Statement of the U.S. Chamber of Commerce

On: Hearing: "Examining the Status of U.S. Trade with Cuba and its Impact on Economic Growth"

To: United States House of Representatives Committee on Energy and Commerce, Subcommittee on Commerce, Trade and Consumer Protection

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The U.S. Chamber of Commerce is the world's largest business federation, representing more than three million businesses and organizations of every size, sector, and region.

More than 96 percent of the Chamber's members are small businesses with 100 or fewer employees, 70 percent of which have 10 or fewer employees. Yet, virtually all of the nation's largest companies are also active members. We are particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

Besides representing a cross-section of the American business community in terms of number of employees, the Chamber represents a wide management spectrum by type of business and location. Each major classification of American business -- manufacturing, retailing, services, construction, wholesaling, and finance – is represented. Also, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. It believes that global interdependence provides an opportunity, not a threat. In addition to the U.S. Chamber of Commerce's 112 American Chambers of Commerce abroad, an increasing number of members are engaged in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on national issues are developed by a cross-section of Chamber members serving on committees, subcommittees, and task forces. More than 1,000 business people participate in this process.

Thank you Chairman Rush, Ranking Member Radanovich, and members of the Committee on Energy and Commerce Subcommittee on Commerce, Trade and Consumer Protection. I greatly appreciate the opportunity to speak to this subcommittee on "Examining the Status of U.S. Trade with Cuba and its Impact on Economic Growth." My name is Adrean Scheid Rothkopf, and I am Vice President for Western Hemisphere Affairs at the U.S. Chamber of Commerce. The U.S. Chamber of Commerce is the world's largest business federation representing more than three million businesses and organizations of every size, sector, and region.

We applaud the recent moves by both Congress and the Obama administration to ease the embargo on Cuba. We commend members in both the House and Senate for introducing bills that range from lifting the travel ban, to facilitating the sale of agricultural and medical products, to lifting the embargo. The U.S. Chamber sees recent legislation and statements by the administration as important first steps toward a policy more likely to bring change to Cuba and commercial benefits to the United States.

But ultimately what we would like to see is an end to the embargo. During one of the most exciting and dynamic periods of global economic expansion and technological innovation, the Cuban people have been left out. Cuba's poverty is the direct result of a half century of Marxist mismanagement, but the embargo allows the Castro brothers to blame it on Washington. Lifting the embargo would not only remove their excuse for economic failure, it would help American farmers, businesses, and workers, as well as the Cuban people by providing new economic opportunities.

Prosperity and free enterprise go hand in hand. The Chamber's own mission statement commits us to "advancing human progress through an economic, political, and social system based on individual freedom, incentive, initiative, opportunity, and responsibility." The Chamber supports efforts to broaden economic engagement with the island in the belief that additional commercial and people-to-people contacts would promote a transition to democracy and full civil liberties. Indeed, the belief in the power of engagement allows Americans to travel to or do business with Iran and North Korea, and this should extend to Cuba as well.

It is clear that the time is right to finally end a failed policy that isolates the United States from the region and the world. Public opinion has shifted in favor of increased trade and travel to Cuba. A recent poll released by Bendixen

& Associates indicates that 67% of the Cuban-American community approves of the steps President Obama has announced to ease restrictions on family travel, remittances, and the flow of information. The April 17-19, 2009 Summit of the Americas illustrated both how isolated the United States is in our policy toward Cuba and how much goodwill we would generate throughout the region by adopting a new stance. It is in our best interest to consider the potential benefits such a change would bring to our other international relationships as well.

Current Status of Trade with Cuba

The ability of American companies to do business with Cuba is curtailed by the 1963 Cuban Assets Control Regulations (CACR), which lays out a comprehensive set of economic sanctions, including a prohibition on most financial transactions with the island. These sanctions were made stronger with the Cuban Democracy Act (CDA) of 1992 and the Cuban Liberty and Democratic Solidarity Act (commonly referred to as the Helms-Burton legislation) of 1996. Most significantly, Helms-Burton codified the embargo and has had a lasting impact on U.S. policy options toward Cuba.

Prior to the embargo, the United States accounted for nearly 70% of Cuba's international trade. Cuba was the seventh largest market for U.S. exporters, particularly for American farm producers. Despite the fact that the United States and Cuba are natural trading partners, the embargo forced Cuba to seek out new sources for its domestic consumption.

In 2000, under the Trade Sanctions Reform and Export Enhancement Act (TSRA) the U.S. Congress began to allow the sale of agricultural and medical products to Cuba. In four short years after TSRA, U.S. exports to Cuba rose from less than $1 million to $392 million in 2004. Despite heavy regulation under TSRA, U.S. agricultural products captured 42% of the Cuban market.

In 2008, U.S. exports to Cuba reached $718 million. Corn topped the list of exports at $198 million, followed by meat and poultry at $152.6 million and wheat at $135 million. The state of Louisiana was the top exporter to Cuba in 2008 with sales of $256 million. Texas and Florida follow with combined sales of $150 million.

