United States-Cuba Relations: Policy Recommendations to Advance Normalization
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From 1960 to 2014, U.S. policy toward Cuba rested on three key assumptions that, over time, proved mistaken—that an overwhelming majority of Cubans despised the Castro government, that a well-organized opposition had the popular support necessary to displace it, and that a combination of economic pressure and political isolation would catalyze a change of regime. The U.S. embargo and related isolation policies succeeded in their proximate goals of impoverishing the Cuban people and cutting them off from the world. But they plainly failed to achieve their strategic objectives, neither dislodging the regime nor compelling it to reform. If anything, paranoia about American intentions led an already repressive government to clamp down further while blaming the controls on American interference in domestic Cuban affairs. Economically, too, the Castros could blame Cuba’s woes on the embargo rather than on their own mismanagement.

U.S. policy was perhaps understandable when viewed in a Cold War context. Indeed, it may have dissuaded other countries in Latin America from following Cuba’s path. But, following the collapse of the Soviet Union, the isolation of Cuba began to look less like a well-calibrated policy than a textbook case of bureaucratic inertia and wishful thinking. President Obama’s decision to normalize relations with Cuba in December 2014 represented a belated acknowledgement that U.S. policy toward Cuba had long since passed its expiration date. As he said in his December 17, 2014 speech announcing the normalization, “Neither the American, nor Cuban people are well served by a rigid policy that is rooted in events that took place before most of us were born.”

Over these coming two years, a series of historic events will help dictate the course of this new relationship. This April, the Cuban Communist Party will hold its seventh political congress—an event that is expected to build on the economic and political reforms unveiled at the sixth congress in 2011. In November, the U.S. elections will determine whether the next president is a supporter or skeptic of normalization and whether he or she has the congressional backing to further their preferred course. Fifteen months later, in February 2018, Cuba will undergo its own leadership change as Raul Castro’s expected retirement gives Cuba its first non-Castro president in nearly six decades. We stand, then, at a critical juncture—one in which decisions made now are likely to have far-reaching ramifications for the bilateral relationship.

During the fall of 2015, we—a multinational workshop of nine Princeton graduate students under the direction of two professors—studied how countries normalize relations with former adversaries. Though our research touched on the past rapprochement with Vietnam and a potential one with Iran, our main focus was U.S.-Cuba relations. To that end, we visited Havana and heard myriad local perspectives, including that of a foreign ministry official, an economist, an entrepreneur, a think tank expert on the United States, a Catholic Church spokesman, local and expatriate journalists, opposition figures, artists, the Venezuelan ambassador to Cuba, the U.S. ambassador, as well as ordinary Cubans from various professions. We can attest that Cuban excitement about rapprochement with the United States is strong and widespread. But just as real is Cubans’ skepticism that their daily lives will improve anytime soon. Likewise, in Washington and Miami, anger over the Castro regime’s past misdeeds and continued human rights abuses cast a pall over the new relationship. While no single change in policy can eliminate fifty-four years of animosity overnight, we believe that sustained progress on a host of issues will help produce a paradigm shift on both sides of the Strait of Florida.
We do not believe that the United States should cease pressing the Cuban government on human rights or forsake the long-term vision of a democratic, market-oriented Cuba. Doing either would run contrary to American values, as well as to our long-term interests. But any U.S. strategy that wishes to promote positive political change, be it in the Middle East or in the Caribbean, must first take account of local political realities. And the unfortunate reality in Cuba is that—through a combination of repression and regime propaganda, as well as genuine achievements in the realms of health and education—the government retains a solid support base while its opponents do not. A strategy premised on slow economic liberalization and patient engagement with the Cuban government may not offer, in President Obama’s words, “the satisfying purity of indignation.” Nor will it bring democracy to Cuba overnight, if past normalizations with China and Vietnam provide any indication. But continued engagement will improve the lives of Cuban citizens and, all else being equal, will stand a better chance of producing a long-term democratic outcome than a regression to the failed policy of isolation. Irrespective of political events in Havana, Cuba’s economic potential and geopolitical significance in the region make normalization a strong U.S. interest. Improving relations with Cuba and facilitating its re-integration into the international community will give the United States an important economic partner—and, over the long run, perhaps even an ally.
Due to the possibility that the next President will be someone who wishes to reverse President Obama’s policy of normalization with Cuba, we believe that the animating goal of U.S. policy towards Cuba in the Obama administration’s final year should be to ensure that, regardless of who next inherits the White House, U.S.-Cuba relations will have already crossed a point of no return. Reaching that juncture will require tangible breakthroughs in a number of areas, including the U.S. embargo, human rights, and claims. And those will necessitate an investment of presidential time and attention.

President Obama, who appears to understand the reversibility of his policy, said in a recent interview that he hopes to visit Cuba before the end of his term. Judging from the success of his previous travels, we believe that such a trip is a good idea. Candidate Obama’s 2008 tour of Europe, after all, famously brought hundreds of thousands to the streets of Berlin and helped reverse some of the anti-Americanism that had flowered during the Bush years. His 2009 remarks in Cairo helped the United States turn a new page in its relations with the Muslim world. And his 2013 trip to Israel, where the president remains the object of widespread suspicion, was seen overwhelmingly as a success among Israelis. A visit to Cuba, where Obama enjoys an eighty percent approval rating, is likely to have a similar psychological impact. The president could use the opportunity to offer the Cuban people some tangible successes that would further enshrine the psychology of a reborn relationship. He could also satisfy American critics of his policy by securing concessions on human rights either before or during the trip.

A summer visit would have the added benefit of providing an impetus—and a more proximate deadline—for achieving some of the policy breakthroughs we advocate here. And, if successful, it would offer fresh momentum for achieving the others in the half-year that remains. As such, we have divided our recommendations into two tranches—Phase I recommendations that can realistically be achieved (or at least attempted) before a presidential trip and Phase II recommendations to be pursued afterwards.

**ECONOMIC EMBARGO**

*Phase I:*

**Encourage a major congressional push for full or partial repeal of the economic embargo:** The administration should work with Republican allies in Congress, as well as likeminded conservative lobby groups, to win over recalcitrant members of Congress (particularly those whose constituents are especially likely to gain from a lifting of its embargo provisions). In the likely event that this bipartisan coalition cannot fully overturn the economic embargo codified in the Helms-Burton Act and other statutes, the administration should back piecemeal repeal of specific provisions. Lifting the ban on the import of nickel and cobalt, which would reduce costs for U.S. manufacturers and consumers, is one
promising avenue. Removing restrictions on financing of agricultural exports, which could increase the already sizeable sales of agricultural products to Cuba, is another.

Phase II:

In the event of meaningful legislative movement on the economic embargo, speedily implement any changes: Keeping the momentum of normalization while continuing to build a coalition of normalization stakeholders will be key to locking in the new relationship.

Absent congressional action, announce embargo-easing executive actions: President Obama could use the occasion of a Cuba visit to announce new executive actions further easing the embargo. Such actions might include establishing new authorizations related to providing services to Cuban businesses, permitting vessels that have entered Cuban ports to receive general licenses to enter the United States, allowing the financing of non-agricultural exports to Cuba, expanding the types of goods that can be imported from Cuba, and further loosening restrictions on remittances and telecommunications.

INTERNATIONAL FINANCIAL INSTITUTIONS

Phase I:

Ascertained Cuban government interests and intentions regarding IFI membership: Given longstanding Cuban suspicions about American interference, the United States should not push the issue without a strong signal of Cuban interest.

Phase II:

In the event of IFI interest, encourage eventual Cuban membership: The administration should encourage the Cuban government to pursue any moves toward IFI membership in coordination with the United States. It should be open about the limits it faces from Helms-Burton and other hands-tying legislation.

Support technical discussions between Cuba and the IFIs: Cuba need not immediately join the World Bank and IMF to benefit from their expertise; there are precedents for IFIs providing technical advice to non-members. Given that a repeal of Helms-Burton (and its IFI-related restrictions) will likely take years, this route may prove the most promising. And it would also allow Cuba to dip its toe into IFI waters before committing to re-integration.

