



BULLETIN

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The U.S.–Cuba Thaw: An Opportunity and a Challenge for the EU

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After more than 50 years of frozen relations, on 1 July 2015, the United States and Cuba announced the re-opening of embassies in each other's capitals. The U.S.-Cuba thaw can also benefit the European Union's relations with the island, which have been partly hindered by the American sanctions. The EU should enhance its contacts, mainly economic, with Cuba to support the U.S.-Cuba reconciliation and lead to the abolition of existing trade barriers that negatively affect European companies.

Recent months have witnessed profound changes in relations between the U.S. and Cuba. The culmination was July's decision to restore full diplomatic ties between the two countries and re-open embassies in Washington and Havana. Earlier this year, the U.S. decided to remove Cuba from the list of state sponsors of terrorism and it took effect on 29 May. Given the ineffectiveness of the U.S. policy of isolation of Cuba since 1960, the decisions showed a more pragmatic approach by the Obama administration towards the island. Moreover, taking Cuba off the "blacklist" should facilitate economic relations between the two countries, for example, in the banking sector. Furthermore, the infamous title was considered a sign of hostility and thus a serious hindrance to improvement of bilateral relations. For Cuba, rapprochement with the U.S. and the West stems from policy under Cuba's leader Raul Castro, who perceives the wider opening of the island to the West as a chance for boosting its weak economy, mired in transformation.

Time for Change. The U.S.-Cuba détente is a significant accomplishment for American diplomacy. The first sign heralding the new phase of relations was a cordial handshake between Obama and Castro during Nelson Mandela's memorial in 2013. A few months later, the U.S. president met with Pope Francis, who played a crucial role in the process by encouraging both sides to start negotiations. The once secret talks were finalized with a phone call between Obama and Castro on 16 December 2014. Cuba agreed to release Alan Gross, an American contractor accused of espionage as well as political dissidents in exchange for three Cuban convicts. On 17 December 2014, Obama announced a fundamental shift in policy towards Cuba, revealing plans to restore diplomatic ties and reopen embassies in Havana and Washington. These events ultimately set the stage for the first official meeting between the presidents of the U.S. and Cuba in over 50 years and took place on 11 April 2015, during the 7th Summit of the Americas in Panama. Latin American countries unanimously applauded the thaw in U.S.-Cuba relations. Moreover, the U.S. president earned substantial political capital though his commitments to provide \$1 billion in development aid to Central America and continue his reforms of immigration policy.

There are manifold reasons behind the U.S.-Cuba rapprochement. Undoubtedly, by softening its stance on Cuba, the U.S. is courting Latin American countries, which over the last decade have grown particularly critical of Washington's policy. The slowing economic growth in the region certainly works to the U.S. advantage, as increased trade and investments from the recovered U.S. economy could invigorate local economies. Tighter trade relations with the region, such as the ongoing negotiations for the Trans-Pacific Partnership, could facilitate U.S. efforts to re-establish its position as a leader in the Western hemisphere in the face of growing competition, mainly from China. Moreover, putting an end to the 50-year-old U.S.-Cuba deadlock forms a cornerstone of President Obama's foreign policy legacy.

Still, the main bone of contention between the United States and Cuba is the embargo imposed in 1962, which can only be lifted by a congressional vote. Considering that the Republican Party opposes Cuban rapprochement in its official

platform and holds the majority in both chambers, prompt removal of the embargo is unlikely. Moreover, the U.S. Congress can also block funding for the embassy in Havana or confirmation of a new U.S. ambassador to Cuba. To complicate matters further is the U.S. presidential campaign, which has already begun, and the election in November 2016. The top Republican presidential candidates, including Jeb Bush and those of Cuban origin, including Ted Cruz and Marco Rubio, strongly criticize Obama's policy change, arguing that leniency only fuels the dictatorship. On the other hand, the Democratic candidates, including Hillary Clinton, advocate the end of the Cuban embargo and the normalization of relations. In the long run, the conflicting opinions constitute a bid for the important votes of Hispanic Americans, who can play a key role in some swing states, particularly Florida.