Obstacles to Current Trade Opportunities

Under the Trade Sanctions Reform and Export Enhancement Act (TSRA) of 2000, the sale of commercial agricultural exports was permitted, but with a variety of restrictions and licensing requirements. TSRA allows for one-year export licenses and requires that Cuba pay U.S. exporters cash-in-advance via third-country banks. In 2005, the Bush administration amended TSRA's term of cash-in-advance payment by requiring payment before the goods departed a U.S. port.

Given these restrictions, the majority of current agricultural trade with Cuba is done by large multinational companies. A 2007 U.S. International Trade Commission report states that small exporters avoid the Cuban market because of the complexity of TSRA regulations. Removing restrictions on trade with Cuba would provide small and medium-sized enterprises (SMEs) with access to a much needed market in these difficult economic times.

As currently interpreted, cash-in-advance payment rules leave small and medium-sized exporters out in the cold when it comes to doing business in Cuba. Under the embargo, exporters to Cuba cannot take advantage of private U.S. financing of the sales, direct payments by Cuban banks are prohibited, and all payments must be routed through third-country banks. SMEs do not have established relationships with foreign banks, so these requirements create an additional impediment for sales of U.S. products to Cuba. Additionally, requiring payment before goods depart a U.S. port places our exports at a significant competitive disadvantage. As a result, U.S. agricultural sales to the island decreased by nearly 15% in the two years following the Bush administration's amendment of TSRA's term payments of cash-in-advance. Applying the commercial term of cash-in-advance payments to require cash on delivery, rather than cash before products leave U.S. ports, would reestablish the natural competitive advantage of U.S. products.

Restrictions on the ability to travel for the purpose of establishing commercial relationships also significantly impacts the ability of U.S. firms to trade with Cuba. U.S. exporters often lose out to third-country competitors because of the significant delays travel restrictions place on the ability to transact commercial sales. U.S. business travel to Cuba to explore the market would create additional commercial opportunities. Additionally, lifting the restrictions on visits from Cuban officials to confer with U.S. suppliers, inspect facilities, and discuss sanitary and phytosanitary issues would greatly benefit the sale of U.S. food and agricultural exports to Cuba.

Dismantling policies that prohibit trade and investment in Cuba will reduce the transaction costs that place U.S. agricultural products at a competitive disadvantage. Doing so will bring benefits to U.S. farmers, businesses, and workers.

Missed Opportunities

It is clear that exporters from the United States are missing out on significant opportunities. While the Cuban economy is small and underdeveloped, our allies are taking a disproportionate share of the market of an island that is only 90 miles from our shores and is a natural market for U.S. goods and services. In 2001, the International Trade Commission estimated that the embargo cost U.S. exporters up to $1.2 billion annually in lost sales. The U.S. Chamber recommends that an updated study be conducted to evaluate the missed opportunities for U.S. farmers, businesses, and workers that are currently being taken up by our allies and trading partners.

Venezuela is Cuba's main trading partner with $7 billion in bilateral trade in 2007, much of it coming from the subsidized oil sold to the island. The European Union is second with $2.7 billion in bilateral trade, $2.13 billion of it being sales of EU products. China is Cuba's third-largest trading partner, with the two sides generating $2.2 billion annually. China is the top importer of Cuban products, especially nickel and sugar, while Chinese-made consumer goods, trucks, and buses have become common on the island. Canada, with an economy one-tenth the size of the United States, sells more to Cuba than the United States does. Cuba is continuing to diversify its commercial and business relationships around the world even with distant trading partners such as Malaysia and Vietnam.

While the U.S. remains on the sidelines, we are missing significant opportunities in numerous areas, including but not limited to:

Agriculture

A 2008 report of the U.S. Department of Agriculture states that 84% of all food consumed in Cuba is imported. Under TSRA, the United States has gained control of a larger share of this market, but there are significant additional opportunities for growth.

In 2008, the United States had $153 million in combined meat and poultry sales to the island. The added cost of financial restrictions, the use of third-country banks, limited cargo and shipping options, and restrictions on visits by Cuban officials to U.S. slaughtering and processing facilities have had a negative impact on the export of poultry, beef, and pork to Cuba. The U.S. International Trade Commission estimates that if all restrictions on trade and travel are lifted, sales in poultry, beef, and pork could rise by $25.7-37.8 million.

Cuba has the potential to become the top foreign market for U.S. rice. While the United States was Cuba's primary source of rice prior to the embargo, U.S. rice exports to Cuba only reached $7 million in 2008. In recent years, Cuba has imported more than 500,000 tons of rice annually, mainly from Vietnam and China. A Congressional Research Service study estimates that removing restrictions on trade would increase rice exports by $14 to $43 million. The United States is a natural source of rice for Cuba, and the competitive advantage of our proximity to the island over China and Vietnam is being limited by regulatory impediments.

Tourism

Cuba is the only country in the world where the U.S. government restricts travel by American citizens, who are able to freely travel to Iran and North Korea. There is a growing consensus that additional people-to-people contacts, such as those encouraged by the U.S. government to Eastern Europe during the Cold War, will lead to Cuba becoming more open and democratic.

