. Yes, we can. It is a limited cash basis and it has been explained by people who have been on the panel. If I was to give you \$10,000 today and ask you, what would you do with it, you would never think of buying more food, would you?

I have asked hundreds of people that question, the people that we do business with all around the world that we sell grain to. They do not ever say they want to buy more food. So, we need to start dealing with countries who do have the money and do want to buy more food, because my wheat has only value today because it has an export price that consumers are willing to pay. Consumers are not willing to pay any more money for food today than they have in the last 10 years. That is why wheat is still \$3.50.

Senator THOMAS. It is pretty clear that our growth opportunity market is in the Asian market, not in Cuba, in terms of volume.

Mr. OWEN. That is true. I think the Latin American countries that we can deal with, if the Americas were tied together, if we could trade in the Americas, we would open up a whole new market and a whole new, different realm.

Senator THOMAS. I was at the White House yesterday and we signed an arrangement with Chile. We will be meeting in Cancun, Mexico next week. So, I guess my point is, it seems like everyone we are dealing with is different than Cuba.

Number one, most of them are willing to do a little something and give a little something. I agree with you. I think we need to open them up. Then we talk about China, talk about Russia. They gave some ground through the years. As far as I can tell, Cuba has not.

Now, the gentleman who was in the embassy seemed to think they had, but frankly most of us do not think that Castro has given much. It is just an opinion I have.

What is, generally, the point of view in Florida? We seem to think that Florida, particularly Miami and Cubans there, are one of the strong influences in terms of our Cuban policy. How do you see that down in Florida?

Mr. MESSINA. As an agricultural economist and not a political scientist, I am a little cautious about going too far out on that particular limb. I think the Florida business community has very diverse views on the issue of resumption of trade with Cuba.

Certainly, the ports are very eager to begin trade with Cuba. In fact, some of the shipments that Cuba is receiving now from the United States are coming in to those ports.

I think mainly the service industry feel that there is the potential for financial transactions, although perhaps limited in these early stages. Florida agricultural. Some are cautiously optimistic. Some are concerned about the increased competition.

But I think everyone recognizes that, for the State of Florida, the implications of the resumption of trade are particularly significant. At this point, the progress and commodities that Cuba is importing from the United States are heavy in grain, which are not Florida's main crops at this point, a huge issue under the present conditions.

Senator THOMAS. Interesting.

Mr. Peters, you spoke of change. Do you think there can be change as long as this regime is in place?

Mr. PETERS. Well, there has been some. I agree with your perception of President Castro. He is not an economic reformer at all. He took certain steps, and important steps that made a big difference in Cuba. They improved the livelihood of a lot of Cubans. The reforms of allowing foreign investment, the small entrepreneurship, allowing farmers to sell their surplus. They have got farmers markets all over the country where prices move by supply and demand. They are all important. Cuba has not generated the jobs that they need. It is a real tragedy because it is a country of very talented people, very energetic people.

So, it is a country that I think has a long way to go, and market reforms would help. I think that the countries that are doing business there now are starting a process of change. They are not there with an explicit political agenda, Senator.

But those joint ventures that do business there now, they are teaching their workforce how to work with modern businessmen, how to market to the world at large. Those are positive things that are going to stand Cuba in good stead in the future.

If I could make one extraneous comment, Senator. You raised an issue involving one of your constituents and travel to Cuba. With all due respect to Mr. Larson who was here earlier, I think his answer was a little bit incomplete.



You raised the issue of a constituent of yours who was not able to travel to Cuba because they cannot get a license. What the State Department has done, has been to eliminate the category of educational exchanges that have a people-to-people component.

So your constituent is probably facing the fact, not just that they are unable to get a license because their trip is not properly structured, but this category, which is the category under which most Americans not of Cuban descent have traveled there, where you have educational purpose and people-to-people contact, has been eliminated. That, I am quite certain, is what your constituent is facing.

Senator THOMAS. It is interesting going to the gas station in Wyoming and running into the person who runs one of the biggest hotels is Cuban. He is the person who has been making these trips. There are quite a few people interested in Wyoming, of all places.

Well, gentlemen, thank you so much. The record will be open until Wednesday. There may be some questions sent by members to you, and we would like to have you answer those. So, thank you again for your participation. We appreciate you coming.

The hearing is adjourned.



## APPENDIX

### ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

#### PREPARED STATEMENT OF HON. GRANT D. ALDONAS

Mr. Chairman, it is an honor to appear before the committee to discuss the Department of Commerce's role in the United States-Cuba relationship. Mr. Chairman, this Administration, as US Larson has already testified, has followed the United States' longstanding, consistent policy with respect to Cuba; a policy pursued for more than 4 decades by Presidents representing both political parties. That policy has and continues to seek a free, democratic Cuba that respects human rights and the rule of law. Clearly, that has not happened. As President Bush has stated:

The sanctions the United States enforces against the Castro regime are not just a policy tool, but a moral statement. It is wrong to prop up a regime that routinely stifles all the freedoms that make us human. The United States stands opposed to such tyranny and will oppose any attempt to weaken sanctions against the Castro regime until it respects the basic human rights of its citizens, frees political prisoners, holds democratic free elections, and allows free speech.

The Cuban Government continues to violate the fundamental civil and political rights of its citizens. Recent arrests of over 100 pro-democracy advocates, sentencing 75 of them to up to 28 years in prison, alone constitutes the most severe crackdown on Cuban dissidents since 1959, marking a deterioration in Cuba's human rights policy. The international reaction to this has been one of outrage. Many have joined the United States in promoting political freedom in Cuba.

Under Secretary Larson has described the Administration's political and economic engagement with Cuba. I plan to spend a few minutes discussing the Commerce Department's role within that larger relationship.

#### *Embargo Overview*

Cuba is one of seven countries designated by the Secretary of State as a sponsor of international terrorism. Cuba, along with Iran, Libya, and Sudan, is also under a comprehensive embargo. The embargo dates from 1962, when President Kennedy issued Proclamation 3447.

In implementing the embargo, the Department of Commerce controls exports to Cuba. The Bureau of Industry and Security (BIS) within the Commerce Department is the export licensing agency. The Treasury Department has established a general license for transactions incident to exports authorized by Commerce.

Both the Cuban Democracy Act of 1992 (the CDA) and the Cuban Liberty and Democratic Solidarity Act of 1996 (the "Liberated Act") increased the restrictions on trade with Cuba. For example, the CDA imposed new restrictions on vessel-related transactions, but also includes provisions for allowing exports in support of the Cuban people, such as:

- medicines and medical devices;
- low-level telecommunications equipment for the international gateway; and
- items for news bureaus and groups that promote democracy.

While such exports are permissible, they require an export license issued by Commerce.

In January 1999, the U.S. Government initiated case-by-case licensing of sales of food to nongovernment organizations in Cuba. Congress expanded this in late 2000, with the passage of the Trade Sanctions Reform and Export Enhancement Act (TSRA). The TSRA expanded what was eligible for export from food to a wide array of agricultural commodities, including food for people and animals, and items such as livestock, beverages, wood, and tobacco. It also allows sales to government orga-

nizations. Additionally, the TSRA requires an expedited export review process, instead of the standard export licensing procedures set forth in Executive Order 12981 (which provides up to 39 days for initial interagency review).

In addition, section 908 of TSRA prohibits the United States Government from providing "export assistance" for "exports to Cuba." We have determined that this includes export promotion activities of the Department of Commerce.

Commerce and Treasury, which also has responsibilities under the TSRA (for Iran, Libya, and Sudan), published implementing regulations in late July 2001.

The number of licenses issued for exports to Cuba is historically low. In 2000, the last full year before TSRA went into effect, the Commerce Department approved 318 cases with a total value of \$479 million. The three largest categories of cases were as follows:

- 71 of 318 cases were for medical donations. These were valued at \$235.9 million, or 49 percent of the total for the year;
  - 53 cases were for medical sales, with a total value of \$35.6 million; and
  - 41 cases were for consolidated gift parcels, with a total value of \$145.6 million.
- Because there is no mail service between Cuba and the United States, family members in the United States send gift parcels to their family members in Cuba through consolidators. The value of these individual parcels is limited to \$200 each, and they cannot ship more than one per month.

The value of these approved licenses may sound high, but it is important to note that when an exporter seeks Commerce authorization, he/she estimates the volume and value for shipments for a two year period—the valid time for a Commerce export license. An exporter cannot ship above that number once he/she receives authorization.

It has been our experience, based on monitoring export trade statistics, that what is actually shipped is dramatically lower than what is authorized. While the total value of export licenses in 2000 was \$479 million, what was actually shipped in that year, based on export data published by the International Trade Commission, was valued at only \$6.7 million, corresponding to only one percent of what was authorized.

The number and value of Commerce authorized cases has increased since implementation of TSRA. Last year Commerce approved 688 cases with a total value of \$2.1 billion.

TSRA-eligible commodities account for the vast majority of these authorized exports, accounting for 44 percent of the cases (306 out of 688) and 76 percent of the value (\$1.6 billion of \$2.1 billion). The two other top categories of authorized exports were:

- 165 of 688 cases for items for a Food and Ag Expo held in Havana in late September 2002, valued at \$11.9 million. These were a mix of permanent and temporary exports, for all items needed at the Expo, ranging from displays to food samples to trash bags; and
- 49 of 688 were for consolidated gift parcels, valued at \$257.1 million.

These numbers may be surprisingly high, but approvals are consistent with all statutory requirements. All cases, TSRA and non-TSRA, undergo close scrutiny not only by the Commerce Department but also the State and Defense Departments as well.

We know from actual shipment data that U.S. exports to Cuba in 2002 were much lower than what was authorized. Total U.S. exports were \$144.4 million, of which almost all—\$138.2 million—was for agricultural products. This agricultural value corresponds to about 8½ percent of what was authorized under TSRA.

As cited earlier, part of the reason for the difference in the statistics is that what is authorized is based on estimates, while the actual numbers are based on collected export data.

#### *Conclusion*

The Administration is implementing the TSRA program. To be eligible for the TSRA program, the Cubans must pay cash in advance. The Cubans have made cash payments, but only by defaulting on loans to other countries, most notably to France and Spain. It is questionable how long Cuba will be able to afford to make cash purchases from the United States, to the financial detriment of its major trading partners.

Cuba has a very limited potential as a market under a command and control system. As such, Cuba's bankrupt economy will not attract U.S. agricultural goods until its government adopts political and economic reforms. Abandonment of Cuba's Stalinist-inspired system is key to creating a consumer base that would sustain a mutually beneficial trade relationship between the United States and a free Cuba.

## PREPARED STATEMENT OF HON. MAX BAUCUS

Next week, trade ministers from around the world will convene in Cancun as part of the Doha Round of World Trade Organization (WTO) negotiations. This is a very important meeting because it will mark the progress made so far on a range of priority issues, such as agriculture, health, and trade-related aspects of intellectual property rights (TRIPS). The meeting, and the Doha Round, also serve as a reminder of how far we have come in our effort to secure a more peaceful and prosperous world through economic integration.

The global trading system is a work in progress and there are many problems and disputes to resolve. Yet, most trade debates are no longer about whether to integrate countries into a global economy. Instead, debates more often focus on how to integrate the global economy.

For those of us who believe in engagement across international borders, this is a significant accomplishment. Nevertheless, as we reflect on this accomplishment, we must also note a glaring contradiction in U.S. policy. This contradiction is the U.S. embargo of Cuba.

Begun in 1960, the Cuban embargo was originally conceived as a means to win compensation for Americans whose assets in Cuba had been nationalized. Since then, proponents of the embargo have also argued that the embargo is necessary to force Cuban President Fidel Castro out of power and end his abuse of the Cuban people. By either standard, the embargo has been an utter and resounding failure.

Rather than punish Castro and weaken his hold on power, the embargo has had the opposite effect. By insulating the island from U.S. influence, the embargo has given Castro the free rein he needs to assert complete control over his country. Thus, as the rest of the former Soviet bloc re-enters the global community, the Cuban people remain mired in isolation and neglect.

