

## CANADIANS IN CUBA: GETTING TO KNOW EACH OTHER BETTER

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Even though Ottawa did not sever diplomatic relations with Havana in the 1960s, commercial and diplomatic exchanges between both countries were relatively minor until the collapse of the Soviet bloc. In the 1990s, Canadian business people, government officials and tourists have played a prominent role in the economic recovery of the Cuba. Canadians have, on the one hand, assiduously defended their sovereign right to trade with Cuba despite the renewed embargo tightening efforts of the United States government. On the other, they have maintained a firm commitment to bringing about economic, as well as political change in Cuba through engagement and dialogue. This work chronicles the highlights of the growing relation between Canada and Cuba in the 1990s and examines the challenges that Cuba poses to Canadian foreign and trade policy. It is divided into five sections: (1) Canada-Cuba foreign policy framework; (2) Canadian responses to U.S. extraterritorial measures; (3) up-date on trade and investment; (4) diplomatic demarches; and (5) conclusion.

### FOREIGN POLICY FRAMEWORK

Canadian policy towards Cuba has been characterized as being *normal, active, promoting dialogue and engagement and balanced*.

Canadian Cuba policy is *normal* in the sense that it is similar to Canadian policy towards the rest of the Americas. The major difference between Canadian Cuba policy and that towards its other American neighbors is the dissonance of this policy with the United States' Cuba policy. For Canada, Cuba policy is symbolic of its ability to chart independent policy

*vis-a-vis* the United States. For example, Canada has a tradition of recognizing the "government of the day" and thus did not break relations with Havana in the 1960s as did most of the countries of the Americas at the instigation of the United States. One of the reasons why Ottawa has had more policy space in developing a more amicable Cuba policy is that Canada has a very small and inactive Cuban exile community which does not affect its electoral politics. In terms of the "morality" of maintaining diplomatic relations with Cuba, Cuba's human rights violations are seen in the spectrum of world-wide violations (e.g. Burma, China, etc.). In a manner similar to that expressed by Madeleine Albright in her assertion's regarding the objectives of U.S. policy towards China, Canadians believe that "engagement does not mean endorsement."

Canadian Cuba policy has been quite *active*, particularly in the 1990s. The two countries have enjoyed full diplomatic relations since 1945, however, in the 1990s there have been a number of high level official visits on both sides (Alarcón and Lage to Canada and Axworthy and Stewart to Cuba) and several provincial trade missions have taken place. Official aid to Havana was restored in 1994 and bilateral assistance was renewed in 1995 (aid had been cut in the 1970's as a protest over Cuban intervention in Angola). Canadian public and private agents have also provided economic restructuring advice particularly in taxes, fiscal management and central banking. Over 140,000 Canadians visited Cuba in 1996 (recently surpassed by Italians in terms of the largest country

of origin). Commercial relations have also been quite active this decade. Canadians are likely the largest investors in Cuba given their numerous joint ventures in a variety of sectors and the presence of Sherritt International as a major player in the foreign direct investment sector of the Cuban economy. Canada-Cuba bilateral trade is increasing despite credit shortages and slowdowns in the Cuban economy.

Canada *promotes the notion of dialogue and engagement* in dealing with Cuba. The belief of the government of Canada and that of the majority of the concerned electorate is that this is the best policy to bring about economic and political liberalization. Canada has traditionally provided support for the yearly United Nations resolution to end the U.S. embargo, as well as for Cuba's renewed membership in the Organization of American States. In 1997 the governments of Cuba and Canada signed a Joint Declaration of Ministers of Foreign Affairs with the objectives of: being a confidence building measure; keeping channels open; and providing an umbrella programme for exchange of expertise (see Appendix A).

