U.S. Financial Flows in the Cuban Economy

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I. INTRODUCTION

The collapse of the Soviet Union and its European proxies in the early 1990s inaugurated a very difficult period for Cuba and an unprecedented economic recession that seriously threatened the survival of the Castro government. The Cuban authorities were forced to loosen up their centrally planned economy, establish more developed relations with the capitalist world, and introduce limited market reforms in areas including trade, foreign investment, and tourism. Given the emergency situation of the Cuban economy, the end of Cuba's active support of revolutionary forces in Africa and Latin America, as well as the end of its close ties with the Soviet Union, one could have expected the beginning of friendlier relations between Washington and Havana. Instead, the United States tightened the embargo against the island with the enactment of the Torricelli Law in 1992 and the Helms-Burton Law in 1996. As noted by Jorge Dominguez, "[t]he Cold War had turned colder in the Caribbean. Cuba was the only country governed by a communist party whose domestic political regime the United States was still committed by law and policy to replace, albeit by peaceful means."[1]

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[1] Jorge I. Dominguez, *U.S.-Cuban Relations: From the Cold War to the Colder War*, 39 J. INTERAM. STUD. & WORLD AFF. 49 (1997).

Although one of the reasons for additional sanctions was to stimulate democratic reforms in Cuba, the whole point of U.S. policy was to exert economic pressure on the Castro government (and eventually hasten its demise) by stemming the flow of hard currency to the Caribbean island. A spokesman for the U.S. Treasury Department recently admitted that sanctions against Cuba were mainly intended to "deprive the Castro regime of the financial wherewithal to continue to oppress its people."[2] In addition, the United States tried to capitalize on Cuba's economic dilemma and frustrated economic adjustment. It is important to note that, "up to 1989, the embargo placed conditions on the 15 percent of Cuba's international trade which fell outside the socialist market; after 1991, the embargo had a restrictive influence on more than 90 percent of that trade."[3] Under these circumstances, it appears obvious that U.S. policymakers had an unparalleled opportunity finally to get the most out of economic sanctions that had failed for thirty years to overthrow the rule of Fidel Castro.

There has been considerable debate about just how effective U.S. economic sanctions against Cuba have been in denying hard currency earnings to the Castro government. In light of the available information, it could be argued that the United States has not only been unable to foster fundamental political reforms in Cuba, but also has actually contributed to the recovery of the island's economy from the deep recession of the early 1990s. The purpose of this study is to demonstrate that, in spite of the tightening of the embargo, the United States has played and continues to play quite an important role in the Cuban economy. More specifically, significant amounts of hard currency have been channeled into the Cuban economy through U.S. visitors (especially Cuban-Americans), remittances sent by Cuban exiles to their families on the island, U.S. telecommunications payments to Cuba, U.S. food exports (sold in government-owned dollar stores), and U.S. investors who hold publicly traded shares of major foreign firms engaged in business activities with the government of Fidel Castro. The study also intends to demonstrate that a significant share of hard currency reaching Cuba is in violation of U.S. regulations, thus providing some evidence for the inability of the U.S. government to obtain compliance from its own citizens.

The importance of this work resides in its attempt to enrich the general debate on the role and usefulness of economic sanctions and shed light upon a specific aspect that has been generally neglected by scholars of international relations and by the literature on the Cuban embargo. While many scholars tend to evaluate the utility of sanctions by analyzing the behavior of the target government, this study focuses on the citizens of the coercer state. Far

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[2] David D. Kirkpatrick, *U.S. Halts Cuba Access by Educational Groups*, N.Y. TIMES, May 4, 2003, sec. 5, at 3.

[3] PETER SCHWAB, CUBA: CONFRONTING THE U.S. EMBARGO 71-72 (1999) (quoting MICHELE FRANK & GAIL REED, DENIAL OF FOOD AND MEDICINE: THE IMPACT OF THE U.S. EMBARGO ON HEALTH & NUTRITION IN CUBA (1997)).

from downplaying the importance of economic adjustments devised by the target country to cope with sanctions, the contention of this paper is that U.S. citizens' economic activities (both legal and illegal) have mitigated the impact of the Cuban embargo and undermined its main goal. The study begins with an analysis of international tourism in Cuba and the presence of U.S. visitors on the island. It continues with an examination of the importance for the Cuban economy of remittances sent from Cuban exiles and payments to the Cuban government by U.S.-based companies for telecommunications services. Finally, it provides a brief review of recent developments in U.S. food sales to Cuba and U.S. investments in foreign companies that operate in the Cuban market. The conclusion summarizes the main findings of the research and offers some suggestions for a more effective U.S. policy toward the government of Fidel Castro.

II. INTERNATIONAL TOURISM AND U.S.-BASED TRAVEL TO CUBA

Since the late 1980s, Cuba has targeted tourism as a priority sector because of its ability to generate foreign exchange. International tourism is today, at least in gross terms, the single most important source of hard currency for the Cuban government. Cuba is again emerging as one of the Caribbean's most popular holiday destinations. The tourism industry, which was relatively small prior to 1990, has grown at an astounding 13.5% annually (as measured by the average increase in the number of tourist arrivals) since the legalization of the dollar sector of the economy in 1993, with a period of small decline following the September 11, 2001 terrorist attacks on the United States and a strong recovery in 2003. Even more important, there has been a significant improvement in the integration between local industries and the Cuban tourist sector. The proportion of domestically produced goods provided to the tourist industry has increased from 12% in 1990 to 69% in 2003.[4] While ten years ago practically all products for hotels and restaurants were imported, local corporations and joint ventures with foreign firms currently supply a wide range of products such as mineral waters, soft drinks and alcoholic beverages, processed meat, omnibuses, air conditioners, telephones, and electronic equipment.[5]

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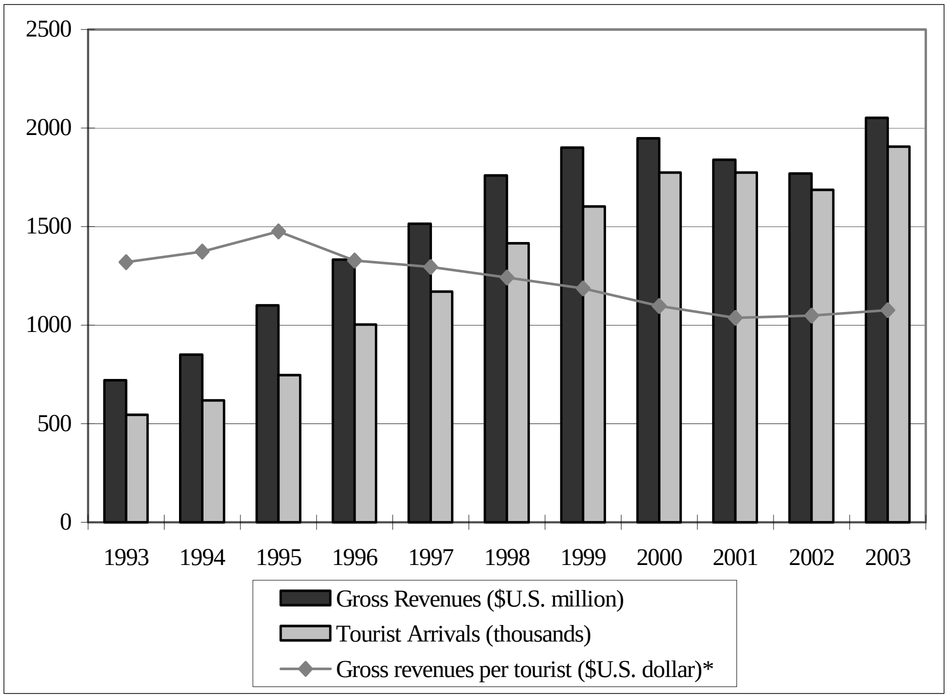
[4] OFICINA NACIONAL DE ESTADÍSTICAS, PANORAMA ECONÓMICO Y SOCIAL: CUBA 2003 (2004).

[5] Miguel Alejandro Figueras Pérez, *El Turismo Internacional y la Formación de Clusters Productivos en la Economía Cubana*, *in* CUBA: REFLEXIONES SOBRE SU ECONOMÍA 112 (Universidad de La Habana ed., 2002).

Figure 1: International Tourism in Cuba, 1993-2003[6]



* Calculation of the author

Figure 1 reports data on gross revenues from tourism, number of tourist arrivals, and gross revenues per tourist from 1993 to 2003. According to official figures, arrivals rose from 546 thousand in 1993 to over 1 million in 1996, and reached about 1.9 million at the end of the year 2003 (up 13% from 2002). Similarly, gross revenues from tourism increased from $720 million in 1993 to more than $1.9 billion in 2000, making the tourist industry, as Cuban officials often describe it, the "engine" of the island's economy. For 2003, the National Statistical Office (ONE) reported that gross revenues from tourism were a little more than $2 billion, up 16% from the previous year. In terms of tourist expenditures, gross revenues per tourist per year increased from $948 in 1991 to $1475 in 1995. Since then, however, annual gross revenues per tourist have decreased steadily, and in 2001 they were $1037, just 9% above the 1991 level. This suggests that if there are not other avenues for the economy to grow in the future outside of tourism, the Cuban economy might plateau once the tourist sector reaches its maturity. In 2003, gross revenues per tourists were approximately $1076, only 3.8% above the 2001 level.

Restrictions on travel from the United States to Cuba have been a key component of U.S. policy toward the Castro government for most of the last forty years, although they have changed many times since 1963. During the

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[6] 2001 ANUARIO ESTADÍSTICO DE CUBA (2002); OFICINA NACIONAL DE ESTADÍSTICAS (2004).

1990s, President Clinton repeatedly made changes to travel regulations in response to actions by the Cuban government. As a reaction to the *balsero* crisis of the summer of 1994, he banned family visits by Cuban-Americans, who were previously allowed to visit their close relatives on the island, except in cases of extreme humanitarian need. In 1996, after the shooting down of two U.S. planes flown by Cuban exiles, he suspended direct flights between the two countries.[7] However, in 1999, as part of a new policy aimed to promote *people-to-people* contacts, he streamlined travel procedures for students, athletes, artists, and other groups and individuals to visit Cuba. Clinton's policy, inaugurated in the wake of Pope John Paul II's historic visit to Cuba, also allowed resumption of charter flights from Miami to Havana, as well as new direct flights from New York and Los Angeles. These changes were mainly intended to facilitate family reunions between Cuban Americans and their families on the island.[8]

In order to travel to Cuba, individuals subject to U.S. law must be authorized by a general license (which requires no written authorization) or a specific license (which requires approval) from the Office of Foreign Assets Control (OFAC) of the Department of the Treasury. Prior to the new rules introduced this year, the majority of individuals traveling under a general license were Cuban Americans who visited their families on the island. Others who could travel without specific documentation from OFAC included U.S. government officials, full-time journalists, professional researchers, and academics. Alternatively, a specific license was required for businessmen, free-lance journalists, and members of religious organizations. In March 2003, the Bush Administration introduced regulations on travel and remittances that allowed more Cuban Americans to visit relatives on the island once a year (a specific license was nonetheless required for more than one visit per year) and forbade trips to Cuba that combined non-credit educational activities with *people-to-people* contacts, which had become a loophole for groups to travel to Cuba when the educational aspect was barely evident. The rules eliminated the previously established requirement that Cuban-American visits take place only in cases of a self-defined "humanitarian purpose," such as a sick or dying relative, thus easing the conditions under which U.S. citizens of Cuban descent could travel to Cuba.[9] On June 30, 2004, the Bush Administration implemented new measures against Cuba, aimed to stem the flow of hard currency reaching the island and to hasten the end of Fidel Castro's rule. In addition to further restrictions

[7] DOROTHY ROBYN ET AL., CTR. FOR INT'L POLICY, THE IMPACT ON THE U.S. ECONOMY OF LIFTING RESTRICTIONS ON TRAVEL TO CUBA 2 (2002).

