

COMMENTS ON

“Cuba’s Hard Currency Debt” by Gabriel Fernández

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There is no question that Cuba is one of the most heavily indebted countries in the world and that its capacity to pay even a fraction of what it owes is severely impaired. Fernández puts this amount at 10.552 billion U.S. dollars and notes that a further 15 billion rubles are owed to Russia, as that country assumed the debt burden of the former Soviet Union.

Given the gyrations of the ruble, converting the latter figure into U.S. dollars is difficult. Suffice it to say that the October 10, 1996, quotation in the *Wall Street Journal* was 5422 rubles per U.S. dollar. Further, the nature of this debt is in question. Much of it can be justly named “politico-military” and is a remnant of the Cold War. Whether a part of it constitutes legitimate trade debt is an issue that will have to be proven. In any case, a free Cuban Government will in all probability be compelled to repudiate any Russian debt that stems from the financing of Cuba’s proxy role in Africa and elsewhere.

If we accept that the Russian debt has special characteristics and exclude it for calculation purposes, we can then focus on the “Western Debt.” At 10.5 billion U.S. dollars, it amounts to 2 times the Cuban gross domestic product (GDP) of 5 billion U.S. dollars for a 2 to 1 ratio of debt to GDP. This is surely one of the highest ratios anywhere.

The Western countries’ debt is essentially commercial and includes a small amount of pre-Castro debt that is not significant. It has been erroneously named “Batista Debt” by the debt traders whose forte is not

history. The trading in Cuba’s debt and the wild price gyrations attached to it do not reflect any rational assessment of what it is worth in terms of the economic and political constraints that a free Cuban government may face. Rather, it is a mere reflection of a market that operates in a speculative mode and bases its pricing on rumors, news, and hope that the paper will be renegotiated at favorable terms. To a great extent, it bases its expectations on the Latin American restructuring model. The traders are hoping for a Brady Bond solution, again extrapolating the past into the future without examining the situation and its particular circumstances.

The Latin American debt was contracted by countries that were part of the Western World and had not “enjoyed” the “benefits” of a 37-year rule by an international adventurer that almost provoked a nuclear catastrophe in 1962, not to speak of innumerable other episodes of Castro’s export of his revolution. In this sense, the commercial credits granted to the Castro Government were a subsidy to a policy contrary to the interests of the Western Alliance and a direct challenge to its leader, the United States. (All of which proves Lenin’s assertion that the “capitalists will sell us the rope with which to hang them.”)

Although some will scoff at moral arguments when applied to commerce, there is a commercial conclusion to be derived from the above. The level of risk assumed when engaging in transactions with this type of regime egregiously exceeded the dictates of what a prudent lending policy dictates. A cursory ex-

amination of the loans will show that Cuba's Government started to default and roll-over principal and interest **before** the Russian collapse. The lack of viability of the Cuban economy is not a new phenomenon and neither is the irreflexive cupidity of those who will sell to anybody who signs a piece of paper without pausing to think that there are people who sign anything simply because they do not have the slightest intention of honoring it. It is a mentality that is not much impressed by contract law, as it has succeeded precisely by acting against what it considers "bourgeois weaknesses."

The issue was not lost on the official creditors who hold the bulk of the debt. They have sought to improve their position by subscribing trade treaties with Castro and by the sale of the paper to their respective private sectors. At the same time they have encouraged debt-to-equity conversions. In this way it was thought that some of the losses could be recovered. Further, from the official point of view, this scheme transferred the risk to the private sector, who is notoriously more adept at getting its "money out" by engaging in transactions that offer a very quick pay back of principal.

Enter the Helms law that suddenly complicated this scheme in a way that was not anticipated. Whatever the outcome of the ensuing Helms battle, there is no question that the Castro debt has been tainted as it now has been used for a purpose deemed illegal by the U.S. Congress.

In conclusion, Cuba's creditors face two problems. A classical one related to inability to pay and a political-legal situation that will not be easily resolved. The

markets will eventually focus on this latter issue and realize that the Cuban situation is indeed different. Brady Bonds to pay Canadian, Mexican, etc. investors? They had better wait in a comfortable chair.

A free Cuba will have two arguments to pose to its creditors. First, it certainly can claim dire circumstances and demand the preferential treatment recently agreed by the Paris Club (80 percent discount), while at the same time asking for additional concessions taking advantage of the characteristics of the debt and the fact that it will inevitably be subject to legal and political entanglements. And second, the issue of conditionality demanded by the Paris Club is moot. It pertains to privatization, dismantling of the Socialist state, etc., things that Cuba has to do as there is no other choice or alternative.

The settlement will be modest. A free Cuba will have to do something, because after all it has to live in the community of nations and must trade. But it cannot afford a traditional or generous settlement. It simply does not have the resources. This applies to all types of debt, including the certified debt to U.S. nationals under the U.S. Foreign Claims Commission, although we would predict that here a Brady-type solution may well be proposed and implemented as there is no legal taint. As to the aspirations of compensation by Cuban nationals (now U.S. citizens) that lost their properties, the most probable outcome is that said matter inevitably will be transferred by U.S. courts to Cuban jurisdiction once Cuba is free. The Helms law contains the mechanism to produce that result and the U.S. interest will lean in that direction.