GAO

United States
General Accounting Office
Washington, D.C. 20548

General Government Division

March 15, 1994

The Honorable Charles B. Rangel
House of Representatives

Dear Mr. Rangel:

As you requested, this correspondence provides information on U.S. economic relations with the Republic of Cuba. As agreed with your representative, we are answering those questions you asked us in your December 2, 1993, letter that will supply you with information that we hope will be of greatest assistance to you at your joint March 17 hearing on Cuba.

Specifically, we obtained information from the Treasury and Justice Departments on the amount and composition of (1) claims filed by U.S. nationals against Cuba with the U.S. Foreign Claims Settlement Commission (FCSC), (2) blocked assets of Cuba in the United States, and (3) trade between Cuba and foreign subsidiaries of U.S. companies. We also provide information on (1) the potential of Cuba as a market for U.S. exports and (2) the effect that lifting the U.S. embargo of Cuba might have on the U.S. government's Caribbean Basin Initiative (CBI) program.

SCOPE AND METHODOLOGY

We obtained a list of U.S. nationals' claims against Cuba from FCSC, a unit of the Justice Department.[1] We obtained information on the value and distribution of blocked Cuban assets and on licensed trade with Cuba by foreign subsidiaries of U.S. corporations from the Treasury Department. We did not verify the data's accuracy; however, we discussed the data's limitations with appropriate FCSC and Treasury officials. This letter discusses some of these limitations. In order to provide information on Cuba's potential to be a U.S. trading partner, we obtained and reviewed a study on

[1]FCSC is a quasijudicial federal agency located within the U.S. Justice Department. The FCSC's function is to determine the validity and amount of claims of U.S. nationals for loss of property in foreign countries. FCSC has no authority to make payments.

this topic and discussed the study's findings with one of its authors.[2] Our discussion of the CBI program is based on a 1993 GAO report that assessed the impact that U.S. foreign assistance programs have had on attracting foreign investment to CBI countries.

U.S. CLAIMS AGAINST CUBA

You asked us to provide a list of FCSC claimants for Cuba. Also, for each claimant, you wanted the amount of the claim and the identity of the property for which the claim is being made. Title V of the International Claims Settlement Act of 1949, as amended (P.L. 88-666, 22 U.S.C. 1643), authorized FCSC to consider claims of U.S. nationals against the Cuban government based on (1) losses resulting from the nationalization, expropriation, intervention, or other takings of, or special measures directed against, property by that government; and (2) the disability or death of U.S. nationals resulting from actions taken by or under the authority of that government. The statute provided for the determination of the validity and amounts of such claims for losses that occurred between January 1, 1959, when the present government ascended to power, and October 16, 1964.

FCSC completed its Cuban Claims Program in July 1972. According to the FCSC's 1992 annual report, FCSC approved 5,911 claims against Cuba and denied 2,905 claims. The value of approved claims (principal only) was $1.85 billion. The claims are measured in nominal dollars, so inflation has eroded their real value. To date, no settlement fund has been established and no approved claims have been paid.

Separately, we are providing you a copy of a list, obtained from FCSC, that, according to a FCSC official, shows all claims against the Cuban government filed with FCSC by U.S. companies and individuals during the legal filing period (which ended on May 1, 1967). For each claim, the list shows the name of the U.S. company or individual making the claim, the amount of the claim in nominal dollars, the amount of the loss certified by FCSC, the type of loss (e.g., land, securities), and

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[2]New Opportunities for U.S.-Cuban Trade, by Donna Rich Kaplowitz and Michael Kaplowitz, Esq. (Washington, D.C.: Paul H. Nitze School of Advanced International Studies, Johns Hopkins University), 1992.

other information. However, the list cannot be used to identify the location in Cuba of the expropriated properties. Although the list identifies the locations of some of the properties with a code letter, an FCSC official told us that FCSC could not locate the "key" that would allow the code letters to be deciphered.

The list does not provide totals for any of this information. It is a photocopy of FCSC records that are not in automated form. We did not verify that the value of the claims on this list adds to the figures given in the 1992 annual report, nor did we verify that the list accurately summarizes data contained in FCSC's files.

You asked us to comment on one issue regarding claims against Cuba. Disputes over the legal ownership of some of the properties in question could arise between U.S. citizens living in the United States and Cuban citizens residing in Cuba. Such disputes could complicate any future negotiations between the Cuban and U.S. governments on resolving these claims. You requested GAO's legal opinion on the relative rights these claimants would have. Given that we do not have ready access to the type of information necessary to properly resolve these disputes, we are not in a position to render such an opinion. Furthermore, this request is not within the purview of our jurisdiction. This question would be more appropriately directed to the Justice or Treasury Departments.