HUMAN RIGHTS

Phase I:

Seek the release of remaining political prisoners: Even after the high-profile release of political prisoners that accompanied the December 2014 normalization announcement, dozens more remain in Cuban jails. Securing the release of a significant number of them, particularly in the run-up to a presidential visit, would send a message that engagement works.
Pursue cooperation on less sensitive human rights matters: While the Cuban government will surely resist any human-rights concessions that would undermine its grip on power, it may be open to cooperation on a host of less threatening issues, such as religious freedom, disability rights, and trafficking in persons.

Phase II:

Explore trading relics of regime-change strategy for significant human-rights concessions: The administration should feel out the Cuban government over the possibility of a grand bargain under which the United States would abandon or scale back programs that have had poor results despite their cost to U.S. taxpayers (such as Radio/TV Marti and democracy-promotion initiatives) in return for significant Cuban human-rights concessions, such as the granting of widespread and unimpeded access to the Internet.

CLAIMS

Phase I:

Urge Congress to authorize the Foreign Claims Settlement Commission to reopen the Cuba claims program: Reopening the commission, which has been inactive since the 1990s, will assuage concerns that further normalization with Cuba will undercut the legitimacy of the claims process.

Announce a follow-up meeting of the Joint Commission focused on claims settlement to advance the negotiations process: The two governments’ chairpersons for the Joint Commission, Assistant Secretary of State Roberta Jacobson and Cuba’s Director General for Foreign Affairs Josefina Vidal, should lead the meeting to raise its visibility.

Urge Cuba to publicly acknowledge the legitimacy of American citizens’ claims: Such an acknowledgment need not exclude Cuba’s own counter-claims against the United States for economic damage wrought by the embargo.

Phase II:

Survey the interest of private investors in financing the Cuban government’s claims payments in exchange for investment opportunities: Paying the full value of American claims ($7.6 billion) would be nearly impossible for the Cuban government, but private investors may be willing to fill the breach if offered preferred terms in the new Cuban economy.

Consider unfreezing Cuban assets as part of a claims settlement: The Treasury Department could undertake this move as part of a final deal.

MIGRATION & EXCHANGES

Phase I:

Authorize Fulbright grants (and similar ECA programming) to include travel to and from Cuba: Even after normalization, Cuba remains a notable omission from the Fulbright program’s roster of
eligible countries. Ending the ban will help fuel generational changes in attitudes between our two
countries.

**Designate an exchange program for farmers and business people:** Establishing a program that
allows U.S. farmers and business personnel to survey potential business opportunities in Cuba will
build a strong U.S.-based constituency that can then lobby Congress to remove barriers to business.

*Phase II:*

**Designate an exchange program for Cuban and U.S. medical professionals:** Such a program would
expose Cuban medical professionals to American medical technology and infrastructure while allowing
American doctors to serve in Cuban medical facilities and get a better grasp on the local infrastructure
and technological needs.

**Begin migration discussions with regional actors:** The United States must strike a delicate balance
between public assurances of the status quo and quiet negotiations regarding reform of U.S.
immigration policy toward Cubans.

**REGIONAL DYNAMICS**

*Phase I:*

**Gradually lift economic sanctions on Venezuelan individuals:** This policy, which has failed to
produce meaningful change in Venezuela and is opposed by U.S. allies in the region, forces the Cuban
government to side with its ally against the United States, adding unnecessary tension to the U.S.-Cuba
relationship.

**Advise the Cuban government on renewable-energy development and natural-gas exploration:**
Such projects would diminish Cuba’s long-term energy dependence on Venezuela while contributing to
global greenhouse-gas abatement.

**Create trilateral forums between the U.S., Puerto Rico, and Cuba:** Cuba’s economic opening will,
to some degree, come at Puerto Rico’s expense (particularly with regard to tourism). Creating a forum
to explore ways of mitigating that fallout is in the interest of all three parties.

*Phase II:*

**Expand efforts to integrate US-Mexico energy markets:** By advising Mexico on regulatory and
technical matters and contributing to the development of the country’s petroleum sector, the United
States could reduce oil imports from Venezuela while cushioning the economic blow that Mexico will
incur due to the loss of American tourists to Cuba.
**ISSUE:** What can the administration do now in order to ensconce the policy of normalization?

The U.S. embargo on Cuba remains the primary roadblock to full normalization of relations. The Obama administration has taken executive action to loosen the embargo’s restrictions; however, such orders face legal constraints and can be repealed by a future president. We urge the administration to make a significant congressional push over the next six months to roll back the embargo—if not in full, then in part. Though there remain outspoken supporters of the embargo policy, there is also growing bipartisan congressional support for the repeal of key provisions (and a number of business lobbies that could sway votes). Recent economic reforms in Cuba give these lobbies enhanced interest in doing business with Cuba, generating additional support for repeal. Chipping away at the embargo, in turn, would reinforce the reform process.

**BACKGROUND:**

The Economic Embargo: Statutory Requirements, Executive Actions, and the Opportunity for New Legislation

Since President Kennedy announced a full economic embargo on Cuba in 1962, various executive and legislative actions have strengthened or weakened the sanctions regime. The most significant of these was the Cuban Liberty and Democratic Solidarity (LIBERTAD) Act, better known as Helms-Burton, which was signed by President Clinton in March 1996. The act codified the embargo as it existed at the time and reduced the executive branch’s leeway to weaken it unilaterally. Also significant was the 1992 Cuba Democracy Act (CDA), which, among other restrictions, barred vessels that had engaged in trade with Cuba from bringing goods to or from the United States for 180 days after docking in Cuba. Congress did loosen the embargo in 2000 with the passage of the Trade Sanctions Reform and Export Enhancement Act (TSRA), which lifted restrictions on the export of agricultural commodities, medical devices, and medicines (though it prohibited U.S. citizens and financial institutions from financing the sale of agricultural commodities to Cuba). Some administrations have also weakened the embargo by directing Treasury to update the Cuban Assets Control Regulations (CACR) within the confines of Helms-Burton, the TSRA, and the CDA. In 2002, President Bush announced the Initiative for a New Cuba, an effort to improve the lives of Cubans, and the Treasury accordingly updated the CACR in 2003 to expand family visits, loosen rules on remittances, and increase the number of licensable humanitarian activities.

The Obama Administration has pursued its Cuba policy to date through executive orders, primarily with regard to the CACR. In 2009, the administration loosened restrictions on travel and remittances, increased the flow of information to the Cuban people, and authorized transactions relating to the provision of telecommunications services. In 2011, further updates continued the expansion of travel and remittances, including an increase in people-to-people exchanges and travel for religious purposes. In 2012 amendments authorized the processing of funds transfers for third-country
diplomatic missions in Cuba and payments for services rendered by Cuba to United States aircraft, including overflights of Cuba or emergency landings in Cuba. The most recent amendments, in 2015, further loosened travel and remittances restrictions and lifted restrictions on certain activities related to financial services, telecommunications, trade, and shipping.

The next administration’s policy toward Cuba will hinge on who is elected president. Both major Democratic candidates, Hillary Clinton and Bernie Sanders, have expressed support for normalization. However, of the six Republican candidates currently leading the polls, only Donald Trump supports normalizing ties with Cuba, while the other five (Senators Rubio and Cruz, Dr. Carson, and Governors Bush and Christie) have vocally opposed the policy. Given the possibility that an opponent of normalization could be elected, the current administration has an interest in advancing legislation that will help lock in its Cuba policy. Any such bill would likely have to secure passage by June 2016, before the intensive summer campaign season begins. Fortunately, several bills—most sponsored or co-sponsored by Republicans—have already generated momentum on Capitol Hill.

One area of potential progress is the issue of travel restrictions. The Freedom to Travel to Cuba Act, sponsored by Senator Jeff Flake (R-AZ), currently has 46 additional co-sponsors, seven of them Republicans. The Republican co-sponsors include Senators Jerry Moran and Pat Roberts of Kansas, Senator Michael Enzi of Wyoming, Senator John Boozman of Arkansas, Senator Susan Collins of Maine, Senator Rand Paul of Kentucky, and Senator Dean Heller of Nevada. (Senator Moran has also introduced an amendment to a Senate Appropriations bill that would lift the travel ban; that amendment passed in committee by a vote of 18 to 12.) This bill could conceivably win over more holdouts by appealing to conservative members’ libertarian instincts. As Representative Mark Sanford (R-SC) has put it, “Unless there is an overwhelming threat to national security, every U.S. citizen has the constitutional right to free travel as they, not the federal government, see fit.”

