WRITTEN STATEMENT OF
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UNDER SECRETARY FOR INTERNATIONAL TRADE
U.S. DEPARTMENT OF COMMERCE

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Mr. Chairman, it is an honor to appear before the committee to discuss the Department of Commere's role in the U.S.-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.

<u>Embargo Overview</u>

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 "Libertad 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 non-government 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 organizations. 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 8 ½ 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.