BLOCKED CUBAN ASSETS

You also asked us to provide the amount and location of the funds currently held by the U.S. government on behalf of (1) the Cuban government and (2) U.S. claimants of FCSC. You also wanted to know at what rate, if any, the blocked Cuban assets are earning interest.

Under regulations issued by authority of the Trading With the Enemy Act of 1917 (50 U.S.C. App. Sec. 5(b)), the U.S. government has "blocked," or frozen in place, all Cuban-owned property located within U.S. jurisdiction. Holders of blocked assets are prohibited from engaging in any transaction with respect to property in which Cuba or Cuban nationals have an interest, direct or indirect, except as licensed by the Treasury. In general blocked assets are held by U.S. banks.

A 1964 census conducted by the Treasury revealed approximately $149 million in blocked Cuban assets. However, the Treasury found that much of this total involved assets, such as defaulted unsecured bonds, that did not represent anything of value that could be liquidated or recovered for settlement purposes. The Treasury later estimated that about $30 million of the $149 million represented actual recoverable property.

Since 1964, the value of these blocked assets has fluctuated over time as the Treasury has blocked and unblocked assets, as blocked funds have accrued interest, and for other reasons. Table 1 shows the Treasury's estimates of the value of Cuba's blocked assets in 1983 and 1994, and the identities of the holders of these assets. The estimate for 1983 is based on a Treasury census of holders of blocked assets. The estimate for 1994 is based on surveys of holders of only the largest blocked accounts, which Treasury officials told us represent the vast majority of blocked assets.

Table 1: Value of U.S.-Blocked Cuban Assets in 1983 and 1994

U.S. dollars in thousands

U.S. holder of Cuban asset	Value in 1983	Percent of total	Value in 1994	Percent of total
Banks	$48,422	72.2%	$125,122	96.3%
Agents/ trustees[a]	12,668	18.9	97	0
Others[b]	3,685	5.5	1,712	1.3
State government agencies	2,163	3.2	2,164	1.7
U.S. government	103	0.2	841	0.6
Total	$67,042	100%	$129,935	100%

Note 1: Dollar totals and percentages may not add due to rounding.

Note 2: Figures for 1983 are not adjusted for inflation.

[a]Consists of bank deposits held by the Cuban government's legal representative in the United States.

[b]Includes Cuban holdings of common stock in U.S. corporations as reported by those corporations.

Source: Derived from Treasury Department data.

As the table indicates, the nominal value of blocked Cuban assets nearly doubled between 1983 and 1994, from about $67 million to about $130 million. Payments owed by a U.S. corporation to the Cuban government for telecommunications service between the United States and Cuba and deposited into a blocked bank account represented over one-half of the blocked assets in February 1994. The table also shows that nearly all blocked funds currently are held by banks, while less than 1 percent are held by the U.S. government. The approximately $841,000 in blocked funds held by the U.S. government consists mainly of veterans' benefits and withheld checks due Cuban nationals. According to a Treasury official, none of the blocked funds are held on behalf of claimants of FCSC.

Treasury regulations require that blocked Cuban assets be held in interest-bearing accounts in domestic banks. The interest such an account earns can be no less than the maximum interest rate payable on the shortest time deposit in the domestic bank where the account is held. Such accounts may include 6-month Treasury bills or insured certificates with a maturity not exceeding 6 months. Treasury officials told us that they do not track the exact rate of interest all blocked funds earn, but that most blocked assets, including blocked telecommunications funds, are held as certificates of deposit. The current interest rate on a new 3-month certificate of deposit is about 3 percent.

CUBA'S TRADE WITH FOREIGN SUBSIDIARIES OF U.S. FIRMS

You asked us to supply a list of all foreign registered units of U.S. businesses that, since 1975, have applied to and received from the Treasury licenses to sell goods to Cuban entities. You also asked us to list the types of goods, the quantity, and the value proposed and approved to be sold in each of these cases.

Between 1975 and 1992, U.S. companies whose foreign subsidiaries wished to trade with Cuba were required to obtain an individual license from the Treasury Department. Before 1975, such trade was not illegal, and advance written permission from the U.S. government was not required. Consequently, although trade between Cuba and U.S. firms' foreign subsidiaries probably occurred before 1975, the Treasury did not track such trade. In October 1992, the Cuba Democracy Act of 1992 (P.L. 102-484, 22 U.S.C. 6005) took effect, making trade between U.S.-owned foreign subsidiaries and Cuba illegal.