The greatest potential, though, lies in legislation that would expand trade, which would be a win for American producers and consumers alike, with no obvious losers. (Arkansas Governor Asa Hutchinson recently led a bipartisan delegation to Cuba to explore trade opportunities.) One promising area is agricultural goods, which, due to the TSRA, can already be exported. Last year, American food producers captured $348 million of Cuba’s $1.7 billion market, primarily through the sale of corn, soybeans, and frozen chicken. But sales are far lower than they could be due to TSRA restrictions on the financing of agricultural goods and assistance for agricultural export to Cuba. Because of these constraints, the Cuban government must provide cash up front for the purchase of agricultural products, and a third-party bank must process the exchange of money. These measures add significant transaction costs to U.S. food producers, hindering U.S. agricultural exports from competing with those from other countries. In January 2015, the Treasury and Commerce Departments changed their interpretation of the regulation surrounding the Cuban government’s financing of agricultural goods from “cash before shipment” to “cash before transfer of title to, and control of,” the goods. Members of Congress have sought to further change policy surrounding agricultural financing for Cuba. Senators John Boozman (R-AR) and Heidi Heitkamp (D-ND) introduced the Agriculture Export Expansion Act, which would remove the barrier on providing credit to finance agricultural exports to Cuba.

Imports from Cuba are even more tightly controlled, as no large-scale Helms-Burton carve-outs exist. Still, the issue is worthy of study given the potential economic benefits of certain Cuban commodities, specifically nickel and cobalt. Currently, the United States imports 85 percent of its cobalt, used in alloys for aircraft engines. It also imports 43 percent of its nickel, used in stainless steel and other alloys resistant to corrosion. Recent sanctions on Russia—previously one of the United States’ main nickel suppliers—have caused prices of that mineral to rise above its historical average. Were
restrictions on nickel and cobalt to be lifted, Cuba would be able to compete with current exporters to the United States, saving American companies millions.

Solving the agricultural-financing issue and legislating commodities carve-outs to Helms-Burton have the potential to expand the number of U.S. stakeholders in the normalization process. However, even if sixty senators and a majority of representatives support these provisions, the Republican congressional leadership may still be able to thwart changes by refusing to bring bills up for a vote. Lobby groups traditionally friendly to Republicans may be a key ally in breaking the deadlock: The U.S. Chamber of Commerce and the U.S. Agriculture Coalition for Cuba, a coalition of more than 30 companies and trade associations, both support a full repeal of the embargo. The administration would also be wise to reach out to representatives from financial institutions and key companies with an interest in repealing the embargo, such as Cargill, Caterpillar, and American Airlines.

Cuba’s Economic Situation: A Window of Opportunity

The uncertainty surrounding the 2016 U.S. presidential election is not the only reason for the Obama administration to act. Removing embargo restrictions would encourage the Cuban government’s delicate process of economic liberalization, which may lay the foundation for an eventual expansion of political freedoms. Doing so would also allow U.S. companies to gain a foothold in this potentially lucrative market.

Cuba’s economic reforms began modestly in 2011. For the first time, the government allowed citizens to create approved small business, though it preserved state ownership of property and the predominance of the central planning authority. However, the country’s 2014 foreign-investment law showed the government’s desire to appeal to the global market. The legislation permits investment in all sectors except health care, education and armed forces, provided the government retains a majority stake in any enterprise. It exempts foreign investors from taxes on income, labor, and select imports while offering sales- and profit-tax holidays of one and eight years, respectively. Investors can open foreign bank accounts in convertible currency. Government decisions on new investment are guaranteed within 60 days. Under the law, Cuban “legal persons” (presumably Cuban businesses) are also permitted to be investors—a category that includes Cubans living abroad. Finally, the law offers various guarantees to foreign investors, including compensation in case of expropriation. One of the magnets for this much-needed investment is the new Special Development Zone in the Port of Mariel.

The impetus for Cuban economic reform came from years of disappointing economic performance, coupled with a drop in support from Venezuela, its longtime benefactor. Venezuela has provided Cuba with subsidies of approximately $3.5 billion per year, but it has become clear that this level of aid is unsustainable given the country’s fragile political and economic situation. Even if Venezuela does not cut the volume of the oil it provides Cuba (which Cuba then re-exports at a profit), the value of this in-kind aid has already fallen by almost half over the last six months: even if oil prices rebound to $50 per barrel (and they have already dropped below $30), Cuba would earn $365 million less from Venezuelan oil re-exports in 2015 than it did in 2014, a shortfall worth about twice the value of Cuba’s entire sugar industry.

The Cuban government’s sudden openness to economic reform make this an attractive time for U.S. businesses to gain a foothold in the Cuban market and provides further motivation to the lobby groups already pressing for a repeal of the embargo. The potential benefits to U.S. businesses should not be oversold, as there remain significant business barriers beyond the embargo. These internal limitations include the requirement that Cuban workers be hired by a state agency, which prevents investors from
directly hiring and firing. Companies must also submit labor disputes to a state agency for resolution. The investment law maintains the system in which investors pay salaries in hard currency to the Cuban government, which in turn pays workers a fraction of that amount in Cuban pesos. It prohibits investment by Cuban individuals, including the self-employed. Foreign investment can also be expropriated for reasons of public utility or social interest, and in several cases conflict resolution is left to the local judicial system instead of international arbitration courts.22

Despite these limitations, U.S. businesses have shown an eagerness to enter the Cuban market, and more would surely do so if not for the statutory restrictions. CACR amendments from last January and September have already opened new opportunities for some businesses, including those in the telecommunications, travel, and banking industries. Even a partial repeal of the embargo would expand the growing coalition of Americans with a stake in normalization while providing the Cuban government a powerful incentive to bolster its reforms.

RECOMMENDATIONS:

Phase I:

1. **Build a Bipartisan Coalition to Aim for a Full Repeal of the Economic Embargo:** The administration should begin by setting its sights high, working with Republican congressional allies over the first half of the year for a repeal of all embargo provisions contained in Helms-Burton, the CDA, and the TSRA. Senators and representatives from states and districts that would benefit most from a repeal, such as those with a strong agricultural presence or with companies in the finance and tourism industries, are prime targets for persuasion.

2. **If Fully Overturning the Embargo Proves Impossible, Support Piecemeal Efforts:** In the likely event that full repeal proves politically impossible, we recommend supporting bills such as the Agriculture Export Expansion Act and the Freedom to Travel to Cuba Act. While a gradual hollowing out of the embargo is not ideal from a diplomatic perspective, increased business with Cuba will help change the images that Americans and Cubans have of one another. Furthermore, increasing trade with Cuba could sway more senators in favor of a policy of normalization: Once they realize that companies in their state are doing significant business with Cuba, they may be more willing to support other forms of normalization, such as confirming a U.S. ambassador to Cuba.
Phase II:

1. **Absent Congressional Action, Amend Embargo Regulations via Executive Order:** Immediate executive action on Helms-Burton would undermine any legislative push from Congress. And in the event of a meaningful lifting of restrictions, the Obama administration would be wise to focus its Phase II efforts on successful implementation. However, if Congress does not act before the mid-year presidential visit that we propose, President Obama should use the occasion of his trip to announce further embargo-easing executive orders. New Treasury Department amendments to CACR might include authorizations related to rendering services to private Cuban businesses, providing general licenses letting vessels that have docked at Cuban ports to enter the United States, allowing the financing of non-agricultural exports to Cuba, expanding the types of goods that can be imported from Cuba, and further loosening restrictions on remittances and telecommunications.

**International Financial Institutions**

**ISSUE:** What should the U.S. position be toward Cuban membership in international financial institutions?

The United States should encourage eventual Cuban membership in the World Bank and International Monetary Fund (IMF) to facilitate Cuba’s full re-integration into the international financial system. Cuban membership in these international financial institutions (IFIs) would help cement Cuba’s transition toward a more liberal economic model, diversify its sources of finance, and therefore reduce its reliance on Venezuelan largesse. Of course, such a prospect depends on Cuban intentions, and as yet there are no clear signs that Cuba wishes to rejoin the IFIs. Still, given Cuba’s increasing openness to trade and foreign direct investment, it is conceivable that its position will change in the foreseeable future, and the United States should stand ready to encourage that process.