[8] SUSAN ECKSTEIN & LORENA BARBERIA, CTR. FOR INT'L STUDIES (MIT), CUBAN-AMERICAN CUBA VISITS: PUBLIC POLICY, PRIVATE PRACTICES 12 (2001), *at* http://web.mit.edu/cis/www/migration/pubs/mellon/5_cuba.pdf (last visited Oct. 15, 2004).

[9] LEXINGTON INST., CUBA POLICY REPORT: THE BUSH ADMINISTRATION UNVEILS ITS TRAVEL POLICY (2003), *at* http://www.lexingtoninstitute.org/cuba/newsletter/030407newsletter.asp (last visited Oct. 15, 2004).

for U.S.-based educational travel to the island, these measures prohibit Cuban Americans from visiting relatives in Cuba more than once every three years (a specific license is now required for each trip),[10] limit their stay to just fourteen days,[11] and reduce the amount they can spend during their visits from $167 to $50 per day.[12]

Table 1 reports data on U.S. visitors to Cuba for the period between 1990 and 1998. Notwithstanding the travel restrictions, the number of U.S. visitors to the island has increased significantly during the 1990s. According to official Cuban statistics, which include only U.S. citizens of non-Cuban origin, travelers from the United States rose from about 7000 in 1990 to more than 46,000 in 1998.

Table 1: U.S. Visitors to Cuba, 1990-1998[13]

	1990	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
U.S. Citizens not of Cuban descent	7375	11,233	10,050	14,715	17,937	20,672	27,113	34,956	46,778
Cuban Americans *	2600	4600	14,600	19,400	33,500	39,300	58,300	71,700	94,900
Total	9975	15,833	24,650	34,115	51,437	59,972	85,413	106,656	141,678
Rank**	7	7	6	6	5	4	4	4	4

* Estimates of the author

** The rank refers to the position of the United States among nations whose citizens visit Cuba.

Regarding Cuban Americans, the actual number of visitors grew from approximately 2600 in 1990 to almost 40,000 in 1995. Between 1996 and 1998 (when Clinton banned direct travel), visits by Cuban Americans to Cuba almost doubled from 58,300 to 94,900.[14] In short, whereas in 1990 about

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[10] 31 C.F.R. § 515.561(a) (2004).

[11] *Id*.

[12] *Id*. § 515.560(c) (2004).

[13] OFICINA NACIONAL DE ESTADÍSTICAS 1996; OFICINA NACIONAL DE ESTADÍSTICAS 1998; OFICINA NACIONAL DE ESTADÍSTICAS 2000; A. Alvarez and D. Amat, El Mercado Emisor Turistico Estadounidense Hacia el Caribe (1996) (unpublished diploma work, Universidad de La Habana); WORLD TOURISM ORG., 2003 YEARBOOK OF TOURISM STATISTICS (2003).

[14] Susan Eckstein and Lorena Barberia argue that there is contradictory information about Cuban-American visits to Cuba. According to the authors, while Cuban sources report that individuals of Cuban descent visiting the island between 1994 and 1996 were about 20,000 per year, U.S. sources estimate that the actual number was approximately 40,000 in 1994 and 100,000 per year between 1995 and 1999. ECKSTEIN & BARBERIA, *supra* note 8, at 13.

10,000 U.S. citizens traveled to Cuba, representing the seventh largest group among foreign travelers, in 1998 this number jumped to more than 140,000. By 1995, the United States was already the fourth largest source of visitors to the island after Canada, Italy, and Spain.[15]

In the last few years, the presence of the United States in the Cuban tourist market has become increasingly important. Table 2 presents data on arrivals to Cuba from selected countries for the period between 1999 and 2003. In 1999, an estimated 182,000 U.S. citizens (about 120,000 were Cuban Americans) traveled to Cuba, a greater number than from any other country except Canada. Since then, visits from the United States have increased continually, solidifying U.S. citizens as the second largest group among foreign travelers. For instance, the numbers of tourists from some European countries such as Germany and Spain have declined significantly since 2000. Instead, approximately 125,000 Cuban Americans and 79,000 U.S. citizens of non-Cuban origin visited Cuba in 2001, representing about 11.5% of total arrivals to the island. About 50,000 were tourists who traveled via third countries, with or without their government's authorization.[16] As noted by a Canadian official, "U.S. tourists are quite visible among visitors arriving in Cuba on flights from Montreal, Toronto, Kingston, Nassau, and Mexico City."[17]

[15] In 1995, Canada was the most important source of visitors to Cuba (143,541), followed by Italy (114,767), Spain (89,501), and the United States (59,972). In 1998, Canadian travelers to Cuba numbered 215,644, followed by Italians (186,688), Germans (148,987), and individuals from the United States (141,678). 2000 ANUARIO ESTADÍSTICO DE CUBA (2001).

[16] *Embargo or Not, US is Now Fidel Castro's Economic Partner*, ECONOMIST, Jan. 4, 2003, *available at* 2003 WL 6244452.

[17] UNITED STATES INT'L TRADE COMM'N (USITC), 3398 USITC, THE ECONOMIC IMPACT OF U.S. SANCTIONS WITH RESPECT TO CUBA (2001), *available at* http://www.usitc.gov/wais/reports/arc/w3398.htm (last visited Oct. 15, 2004).

Table 2: Tourist Arrivals by Origin, 1999-2003[18]

	1999	2000	2001	2002	2003***
Canada	276,346	307,725	350,426	348,468	452,438
United States	182,445	200,298	203,989	203,646	220,000
-U.S. Citizens (ncd)*	62,345	76,898	78,789	77,646	90,000
-Cuban Americans**	120,100	123,400	125,200	126,000	130,000
Italy	160,843	175,667	159,423	147,750	177,627
Germany	182,159	203,403	171,851	152,662	157,721
France	123,607	132,089	138,765	129,907	144,548
Spain	146,978	153,197	140,125	138,609	127,666
United Kingdom	85,829	90,972	94,974	103,741	120,866
Mexico	70,983	86,540	98,495	87,589	88,787
Others	373,591	424,095	416,493	373,790	416,029
Total	1,602,781	1,773,986	1,774,541	1,686,162	1,905,682

* Individuals not of Cuban descent (ncd)

** Estimates of the author

*** Preliminary Estimates

What's more important, U.S. travelers are "believed to spend about $200 million a year in Cuba."[19] Thus, even with sanctions in place, the United States is an important source of hard currency for the Cuban tourism industry, providing almost 11% of its total gross revenues in 2001. Preliminary estimates from Cuban sources report a record presence of 220,000 U.S. visitors to Cuba in 2003. For U.S. citizens not of Cuban descent, the number of arrivals peaked at about 90,000 (an increase of 15.9% over 2002), with an additional 130,000 Cuban Americans visiting their families last year.[20]

There is no doubt that the increasing numbers of U.S. visitors to Cuba in the last few years have been triggered by Clinton's *people-to-people* contacts

[18] 2001 ANUARIO ESTADÍSTICO DE CUBA (2002); OFICINA NACIONAL DE ESTADÍSTICAS (2004); EIU (2001, 2003); U.S.-CUBA TRADE & ECON. COUNCIL (2002); Jean-Guy Allard, *Record de Visitantes Procedentes de EE.UU.*, GRANMA INTERNACIONAL (Havana), Jan. 7, 2003, *available at* http://granmai.cubaweb.com/espanol/ene03/mar7/record.html (last visited Oct. 15, 2004); CUBAN MINISTRY OF TOURISM (2003); WORLD TOURISM ORG., 2003 YEARBOOK OF TOURISM STATISTICS (2003); Conversations with Cuban economists.

[19] Andres Oppenheimer, *U.S. May Tighten Cuba Travel*, MIAMI HERALD, Dec. 15, 2002.

[20] Interview with a Cuban economist in Havana (June 17, 2004).

policy, inaugurated in January 1999. However, it is important to take into consideration that many individuals from the United States visit Cuba through third countries without U.S. travel permits, technically violating U.S. economic sanctions prohibiting spending money for unlicensed purposes. Licensed travelers are currently allowed to spend up to $167 per day for hotels, meals, and ground transportation.[21] Since 1994, the number of individuals subject to U.S. law traveling to Cuba, but not authorized from OFAC to do so, has increased on average from 19% to 21% of all U.S. travelers to Cuba, while legal visits rose by just 9% to 11%. For instance, it is reported that approximately 22,000 U.S. citizens visited Cuba in 2000 without authorization from OFAC.[22] Other estimates put the number of illegal visits to Cuba by U.S. citizens between 40,000 and 50,000 per year, representing up to one-fourth of total U.S. travel to the island. Cuban authorities, eager to accept U.S. visitors paying in dollars, do not stamp the passports of Americans, leaving no official trace of their presence.[23] One thirty-three-year-old artist from Minneapolis said she was visiting Toronto when she saw there was a flight to Havana. So she bought a ticket and spent a week touring the city. Another U.S. citizen from Minneapolis said he headed illegally "for Cuba by way of Cancun, Mexico."[24] He brought gifts for locals and spent about $2000 in cash during his stay because the travel ban prohibits Americans from using credit cards on the island.[25]

Since President George W. Bush took office in 2001, OFAC has been cracking down on those who travel to Cuba without permission. During the Clinton Administration, OFAC took steps to levy fines (the average fine is $5500) on between 46 and 188 Americans per year. That figure jumped to 700 in 2001.[26] However, these fines affect fewer than three percent of the total number of violators per year, and they target primarily U.S. citizens of non-Cuban descent. As noted by U.S. Representative Jeff Flake (R-Arizona), "U.S. authorities pay no attention to Cuban-Americans even as they harass and level fines against Americans who go to the island."[27] While being allowed to travel for a self-defined humanitarian need, "their relatives always seem to get sick around the same time, like Christmas and other major holidays."[28] In

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[21] Licensed travelers can spend additional money for telephone calls and for transactions directly related to the activities for which a license was issued.

[22] U.S.-CUBA TRADE & ECON. COUNCIL, 2002 COMMERCIAL HIGHLIGHTS, *available at* http://www.cubatrade.org/2002Lst.pdf (last visited Oct. 15, 2004) [hereinafter USCTEC 2002].

[23] Kevin Sullivan, *Americans Defy Cuba Embargo*, WASH. POST, Oct. 31, 2001, at A23.

[24] *Id*.

[25] Jenalia Moreno, *Cuba Back Into Game of Tourism*, HOUSTON CHRON., Feb. 28, 2003.

[26] *Americans Who Make Trips to Cuba Without OK Could Be Prosecuted*, HOUSTON CHRON., Mar. 9, 2003.

[27] Tracey Eaton, *8 Vow to Have U.S.-Style Meeting in Cuba*, DALLAS MORNING NEWS, Mar. 11, 2003, at 4A.

[28] *Id*.

addition, there are several cases of Cuban Americans who are able to visit Cuba twice a year without asking OFAC for a specific license. Asked to comment about how she was able to visit Cuba twice in 2000 to meet a newborn nephew and to take a vacation on the beach, a Cuban American replied: "Coming to Havana is very easy. Although I am a U.S. citizen, I am required to have a Cuban passport. So I use my [U.S.] passport to enter and leave the United States and the third party country, while using my Cuban passport for the rest of the journey."[29] In short, whether they target U.S. citizens of non-Cuban descent or Cuban Americans, travel restrictions are unable to stem illegal travel to Cuba. Even admitting that the threat of prosecution might have discouraged some potential travelers, it is virtually impossible for the U.S. government to prevent its citizens from visiting Cuba and spending money there in violation of U.S. regulations.

