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COMMUNICATION FROM THE COMMISSION
TO THE COUNCIL AND THE EUROPEAN PARLIAMENT

RELATIONS BETWEEN THE EUROPEAN UNION AND CUBA

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The purpose of this Communication is to show that a peaceful and successful transition to a market economy and political pluralism in Cuba requires the forging of new international and regional bonds, and that, by virtue of its very size, the EU is well placed to play a leading part in that process.

With the collapse of COMECON in 1989 Cuba was cast adrift from its international moorings, creating a climate of change that has already seen a number of economic reforms adopted, with others in the pipeline.

Opening up all aspects of Cuban life to the outside world will have a far-reaching, if gradual, impact in terms of social change. EU policy, here as elsewhere, must be based on the firm conviction that human rights are better understood and better protected in societies in which goods, investment, individuals and ideas circulate freely. Provided Cuba continues its policy of opening up to the world, the EU should do its best to encourage this trend, by fostering dialogue and promoting Cuba's active participation in the activities of the international community in all political and economic fields.

This paper covers the economic and political situation in Cuba, relations between the European Union and Cuba and incorporates a Commission proposal for the creation of an EU/Cuba dialogue.

I. ECONOMIC AND POLITICAL SITUATION IN CUBA

A. ECONOMIC SITUATION

a) Developments since 1989 and reforms introduced to date

With the collapse of COMECON in 1989 Cuba was cast adrift from its international moorings, losing at one stroke not only its main supplier but also its principal customer. A terrible crisis ensued, and by 1993, Cuba was importing and exporting nearly four times less than in 1989.

However, the Castro regime has confounded widespread expectations by surviving the disappearance of its communist bloc allies.

This can be ascribed to:

- the fear shared by a large part of the Cuban people of a return to "hardline" capitalism via an uncontrolled economic transition dictated by Miami-based capital and leading to a loss of sovereignty and even identity;

- the emergence of a group of reformers who appear to be extending and consolidating their position;
- the adoption, at this group's behest, of a series of economic reforms which, although inadequate and incomplete, at least go some way towards rationalization, the liberalization of economic ties with the rest of the world and the beginnings of a private enterprise culture. Some of these measures, such as the liberalization of agricultural markets and the possession of foreign currency, seem to have been adopted to provide a springboard for future reforms (the main reforms adopted are listed in annex A).

This process has already yielded tangible results. For example, the Cuban peso, which stood at 130 to one US dollar on the black market in July 1994, has now recovered to 30 to the dollar. The latest figures show the Cuban economy performing slightly better.

That said, the crisis unleashed in 1989 has had a profound impact on the social security and education systems that Cuba had built up, although the authorities give the utmost priority to maintaining the highest possible standards of public health and education.

b) Scheduled economic reforms

A number of major reforms are planned for this summer:

- Reform of the law on foreign investment

The revised legislation will simplify the administrative formalities governing foreign investment, allowing foreign investors to take 100% control of businesses in most sectors and liberalizing working conditions.

- Extension of the law on small-scale private enterprise.

A law passed in July 1993 authorized Cubans to set up "for their own account" in around 100 independent professions. The scheduled amendment will extend the law to other professions, but more importantly will allow graduates, hitherto ineligible, to benefit from the arrangement.

- Launch of a major business restructuring programme

This programme will involve privatizing companies that can attract a majority foreign capital stake, making most of them "autonomous" and closing down those that cannot be made profitable. Top Cuban officials have announced that this operation will entail redundancy for 500 000 workers, who will have to find new employment chiefly by developing private initiatives.

A transition of this kind will require a considerable sacrifice on the part of the Cuban people, and may well provoke a degree of social unrest.

B. THE POLITICAL AND HUMAN RIGHTS SITUATION

The Cuban government remains unbound by democratic constraints whether institutional, constitutional, or related to the fundamental freedoms (of association, speech, expression and opinion).

Several reports by the Member States' Ambassadors address the issue of Cuba's political detainees. At the moment there are several hundred of them; they receive the same treatment as normal prisoners, and although there have been complaints about psychological pressure and biased and over-expeditious trials, cases of physical ill-treatment are extremely rare.