**BACKGROUND**

Cuba has a significant debt and finance problem. Apart from Venezuelan credit for oil, and Chinese, Brazilian, and Russian loans, Cuba has had no normal access to long-term credit because of the U.S. embargo and its own 1986 unilateral moratorium on debt payments. In a positive sign that it is seeking to normalize relations with the international financial system, Cuba has moved recently to resolve its outstanding debt. This past June, Cuba and the Paris Club of creditor nations agreed that Cuba owes $15 billion from a 1986 default, and there have been further indications that Cuba is close to a restructuring deal that would forgive most of Cuba’s debt. In July 2014, meanwhile, Russia wrote off ninety percent of Cuba’s $32 billion Soviet-era debt. Cuba has also inked restructuring deals with China and Mexico, as well as with Japanese commercial banks. Coming on the heels of Cuba’s 2014 foreign-investment law, a deal with the Paris Club would be another milestone on the road to Cuba’s re-integration into the international financial order. A logical next step would be for Cuba to rejoin the World Bank and IMF, from which it withdrew in 1960 and 1964, respectively. Fidel Castro long railed against the two
institutions as agents of U.S. imperialism, but there is anecdotal evidence that Raul Castro may not be opposed to joining the two IFIs under the right conditions. The United States should seek to dispel any remaining Cuban hesitations about IFI membership and signal its willingness to support eventual Cuban membership.

Membership in the IFIs has much upside for Cuba. The IMF, World Bank, and regional IFIs, such as the Inter-American Development Bank and the Andean Development Corporation, would be important sources of funding and technical advice for the current government as it continues its program of economic liberalization. The IFIs have helped other centrally planned economies make a similar transition in countries as varied as Albania and Vietnam. This type of expertise would be invaluable once Cuba begins to do away with its dual currency (the Cuban Peso and the Convertible Peso) and unify its foreign exchange rates. Rejoining the IFIs would help Cuba signal to potential trading partners and investors that it plans to operate more transparently and play by established international rules. It would help Cuba gain access to credit from international commercial banks. Without rejoining the IFIs, Cuba will remain dependent on Venezuelan largesse and highly vulnerable to the loss thereof should an opposition president come to power in Caracas.

Cuban membership of the IFIs would also benefit the United States. Given that a central goal of U.S. policy is to see the Cuban government adopt a market-oriented economy, ensuring it has the expertise to do so smoothly should be a U.S. objective. Membership in the IFIs may push the Cuban government towards greater liberalization and transparency in its finances, as it would be required to change certain economic policies. Furthermore, the Cuban government would become subject to Article IV surveillance procedures of the IMF’s Articles of Agreement, requiring it to discuss exchange rate, monetary, fiscal, and financial policies—as well as structural reforms—with the IMF. Bringing Cuba into IFIs, therefore, would draw it into a web of normative expectations, even if initially it shuns the most transparent of practices.

Currently, a web of U.S. legislation, particularly Helms-Burton, strictly limits the U.S. government’s freedom of action with regard to Cuban membership in IFIs, as well as IFI loans to Cuba. Helms-Burton (section 104(a)) requires that the U.S. government oppose Cuban membership in any IFI until the president determines that Cuba has a democratically elected government; however, given that the United States has only a seventeen percent voting stake in both the IMF and the World Bank, a mandated ‘no’ vote from Washington would not block Cuban membership. Helms-Burton (section 104(b)) also stipulates that, should an IFI approve “a loan or other assistance” to Cuba over U.S. objections, the U.S. government must withhold payment to the IFI of an amount equal to the loan or other assistance; however, the withholding-of-funding provision only applies to circumstances in which the United States opposes the loan. Other legislation also circumscribes U.S. action. For example, the Victims of Trafficking and Violence Protection Act of 2000 stipulates that the Washington must vote against—and use its best efforts to deny—a loan to any country designated as “Tier 3” (that is, one that does not comply with “minimum standards for the elimination of trafficking”). In its 2015 Trafficking in Persons Report, the State Department upgraded Cuba from Tier 3 the Tier 2 “Watch List,” so the United States should seek to ensure that Cuba does not backslide.

If Cuba seeks IFI membership a few years from now, the United States will need to stake out a public position. At that point, Cuban IFI membership will become a prominent issue in the normalization process and a potential point of friction as Helms-Burton provisions force Washington’s hand. The United States will need to respond carefully. Membership in the IFIs is key to the long-term success of Cuba’s economic reforms, and if that agenda starts bearing fruit, the Cuban government is likely to continue the process.
RECOMMENDATIONS:

Phase I:

1. **Ascertain Cuban government interests and intentions regarding IFI membership:** Given longstanding Cuban suspicions about American interference, the United States should not push the issue without a strong signal of Cuban interest.

Phase II:

1. **In the event of IFI interest, encourage eventual Cuban membership:** The administration should encourage the Cuban government to pursue any moves toward IFI membership in coordination with the United States. It should be open about the limits it faces from Helms-Burton and other hands-tying legislation.

2. **Support technical discussions between Cuba and the IFIs:** Cuba need not immediately join the World Bank and IMF to benefit from their expertise; there are precedents for IFIs providing technical advice to non-members. Given that a repeal of Helms-Burton (and its IFI-related restrictions) will likely take years, this route may prove the most promising. And it would also allow Cuba to dip its toe into IFI waters before committing to re-integration.
ISSUE: What human rights priorities should the administration pursue?

Improving Cuba’s dismal human rights conditions remains an important policy goal of the United States. Given the salience of these issues in U.S. domestic politics, demonstrable improvements will likely contribute to a smoother and more fruitful normalization process. We argue that U.S. human rights policy on Cuba must evolve with the Obama administration’s overall policy shift, which means moving from an approach that seeks to overthrow the Cuban government to one that works with it to attain gradual but concrete improvements in human rights conditions.

BACKGROUND:

Cuba’s Human Rights Situation

The human rights situation in Cuba remains dismal by international standards. The Cuban government increasingly relies on short-term arbitrary detentions to silence regime critics, human-rights activists, independent journalists, and others that the regime finds threatening. Detainees are often held incommunicado for days, and may face torture. According to documentation by the Cuban Commission for Human Rights and National Reconciliation, an independent Cuban human rights organization, cases of arbitrary detention increased from 6,424 in 2013 to 8,889 in 2014. Cuban law allows for detentions of up to four years of individuals who have not even committed a crime if they are deemed to meet a definition of “potential dangerousness.”

The move toward shorter term detentions and away from long-term prison sentences, coupled with large releases of political prisoners in response to international pressure, has sharply decreased the number of political prisoners being held. Most recently, fifty-three were released as part of the December 2014 agreement to restore diplomatic relations with the United States. However, human rights groups report that dozens of political prisoners remain. Prison conditions are reported to be harsh, with overcrowded facilities, poor sanitation, and lack of adequate medical care for detainees. International and domestic human rights groups have been denied access to prisons.

Free expression and access to information continues to be deeply constrained in Cuba, with the government retaining tight control of all traditional media outlets. Only five percent of the Cuban population is estimated to have Internet access due to low penetration, high costs, and restrictions on home usage. Freedom of association is also tightly controlled, with human rights and other independent civil society groups facing frequent harassment and being denied legal recognition.

Human Rights Strategy in the Context of Normalization

While the need for improved human rights conditions in Cuba is pressing, the longstanding policy goal of regime change (enshrined in Helms-Burton and other legislation) is unrealistic given that opposition groups remain marginalized due to a combination of the repressive tactics described above and regime propaganda that has successfully painted such groups as stooges of the U.S. government. The lack of a
viable oppositional power base in Cuba calls into question existing programs that promote regime change, which have sowed distrust between the two countries while accomplishing little else. The United States should acknowledge that human rights progress, halting as it may be, must be achieved through the present Cuban government.