Canada has attempted to *balance* its Cuba policy. While there is support for trade, symbolic solidarity and mutual sympathy, the Department of Foreign Affairs and International Trade does not actively encourage business due Cuba's obvious political and commercial risk. There is little government backed credit and insurance. Canada has actively condemned human rights abuses and the lack of civil and political rights. The Embassy in Havana maintains an active human rights portfolio and remains in contact with dissidents, in and out of Cuban prisons. Canada has co-sponsored resolutions at the UN Human Rights Commission in Geneva criticizing Cuba's record, and it actively encourages establishment of civil society through efforts such as the Canada-Cuba Inter-Agency Project (non-government organization [NGO] steering organization).

The Canadian International Development Agency (CIDA), the government body which has handled

the majority of Cuba assistance, has provided many different types of assistance to reflect this balanced policy. Bilateral assistance (government to government) has taken the form of, for example: (1) food aid; (2) the "Dialogue Fund"—for orderly fashion of policy implementation of the first 6 points of the Joint Declaration of Foreign Ministers 1997; (3) provision of C\$5 million<sup>1</sup> for taxation reform spearheaded by Revenue Canada (Canada's IRS); and (4) C\$4 million for paper for books and medicines. CIDA has also developed other programmes for economic planning and banking system reform, and for parliamentary, judicial, and legislative exchanges. New programmes on public sector management (C \$2m) and on democratization are being put in place soon.

CIDA Inc., the department within CIDA that promotes private sector development had committed (though not necessarily disbursed) C\$1.7 million by early 1997 for private sector ventures. CIDA's Institutional Cooperation branch has already committed C\$6.2 million over 5 years for programmes in business and economics education, biotech and marine sciences. NGOs programme support is estimated at C\$0.9 million committed and spent since 1994.

#### **RESPONSE OF THE CANADIAN GOVERNMENT TO HELMS-BURTON**

Canada and the United States have the largest trading relationship in the world, as well as the longest undefended border. In short, relations are excellent. However, since Canada did not break relations with Cuba in the 60s, there has been a fundamental conflict between Canada and the United States over Cuba for some time. While Cuba is just one of the U.S.-Canada disputes (others include lumber, salmon, press runs, etc.), conflict over the divergence of policies has generally been averted. In the mid 1990s, however, Helms-Burton has set them on a collision course.

Helms Burton is opposed by Canada on the grounds that: (1) it diverges from Canadian policy towards Cuba; (2) it is seen as magnifying the U.S.-Cuba problem rather than solving it; (3) it disrupts interna-

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1. To convert Canadian dollars into U.S. dollars, multiply by 0.7

tional trade and investment and goes against the principles of international law; and (4) it sets a dangerous precedent of unilateral extraterritorial measures by the United States, which is seen in the broader context of general trade disputes.

Canadian moves to oppose Helms-Burton have included:

- support of the European Union's (EU) challenge at the World Trade Organization (WTO) even though there has been no Canadian participation in the EU-U.S. deal;
- application of Title III waivers to Canada. There is, however, concern over Canadian citizens already excluded from U.S. entry under Title IV;
- pursuit of the matter under NAFTA through ministerial consultations and the dispute settlement mechanism though no formal challenge has been presented yet;
- opposition at the OECD and OAS levels;
- lobbying with other U.S. trade partners with business interests in Cuba, especially Mexico and the European Union; and
- the Foreign Extraterritorial Measures Act (FEMA), which forbids compliance by Canadian firms with extraterritorial measures infringing on Canadian sovereignty. The law was first amended in 1992 to fight the Cuban Democracy Act (the Torricelli bill) and then amended again in 1997 as an "antidote" to Helms-Burton ("blocking" and "clawback" provisions). An example of the amended FEMA's implications in the fight against Helms-Burton's extraterritoriality can be seen in the Wal-Mart pajamas incident—the Cuban-made pajamas are back on the Canadian shelves despite a possible Helms-Burton violation and requests from Wal-Mart's head office to its Canadian subsidiary that the pajamas be withdrawn from the shelves.

The Canadian government's firm stance against Helms-Burton is not easy given that 80% of Canadian bilateral trade is with the United States; U.S. companies own a major portion of Canadian industry;

and one third of Canadian sugar imports come from Cuba and much of it used in confectionery products exported to the United States.