Of course, the embargo hurts not only the Cuban people, but the American people as well. The International Trade Commission has estimated that, in the absence of sanctions, U.S. exports to Cuba could grow to more than \$1 billion. Meat exports from the U.S. could be as much as \$76 million, while wheat exports could be as much as \$52 million. These revenues would be welcome relief to a rural America in economic crisis. But the damage goes beyond agriculture. It hurts other industries as well, such as manufacturing, services, and, of course, tourism.

Common sense suggests a reevaluation. Wisdom demands reform. As we look ahead toward a better Cuba policy, some will note that Cuba offers a relatively small market. And, in comparison to our larger trading partners, this is true. Yet, Cuba is just as big and offers even greater potential than other countries with whom we are engaged in free trade negotiations. For example, Cuba, a country of more than 11 million people, is larger and closer than Bahrain, a country of only about 700,000. Cuba is also larger and closer than four of the five countries in the Southern African Customs Union.

Yet, the U.S. is now engaged in the arduous and time-consuming process of negotiating a free trade agreement with each of these other countries. In contrast, the U.S. can open economic relations with Cuba with the mere stroke of a pen. No negotiations. No drain on our negotiating resources. Just a single act to end this failed embargo.

The U.S. would see an immediate and genuine economic benefit. Just as importantly, the Cuban people would see an immediate and genuine benefit, as well. Will lifting the embargo cure the economic crisis in rural America? No. But it'll sure help. Will lifting the embargo solve all of the problems of the Cuban people overnight? No. But it's the only way to start.

As we look across our borders into the world, we see a host of problems—whether it's in the Middle East or in our own region. And these problems affect us here in the United States. We neglect our neighbors at our own peril.

President Bush understood the importance of international engagement when he sought a renewal of trade negotiating authority. Last year, upon signing the Trade Act of 2002 into law, the President remarked:

"Free trade is also a proven strategy for building global prosperity and adding to the momentum of political freedom." He added: "Greater freedom across borders eventually leads to greater freedom for citizens *within* the borders."

I couldn't agree more.

That's why, this past February, I introduced the 5.403, "United States-Cuba Trade Act of 2003," which would repeal the trade embargo. It's also why I helped author 5.950, the "Freedom to Travel to Cuba Act of 2003", which would repeal the ridiculous travel ban. This bill has already gathered 28 sponsors. I expect the list of co-sponsors to grow because Congress is finally realizing that the time has come

to embrace a new approach to Cuba. The old way hasn't worked. It's time for a change. It's time to end the embargo.

---

PREPARED STATEMENT OF HON. JIM BUNNING

Thank you, Mr. Chairman.

I would like to welcome our guests to the committee today. We appreciate your willingness to share your observations and expertise with us.

Over the years, the American people and the Cuban people have shared a special relationship. The Cuban people are the friends of the Americans. We support their rights to self-determination through democracy and to the basic dignities due to all human beings.

One of today's witnesses referred to the American economic embargo of Cuba in his written testimony today as "merely symbolic". If that is the case, a contention with which I am disinclined to agree, then I assert that it is an important symbol. The human rights abuses and the suppression of human rights by the Castro regime are indefensible and unacceptable.

Even if, as some may contend, the American embargo has largely only symbolic significance due to the failure of most of the rest of the world to join us in our attempt to stand up for the rights of the Cuban people, I contend that it is imperative that we, as the beacon of freedom in the world, make that statement. It is vital that America be the world leader in defending our friends, the citizens of Cuba, by publicly stating that the totalitarian regime of Fidel Castro is unacceptable. It was unacceptable 40 years ago and it is unacceptable today.

We must continue to make the statement that America will not—in any form—support a regime that oppresses the good people of Cuba.

I have a number of questions and I am looking forward to hearing your responses. Thank you.

---

PREPARED STATEMENT OF DR. MARK FALCOFF

Senator Grassley and distinguished members of this committee:

I appreciate very much the opportunity to discuss the important subject of U.S. relations with Cuba with you. This is a matter that has been of interest to me for many years, having taught the history of Cuba at various American universities and most recently published a book on the country's future (and the future of its relations with the United States) entitled *Cuba the Morning After: Confronting Castro's Legacy*. Naturally I commend it to you.

The Cuba issue is an emotional issue. It is also a highly controversial one, because so many members of the Cuban refugee community in the United States feel, I think with justification, that their sufferings have been ignored or misunderstood by our political and media elites. The question before us, however, is not whether the Castro regime is good or bad, but what policies are likely to advance our purposes—not just the purposes of the United States, but those of the Cuban people and the democratic international community generally.

I say this because there is an unfortunate, and I think false dichotomy based on those who favor, and those who oppose, the forty-year old U.S. trade embargo. The embargo is more a symbol than a reality. It leaks like a sieve. For one thing, Castro is able to obtain almost everything he needs from other countries. For another, he is the beneficiary of millions of dollars sent by Cuban-Americans to their families on the island, which he vacuums up through special hard currency stores that sell products at three times their market price in neighboring Caribbean countries. For yet another, more than a hundred thousand Americans go to Cuba each year, most of them legally—Cuban-Americans who are permitted under existing regulations to visit their families. Presumably they bring in additional dollars clandestinely.

Lifting the embargo is not going to change the political situation in Cuba, just as the embargo itself has done little or nothing to loosen Castro's hold on power. Embargo or no embargo, I do not expect that situation to change as long as Fidel Castro is at the helm, which he may be for another decade or more. It may not even change after he is gone. But ending the embargo *would* position the United States more favorably in terms of world public opinion, and allow us to enlist greater support from other democratic countries on the subject of human rights in Cuba.

As things stand now, it is Castro who benefits the most from that embargo, so much so that I honestly think his greatest nightmare is that some day it might be lifted. First of all, it permits him to drape himself in the flag of Cuba nationalism. Second, it allows him to represent the United States rather than his own odious po-

litical and economic system as the first cause of Cuban poverty and backwardness. And third, it allows him to attract political sympathy far beyond the boundaries of Latin America. I was a delegate to the 59th session of the UN Commission on Human Rights Commission in Geneva this last spring, and I can tell you that the Cuban influence in that body is far, far out of proportion to its size or geopolitical weight. It is due to the role into which we have unwittingly cast that country, as the first victim of U.S. "aggression" and "bullying". Without victimhood, Castro has nowhere to go and cannot explain himself regime to his people or to the outside world.

There are many who imagine that the embargo also imposes serious economic costs on the U.S. economy, and very specifically on the U.S. farm economy. I presume that is what has partly inspired this hearing today. I have bad news for such people.

Cuba is not, and is not likely to become, an important market for U.S. agricultural exports, or indeed U.S. exports of any other kind any time soon. Cuba is a tropical island that once achieved great prosperity as the result of a special arrangement that allowed it to sell its sugar harvest at a subsidized price to the United States. That arrangement ended some forty years ago when the Cuban quota was divided up among forty other countries. Meanwhile, the Cuban industry has fallen into ruins. Thanks to neglect of physical plant, the inability to purchase spare parts from former Eastern European sources, a demoralized labor force, and excessively politicized management, the dictator was forced last year to close nearly half the country's mills. The most recent harvest was the smallest in more than seventy years.

There are, to be sure, other economic activities on the island. Today tourism is the number one earner of hard currency, followed by nickel, tobacco, and biomedical products. None of these, however, are likely to produce the kind of resources needed to restore Cuba to the status of a major Latin American market such as it was in 1958.

The most important of these is tourism. Because of the U.S. embargo most visitors presently come from Canada, Europe or Latin America, a little less than two million each year, from which Cuba grosses roughly \$2 billion. By 2010 Cuban officials expect to receive some 10 million tourists each year—roughly five times the number who visit presently—spending \$5 billion. This projection is based on all kinds of optimistic notions—not merely the lifting of the U.S. travel ban, but an unprecedented flood of foreign investment. It also assumes that overseas participants in joint ventures will feel comfortable with the welter of curious regulations and restrictions that currently shape (or rather, misshape) the Cuban economy.

It is also based on the assumption that Cuba's hotel infrastructure will be able to expand rapidly enough to meet this demand, and that its deplorable food service will somehow improve. And finally, it blithely dismisses the competition will Cuba already faces elsewhere in the circumCaribbean, particularly in Mexico, whose infrastructure is infinitely more sophisticated and whose menu of attractions is far complex and interesting.

According to Cuban official estimates, the island retains 22 cents of every tourist dollar. If true, the figure compares favorably with Barbados, which claims to keep 19. But since Barbados has a small business sector and some productive agriculture, it seems unlikely. Assuming, however, the Cuban official figure is correct, this means that if the island grossed \$5 billion in tourism each year, it would have about \$4 billion to spend on inputs, including, obviously, agricultural products to feed the visitors. This would put it roughly in the same category as the Dominican Republic, with roughly a third of Cuba's population, actually purchases \$400 million more than that.

So the notion of Cuba's tourist industry fueling an export boom for American agricultural producers can only taken seriously if one is willing to stack a series of improbable best-case scenarios one against the other.

In any case, we are not in 2010 yet. As of today, Cuba is broke. Indeed, it is more than broke. It is living on arrears, that is to say, the obligations it is not paying to its other creditors. Its per capita foreign debt is one of the highest in the world—\$3,000, only \$500 less than Argentina, a country many times its size in terms of natural resources and human capital. The cash Castro is presently sing to buy U.S. foodstuffs is being diverted from other obligations to Japan, France, Holland, even to Colonel Chavez's Venezuela.

Castro's game here is obvious. Having defaulted on obligations to creditors in Eastern and Western Europe, Japan and Latin America, his last ploy is to run up a huge bill with the United States, on which in time he will also default. This is assuming that he can persuade you gentlemen to grant him lines with the Com-

modity Credit Corporation, so that the rest of us taxpayers can pick up the bill five or ten years from now.

To be sure, Cuba needs American agricultural products. Some estimates put as much as 20 percent of the population on the ragged edge of starvation. This is so because Castro refuses to allow sufficient free market incentives in the agricultural sector, not because Cuba does not have the potential to feed itself.

Thanks to fifty years of Communism, Cuban living standards today more-nearly resemble those of Africa than Latin America. And like Africa, it needs humanitarian assistance, including food aid. I think many of our purposes would be better served by appropriating, say, half a billion dollars each year to purchase agricultural products outright which could be distributed to the Cuban people free of charge by the Catholic church and other recognized humanitarian organizations. We might even invite the Cuban-American community, which has done so much to look after its own in the United States, to participate in this effort.

This would give the lie to the notion that the United States is trying to starve the Cuban people because we do not like their political regime.

It is true that Fidel Castro might well reject such aid. He has already stated that Cuba “does not need” and “will not accept” European assistance, except on his own terms. I think, however, the offer should be made seriously and in good faith. Let him explain to his own people why *his* pride, *his* principles, *his* sovereignty, *his* dignity, demand that *they* should go hungry.

---

PREPARED STATEMENT OF HON. CHARLES E. GRASSLEY

I'd like to begin by welcoming our witnesses to today's hearing on United States-Cuba economic relations. I look forward to listening to their testimony. Today's hearing is on a topic that is currently generating much interest. U.S. economic policies toward Cuba are designed to isolate and weaken the repressive regime of Fidel Castro. Some in the Senate now question these policies. They point out that, despite four decades of sanctions against his government, Castro remains in power. They also contend that U.S. farmers and businesses are losing trade opportunities in Cuba to their counterparts in other countries.

Other senators believe that now is not the proper time to change U.S. trade policies. After all, Castro's repressive government still controls Cuba and, notably, human rights abuses in Cuba have become even more egregious during the past year. These senators contend that lifting trade restrictions will in effect reward Castro for his actions. Support for easing restrictions on trade is pronounced in the U.S. agricultural community. Cuba is welcomed as a new export market for U.S. agricultural products. As a senator from Iowa, I understand these views, and over the years I've backed efforts to lift restrictions on the export of farm goods to Cuba. For example, I supported a provision in the agricultural appropriations bill for Fiscal Year 2001 that permits the sale of agricultural goods and medical supplies to Cuba. I also backed a provision in the Senate's 2002 farm bill to repeal the prohibition against U.S. private financing of agricultural sales to Cuba. At the same time that I've worked to expand trade with Cuba, I've advocated continued pressure on Castro's regime for democratic change.