This new approach entails pressing the Cuban government to improve human rights conditions, coupled with reassurances that we are not seeking to overthrow the regime. It also means scaling back the public rhetoric about democratization (to the extent possible, given U.S. domestic political pressures), which only saps the trust necessary to ensure the Cuban government’s acquiescence to U.S. requests for human rights improvements. Failing to make the necessary changes in policy and rhetoric that signal a clear move away from regime-change aspirations will only strengthen the position of hardliners within the Cuban government who are in opposition to normalization.

**RECOMMENDATIONS:**

**Phase I:**

1. **Seek the release of remaining political prisoners:** Even after the high-profile release of political prisoners that accompanied the December 2014 normalization announcement, dozens more remain in Cuban jails. Securing the release of a significant number of them, particularly in the run-up to a presidential visit, would send a message that engagement works.

2. **Pursue bilateral cooperation on less sensitive human rights matters.** While the Cuban government will undoubtedly resist making human rights improvements that threaten its grip on power, there are other areas that may be more ripe for cooperation.

   a. **Religious Freedom** – As the State Department’s latest religious freedom report notes, the Cuban government continues to exert control over many aspects of spiritual life, monitoring religious groups, harassing outspoken religious leaders, and exerting control over financial resources. At the same time, there have been positive developments in recent years, such as greater freedom for religious organizations to carry out charitable and educational projects.41 The trend lines indicate potential for a dialogue on issues of religious freedom, including increased religious exchange visits between the two countries. It should be noted that Pope Francis, who served as a valuable interlocutor between the United States and Cuba prior to the December 17 normalization announcement, has been praised by Raul Castro.42 As a respected third party, he should be encouraged to continue emphasizing the importance of religious freedom to the Cuban government.

   b. **Disability Rights** - Cuba currently lacks a comprehensive law prohibiting discrimination against persons with disabilities. Furthermore, accessibility and accommodations for disabled persons are below international standards. Cuba, however, has signed and ratified the Convention on the Rights of Persons with Disabilities, indicating openness toward addressing such issues. The United States can offer much guidance from its own experience improving disability rights protections.

   c. **Trafficking in Persons (TIP)** - Cuba has shown an increased willingness to address TIP issues in recent years, and is now a party to the 2000 UN Trafficking in Persons Protocol. Reflecting the Cuban government’s improved efforts, the State Department’s most recent TIP report controversially upgraded Cuba from Tier 3, the ranking indicating the greatest level of TIP concern, to the Tier 2 “Watch List.” The TIP report notes that Cuba remains a source country for sex trafficking and forced labor, and recommends that Cuba pass a comprehensive anti-trafficking law, in line with the UN
Protocol, to combat TIP. The United States should press the Cuban government to improve its anti-TIP efforts and offer assistance in such efforts.

Phase II:

1. **Trade Relics of the Regime Change Strategy for Human Rights Concessions.** In reshaping its strategy, the United States should seek to scale back or end programs that were born out of a desire for regime change. However, while these costly efforts have largely been ineffective, the United States should not dispense with them unilaterally. It should use them as bargaining chips in negotiations for improved human rights conditions.

   a. **Radio and TV Marti Broadcasts,** with a $27 million annual budget, have received significant criticism for lack of fairness and objectivity, and it is widely believed that their viewership in Cuba is miniscule due in large part to the government’s blocking efforts. These programs have long angered the regime, which contends that they violate Cuban sovereignty. Raul Castro had previously called for their end as a condition for normalizing relations. The White House’s most recent federal budget proposed turning Radio and TV Marti into an independent broadcaster that receives federal grant funds, but this is unlikely to alleviate the Cuban government’s core concerns. There is growing skepticism in Congress toward these broadcasts, though there remains significant support among normalization opponents.

   b. **Democracy Promotion Programs** administered by State and USAID are funded at a level ($20m annually in recent years) that is likely beyond what Cuba’s small civil society can absorb effectively. And as the Alan Gross episode illustrated, these programs are considered deeply threatening by the Cuban government. There remains strong support for the programs among members of Congress, and the administration has promised to continue funding them. Nevertheless, a potential deal could involve a commitment to the Cuban government that the programs would not be focused on pursuing regime change or funding opposition groups. Given that democracy promotion activities are enshrined within Helms-Burton, the executive branch’s ability to change these programs faces constraints (such as an explicit prohibition against funds going to the Cuban government), but there appears to be some room to maneuver.

It is difficult to know what concessions the United States might be able to secure as part of a grand bargain that ends Radio and TV Marti and scales back democracy-promotion programs. One target, however, could be a commitment from the Cuban government to provide significantly more Cubans with affordable and uncensored Internet access—potentially with U.S. financial support. Other potential asks include legal reforms that strengthen free-speech and free-assembly rights (particularly protections against arbitrary punishment), laws that grant Cuban civil society groups legal status, and improvements in prison conditions (along with access to prisons by the ICRC and/or the UN special rapporteur on torture).
Outstanding Property Claims

**ISSUE:** How should the United States go about resolving property claims in Cuba?

**BACKGROUND:**

In 1959, Cuban President Fidel Castro ordered the nationalization of U.S.-owned companies, the freezing and seizure of U.S. bank accounts and other assets, and the confiscation of personal and corporate property in Cuba owned by U.S. citizens. In an effort to identify and seek restitution for claims of confiscated property, President Kennedy authorized the U.S. Foreign Claims Settlement Commission (FCSC), an independent agency under the Department of Justice, to open a Cuba claims program. Since that time, the FCSC has adjudicated 8,821 claims against the Castro regime, certifying 5,913 as legitimate. Legitimate claims total $1.8 billion in principal value. Of these certified claims, 899 involve the seized holdings of U.S. corporations, valued at $1.6 billion, and 5,014 involve individual citizens’ claims to personal property and assets, valued at $221 million. Accounting for interest, these claims would today be valued at $7.6 billion. The FCSC completed its most recent Cuba claims program in 2006; no additional claims by U.S. citizens can be considered unless Congress authorizes the commission to continue its work.

Since its creation in 1954, the FCSC has completed 43 programs involving claims against 22 countries, including China, Panama, Poland, and Vietnam. In those cases, the settlement of property claims was a prerequisite for the full normalization of relations with the United States. In some cases, the final negotiated agreement between the United States and the other country—such as that with Vietnam—resulted in the full payment of the principal claim and at least partial payment of interest to U.S. citizen claimants. In others—including U.S. settlements with China, Panama, and Poland—claimants received only partial payments of the certified claim amount.

Former FCSC Chairman Mauricio Tamargo testified before the House Foreign Affairs Committee’s Subcommittee on the Western Hemisphere in June 2015 on the status of the Cuba claims program, urging Congress not to take any steps to lift the economic embargo until U.S. claims have been settled. He also urged Congress to authorize the FCSC to reopen the Cuba claims program in order for the commission to update claimants’ records and consider new claims in preparation for a potential negotiated agreement with the Cuban...
government. He and other witnesses noted that, given the strong economic incentive for the Cuban government to resolve the claims issue in order to pave the way for the lifting of the U.S. embargo, foreign investors may be willing to offer the Cuban government financing on favorable terms to cover the cost of settling U.S. claims. The Cuban government will likely counter that the United States owes at least $60 billion\textsuperscript{51} in compensation for the economic damage inflicted on the Cuban economy as a result of the embargo. These two issues should be kept separate in negotiations, as compensation for nationalized properties seized from individuals and private businesses is a recognized form of restitution under international law and must be addressed before the economic embargo can be lifted.

**RECOMMENDATIONS:**

**Phase I:**

1. **Urge Congress to authorize the Foreign Claims Settlement Commission to reopen the Cuba claims program:** Reopening the commission, which has been inactive since the 1990s, will assuage concerns that further normalization with Cuba will undercut the legitimacy of the claims process.

2. **Announce a follow-up meeting of the Joint Commission focused on claims settlement to advance the negotiations process:** The two governments’ chairpersons for the Joint Commission, Assistant Secretary of State Roberta Jacobson and Cuba’s Director General for Foreign Affairs Josefina Vidal, should lead the meeting to raise its visibility.

3. **Urge Cuba to publicly acknowledge the legitimacy of American citizens’ claims:** Such an acknowledgment need not exclude Cuba’s own counter-claims against the United States for economic damage wrought by the embargo.

