

# PRELIMINARY STUDY OF THE IMPACT OF THE PRIVATIZATION OF STATE-OWNED ENTERPRISES IN CUBA

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With the prospects of limited trade relations between the United States and Cuba looming closer, the most important issue for Cuba is the future of its economy, which has been devastated by socialism, trade embargoes, and the cutoff of Russian welfare.

Without question, once Cuba moves unequivocally towards a free market economy, financing institutions will be available to provide funding to promote economic growth in a new Cuba. Financing for projects through direct loans and other financial instruments will be available for improvement of water supply and sanitation, support and development of small business, modernization efforts, infrastructure repairs and maintenance, environmental clean-up efforts, from a plethora of public financial agencies, including the Inter-American Development Bank (IDB), the World Bank, the Canadian International Development Agency (CIDA), and others.

As with Eastern Europe and Russia, it is for Cuba to take the painful reform steps necessary to put its economy back on track. However, as was the case in Eastern Europe, the largest and most important investments will come from the private sector. Most of these investments will be made for privatization of state-owned assets, and will come from private companies, with specific objectives, and from capital markets. On the one hand, unlike Eastern Europe, Cuba is less developed, and has experienced a lengthy economic crisis, which has taken a toll on both the physical and the human resources, making Cuba even a harder “sell” for private investors. On the other hand, Cuba’s close proximity to the United States,

its underdeveloped and plentiful mineral resources, its educated work force, its top-rated natural attractions, as well as other characteristics, have a positive impact on potential foreign investors.

This paper summarizes the results of a mayor study conducted by Cuba-Caribbean Development Company, a corporation headquartered in Miami that provides international business services for companies and individual investors seeking to establish or expand business ventures in the Caribbean region, regarding state-owned enterprises in Cuba available to possible privatization. The paper is divided into two sections: the first section presents the results of the study with respect to potential privatization targets in the island. The second section discusses some ideas on a national privatization strategy in a post-Castro Cuba.

## PRIVATIZATION RESOURCES

Based on a variety of information sources—the Cuba data bank of the T. Babún Group, publications, interviews with experts in the business community, government and academia, information provided by scholars, and consultations with officials in the U.S. Departments of State and Defense—the study identified state-owned resources in Cuba available for possible privatization. The authors analyzed the pricing strategy employed by Poland, Czechoslovakia, Hungary and East Germany, in the privatization of many of their state-owned enterprises, and then applied similar ratios to Cuba’s assets. We further evaluated the potential for privatization in infrastructure concessions to construct and operate toll

roads and ports, as well as in contracting-out and other private involvement in water and sewage systems, refuse collection and waste management, etc. We believe that the total value of about 1,500 state-owned target projects, when transferred to the private sector, will be between \$21 to \$39 billion (see Table 1). This amount does not include potential private assistance and loans, grants and grant guarantees from international financial institutions, multilateral organizations, and individual countries. For instance, in January 1997, President Bill Clinton predicted that Cuba could receive from \$4 billion to \$8 billion from these sources.

**Table 1. Summary of Possible Projects Available for Privatization**

Sector	Number of Projects	Potential Privatization Investments
Mining	24	\$4-\$5 billion
Electric power	20	\$4-\$5 billion
Other utilities	13	\$600 million-\$1.3 billion
Transportation	59	\$5-\$7 billion
Construction and construction materials	24	\$2-\$3 billion
Food processing, fishing & beverages	29	\$1.5-\$2 billion
Other light industry	15	\$600 million-\$1.0 billion
Other specialized industries	33	\$600 million-\$1.0 billion
High technology industry	22	\$1.5-\$2.0 billion
Wholesale and retail facilities	7	\$500 million-\$700 million
Sugar and sugar-related industry	166	\$1.2 billion
Banking and insurance	16	\$1.9-\$2.4 billion
Tourism, tourism-related and entertainment	750	\$2.5-\$3.1 billion
Military enterprises	121	\$2.65-\$3.2 billion
Telecommunications & media	180	\$500-\$800 million
Miscellaneous enterprises	11	\$450-\$500 million
Total potential investments	1490	\$20.77-\$39.2 billion

Table 2 reports on the strong and weak points of potential privatization targets within Cuba's basic industry sector. This sector is composed of enterprises within the Ministry of Basic Industries (Geology and Mining Trust; Electric Industry Trust; Rubber and Tires Trust; Nickel Industry Trust; Oil and Gas Extraction Trust; Oil Refining and Distribution Trust;

Plastic and Paper Trust; and Chemical and Fertilizer Industries Trust); the Ministry of Steel and Mechanic Industries (ACINOX, S.A., and Metal Processing Trust); and the Ministry of Construction Materials (Construction Aggregates Trust and Cement Trust). Table 3 identifies specific privatization targets within these larger groups of enterprises (trusts).

Cuba can not afford the luxury of a lengthy and protracted privatization process. Once a national privatization program is introduced, it will be very important that it remain as consistent as possible. Perhaps, a new Cuba could first conduct the privatization of small-scale businesses, followed by high export-potential enterprises (and projects), while the government creates the optimum conditions for a full national privatization strategy.

