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Were 23 Months Of Obama Administration Initiatives Worth US\$12 Billion To Cuba? Trump Administration Impact?

From 17 December 2014, the government of the Republic of Cuba may have earned and saved a combined US\$12 billion as *direct/indirect* result of Obama Administration initiatives.

The earnings which have been enhanced are primarily from 1) increased travel-related transactions- both United States-based (gross revenues exceeding US\$900 million) and other country-sourced 2) increase in remittances (for use to create independent businesses, expanding existing independent businesses, real estate transactions, supporting friends and family, etc.) and 3) Direct Foreign Investment (DFI) projects (power generation, hospitality, manufacturing, assembly, etc.)- much of which has been announced but not yet delivered; announced estimates vary in value from US\$1 billion to US\$2 billion.

The number of individuals subject to United States jurisdiction visiting the Republic of Cuba since 17 December 2014 has more than doubled; the per person spending by the individuals has increased substantially; the demographics of the visitors has expanded; and the prices for accommodations, meals, ground transportation, tours, etc., have increased dramatically.

The majority of announced DFI value has been financed and/or had financing guaranteed by governments as opposed to the private sector, so there is often less incentive to seek full repayment if problems develop; and timetables for implementation often have greater flexibility. Some DFI (and “*soft loans*” from governments for infrastructure and product imports) may have occurred irrespective of Obama Administration initiatives as they were self-sustaining projects or the governments supporting them were engaging with the Republic of Cuba for domestic political considerations and/or despite United States policies, regulations and statutes; for example, the People’s Republic of China, Islamic Republic of Iran, Republic of Turkey, and Russian Federation.

The savings are from lessening of the perception of risk due to 1) the removal by the United States of the Republic of Cuba from the list of state sponsors of international terrorism 2) restoration of full diplomatic relations 3) impact of the visit to the Republic of Cuba by United States President Barack Obama 4) resumption of regularly-scheduled commercial airline flights 5) authorization of a hotel management contract (three properties) for a United States-based company 6) removing some restrictions upon the use of the United States Dollar for international transactions 7) publicity of increased visits to the Republic of Cuba by representatives of United States companies 8) increased presence (service providers particularly banks and MasterCard International; airlines) of United States-based companies 9) lower interest rates 10) expanded trade terms and 11) reduction in foreign debt.

In December 2015, representatives of the Paris Club Group of Creditors of Cuba and of the government of the Republic of Cuba agreed arrangement that reduced debt of **US\$11.1 billion to US\$2.6 billion**; and provided the government of the Republic of Cuba with eighteen (18) years to make repayments with any remaining debt subject to a 1.5% annual interest rate. Debt repayment discussions commenced in 2012 and gained momentum before December 2014. Some of the debt may be converted to equity for new DFI projects. *The Group of Creditors of Cuba includes Australia, Austria, Belgium, Canada, Denmark, Finland, France, Italy, Japan, the Netherlands,*

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Spain, Sweden, Switzerland and the United Kingdom. While the debt reduction agreement may have been negotiated without consideration of Obama Administration initiatives, the structure (implementation) of the agreement did weigh the positive and negative impact of re-engagement with the United States within the context of the ability by the government of the Republic of Cuba to adhere to repayment schedules. Before December 2014, the Russian Federation settled U.S.S.R.-era debt for approximately 10% of total value and debt to the Russian Federation.

France, Mexico (70% write-off in 2013) and Spain and China (approximately US\$6 billion write-off in 2011) and United Kingdom have also continued to independently forgive or reduce debt owed by the Republic of Cuba.

Most of the important debt reduction work with other countries is in the form of long-term agreements which are insulated, but not immune to impact from changes in policy, regulation or statute by the Trump Administration.

Announced DFI could be impacted if those managing and financing the projects believe that obtaining required revenue to service debt becomes uncertain.

To make sovereign debt and commercial debt payments (including new debt) as scheduled, the Republic of Cuba depends upon **1)** stable commodity prices for exports **2)** stable commodity prices for imports (most importantly, agricultural commodities and oil) **3)** increasing DFI **4)** increasing tourism net profits **5)** continuing short-term, medium-term and long-term government-to-government loans and grants and **6)** continuing medium-term to long-term commercial financing for imports. Without changes to the commercial, economic and political structures within the Republic of Cuba, there is little elasticity between fulfilling obligations and default on obligations.

The Trump Impact

The perception that the Trump Administration may alter United States policy, regulations, and statutes could impact revenue streams to the Republic of Cuba- from visitors, from companies (exports, imports, provision of services, DFI), and from governments which would then impact ability to make payments for imports of goods and services and to service debt.

If there is a decrease in earnings of the Republic of Cuba which impacts ability to service debt, then re-negotiation would become problematic for the debtor and the holder(s) of the debt.

How financial institutions located outside of the United States perceive Trump Administration risk associated with Republic of Cuba-related transactions will be central to the impact upon the Republic of Cuba.

Will the Trump Administration be proactive or reactive in terms of its relationship with the Republic of Cuba? Likely migrate towards reactive- However, if the Republic of Cuba makes a provocative statement or takes a provocative action, with “*provocative*” defined by President Donald J. Trump- with the definition not static, the level of focus on the statement/action by media will be have considerable weight as a determinant to the degree of response.