We cannot provide all of the information you requested. The Treasury maintains few automated records on licensed trade between Cuba and U.S. firms' foreign subsidiaries. According to Treasury officials, both the identities of U.S.-owned foreign subsidiaries that received licenses to trade with Cuba and the details on each licensed transaction exist only in paper files on individual license applications. Extracting the information you asked for by hand from these files would require considerable effort and time. Moreover, Treasury officials told us that some of the material you asked for is proprietary information.

However, since 1990 the Treasury has issued four reports that summarize the amount and composition of this type of trade. Together, these reports cover the 1980-92 period. Table 2 uses the data in those reports to show the number of licenses issued for trade between U.S.-owned foreign subsidiaries and Cuba during 1980-92, and the value approved to be traded.[3]

[3]Treasury officials told us that very few applications were ever denied and that therefore the numbers of applications received by the Treasury shown in the four Treasury reports are nearly equal to the number approved.

Table 2: Value of U.S.-Owned Foreign Subsidiaries' Trade With Cuba Licensed by the U.S. Government, 1980-92

Trade data in millions of U.S. dollars

Year	Number of licenses issued	Value of subsidiaries' imports from Cuba permitted by these licenses	Value of subsidiaries' exports to Cuba permitted by these licenses
1980	164	$86	$206
1981	216	61	149
1982	170	161	92
1983	153	55	87
1984	250	159	116
1985	256	126	162
1986	249	254	107
1987	201	114	129
1988	215	149	97
1989	233	162	169
1990	321	172	533
1991	285	335	383
1992	225	92	407

Note 1: The actual amount of trade could have been less than the figures shown, if the foreign subsidiaries traded less with Cuba than the amounts the licenses authorized them to trade.

Note 2: These figures are not adjusted for inflation.

Source: Treasury Department.

During 1980-92, the Treasury issued 2,938 licenses for foreign subsidiaries of U.S. firms to trade with Cuba, an average of 226 each year. In 1992, the last year this kind of trade was legal, the Treasury issued 225 licenses for U.S.-owned foreign subsidiaries to trade with Cuba. Those licenses authorized the subsidiaries to export up to about $407 million to Cuba and to import up to about $92 million from Cuba. The actual amount of trade could have been less, however, if the subsidiaries traded less than the amounts the licenses authorized them to trade.

Also, the Treasury has released a list, compiled from license application files, of some U.S. companies whose foreign subsidiaries engaged in licensed trade with Cuba during 1985-91. We have previously given you that list. The list contains 105 companies, including a number of large manufacturers and agricultural firms. However, the list does not show the approved value of trade that these companies' foreign subsidiaries were licensed to conduct.

CUBA'S POTENTIAL AS A U.S. EXPORT MARKET

You requested that we analyze Cuba's potential as a market for U.S. products. A 1992 study, produced under the auspices of the Johns Hopkins University's Paul H. Nitze School of Advanced International Studies, attempted this task. The study, New Opportunities for U.S.-Cuban Trade, estimated that U.S. corporations could sell between $1.3 billion and $2 billion worth of goods to Cuba in the first year after the U.S. embargo of Cuba is lifted. According to the study, the estimate was made in the following way: Cuban officials estimated that the United States and its businesses could capture between 33 percent and 50 percent of all Cuban trade. A Cuban official told the study's authors that Cuba imported $4 billion worth of goods in 1991, primarily with hard currency. One-third to one-half of a $4 billion market equals $1.3 billion to $2 billion.

Furthermore, the authors note that Cuban global trade was $13 billion in 1987 but dropped substantially thereafter as a result of the loss of its major trading partner, the former Soviet Union. The authors state their belief that as Cuba diversifies its economy, as well as earns hard currency, Cuba will increase its total trade levels. They also assert that Cuba could be expected to return to the trade levels approaching those of 1987 once trade between the United States and Cuba is reestablished. The authors calculate that, if the latter occurred and if the United States were able to capture 33 to 50 percent of such a level of trade, total U.S.-Cuban trade could reach between $4.3 and $6.5 billion. The authors point out that U.S. trade with Cuba topped $1 billion annually before 1959 and that the geographic proximity of Cuba and the United States makes them natural trading partners.