III. REMITTANCES TO CUBA

As a result of the deep economic recession that threatened Cuba's survival in the early 1990s, the Castro government decriminalized both the possession and the use of hard currency (especially U.S. dollars) in August 1993. In addition, the government legalized dollar-denominated remittances under its 1994 monetary reform program. Since then, family remittances, mainly sent from Cuban Americans, have become an important source of supplemental income for many Cubans. Even more important for the purpose of this study, these practices have significantly boosted the domestic dollar market in Cuba. As observed by Ana Julia Jatar-Hausmann, the legalization of the use of foreign currency encouraged more family remittances, and the high prices at government-owned dollar stores acted as a hidden sales tax on remittances, effectively allowing the Cuban authorities to obtain access to that money.[30] In light of this development, several scholars contend that money sent from abroad has been the single most important factor in reactivating the Cuban economy in the second half of the 1990s.

Pedro Monreal, an academic from the island, argues that in recent years Cuba has become increasingly dependent on remittances and donations from abroad. He specifies that, in strict terms, the Cuban economy cannot be qualified as an economy that depends fundamentally on remittances because other important activities such as tourism and mining have emerged. Nevertheless, he concludes that the importance of money sent from abroad is beyond question. In fact, in net terms, remittances are the biggest source of foreign exchange for the country, more than tourism and sugar.[31] Many of those who analyze data on revenues from tourism (about $2 billion in 2003)

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[29] *Forbidden Fruit of Cuba Lures U.S. Travelers*, INTER PRESS SERV., Nov. 1, 2001.

[30] Ana Julia Jatar-Hausmann, *Cuba: Is American Business Missing Out? Sí: A Bright Future*, ACROSS THE BOARD, July-Aug. 2000.

[31] Pedro Monreal, *Las Remesas Familiares en la Economía Cubana*, 14 ENCUENTRO DE LA CULTURA CUBANA 49, 50 (1999).

believe that the tourism industry is the main generator of hard currency for the Cuban economy. However, it must be noted that these are gross figures. In net terms, revenues are significantly lower. In March 2001, Carlos Lage estimated the cost per dollar of gross income from tourist activities at $0.76.[32] This indicator is very high and refers only to the direct cost in dollars, not the indirect cost incurred by the state in the tourist sector. Also consider that domestically produced goods for tourism have an imported (indirect) component in dollars, which implies that the cost per dollar of gross income would be even higher. Direct and indirect costs per dollar have been estimated by some economists at more than $0.80, which would mean for the country a net result of just $0.20 for every dollar of gross income from tourist activities.[33] Such an estimate has been recently confirmed by Cuban Vice Minister of Tourism Marta Maiz. In May 2003, in an interview for the Cuban magazine *Bohemia*, she said that in 2002 "income from tourism was $52.2 million less than in 2001, with a cost of USD 80 cents for every dollar captured by the country."[34]

Americans can send no more than $300 every three months to friends and relatives in Cuba. Prior to the OFAC regulations regarding travel and remittances to Cuba enacted in March 2003, a cap of $300 in remittances was also applied to licensed travelers to Cuba, who were required to produce the visa recipient's full name, date of birth, and the number and date of issuance of the visa or other travel authorizations issued. A licensed traveler was authorized to carry only remittances that he or she was authorized to remit and could not carry remittances made by others. Since 1999, the U.S. government has also authorized several companies in the United States to legally transfer money to Cuba by relying on local individuals in Cuba who are contracted to deliver the money. The three most established businesses are Western Union, MoneyGram, and El Español. Within the limit of $300 per trimester, senders in the United States (who must be at least eighteen years old) can send smaller amounts, such as $100, more than once in that period. However, they have to pay a fee (around $28 in June 2002) each time the money is transferred. The OFAC regulations of March 2003 allowed U.S. authorized travelers to Cuba to carry as much as $3000 in household remittances, up from $300 each quarter. The increased amount of remittances was intended to help up to ten households per traveler.[35]

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[32] Carlos Lage, *Declaration on Noticiero Nacional de la Television Cubana* (Cuban National Television broadcast, Mar. 18, 2001).

[33] *Cuba: Economía y Turismo*, ECONOMICS PRESS SERV., May 31, 2001.

[34] Gilda Fariñas & Susana Tesoro, *Turismo: Monedas al Aire*, BOHEMIA, May 16, 2003.

[35] Nancy San Martin, *Rules Changed on Cuba Trips*, MIAMI HERALD, Mar. 25, 2003, at 3A. The OFAC amendments not only increase the limit on the number of remittances that can be carried to Cuba by an authorized traveler, but also introduce the following technical changes: a) authorize licensed remittances to be made from blocked inherited funds; b) restrict quarterly remittances from being sent to senior-level Cuban government officials or senior-level Cuban Communist Party officials; c) simplify rules on authorization for certain emigration-related remittances. 31 C.F.R. 515 (2003). For further information, see U.S. DEP'T OF THE TREASURY,

However, the new measures on remittances implemented by the Bush Administration on June 30, 2004, reestablish the cap of $300 dollars for licensed travelers and limit money transfers only to immediate relatives, excluding aunts, uncles, and cousins, all of whom were formerly on the list of cash recipients. Additionally, these measures ban U.S. citizens from including clothing and other such items in their gift parcel deliveries to Cuba; the parcels' contents are limited to food, medicines, medical supplies, and receive-only radio equipment.

Estimating the flow of remittances to Cuba is difficult, given the lack of reliable information. Official counts (as reported by the Economic Commission for Latin America and the Caribbean, or ECLAC) make inferences from "net current transfers" in Cuba's balance of payments, which are mostly made up of remittances and, to a lesser extent, donations. However, it is unclear how the Cuban government records remittances under net transfers. For instance, some Cuban economists argue that these figures include only transactions through official mechanisms, such as Western Union, Transcard,[36] and other services, excluding a variety of informal money transfers from abroad carried out through entrusted entrepreneurs (mules), as well as from friends and relatives visiting the island.[37] Other economists contend that Cuban authorities use formal transfers only as a reference, to which they add estimates on the basis of sales in dollar stores, exchanges of dollars for pesos in money exchange houses (*casas de cambio*, or *CADECA*), and hoarding (money that people guard in the house for preservation or future use). Nevertheless, they quickly recognize that figures should be interpreted with caution. According to these economists, calculations exclude sales in tourist dollar stores (where Cubans also buy products) and make use of unreliable surveys to estimate the level of hoarding in Cuba.[38] Finally, some scholars simply claim that recorded figures under net transfers are calculated as the turnover of dollar shops, minus dollar earnings accounted for by official payments of dollars (mainly through incentive schemes).[39]

OFAC, NEW REGULATIONS IMPACTING CUBAN TRAVEL, Mar. 24, 2003, *available at* http://www.treas.gov/offices/enforcement/ofac/legal/regs/fr68_14141.pdf (last visited Oct. 15, 2004).

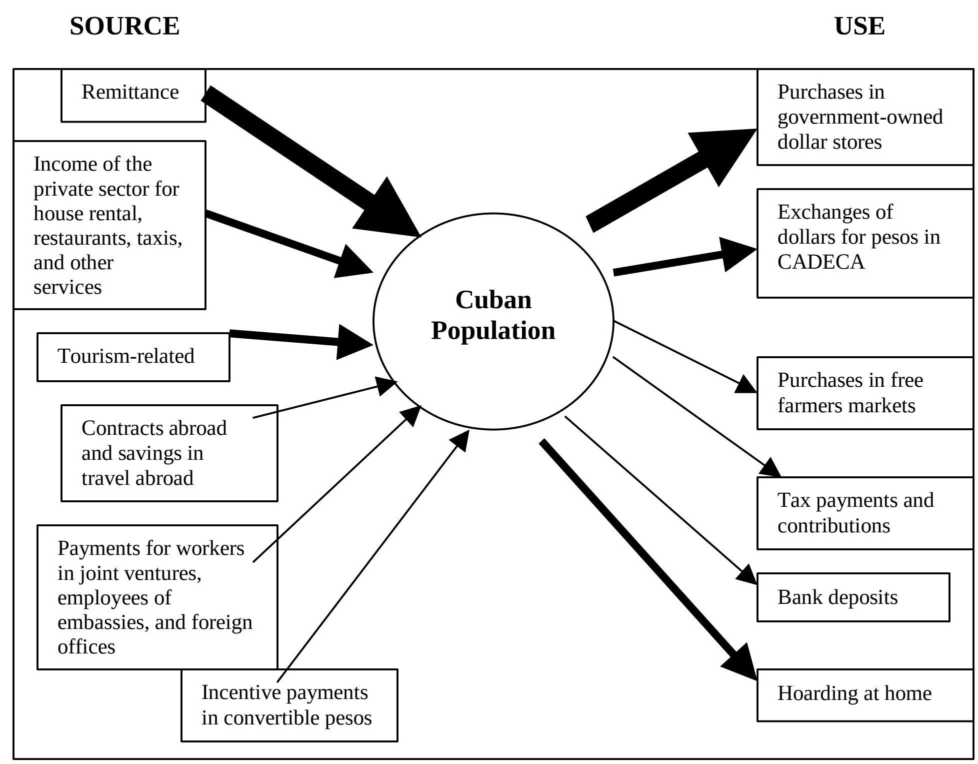
[36] An ever-increasing number of Cubans are turning to the Transcard (sold by a Canadian company) as a fast, efficient, and less costly alternative to receiving remittances via Western Union. Individuals outside of Cuba can establish accounts in any Transcard office throughout the world and designate a Cuban national as the beneficiary, who would then be issued a credit card to access the account and make purchases. *See* U.S.-CUBA TRADE & ECON. COUNCIL, ECONOMIC EYE ON CUBA (1997), *available at* http://www.cubatrade. org (last visited Oct. 15, 2004). It must be noted that transactions with Transcard are routed via Canadian banks, thus avoiding control from U.S. authorities.

[37] Interview with a Cuban economist in Havana (June 9, 2003).

[38] Interview with a Cuban economist in Havana (May 20, 2003).

[39] LORENA BARBERIA, THE INTER-UNIV. COMM. ON INT'L MIGRATION (MIT), REMITTANCES TO CUBA: AN EVALUATION OF CUBAN AND U.S. GOVERNMENT POLICY MEASURES 13 (2002), *available at* http://web.mit.edu/cis/www/migration/pubs/rrwp/15_barberia.html (last visited Oct. 15, 2004).

Figure 2: Main Sources of Hard Currency and Possible Uses for the Cuban Population[40]



* A thicker arrow indicates a larger amount of hard currency received and used by the Cuban population.

Whatever the method used by the Cuban government to record transactions under "net current transfers," it appears that official counts of remittances highly underestimate the amount of money sent from Cubans abroad to their families on the island. Although it is virtually impossible to provide accurate estimates of remittances to Cuba, the best way to proceed is to analyze the main sources of hard currency for the Cuban population and its possible uses as presented in Figure 2. Experts believe that remittances benefit as many as thirty percent of Cuba's eleven million citizens and constitute, without any doubt, the most important source of hard currency for the population of the island.[41] Several jobs in the tourist sector also bring significant amounts of dollar tips to Cuban workers, such as cab drivers, waiters, bartenders, and other hotel employees. Similarly, Cubans in the

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[40] *See* José Alejandro Aguilar Trujillo, *Las Remesas Desde el Exterior: Un Enfoque Metodológico-Analítico*, *in* 3 CUBA INVESTIGACIÓN ECONÓMICA (INIE) 100 (June-Sept. 2001).