While I favor easing restrictions on agricultural exports to Cuba, I admit that I have questions as to just how much U.S. farmers and ranchers will actually benefit from trade with that country. It's my understanding that Cuba is not always a good customer. I look forward to comments from the witnesses that will address this issue. Moreover, while I'm in general convinced that expanded trade—and especially agricultural trade—will benefit both the American and Cuban people, the current political situation in Cuba greatly complicates efforts to reach this goal. Castro's brutal disregard for democracy and human rights was clearly demonstrated again this year. Beginning in April, some 75 Cuban advocates for freedom were arrested, subjected to summary trials, and sentenced to prison. Amnesty International characterized this year's crackdown as the worst since the early days of Castro's regime. In addition, following a summary trial, three Cubans were executed in April for commandeering a ferry in an attempt to reach the United States.

The Senate acted quickly to condemn Castro's human rights abuses. Yet the question remains as to whether U.S. economic restrictions should be further eased at this time. Undoubtedly, Castro's repressive measures of the past few months will influence discussions here in Congress on this subject. I'm hopeful that today's hearing will make a useful contribution to these debates.

---



## PREPARED STATEMENT OF AMBASSADOR DENNIS K. HAYS

Thank you Mr. Chairman, I appreciate this opportunity to appear before you and the Committee to discuss United States economic policy toward Cuba.

The United States and Cuba are close neighbors and have historically been friends. In years past, both nations enjoyed a healthy two-way flow of goods and services. We at the Cuban American National Foundation look forward to the day when United States-Cuba relations are again robust and mutually beneficial. That day will come when the Cuban people regain control of their lives and their destiny, when they have a government that protects their rights, and when they live in a nation that recognizes private property and encourages individual initiative. It will be in our national interest to engage such a Cuba. It is very much against our national interest, however, and would be a crushing blow to the Cuban people, if we ever were to seek to engage the current repressive regime while it refuses to reform or relax its grip on power.

I am confident there is agreement in this room as to what we all would like to see happen in Cuba—we would like to see the Cuban people liberate themselves from the tyranny of a failed regime and come to enjoy the same freedoms and opportunities we cherish. We would like Cuba to be a prosperous democracy rather than a bankrupt dictatorship. We would like to see Cuba be a supporter in the war on terrorism instead of a haven for fugitives from U.S. justice and home to an alphabet soup of terrorist and narco-terrorist organizations. And we would like to see Cuba again be a good trading partner for the United States, able to buy—and pay for—our goods.

What we would like to see is not in question—how we help the Cuban people achieve this vision very much is. Mr. Chairman, I welcome this hearing because it is vital that at this crucial time we act only after submitting new ideas and proposals to a rigorous review and a full debate.

Regrettably, we know from experience that good intentions do not always lead to good policy—especially when proposals are based on unproven assumptions. In this vein, I would like to address four examples of how a lack of critical thinking could lead us to make mistakes that would hurt American business and extend the misery of Cuba's eleven million people.

*TRAVEL*

A key underpinning of many proposals to lift all or part of the embargo is a belief that trade and travel have the power to undermine repressive regimes and promote democracy. Would that this were so! Sadly, there is not a shred of evidence that this has ever been the case anywhere at anytime in history. On the contrary, it is clear that failed regimes place perpetuation of their own power above real economic and political reform for as long as anyone is prepared to engage them on their terms. Since Cuba lost its massive Soviet subsidies in 1989, the island has been open to trade and investment from all over the world. Over ten million tourists from Europe, Canada, Latin America, and the United States visited the island in the last decade alone. In fact, from 1990 to 2002, 1.3 million U.S.-based visitors have traveled to Cuba, 37% not of Cuban heritage. This has allowed Castro to keep the economy in survival mode while diverting all available resources to maintain his repressive apparatus and allow the nomenklatura to take control of the selective opening to crony capitalism. Cuba has generated over \$15 billion U.S. dollars in tourism alone from 1990 to 2002. To make sure it secures these resources, the regime has created a sophisticated conglomerate of enterprises, led by high-ranking members of the military and state security, to control and service the tourist industry, capturing its economic benefits and minimizing any dispersion effect. As a result, the average Cuban has not been empowered, but rather further marginalized by targeted reforms. The result is stark—foreign participation under the regime's conditions has helped Cuba avoid implementing needed economic or structural reforms that would represent at least some economic empowerment for the people of Cuba and set the economy on a course of sustainable recovery.

Advocates of "freedom to travel" to Cuba should give some thought to the Cuban regime's practice of denying visas to hundreds if not thousands of individuals and groups. The Red Cross can't go to Cuba to undertake the sort of inspections it does everywhere else in the world—nor can the UN Special Rapporteur, Amnesty International, Human Rights Watch, or Reporters without Borders. Journalists and academics critical of the regime rarely are allowed back into the country. Even Members of the United States Congress are blocked from going to Cuba to see the country for themselves. The Cuban regime gets away with this outrageous behavior because it is not called to account. I respectfully encourage every Congressional Dele-

gation that goes to Cuba to include one or more representatives from banned human rights groups. Only in this way will the regime be forced to open up.

In a related area, the regime charges Americans and Cuban-Americans exorbitant fees to travel to Cuba (\$70 for a visa). To put this in terms of the Cuban economy, this is equivalent to seven months of the average wage of Cuban workers. In addition, it requires U.S. citizens born in Cuba who emigrated after 1970 to obtain a Cuban passport, charging between US\$148 and \$280, depending on diverse criteria. In fees alone, U.S. travel to Cuba is netting the Cuban Government an estimated at US\$54 million a year in visa and passport fees, airport departure taxes and customs duties imposed on gifts for relatives. Similarly, Cuban citizens who obtain visas to visit or emigrate to the U.S. are charged even higher fees, paid by their relatives in the United States. In other words, the Cuban regime seeks every opportunity to take economic advantage of even our limited engagement.

Finally, we often hear that even if tourism doesn't promote democracy, it is at worst a "victimless crime" and that Americans' rights are being unduly restricted by our current policy. Each right, however, has a corresponding responsibility. Does the right to travel outweigh the responsibility to not gratuitously injure others? There has been far too little public discussion about how Cuba's tourist industry functions—and the role well-meaning but clueless tourists play in that industry. What responsible American would want to visit a country whose citizens are systematically denied access to hotels and tourist areas, a hated practice known as tourist apartheid? Do tourists care that hiring at hotels in Cuba is the monopoly purview of the state and that there is blatant racial discrimination against Cubans of African origin? Do visitors know that foreign companies pay the Castro regime, not the individual worker, for services rendered and that the regime keeps over 95% of the worker's wages—in direct violation of numerous International Labor Organization (ILO) standards? Is it worth noting that most tourist companies are run by, and are for the benefit of, the military and secret police? Does the fact that Cuban citizens are forbidden by law from criticizing the regime to foreigners strike anyone as significant? Is this what American travel agents want to be a part of?

Freedom has never been a byproduct of big tipping sunbathers. Freedom comes from the efforts and sacrifices of brave men and women who stand up to tyranny and demand their rights.

#### *TRADE AND INVESTMENT*

With respect to trade and investment, there are still some who believe that American farmers and businessmen and women are missing out on opportunities in Cuba. Even a cursory attempt at due diligence, however, reveals how mistaken such a belief is. Cuba is not, under Castro, a great market for United States goods and services. Cuba ranks with Haiti in GDP per capita. Recent agricultural purchases have been financed with monies owed to other nations. Cuba is in default on practically every loan it has ever taken. Cuba is in default to Russia, the European Union, its Latin American neighbors, South Africa, the nations of Asia, and two-thirds of the members of NAFTA. In fact, about the only country in the world without recent bad debt is the United States. As the International Trade Commission reported in 2001, "Cuba stopped payment of all its foreign commercial and bilateral official debt with non-socialist countries in 1986. Because U.S. financial institutions were prohibited from financial dealing with Cuba, there was no U.S. exposure to Cuba's foreign debt moratorium." Thanks to our embargo, the American taxpayer has not had to bail out any American business or bank shortsighted enough to ignore the record and take a risk on Castro. There may be countries in the world poorer than Cuba, but no nation this side of North Korea works as hard to stifle individual initiative or to minimize the meaningful participation of its citizens in business activity. In Cuba, private property, the sanctity of contracts, free labor unions, and an independent judiciary are all alien concepts. For these and many other reasons, the Cuban economy under the Castro regime cannot and will not provide attractive trade and investment opportunities for U.S. business.

And it gets worse—foreign corporations that want to do business in Cuba do so on Castro's terms—or not at all. This makes foreign investors complicit in a host of unsavory business practices. Independent labor and human rights' groups ranging from Amnesty International to the International Confederation of Free Trade Unions have documented these abuses exhaustively. Although Cuba has long been a signatory to key ILO conventions, Castro's regime ignores practically all of them. Foreign businessmen and women are expected to not only comply with rules that deny Cuban workers their rights, but to inform on any worker who complains. Fortunately, international law is catching up with such predatory behavior. Corporations that choose to violate labor and human rights are trading short-term profits for a long-term liability. Aggrieved citizens across the globe are taking companies

that collude with corrupt and dictatorial rulers to court—and they are winning. No longer can foreign corporations escape responsibility for their actions by claiming they were in compliance with local law, knowing full and well that such laws were in violation of international standards. Again, our insistence that Cuba reform before we lift the embargo has saved shortsighted American businesses from investing in decades worth of liability.

#### *NEXT STEPS*

Castro understands that to remain in power he must continue to exercise control over all aspects of each individual Cuban's life. Thus, reforms that would seem logical, even compelling, to us—such as allowing small businesses to be established, permitting labor unions to form, freeing farmers to plant and sell the crops they want—can never be permitted under Castro's system. Over the past year, we have seen this brutal logic played out again and again. In January, the regime began a systematic effort to arrest, harass, and put out of business thousands of small entrepreneurs—the very men and women who could best generate employment and living wages. This was followed in March by an island wide crackdown on dissidents of all types—journalists, librarians, economists, and especially regional leaders of the Varela Project, a grassroots effort to promote democratic change. Finally, three young men whose only crime was to dream of a better life were executed by firing squad after a one day trial. The message is clear; the Castro brothers have no intention of allowing even marginal political or economic reform to take root.

So what can we do? First, we must continue to make it clear that we side with the Cuban people and against the regime that oppresses and impoverishes them. We must also continue to enforce our economic sanctions. The embargo restricts the flow of resources to a recalcitrant regime and exerts constant pressure for reform. It is important to remember, however, that the embargo is a policy tool, not a policy. It is a means to an end. It is also a valuable bargaining chip for the day when Cuba chooses or is forced to accept real economic and political reform. Next, we should work with our European and Western Hemisphere allies. In recent months the nations of Europe have taken decisive action to express their displeasure with the regime. Italy has suspended further governmental aid. Major foundations, such as the Prince Claus Fund of the Netherlands, have withdrawn support for cultural events. The nations of the EU are now inviting human rights activists to Embassy functions (as the U.S. has for some time) even though this results in a boycott by regime officials. And, of course; all nations are turning away from throwing further investment down the bottomless pit that is the Castro regime. Over the past decade the Europeans were the foremost proponents of engagement with the regime—they now see that this effort has brought only further repression to the Cuban people and mountains of bad debt for themselves. Hopefully, those who propose the United States embark on a similar policy of engagement will closely study the European experience before proceeding.

This is not the limit of what can or should be done, however. We need to draw on our experience in Eastern Europe, South Africa, and elsewhere and support democracy proponents, human rights activists, independent journalists and economists, and budding entrepreneurs in Cuba. We need to break Castro's monopoly over information by ensuring that all Cubans can receive timely and objective news and commentary through a reinvigorated Radio and TV Marti and direct support for independent libraries. We need to ensure that licensed travelers to Cuba engage the people, not the regime and their hangers-on. A free, independent Cuba that respects the rights and dignity of its citizens, and provides opportunities for individual enterprise, is our common goal. It is in our national interest, and in our common stake in humanity, to not settle for anything less.

Thank you.

---

#### PREPARED STATEMENT OF ALAN LARSON

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 nongovernmental 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 vis-

its, reduce the profile of member states' participation in cultural events, invite Cuban dissidents to national-day celebrations, and proceed with a reevaluation 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 handselected 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 jointventure 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 "selfemployment". 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 run societies like Cuba cannot reliably be used to draw inferences about the economic welfare of a country or its citi-

zens. 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 rouble 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 rouble 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\$400million 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 sugarrelated debts to Panama companies.