There has been a public outcry against Helms-Burton and a strong lobby to oppose the law. A 1996 survey reported that 71% of those surveyed supported the Canadian government's position. As a formal act of defiance of the U.S. legislation, twenty nine Canadian NGOs sponsored a "Boycott Florida Coalition."

#### UPDATE ON TRADE AND INVESTMENT

Canada is one Cuba's top three trade partners and Canada-Cuba bilateral trade has been rising in the mid-1990s after a sharp drop in the wake of the collapse of the Soviet bloc. In 1996, bilateral trade reached C\$690.5 million (see Table 1). Most trade occurs on open account and trade efforts are constrained by limited credit. Canadian banks are keeping low profile in terms of financing Cuban trade while private financing and factoring companies have become very active in providing trade credit (at high interest rates rumored to be in the 16% annual range). The Export Development Corporation (EDC), the government body charged with assisting Canadian exporters, has had for some time two revolving credit lines totaling US\$50 million. These lines are currently in arrears. There is some case by case credit cover by the EDC if there is either a guaranteed repayment flow or if a third party offshore guarantee is provided. The EDC has provided financing for some projects with clear repayment schedules such as the new terminal in the Jose Martí airport in Havana currently being constructed by the Quebec firm Intelcan.

Trade in services is poised for rapid growth given CIDA assistance for Cuba's reform process. Investment in infrastructure, construction and energy sectors is likely to become a priority area if the cost recovery issue can be overcome (e.g., toll highways). Service companies are interested in Cuba due to its potential market and to the fact that it is harder to build a trafficking case under Helms-Burton against service providers than it is towards traders and investors in products. While there might be some oppor-

**Table 1. Canada-Cuba Trade (In million Canadian dollars)**

	1995	1996	% change 1996/95	I Quarter 1996	I Quarter 1997	% change 1997/96I
Canadian exports to Cuba	277.7	289.4	4.2	71.6	88.0	22.9
Canadian imports from Cuba	320.9	401.1	24.9	126.6	62.8	-50.3
Total bilateral trade	598.6	690.5	15.3	198.2	150.8	-23.9

**Notes:** Main Canadian exports to Cuba are machinery and mechanical appliances and foodstuffs; in 1996 (compared to 1995), there were increases in exports of vehicles, paper and food, and decreases in exports of cereals and fertilizers. Main Canadian imports from Cuba are nickel and sugar; Canadian imports of Cuban nickel in 1996 were higher than in 1995 by 33%. The decrease in Canadian imports from Cuba in the first quarter of 1997 compared to a like period in 1996 is mostly attributable to sharp drops in imports of sugar and nickel.

tunities in Cuba at this point, companies are aware that the real pay-off will only come with the end of the U.S. embargo and International Financial Institutions (IFI) moneys.

In terms of investment, there has been a renewed interest in Cuba despite nervousness over Helms-Burton. For example, the Cuba Growth Fund, an investment fund created in 1996 had, on paper, raised C\$50 million by early 1997 for the purpose of investing in Canadian public companies doing business in Cuba and of making private placements in Cuba projects. As of mid-1997, the funds have not been secured even though a number of projects are under review. The major investment problem for the Fund and other investors such as Sherritt, is finding good "deals." There is concern over the capriciousness, control mania, and the ambivalent feeling towards foreign direct investment (FDI) of the Cuban government, as well as nervousness over the lack of an independent judiciary capable of resolving claims. Most Canadian business claims resulting from Cuba's nationalization process were settled in 1980-81 when Cuba paid US\$875,000 in compensation. Discussions with five insurance companies regarding about US\$10 million of claims are currently under way. Despite the risks and difficulties of investing in Cuba, Canadians are probably the premier foreign investors at this point. The official Statistics Canada figure is C\$100m in FDI. However, government officials suggest that a total of C\$300m is a more accurate figure.