[41] Tim Johnson, *U.S. Action After Cuba Crackdown Debated*, MIAMI HERALD, May 5, 2003, at 1A.

private sector can earn hundreds of dollars per month for services such as house rental, restaurants, and taxis.[42] Finally, Cubans who work in joint ventures, embassies, foreign offices, and in certain key industries that generate hard currency, such as tourism, tobacco, and oil extraction, receive relatively small payments in dollars or convertible pesos. In short, jobs that can earn dollar salaries or tips from foreign businesses and tourists have become highly desirable in Cuba. As to the potential use of hard currency, the large majority of Cubans use dollars to make purchases in government-owned dollar stores (mainly for food and clothes) or exchange them for pesos in CADECA. Smaller amounts are utilized to make purchases in free farmers' markets, make tax payments and contributions, and open dollar accounts in local banks. The level of hoarding also may be quite significant, but the lack of information makes it impossible to assess reliably the extent of this practice.[43]

[42] It must be noted that Cubans with contracts abroad such as musicians, technicians, and other professionals may also obtain salaries in hard currency. However, very few people are included in this category and the amount of dollars generated by these activities, while significant at the individual level, remains negligible overall.

[43] Interestingly, some Cuban economists argue that the level of hoarding in Cuba could be as high as $500 million. Interview with a Cuban economist in Havana (May 20, 2003).

Table 3: Calculation Sample of Remittances in 2001[44]

	Value ($U.S. million)
Sales in Dollar Stores	1220
Dollar Purchases by CADECA	100
Total	1320
From this Amount Subtract:	
Income of the Private Sector of which	70-80
-House Rental	45-50
-Restaurants, Taxis, and Other Services	25-30
Tourism-related Tips (4-5 Dollars per day x100,000 Direct Workers in the Tourist Sector)	145–180
Contracts Abroad, Payments to Workers, Incentive Payments in Dollars and Convertible Pesos, etc.	25-30
Total Remittances	1030-1080

Using available information on sales in dollar stores and dollar purchases by CADECA, where Cubans utilize the vast majority of hard currency they receive, it is possible to estimate the level of remittances to Cuba. As noted before, remittances are the most important source of dollars for the Cuban population, but they are not the only one. Thus, in order to estimate the amount of money sent from Cubans abroad to their families on the island, we must consider other ways by which Cubans procure dollars. Table 3 offers a sample calculation of remittances for the year 2001. Figures for sales in dollar stores are based on official data provided by the Cuban government, while the other amounts are estimates based on conversations with Cuban economists. Total sales in dollar stores in 2001 were about $1.2 billion, with an additional $100 million of dollar purchases by CADECA. From this amount, we must subtract the dollar income of Cubans who provide services such as house rental,[45] restaurants, and taxis. This amounts to about $70 to

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[44] OFICINA NACIONAL DE ESTADÍSTICAS; VENTAS DE LA PRODUCCIÓN NACIONAL CON DESTINO A TIENDAS Y TURISMO (2002). Estimates of the author based on conversations with Cuban economists.

[45] It is reported that there are currently 2705 people with licenses who, charging dollars, rent rooms to foreigners in Havana, where 80-85% of all Cuba's dollar-based renters are located. In addition, there are an estimated 5200 unlicensed renters around the country who charge dollars

$80 million. We must also deduct tourism-related tips (assuming that direct workers in the tourist sectors earn on average $4 to $5 a day, the total amount would be approximately $145 to $180 million), contracts abroad, and incentive payments in dollars and convertible pesos (about $25 to $30 million).

As shown in Table 3, total remittances to Cuba in 2001 were an estimated $1.03 to $1.08 billion, significantly higher than the amount reported by sources like ECLAC that rely on Cuban government balance of payments data. If ECLAC figures (just $730 million for 2001) are correct, then the level of transactions in dollar stores and CADECA ($1.32 billion) implies that, in addition to remittances, Cubans should receive about $600 million a year in hard currency revenues. This is highly improbable. Admittedly, hard currency sources unrelated to remittances may not be negligible (to be fair, we can also subtract purchases by diplomats, foreign residents, and some tourists from dollar-store sales), but they can hardly make up for the difference between the amount of money transfers calculated by ECLAC, and the sum of sales in dollar stores and transactions in exchange houses. Cuban economists estimate that foreign exchange income from activities unrelated to remittances can, at best, represent about 20% of all dollar revenues of the Cuban population.[46]

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or other foreign currencies. Patricia Grogg, *Landlords on the Verge of a Nervous Breakdown*, INTER PRESS SERV. (IPS), July 4, 2003, *available at* 2003 WL 6916641, at *2-3.

[46] Interview with a Cuban economist in Havana (June 3, 2003). If remittances represent about 80% of all dollar sources for the Cuban population, then they would be approximately $1.05 billion for 2001.

Table 4: Sales in Dollar Stores, Dollar Purchases by CADECA, and Remittances to Cuba, 1995-2003 ($U.S. Million)[47]

	1995	1996	1997	1998	1999	2000	2001	2002*	2003*
Sales in Dollar Stores	537	744	867	1027	1109	1203	1220	1320	1380
Dollar Purchases by CADECA*	--	--	--	75	82	90	100	100	100
Net Current Transfers Remittances	646	744	792	813	799	740	813	820	915
ECLAC Estimates of Remittances	537	630	670	690	700	740	730	--	--
Author's Estimates of Remittances	537	640	750	880	950	1030	1050	1130	1180

* Estimates of the author based on conversations with Cuban economists

Using sales in dollar stores and dollar purchases by CADECA as a reference, Table 4 provides estimates of remittances to Cuba for 1995 to 2003. Figures from ECLAC are also included for comparison. Since the legalization of dollar holdings in 1993, money remittances to Cuba have increased significantly. ECLAC reports that individuals of Cuban descent sent more than $500 million to their relatives on the island in 1995. This figure topped out at $740 million in 2000. Almost 90% of remittance dollars arriving in Cuba came from the United States.[48] Sales in dollar stores have experienced a similar expansion, but they increased at much higher rates between 1997 and 2001. In 1997, the total value of sales in dollar stores was $867.4 million, while in 2001 it reached $1.22 billion. This suggests that the actual amounts

[47] OFICINA NACIONAL DE ESTADÍSTICAS; VENTAS DE LA PRODUCCIÓN NACIONAL CON DESTINO A TIENDAS Y TURISMO (2002 and earlier editions); CUBAN CENT. BANK (2002); ECLAC, CUBA: EVOLUCIÓN ECONÓMICA DURANTE 2002 Y PERSPECTIVAS PARA 2003 (2003); ECLAC, CUBA: EVOLUCIÓN ECONÓMICA DURANTE 2001 (2002).

[48] MANUEL OROZCO, INTER-AMERICAN DIALOGUE, CHALLENGES AND OPPORTUNITIES OF MARKETING REMITTANCES TO CUBA 1 (2002), *available at* http://www.iadialog.org/publications/country_studies/remittances/Cuba_remittances.pdf (last visited Oct. 15, 2004).

of remittances to Cuba for the period 1997 to 2001 might have been much higher than those reported by ECLAC. Whereas remittances, as calculated by ECLAC, increased only 9% during this period, sales in dollar stores rose by more than 40%. Purchases by CADECA also grew by approximately 25% between 1998 and 2001.

The author estimates that remittances were $750 million in 1997, $950 million in 1999, and more than $1 billion since 2000. The assumption of significant undercounts in the calculation of remittances is also consistent with the growth of Cuban-American visits to the island after Clinton's inauguration of the *people-to-people* contact policy in early 1999.[49] We should remember that a large part of money transfers is undertaken in the "gray area" of the informal tourist sector. Unofficial estimates for 2002 put total sales in dollar stores at $1.32 billion and remittances to Cuba at about $1.13 billion (up almost 8% from the previous year). Further evidencing such an increase are reports that many new items were sold in dollar stores in 2002, including construction materials (mainly cement), freezers, and food products. Only CIMEX, the corporation that runs more dollar outlets than any other Cuban firm, announced sales of more than $600 million that year.[50] CIMEX officers also revealed that Western Union, which provides money-transfer services to Cuba solely from the United States, registered a record of $50 million in remittance transactions in December 2002 alone.[51] In 2003, sales in dollar stores and remittances totaled about $1.38 billion and $1.18 billion, respectively.[52] CIMEX sold products to dollar stores for a total value of approximately $740 million, followed by other major Cuban corporations such as TRD Caribe ($250 million in sales) and Meridiano-Cubalse ($180 million).[53]

Accurate estimates of remittances to Cuba are inevitably complicated by the existence of well-developed informal mechanisms for money transfers. Instead of making use of formal wire transfer services (fees charged by U.S. based companies remitting to Cuba are the highest among all operators

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[49] See *infra* Table 2.

[50] Interview with a Cuban economist in Havana (June 18, 2003). At the end of 2000, the dollar market in Cuba was composed of more than 5500 establishments, including stores, restaurants, cafeterias, bars, and other commercial services. For further details, see HIRAM MARQUETTI NODARSE, CENTRO DE ESTUDIOS DE LA ECONOMIA CUBANA, EL PROCESO DE DOLARIZACIÓN DE LA ECONOMÍA CUBANA: UNA EVALUCION ACTUAL (2004) [hereinafter MARQUETTI 2004].

[51] Interview with a Cuban economist in Havana (May 20, 2003).

[52] The Economist Intelligence Unit reports that sales in dollar stores peaked at around $1.3 billion in 2003. ECONOMIST INTELLIGENCE UNIT, COUNTRY PROFILE CUBA 2003/2004 (Oct. 1, 2003). However, Cuban sources notes that the total value of sales could have been much higher. For instance, Hiram Marquetti Nodarse, an academic from the island, observes that, "according to estimates for the end of 2003, total sales in retail stores operating in dollar exceeded $1350 million." MARQUETTI 2004, *supra* note 50.

[53] Interview with a Cuban economist in Havana (June 22, 2004).

engaged in legal money transfer to Latin American countries),[54] U.S. citizens of Cuban descent tend to rely on relatively inexpensive and more user-friendly informal remittance channels.[55] It is well known that a huge flow of remittances arrive on the island in the luggage of friends, relatives, or "mules." The mules carry both money and packages of goods to Cuban relatives of the senders for cheaper fees than the ones charged by official agencies. A November 2001 survey carried out by the Inter-American Development Bank (IADB), shows that only 32.1% of U.S. citizens of Cuban descent use Western Union to transfer remittances, while more than 46% prefer to send money with persons who are traveling to the island. In terms of the volume of the economic transactions, it is estimated that informal mechanisms capture up to 80% of the total flow of money transfers to Cuba from the United States.[56]

Some analysts have attempted to estimate the amount of remittances sent to Cuba by tracking the activities of money transfer companies operating on the island from the United States and Canada, and by carrying out extensive interviews with officials of those companies, travel agents, and other entrepreneurs. Recent figures from IADB, which do not differ significantly from the author's estimates, put the total amount of remittances to Cuba at $930 million in 2001 and $1.138 billion in 2002, an increase of about 22% over the previous year.[57] These findings are extremely surprising in light of the economic downturn of the U.S. economy following the terrorist attacks of September 2001. The IADB also reports that remittances to the island were $1.194 billion in 2003, up by around 5% from 2002.[58]

There is some evidence that money transfers from the United States oftentimes violate the limit of $1200 per year on remittances to Cuba. Whereas more than 50% of Cuban respondents in the November 2001 IADB survey said they send less than $100 per transaction, interviews with mules say that, on average, they carry more than $200 per individual package.[59]

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[54] In February 2004, the cost of sending $200 in remittances to Cuba from the United States through formal transfer services was 12.11%, as compared to an average cost of 7.9% for the entire Latin American region. INTER-AMERICAN DEV. BANK (IADB), SENDING MONEY HOME: REMITTANCE TO LATIN AMERICA AND THE CARIBBEAN 13 (May 2004) *available at* http://www.iadb.org/mif/v2/files/StudyPE2004eng.pdf (last visited Oct. 15, 2004)_[hereinafter IADB 2004].