It is no surprise that in the latter part of 2002, citing chronic delinquencies and mounting shortterm debts, Moodys lowered Cuba's credit rating to Caal—"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 Stalinistinspired 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.

---

PREPARED STATEMENT OF TOM MALINOWSKI

Mr. Chairman, members of the Committee:

Thank you for your invitation to address the human rights situation in Cuba and to discuss U.S. policy towards that country.

Human Rights Watch has been monitoring human rights conditions in Cuba for more than 15 years. Severe political repression has been constant throughout this time. Cuba has long been a one-party state. It has long restricted nearly all avenues of political dissent. It has long denied its people basic rights to fair trial, free expression, association, assembly, movement and the press. It has frequently sought to silence its critics by using short term detentions, house arrests, travel restrictions, threats, surveillance, politically motivated dismissals from employment, and other harassment.

But this year's crackdown on political dissent in Cuba surpasses, in its scale and intensity, the violations we have documented in the past.

The crackdown was a reaction to the flowering of civil society in Cuba over the last several years, and to the growing activism and ambitions of its dissident community. It followed the success of the Varela Project, led by dissident Oswaldo Paya, in gathering signatures from Cuban citizens on a petition calling for political reform.

The crackdown began on March 18. In just a few days, state security agents arrested dozens of people, launching an all-out offensive against nonviolent dissidents, independent journalists, human rights defenders, independent librarians, and others brave enough to challenge the government's monopoly on truth. In due process terms, their trials were a sham. And in the end, 75 defendants received sentences ranging from 6 to 28 years, with an average sentence of 19 years. Cuban courts have not imposed such draconian sentences on such large numbers of people in more than two decades.

What do these troubling developments mean for U.S. policy towards Cuba? What approach offers the greatest likelihood of effecting change?

The first thing I hope we can all agree on is that no one should have any illusions about the character of the Cuban Government. No one should romanticize any aspect of this cruel system, or make any excuses for Fidel Castro's abuses. The crackdown on dissent in Cuba is not the fault of the United States, or the fault of the

U.S. embargo, or the fault of the Cuban-American community. The responsibility lies with Fidel Castro, period.

We should also agree that this is no time to reward Fidel Castro; this is a time for maximizing effective pressure on the Cuban Government to change its policies. But we also need to be toughminded and strategic in assessing whether the all-out embargo currently in place is the best available tool for achieving our goals. Is it likely to move the Cuban Government? Do Cuba's cynical rulers even see it as punitive? I believe the answer to those questions is no, and that a middle ground approach would serve the cause of Cuba's brave dissidents far better.

I say that as someone who is often supportive of economic sanctions, even unilateral economic sanctions, against governments that systematically violate human rights. My organization believes that sanctions, when carefully targeted and deployed as part of a larger diplomatic strategy, can be effective in promoting human rights and in expressing where the United States stands on human rights. This year, for example, we applauded the Congress and members of this Committee for supporting additional U.S. sanctions against the government of Burma. We are generally skeptical of arguments that trade with the United States or exposure to American values and practices can somehow convince repressive governments to be kinder and gentler to their people.

But it seems to us that any American policy designed to promote human rights in another country has to meet two basic tests to be worthy of continuation. First, is the policy more likely to be effective than the alternatives? Second, does it advance the interests and speak to the needs of those struggling to defend human rights in the country concerned? After 40 years, it's clear that the all-out embargo against Cuba fails both tests.

Many of the dissidents struggling for change inside Cuba want to see the embargo eased, including the writer Raul Rivero and the activist Hector Palacios Ruiz, who were sentenced, respectively, to 20 and 25 years in prison in April, as well as Oswaldo Paya, the leader of the Varela Project. Refusing to heed those who risk everything for freedom in Cuba is senseless. It would be as if the United States had taken steps to defend liberty in the old Soviet empire that were categorically opposed by Andrei Sakharov, Lech Walesa, and Vaclav Havel.

Leading Cuban dissidents understand that the embargo helps Fidel Castro's cause, not theirs. Because it is indiscriminate, rather than targeted, it enables the Cuban Government to shift blame to the United States for the Cuban people's suffering. Because it isolates the Cuban people from the world, it makes it easier for the Cuban Government to control what they hear, see and know. Because it is bitterly opposed by most nations, it enables the Cuban Government to divide the international community, leading, ironically, to less international pressure on Fidel Castro, not more.

At the same time, a relaxation or end to the embargo would not, by itself, be an effective strategy for promoting change in Cuba. We need to be clear-eyed about this, as well: The Cuban Government isn't going to stop locking up dissidents just because American tourists have joined the Canadians sunning themselves on Cuba's beaches, or because American CEOs have joined the Europeans signing contracts with Fidel Castro. There does need to be carefully targeted, multilateral pressure on the Cuban Government, or Cuba's dissidents won't have the space to fight for change. We need a middle ground between unquestioning engagement with the Castro government and an all-or-nothing approach that plays into Fidel Castro's hands.

All sides in the Cuba policy debate need to ask themselves: What does Castro fear most from the United States? It is not the continuation of the embargo, or its demise. It is the prospect that the United States might someday agree with allies in Latin America and Europe on an effective common strategy for defending the rights of the Cuban people.

For that reason, I would argue that America's Cuba policy should not even be directed at Havana right now. Given the history of this relationship, there is very little the United States can do bilaterally to influence the Cuban Government. Instead, America's Cuba policy should be directed towards the other nations of Latin America, towards Europe, towards Canada. It should be aimed at forging a principled, common strategy for promoting political change in Cuba.

A united international community will have immensely more political and moral authority with the Cuban Government than a divided international community. Because of the crackdown in Cuba, there is an opportunity now to forge a more united approach. The European Union has already toughened its common position on Cuba, for example. Latin American countries have supported resolutions on human rights in Cuba at the U.N., which, although far too mild, are a step forward. But much more can be done.

The United States should be urging Latin democracies to speak forcefully against political repression in Cuba, and to stop backing Cuban membership in bodies like the U.N. Commission for Human Rights. It should press Latin diplomats to meet with Cuban dissidents. It should urge European countries to impose on the Cuban leadership the same targeted sanctions, including the denial of visas and the seizure of assets, that they have imposed against other repressive governments, such as Burma and Zimbabwe.

While easing some trade and investment with Cuba, and ending the senseless ban on travel to Cuba, the United States should also work with allies to develop common rules governing economic engagement there. Foreign investment in new private enterprises has helped limit the power of the state in countries like China and Vietnam. But in Cuba, workers in joint ventures with foreign companies are still hired and paid by the Cuban Government, thus remaining at the mercy of the state. European, Canadian and ultimately American companies should receive licenses for investment in Cuba only if that policy changes.

The tragedy of the all-out U.S. embargo, and a key argument for easing it, is that it makes the United States impotent in pressing its allies for these tougher measures. The Bush administration knows it has virtually no influence with the rest of the world on Cuba. When Cuba was up for reelection to the U.N. Human Rights Commission this year, the administration hardly even tried to convince Latin countries to find an alternative candidate. In most capitals, Castro has succeeded in making the embargo a bigger issue than his own repression.

The best alternative to dumb sanctions against Cuba, therefore, is not a policy of no sanctions. It should be possible to forge a middle path that isolates the Cuban Government, not the Cuban people.

But so long as the United States is unwilling to climb down to a tough, yet sensible policy, it will not persuade its allies to rise up to such a policy. I thank the Committee for its willingness to explore that alternative.

---

PREPARED STATEMENT OF WILLIAM A. MESSINA, JR.\*

Thank you Mr. Chairman and good morning ladies and gentlemen. It is an honor and privilege to present this testimony today and I would like to thank you for that opportunity.

Given the time constraints placed upon us for our testimony this morning, it will be very difficult to present any sort of comprehensive view of current and future United States-Cuban agricultural trade. Clearly there are many political and economic dimensions to this issue. As is the case with our entire research initiative on Cuban agriculture at the University of Florida, my comments this morning will focus strictly on the economic aspects of the issue of United States-Cuban trade. In these next few minutes I will try to touch on a series of key points that hopefully will set the stage for further discussion. Numerous references have been included in the text of my testimony for those seeking additional information on these key points. I should add that my comments this morning are not based simply on my research, but rather on over 10 years of research by a team of scientists at the University of Florida in collaboration with faculty from the University of Havana.<sup>1</sup>

In October of 2000, President Bill Clinton signed the *Trade Sanctions Reform and Export Enhancement Act* (TSRA), which allowed U.S. firms to sell food and medicine to Cuba for the first time in nearly 40 years. Actually, along with Cuba, the legislation also opened up the sale of food and medicine to Iran, Libya, North Korea and Sudan, although Cuba was the only one of these five nations that was prohibited from receiving U.S. private sector financing for their purchases (i.e., U.S. firms have to handle all sales to Cuba on a cash basis). In protest to this and other provisions in the legislation, the Cuban Government refused to arrange any purchases from U.S. firms, with Fidel Castro stating on numerous occasions that he would not purchase "one penny's worth" of goods from the United States.

However, in November of 2001 Hurricane Michelle rolled across Cuba doing substantial damage to Cuban agriculture. The U.S. government quickly offered food aid and Cuban officials responded that they did not want aid but that they would like

---

\*William A. Messina, Jr. is an agricultural economist in the Department of Food and Resource Economics, Institute of Food and Agricultural Sciences, University of Florida, P.O. Box 110240, Gainesville, Florida, 32611-0240. Telephone 352 392-1826, ext. 308; Fax 352 846-0988; Email WAMessina@mail.ifas.ufl.edu

<sup>1</sup>For information on this collaborative research initiative, see the project website at [www.cubanag.ifas.ufl.edu](http://www.cubanag.ifas.ufl.edu).

to purchase agricultural and food products to replenish their reserves. Shipments from U.S. firms began before the end of 2001 and continue today.

In 2002 U.S. agricultural and food exports to Cuba totaled just under \$140 million, raising Cuba to 49th in the rankings of the most important U.S. agricultural export markets, up from last place out of 184 nations in 1999 (USDA/Economic Research Service). The Cuban Government has strategically coordinated its purchases to include shipments from at least 34 U.S. states in an effort to generate maximum political impact.

U.S. agricultural exports to Cuba include a wide range of products. However, soybean oil, poultry, wheat and corn represent more than 93 percent of the total value of Cuban agricultural and food imports from the United States for the first six months of 2003. Grains and grain products represent the largest proportion of Cuba's total agricultural and food imports from the rest of the world as well.

The value of U.S. agricultural and food exports to Cuba for the first six months of 2003 is \$102 million, nearly 40 percent ahead of the value over the same period in 2002 (United States-Cuba Trade and Economic Council, Inc. 2003). While this suggests that U.S. export totals for 2003 may be significantly higher than the 2002 level, Cuba's continued economic difficulties raise questions in my mind as to how much of its severely limited hard currency reserves Cuba will be willing to commit to these purchases this year. U.S. exports for the month of June 2003 were 28 percent lower than value for June 2002 (Ibid.), which may well indicate a slowing of Cuba's import patterns from the United States.

The Cuban Government is able to earn hard currency for a portion of the products purchased from the United States through their sale in "dollar stores" where all transactions are conducted in hard currency. Given the markups used in the dollar markets, our research estimates that the hard currency cost of Cuba's imported food products is offset by food sales in Cuba for dollars (Ross and Fernandez Mayo 2003).

Sales of food products, as well as non-food items, in the dollar stores represent the most important method for the Cuban Government to gain access to the estimated \$1 billion that Cuban-Americans send to their families in Cuba each year (Spadoni 2003).

Nevertheless, because of Cuba's overall economic situation, even though the Cuban Government has signed contracts with U.S. firms for the purchase of more food and agricultural products in 2003 than it did in 2002, the value of U.S. exports of agricultural and food products to Cuba for 2003 ultimately may not be appreciably larger than the 2002 level.

