

Canada and Cuban Development

(New York City April 3, 1998)

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Policy Framework

Objectives:

- "An attempt to engage Cuba and to support movement in that country in the direction of peaceful transition and eventual re-integration into the hemisphere" (Lloyd Axworthy March 19, 1998 G&M)
- Support for the process of transition involves:

Economics - tax and banking reform; economic management assistance and training

Politics - dialogue on legal and judicial systems; human rights support and parliamentary exchanges

Civil society - support for NGO's and citizen initiatives (e.g. complaint commission)

Commercially - trade missions; govt. assistance for Cuban personnel training and feasibility studies; limited credit

Imperatives:

- Driven by commercial interests Growing bi-lateral trade (C \$712.76m) #1 investors (last official est. C \$99m 1996)
- Canadian sovereignty (Torricelli and Helms Burton)
- Cuba is high profile public issue given above and tourism - over 168,000 in 1997

Characteristics:

Normal

- Similar to policy towards rest of the Americas except for dissonance with US policy
- Symbolic of Canada's ability to chart independent policy vis a vis the US
- Tradition of recognizing "government of the day" thus did not break relations with Havana in the 1960s. Recognizes Cuban sovereignty and legitimacy of Castro regime
- Cuba foreign policy not driven by national electoral politics
- Cuba's human rights violation are seen in the spectrum of world-wide violations

Active

- Full diplomatic relations since 1945
- Official aid to Havana restored in 1994 and bi-lateral assistance renewed in 1995
- High level official visits on both sides
- Several provincial trade missions
- New air transport agreement expanding air connections and renewed anti-hijacking treaty

Balanced

- Support for trade, symbolic solidarity and mutual sympathy
- Dept. of Foreign Affairs and International Trade does not actively encourage business due to political and commercial risk
- Condemns human rights abuses and lack of civil and political rights (e.g. UN Human Rights Commission in Geneva)
- Offered to accept 19 political prisoners - criminal record vs. asylum on humanitarian and compassionate grounds
- Promotes dialogue and engagement
- Belief that "constructive engagement" is best policy to bring about economic and political liberalization
- Support for UN resolution to end the embargo and for Cuba's renewed membership in the OAS (Axworthy's recent D.C. visits)

Joint Declaration of the Ministers of Foreign Affairs of Canada and Cuba

January 1997

1. Cooperation in the administration of justice and the judicial-legal system, including exchanges of judges and judicial training.
2. Exchanges between the House of Commons and the National Assembly, focusing on the operations of both institutions.
3. Exchange of experiences relating to the National Assembly's Citizens' Complaints Commission.
4. Broadening and deepening cooperation on the issue of human rights, including seminars of mutual interest, academic exchanges between officials, professionals and experts, sharing experiences and positions on the work of the specialized organizations of the UN.
5. Supporting the activities of Canadian and Cuban non-governmental organizations
6. Continuation of macroeconomic cooperation, with an initial focus in the areas of taxation and central banking while studying other areas of Cuban economic policy reform.
7. Negotiate Foreign Investment Protection Promotion Agreement.

8. Further collaboration on narcotics interdiction
9. Conversations on international terrorism and its prevention.
10. Negotiation of a Memorandum of Understanding between Health Canada and the Ministry of Public Health of Cuba.
11. The negotiation of an audio-visual co-production agreement.
12. The renewal of the bilateral sports cooperation accord.
13. The exploration of joint projects in health and environment.
14. The provision of food aid in response to Hurricane Lilli.

Main Actors and Policy Tools:

The Government

- Canadian Intl. Development Agency (CIDA)

Bilateral assistance

- Canada-Cuba Governance and Rights Dialogue (C \$1.2m over 3 years) 1st 5 points of declaration

Support for economic reform

- Taxation (C \$5m); banking - computers and training; economic management (\$C 2m) for upgrading and training of MEP; economic policy dialogues
- Social sector financing (health and education) and food aid (C \$9m)
- Canada-Cuba Local initiatives fund - C \$250k

Non-bilateral assistance

- NGO Division - Canada - Cuba Inter-agency Project led by Oxfam (15 Cnd NGO's and 20 Cuban NGO's) plus others (health, unions, water, agriculture, water) (NGOs - \$C.9m committed and spent since 94)
- Youth exchanges - Canada World Youth
- Multi-country activities (e.g. Metropolitan Park; coffee marketing; disabled)
- Institutional cooperation - capacity development projects (economics, women studies; business and tourism management and modern languages; biomedical engineering; marine sciences). (C\$6.2 m over 5 years)
- Industrial Cooperation - training of Cubans and feasibility studies (C\$1.7 m committed by 1997 for private sector; not all disbursed)
- Multi-lateral approaches (e.g. UN)

Humanitarian assistance

- Intl. Development Research Centre (IDRC)
Original funding for Carleton MA in Economics (C \$799k) - now run by CIDA
Current focus - supporting applied research in Cuba in economics and related fields (C \$550k spread over 10-20 projects)
Other projects in agriculture, environment, water and health
- Export Development Corporation (EDC)
Provides commercial credit and insurance
Fundamentally neither freeing nor increasing the US 50m credit lines established before Soviet collapse
Providing revolving credit if Cubans pay and deal by deal support (e.g. Airport)
- Canadian private sector
3 phases of commercial relations in 1990s:
Making hay while sun the shines (92/Feb 96)
Between a rock & a hard place (Feb 96/mid 97)
Waiting for Godot (mid 97/present)
Making hay while the sun shines
- Canadians filling the trade gap left by COMECON with every sort of commodity, particularly those oriented towards inputs for the tourism sector. Virgin Territory
- Big jump in trade in 1995 and 1996
- Sherritt is pioneer in major investments