While the impact of American travel to the island on the regime may not be immediate, the opportunities for growth and job creation in the tourism industry are real for both U.S. business and Cuba. Lifting the travel ban will create jobs in the U.S. and Cuban tourism industries and have an impact on direct investment in tourism infrastructure such as hotels, shops, and cruise ship ports.

The U.S. International Trade Commission estimates that lifting the travel ban would increase U.S. visitors to Cuba from 171,000 in 2005 to between 554,000 and 1.1 million. An increase in U.S. tourism to the island would create a demand for more and higher quality food for tourists. It would also raise the purchasing power for U.S. agricultural exports and consumer goods of Cuban citizens working in the tourism and related industries. The overall impact of increased tourism on Cuba's GDP would provide the Cuban government additional hard currency for the purchase of imports, including from the United States.

Machinery

As Cuba rebuilds after three devastating hurricanes and two tropical storms that caused widespread damage in 2008, the island is an important potential market for construction equipment and agricultural machinery. U.S. businesses are precluded from participating in the recovery efforts.

Additionally, Cuba has a dilapidated infrastructure system as a result of the inefficiencies inherent in centralized economies and the mismanagement of the Castro regime. While the Cuban government's ability to invest in infrastructure is currently limited, an eventual opening or reform of the Cuban economy will create opportunities for U.S.-made equipment to build the island's infrastructure. In the meantime, the European Union is taking advantage of the opportunities; in 2007, $696 million of the value of their trade was in machinery and transportation equipment.

Oil

The U.S. Geological Survey (USGS) estimated 4.6 billion barrels of undiscovered oil lie in Cuba's northwest offshore sector in 2004. Current Cuban government estimates are that reserves total 20 billion barrels. While energy analysts doubt the accuracy of Cuban government estimates, even USGS estimates indicate significant resources lie off the Cuban coast.

As part of a national economic strategy, Cuba is encouraging foreign participation in the energy sector. The United States is missing out on opportunities being seized by foreign governments and businesses. Companies like Spain's Repsol YPF and Brazil's Petrobras are currently investing heavily in the exploration of Cuban offshore oil fields. One international consortium, which includes Spanish, Brazilian, Norwegian, and Indian companies, is planning to drill exploration wells this summer. Lifting trade restrictions would allow U.S. oil companies to not only explore potential fields but also allow Cuba to increase production from current fields in an environmentally-sustainable way.

There is a natural niche for U.S. oil companies to participate. Subsurface similarities with existing oilfields in the U.S. Gulf of Mexico would allow U.S. companies that have experience in the Gulf to mitigate complicated technical challenges in local deepwater development, leading to cost, environmental, and safety efficiencies. It is very likely that there are technical crude oil composition similarities between Cuban oil resources and those that are already being produced in the Gulf. Therefore, the refineries that are along the Gulf Coast that process existing oil resources can also likely process Cuban oil with relative ease. U.S. refineries already tuned for this type of crude oil production would result in processing efficiencies. Additionally, Cuba's proximity to the U.S. allows for a transportation cost premium for the U.S. market that would serve to moderate energy prices to the United States.

While Cuba is 90 miles away, the maritime boundary is just 45 miles away from the U.S. coastline. That reality, coupled with the flow of ocean currents, means that the United States, and particularly the state of Florida, ought to be concerned about who and how Cuba's oil fields are being developed from an environmental standpoint. An oil spill 45 miles from the Florida coast could mean significant environmental damage for the United States. U.S. companies have a proven a track record, the technical capabilities, and the national interest to take environmental concerns seriously.

Doing Business in Cuba

It is clear that Cuba represents a natural market for U.S. goods and services and that U.S. businesses are missing commercial opportunities in Cuba. The U.S. Chamber believes that opening trade with Cuba will bring political and economic change to the island.

Establishing a commercial relationship with Cuba will certainly raise legitimate concerns on the part of U.S. businesses. The Cuban government will have to provide certain guarantees and safeguards to U.S. business in the areas of rule of law, environmental protection, infrastructure for travel requirements, intellectual property protection and incentives for innovation, and labor rights. Additionally, there are important considerations regarding financing.

However, these concerns should not impede a lifting of trade restrictions with Cuba. U.S. businesses can quickly and easily benefit from open trade with Cuba.

Conclusion

The U.S. embargo on Cuba is one of the biggest foreign policy failures of the past half century. Rather than encouraging Cuba to democratize, the embargo has helped prop up the Communist regime. Instead of isolating Cuba from the rest of the world, it has isolated the United States from our allies. The Cuban dictatorship could never have withstood five decades of free trade, free markets, and free enterprise.

American farmers, businesses, and workers are already missing significant economic opportunities because of the embargo that have eagerly been taken up by our allies and trading partners. But it is not too late for us to begin to take advantage of these opportunities as the United States represents a natural trading partner for the island.

Once again, I greatly appreciate the opportunity to testify today.