Our work in the early 1990s projected that U.S. agricultural and food exports to Cuba could be as high as \$1 billion per year (Alvarez and Messina 1993), and that sales of agricultural inputs, (fertilizers, pesticides, animal feed, equipment and supplies) could reach as high as another \$700 million (Alvarez and Messina 1992). Subsequent studies by other analysts have arrived at similar estimates so the fundamental question does not appear to be as much an issue of "What is the sales potential?" as "How soon might we be expected to achieve that potential?" There are both political and economic responses to that question and, again, we do not address the political side of the equation at all in our work. However, I will attempt to address the economic considerations.

Some have argued that a relaxation of the cash sale provisions of the TSRA legislation to allow U.S. firms to offer credit sales would significantly boost U.S. sales of agricultural and food products to Cuba. However, that fails to take into consideration the economic realities in Cuba. The Cuban economy is a shambles and it faces serious hard currency shortages as a result of its ever-escalating trade deficit.

Cuba's trade flows were more or less in balance until the early 1960s when the economy suddenly had to adjust to the shock of losing its most important trade partner, the United States.<sup>2</sup> The immediate impact was a rapid growth in Cuba's trade deficit. However, once the Cuban economy began to be supported and subsidized by the Soviet Union, these trade deficits weren't particularly important. But with the fall of the Berlin Wall and the subsequent dissolution of the Council for Mutual Economic Assistance (COMECON)<sup>3</sup>, Cuba once again lost its most important trading partner and, in this case, its all important source of economic support. At this point, the flaws in Cuba's economic system that were responsible for generating its large trade deficits began to manifest themselves. Foreign investment flows, net revenues from tourism and even the aforementioned hard currency remittances from Cuban-Americans are not sufficient to offset trade deficits that increase each year

<sup>2</sup> For historical (pre-embargo) detail on United States-Cuban trade, see Messina, 2000.

<sup>3</sup> The Council for Mutual Economic Assistance (COMECON) was the intergovernmental council made up of the Soviet Union and the nations of Eastern Europe intended to coordinate and improve the economic integration and development of its members.

and totaled nearly 3.3 billion pesos in 2002 (Anuario de Estadístico de Cuba, 2002)<sup>4</sup>. As a result, Cuba is considered an extremely high credit risk in global financial markets, with Euromoney Magazine ranking Cuba 181st out of 184 countries in their 2003 analysis of country credit risk (Euromoney Magazine 2003). (Only Somalia, Iraq, North Korea and Afghanistan ranked lower.)

Under such circumstances, my sense is that relatively few U.S. firms are going to be willing to issue open credit to Cuba, so allowing credit sales alone likely would not be sufficient to dramatically increase U.S. agricultural and food exports to Cuba. Following an opening of credit sales to Cuba, the next step I would anticipate is for U.S. firms to seek access to U.S. government Export Credit Guarantee programs for agricultural and food sales to Cuba. That, I suspect, would be a very contentious issue and one that would generate a great deal of animated discussion and debate here on Capitol Hill.

Under present policy, discussion focuses exclusively on U.S. exports of agricultural and food products, since Cuba is not allowed to export to the United States. No one knows when the U.S. embargo of Cuba will be lifted but such a development will open the door for two-way trade. A wide range of business opportunities will arise for U.S. firms when trade and commercial relations with Cuba are renewed, though their nature and form will vary depending upon the economic and political situation in Cuba at the time. However, no state in the nation will be impacted more significantly than Florida by a lifting of the embargo, whenever it may occur.

Business challenges also will arise for U.S. firms and Cuban entities as well. This is particularly true for Florida agriculture when you consider that Cuba's traditional agricultural production patterns and those of Florida are almost identical, with an emphasis on sugar, vegetables, citrus, and tropical fruits. While Cuban agricultural production efficiency is abysmal by U.S. standards for most all commodities, Cuba has tremendous agricultural production potential.

In the late 1980s, Cuba was one of the largest sugar producers in the world and was the world's leading sugar exporter (Alvarez and Pena Castellanos, 2001). The Cuban Government has dramatically decreased its emphasis on sugar production in recent years to the point where the harvest last season was only about 2 million metric tons, the lowest level in over 70 years. At present, world sugar markets are well supplied and world prices are low, thus there would be little incentive in the near term for major investment in Cuba's sugar industry. Nevertheless, Cuba's potential as a globally important sugar producer and exporter remains.

To put Cuba's winter vegetable production potential into perspective, in 1989 Cuba had nearly twice as much acreage planted to tomatoes and cucumbers as Florida (VanSickle and Messina, 1993). Even though Cuba's vegetable yields typically are only about one third of Florida's yields (Moseley et al., 1996), it wouldn't take much for a joint venture partner to transfer the technology to Cuba to significantly improve those yields. In fact, several foreign firms already have entered into joint venture arrangements with Cuban entities to produce vegetables and tropical fruits for sale to the tourist hotels in Cuba, in some cases using capitalintensive greenhouse production systems.<sup>5</sup>

Because of the limited domestic purchasing power of the Cuban people, major investment along this line is not likely to occur until such time as the U.S. market is open to Cuba. However, foreign firms that are presently investing in Cuba's agricultural sector, and indeed in all sectors of the Cuban economy, clearly have a leg up on U.S. firms.

Significant foreign investment already has taken place in Cuba's citrus industry where several foreign companies, most notably an Israeli group, have invested and provided important technological and marketing expertise to the Cubans.<sup>6</sup> It is important to consider that, until the 2001-02 season Cuba was the third largest grapefruit producer in the world after the United States and Israel. Over 80 percent of U.S. grapefruit production is in Florida (Florida Agricultural Statistics Service 2003) so Cuba's grapefruit production potential is no small consideration for Florida's grapefruit growers.

Because of its climate, Cuba's citrus ripens earlier than Florida's, and at a time when there is relatively little grapefruit available from other sources in the world. This does suggest that there may be a market window during which opportunities

<sup>4</sup>For additional detail on Cuba's foreign debt, see U.S. Department of State, 2003.

<sup>5</sup>For additional information on foreign investment in Cuban agriculture see: Ross and Fernandez Mayo 2001; Spadoni 2001; and other documents available at [www.cubanag.ifas.ufl.edu/publications/foreign.htm](http://www.cubanag.ifas.ufl.edu/publications/foreign.htm).

<sup>6</sup>For additional information on Cuba's citrus industry see: Nova Gonzalez et al. 2001; Brown 2000; and other publications available at [www.cubanag.ifas.ufl.edu/publications/citrus.htm](http://www.cubanag.ifas.ufl.edu/publications/citrus.htm)



for complementary fresh grapefruit trade may exist, at least until the U.S. harvest begins, under a post-embargo scenario.

Again because of the climate, Cuban orange juice tends to have high ratio and poor color characteristics, which make it undesirable in the U.S. market, indicating that the demand for Cuban orange juice products in the United States post-embargo likely will be low.

Cuba was an important supplier of fresh winter vegetables to the United States through the late 1950s. I believe that a resumption of United States-Cuban trade will fundamentally alter the structure of the fresh winter vegetable industry in the United States to a degree that has not been since the implementation of the North American Free Trade Agreement and the subsequent peso devaluation. This will not happen overnight as there are obviously Sanitary and PhytoSanitary (SPS) regulations that will need to be met before Cuba can begin exporting into the United States. These SPS issues are particularly important given the increasing experience with and concern over the introduction of invasive species of plants and organisms that detrimentally impact U.S. agriculture and the natural environment.

And even though it is not considered "agricultural production," the marine fisheries industry is a natural resource-based industry where both Cuba and Florida have important investments and production capacities. In fact, for some species, the U.S. and Cuba share the same fisheries resources and fishing areas in international waters.<sup>7</sup>

All of these commodities have the potential to be exported to the United States and at a time when Cuba desperately needs to generate export revenues, it will be eager to take advantage of these sorts of opportunities as soon as political conditions allow.

I also should mention an important consideration that will influence the speed and nature of the recovery of Cuban agriculture—the legal questions of compensation or restitution for expropriated farms and agricultural processing facilities. Our team of researchers, however, does not possess the expertise to address these complex legal issues.

Nevertheless, following a lifting of the embargo, change will come and, as is always the case with change, there will be winners and losers. And if there is a lesson to be learned from the experience of Florida growers following NAFTA and the peso devaluation, it is that transition time will be pivotally important for U.S. firms whose business operations will be forced to change.

In summary, the issue of United States-Cuban trade and its impact on the U.S. economy is a complex one. Furthermore, it is a particularly sensitive issue for Florida agriculture.

For over one hundred and fifty years, Cuba and the United States were extremely important trading partners, and agricultural products represented the bulk of their trade transactions. In fact, as late as 1942 a USDA report stated, "with no other country does the United States have as close economic relations as with Cuba" (Minneman 1942, p. 13). At some point in the future, Cuba and the United States will, once again, be important trading partners and I expect that agricultural products will be a principal component of that trade. But we should recognize that unfettered trade with Cuba will not be a "salvation" from the low prices being experienced by U.S. agriculture, either in the near term or in the longer term.

And finally, the embargo is NOT the cause of Cuba's economic difficulties. The fundamental problem lies in Cuba's flawed economic model. The Cuban people understand markets and incentives, but until their economic system undergoes major adjustments to allow markets and incentives to more freely operate, Cuba will never reach its full economic potential.

Thank you very much and I look forward to your questions.

#### REFERENCES

Adams, Chuck, Placido Sanchez Vega and Anicia Garcia Alvarez. "An Overview of the Cuban Commercial Fishing Industry and Recent Changes in Management Structure and Objectives." University of Florida, Institute of Food and Agricultural Sciences EDIS Cooperative Extension publication number FE218. Gainesville, FL. November 2000.

Adams, Chuck. "The Cuban Commercial Fishing Industry and Implications to the Florida Seafood Industry of Renewed Trade." *International Working Paper*

<sup>7</sup>For more detail on United States-Cuba trade issues related to marine and seafood products see Adams et al. 2000; Adams 1998; and other publications available at [www.cubanag.ifas.ufl.edu/publications/marine.htm](http://www.cubanag.ifas.ufl.edu/publications/marine.htm).

- Number IW98-3. University of Florida, Department of Food and Resource Economics. Gainesville, FL. 1998.
- Alvarez, Jose and Lazaro Peña Castellanos. *Cuba's Sugar Industry*. University Press of Florida. Gainesville, Florida. 2001.
- Alvarez, Jose and William A. Messina, Jr. "Challenges and Opportunities for Florida Agriculture from Future Trade with Cuba: Preliminary Findings and Justification for Further Research." *International Working Paper Number IW93-5*. University of Florida, Department of Food and Resource Economics. Gainesville, FL. 1993.
- Alvarez, Jose and William A. Messina, Jr. "Potential Exports of Florida Agricultural Inputs to Cuba: Fertilizers, Pesticides, Animal Feed and Machinery." *International Working Paper Number IW92-33*. University of Florida, Department of Food and Resource Economics. Gainesville, FL. 1992.
- Anuario Estadístico de Cuba*. Oficina Nacional de Estadísticas. Ciudad de La Habana, Cuba. 2002.
- Brown, Mark G. "Potential Impacts of Cuban Citrus on Florida's Citrus Industry." *Working Paper Series 2000-2*. Florida Department of Citrus, Economic and Market Research Department. Lakeland, FL. 2000.
- Euromoney Magazine. "Country Risk Analysis." Euromoney Publications. London, England. March 2003.
- Fernandez Mayo, Maria Antonia and James E. Ross. "Cuba: Foreign Agribusiness Financing and Investment." *International Working Paper Number IW98-7*. University of Florida, Department of Food and Resource Economics. Gainesville, FL. 1998.
- Florida Agricultural Statistics Service. "Citrus Summary 2001-02." Orlando, Florida. 2003.
- Messina, William A., Jr. "Testimony before the U.S. International Trade Commission." Washington, D.C. September 20, 2000.
- Minneman, P.G. "The Agriculture of Cuba." U.S. Department of Agriculture. Washington, D.C. 1942.
- Moseley, Anne E., Armando Nova González, Maria Antonia Fernandez Mayo, John VanSickle, Carlos E. Jauregui and Douglas E. Smith. "The Vegetable and Tropical Fruit Industries in Cuba and Florida." *International Working Paper Number IW96-7*. University of Florida, Department of Food and Resource Economics. Gainesville, FL. 1996.
- Nova González, Armando, Thomas Spreen and Carlos Jáuregui. "The Citrus Industry in Cuba 1949-1999." *International Working Paper Number IW01-4*. University of Florida, Department of Food and Resource Economics. Gainesville, FL. 2001.
- Ross, James E. and Maria Antonia Fernandez Mayo. "Cuba's Dollar Food Markets and U.S. Exports." Forthcoming in 2003 in *Cuba in Transition, Volume 13*. Association for the Study of the Cuban Economy. Washington, D.C.
- Ross, James E. and Maria Antonia Fernandez Mayo. "International Economic Associations in Cuba's Agricultural Sector." *Cuba in Transition, Volume 11*. Association for the Study of the Cuban Economy. Washington, D.C. 2001.
- Spadoni, Paolo. "The Role of the United States in the Cuban Economy." Forthcoming in 2003 in *Cuba in Transition, Volume 13*. Association for the Study of the Cuban Economy. Washington, D.C.
- Spadoni, Paolo. "Impact of the Helms-Burton Legislation on Foreign Investment in Cuba." *Cuba in Transition, Volume 11*. Association for the Study of the Cuban Economy. Washington, D.C. 2001.
- U.S. Cuba Trade and Economic Council, Inc. "Economic Eye on Cuba." New York, New York. Newsletter for the week of August 11 to August 17, 2003.
- USDA, Economic Research Service. "Foreign Agricultural Trade of the United States." Database available at [www.ers.usda.gov/Data/FATUS](http://www.ers.usda.gov/Data/FATUS).
- U.S. Department of State. "Cuba's Foreign Debt." Bureau of Western Hemisphere Affairs. Fact Sheet dated July 24, 2003. Washington, D.C. (available online at [www.state.gov/p/wha/rls/fs/22743.htm](http://www.state.gov/p/wha/rls/fs/22743.htm))
- VanSickle, John J. and William A. Messina, Jr. "Cuba's Vegetable Industry." *International Working Paper Number IW93-3*. University of Florida, Department of Food and Resource Economics. Gainesville, FL. 1993.