[55] SUSAN ECKSTEIN, DIASPORAS AND DOLLARS: TRANSNATIONAL TIES AND THE TRANSFORMATION OF CUBA 15 (Inter-Univ. Comm. on Int'l Migration, MIT, Working Paper No. 16, 2003) *available at* http://web.mit.edu/cis/www/migration/pubs/rrwp/16_diasporas.pdf (last visited Oct. 15, 2004).

[56] OROZCO, *supra* note 48, at 4.

[57] INTER-AMERICAN DEV. BANK, SENDING MONEY HOME: AN INTERNATIONAL COMPARISON OF REMITTANCE MARKETS 4-5 (Feb. 2003), *available at* http://www.iadb.org/mif/files/MIFPager MIFPagerFeb2003eng.pdf (last visited Oct. 15, 2004).

[58] IADB 2004, *supra* note 54.

[59] Personal conversation with Manuel Orozco, Project Director for Central America, Inter-American Dialogue (Apr. 5, 2003).

Given that most of the mules travel twice a month using different routes, it is likely that transactions with these entrepreneurs frequently exceed the $1200 annual cap on remittances for U.S. citizens. As further proof, Cuban sources indicate that the number of U.S. citizens of Cuban descent sending money back home might be as high as 520,000.[60] If we divide the author's estimates of remittances (to be more precise, we can deduct 10% because not all remittances come from the United States) by the estimated number of Cuban Americans who regularly send money to their families, we can see that money transfers to Cuba from the United States were on average $1817 per person in 2001, $1955 in 2002, and $2042 in 2003. Confirming these results, some experts have argued that Cuban Americans currently send an annual average of $2000 per person to Cuba using non-traditional channels such as mules or other entrusted agents.[61]

It is well known that many Cuban-Americans use services in foreign countries to engage in "special" transactions that circumvent the cap on remittances. Asked to comment about his remittance activities, a Cuban exile from New Orleans revealed in 1997 that he had sent $200 back home to Cuba every month for the past fifteen years using a Canadian company.[62] Unlimited informal transactions are currently facilitated by the emergence of a new web-based money transfer service, Cash2Cuba, which reduces commissions and increases the speed of transfers to Cuba. The service, which is based in Canada, facilitates informal practices by providing registered Cuban recipients a card to make cash withdrawals. More specifically, the remitter can send money that the recipient in Cuba withdraws in cash at banks or official exchange businesses with a local credit card issued by the Cuban corporation CIMEX. Merchandise can also be purchased by credit card in Cuba's retail stores in hard currency.[63] In its first month of operation in December 2002, Cash2Cuba reported a volume of transfers of $320,000 and 10,000 registered users.[64]

Limitations on remittances are perhaps the most contradictory element of current U.S. policy toward Cuba. While being part of a series of U.S. restrictions intended to squeeze the Castro government economically, remittances were Cuba's fastest growing hard currency source during the 1990s. To put things into perspective, Figure 3 provides rough estimates of Cuba's four largest sources of hard currency revenues (net figures) in 2001 and 2002. The total amounts are based on the author's data, figures released

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[60] José Alejandro Aguilar Trujillo, *Las Remesas Desde el Exterior: Un Enfoque Metodológico-Analítico*, *in* 3 CUBA INVESTIGACIÓN ECONÓMICA (INIE) 98 (July-Sept. 2001).

[61] *Remesas: La Primera Fuente de Ingresos?*, ECON. PRESS SERV., Feb. 29, 2004, at 7.

[62] Roxana Hegeman, *Exiles Prop Up Cuban Economy by Sending Money to Families*, ASSOCIATED PRESS, Nov. 28, 1997.

[63] Gerardo Arreola, *Canadian Company Exploits Family Remittances Exceeding $1 Billion Yearly*, LA JORNADA (Mexico City), Nov. 27, 2002.

[64] ECONOMIST INTELLIGENCE UNIT, COUNTRY REPORT: CUBA (Feb. 1, 2003).

by the Cuban Vice President Carlos Lage and Cuban Vice Minister of Tourism Marta Maiz, and calculations of some Cuban economists.

Remittances are a source of fresh capital for the Cuban population, but in terms of revenues, they do not constitute a net benefit for the Castro government. The latter obtains access to remittances mostly through sales in dollar stores, and obviously there are costs involved in procuring the goods exchanged in these transactions. In selling products at dollar stores, the Cuban government applies an ideal mark-up (hidden tax) of 240%.[65] This means an item that costs $100 dollars to produce domestically (or import), with a 240% tax, would sell for $240 dollars.[66] Therefore, net revenues of dollar stores are about 58% of total sales. We must also consider that some remittances end up in CADECA, free farmers markets, and hoarded stashes. Nova González, an economist from the island, has estimated that net revenues from remittances are about 63% to 64% of the total amount of money sent to Cuba.[67]

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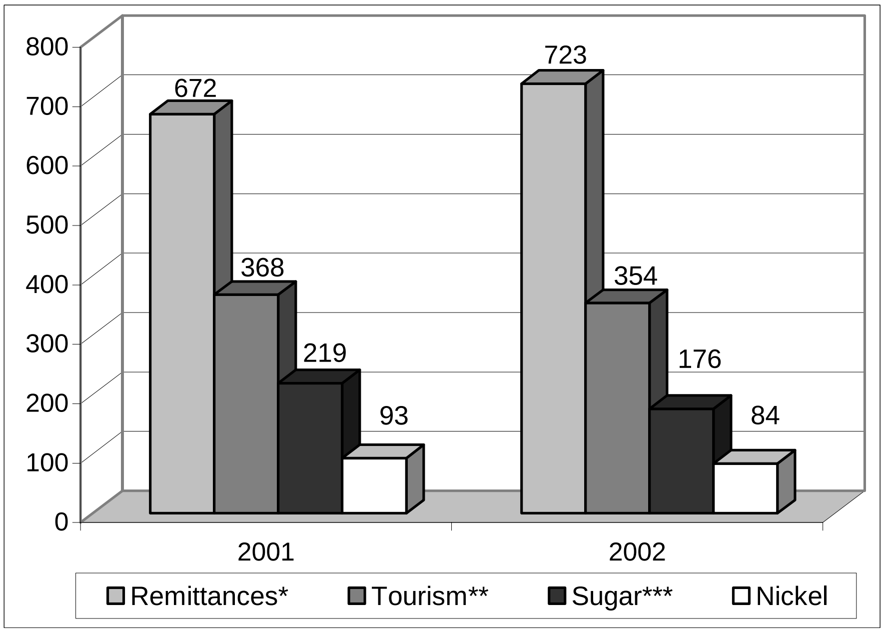
[65] ECKSTEIN, *supra* note 55, at 17.

[66] *Id*.

[67] Armando Nova Gonzáles, *Continuará la Dolarización?*, ECON. PRESS SERV. (2001).

Figure 3: Rough Estimates of Cuba's Main Sources of Hard Currency in 2001 and 2002 (Net Revenues in $U.S. Million)[68]



* Net revenues are calculated as 64% of total transfers from abroad ($1050 in 2001 and $1130 in 2002).

** Assuming the cost per dollar of gross income from tourist activities at $0.80.

*** Considering average costs and international market prices, net revenues from sugar are estimated at 40% of gross revenues.

From Figure 3, we can see that net hard currency revenues to the Cuban government from family remittances (about $723 million in 2002) are today greater than its profit from tourist activities ($354 million), sugar ($176 million), and nickel ($84 million) exports combined. Calculations based on preliminary figures for 2003 are even more striking. While net revenues from remittances peaked at $755 million, net profits from tourist activities might have been lower than the previous year, even if gross revenues increased by 16%. In fact, some Cuban economists estimate that, in 2003, the cost per dollar of gross income in the tourist sector increased from $0.80 to $0.83, which would mean a net increase of just 17% ($349 million).[69] These figures are not surprising. Unhappy about the loose spending and corruption that

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[68] 2002 ANUARIO ESTADÍSTICO DE CUBA (2003); Fariñas & Tesoro, *supra* note 34 (quoting Marta Maiz); *Cuba: Economía y Turismo*, ECON. PRESS SERV. (May 31, 2001); Julia Maria Mayoral, *El País Tiene Confianza en su Avance Social y Económico*, GRANMA INTERNACIONAL (Havana), Apr. 5, 2003 (quoting Carlos Lage); Interview with Carlos Lage, Cuban National Television Broadcast, Mar. 18, 2001; Interviews with Cuban economists.

[69] *El Producto Bruto en 2003 y Algunas Consideraciones Sobre 2004*, ECON. PRESS SERV, Dec. 31, 2003.

have limited profits, Cuban authorities fired several top executives from the island's largest tourism group, Cubanacan, in late 2003. Early this year, they replaced the Tourism Minister, Ibrahim Ferradaz, with Manuel Marrero Cruz, who at the time of his designation was heading the Gaviota tourism group, one of the country's major hotel corporations.[70] It is reported that Gaviota, which is linked to the Cuban Defense Ministry, managed to obtain in its establishments an average cost per dollar of gross income of just $0.64 in 2003.[71] Cuban authorities hope to achieve similar efficiency levels in the other tourist groups, whether they own three-, four-, or five-star hotels.[72] As for nickel exports, net profits should have been higher last year since gross revenues increased from about $500 million to $650 million. However, net profits from sugar exports were significantly lower as total production dropped by almost 40% and generated only $300 million in gross revenues, compared to $430 million in 2002.[73] In sum, although the accuracy of these estimates should be taken with caution, the importance to the Cuban economy of money sent from abroad is indisputable. Even if remittances are intended to provide the Cuban population a much-needed source of additional income, they end up in the hands of the Cuban government, thus allowing the latter to meet the most urgent needs of the country and pay unavoidable short-term debts with high interest rates.[74]

IV. U.S. TELECOMMUNICATIONS PAYMENTS TO CUBA

The development of the telecommunications sector has been a high priority for the Cuban government since the early 1990s. The telecom industry, which had received only minimal investment since 1959, was in need of modern digital technology and foreign capital as the entire phone network still operated on analog systems. During the last decade, this sector of the Cuban economy has been the target of some of the biggest investments by foreign companies. In particular, two major joint ventures with foreign partners were established to expand and digitalize fixed-line service and develop a dollar-price cellular phone service. However, it should be noted that telecommunications services remain state monopolies. Cuba simply allowed foreign investors to participate in those monopolies.[75]

In mid-1994, Mexico's Grupo Domos and Italy-based Telecom Italia, through its subsidiary Stet International Netherlands, entered into a joint venture (ETECSA) with the Cuban telephone company Emtel for the

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[70] Marc Frank, *Embattled Cuban Tourism Industry Booms*, REUTERS, May 30, 2004.

[71] Interview with a foreign correspondent stationed in Havana (May 26, 2004).

[72] *Id.*

[73] Economic Mission of the French Embassy in Havana, 34 La Lettre de la Havane (Mar. 2004).

[74] Interview with a Cuban economist in Havana (June 5, 2003).

[75] PHILIP PETERS, LEXINGTON INST., CUBA GOES DIGITAL 4 (2001), *available at* http://www.lexingtoninstitute.org/cuba/pdf/cuba_telecom.pdf (last visited Oct. 15, 2004).

modernization and expansion of Cuba's telephone system. ETECSA has a monopoly on Cuba's fixed-line communications and international switching. Due to financing problems, Grupo Domos withdrew from its investment in 1997, while Telecom Italia increased its stake in ETECSA to 29%. The remaining four shareholders were three separate Cuban government-owned or -controlled corporations with a combined 59% share and a Panamanian-registered corporation, Utisa, with a 12% share. At the end of 2002, Telecom Italia's shares in the company were valued at $469 million.[76]

In February 1998, Sherritt International Communications, a wholly-owned subsidiary of Canada's Sherritt International, purchased a 37.5% interest in the Cuban cellular carrier, Telefonos Celulares de Cuba (Cubacel), for approximately $38.25 million.[77] During the first quarter of 2000, the Canadian corporation paid an additional $4 million to increase its ownership to 40%.[78] Until 2003, Cubacel and another small Cuban carrier, state-owned Celulares del Caribe (C-Com), had exclusive rights to frequencies in the island's dollar-priced cellular phone market, which was only available to tourists and other foreign visitors. However, in late 2003, ETECSA took over both Cubacel and C-Com in a major operation aimed to create an integrated fixed-mobile telecommunications operator and to expand the wireless service to the local population. Sherrit International sold its 40% interest in Cubacel for $45.1 million. As a result of the merger, Telecom Italia's investment was reduced to 27% of the share capital of the new integrated operator.[79] ETECSA now has a monopoly on Cuba's entire telecommunications sector.