**Phase II:**

1. **Survey the interest of private investors in financing the Cuban government’s claims payments in exchange for investment opportunities:** Paying the full value of American claims ($7.6 billion) would be nearly impossible for the Cuban government, but private investors may be willing to fill the breach if offered preferred terms in the new Cuban economy.

2. **Consider unfreezing Cuban assets as part of a claims settlement:** The Treasury Department could undertake this move as part of a final deal.
People-to-People Exchanges

ISSUE: What People-to-People Exchanges Should the Administration Pursue?

Expanding current people-to-people exchange programs between the United States and Cuba can help change American perceptions of Cuba (and Cuban perceptions of Americans) while building a U.S. constituency that will feel inclined to lobby for the embargo’s repeal.

BACKGROUND:

History of Travel Restrictions on Cuba

U.S. restrictions on travel to Cuba have ebbed and flowed since the Cuban Revolution. Because of restrictive U.S. policies, travel to Cuba was extremely limited during the sixties and early seventies. In 1977, the Carter administration eased the restrictions. But, in 1982, the Reagan administration reversed the changes and subsequently banned virtually all travel to the island. Though the legality of these restrictions was questioned in *Reagan v. Wald*, the Supreme Court ultimately ruled that individual travel rights are subject to limitation, including by presidential authority, in circumstances of threats to national security. 52 The Clinton administration loosened restrictions in 1993, only to introduce new ones in 1994. Clinton again eased travel in 1999, with a focus on expanding people-to-people exchanges. 53 The Bush administration, however, sharply reversed this policy when it eliminated non-academic people-to-people educational exchanges and strictly limited family travel in 2003 54 and canceled study-abroad programs in 2004. University-level educational exchange programs experienced extensive limitations, 55 resulting in the closure of several hundred U.S. exchange programs (only a handful remained). 56 Policy reversed course again under President Obama, who signed a bill (the Omnibus Appropriations Act of 2009) that eased restrictions on family travel. In 2011, the Obama administration restored rules on people-to-people exchanges to Clinton-era standards. And in January 2015, it allowed all twelve travel categories enumerated in the Cuban Assets Control Regulations 57 to be authorized under general licenses. 58

Why Exchange Programs?

Track II diplomacy is premised on the notion that people-to-people exchanges promote democratic values via “the diffusion of ideas, strengthen[ing] civil society, and erod[ing] the political control mechanisms of an authoritarian state.” 59 U.S.-sponsored people-to-people exchange programs have long been a key component of U.S. engagement with the world. Since its inception in 1947, the U.S. Fulbright Program has had 360,000 participants from over 155 countries. It awards nearly 8,000 grants annually to approximately 1,900 U.S. students, 4,000 foreign students, 1,200 U.S. scholars and 900 visiting scholars. In sum, the Bureau of Education and Cultural Affairs (ECA) has served over one million people via Fulbright grants, Youth Exchange & Study programs, sports exchanges, and more. Of these alumni, forty-six sat as members of the 113th U.S. Congress, seventy-seven have been awarded Nobel Peace Prizes, and 364 have served as heads of state. 60 Following the end of World War II, between 1947 and 1953, more than 10,000 Germans participated in U.S. exchange programs. By 1955, “25 percent of the Bundestag and 17 percent of the Bundesrat were former exchange participants.” 61 The Fulbright Program also built bridges with the Soviet Union during the Cold War, helping strengthen pro-democracy sentiment.
People-to-people exchanges, however, have been pursued only haltingly in Cuba. It is not only U.S. presidents who have stood in the way. The Cuban government has long criticized people-to-people exchanges. “It seeks to destroy us from within,” Fidel Castro declared in July 1995. “These people want to exert influence through broad exchanges with diverse sectors they consider vulnerable.”62 For U.S. public diplomacy and exchange programs to be effective, trust-building dialogue between governments is necessary. Cuba eased its travel restrictions in 2013, allowing its citizens to travel and study abroad. The Obama administration should capitalize on this momentum and policy convergence to press forward with mutually beneficial programs. At the same time, the U.S. should ensure these programs are not perceived as subversive. The growth of Cuban civil society must be seen as organic and not a backhand U.S. intervention.63

While the general expansion of people-to-people exchanges is a promising start for everyday cultural exchanges, when coupled with targeted programs (i.e. sports clinics, professional rotations, and educational grants), more concrete results are possible. Similarly, medical, business, and agricultural exchanges directed from America to Cuba could serve useful in building an American-based anti-embargo constituency. In 2014, the “We are One” program through the anti-Castro Foundation for Human Rights in Cuba brought 17 dissidents and activists to study at Miami Dade College.64 While this is a promising initiative, the selection criteria are opaque and access is limited to opponents of the government.65 To be most effective, exchange programs must be maximally inclusive, seeking to reach all strata of Cuban society.

**RECOMMENDATIONS:**

**Phase I:**

1. **Authorize Fulbright grants (and similar ECA programming) to include travel to and from Cuba:** Even after normalization, Cuba remains a notable omission from the Fulbright program’s roster of eligible countries. Ending the ban will help fuel generational changes in attitudes between our two countries. As with other countries, the ECA should look at a full range of programs: Fulbright, Humphrey, sports diplomacy, etc. Cuban Fulbright recipients should represent an array of socioeconomic classes and political affiliations. Overstays must be deterred, with an expectation that recipients will return to their country of origin and participate in roundtables or public presentations to discuss their experiences.

2. **Designate an exchange program for farmers and business people:** Establishing a program that allows U.S. farmers and business personnel to survey potential business opportunities in Cuba will build a strong U.S.-based constituency that can then lobby Congress to remove barriers to business. In conjunction with the U.S. Embassy Havana and relevant local organizations, American participants should be expected to conduct workshops on farming practices and business development. Local organizers should be expected to ensure a cross-section of farmers and local entrepreneurs are present. This will not only allow an intimate space for shared expertise and learning, but also provide American farmers and business people with local contacts and insight into Cuban growth prospects so that they can effectively lobby their members of Congress.

**Phase II:**

1. **Designate an exchange program for Cuban and U.S. medical professionals:** Such a program would expose Cuban medical professionals to American medical technology and infrastructure while
allowing American doctors to serve in Cuban medical facilities and get a better grasp on the local infrastructure and technological needs. Such a program should be implemented through an organization with an established presence in Cuba, such as Catholic Relief Services. A link might be made to the future Fulbright Nexus Scholar Program cohort. Emphasis on distinction from the Cuban Medical Professional Parole Program will be important to ensure the gains from this exchange are returned to Cuba.
ISSUE: How should the United States approach Cuba immigration policy moving forward?

The United States should pursue Cuban stabilization and economic growth measures as a means to deter migration outflows, while simultaneously entering quiet negotiations with Cuba and other relevant countries in the region on how to move toward standardized immigration criteria for Cubans wishing to migrate to the United States. The administration should avoid announcements of drastic Cuban migration overhauls, such as the repeal of “wet foot/dry foot,” to forestall a possible Cuban migration crisis.

BACKGROUND:

The 1966 Cuban Adjustment Act, the Cuban Migration Agreement of 1994, and the Cuban Migration Agreement of 1995 afford Cubans privileged immigration status. Under the current “wet foot/dry foot” policy, Cubans receive expedited one-year permanent resident proceedings. In addition, there is a minimum requirement of 20,000 Cuban immigrant acceptances annually and access to the United States under other specialized means such as the Cuban Medical Professional Parole Program.

Normalization between the United States and Cuba has led to a recent uptick in Cuban arrivals to the United States. In addition to the minimum 20,000 Cubans legally granted entry per year, the number of Cubans entering the United States illegally rose sharply from 24,278 in FY 2014 to 43,159 in FY 2015 after announcement of the thaw in relations. An additional 4,000 Cubans en route to the United States are currently stranded in Costa Rica (after being returned by Nicaragua) while others have been reportedly held-up in Panama and Mexico. Cuban authorities have blamed U.S. immigration policy for the current migration crisis, which is starting to have regional ramifications. An international deal was recently struck (without the United States or Cuba) to allow for Cubans to be airlifted to El Salvador and then bussed to the U.S. border, underscoring the need for a regional solution to Cuban migration. If massive outflows from Cuba continue, the Cuban government may reinstate the draconian exit restrictions that it discontinued in 2013. (Cuba has already announced a return to exit approval for doctors.)

