

Report of the UN Secretary-General: Necessity of ending the economic, commercial and financial embargo imposed by the United States of America against Cuba (A/64/97)

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The Accra Accord adopted at the twelfth session of the United Nations Conference on Trade and Development (UNCTAD) in April 2008 urges States to refrain from applying any unilateral economic, financial or trade measure not in accordance with international law and the Charter of the United Nations. It also stresses that meaningful trade liberalization requires addressing unilateral measures where they may act as non-tariff trade barriers and that international efforts should be made to reduce or eliminate such measures. The embargo measures applied by the United States against Cuba are the type of measure referred to in the Accra Accord and they have had substantial costs for Cuba.

Trends in Cuba

The embargo has resulted in higher costs for economic transactions and limited access to state-of-the-art technology, medicine and science, with a considerable negative impact on the Cuban economy and the standard of living of Cuban citizens. The Government of Cuba has reported that overall direct economic losses caused by the embargo exceeded \$93 billion at the end of 2007 and that additional expenses incurred in external trade operations amounted to over \$2.7 billion at year end.¹ It is estimated that from 2007 to early 2008, the embargo measures generated additional costs of \$200 million for the production of food for domestic consumption and the public health sector.² For the period from April 2008 to March 2009, losses from foreign exchange earnings and extra costs incurred in trade finance due to the embargo totalled \$242 million, up 13 per cent from the previous period.³ E-commerce and sales of software foregone owing to the embargo were estimated at \$30 million for the same period. Import costs for consumer products, including health- and education-related goods, were an estimated 30 per cent higher than they would have been without the embargo.

In 2007, the GDP of Cuba increased by 7.3 per cent over the previous year, but this was considerably less than the 2006 growth rate of 12.5 per cent.⁴ In the same year, the country's exports of goods rose by \$7 billion over 2006, while the deficit from its imports of goods held steady — at about \$8 billion — over both years. Cuba's trade pattern did not change from previous years. The main export items were "ores and metals", accounting for 58 per cent, and the European Union was the largest market for Cuban goods, followed by the Latin America and Caribbean region. For imports, "manufactured goods" held the largest share, followed by "fuels", accounting for 51 per cent and 32 per cent

¹ World Trade Organization, "Cuba-article XV: 6 of the General Agreement on Tariffs and Trade 1994: report by the Government of Cuba under the decision of 15 December 2006" (WT/L/742), 8 December 2008, pp. 1 and 3.

² Ibid., p. 3.

³ Information for the period of April 2008 to March 2009 provided by the Government of Cuba.

⁴ The Economist Intelligence Unit, "Country report: Cuba", April 2009, annual data and forecast, p. 15; and World Trade Organization document WT/L/742, p. 2.

of imports, respectively. The Latin America and Caribbean region was the largest source of imports, accounting for 44 per cent. Since the introduction of the Trade Sanctions Reform and Export Enhancement Act of 2000 in the United States, that country has become the largest exporter of agricultural products to Cuba, accounting for 36 per cent of Cuba's total agricultural imports in 2007. These exports are subject to some restrictions and it has been estimated that they would rise by \$92 million to \$195 million if the restrictions were lifted.⁵ For services trade, Cuba's exports increased by \$1.5 billion from 2006 to 2007, raising the services trade surplus by \$1.3 billion. Exports of health services grew rapidly from 2004 to 2007. Bilateral agreements with the Bolivarian Republic of Venezuela to send health service professionals to that country and other countries in the region are estimated to have increased Cuba's earnings from non-tourism services by \$3 billion, exceeding earnings from tourism.⁶ For foreign direct investment (FDI), UNCTAD estimates that FDI inflows in 2007 were \$17 million, down by \$9 million from the previous year.⁷

UNCTAD estimates Cuba's trade in goods in 2008 at \$3.8 billion in exports and \$15 billion in imports, representing a deficit of \$10.7 billion, \$4.4 billion more than the previous year. This increase was caused mainly by the deterioration of terms of trade due to the collapse of the international price of nickel and higher prices of food and fuel.⁸ UNCTAD estimates trade in services at \$9.2 billion in exports and \$1.5 billion in imports, which represents a \$7.7 billion surplus, \$1 billion more than in 2007. As for the 2008 GDP growth rate, the Government of Cuba has lowered its earlier estimate by half, to 4.3 per cent, and attributes this downward revision to such factors as the sharp deterioration in terms of trade resulting from higher than anticipated average prices for oil and food imports; a collapse in nickel export prices; three major hurricanes in August, September and October 2008; and the effects of the global economic crisis, particularly on tourism and external financing.⁹

While Cuba's economic performance for 2007 and 2008 was favourable, particularly for 2007, the outlook for 2009 is not optimistic, as the country begins to feel the effects of the global economic crisis.¹⁰ Negative factors identified for the economic downturn include low nickel prices; the impact of the crisis on tourism; the possibility that the capacity of the Bolivarian Republic of Venezuela to import Cuban services will diminish as a result of low oil prices; a growing fiscal deficit; tightening credit conditions; a decline in infrastructure investments; limited access to international finance; and the possibility of weakening South-South economic cooperation.