Between a rock and a hard place

- Rock: Helms-Burton as blunt policy instrument
- Hard place: Cuba shoots down planes and pulls in rains of move towards market economy
- Canadian companies generally defiant Focus is to beat Helms-Burton
- Trade and investment continued to grow
- Company behavior depended on answer to:
 - 1) Are they trafficking?
 - 2) How much US exposure?
Bigger problem for large companies with US exposure. Possibilities for smaller firms
 - 3) Are they already in Cuba?
If there already, probably stayed; if not there, had to think about it twice
 - 4) Appetite for risk?
Contrarians paradise
 - 5) How important was Cuba in overall portfolio?

Waiting for Godot

- There are two reasons for Canadian business to be in Cuba:
 - 1) because the US is not there or
 - 2) because the US will be there
- For traders, the end of embargo might end their competitive advantage
- For investors and service providers, the end of the embargo is likely to bring a bonanza
- If in Cuba because the US is not there - then growth in domestic economy needed in order for there to be enough liquidity for payment
- To solve the liquidity problem will require change in the policies of Castro regime - current economic path is not sustainable

- If in Cuba because the Americans will be there - success is based on ending the US embargo and settling claims
- Change in Castro policies and end of the US embargo are circumstances beyond the control of Canadian business - thus

Waiting for Godot

- Trade continues to grow. Bi-lateral C \$712.76
Exports C \$359.65m + 24.27% (foodstuffs, chemicals, machinery)
Imports C \$353.11m - 11.98% (nickel; sugar; seafood)
- Main deals in telecommunications and resources

Sherritt had 2 large deals:

Cubacel - Spent 38m (US) to buy 75% of the foreign held portion of the 50:50 venture with the Ministry of Communication - control of 37.5% of the company

Sherritt Power - raised C \$150m in an IPO to process raw gas produced in oil field for the purposes of electrical generation

1st key resources - modernize electrical generating plant

3) The Canadian Public

- Most articles cover progress of Helms-Burton and by-and-large support Canadian position on sovereignty over trade and foreign policy
- Increasing coverage of critical views of Castro regime
- In 1997 more coverage of Cuba's harsh realities, sorry state of economy; human rights violations and paralyzed reform
- Long term Canadian residents negatively affected by new housing law

Analysis

Results

- Established degree of confidence and trust between interlocutors; the habit of dialogue
- Helped to create a framework for transition
- Established good trade relations and commercial beachheads for post-embargo
- Canadian officials have claimed that easing of US policy towards Cuba as well as release of prisoners in Cuba is in-part proof that Canada's policy of constructive engagement is working

Challenges to Canadian Policy

- Policy paralysis and Cuba's sovereignty
- The rights of Canadian tax payers
- Relatively small policy "carrots" and lack of credible "sticks"

- Naïveté - we can do what we want vis a vis the US; we prefer dialogue and engagement; but do we know who we are dealing with in both Havana and Miami?
- US's aggressive stance - limits Canadian policy space and range of Cuban responses; it takes away international pressure on Cuba for reform and diverts it into a sovereignty battle with the US over Helms-Burton

Canadian response to reform paralysis so far:

- Diplomatic pressure operates in two levels:
 - 1) open lines of dialogue and
 - 2) clear communication that repression and paralyzed reform is not acceptable
- Formal "demarches" regarding assaults on micro enterprises and dissidents (on-going)
- Cuban response not particularly "satisfactory" but diplomatic pressure continuously applied. At least they come to the table and might be learning from other forms of governance
- Canadian Government so far providing the tools for reform while not working on policy side. More direct involvement on policy matters is expected given wave of repression
- Changes in diplomatic corps from Ambassadors to Ottawa desk officers. Impact likely to be cooler, more formal and procedural relations with focus on results

Conclusion

- Dialogue and engagement have had a positive effect in terms in facilitating a transition - but the future of the country is a Cuban question, not a Canadian one
- Canadians have helped to create the fish tank but the fish are not biting. Enabling environment is being put in place - but impetus for reform is lacking, if not paralyzed
- Pressure to claim short term results is dangerous - makes Canadians look even more naive (Castro and Washington are self-referential - not concerned with Ottawa)
- Canadian Cuba policy must be viewed as long-term policy providing:
 - 1) alternative paradigms for time of transition within Cuba and
 - 2) alternative approaches vis a vis US intransigence
- Canada will be well placed as arbiter of rapprochement between Cuba and US

Fundamental questions for policy makers in 1998:

- How to insure that trade, aid and economic reform also result in political reform?
- What policy to pursue to best use carrots and sticks without linking trade and aid to human rights?
- Will the re-introduction of market forces in Cuba provide the genetic material from which to make a market economy - or will it simply provide Castro with a vaccine against capitalism?
- What evidence is there that policy framework is working to bring about a "transition"? Is Doing Our Best Enough?

- Better than not doing anything at all or doing things that ultimately hurt the Cuban people in an attempt to de-stabilize the Castro regime
- However - aid is expensive and talk is cheap
- Canadians must make sure that we are not taken for a ride
- We must do better still