Aside from the issue of political prisoners, Cuba has not ratified the main international conventions on human rights and the Castro regime continues to exercise considerable control over the Cuban people, although there are signs that it is already waning as a result of the economic reforms. Government repression is primarily focused on preventing the emergence of an organized opposition.

During his recent visit to France (15 March), Fidel Castro agreed to allow the NGO France-Libertés to conduct a mission to assess the plight of Cuba's political prisoners. Senior representatives of France-Libertés, the International Federation of Human Rights Leagues, Médecins du Monde and Human Rights Watch/Americas duly visited Cuba from 28 April to 5 May, during which time the team was able to meet 24 political prisoners of its own choosing.

The team was aggrieved to discover that political prisoners were mixed in with criminal offenders, and noted that their sentences were very harsh and trials often over-expeditious. On the other hand, none of the prisoners they met had been physically ill-treated when being examined, although they did complain of psychological pressure tactics, including solitary confinement.

The team discussed these issues at some length with Fidel Castro, and proposed continuing its work in Cuba in collaboration with the authorities.

Following the mission, a number of political prisoners were freed, including Sebastián Arcos, founder of the Comité pro Derechos Humanos de Cuba. In view of Mr Arcos' symbolic status, his unconditional release was interpreted as indicating that a degree of domestic opposition would be tolerated.

Another interesting development is the emergence of large numbers of NGOs over the past few years in Cuba.

While many of them are clearly extensions of the administration, and as such do not really qualify as NGOs in the European sense, others have nevertheless created themselves real room to manoeuvre; these are the first, hesitant signs of a civil society finding its voice.

More recently, Mr Gutierrez Menoyo, the leader of the opposition group Cambio Cubano who now lives in exile in Miami after spending 22 years in a Cuban jail, visited Havana to take part in a seminar on "participatory democracy" with representatives of the Cuban government. After meeting President Castro, Mr Gutierrez Menoyo said that by holding this seminar in Cuba the regime had made a gesture of political openness.

II. RELATIONS BETWEEN THE EUROPEAN UNION AND CUBA

a) Introduction

Cuba is now the only Latin American country with which the European Union has not concluded a cooperation agreement. However, there are no barriers to trade between the two parties, and Cuba benefits from the Community GSP scheme. Diplomatic relations are normal: 11 Member States have Embassies in Cuba, where the Commission is represented by the head of the Mexico Delegation.

b) The Council

The Council has debated the Cuba question a number of times over the past three years, often in response to reports received from Member States' Ambassadors. The position that has emerged from these debates is that relations with Cuba should reflect the transition process.

c) The European Parliament

Parliament has recorded its position on Cuba in two Resolutions.

The Resolution of 15 September 1993 condemned the Torricelli law, a piece of extraterritorial US legislation approved in 1992 with the aim of reinforcing the embargo, and stressed its concern to see greater respect for human rights on the island, calling on the European Union and Cuba to step up political, economic and cultural dialogue with a view to concluding a cooperation agreement as soon as possible. Parliament also called on the Commission to take immediate measures to encourage the liberalization of the Cuban economy.

The Resolution of 29 September 1994, which was adopted against the backdrop of the boat people crisis, stressed the need for change in Cuba, welcomed the first contacts between the government and Cuban exiles, and called on the United States to lift its embargo to prevent social upheaval on the island.

Parliament also urged the EU to make more provision for Cuba in its regional cooperation programmes and to start talks with the Cuban government without delay with a view to concluding a framework cooperation agreement.

From these two Resolutions it is clear that the European Parliament believes that a successful, peaceful transition to a market economy and political pluralism in Cuba will require the active support of the European Union to help bind the island republic back into the international community.

d) The Member States

Most Member States maintain strong bilateral economic ties with Cuba and actively encourage their companies to establish themselves in the Cuban market through measures such as business delegations, agreements on the protection of investment and export credits.

A considerable proportion of the 200 or so joint ventures set up in Cuba over the past few years have been created at the initiative of European companies.