Of course, there is no way to determine how accurate these estimates are. The study obtained both its figure for Cuba's imports and its estimate of U.S. companies' potential share of Cuba's imports from interviews with Cuban government officials. The study's figure for Cuban imports for 1991 is similar to a recent estimate by the Central Intelligence Agency (CIA)--that is, $3.7 billion. However, the CIA study estimated that Cuba's imports fell substantially in 1992, to $2.2 billion. One-third to one-half of this amount would be about $733 million to $1.1 billion. According to the CIA study, Cuba's total trade fell to $4.2 billion in 1992. Cuba's trade would have to more than triple from that level before it reached the 1987 level of $13 billion. We have previously given you a copy of the CIA study.

The Hopkins study's estimate of future trade levels seems to depend importantly on the assumptions that Cuba will be able to quickly diversify its economy and that the ability to trade with the United States will greatly stimulate overall Cuban trade. Furthermore, it is important to note that the Hopkins study's estimates are estimates of potential U.S. companies' sales--not U.S. exports--to Cuba. Were the embargo lifted, a large proportion of sales by U.S. firms to Cuba might not be shipped from the United States or contain much U.S. content. Licensed sales by U.S.-owned foreign subsidiaries to Cuba were required to be produced in a third country, and contain less than 20 percent U.S. content. Thus, prior trade with Cuba by foreign subsidiaries of U.S. firms might not be a good indicator of potential U.S. exports to Cuba or of potential economic benefits to U.S. workers.

THE LIKELY IMPACT ON THE CBI PROGRAM OF LIFTING THE CUBA EMBARGO

You asked us to analyze the impact that removing the U.S. embargo of Cuba would have on the effectiveness of the CBI program. You also asked us to assess how the Cuba Democracy Act of 1992, which tightened the embargo, has affected the CBI program. CBI is a broad program to promote economic development through private sector initiatives in Central American and Caribbean countries. CBI allows Customs duty-free entry into the United States for a wide variety of products produced in CBI countries, special access for CBI-produced textile and apparel products, and other benefits. Cuba has not been designated a CBI beneficiary.

We cannot predict with any confidence how removing the Cuba embargo would affect the effectiveness of the CBI program, nor the rate of economic development in CBI countries. Measuring the CBI's effectiveness is difficult now. Many economic and political factors together determine the pace of economic development in a country. There is evidence that U.S. foreign assistance has not been a major factor in attracting foreign investment to these countries. For a 1993 review of U.S. foreign assistance programs, GAO surveyed officials of U.S. companies with assembly operations in four Caribbean Basin countries.[4] These officials told GAO that they were attracted to the region primarily by the plentiful low-cost labor in close proximity to U.S. markets, rather than by the benefits of foreign assistance programs.

Moreover, it is not even clear whether removing the Cuba embargo would generally help or hinder development in CBI countries. Were the embargo lifted, Cuba might absorb a share of U.S. foreign investment that is currently going to CBI countries. This possibility would tend to retard CBI countries' economic development. Alternatively, ending the embargo might stimulate regional development enough to overcome the effects any diversion of investment from CBI countries to Cuba might have. However, the poor performance of

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[4] Foreign Assistance: U.S. Support for Caribbean Basin Assembly Industries (GAO/NSIAD-94-31, Dec. 29, 1993). The four countries were Costa Rica, the Dominican Republic, El Salvador, and Honduras.

the Cuban economy in comparison with CBI nations suggests that Cuba may not be a large factor in the region in the postembargo period, at least for the immediate future. Cuba's economic performance after the embargo is lifted will be affected by the level and pace of Cuban economic and political reforms.

We have not assessed the impact of the Cuba Democracy Act on the CBI program. GAO's previous survey of companies with assembly operations in four CBI countries did not include questions on Cuba. Company officials did not volunteer any views on the impact of the act on their operations.

AGENCY COMMENTS

GAO discussed its findings with Treasury officials on March 11 and March 15, 1994. The officials generally agreed with the overall message and contents of this letter. However, GAO made some technical changes to the letter based on the Treasury's comments. For example, a Treasury official corrected parts of Table 1 to more clearly reflect the change in the value of blocked Cuban assets held by agents and trustees of Cuba.

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If you or your staff have any questions concerning this letter, please call me at (202) 512-5889. The information in this letter was developed by James McDermott, Assistant Director, and David Genser, Evaluator-in-Charge.

Sincerely yours,

JayEtta Z. Hecker, Director
International Trade, Finance, and Competitiveness

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