The Republic of Cuba can do much to influence the behavior of the Trump Administration- by focusing limited effort upon being noticed by officials of the Trump Administration and by Members of the United States Congress.

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Most United States companies, and the organizations representing them, modeled for the 8 November 2016 election result different from the outcome and, thus, are uncertain as to what the Trump Administration will create, replace and repeal; and whether and at what pace companies and organizations must alter their advocacy relating to the Republic of Cuba.

United States companies and their supporting organizations may adopt a strategy of seeking from the Trump Administration a commitment not to eliminate, reverse or revise existing policy and regulatory structures in consideration of United States companies and their supporting organizations advocating for commercially-imperative issues which impact the United States economy with far greater meaning than does the Republic of Cuba. The Return on Investment (ROI) from advocating about the Republic of Cuba has not become universally profitable.

Advocates risk becoming insensitive to and discounting of a potentially intoxicating political narrative for a United States president to disconnect from the imagery associated with being the leader of the country when “*Post-Castro Cuba*” becomes a reality on 24 February 2018.

For a president to be in office, and have an ability to transition through the closure of one chapter in the bilateral relationship and beginning of another chapter in the bilateral relationship, in this instance a fifty-nine -year-old text, will be far too tempting.... so, patience will be a focus.

Unknown is the impact of the relationship between The Honorable Paul Ryan, Speaker of the House of Representatives, and The Honorable Mike Pence (Governor of Indiana), the Vice President-Elect; and the impact of the National Security Council under retired Lt. General Michael Flynn.

United States companies are now seeking to preserve the policy and regulatory status quo rather than obtain an expansion of opportunities. This position is a direct result of advocates, some United States companies, and the government of the Republic of Cuba focusing upon seeking statutory changes by the United States Congress during the last twenty-three months rather than regulatory changes by the Obama Administration. That was a mistake.

There is a developing constituency who believe Trump Administration policies, regulations and support of statutes will be influenced by the desire of Mr. Trump to create and preserve opportunities for The Trump Organization to license the Trump name to hotels, golf courses, and condominium projects in the Republic of Cuba. That’s absurd.

The primary locations of those structures to which the Trump brand is affixed are in countries where there is a developed infrastructure, a wealthy government elite, a prosperous group of residents, a willing-to-spend group of expatriates, an entity having the capital to make licensing payments, and a rapid return-on-investment (ROI). This is not an environment that exists in the Republic of Cuba nor will exist in the Republic of Cuba during the next four years. Given the strategies of Mr. Trump during the 2016 campaign, he is not one to believe that perceived negative impact upon his brand is not surmountable; he can wait. Mr. Trump believes in the resilience of his brand, regardless of short-term issues.

For the Obama Administration, any further changes to regulations before 20 January 2017 would potentially invite a rigorous focus... as a cape is to a bull. The issuance of licenses, however, may be accelerated to provide companies with an ability to have options for implementation before Inauguration Day; and licenses that extend for one or more years.

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60 days until uncertainty becomes certainty.....

Obama Administration Irony

Given the initiatives by President Obama, since his inauguration in January 2009 exports of food products and agricultural commodities under provisions of the **Trade Sanctions Reform and Export Enhancement Act** (TSREEA) of 2000 have decreased from US\$528,482,955.00 in 2009 to US\$170,551,329.00 in 2015; thus far in 2016, at US\$169,482,206.00, they have increased 16% for the first nine months of the year. For 2016, there will be the first yearly increase since 2011/2012.

However, healthcare product exports from the United States to the Republic of Cuba in 2009 were US\$85,408.00; and in 2015 were US\$4,486,966.00. Thus far in 2016, exports were US\$2,174,372.00. These exports are authorized under the **Cuban Democracy Act** (CDA) of 1992.

There was an expectation by the United States business community that the government of the Republic of Cuba would increase its import of products and purchase of services from the United States due to the value of the initiatives by the Obama Administration. *This expectation was misplaced, thus far.*

There was an expectation by the United States business community that the Obama Administration would create as many regulatory opportunities as possible and end its term with only (or nearly) a need for changes to statutes. *This expectation was misplaced, thus far.*

Since December 2001, thirty-five (35) ports in the United States- from Virginia to Florida to Alabama to Louisiana and Texas have been the transit point for more than 4.6 million metric tons of food products and agricultural commodities exported from the United States to the Republic of Cuba.

The value of those exports? **US\$5,251,726,914.00** and all on a payment of cash in advance basis, as required by United States law. The best year was 2008 with US\$710,086,323.00 and the worst year was 2015 with US\$170,551,329.00.

Of 232 global export markets for food products and agricultural commodities from the United States, the Republic of Cuba has ranked from 25th to 60th.

What has the United States exported? Poultry, Soy products, Corn, Calcium Phosphates, Pork, Beef, Rice, Cotton, Wood, Wheat, Newsprint, Brewing Dregs, and products found in supermarkets.

The Republic of Cuba has also become a small export market for healthcare products (medical equipment, medical instruments, medical supplies and pharmaceuticals). From 2003 through this year, the total value is **US\$13,194,905.00**.

Since 17 December 2014, the government of the Republic of Cuba has purchased one (1) piece of agricultural equipment valued at approximately US\$140,000.00 from a United States-based company; the equipment, which was due to be delivered in June 2016, has yet to be delivered.