Annex C lists the main international agreements concluded between Cuba and the Member States and details recent political or economically inspired visits to the island by representatives of the Member States and some private bodies.

e) Community action: humanitarian aid and ad hoc support for the reforms

Before 1993 there was virtually no cooperation with Cuba, the sole exception being an indirect contribution of food aid via the World Food Programme. Starting in 1993, in response to positions adopted by the Member States in the context of Political Cooperation and the Parliament Resolutions cited above, the Commission introduced a humanitarian aid programme plus a series of ad hoc measures tailored to Cuba's specific needs and aimed at supporting the reform process.

Humanitarian aid activities are carried out by the European Community Humanitarian Office (ECHO), with the aim of helping the most vulnerable of the Cuban people (women, children, the sick and the elderly). This aid is channelled through European NGOs who carry out projects approved by the Commission from start to finish. The European Parliament has on a number of occasions endorsed these aid activities, the effectiveness of which was recently emphasized by the Member States' Ambassadors in Havana when the Commissioner for Humanitarian Aid visited Cuba.

In 1993 ECU 5 million was allocated to humanitarian aid to Cuba, a figure which rose to ECU 14 million in 1994. Expert opinion, including that of the Member States' Ambassadors to Cuba, is unanimous in calling for the continuation of these aid activities in view of the social and economic conditions on the island. The amount allocated to humanitarian aid in 1995 should be the same as in 1994.

Ad hoc cooperation measures have primarily focused on projects implemented through European NGOs, whose presence on the ground serves as an example that encourages the tentative Cuban grassroots. ECU 2.5 million was allocated to these NGO projects in 1994, a level of financing that should be maintained this year.

There have also been isolated economic cooperation projects to support the reforms, for example the programme to train business managers in the ways of a market economy that starts this October, which will give 120 Cubans a Master's degree in the disciplines concerned. Another example is the weekly television show *Espacio Europa*, comprising a European film and a summary of the week's European news. The funds allocated to this type of cooperation have progressed from ECU 0.5 million in 1994 to around ECU 5 million this year. Furthermore, Parliament has created two special budget headings (for Cuban SMEs and Cuban NGOs). A pilot structural food aid programme supporting the relaunch certain sectors of agriculture may be implemented in the next few months.

III. CUBA'S RELATIONS WITH ITS NEIGHBOURS

a) The United States

Relations between the United States and Cuba are progressing slowly, but continue to generate controversy in the US. One school of thought maintains that economic emigration can be slowed and the pace of economic reform stepped up by adopting a constructive approach. In the other camp, the draft "Cuban Liberty and Democracy Solidarity Act of 1995" (also known as the "Helms-Burton" bill) advocates a policy of confrontation and isolation. The EU has clearly stated its fundamental objection to this bill.

The US embargo is not smoothing Cuba's path towards a market economy and political pluralism. Normal trade with the USA would bring increased daily contact and would undoubtedly encourage the transition process.

The embargo is instead blocking the Cuban reform process, a state of affairs that the Helms-Burton bill would only aggravate. The bill is still being assessed, but if it were to be adopted, it would have the following repercussions:

- unilateral internationalization of the embargo (through extra-territorial provisions designed to discourage companies from third countries from trading with Cuba);
- Intensification of the dispute between Cuba and the US with regard to the expropriation of the property of US nationals and Cuban exiles that have acquired US citizenship.

The current status of this dispute is clearly delineated. To be eligible claims had to be submitted following a given procedure before 1972. Some 5 911 such claims have been endorsed, with 38 companies accounting for around 86% of the total amount claimed from Cuba. It is the fact that the process is closed and the number of claimants fairly limited that renders negotiations between the two States possible, and it is worth noting that Cuba has concluded compensation agreements with other countries whose nationals sustained losses.

Numerous indicators suggest that the reformers will be unable to achieve a decisive qualitative and quantitative breakthrough unless Cuba is offered a chance to re-define its international relations in terms of the new world situation.

The current US administration is openly opposed to the Helms-Burton bill, favouring a more subtle policy suggested by the recent agreement on migration, President Clinton's appointment of a special envoy, and Warren Christopher's statements to Congress in which he discerned the first, tentative moves towards a market economy in Cuba.