Unlike the first wave of strongly anti-Castro Cuban exiles, more recent migrants have fled primarily for economic motives. So it is with the current wave of migrants—a wave that is cresting due to the fear that U.S. immigration policy may soon change. Prospects for such a change appear muddled. The “wet foot/dry foot” policy falls under executive purview, though revising the Cuban Adjustment Act would require congressional approval. In his recent visit to Cuba, U.S. Secretary of State John Kerry said that revisions to current policy were not being considered. In Congress, a bill that would end all Cuba-specific immigration policies was recently introduced, though passage is far from certain. Ultimately, any solution that hopes to stem migration outflows from Cuba must go hand in hand with a strategy for facilitating the country’s economic development.
RECOMMENDATIONS:

Phase I:

1. **Promote stability and economic growth in Cuba.** As noted, the migration issue stems in large part from Cuba’s economic woes, so any strategy to combat migration must be anchored in broader efforts to improve economic opportunities for the Cuban people. (See Economic Relations section).

Phase II:

2. **Begin migration discussions with regional actors.** While normalized relations will eventually require a return to standard immigration policies for Cubans, an agreement for what this should look like and a timeline for changes should be reached in consultation with Cuba and other regional players. Any new migration accord should lay out a framework for relevant actors (such as the U.S. Embassy, the U.S. Coast Guard, the Department of Homeland Security, relevant international organizations, and regional actors). Through these discussions, the United States might also consider extending humanitarian assistance to regional countries negatively impacted by increasing the numbers of Cubans hoping to reach the United States.

Regional Issues

**ISSUE:** How can the United States deal with the impact of its normalization with Cuba on other regional players?

Third parties in Latin America will likely affect—and be affected by—the U.S.-Cuba normalization process. Venezuela, Mexico, and Puerto Rico are prime examples, given the former’s close relationship with Cuba and the latter two’s interdependence with the United States. Mitigating the harmful effects of U.S.-Cuba normalization on Mexico and Puerto Rico, and generating a coherent foreign policy strategy vis-à-vis Venezuela in the context of that normalization are vital for maintaining a healthy relationship with the region.

**BACKGROUND:**

**Venezuela-Cuba Relations**

The 1998 election of Venezuelan President Hugo Chavez and his subsequent aid programs for Cuba were key to lifting the island out of the “special period” that was synonymous with widespread famine and the exodus of thousands of Cubans to the United States. The close-knit relationship between the two countries has continued under Chavez’s successor, Nicolas Maduro. In 2014, forty-three percent of Cuba’s exported goods went to Venezuela, while forty percent of imported goods came from Venezuela. In addition, the dispatch of Cuban doctors to Venezuela has become the island’s main source of revenue, with estimates ranging between $5 and $6 billion a year. In addition,
Venezuela’s heavily subsidized shipments of more than 100,000 barrels of oil a day have provided Cuba with more than two-thirds of its energy necessities in recent years. Because Helms-Burton limits the United States—and, by extension, other actors—from trading with Cuba, Castro’s regime will remain close with Maduro’s out of economic necessity. As such, U.S. policy toward Venezuela will have second-order implications for Cuba.

**Venezuela-United States relations**

Disagreements over human rights, democracy, and economic policy have led the United States to impose unilateral economic sanctions on Venezuela at various junctures. Most recently, the Obama administration imposed sanctions in early 2015, targeting specific actors in the Venezuelan government believed responsible for human rights abuses and the curtailment of democratic freedoms. This move was unanimously condemned within Latin America and the Caribbean. Latin America experts, members of the U.S. Congress, the majority of the Venezuelan citizens, Venezuelan human rights organizations, and even the Venezuelan opposition have strongly rejected the sanctions, arguing that the measures—far from improving human rights or promoting democracy—simply legitimizes the Maduro government’s rhetoric about U.S. interference in Venezuela.

**Venezuela’s domestic situation**

Unsustainable economic policies have caused an overall collapse of the Venezuelan economy and threatened the continued existence of the Chavista model. Corruption, currency, capital controls, subsidies, and other economic policies, paired with low oil prices, have led to hyperinflation, shortages of food and other necessity goods, soaring unemployment levels, and increased crime rates. These conditions brought about a decisive defeat for Maduro’s United Socialist Party of Venezuela (PSUV) in the recent parliamentary elections, which gave the opposition Democratic Unity Roundtable (MUD) a supermajority. A mid-term recall referendum for Maduro remains a possibility, and there are growing signs of divisions within PSUV itself.

**Puerto Rico and Mexico**

**Puerto Rico/Mexico-Cuba relations**

In the context of the Cold War, the United States and the Soviet Union subsidized the rivalry between Puerto Rico and Cuba. As the Cold War ended, so too did the largesse that Cuba had received from its benefactor—and, to a lesser extent, the economic support that Puerto Rico had gotten from Washington. Now, normalization between the United States and Cuba, coupled with Cuba’s economic reforms, threaten renewed economic competition between the two. Mexico has been relatively close to the Castro regime since the Cuban revolution, often acting as a mediator between Cuba and the United States.

**Puerto Rico/Mexico domestic situations**

Although both Puerto Rico and Mexico have welcomed the U.S.-Cuba rapprochement, concerns about possible adverse effects—mostly economic—are relevant in both cases. Puerto Rico currently has a public debt of $73 billion, which amounts to roughly seventy percent of its GDP. Because its special political status as a U.S. territory prevents it from declaring bankruptcy and restructuring its debt without congressional approval, the Puerto Rican economy finds itself in a dire situation.
Business investment is likely to remain low until this problem is solved. Given that Cuba has lower labor costs, equally skilled workers, and industry growth potential in sectors which are fundamental to the Puerto Rican economy—such as tourism, shipping, pharmaceuticals and biotechnology—there are serious concerns that Cuba’s growth will come at the expense of Puerto Rico. Although Mexico is better positioned due to its larger and more diversified economy, the normalization process with Cuba will affect it, too, particularly with regard to tourism, which represents about nine percent of Mexico’s GDP. Almost thirteen million U.S. citizens visited Mexico in 2014, accounting for roughly half of the country’s tourists that year. If U.S. restrictions on travel to Cuba are lifted, Mexico is likely to lose many American tourists.

**RECOMMENDATIONS:**

**Phase I:**

1. **Gradually lift economic sanctions on Venezuelan individuals:** This policy, which has failed to produce meaningful change in Venezuela and is opposed by U.S. allies in the region, forces the Cuban government to side with its ally against the United States, adding unnecessary tension to the U.S.-Cuba relationship.

2. **Advise the Cuban government on renewable-energy development and natural-gas exploration:** Such projects would diminish Cuba’s long-term energy dependence on Venezuela while contributing to global greenhouse-gas abatement.

3. **Create trilateral forums between the United States, Puerto Rico, and Cuba:** Cuba’s economic opening will, to some degree, come at Puerto Rico’s expense (particularly with regard to tourism). Creating a forum to explore ways of mitigating that fallout is in the interest of all three parties.

**Phase II:**

1. **Expand efforts to integrate United States-Mexico energy markets:** By advising Mexico on regulatory and technical matters and contributing to the development of the country’s petroleum sector, the United States could reduce oil imports from Venezuela while cushioning the economic blow that Mexico will incur due to the loss of American tourists to Cuba.
Afterword: The United States and Iran

One lesson from the history of U.S.-Cuba relations is that policy should be dynamic. If an old policy has failed over time and become disconnected from current realities, it should be revised. In its new relationship with Cuba, the United States has reoriented its policy objectives to focus on improving the Castro regime’s behavior instead of seeking its ouster. In addressing the challenge of the Iran nuclear program, the Obama administration has pursued a similar policy change. As the United States charts a new way forward with Cuba, it is worth pondering whether the normalization process holds lessons for future U.S. policy toward Iran.