Cuba's telecommunications indicators have improved significantly in recent years, although they are still among the lowest in Latin America. Specifically, phone density increased from 3.14 telephone sets per 100 inhabitants in 1994 (when ETECSA was established) to 6.37 in 2003, and it is projected to reach 12 to 14 within four or five years. While in 1995 only 4% of all lines were digital, by 2003 about 80% of Cuba's phone network was digitalized. In addition, the island currently has an estimated 20,000 cellular phone subscribers, 270,000 personal computers, more than 750 Internet sites, and more than 480,000 e-mail accounts.[80]

For the purpose of this study, it should be noted that the United States has played an important role in financing the development of Cuba's telecommunications sector. As observed by the Cuban Minister of

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[76] U.S.-CUBA TRADE & ECON. COUNCIL, 2004 COMMERCIAL HIGHLIGHTS, *available at* http://www.cubatrade.org/2004Lst.PDF (last visited Oct. 15, 2004).

[77] *Canadian Firm Buys Stake in Cuban Cellular Phones*, REUTERS, Feb. 28, 1998.

[78] SHERRITT INT'L CORPORATION, ANNUAL INFORMATION FORM (2001).

[79] TELECOM ITALIA, THIRD QUARTER REPORT 2003, *available at* www.telecomitalia.it/trimestrale0309/English/B03.html (last visited Oct. 15, 2004).

[80] Heriberto Rosabal, *La Digitalizacion y el Acceso a Internet Seguiran Creciendo*, JUVENTUD REBELDE, Jan. 18, 2004, *available at* http://www.jrebelde.cu/2004/enero-marzo/ene-18/digitalizacion.html (last visited Oct. 15, 2004).

Information Technology and Communications, Ignacio Gonzales Planas, in January 2004, "a portion of the revenues derived from telecom services is being systematically set aside for investments that enhance this infrastructure."[81] While basic residential phone service in Cuba is relatively inexpensive as consumers pay in local pesos, ETECSA collects dollar revenues from two additional business areas: business and tourist activities, and international service. Curiously, while U.S. policy prohibits American companies from investing in the improvement of Cuba's telecommunications sector, a significant portion of ETECSA's hard currency revenues, which are used to upgrade telecommunication services, come from dollar charges applied to incoming calls from the United States.

Prior to the enactment of the Cuban Democracy Act of 1992 (CDA),[82] phone service between Cuba and the United States was available but U.S. payments to the island were made to a blocked account pending future changes in U.S. embargo policy. As the CDA authorized the U.S. President to allow payments to Cuba under specific licensing on a case-by-case basis (a change that took effect in late 1994), a number of U.S. carriers successfully negotiated agreements to provide telecommunications services between the two countries, consistent with policy guidelines that were developed by the Department of State and the Federal Communications Commission. While none of the existing licenses permit payments from a blocked account, there are currently eight licensed U.S. carriers engaged in transactions incident to the receipt or transmission of telecommunications between Cuba and the United States: AT&T Corporation, Sprint Communications Company, WorldCom, Inc.; LTXC Corporation; TeleCuba, Inc.; Telefonica Larga Distancia de Puerto Rico; iBasis, Inc.; and Catalyst Network.

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[81] *Id*.

[82] Cuban Democracy Act of 1992, 22 U.S.C. §§ 6001-6010 (2004).

Table 5: U.S. Telecommunications Payments to Cuba and ETECSA's Investment, 1995-2002 ($U.S. Million)[83]

	1995	1996	1997	1998	1999	2000	2001	2002	Total
U.S. Payments to Cuba	50.4	63.7	72.8	86.0	15.2*	77.9	55.7**	56.6**	478.3
ETECSA's Investment	14.7	29.1	110.6	133.5	94.8	107.0	132.0	90.5	712.2

* ETECSA suspended direct dial telephone service between United States and Cuba. Service was reinstated in 2000.

** Payments by U.S. companies to third countries, as ETECSA suspended direct-dial service between United States and Cuba in 2001. This was due to the enactment of a U.S. law that allowed the distribution (for non-commercial purposes) of U.S. $93 million held in U.S. financial institutions on behalf of Cuba (to be used to settle commercial claims against the Cuban government).

The Cuban and U.S. governments agreed to pay each other $.60 for every minute of traffic originating in their respective territories.[84] There are currently about forty-nine minutes of conversation originating in the United States (mostly calls from Cuban Americans to family members in Cuba) for every minute from the island.[85] Thus, U.S.-based carriers end up paying Cuba as much as $86 million per year to settle charges under traffic agreements. As shown in Table 5, between 1995 and 2002, U.S. telecommunications payments to Cuba totaled $478.3 million (an average of almost $60 million a year), representing about sixty-seven percent of the island's total investments in its fixed-line telecommunications sector ($712.2 million).

Finally, a major operation announced by official media in Havana in early March 2004 will help Cuba receive increasing amounts of hard currency from the United States for telecommunications services. Starting the second half of this year, ETECSA will offer cell phone service in pesos (no longer reserved only to foreigners at dollar prices) to up to 300,000 local residents as new technology makes it easier and quicker to install wireless systems than fixed-line systems.[86] Cellular phones will be distributed to Cubans through a joint venture between a Chinese company and the Swedish-based Ericsson Group. Like the fixed-line network, the peso-priced wireless system will be subsidized, for the most part, through expensive dollar charges placed on

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[83] Fed. Communications Comm'n (2002); U.S.-Cuba Trade & Econ. Council (2003); PÉREZ VILLANUEVA & OMAR EVERLENY, CENTRO DE ESTUDIOS DE LA ECONOMIA CUBANA, EL PAPEL DE LA INVERSION EXTRANJERA EN EL DESARROLLO ECONOMICO, LA EXPERIENCIA CUBANA 89 (2003); Cuban Ministry of Info. Tech. & Communications (2003).

[84] PETERS, *supra* note 75, at 7.

[85] Interview with Philip Peters (May 17, 2004).

[86] Marc Frank, *Cubans Enter Wireless Age*, REUTERS, Mar. 1, 2004.

incoming calls from the United States, where many Cuban residents have relatives. While having a very limited range (similar to that of cordless phones), the new cell phones are set up to receive calls from abroad and will be offered only to Cubans who do not have a fixed-line phone.[87] By raising the number of users receiving international calls, the Cuban government is planning to obtain the hard currency needed to modernize its telecommunications sector, increase the island's telephone density, and provide better service to the Cuban population.

V. U.S. FOOD SALES TO CUBA

In the last few years, economic sanctions against Cuba have been under fire in the U.S. Congress. As a result of growing skepticism on the utility of economic coercion, as well as lobbying efforts by U.S. business and agricultural communities (in particular by food exporters), an increasing number of lawmakers have pushed for a relaxation of the forty-year-old embargo and the beginning of a new trade relationship with the Castro government. In October 2000, the U.S. Congress passed the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2001.[88] Title IX of the bill, signed into law by President Clinton a few weeks later, includes provisions that allow sales of U.S. food and agricultural products to Cuba for the first time in nearly forty years. It should be noted that a clause inserted in the final version of the bill prohibits U.S. companies and financial institutions from providing credits for such transactions, thus obligating the Cuban authorities to complete their purchases only with cash payments or through financing provided by a third-country company. Enraged by that restriction, the Cuban government initially said it would not buy any food until the embargo was completely lifted.

Indeed, for about a year after the passage of the U.S. law, Cuba refused to buy "a single grain of rice" from the United States. However, after hurricane Michelle caused widespread damage to the island in November 2001, the Castro government began to take advantage of the law and buy American food to replenish its reserves. The first contract between a U.S. firm and the Cuban government, worth about $40 million, was signed on December 16, 2001. Since then, Cuba has purchased approximately $565 million of American food products.[89] Table 6 reports the values of Cuba's food imports from the United States in 2002 compared to total Cuban imports of the same products.

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[87] Interview with a foreign correspondent stationed in Havana (May 26, 2004).

[88] Pub. L. No. 106-387 §1(a), 114 Stat. 1549 (codified in scattered sections of 7, 16, 19, 21, and 22 U.S.C.).

[89] Table 6 refers to purchases between December 2001 and April 2004. Statistics on U.S. food exports to Cuba are available at http://www.fas.usda.gov (last visited Oct. 15, 2004).

The United States is becoming an increasingly important trading partner for Cuba, ranking first among the island's sources of imported food in 2002.[90] In 2002, according to the U.S.-Cuba Trade and Economic Council, the Cuban government bought $138.6 million worth of American food products, including wheat ($22.8 million), corn ($22.7 million), poultry ($21.6 million), and soybean products ($61.6 million). One company alone, Illinois-based Archer Daniels Midland, reported agricultural exports to Cuba valued at $70 million in 2002.[91] Cuba has signed contracts with eighty-four other U.S.-based firms from twenty-four different U.S. states.

Table 6: Cuba's Food Imports from the United States in 2002 ($U.S. million)[92]

Product	**Imports from United States***	**Total Imports****	**U.S. Imports vs. Total Imports**
Wheat	22.8	78.8	28.9%
Corn	22.7	31.3	72.5%
Poultry	21.6	70.8	30.5%
Soybean Oil	21.4	26.9	79.5%
Soybeans	20.9	22.2	94.1%
Soybean Oil Cake	19.3	27.3	70.7%
Rice	6.3	120.2	5.2%
Total Imports (ONE)	138.6	553.0	25.1%
Total Imports (USTEC)***	169.6	793.6	21.4%

* U.S.-Cuba Trade and Economic Council (USTEC)

** Oficina Nacional de Estadísticas (ONE)

*** USCTEC reports that data from Cuban sources may present multi-year cumulative values and include transportation, insurance, and currency transaction fees.

It is important to note that by the end of 2002, the United States had already won about 25% of total Cuban food imports. According to Cuban

[90] Anita Snow, *United States Become Cuba's No. 1 Source of Imported Food*, ASSOCIATED PRESS, Mar. 2, 2003, *available at* http://www.cubanet.org/CNews/y03/mar03/03e2.htm (last visited Oct. 15, 2004).

[91] U.S.-CUBA TRADE & ECON. COUNCIL, ECONOMIC EYE ON CUBA (2003), *available at* http://www.cubatrade.org/eyeon2003/20jan03.pdf (last visited Oct. 15, 2004).

[92] U.S.-CUBA TRADE & ECON. COUNCIL, 2003 COMMERCIAL HIGHLIGHTS, *available at* http://www.cubatrade.org/2003Lst.pdf [hereinafter USCTEC 2003]; 2001 ANUARIO ESTADÍSTICO DE CUBA (2002).

official figures, which include transportation, taxes, and other additional costs, U.S. food sales ($169.6 million) represented more than 21% of all agricultural goods ($793.6 million) that the island imported that year. Cuban authorities estimate that the U.S. share could rise to about 60% with a complete lifting of the embargo.[93] In 2003, Cuba's food imports from the United States were $256.9 million, up by around 85% from 2002.