Moreover, the US press (note the New York Times, 17 May 1995) referred to a recent internal Pentagon report on Cuba, a 300-page paper entitled "The Military and Transition in Cuba: Reference Guide for Policy and Crisis Management".¹ The report states that Cuba has entered into an historic transitional phase in which Fidel Castro is a key player, and that American strategic interests call for support for the economic and political reforms now under way rather than punitive sanctions. This analysis would seem to be endorsed by the National Security Council.

US public opinion is also increasingly agreed on the need for a positive approach to the Cuban question. Over the last two years, a total of USD 65 million has been channelled into Cuba through the activities of NGOs, churches and other charities.

b) Mexico

Cuba enjoys privileged relations with Mexico. There are frequent official visits in both directions, and Fidel Castro was present at the investiture of President Ernesto Zedillo. Mexico has a strong economic presence in Cuba; by way of example, a major Mexican industrial group recently took a 50% stake in Telefónica Cubana. Numerous bilateral agreements link the two countries, including agreements on oil supplies.

¹ see *The New York Times* of 17 May 1995.

c) Canada

Canada has been stepping up its relations with Cuba. Ricardo Alarcón, the President of the Cuban National Assembly, and Roberto Robaina, the Foreign Minister, recently went on an official trip to Canada, which was reciprocated by the Canadian junior foreign affairs minister's visit to Cuba.

Canada has just reinstated development cooperation with Cuba and is currently assessing the first NGO projects. Canadian companies are well represented in Cuba, and the two countries have just initialled an agreement on the protection and promotion of investment.

d) CARICOM

In April 1993, despite pressure brought to bear by certain sectors of American political opinion, a Cuba/Caricom Joint Committee was set up to debate issues of mutual interest and seek common solutions.

Caricom also strongly supported Cuba's application to become a full member of the Association of Caribbean States.

The Joint Committee has suggested that Cuba might participate as a provider of technical assistance in certain regional cooperation projects in the Caribbean funded by international donors such as the IDB, the World Bank and the European Community.

IV. CUBA'S RELATIONS WITH THE EU: THE WAY FORWARD

By virtue of its very size the EU is probably the best placed of Cuba's partners to initiate measures to accompany the reforms. If we prepare the ground thoroughly with our Cuban partners and their neighbours, the EU could launch a programme that would succeed in drawing in other major partners such as Canada, Mexico, the Rio Group and Caricom.

An initiative along these lines would thus have the effect of binding a newly pluralist Cuba firmly into the international community, which is essential if there is to be a decisive breakthrough in the internal transition process.

The first step would be to initiate a dialogue, a series of consultations with Cuban representatives aimed at establishing an appropriate framework and level for EU/Cuba relations, taking account of developments on the economic and institutional reform front.

A dialogue of this kind would provide a forum for a thorough exchange of views on the reforms, the development of a civil society, and measures to safeguard and extend private initiative and personal freedom.

Another subject to be debated is the future development of EU/Cuba relations and the type of framework that would be appropriate.

This would enable the parties jointly to examine the nature of the accompanying measures from which Cuba would wish to benefit in pursuit of its liberalization and reform process.

If the Council of Ministers endorses this approach, the Commission will start exploratory talks to identify the kind of framework that should be given to future EU/Cuba relations.

THE MAIN REFORMS

The main economic reforms adopted by Cuba were described as follows in an Economist Intelligence Unit publication of December 1994 entitled Cuba: prospects for reform, trade and investment (p.19):

Chronology of economic change

February 1982: The Council of State approves Legislative Decree No. 50 on Economic Associations between Cuban and Foreign Entities. This authorises foreign investment through joint ventures, but very little interest is generated.

April 1987: The tourism corporation Cubanacán is established independently from the National Tourism Institute with a brief to find foreign partners for hotel projects.

December 1989: The Berlin Wall comes down. Within a year the trading system Cuba built up with the Soviet bloc over 30 years is in ruins.

May 1990: The first joint-venture hotel opens in Varadero, owned by the Spanish company Sol Meliá and Cuba's Cubanacán.

1990-92: Measures are introduced to decentralise the state trading system, with substantial autonomy granted to new corporations. Large numbers of state bureaucrats are laid off. Plans are developed for reforming the currency and reducing state subsidies.