The U.S.-Iran relationship may not yet be ripe for a breakthrough on par with the United States-Cuba normalization process. With the groundbreaking nuclear deal struck by the P5+1 and Iran in July 2015, there may be an opening to test new policy approaches toward this other longstanding U.S. adversary. Cuba and Iran offer very different histories, but over decades of estrangement, the United States has applied many of the same policy tools to both cases, from economic sanctions to alternative media broadcasting. Likewise, a prospective normalization with Iran would include many of the difficult issues highlighted in this report, such as dismantling a complex sanctions architecture, dealing with human rights concerns, and normalizing the economic relationship. As with Cuba, the United States should not forsake its long-term vision of a democratic Iran that behaves as a responsible member of the international community, but over the near term, it should consider new ways of working with the present government that might advance U.S. interests.

Given that Iranian behavior currently threatens U.S. interests more than does Cuba’s, the sequencing of normalization would be a complex—and possibly far longer—process than in the case of Cuba. The United States will have to determine how to approach ongoing issues of intense disagreement, which in addition to human rights abuses, also include the Iranian government’s support for regional terrorist groups, its backing of Bashar Assad’s regime in Syria, and its virulent opposition to Israel. Also relevant is the capacity of the other side to absorb change. As the United States considers how fast the comparatively much smaller Cuban government can process U.S. overtures, it will also need to consider how fast any U.S. hopes for change could be digested by Iran’s incredibly complex, competitive, and slow-moving political system.

As we have recommended with Cuba, any steps toward normalization with Iran will need to take regional dynamics into account. In fact, if current trends are any indication, regional issues may prove the biggest hurdle to moving the bilateral relationship forward, given clashing U.S. and Iranian positions on critical issues such as the conflicts in Syria and Yemen, as well as Iran’s tensions with Israel, Saudi Arabia, and other U.S. allies. Notwithstanding the challenges, there are also opportunities in the current regional morass: The United States and Iran share the goal of eliminating the threat of the Islamic State in Iraq and the Levant (ISIL), and Secretary Kerry continues to explore whether Iran and Russia may be willing to reach a deal on resolving the five-year conflict in Syria. These complexities underscore the need to approach normalization slowly, as the United States tests Iran’s willingness to constructively participate in the international system.

The United States will need to consider the diplomatic tools it wants to use to advance its Iran policy. As illustrated by the normalization with Cuba and the Iranian nuclear deal—to say nothing of the recent
prisoner-exchange deal with Iran—backchannel diplomacy is a critical tool. The United States should also review the institutional structures that were built for a more hostile relationship. As with Radio Marti, over time, the United States would need to determine how to reform or phase out public-diplomacy programs, such as Voice of America Persian, that irritate the bilateral relationship. Per our recommendations regarding Radio and TV Marti, the removal of this point of contention could be premised on specific Iranian government actions, such as loosening restrictions on the Internet and providing more freedom for Iranian and foreign journalists.

Finally, both cases illustrate the fact that effective diplomacy is always much broader than just relations between governments. People-to-people exchanges can provide significant ballast to bilateral ties and can be a useful precursor to official normalization. In the case of Iran, as it was with Cuba, such exchanges have been and will likely continue to be a critical intermediary step even as the official bilateral relationship continues to develop in a positive direction. Given that it has a sizable diaspora from Iran, as it did from Cuba, the United States is already working from a strong base.

The cases of both Cuba and Iran highlight the challenges of the complex interplay of domestic politics and foreign policy. By pursuing normalization with Cuba and pushing the Iran nuclear deal through a skeptical, even hostile, Congress, the Obama administration has demonstrated that change is possible even in the face of intense domestic opposition.
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Adrei is an Australian diplomat who most recently served in Iran. He examined the challenge that 'enemy narratives' present to normalization processes. He focused on how the United States is constructed as an enemy in Iranian politics and the challenge this presents for any efforts to normalize relations, and how such efforts should be accordingly calibrated. He authored the section on IFIs. He can be contacted at andrei.seeto@gmail.com.

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Before beginning his MPA degree at Princeton, Christopher worked in Myanmar on solar energy. For this workshop, he focused on the commodity trade between the United States and Cuba and Iran, which he used to illuminate the ways in which such trade influences each country’s willingness to normalize relations. He is best reached at cmpage@princeton.edu.

Eduardo Massieu Paredes
Prior to his studies at Princeton, Eduardo's professional experience was in an economic think tank, Venezuelan Parliament, a private bank, a consulting firm and the U.S. Treasury. Eduardo spent this summer in Brazil with a mobile tech startup and is currently pursuing a joint MPA/MBA with Stanford’s Graduate School of Business. His research for this project focused on the business role and the doing business context of the normalization of relations with the United States. He can be reached at EduardoMassieu@gmail.com.
Bonnie Krenz
Bonnie has worked as management consultant with the Boston Consulting Group as well as in Tanzania as a Program Manager with the Clinton Health Access Initiative. During the MPA program at Princeton University, Bonnie worked as an intern at the White House Council on Environmental Quality. For this report, Bonnie researched domestic political factors affecting the normalization of relations between the United States and Cuba, and particularly on the question of legislative and executive actions to address the economic embargo. She can be reached at bonnie.krenz@gmail.com.

Sara Elsayed
Sara, a 2014 Rangel Fellow, will be joining the U.S. Foreign Service upon graduation in May. Prior to Princeton she worked with the International Organization for Migration on implementation of the U.S. Refugee Admissions Program in the Middle East and South Asia. Her research for this project focused on the role of migrant communities and people-to-people exchange programs in affecting developing relations between former enemies. She authored the People-to-People and Migration portions of this report. Sara can be reached at selsayed@princeton.edu.

Ben Birnbaum
Born and raised in the Boston area, Ben graduated from Cornell and spent his time prior to Princeton working in journalism--first in Washington covering foreign affairs for The Washington Times, then in Jerusalem reporting on the Israeli-Palestinian conflict for The New Republic and other magazines. He served as the report's co-editor and wrote the introduction and conclusion. He can be reached at bhb@princeton.edu.
Endnotes

1 http://www.presidency.ucsb.edu/ws/?pid=5882
7 https://www.treasury.gov/resource-center/sanctions/Programs/Documents/fr76_5072.pdf
8 https://www.treasury.gov/resource-center/sanctions/Programs/Documents/fr77_71530.pdf
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20 Mesa-Lago
22 ibid
28 Frank, "Exclusive"; Luis, "Cuba's External Debt Problem."
33 Pujol, "Cuba's Membership in the IMF and Other International Financial Institutions and Their Possible Role in Promoting Sustainable Economic Growth in Cuba," 71.


36 Feinberg, Reaching Out: Cuba's New Economy and the International Response, 71.


47 Sullivan 43.


53 ibid, 18-20

54 Family travel was limited to one trip in every three years for immediate family only.

55 Three major overhauls included: (1) a new requirement on course length, increasing the minimum to 10-weeks; (2) the requirement that such courses be taught by full professors, as opposed to adjunct-professors or lecturers; and (3) students were only eligible to take courses offered by the institution in which they were enrolled full-time (eliminating the possibility to participate in a study abroad program offered by another institution). Sullivan, 2015. Pg. 18-20


58 Sullivan, 2015, pg 1-2.


60 http://eca.state.gov/impact/facts-and-figures
62 Ibid, 218
63 The 2006 Commission for Assistance to a Free Cuba report received a mixed reaction from prominent dissidents and activists with some expressing the need for Cubans to direct their own transition and a fear of a reprisal government crackdown on locally based activists. Sullivan, Mark P. “Cuba: Issues for the 111th Congress.” CRS. 2011 https://www.fas.org/sgp/crs/row/R40193.pdf Pg 19-20
64 http://www.huffingtonpost.com/arturo-lopez-levy/the-university-is-for-cou_b_4883549.html
65 http://www.fhrcuba.org/activism/somos-un-solo-pueblo/
67 http://www.state.gov/p/wha/rls/fs/2009/115414.htm
73 Secretary Kerry said “And we support full implementation of the existing migration accords with Cuba, and we currently have no plans whatsoever to alter the Cuban Adjustment Act, and we have no plans to change the “wet foot, dry foot” policy at the same time. That’s where we are.” http://translations.state.gov/st/english/texttrans/2015/08/20150814316783.html#axzz3trZyaJ1k
74 H.R. 3818 was introduced into the House on October 23, 2015. http://thomas.loc.gov/cgi-bin/query/z?c114:H.R.3818:
79 Ibid.
83 Ibid.
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99 Ibid.