To some extent, the Castro government's decision to buy products from the United States may be seen as part of a political attempt to encourage anti-embargo forces in the U.S. Congress. However, Cuba's economic considerations in terms of price competition were also a factor in the decision. As recognized by a senior official in Havana, "the proximity of U.S. Gulf ports saves freight and warehousing storage costs, which give U.S. exporters the equivalent of up to 20% price advantage."[94] American food sales to Cuba have already affected the island's key trading partners, among them Canada, France, and Spain. Canada's official statistics report that poultry and wheat exports to Cuba were down by 60.9% and 79.2%, respectively, in 2002. More specifically, Canada exported to Cuba about $12.4 million of poultry and $14.9 million of wheat in 2001. In 2002, Canadian sales of poultry and wheat dropped to $4.8 million and $3.1 million, respectively.[95] Similarly, the French government declared that in 2002, food and agricultural sales to the island decreased by 39.3% from 117.2 million euros in 2001 to 71.2 million euros. For wheat alone, French sales were down by approximately 47%.[96] Finally, the Spanish government reports that the total value of all exports to Cuba dropped by 23.7% in 2002 and that the island's purchases of food products from Spain plunged by more than 40%.[97]

As shown in Table 6, the value of U.S. wheat ($22.8 million) and poultry ($21.6 million) sales to the Castro government ranked first and third, respectively, among all U.S. agricultural products exported to Cuba in 2002. By that year, the United States had already captured a significant share of Cuba's wheat (28.9%) and poultry (30.5%) markets. In 2003, as U.S. sales of these two products increased by 61% and 72%, respectively, the negative impact of U.S. food exports to Cuba on the island's key trading partners continued. For instance, the French government reported that wheat sales to Cuba declined by an additional 22.6% last year.[98]

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[93] Pav Jordan, *U.S.-Cuba Trade Grows Despite Restrictions*, REUTERS, Feb. 17, 2003.

[94] Marc Frank, *Cuba Slashes Imports Amid Ongoing Cash Crunch*, REUTERS, Oct. 15, 2002.

[95] For further information see CANADA-CUBA AGRI-FOOD TRADE at http://atn-riae.agr.ca/stats/cuba_e.pdf (last visited Oct. 15, 2004).

[96] Economic Mission of the French Embassy in Havana, 24 La Lettre de la Havane (Mar. 2003).

[97] *La Balanza Comercial de España con Cuba Registró un Saldo Positivo de 316 Millones de Euros en 2002*, EUROPA PRESS, June 13, 2003.

[98] Economic Mission of the French Embassy in Havana, 35 La Lettre de la Havane, (Apr. 2004).

How do U.S. food sales generate hard currency revenues for the Cuban government? This is quite simple. Although the majority of U.S. commodities exported to Cuba go into ration stores, about 5% end up in local dollar shops.[99] Just as an example, it is reported that the variety of products exported to Cuba by Indiana-based Marsh Supermarket and sold at government-owned dollar retail stores continues to rise. Since October 2002, Marsh brand cereals, gelatin desserts, instant pudding, pie filling, and hot cocoa mix have been available in Cuba, with additional items reaching the local hard currency market since January 2003.[100] As stated previously, the price mark-up for imported food in government-owned dollar stores is about 240%. Therefore, the 5% of U.S. food sales ($700 million, including fees, between December 2001 and April 2004), worth approximately $35 million, that reached Cuba's dollar stores would sell for about $84 million, thus generating as much as $49 million in hard currency revenues for the government of Fidel Castro. Given that Castro has promised to increase food imports from the United States, a growing amount of foreign exchange revenues (once generated by products imported from other countries) will continue to be generated by U.S. trade activities with Cuba. In the first four months of 2004, American food sales to the island were $172 million, up by an astonishing 155% over the same period in 2003.[101] This year, according to Cuban authorities, purchases from the United States could represent more than 30% of Cuba's food imports from all countries.[102]

IV. U.S. INDIRECT INVESTMENTS IN CUBA

This section provides a brief overview of an increasingly important and largely unexplored aspect of U.S.-Cuba economic relations: the presence of American investors in foreign firms that trade with or invest in Cuba. More specifically, the U.S. Department of the Treasury authorizes individuals and firms subject to U.S. law to invest in a third-country company that has commercial activities in Cuba, as long as they do not acquire a controlling interest of that company and provided that a majority of the revenues of the third-country company are not produced from operations within Cuba.[103] Thus, if the investment is an indirect one, a U.S. entity should have no problem in building a Cuba-related stock portfolio.

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[99] Marta Veloz, *En Ascenso Compras de Cuba a EE.UU*, OPCIONES, Nov. 2, 2003.

[100] USCTEC 2003, *supra* note 92.

[101] *See* Snow, *supra* note 90.

[102] Raisa Pages, *Durante Este Año EE.UU. Ocupara Mas de 30% en Importaciones Agropecuarias Cubanas*, GRANMA INTERNACIONAL (Havana), Mar. 4, 2004.

[103] U.S.-CUBA TRADE & ECON. COUNCIL (USCTEC), 2000 COMMERCIAL HIGHLIGHTS, *available at* http://www.cubatrade.org/2000hlights.html (last visited Oct. 15, 2004) [hereinafter USCTEC 2000].

Table 7: U.S. Investments in Selected Foreign Companies Operating in Cuba[104]

Yr.	Company	Country	Type of Operations in Cuba	Presence of U.S. Investors (%)	Major U.S. Investors
2000	Hotetur	Spain	Management contracts in 3 hotels	26%*	Florida-based Carnival Corporation
2000	Iberia Airlines	Spain	Two Joint ventures in cargo terminal + aircraft maintenance	2%	Texas-based American Airlines, Inc.
2000	Mitsubishi Motors	Japan	Exporter of vehicles	10.41%	California-based Capital Research and Management Co.
2000	Nestlé	Switzerland	Mineral water and soda-bottling joint venture	14%	---
2000	Sol Meliá	Spain	23 Management contracts and 4 equity interests in Cuba's tourist sector	16%	---
2000	Telecom Italia	Italy	Joint venture in telecommunications	3%**	New York-based Lehman Brothers Holdings, Inc.
2001	Alcan	Canada	Exporter of aluminum products	23%	---
2002	Fiat Group	Italy	Exporter of vehicles	20%	Michigan-based General Motors Corporation
2002	Leisure Canada	Canada	Developer of luxury multi-destination resorts	30%	California-based Robertson Stephens, Inc.
2002	LG Electronics Investment	South Korea	Exporter of refrigerators, washing machines, air conditioners, televisions	6.6%	New-York based The Goldman Sachs Group
2003	Accor	France	Several management contracts in Cuba's tourist sector	16%	---

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[104] Compilation of the author based on data from U.S.-CUBA TRADE & ECON. COUNCIL (2000 and 2002), *supra* notes 22 and 103, U.S.-CUBA TRADE & ECON. COUNCIL 2001, *infra* note 112, and financial reports of selected companies (Leisure Canada, Sol Melia, Accor, and Souza Cruz).

2004	Souza Cruz	Brazil	Joint venture in tobacco sector	5.5%***	---

* In 2000, Carnival Corporation owned 26% of U.K.-based Airtours PLC, which owned 50% of Hotetur.

** In 2000, Lehman Brothers owned 3% of Italy-based Olivetti S.p.A. Telecom Italia is a subsidiary of Olivetti.

*** In March 2004, U.K.-based British American Tobacco (BAT), which also has U.S. capital, held 75.3% of the shares of Souza Cruz.

In order to give a sense of the importance of U.S. indirect business connections with Cuba, Table 7 provides data on the presence of U.S.-held shares in selected foreign companies that operate in the island's market. As observed by John Kavulich, "U.S. companies have affiliations with and U.S. citizens have investments in Sol Melia, Unilever, Accor, Alcan, Fiat, Daimler Chrysler, and Nestlé among many other companies, which have commercial activities within Cuba."[105] He also notes that "[m]ost of the largest U.S. financial institutions and investment banks provide services for companies that have commercial activities within Cuba."[106] Obviously, Table 7 is just a sample based on public information, and the presence of American investors in certain companies could be even higher than that reported. The key aspect is that, in an increasingly globalized world, the nationality of a specific firm may become almost irrelevant.

The following are some details of specific U.S. indirect links with Cuba as reported by the U.S.-Cuba Trade and Economic Council and by financial reports of individual companies:

1. In 2000, individuals subject to U.S. law held approximately 16% of the shares of Spain-based Sol Meliá and 14% of Switzerland-based Nestlé.[107] Sol Meliá is the largest hotel company in Spain and the leader in Cuba's tourist sector with equity interests in four hotels and twenty-three management contracts.[108] Nestlé owns several mineral water bottling plants in Cuba and has a joint venture (Los Portales S.A.) with the Cuban company, Coralsa, that produces and markets the highest selling soft drinks and mineral waters on the island.[109]

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[105] Mark Frank, *U.S. Goods, People, Cash Pour Into Cuba*, REUTERS, July 28, 2001 (quoting John Kavulich), *available at* http://www.autentico.org/oa09537.php (last visited Oct. 15, 2004).

[106] *Id*. (quoting John Kavulich).

[107] USCTEC 2000, *supra* note 103.

[108] Paolo Spadoni, *Foreign Investment in Cuba: Recent Developments and Role in the Economy, in* 12 CUBA IN TRANSITION 158, 170 (2002).

[109] OMAR EVERLENY PÉREZ VILLANUEVA, CENTRO DE ESTUDIOS DE LA ECONOMÍA CUBANA, EL PAPEL DE LA INVERSIÓN EXTRANJERA DIRECTA EN EL DESARROLLO ECONÓMICO. LA EXPERIENCIA CUBANA 26 (2003), *available at* http://www.nodo50.org/cubasigloXXI/economia/villanueva5_310803.pdf (last visited Oct. 15, 2004).

2. In 2000, Texas-based American Airlines, Inc. owned 2% of Spain-based Iberia Airlines, and California-based Capital Research and Management Co. owned 10.41% of Japan-based Mitsubishi Motors.[110] Iberia Airlines has a joint venture (Empresa Logistica de Carga Aérea S.A.) with the Cuban company Aerovaradero S.A. in a new freight terminal in the vicinity of the José Martí International Airport, and another joint venture (Empresa Cubano-Hispana de Mantenimiento de Aeronaves IBECA S.A.) for aircraft maintenance.[111] Mitsubishi sells automobiles, spare parts, and accessories to Cuba through the Panamanian company Motores Internacionales del Caribe S.A.

3. In 2000, New York-based Lehman Brothers Holdings, Inc. purchased 3% of the shares of Italy-based Olivetti S.p.A. Telecom Italia S.p.A., a subsidiary of Olivetti, has a joint venture (ETECSA) with the Cuban telephone company EMTEL for the development of Cuba's fixed-line and mobile telephone systems. In terms of capital invested, ETECSA is one of the most important joint ventures operating in Cuba. Also in 2000, Florida-based Carnival Corporation increased indirect minority presence in Cuba with the purchase by United Kingdom-based Airtours, PLC, of 50% of Spain-based Hotetur Club S.L. Carnival Corporation owns of 26% of the shares of Airtours, PLC.[112] Hotetur Club has management contracts in three hotels in Cuba, the Deauville in Havana, the Hotetur Palma Real, and the Hotetur Sun Beach in Varadero.[113]

4. In 2001, U.S. investors held approximately 23% of Alcan of Canada, which exports aluminum products to Cuba.[114]

5. In 2002, New York-based Goldman Sachs Group had a 6.6% interest in South Korea-based LG Electronics Investment, Michigan-based General Motors Corporation had a 20% interest in Italy-based Fiat Group, and California-based Robertson Stephens, Inc., owned about 30% of the shares of Canada-based Leisure Canada.[115] LG Electronics has a strong presence in the Cuban market. A variety of its products, including refrigerators, washing machines, air conditioners, and televisions are assembled and sold on the island. The Fiat Group established a dealership on the island in 1995 (Agencia Cubalse Fiat) in conjunction with Cuba's government-operated Cubalse S.A. Since then, the Italian company has sold thousands of vehicles

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[110] USCTEC 2000, *supra* note 103.