November 1990: For the first time at a trade fair, the Cuban Chamber of Commerce publicly promotes foreign investment in Cuba.

October 1991: The Fourth Congress of the Cuban Communist Party proposes amendments to the Constitution (see below) and outlines a new economic strategy after the break-up of the Soviet Union.

July 1992: The National Assembly amends the Cuban constitution to protect foreign investment in Cuba; modify the concept of property and the state's economic role; end the state's monopoly of foreign trade; and recognise private enterprise when carried out by companies and economic associations. The Council of Ministers or its Executive Committee is given the right to transfer ownership of a given economic entity if doing so would facilitate economic development.

July 1992: A new wholesale pricing system is introduced with the intention of reflecting the real cost of external production inputs.

February 1993: Cuba's first international oil licensing round is launched in Calgary and London.

July 1993: Fidel Castro announces legislation of hard-currency use by Cubans and its free circulation in the country (Decree Law 140); the widening of openings for self-employment in production and services; and the leasing of state land to private producers, to be worked by cooperatives or families.

August 1993: In the biggest cabinet shake-up in recent Cuban history, the ministers of the sugar industry, agriculture, finance and communications are replaced.

December 1993: The Council of State approves the sale of land to the Mexican company Cemex as part of an agreement to invest in the Mariel cement works.

March 1994: The Netherlands Caribbean Bank NV - joint venture between ING Bank of the Netherlands and Cuba's Acemex Group - is granted a licence to open a representative office in Havana, the first foreign involvement in Cuban since nationalisation in 1960/61.

April 1994: Seven new ministries are created and others abolished in a major reorganisation. A minister for tourism is appointed for the first time.

May 1994: The National Assembly announces a radical fiscal package designed to balance the state budget by raising prices and cutting subsidies to loss-making state enterprises.

June 1994: The Canadian minerals corporation Sherritt and the Cuban state enterprise General Nickel Co; agree to establish a jointly owned enterprise to mine, refine and market nickel. The jointly owned assets include nickel-refining plants in Cuba and Canada, and nickel and cobalt concessions in Cuba.

July 1994: The Association of Caribbean States is formed, with Cuba as a founding member.

August 1994: The National Assembly announces the introduction of taxes on property and income for the first time since 1967, to become effective in early 1995.

September 1994: Defence Minister Raúl Castro announces that free markets in agricultural products will be permitted beginning October 1, encompassing the entire agricultural sector.

October 1994: The government states that scarce manufactures and consumer goods may henceforth be sold directly to the public by individuals and local state industries, with traders, not the state, setting prices. As with trade in agricultural products, vendors will have to pay a tax on sales and the markets will operate in Cuban pesos.

In addition to the above measures, most State-run farms have been turned into administratively independent cooperatives called *unidades básicas de producción agrícola* which are based on the distribution of land ownership rights among the cooperative members, who are entitled to sell part of their produce on the free agricultural market set up in October 1994.

In a speech to the *Federación de las Mujeres Cubanas* in February this year, Fidel Castro announced that the market economy measures already introduced were permanent, that other such measures would follow and that the Cuban people must brace itself for a wave of redundancies (500 000 jobs are set to be axed over the next few months) which would be absorbed by increased foreign investment and greater freedom for private enterprise.

In another noteworthy development, the first conference with moderate Cuban exiles was held in Havana in April 1994, and a second meeting is set for November this year.

THE HELMS-BURTON BILL

Introduction

The Cuban Liberty and Democratic Solidarity Act of 1995 proposed by Senator Jesse Helms is currently before Congress, and could become law in July.