Canadians are major investors in sectors such as resources and mining, tourism and biotechnology. In 1997, York Medical is continuing its efforts to commercialize Cuban biotechnology products. In re-

sources and mining, Sherritt International has the lead. The company raised C\$675 million for overseas investment, primarily in Cuba in mining, energy, telecommunications, agriculture, tourism and transportation sectors. As of mid 1997, the company has not diversified much yet beyond mining. It has investments in hotel properties, agriculture (Sherritt green) and oil/gas. Sherritt is also reported to be looking at investment in the telecommunications industry. The company's second quarter 1997 results showed earnings of C\$20.5m, total assets of C\$1.4 billion, and cash and short term investment positions of C\$320.7m. There are a number of other mining concerns such as Miramar Mining operating in Cuba. The latest large announcement has been KWT Resources (Quebec) with a C\$300m investment for nickel mining in Moa.

In the tourism sector VANCUBA, a joint venture between Wilton Properties (Miramar Mining) and Gran Caribe is going ahead with its C\$400 million project to open 11 hotels. Delta Hotels and Resorts has backed out of some management contracts citing business reasons rather than due to Helms-Burton. Journey's End has bought Commonwealth Holiday Inns management contracts in Cuba.

In terms of future bilateral trade patterns, exports to Cuba will depend on the continuation of economic recovery in Cuba and the provision of credit and investment in Canada. As far as imports from Cuba are concerned, nickel outflows are expected to remain steady and the sugar imports will depend largely on the success of the harvest for agricultural and financing reasons. FDI will depend on the progress of economic reform and on a more transparent legal framework. Priority sectors are likely to be energy and

mining, telecommunications, construction and tourism. Since some Canadian companies are taking advantage of Americans not being there while others are waiting for them to arrive, the end of the U.S. embargo will be a mixed blessing for Canadian companies.

### DIPLOMATIC DEMARCHES

The Canadian government is aware of fundamental questions surrounding Cuba's economic reform process such as: (1) How to insure that trade, aid and economic reform also result in political reform?; (2) What policy to pursue in order to best use carrots and sticks without linking trade and aid to human rights?; and (3) Will the reintroduction of market forces in Cuba provide the genetic material from which to make a market economy—or will it simply provide Castro with a vaccine against capitalism?

In 1997, Canadian diplomatic pressure on Cuba to accelerate the process of economic and political reform operates in two levels: (1) open lines of dialogue and clear communication to Cuban authorities that repression and paralyzed reform are not acceptable; and (2) formal "demarches" regarding assaults on microenterprises and dissidents (an on-going process). The Cuban response so far has been deemed not particularly "satisfactory". However, diplomatic pressure will be continuously applied. The view of the Canadian government is that at least the Cuban government is coming to the table and could learn from being exposed to other forms of governance.

There has been an increased awareness on the part of the Canadian government of the risks of its policy of rapprochement. For example, a CIDA request for proposal (RFP) on training in economic management states:

There is a risk that recent reforms will not be maintained and strengthened and that Cuba could re-instate command-style economic planning. By automating MEP's [Ministry of Economics and Planning] economic planning information capacity the project could contribute to the perpetuation of state planning in Cuba.

The Canadian Government has so far been providing the tools for tax reform while not working on the

policy development side. More direct involvement on policy matters associated with aid projects is expected given the current wave of repression.

A number of changes in the Canadian diplomatic corps are also likely to affect the nature of Canada-Cuba relations. At the Canadian Embassy in Havana alone there has been a change in Ambassadors as well as in trade and political secretaries. Former Ambassador Mark Entwistle (Prime Minister Mulroney's former press secretary) who was very effective in increasing Canada-Cuba ties at all levels has been replaced by Keith Christie, a career diplomat who has been involved in a number of Canadian trade deals in Latin America. Mr. Christie is more bureaucratic and procedural in his approach. Guy Salese, the new trade secretary is considered to be a very pragmatic individual. He will put the emphasis on serving "ready, willing and able" clients and on the use of market intelligence. Nobina Robinson, who was also replaced as second secretary-political, was a very vocal critic of the Cuban government's human rights abuses and capriciousness in terms of reform.