Developments in the United States

The 111th Congress and the new Administration took office in January 2009. On 13 April 2009, the United States President announced some changes in restrictions on travel and remittances to Cuba by Cuban-Americans and on

⁵ United States International Trade Commission, "U.S. agricultural sales to Cuba: certain economic effects of U.S. restrictions", Washington, D.C., July 2007.

⁶ The Economist Intelligence Unit, "Country profile 2008: Cuba", p. 42.

⁷ UNCTAD, *World Investment Report 2008: Transnational Corporations and the Infrastructure Challenge* (United Nations publication, Sales No. E.08.II.D.23), Country fact sheet on Cuba.

⁸ *Ibid.*, p. 13.

⁹ The Economist Intelligence Unit, "Country report: Cuba", January 2009, p. 12.

¹⁰ *Ibid.*, June 2009.

United States telecommunications services. These changes included: lifting all restrictions on family visits and remittances to family members in Cuba and authorizing United States telecommunications network and service providers to enter into agreements to establish fibre-optic cable and satellite telecommunications facilities linking the two countries and roaming service agreements with Cuba's telecommunications service providers; permitting United States satellite radio and satellite television service providers to serve customers in Cuba; authorizing persons subject to United States jurisdiction to pay for these services; permitting the donation of certain consumer telecommunication devices without a licence; and adding certain humanitarian items to the list of items eligible for export through licensing exceptions. This relaxation of the embargo measures is expected to bring notable benefits to the Cuban economy. The number of Cuban-American visitors is projected quickly to surpass its pre-2004 level of around 10,000 per month,¹¹ which could keep tourism earnings steady in 2009-2010, despite a contraction in earnings from non-United States visitors. Removal of restrictions on family remittances would result in cash inflows of over \$660 million, up by one third from 2008.¹² In addition, lifting travel and remittance restrictions would help small family businesses and help ease the serious liquidity crisis faced by Cuba as a result of the global economic crisis and the 2008 hurricanes.¹³ Lifting the restrictions on United States telecommunications service and network providers would result in a new earnings stream for the Cuban State-owned telecommunications company, which could quickly exceed \$20 million a year. This could help accelerate investment in the telecommunications infrastructure. The United States Administration, however, continues to hold the position that it should maintain the embargo as a source of leverage to bring about change in Cuba and that the degree of its engagement with Cuba would be conditional on changes in the Cuban political system. In the meantime, the United States Congress has adopted a number of legislative initiatives to ease or eliminate the embargo.

Conclusions

The United States embargo continued to have a severe impact on production, trade and welfare in Cuba and has impeded Cuba's efforts to integrate itself into the world trading system. The low international price of nickel, the three major hurricanes and the global economic crisis have compounded the hardships of the Cuban people. The relaxation measures taken by the United States Administration are positive signs and are expected to bring significant benefits to the Cuban economy and daily life. They will also help to mitigate the impact of the global economic crisis on Cuba. However, the embargo measures remain largely unchanged and impose severe economic, commercial and financial restrictions on Cuba, with attendant costs both for Cuba and for citizens in third countries due to the extraterritorial application of the embargo. The United States is also affected by the embargo because of its inability to interact with Cuba in the economic, academic and social fields. Furthermore, the impact of the global crisis on Cuba is deepening, and while the relaxation of some embargo measures will help to ease this impact, the embargo will aggravate the hardships. Details of exports and imports of merchandise by

¹¹ In 2004 the maximum frequency of family visits was reduced from once a year to once every three years, and the definition of "family" was narrowed to "immediate family".

¹² The Economist Intelligence Unit, "Country report: Cuba", May 2009, pp. 11 and 12.

¹³ *Financial Times*, "Cubans prepare for a bonanza", 17 April 2009.

Cuba in the period 2004-2008 are given in table 1. Details of Cuba's services exports and imports for the period 2005-2008 are given in table 2.