Towards Increased Openness. Cuba's reasons for reconciliation seem evident. The island's economy is faltering and needs incentives for growth. Although in 2010 the Cuban government allowed small private businesses and cooperatives to open, it still stands by its centrally planned and highly ineffective economy, which is additionally hampered by U.S. sanctions. During the negotiations, Cuba managed to mitigate some tough American policies such as restrictions on travel for U.S. citizens, the use of credit and debit cards, and the amount of permitted remittances. These changes play a key role for Cuba's leadership in the face of the political unrest taking place in Venezuela, the island's biggest ally.

Although the U.S.'s new policy might help the island's fragile economy, the Cuban government wants to make sure that U.S. activities will not fuel reformist sentiment and undermine the regime. Thus, Cuba's authorities continue to be cautious of a broad inflow of foreign capital and other means that could make it harder to control the transformation of the country's economy. Also considered a sore point is the American naval base at Guantanamo Bay, seen by the Cuban government as a sign of occupation. Another matter at hand is the former property of U.S. companies that was confiscated in the early days of the revolution in 1959, which today are believed to be worth as much as \$7 billion.

EU Initiatives. Certainly, the U.S.-Cuba détente is also of great importance to the European Union. Ever since the EU lifted its sanctions in 2008, it has tried to normalize relations with the island. In 2014, negotiations on the bilateral EU-Cuba Political Dialogue and Cooperation Agreement were launched, which will hopefully be finalized by the end of 2015. The possibilities for EU-Cuba cooperation were limited due to the uncompromising stance of the EU's main ally—the United States. In 1996, the U.S. introduced the Helms-Burton Act, which enabled financial penalties for foreign companies trading with the island. The law has added uncertainty in trade relations with Cuba and discouraged some EU companies from participating, fearing American sanctions. Along with further U.S.-Cuba rapprochement, the Helms-Burton Act should be repealed, which would facilitate development of EU trade and investment cooperation with the island.

Moreover, further rapprochement in U.S.-Cuba relations would bring an opportunity to remove the psychological barrier in relations of the West with Latin America and the enhancement of the EU's image in the region. The EU's readiness for further development of relations was demonstrated by two official visits to Cuba: the first by High Representative Federica Mogherini in March 2015, and the second by French President François Hollande in May 2015. In order to boost bilateral ties, both sides cooperate on projects in agriculture, environment, culture, and education. Moreover, at the Community of Latin American and Caribbean States (CELAC) summit in June 2015, the EU announced support worth more than €800 million for the region, including several investment programmes worth €118 million that include Cuba. Although the EU is already Cuba's second biggest trade partner and its biggest source of investment, possible further infrastructure projects and market reforms on the island can provide wider access for companies from the EU to the rather small customer base (only 11 million) but unsaturated market in terms of consumer and investment goods.¹ With American sanctions still in place, the EU has an advantage over the U.S. in the development of economic ties with Cuba. Nevertheless, when the embargo is lifted the competition from American companies will significantly increase, especially in such sectors as agriculture, where U.S. firms face much lower transport costs.

However, winning over Cuba might prove difficult with high-level diplomats from China and Russia also visiting the island. China is currently one of the largest Cuban trade and investment partners. Russia, too, has shown renewed interest in Cuba. Russian Foreign Minister Sergey Lavrov recently paid a visit to Havana to make sure Cuba's opening to the West does not undermine its traditional alliance with Moscow, dating back to the times of the Soviet Union. China and Russia constitute an appealing alternative to the EU and the U.S. as the latter are pressing Cuba with demands to advance individual freedoms and respect human rights.

In order to strengthen its political and economic position in Latin America, the EU should expand its Cuba agenda. Of great importance are more frequent people-to-people and business contacts. Also, investment programmes, especially regarding telecommunications and transport infrastructure, should be expanded. Moreover, the EU must not lose the momentum and should strive to finalize the negotiations of the Political Dialogue and Cooperation Agreement. Increased engagement in relations with Cuba will let the EU improve its image in Latin America and strengthen the position of its companies when the U.S. embargo on Cuba is lifted.

¹ K. Brudzińska, "Unused Potential of an EU-LAC Partnership," *PISM Bulletin*, no. 59 (791), 10 June 2015, www.pism.pl.