[111] Miguel Comellas, *Iberia and Aerovaradero Establish Joint Venture*, GRANMA INTERNACIONAL, Apr. 10, 2002.

[112] U.S.-CUBA TRADE & ECON. COUNCIL (USCTEC), 2001 COMMERCIAL HIGHLIGHTS, *available at* http://www.cubatrade.org/2001hlights.html (last visited Oct. 15, 2004).

[113] Additional information on Hotetur hotels in Cuba is available at http://www.hotetur.com/Hotetur/listahotelessd.aspx?ListaZonas=10CUBA (last visited Oct. 15, 2004).

[114] Frank, *U.S. Goods, supra* note 105.

[115] USCTEC 2002, *supra* note 22.

every year to Cuba, including automobiles, industrial vehicles, and agricultural machinery. Leisure Canada is developing five-star hotels, timeshare condominiums, and PGA golf courses in Cuba, with an estimated plan of investment of $400 million. Curiously, Leisure Canada announced in one of its brochures that the company is positioned to capitalize on the current growth of Cuban tourism, and the future growth fueled by the United States, following the inevitable normalization of U.S.-Cuba relations. It also specifies that it is perfectly legal for U.S. potential investors to purchase shares of the Canadian company, and that U.S. investment banks already control over 20% of Leisure Canada.[116]

6. In December 2003, U.S investors held 16% of the shares of the French group Accor.[117] The Accor group manages several hotels in Cuba with establishments that operate under the Novotel, Sofitel, Coralia, and Mercure Brands. For instance, Accor runs the Sofitel Sevilla hotel in Havana, the Mercure Cuatro Palmas hotel in Varadero Beach, and the Sofitel Casa Granda Hotel in Santiago de Cuba. The French group, which will complement its actions with the Coralia Club Bucanero Hotel in Santiago de Cuba, expects to run over fifteen facilities on the island under the consortium's different brands.[118]

7. In March 2004, individuals subject to U.S. law held 5.5% of the shares of Brazil-based Souza Cruz. United Kingdom-based British American Tobacco, which also has significant U.S. capital, owned 75.3% of the Brazilian company.[119] In April 1995, Souza Cruz signed a joint venture (BrasCuba S.A.) with Cuba's Union del Tabaco. With an initial investment of $7 million, BrasCuba renovated an existing cigarette factory in Havana and started producing and selling several brands of cigarettes for the domestic market as well as for external markets. Today, after nine years of operations on the

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[116] On June 11, 2003, Leisure Canada reported that the company had created a hotel brand (Mirus Resorts and Hotels) to use on properties within Cuba. For instance, the Canadian firm has been given the right to manage the Monte Barreto hotel in Havana under its own new brand. According to the company, "the development of a hotel brand that can quickly transfer to a North American hotel chain, once the doors to Cuba open, further establishes Leisure Canada's vertically integrated gateway to Cuba." USCTEC 2003, *supra* note 92. *See* Leisure Canada, Inc.'s website at http://www.leisurecanada.com (last visited Oct. 15, 2004).

[117] Other major international investors in the French group Accor are from the United Kingdom (16.8% of the shares), Germany (5.3%), Belgium (4.9%), Luxembourg (3.7%), and Switzerland (2.3%). The complete list of Accor shareholders by country as of December 31, 2003 can be found at http://www.accor.com/gb/finance/action/action_actionnariat.asp (last visited Oct. 15, 2004).

[118] *Accor: Big Groups Turn Eyes Toward Cuba*, DTC NEWS, *available at* http://www.dtcuba.com/eng/buscar_reportajes.asp?cod=71 (last visited Oct. 15, 2004). It is reported that the Novotel Miramar in Havana, run by Accor since 2000, is now managed by the Spanish group Occidental Hotels & Resorts. *Hoteles-Occidental Entra en Cuba y Baja Ventas un 11% en 2002 (Occidental Hotels Enter Cuba and Sales Drop 11% in 2002)*, GRANMA INTERNACIONAL (HAVANA), June 9, 2003, *available at* http://granmai.cubaweb.com/espanol/ 2003/junio/lun9/hoteles-e.html (last visited Oct. 15, 2004).

[119] The list of Souza Cruz shareholders is available at http://www.souzacruz.com.br (last visited Oct. 15, 2004).

island, Brascuba has a virtual monopoly of cigarettes in Cuba's dollar stores and for export.[120]

It is quite difficult to offer a comprehensive analysis of U.S. indirect business connections with Cuba, given that private companies are not required to make public the list of their shareholders. Such an endeavor is also complicated by the fact that with millions of dollars moving around the world via electronic transactions, the real origin of financing for specific business operations is often unknown. As Omar Everleny Pérez Villanueva reminds us, "'[t]here are many companies in Cuba that are based in the Bahamas, other Caribbean islands, Spain or Britain, and you really can't tell if these companies receive U.S. funds attracted by the high interest rates we [Cubans] pay."[121] Nevertheless, the information presented in Table 7 shows that American entities hold publicly traded shares of several major foreign firms engaged in business activities with the government of Fidel Castro. While profits from the Cuba-related stock portfolios may not be particularly significant for some U.S. investors in terms of their global revenues, American investments in foreign companies that operate on the island are just another example of the gaping holes in the United States' effort to economically isolate Cuba. If we consider that some of these foreign firms have provided Cuba much-needed capital, technology, management expertise, and new markets for its main exports, then the importance to the Cuban economy of U.S. indirect business operations on the island appears evident.

V. CONCLUSION

From the analysis presented in this paper, we can fairly argue that, in spite of the tightening of the embargo, the United States has contributed in a significant way to the recovery of the Cuban economy following the deep recession of the early 1990s. While intended to stimulate democratic reforms and exercise pressure for regime change in Cuba by stemming the flow of hard currency to the island, U.S. economic sanctions have achieved neither of these goals. Admittedly, the role of the United States in the Cuban economy would have been much more important in the absence of sanctions. However, even with restrictions in place, significant amounts of hard currency have been channeled into Cuba through direct and indirect means of travel, remittances, telecommunications payments, food sales, and secondary investments. Washington's policy toward Havana ended up throwing a lifeline to the same government it was supposed to undermine.

Even more importantly, formal and informal activities by the Cuban-American community, the most vocal group in the United States in favor of the embargo, have been a major factor in keeping afloat the economy of the Caribbean island. For instance, of approximately 200,000 U.S. citizens who

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[120] Spadoni, *Foreign Investment in Cuba*, *supra* note 108, at 167.

[121] Frank, *U.S. Goods*, *supra* note 105.

traveled to Cuba in 2002, with or without their government's approval (they were the largest group of visitors after Canadians), more than 60% were Cuban Americans. In addition, remittances to the island sent from U.S. citizens of Cuban descent, mostly through informal mechanisms, have been, in net terms, Cuba's most important source of foreign exchange. As argued by Susan Eckstein, "the remittance economy reflects a society that is transnationally grounded, able, willing, and wanting to operate according to its own networks and norms, in defiance both of U.S. and Cuban official regulations that interfere."[122]

In light of this situation, two possible options are available to U.S. decision-makers for a more successful policy toward Cuba. The first option is to strengthen current restrictions on travel and remittances by significantly reducing the number of U.S. citizens authorized to visit the island and the amount of money that Cuban Americans can legally send to their families. In order to be effective, these measures should increase the level of scrutiny for potential violations on travel and money transfers, as well as hold citizens of Cuban descent to the same standards as any other American. While such a policy may be unpopular and quite expensive to implement, it makes no sense to make exceptions for a specific group of U.S. citizens that channels more hard currency into Cuba than any other group.

In effect, recent rule changes on travel and remittances introduced by the Bush Administration in June 2004, aim to deny hard currency resources to the Cuban government by targeting Cuban-American activities. The new regulations allow Cuban Americans to visit relatives in Cuba only once every three years instead of annually, reduce the authorized per diem to $50 from $167, and limit remittances only to immediate relatives. However, these measures will have limited impact on the Cuban economy for two main reasons. First, following Washington's announcement of tightened rules on Cuba, Fidel Castro quickly raised prices in dollar stores as a way to offset an eventual decline of U.S. financial flows reaching the island. With an average price increase of 15.4% and, therefore, a higher markup, net revenues to the government would be largely unaffected by a potential drop in dollar store sales.[123] If U.S. officials are genuinely committed to implementing measures aimed at squeezing the Cuban economy, then they should cut remittances altogether, or at least reduce drastically the annual cap on money transfers.

Additionally, Cuban exiles may circumvent restrictions by traveling to the island through third countries and delivering remittances, as they always

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[122] ECKSTEIN, *supra* note 55, at 16.

[123] Mainly as a result of stiffened rules on remittances and family visits by Cuban Americans, U.S. officials estimate that these measures, if properly enforced, could deprive the island of up to $150 million a year. *U.S. Begins New Sanctions Against Cuba*, ASSOCIATED PRESS, July 1, 2004. Some Cuban exiles, in a more optimistic view, calculate that the reduction of U.S. financial flows in the Cuban economy could be between $200 and $250 million a year. *Cuba: La Efectividad de las Medidas*, BBC MUNDO, July 1, 2004, *at* http://news.bbc.co.uk/hi/spanish/latin_america/newsid_3856000/3856237.stm (last visited Oct. 15, 2004).

did, through mules or other informal mechanisms. As a result of this, both illegal remittances and unlicensed trips to Cuba will increase considerably. The reality is that, even with tightened enforcement and perhaps additional restrictions, U.S. policy toward Cuba could be effective in halting hard currency flows only if Cuban Americans are prepared to respect the rules. If Cuban exiles are, in fact, willing to do "whatever it takes" to intensify pressure on the Castro government, then they should stop visiting relatives on the island, stop sending money to them, and even stop calling them.[124]

A second option, which is not necessarily more politically viable, but is certainly less expensive than the first one, is to promote a rapprochement with Havana and a gradual removal of the major provisions of the embargo in recognition that economic sanctions have not achieved their main goals. A policy that respects the rights of Americans to trade with, invest in, and travel to the island may more effectively serve U.S. interests in post-Soviet Cuba by defending human rights, helping the Cuban people, and spreading the values of the American society.[125] It would also increase pressure on the current government in Havana by preventing Fidel Castro from using his traditional argument that the United States promotes economic deprivation in Cuba and seeks to constrain Cuban sovereignty.

In short, unless significant steps are taken in one of the proposed directions, the United States will have no choice but to wait until Castro passes from the scene by natural causes, and hope his successor will be less resilient than he, or perhaps more inclined to introduce extensive democratic reforms. To conclude, consider a recent quote by U.S. President George W. Bush that exemplifies the great irony of economic sanctions with respect to Cuba. In May 2002, Bush 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."[126] If this is the case, then the findings of this paper demonstrate that U.S. policy toward Cuba in the post-Cold War era has been nothing other than a "wrong" policy.

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[124] Paolo Spadoni, *Adopt 1-Track Cuba Policy*, ORLANDO SENTINEL, Mar. 1, 2004.

[125] PHILIP PETERS, THE CATO INSTITUTE, 384 CATO POLICY ANALYSIS, A POLICY TOWARD CUBA THAT SERVES U.S. INTERESTS (2000), *available at* http://www.cato.org/pubs/pas/pa-384es.html (last visited Oct. 15, 2004).

[126] U.S. DEPARTMENT OF STATE, INTERNATIONAL INFORMATION PROGRAMS: THE UNITED STATES AND CUBA, *available at* http://usinfo.state.gov/regional/ar/us-cuba/indexold.htm (last visited Oct. 15, 2004).