IFAS

Food and Resource Economics Department

1179 McCarty Hall / PO Box 110240  
Gainesville, FL 32611-0240  
Voice (352) 392-1826, ext. 308  
Fax: (352) 846-0988

### PROJECT ON CUBAN AGRICULTURE

In the late 1980s Cuba was conducting in excess of 85 percent of its trade with the Soviet Union and Eastern Europe. Much of this trade was conducted under preferential arrangements that represented a significant source of economic assistance for the Cuban economy. The political transition that began within the Socialist countries of Eastern Europe in 1989, and the dissolution of the Soviet Union in 1991 resulted in a sudden loss of all of this assistance and support, which had a devastating impact upon the Cuban economy. As a result, in part, of the loss of these preferential trading arrangements, in the early 1990s Cuba entered into a process of gradual economic transition in selected areas and sectors. There has been speculation that these economic reforms, combined with other factors, may lead to a restoration of diplomatic and commercial relations between Cuba and the United States.

Prior to 1960, Cuba and the United States had extensive patterns of trade and commercial relations. In fact, a report published by the U.S. Department of Agriculture in 1942 stated "with no other country does the United States have as close economic relations as with Cuba."<sup>(1)</sup> Because of the geographic proximity of Cuba to the United States an opening of trade and commercial relations between the two countries, whenever it may occur, is likely to have important implications for many different industry sectors both in the United States and in Cuba. This is particularly true for the agricultural sector as trade in agricultural products represented very nearly half of total U.S.-Cuban trade in the late 1950s. Given the striking similarity between agricultural production patterns in Cuba and Florida (with a heavy emphasis on sugar, citrus, vegetables, tropical fruit, as well as marine fisheries products) this is an especially significant issue for Florida's agricultural and fisheries industries.

No one knows when the U.S. economic sanctions against Cuba may be lifted. Nevertheless, agricultural producers, processors and allied industry groups in Florida and throughout the United States, as well as in Cuba, are likely to face both challenges and opportunities when the United States and Cuba do resume trade and commercial relations. In an effort to provide timely research on this potentially important policy issue, in 1992, the International Agricultural Trade and Development Center in Department of Food and Resource Economics, Institute of Food and Agricultural Sciences at the University of Florida initiated a comprehensive research project to study Cuba's agricultural and fisheries sectors. The project does *not* address political issues such as whether commercial relations between the United States and Cuba should be resumed. Rather, the research is

designed to provide objective and current information on the agricultural and fisheries sectors in Cuba and analysis of the potential implications of a resumption of trade and commercial relations between the United States and Cuba on these sectors in both countries for Federal and State legislators, government agencies, agricultural industry associations, private firms, consumer groups and other interested parties to draw upon for discussion and debate if and when the issue may arise.

Beginning in 1994, and with the support of the John D. and Catherine T. MacArthur Foundation, project research was conducted via a program of active collaboration with the University of Havana's Center for Research on the International Economy (Centro de Investigaciones de la Economía Internacional) and Center for the Study of the Cuban Economy (Centro de Estudios de la Economía Cubana). The U.S. Department of Agriculture's Economic Research Service also has provided financial support for domestic costs associated with the project.

To date this joint research effort has resulted in the publication of more than fifty research reports, papers and articles. Furthermore, project team members have made dozens of presentations based on the research at industry and professional meetings throughout the United States and in countries across three continents. Presentations have included invited Congressional testimony as well as testimony before the U.S. International Trade Commission.

In the summer of 1999, the project received the U.S. Department of Agriculture's Award for Superior Service for "outstanding service to United States and Florida agriculture for research on the economic challenges and opportunities associated with a resumption of trade with Cuba." The award is the highest recognition bestowed by USDA and was presented by U.S. Secretary of Agriculture Dan Glickman.

The project website ([www.cubanaq.ifas.ufl.edu](http://www.cubanaq.ifas.ufl.edu)) is intended to make the results of this extensive collaborative research effort more readily available to those interested in learning more about the potential challenges and opportunities which may arise from a resumption of trade and commercial relations between the United States and Cuba, whenever it may occur. We hope that you find the site useful.

(1) Minneman, P.G. *The Agriculture of Cuba*. U.S. Department of Agriculture, December 1942.

Project Contact:

William A. Messina, Jr.,  
University of Florida/IFAS, Food & Resource Economics Department  
P.O. Box 110240, Gainesville, Florida 32611-0240, USA  
Telephone: 352 392-1826, Ext. 308; Fax 352 846-0988  
E-Mail: [WAMessina@mail.ifas.ufl.edu](mailto:WAMessina@mail.ifas.ufl.edu)

PREPARED STATEMENT OF RICHARD OWEN

Mr. Chairman, members of the Committee:

I appreciate the opportunity to speak today on a trade issue affecting not only farmers in Montana, but across the United States.

My name is Richard Owen and I am from Geraldine Montana where I produce wheat and barley. I am a member of a local cooperative, Montana Farmers Union, Montana Grain Growers Association and a director of a regional cooperative that is owned by 325,000 farmers in 28 states from the Great Lakes to the Pacific and from the Canadian border to Texas and is the third largest United States grains exporter.

Through a combination of factors our national supply of grains and oilseeds far exceeds our national demand. So we in the United States depend on export trade. Yet, United States exporters do not find the welcoming arms of other countries that we anticipated after passage of the 1996 farm bill. Whether there are subsidy issues as is the case of the European Union, biotech issues with some Asian countries, or

the fact that other countries can feed themselves like those in South America, the expectation and promise that more trade opportunities would arise for the American farmer is not yet true. As the United States continues to try to negotiate better trade arrangements with countries specifically in the western hemisphere, it misses the opportunity to look a gift horse in the mouth. Not far from our largest agricultural export facilities of the Gulf Coast and the mouth of the Mississippi River, lies Cuba. As many other countries keep their trade options and business open with Cuba, the United States has almost none. We need to build and nurture better relationships with countries that want our products. We will not be successful in finding new markets without good relationships.

We know that some U.S. medical and food supplies are available to Cuba, but only on a limited cash basis. This is just a little tiny crack in the trade doorway. I would suggest that it is time to open wider that crack. I know that opening the doorway to Cuba will not be the answer to the woes of American farmers, but if we take the opportunity like this in other countries, especially in Latin America, then collectively we can create a whole new market closer to home. Cuba can be the beginning.

Trade can range from simple cheap commodities like grain to the expensive and complicated such as satellite technology. Perhaps just allowing travel to Cuba will be a good place to start. Bit by bit the United States should increase the size of the crack in the door until it is someday wide open to allow for a win/ win relationship for people in both countries. Studies have been done that show this is possible. We just need a little tolerance and compromise to make it happen.

Agriculture is the perfect toe to stick in the doorway to Cuba and having at least an agricultural toehold will help all United States industries when trade opens up. It is nonthreatening to the United States, but all positive for farmers and their cooperatives. This is especially helpful to an ag economy that has been in a tailspin since the 1996 farm bill as is evidenced by massive annual emergency economic assistance. We all know that our competitors as well as our partners live on opposite sides of the globe, not the street like in decades past. It makes good sense to become friends with our neighbors and learn to succeed together. Here is our chance.

In closing, I believe that all producers, local cooperatives and regional co-op exporters, as well as the organizations to which they belong, would welcome any United States effort to permit agricultural trade with Cuba. I represent these groups and I know I welcome it.

Thank you for this opportunity, your attention, and your consideration of opening trade with Cuba. I am proud of you for your efforts.

---

PREPARED STATEMENT OF PHILIP PETERS

Mr. Chairman, Members of the Committee:

Thank you for inviting me to testify on a subject of great importance to American foreign policy in this hemisphere: United States relations with Cuba.

Many experts did not expect Cuba's political system to survive the horrendous economic troubles it suffered when the Soviet bloc disappeared a decade ago. To hasten its demise, Congress passed new laws in 1992 and 1996 that strengthened American economic sanctions. As a result, Cuban imports became more expensive, Cuba encountered higher costs and new difficulties arranging shipping for its trade, and investment in Cuba became more risky for foreign companies that were interested in forming joint ventures.

Yet Cuba's political system survived and remains stable. Its economy stayed afloat and restored a measure of growth by allowing foreign investment, allowing farmers to sell their surplus production on the open market, allowing limited small enterprise, allowing Cuban citizens to hold foreign currency and to receive family remittances from abroad, and by building a new tourism industry that has now replaced sugar as the top foreign exchange earner.

These modest market-based reforms have increased incomes and living standards for millions of Cubans and brought new ways of doing business to workers and managers who before had only known the ways of state planning.

However, they leave many of Cuba's problems unsolved. Growth and job creation remain insufficient, and not all Cubans are able to benefit from the opportunities available in the new sectors of the economy. Highly educated and skilled Cubans often work in tourism-related jobs far below their qualifications because that is the only option for them to earn a good income.

As they confront these challenges, Cubans know that they will one day see a change in leadership, a turn to a new generation that did not fight the revolution that brought socialism, but rather grew up in that system. Cuba's next generation

of leaders will have to decide how to run the economy, knowing that new doses of centralization and socialism will not produce the results their nation needs. And they will decide whether to preserve or adapt their current political system.

Faced with this situation, American policy toward Cuba is centered on two ideas: a justified criticism of Cuba's human rights practices, and a misguided, counter-productive attempt to block contacts of all kinds between the Cuban and American peoples.

Based on measures that are in the jurisdiction of this Committee—principally the trade embargo and the travel ban—American policy toward Cuba has created a barrier to a flow of people, commerce, and ideas that would constitute a powerful source of American influence in Cuba.

This policy amounts to an embargo on American influence in Cuba.

It has no parallel in the approaches we pursue toward communist countries such as China and Vietnam today. It is squarely opposed to the approach America adopted toward the Soviet bloc, where we championed the Helsinki accords precisely in order to promote the kinds of trade, travel, exchanges, and unregulated people-to-people contact that we prohibit with Cuba today. It may not be an exaggeration to state that if our Cuba policy had been in place toward Eastern Europe, deliberately isolating those countries from direct Western influences, the Berlin Wall might still be standing today.

It may be some time before Congress considers what to do about the Cuba embargo as a whole. However, even if that debate remains postponed, there are steps we can take that would put our policy on a constructive course and benefit our national interest.