There have also been changes in Ottawa in the personnel that covers the Cuban political and trade desks at the Department of Foreign Affairs and International Trade. The overall impact of changes in diplomatic corps is expected to be cooler, more formal and procedural relations; slowing down the flow of "gold-digging" companies; and more focus on results in terms of economic and political reforms.

Media coverage of Cuba in Canada is quite wide. Most articles cover progress of Helms-Burton and by-and-large support the Canadian position on sovereignty over trade and foreign policy. Nevertheless, there is broad coverage of contrary opinions in major dailies and magazines. There is increasing coverage of Cuba's harsh reality in terms of the state of the economy, of reform and of the severe treatment of dissidents. There are also frequent television and radio debates over the best Cuba policy *vis-a-vis* Canada's policy objectives and opposition from the U.S. Long-term Canadian residents of Cuba were negatively affected by Cuba's new housing law, and thus public opinion has been affected by the direct experience by

Canadian citizens of the dictatorial nature of the Cuban government.

## CONCLUSION

Canadians and Cubans are “getting to know each other better.” The dynamics of the “darker side” of the Cuban government is becoming more obvious to Canadians, thus policy and public opinion are being affected. Canadian government and commercial interests are presently stuck between a rock and a hard place: Helms-Burton and Cuban hard-liners. Nevertheless, neither Helms-Burton nor the resurgence of Cuban hard-liners has checkmated commercial interests. Opposition to Helms-Burton is based on its extraterritoriality, not on Cuba-Canada solidarity. Helms-Burton has, unfortunately, had a perverse effect—it has pushed Canadian policy over to the Cuban’s anti-American camp and it has narrowed the leeway of policy options for the Canadian government.

Changes in Canadian diplomatic corps and in configuration of international opposition to Helms-Bur-

ton (EU-U.S. deal) as well as pressure on Clinton to both soften and tighten the law are bound to change the dynamics of the relationship. Nevertheless, Canadian commercial and diplomatic ties will continue to grow and the current policy framework is likely to remain much the same. A reversal of policy is not, however, unthinkable given Cuban intransigence in terms of political and economic reform, as well as domestic and international pressures.

In the final analysis, the long-term benefit of Canada’s policy of rapprochement towards Cuba, as well as its general “good neighbor” policy towards the United States is that it qualifies Canada as probably the best possible arbiter between the two countries. The negotiator role is likely to gain importance with the end of the U.S. embargo. Though committed to encouraging change in Cuba by peaceful means, dialogue and engagement, Canadians want to make clear to Cubans as well as to Americans that they are not “patsies.”

## APPENDIX A

Joint Declaration of Ministers of Foreign Affairs of Canada and Cuba

1. Cooperation in the administration of justice and the judicial-legal system, including exchanges of judges and judicial training.
2. Exchanges between the House of Commons and the National Assembly, focusing on the operations of both institutions.
3. Exchange of experiences relating to the National Assembly’s Citizens’ Complaints Commission.
4. Broadening and deepening cooperation on the issue of human rights, including seminars of mutual interest, academic exchanges between officials, professionals and experts, sharing experiences and positions on the work of the specialized organizations of the UN.
5. Supporting the activities of Canadian and Cuban non-governmental organizations.
6. Continuation of macroeconomic cooperation, with an initial focus in the areas of taxation and central banking while studying other areas of Cuban economic policy reform.
7. Negotiate Foreign Investment Protection Promotion Agreement.
8. Further collaboration on narcotics interdiction.
9. Conversations on international terrorism and its prevention.
10. Negotiation of a Memorandum of Understanding between Health Canada and the Ministry of Public Health of Cuba.
11. The negotiation of an audio-visual co-production agreement.
12. The renewal of the bilateral sports cooperation accord.
13. The exploration of joint projects in health and environment.
14. The provision of food aid in response to Hurricane Lilli.