Cuba is well ahead of the former Soviet Bloc countries in preparing a base for privatizing its state-owned enterprises. For instance, on August 24, 1998, the government approved a new law to decentralize 95 firms from the control of the Basic Industry Ministry. The companies planned to be spun off employ over 115,000 workers.

But privatization of Cuba's existing state-owned enterprises will not be an easy task. Cuba's factories are large, cumbersome and inefficient. In fact, 88 percent of Cuba's industrial plants are considered "large" by World Bank standards. The study identifies 170 state-owned enterprises (not sugar mills), with 500 or more workers, built or enlarged after 1959, as compared to only 14 plants (not sugar mills), with 500 or more workers existing in 1959.

In addition, before large volumes of foreign capital and aid assistance would flow to the island, a new Cuba will need to deal with issues such as a large external debt, and a plethora of individual claims for confiscated properties. An analysis of these and many other critical pre-privatization issues are given in the next section of the study.

#### A NATIONAL PRIVATIZATION STRATEGY

The following ideas and proven concepts merit serious consideration in designing a national privatization program of state-owned assets.

**Table 2. Privatization of Cuba's Basic Industry Sector—Strong and Weak Points**

<b>A. Chemical and Fertilizer Industries Trust, Partner for Foreign Investors: CEPIQ, S.A.</b>	
<p>Strong Points</p> <ul style="list-style-type: none"> <li>• Large facilities at Nuevitas, Cienfuegos, Regla, Felton, Matanzas and Santa Lucia, generally in good shape.</li> <li>• Claims are not a major issue (except at Regla).</li> <li>• Ethical and well-trained technicians and workers.</li> <li>• Fair transportation and port infrastructure.</li> </ul>	<p>Weak Points</p> <ul style="list-style-type: none"> <li>• The vast majority of the raw materials need to be imported.</li> <li>• High environmental impact, some clean-up works to be done by investors</li> <li>• Very poor wholesale and retail distribution network.</li> </ul>
<b>B. Metal Processing Trust, Partner for Foreign Investors: Planta Mecánica de Santa Clara</b>	
<p>Strong Points</p> <ul style="list-style-type: none"> <li>• Two large plants, producing parts for the sugar cane industry. Fair quality.</li> <li>• The products are competitive in the international market and can be exported.</li> <li>• The skill of technicians and workers is fair. Reasonable work ethic.</li> </ul>	<p>Weak Points</p> <ul style="list-style-type: none"> <li>• Power intensive operations. Some inputs needs to be imported.</li> <li>• Substantial maintenance troubles. The organization of work is poor.</li> <li>• Intensive political and governmental interference.</li> </ul>
<b>C. Paper Trust, Partner for Foreign Investors: Unión del Papel</b>	
<p>Strong Points</p> <ul style="list-style-type: none"> <li>• Availability of large quantities of sugar cane bagasse as a raw material.</li> <li>• Reasonable training of workers and technicians.</li> <li>• Two modern plants (paper and cardboard) and one up to date plant for plastics.</li> </ul>	<p>Weak Points</p> <ul style="list-style-type: none"> <li>• Eleven plants need to be completely reconstructed, with a significant capital expenditure.</li> <li>• Sensitive environmental impact, the investors need to meet some clean-up works.</li> <li>• Fuel and power intensive industry, but capable to be energetically improved (cogeneration)</li> </ul>
<b>D. Rubber and Tires Trust, Partner for Foreign Investors: Empresa de la Goma</b>	
<p>Strong Points</p> <ul style="list-style-type: none"> <li>• Very large demand, they could allocate more than the installed capacity allows.</li> <li>• Export potential, despite the current limitations (they need hard currency).</li> <li>• Several facilities are in good shape and are moderately advanced from technological point of view.</li> </ul>	<p>Weak Points</p> <ul style="list-style-type: none"> <li>• The industry is poorly managed and the labor force is not very skilled.</li> <li>• A second rate operation within the Ministry of Basic Industry.</li> <li>• Some of the most important facilities were confiscated in 1960 and subject to claims.</li> </ul>
<b>E. ACINOX, S.A., Partner for Foreign Investors: ACINOX, S.A.</b>	
<p>Strong Points</p> <ul style="list-style-type: none"> <li>• The largest steel and alloys producer in the Caribbean. Also produces stainless steel.</li> <li>• Satisfactory technological level; availability of ores and scrap; fairly well-trained workers.</li> <li>• An exception in Cuba, management understands well the business environment.</li> </ul>	<p>Weak Points</p> <ul style="list-style-type: none"> <li>• Fuel and power intensive operations.</li> <li>• Some environmental impact and cumulative damage.</li> <li>• The transportation of inputs and finished products is difficult.</li> </ul>
<b>F. Cement Industry Trust, Partner for Foreign Investors: Unión de Empresas del Cemento</b>	
<p>Strong Points</p> <ul style="list-style-type: none"> <li>• Substantial installed capacity, for Portland (5.5 million metric tons) and whites (0.1 million metric tons).</li> <li>• Very large reserves of raw materials averaging 50 years of life for the six plants.</li> <li>• Comparatively good infrastructure for distribution/export (bulk and bagged).</li> </ul>	<p>Weak Points</p> <ul style="list-style-type: none"> <li>• Miserably neglected environmental care.</li> <li>• Fuel intensive operations in four (wet system) out of six plants.</li> <li>• The quality of the product is somewhat irregular, except the whites (excellent)</li> </ul>
<b>G. Construction Aggregates Trust, Partner for Foreign Investors: Empresa Nacional de Canteras</b>	
<p>Strong Points</p> <ul style="list-style-type: none"> <li>• There are eight first class facilities producing limestone, zeolites and other products. Competitive.</li> <li>• Well studied reserves of mineral, capable to sustain large increases of production.</li> <li>• Free of claims; the majority of the facilities were built during the 1970s and 1980s.</li> </ul>	<p>Weak Points</p> <ul style="list-style-type: none"> <li>• The quality of the products is highly irregular.</li> <li>• The maintenance of the facilities is poor.</li> <li>• Comparatively large environmental remediation.</li> </ul>