I strongly believe that the first and most important step is repeal of the travel ban, which would bring several benefits.

*Communication.* America's policy of principled engagement with communist China recognizes the value of American contacts with Chinese citizens in all walks of life. This has long been a missing element of American policy toward Cuba. We should take the federal government out of the business of regulating and licensing Americans who seek to travel to Cuba to see and learn about the island and its people, to participate in exchanges or conferences, or to deliver humanitarian aid. Unrestricted travel by Americans will unleash a flood of contact with Cubans, transmitting information, ideas, and values.

*Freedom and fairness.* Our belief in personal freedom and limited government should lead us to deny freedom of travel only where a direct national security rationale exists. No such rationale exists in Cuba's case. Moreover, the Cuba travel ban is enforced in a discriminatory manner. The Treasury Department has assessed fines against more than 1,200 Americans for illegal travel to Cuba since the Bush Administration took office. Yet in response to Congressional requests, the Treasury Department has not cited a single case where a Cuban American has been cited for a violation of restrictions on travel or remittances.

*Small enterprise.* Many of Cuba's 140,000 small entrepreneurs—especially private restaurateurs, artists, taxi drivers, and families that rent rooms in their homes—earn their revenues from foreign travelers who use their services. They will benefit greatly from the dollars that American travelers spend; their numbers will expand dramatically, they will gain independence, and their families will have better livelihoods.

*Terrorism.* The Treasury Department office that governs Cuba travel, the Office of Foreign Assets Control, is also the key Treasury element in the effort to break al Qaeda's global money network. Its resources should be dedicated fully to fighting terrorism, not to duties such as licensing, investigating, and fining travelers to Cuba.

*Agricultural sales.* Taking advantage of the provisions of the Trade Sanctions Reform Act of 2000 that permit purchases of U.S. agricultural products, Cuba has made purchases of \$366 million since December 2001, and has signed contracts valued at an additional \$120 million. The purchases cover a wide range of products including grains, poultry, livestock, apples, wood, and finished consumer products such as cereals and beverages. The revenues Cuba would earn from American travelers would greatly expand Cuba's ability to purchase American farm products. If Cuba purchases \$500 million in American farm products annually, American farm exports would expand by one percent.

Second, Congress should seek improvement in the means by which agricultural transactions with Cuba are conducted. Today, these transactions are made in a highly circuitous and inefficient manner: Cuba typically makes payment in a foreign currency such as the Euro, sending payment through a European bank, converting the currency to dollars, then sending payment to the U.S. exporter's American bank account. This process can take up to a week, and the resulting fees, foreign ex-

change losses, and excess shipping charges often absorb upwards of five percent of Cuba's payment. French banks are typically the beneficiary of this process, which makes American exports less competitive, and causes Cuba to spend less of its foreign exchange on American products. These inefficiencies could be eliminated, and the transactions would be more transparent and easier for regulators to monitor, by a simple licensing action whereby Treasury would authorize the direct wire transfer of Cuban payments, in dollars, to the U.S. accounts of U.S. exporters.

Finally, Congress should sunset Cuba sanctions laws that violate WTO norms by penalizing foreign nationals who do business in Cuba. The Helms-Burton Act, which sanctions foreign business executives and their families and authorizes lawsuits in American courts against foreign businesses whose investments touch properties expropriated from Cuban nationals who now live in the United States, and Section 211, which intervenes in a trademark dispute on the side of the Bahamas-based Bardi corporation, both create needless conflict with American trade partners, and are obstacles to greater diplomatic cooperation with our allies on political issues involving Cuba. By setting a date for the expiration of these laws, Congress would bring about an overdue debate about these laws' costs and benefits, and would force itself to decide whether they deserve reauthorization.

In conclusion, Mr. Chairman, I applaud your decision to re-examine our policy toward Cuba. Our sanctions have succeeded in compounding Cuba's economic hardships, but they have sent the unseemly signal to the Cuban people that America wants to use economic hardship to precipitate political change. And with regard to that political objective, they have been a perfect failure. The cost of changing this policy would be zero.

So I would urge you and your colleagues to consider a radical change in the orientation of our policy.

It is not necessary to invent new theories and paradigms for this socialist country that happens to be a Caribbean neighbor. Rather, we should look to the mainstream of American foreign policy. We should continue our principled defense of human rights. We should cooperate with our allies rather than castigate them for having the same trade relations with Cuba that we have with other communist countries.

And rather than hold our eleven million Cuban neighbors at arm's length, we should respectfully and confidently open every avenue of contact with them at a time when history is leading them toward a new world, and they are looking for answers.

---

PREPARED STATEMENT OF WILLIAM A. REINSCH

Mr. Chairman and Members of the Committee, I am William Reinsch, president of the National Foreign Trade Council, an association of more than 300 U.S. companies engaged in international trade and investment that support an open, rules-based trading system. I am also appearing today as co-chairman of USA\*Engage, a broadbased coalition of over 670 American companies and trade and agricultural organizations that support sanctions reform. My comments today will address U.S. policy toward Cuba and the positive role that the private sector can play in promoting a peaceful political and economic transition there.

Our basic position is simple. We believe the forty-year old U.S. economic embargo of Cuba is one of the most dramatic failures of modern U.S. foreign policy: the regime it intended to undermine is as solidly in power as ever; its leader rules with unchallenged arbitrary brutality; and its people remain economically deprived and politically dispossessed.

Instead, the United States is far more likely to achieve its objectives in Cuba through a policy of engagement with Cuban society than continuing to isolate Cuba. People to people programs, educational and cultural exchanges, and commercial engagement all hold out the promise of influencing the future course of events in Cuba.

In contrast, the main achievement of our embargo has been to provide Fidel Castro with a blanket excuse for his government's failures. Having chosen not to engage Cuba, the U.S. has abdicated the possibility of influencing its development. This has resulted in a perverse dynamic that perpetuates and deepens the stalemate: each time there is a prospect of improved relations, the Cuban Government takes an action which they know will prevent any change in U.S. policy, and each time we have reacted exactly as Castro wants by tightening the embargo or stopping movement toward engagement.

This is a sterile vicious cycle that must be broken. We cannot assume that time is on our side in Cuba or that continuing to pursue our failed policy is without risks. The real issue the U.S. should address is how to prepare for a post-Castro transi-

tion. We have to accept the fact that there are radically different courses that post-Castro Cuba can take, not all of them to our liking: civil war, domination by drug lords, a military junta, or rule by another figure from this regime who might compensate for a charisma deficit with even more repression. Increased immigration to the U.S. could be the result of any of these outcomes. Second, because of its symbolic importance to the U.S., how we deal with Cuba as it approaches this transition will affect our standing in the region and beyond. The U.S. should be seen to be working constructively toward a peaceful transition to free market democracy in Cuba. By moving now to engage Cuba, the United States will be able to deploy its most powerful arsenal before we are overtaken by events. That arsenal is our "soft power," which goes beyond American affluence to include American values, institutions and traditions such as the rule of law, tolerance and freedom of expression and association. These factors have played a significant role in transitions in places as diverse as South Korea, Eastern Europe and South Africa.

Now, having failed to influence events in Cuba through a policy of isolation, it is time to call Castro's bluff and start removing the crutches he uses to stay in power. Increasing contact between Americans and Cubans is one way to begin.

To that end, we support enactment of S.950, which would repeal the prohibition on American citizens' freedom to travel to Cuba. Ending the travel ban does not reward Castro; it punishes him by building pressure that will lead to a free people and democratic government in Cuba. These travel restrictions are perhaps the most counterproductive of all the U.S. sanctions on Cuba. They hurt families on both sides of the Florida Straits and restrict the freedom of American citizens who are accustomed to traveling throughout the world without constraint.

Recently, the Office of Foreign Assets Control amended its travel regulations to eliminate people-to-people and educational exchanges with Cuba, the most potent weapon in our arsenal of "soft power." These new regulations would not only eliminate important cultural exchanges between the American and Cuban people, but would eliminate the entire category of licensed travel by U.S. citizens to Cuba to participate in educational programs. As a result programs conducted by some of our country's most prestigious institutions, such as the Museum of Modern Art, the Smithsonian Institution, the American Museum of Natural History, the Houston Museum of Fine Arts, and the Museum of the City of New York will be eliminated. In addition, these new regulations would deny licenses to companies that specialize in organizing foreign educational travel designed to export American values. These include the Ambassador Group, founded in the Eisenhower Administration to promote people-to-people exchanges, and those that promote music, architectural preservation and rural development.

In May 2002, President Bush announced the "Initiative for a New Cuba" to encourage freedom in Cuba. People-to-people contacts are a key component of the President's initiative. These new travel restrictions are a clear step backward. Congress has taken notice and is now moving to ease the travel restrictions. Legislation has passed the House of Representatives by increasing margins in each of the past three years. Ending the travel ban would expose the Cuban Government's many failures. This may account for recent poll results show that a majority of Cuban-Americans support lifting it.

We also endorse efforts to further liberalize food and medicine exports to Cuba. Food sales have long been recognized as positive way of engaging other societies. Since Congress passed the Trade Sanctions Reform Act in 2000, American farmers have sold increasing amounts of agricultural products to Cuba, benefiting both countries. Last year Cuba bought \$138.4 million in U.S. agricultural products, including wheat, corn, rice, soybeans and soy products, dairy and poultry products. Cuba has recently bought live cattle on an experimental basis to see how they will adapt to life in Cuba. U.S. agricultural exports to Cuba in the first six months of this year are already over \$100 million and are up 40% over the same period in 2002, clearly an upward trajectory even though they are cash sales. This is also relevant to the travel ban, since more Americans traveling to Cuba will mean more demand for American food products.

A third issue related to Cuba that we hope the Committee will consider is repeal of section 211 of the Omnibus Appropriations Act for Fiscal 1999. Without going into extensive detail, this section has put the U.S. out of compliance with its WTO and Inter-American Convention obligations with respect to the protection of trademarks. As you know, we have lost a WTO case on this matter. If the section and its implementing regulations are not repealed, we will be effectively allowing Castro to steal the 5,000 U.S. trademarks lawfully registered in Cuba and develop and conceivably export counterfeit products. From a broader perspective, we will also be compromising the strong position the U.S. has taken on behalf of intellectual property protection worldwide, something which I know is of serious concern to this Committee.



Over the years we have learned from painful experience that, while they may make us feel better, unilateral sanctions almost never achieve their objectives, are usually counterproductive, and are costly to Americans as well as their foreign targets. There is no better example of this than the forty year-old sanctions on Cuba. No other country in the world has such sanctions, but no other country in the world has the potential to have the positive impact on Cuba through engagement that the U.S. does.

It is time to realize that isolation does not punish Castro—it helps him stay in power. As a people we have always been outspoken in defense of freedom and democracy. We should have the confidence and determination to take our convictions and the institutions that embody them directly to the Cuban people. We may be surprised at the result.

---

PREPARED STATEMENT OF WAYNE S. SMITH

I have in one way or another been closely involved with United States-Cuban relations for over 46 years now. I was an analyst working on Cuba in the State Department's Bureau of Intelligence and Research from 1957 until 1958. I was then transferred to the American Embassy in Havana, arriving there in August of 1958, in the midst of the civil war, and serving as Third Secretary in the Political Section until we broke relations in January of 1961. I served on the Cuba Desk in the 1960's and in April of 1977 was with the first group of American diplomats to return to the island. I then served as Director of Cuban Affairs in the Department of State until July of 1979, when I was transferred to Havana as Chief of Mission, i.e., Chief of the U.S. Interests Section, which we'd opened in 1977. In 1982, I left the Foreign Service because of my serious disagreements with the Reagan Administration's policies toward Cuba, the contra war in Nicaragua, and various other policies around the world. Since then, since becoming a private citizen, I have followed Cuban affairs closely and traveled often to the island as Director of the Johns Hopkins University's academic exchange program with Cuba and as head of the Cuba project at the Center for International Policy in Washington, D.C.