Table 1
Merchandise exports and imports by Cuba, 2004-2008

(Millions of United States dollars)

| <i>Partner</i> | <i>Commodity group</i> | 2004 | 2005 | 2006 | 2007 ^a | 2008 ^b |
|---------------------------------|------------------------|--------------|--------------|--------------|-------------------|-------------------|
| Exports | | | | | | |
| European Union (27 States) | All food items | 368 | 316 | 324 | 409 | |
| | Ores and metal | 589 | 619 | 675 | 553 | |
| | Fuels | — | — | — | — | |
| | Manufactured goods | 29 | 32 | 25 | 6 | |
| | Total | 988 | 969 | 1 024 | 968 | |
| Latin America and the Caribbean | All food items | 34 | 27 | 29 | 28 | |
| | Ores and metal | 36 | 25 | 5 | 3 | |
| | Fuels | 12 | 6 | — | — | |
| | Manufactured goods | 443 | 556 | 569 | 741 | |
| | Total | 525 | 616 | 604 | 771 | |
| United States | All food items | — | — | — | — | |
| | Ores and metal | — | — | — | — | |
| | Fuels | — | — | — | — | |
| | Manufactured goods | — | 1 | — | — | |
| | Total | — | 1 | — | — | |
| Rest of the world | All food items | 302 | 201 | 342 | 330 | |
| | Ores and metal | 487 | 480 | 992 | 1 573 | |
| | Fuels | — | 13 | 11 | 52 | |
| | Manufactured goods | 30 | 39 | 8 | 6 | |
| | Total | 819 | 733 | 1 352 | 1 961 | |
| World | All food items | 704 | 544 | 695 | 767 | |
| | Ores and metal | 1 111 | 1 124 | 1 672 | 2 129 | |
| | Fuels | 12 | 20 | 11 | 52 | |
| | Manufactured goods | 502 | 627 | 602 | 752 | |
| | Total | 2 332 | 2 319 | 2 980 | 3 701 | 3 780 |
| Imports | | | | | | |
| European Union (27 States) | All food items | 202 | 192 | 176 | 174 | |
| | Ores and metal | 24 | 31 | 20 | 30 | |
| | Fuels | 21 | 6 | 2 | 1 | |
| | Manufactured goods | 1 193 | 1 604 | 2 010 | 1 885 | |
| | Total | 1 451 | 1 843 | 2 216 | 2 090 | |

| <i>Partner</i> | <i>Commodity group</i> | 2004 | 2005 | 2006 | 2007 ^a | 2008 ^b |
|---------------------------------|------------------------|--------------|--------------|---------------|-------------------|-------------------|
| Latin America and the Caribbean | All food items | 268 | 433 | 465 | 633 | |
| | Ores and metal | 10 | 28 | 31 | 16 | |
| | Fuels | 1 220 | 1 941 | 2 537 | 2 988 | |
| | Manufactured goods | 559 | 767 | 816 | 814 | |
| | Total | 2 073 | 3 187 | 3 850 | 4 451 | |
| United States | All food items | 425 | 493 | 430 | 563 | |
| | Ores and metal | — | — | — | — | |
| | Fuels | — | — | — | — | |
| | Manufactured goods | 16 | 21 | 14 | 10 | |
| | Total | 449 | 521 | 453 | 573 | |
| Rest of the world | All food items | 314 | 503 | 330 | 214 | |
| | Ores and metal | 37 | 40 | 29 | 13 | |
| | Fuels | 69 | 154 | 338 | 275 | |
| | Manufactured goods | 1 197 | 1 812 | 2 975 | 2 467 | |
| | Total | 1 638 | 2 534 | 3 655 | 2 969 | |
| World | All food items | 1 209 | 1 621 | 1 402 | 1 583 | |
| | Ores and metal | 72 | 98 | 80 | 59 | |
| | Fuels | 1 310 | 2 101 | 2 876 | 3 264 | |
| | Manufactured goods | 2 965 | 4 204 | 5 816 | 5 177 | |
| | Total | 5 610 | 8 084 | 10 174 | 10 083 | 14 500 |

Source: UNCTAD secretariat calculations, based on the United Nations Commodity Trade Statistics Database and the International Monetary Fund Direction of Trade Statistics database.

Notes: All food items (United Nations Statistics Division Standard International Trade Classification, codes 0+1+22+4)

Ores and metal (Standard International Trade Classification, codes 27+28+68)

Fuels (Standard International Trade Classification, code 3)

Manufactured goods (Standard International Trade Classification, codes 5-8, less codes 67 and 68).

^a Estimates.

^b For 2008, only the estimated figure for the total exports to the world is available.

Table 2
Service exports and imports by Cuba, 2005-2008

(Millions of United States dollars)

| 2004 | | 2005 | | 2006 | | 2007 | | 2008 | |
|---------------|---------------|--------------------|---------------|--------------------|---------------|--------------------|--------------------|--------------------|--------------------|
| <i>Export</i> | <i>Import</i> | <i>Export</i> | <i>Import</i> | <i>Export</i> | <i>Import</i> | <i>Export</i> | <i>Import</i> | <i>Export</i> | <i>Import</i> |
| 3 450 | 740 | 6 551 ^a | 978 | 6 667 ^a | 1 196 | 8 192 ^a | 1 453 ^a | 9 200 ^a | 1 500 ^a |

Source: UNCTAD secretariat, based on balance of payments data.

^a Estimates.