The main provisions

The proposed law purports to encourage a peaceful transition to democracy by stepping up the pressure on Cuba by:

- allowing US citizens to make representations to a special committee claiming expropriation of their property without compensation, even if those citizens were of Cuban nationality when their property was expropriated;
- allowing citizens making such representations to have any foreign national that has benefited, however indirectly, from the expropriated property, indicted for damages and interest up to three times the value of the property. By way of example, a European hotel company could be ordered to pay damages and interest to a Cuban farmer and naturalized American on whose expropriated field the Cuban government has built a hotel subsequently leased to the European company;
- refusing US entry visas to representatives of foreign companies (including spouses and children) that have "trafficked" (i.e. benefited even very indirectly) with expropriated goods;
- banning US banks and their subsidiaries from making loans to those foreign nationals;
- reducing US aid to Russia and the newly independent States in proportion to their aid to Cuba (including the rent paid by Russia for its use of the Lourdes military base and radio surveillance station which, according to the Clinton administration, is needed by the Russians to monitor US compliance with disarmament agreements);
- reducing US contributions to international financial institutions that lend to Cuba;
- banning US imports of sugar products from countries that import Cuban sugar.

Some of these provisions overtly contravene established principles of international law and the rules of the WTO, and are designed to internationalize the embargo unilaterally.

Initial international response

Many countries, including Canada, Mexico and a number of EU Member States, have officially protested to the US authorities about the Helms bill. To cite two such reactions at EU level, on 15 March 1995 Sir Leon Brittan wrote to Warren Christopher expressing the Commission's profound objection to the bill, a position which was endorsed by a Statement issued by the Presidency on behalf of the Union on 5 April.

The Clinton administration has responded very vehemently to the bill in a memorandum that stresses that its provisions are illegal, would not encourage a peaceful transition in Cuba, and (with reference to the measures affecting Russia) could well harm the USA's broader security interests.

**International agreements between Cuba and EU Member States
and politically and economically inspired visits to Cuba by representatives
of the Member States and certain private bodies**

Below are listed, by way of an example, some of the most recent political and economic visits as well as the most important and/or recently concluded bilateral agreements:

Visits

Germany:

- A delegation from the Federal Ministry of Trade to discuss an agreement on the protection and promotion of investment (1994).
- Klaus Jürgen Hedrich, State Secretary at the Ministry of Aid and Development (1994).
- Lothar Bisky, PDS President (1994).
- A high-level delegation from the Mercedes-Benz Group (1994).

Denmark:

- Lasse Budtz, President of the Social Democratic Party's international relations committee (1995).

Spain:

- Apolonio Ruiz Ligeró, State Secretary for foreign trade (1994).
- José Luis Dicenta, State Secretary for international and Iberian-American cooperation (1994).
- Carmen Alborch, Minister of Culture (1994).

France:

- Michel Charasse, Senator and presidential adviser (1994).
- Jean-Pierre Desgeorges, President of the *CNPF International*, heading a large business delegation (1995).
- Danielle Mitterand (1995).

Finland:

Petri Tuomi Nikula, Chancellory Director of Cultural Affairs (1994).

Greece:

Elizabeth Papazoi, Deputy Minister of the Environment (1994).

Italy:

- Massimo Velloti, President of the Italian Confederation of Farmers (1994).
- Ludo Rattazzi, President of Air Europe (1994).

Netherlands:

- Hans Fortuin, divisional head at the Ministry of Economic Affairs (1994).
- Klaas de Jong, director of the trade and industry department of the Ministry of Agriculture, Fisheries and the Environment (1994).
- Director of the Tourism and Transport Institute (1994).
- Willi van Wout, President Foreign Trade Centre Institute.
- Mr De Vilder, President of the Amsterdam Chamber of Commerce, leading a 35-strong business delegation (1994).

United Kingdom:

- Adrian Beamish, Under Secretary at the Foreign Ministry (1994).
- Ian Taylor, Minister of Trade and Technology, leading a large business delegation (1994).
- David Jessop, Director of the Caribbean Trade Advisory Group (1994).
- David Suratgar, Vice President of the Board of Morgan Grenfel International, Vice President of the West India Committee and President of Caribbean Council for Europe (1994).
- Baroness Young, former Minister of Foreign Affairs, leading a 40-strong business delegation.

Sweden:

- Business delegation (1994).
- Pierre Chorri, Deputy Minister of Foreign Affairs and State Secretary for Cooperation (scheduled for June 1995).

Bilateral treaties

Austria:

- Debt consolidation agreement (20 February 1987).
- Agreement on air services (11 February 1992).

Denmark:

- Agreement on debt renegotiation (18 March 1987).