I have, then, observed U.S. policy toward the Castro government since its inception. What I can say is that that policy is now woefully out of date and decidedly counterproductive. Fashioned during what were perhaps the most intense years of the Cold War to raise the cost to the Soviet Union and Cuba of their alliance and of actions the United States deemed detrimental to its interests, the policy lives on more than a decade after the Cold War ended. The Soviet Union has collapsed. Cuba no longer poses any threat to the security of the United States. But we continue to pursue the same old policy of the past 44 years as though nothing had changed.

The goals of the policy were modified somewhat over the years. At first, we insisted that Cuba cut its ties with the Soviet Union completely and halt all efforts to support other revolutions (or, as we put it, to export revolution) before the United States would remove its sanctions and begin a process of normalization. By the 1980's those conditions had been slightly modified. Now we put forward three conditions: Cuba must (1) remove its troops from Africa, (2) halt its support for revolutionary groups in Central America and elsewhere, and (3) reduce its military ties with the Soviet Union. In addition to these three foreign-policy conditions, we indicated that we would wish to see greater respect for human rights and movement toward a more democratic system. The idea, however, was that once the three foreign-policy conditions had been met, we could then begin to engage and in the process of engagement encourage progress in the other areas.

By 1992, all three foreign-policy goals had been met. All Cuban troops were out of Africa. Cuba was no longer giving support to guerrillas in Central America or anywhere else in the world. Indeed, as the result of negotiations initiated by the Central Americans themselves (and initially opposed by the Reagan Administration), fighting had ended in Central America. And as for the military ties to the Soviet Union, the latter had collapsed and the Cold War was over.

And did we begin the improve relations as we'd indicated we would do? No. We did the exact opposite. With the Cold War over and Cuba obviously open to a dialogue with us, many had expected that Bill Clinton, first as candidate and then as President, would move toward improved relations. But in the spring of 1992, hard on the campaign trail, he went to Miami, had dinner with the Cuban American National Foundation, came out with a large contribution to his campaign fund and said he liked the Cuban Democracy Act. This, he said, was the way to "put the hammer to Fidel Castro." Thus, we passed the Cuban Democracy Act which further tightened the embargo. I remember that in a debate with me on *Crossfire* in December of

1992, then-Congressman Robert Torricelli, the Act's principal proponent, stated that as the result of this legislation, the Castro regime would fall within weeks. Senator Jesse Helm's made similar predictions when the Helms-Burton Act passed in 1996. Its passage, he said, meant that we could now say "adios, Fidel."

But 11 years after Mr. Torricelli's statement and six years after that of Senator Helms, the Castro government is still as firmly in power as ever, its economic difficulties notwithstanding. The Clinton Administration in fact never made any real effort to improve relations with Cuba. For its part, the Bush Administration has pursued the most hostile policy of the past two decades, with active efforts to bring about regime change. As Mr. James Cason, the present Chief of the U.S. Interests Section, stated in Miami on April 7 of this year, his primary mission in Cuba is to bring about "the rapid transition to a participatory form of government." And through USAID, the government has given millions of dollars to groups in Miami, who supposedly assist the internal opposition in Cuba. This is the kind of activity which the United States would not permit in its own territory—activity which it would call subversive.

And it will not work. For the U.S. Government to speak loudly of its material assistance to dissidents in Cuba is to undercut their nationalist credentials and make them appear as agents of the U.S. government. That cannot be helpful to them, especially given the history of U.S.-Cuban relations since 1898 (see below). I have the greatest admiration for dissidents such as Oswaldo Paya, Vladimiro Roca and Elizardo Sanchez, none of whom would or do take any assistance from the U.S. Government. I believe they have an important role to play in expanding the parameters for civil society. But the dissident movement will not, cannot, bring about regime change, even if that were their objective, which it is not. The Cuban people are not going to rise up against the present government. Hence, Bush Administration efforts at regime change are likely to bring about results exactly the opposite of those desired, as, for example, was the case with the recent crackdown against the dissident community.

And as became clear in the aftermath of the crackdown, the dissident community is thoroughly penetrated by Cuban State Security. In fact, a good percentage of the dissidents are State Security agents. Are we not, then, working with an uncertain instrument?

Even if the bull-in-the-china-shop tactics of Mr. Cason—doubtless on the orders of the Bush Administration—helped to bring it about, the crackdown was deplorable and the United States should be looking for ways to reverse it. Indeed, the United States of course wishes to see Cuba move toward a more open society with greater respect for the civil rights of its citizens. But the point is that present policy—a policy of threats, efforts to isolate and strangle the island economically and to bring about regime change—will not advance those objectives; rather, as we have just seen, they will have the opposite effect. We could accomplish far more through the reduction of tensions and a cautious policy of engagement. There are those who say we should not trade with Cuba or allow our citizens to travel there because it is a Communist state. But during the darkest days of the Cold War, we had full diplomatic and trade relations with the Soviet Union itself and our citizens could travel there. This may not have been the key to the positive change we saw there, but it helped. And today, we trade with China and Vietnam and our citizens are free to travel to both. They are both Communist states and China's human rights record is worse than Cuba's. We believe that trade and travel in China will eventually lead to positive change. Why is that not true of Cuba as well? Why are trade and travel to Cuba so severely circumscribed? Americans believe that the travel of American citizens abroad is one of the best means of spreading the message of our democratic system. Why should it not have that effect in the case of Cuba?

There are to be sure those who say that it will not and they note that Canada, the European countries and various others have been trading with Cuba for years, while their citizens have been free to travel there. If this has not brought about democratic transformation, why should we expect that similar engagement with the United States would fare any better?

The answer to that is that the United States is in a *sui generis* situation. Historically, since 1898, it has been the principal threat to Cuba's sovereignty and independence. No matter what Canada and the European states may do, it is the United States that is the Colossus of the North, that blots out Cuba's northern horizon. Thus, so long as the United States is threatening and trying to choke Cuba economically, the Cuban Government will react defensively and call for internal discipline and that all rally around the flag against the external threat. Under those circumstances, internal liberalization is highly unlikely.

Thus, to repeat, in terms of human rights and a more democratic society, we could accomplish far more by reducing tensions and beginning a careful process of engage-

ment. The allimportant first step should be the lifting of travel controls. If one wishes to let light into a closed house, one does not do it by trying to keep all the doors and windows closed. On the contrary, one throws them open. Oscar Espinosa Chepe, an independent journalist in Cuba who was arrested in the recent crackdown and is now serving a 20-year sentence, had this to say in an article published on August 1, 2002, on Cubanet, a Miami-based service for Cuba's independent journalists: "Me changes that have come about in China and Vietnam, societies dominated by despotism for millennia, have been produced by contacts between peoples and by closer economic, commercial and cultural ties with democratic nations. Cuba, with Western traditions and culture and a history of ties with the United States—which have not been erased in spite of many efforts—will not be an exception. The policy of promoting people-to-people contact will also bear fruit here."

"And the efforts to defend Cubans' right to enter and leave their country freely," Chepe goes on to say, "should not be obscured by the current limitations on the right of American to travel to Cuba."

Congress should move immediately to remove or neutralize those limitations, which in addition to being a poor policy instrument violate the rights of American citizens. The Supreme Court ruled in 1967 that the U.S. Government could not ban American citizens from traveling to any given country. Accordingly, during the Carter Administration, all controls were removed. In re-imposing them in 1982, the Reagan Administration used a round-about way, through currency controls. In effect, it took the position that while it could not ban travel to Cuba, it could ban the expenditure of money to pay for that travel. The effect of course is the same. The courts, however, will not take issue. The Executive Authority holds that currency controls are an important instrument of its foreign policy and the courts refuse to second guess the Executive in foreign policy matters. The rights of our citizens are indeed being circumscribed, but remedy will not come from the courts. Nor will it come from the Bush Administration, which, incredibly, is actually tightening travel controls, by removing whole categories, such as people-to-people exchanges, from consideration for licenses. The new regulations have been imposed without any Congressional oversight and are being implemented in a most arbitrary manner. Some get licenses, some don't, often without any logical explanation as to why. This is simply unacceptable. It is up to the Congress to right this wrong by removing or neutralizing the controls themselves. Congress represents the American people and the majority of them want travel controls lifted.

Opening travel would not only serve our foreign policy goals and protect the rights of our citizens, it would benefit the U.S. travel industry, which needs all the business it can get.

The United States stands to benefit in other ways from engagement with Cuba. American farmers need all the markets they can find, and Cuba could be an important want. They want to sell their products to Cuba, and Cuba wants to buy. Again, we can expect nothing but resistance from the Bush Administration. Opening the Cuban market to our farmers will be largely up to the Congress—and it has already begun to move, with the Trade Sanctions Reform Act of 2000. This was undercut by the Republican leadership in the Congress which added a proviso that in the case of agricultural sales to Cuba, there could not be even private financing; all sales had to be for cash. Cuba at first rejected this arrangement, but began making cash purchases in 2002 and by the end of this year, 2003, will have purchased close to \$300 million dollars from American farmers. This could be increased significantly if (1) sales could be financed, and (2) the U.S. bought at least limited amounts of seafood and agricultural products from Cuba. We could usefully purchase Cuban shellfish, citrus products, and tobacco. Cuba would then have more capital with which to purchase U.S. products. Congress has it within its power to make this happen and should begin to move in that direction. It goes without saying also that Cuba would have much more cash to buy our farm products if travel controls were lifted, another reason for Congress to do so.

There are various other ways in which the United States could benefit from closer engagement with Cuba, such as closer cooperation in the interdiction of drugs and in the fight against terrorism. Cuba has offered to sign agreements leading to that cooperation. The Bush Administration has refused. Closer cooperation in medical research would also be useful. Cuba has a highly sophisticated research facility and has gone beyond us in a number of areas. It has, for example, produced a Meningitis B vaccine which the United States still does not have. Why not have our scientists work side by side?

Why has the Bush Administration—and the Clinton Administration before it—so assiduously avoided any engagement with Cuba, or even anything that hinted at engagement? Essentially, because of the domestic political calculation that in order to win Florida, a key swing state, a candidate must count with the votes—and cam-

paign donations—of the Cuban-American community, who make up some 6% of the Florida electorate and who, according to the calculation, overwhelmingly favor, even demand, continuation of a hard line toward Cuba. Thus, conventional wisdom has had it that any talk of lifting travel controls or any other step toward engagement could be fatal to one's candidacy.

But does conventional wisdom any longer hold up? No. Earlier this year, for example, the White House, thinking to please the Cuban-American community, let it be known that the President was thinking of flying to Miami on May 20 to announce that in response to the crackdown in Cuba, the U.S. would reduce or eliminate the charter flights on which Cuban-Americans fly from Miami to Havana, and reduce or eliminate the remittances Cubans in the U.S. send to their families on the island (amounting to almost one billion dollars a year, Cuba's largest source of hard currency).

But to the surprise of the White House, Miami was strongly opposed. As Alfredo Duran, leader of the moderate Cuban Committee for Democracy put it: "There would have been a revolt in Miami if those measures had been put in place, for the majority of Cuban-Americans want to continue to visit their families—or at least for it to be possible—and to send money to them. In fact, they do not want any new sanctions that would make life more difficult for their families over there."

Clearly, they are not opposed to expanded travel. Moreover, a recent poll (taken by Hamilton Beattie & Staff) indicated that the majority of Cuban-Americans (55%) now say the embargo has not worked and that it is time to look for a new policy. And a February poll taken by *The Miami Herald* found that a majority of Cuban-Americans now support efforts at dialogue between Cuban-Americans and Cuban Government officials.

In short, there has been a growing trend toward moderation on the part of the Cuban-American community—and it was this more moderate attitude on their part that left the President with nothing to say on May 20. He did not go to Miami; rather, he issued a *pro forma* message of solidarity with the Cuban people and the State Department expelled 14 Cuban diplomats—a rather meaningless gesture since all will be replaced. That was the extent of the U.S. response.

Meanwhile, a vocal minority of hardliners in the Cuban-American community continue to demand everything from invasion to trying Castro *en absentia*—and to heap scorn on the Bush Administration for not doing their bidding. But they are clearly fighting a losing battle—against majority public opinion, against growing agricultural and business interests insisting that the Cuban market be opened, and now against the majority in their own community.

In sum, the domestic political calculation which had until now thwarted the lifting of travel controls and other steps toward engagement with Cuba is now seen to have been overtaken by reality. The way is open to change.