**Table 2. Privatization of Cuba's Basic Industry Sector—Strong and Weak Points (continued)**

<b>H. Electric Industry Trust, Partner for Foreign Investors: Cubaeléctrica, S.A.</b>	
<p>Strong Points</p> <ul style="list-style-type: none"> <li>• Reasonable amount of facilities and generation capacities, good transmission network and substations.</li> <li>• Reasonably well-trained personnel, including repair and maintenance teams.</li> <li>• Very large, undoubtedly growing demand.</li> </ul>	<p>Weak Points</p> <ul style="list-style-type: none"> <li>• Utility, only for domestic market, very little hard currency revenues.</li> <li>• Significant claims against properties confiscated in the 1960s.</li> <li>• The distribution and billing systems are in full chaos.</li> <li>• Strong governmental and political interference.</li> <li>• Controls the very contested nuclear plant at Cienfuegos bay.</li> </ul>
<b>I. Geology and Mining Trust, Partner for Foreign Investors: Geominera, S.A.</b>	
<p>Strong Points</p> <ul style="list-style-type: none"> <li>• Substantial opportunities in copper, zinc, lead, gold, manganese, chromite, marbles, and mineral waters.</li> <li>• Large export opportunities at competitive rates.</li> <li>• Most mining targets discovered after 1959 and not subject to claims.</li> <li>• Very large and expensive information is fully available.</li> </ul>	<p>Weak Points</p> <ul style="list-style-type: none"> <li>• Extremely poor knowledge of current business and worldwide practices in mining.</li> <li>• Slow and bureaucratic procedures.</li> <li>• They want capital, but not capitalists or capitalism.</li> </ul>
<b>J. Nickel Industry Trust, Partner for Foreign Investors: Cia. General del Níquel</b>	
<p>Strong Points</p> <ul style="list-style-type: none"> <li>• World class mineral reserves and a comparatively well-developed infrastructure.</li> <li>• Strong export market worth several hundred millions U.S. dollar per year. Competitive products.</li> <li>• Well-trained technicians and workers.</li> </ul>	<p>Weak Points</p> <ul style="list-style-type: none"> <li>• Two out of three plants are subject to large claims.</li> <li>• High environmental impact; the investors needs to meet significant remediation work.</li> <li>• Very high political interference and governmental scrutiny.</li> </ul>
<b>K. Oil Refining and Distribution Trust, Partner for Foreign Investors: CUPET, S.A.</b>	
<p>Strong Points</p> <ul style="list-style-type: none"> <li>• Three large and one small refining plants at Havana, Cienfuegos, Santiago de Cuba and Cabaiguán.</li> <li>• Relatively well-trained technician and workers.</li> <li>• Excellent maritime facilities for supertankers at Matanzas bay. Pipeline Matanzas-Cienfuegos.</li> </ul>	<p>Weak Points</p> <ul style="list-style-type: none"> <li>• The plants at Havana and Santiago de Cuba are claimed by large western oil companies.</li> <li>• The refining plants need to be technologically improved.</li> <li>• Distribution network is a disgrace—only 800 gas stations in the whole country, of which only 250 are fully operational.</li> </ul>
<b>L. Oil and Gas Extraction Trust, Partner for Foreign Investors: CUPET S.A.</b>	
<p>Strong Points</p> <ul style="list-style-type: none"> <li>• Very large geological information, seismic test and other data, fully available.</li> <li>• Highly prioritized task by the government, softening its negotiation structures.</li> <li>• Fair transportation infrastructure for oil &amp; gas, tanking farms and coastal facilities.</li> <li>• Very few serious claims.</li> </ul>	<p>Weak Points</p> <ul style="list-style-type: none"> <li>• The skill of workers and technicians needs to be improved. More work incentives needed.</li> <li>• The geology of Cuba is not very favorable for commercial scale oil production.</li> <li>• The quality of the crudes is very poor.</li> </ul>

### Claims Against the State

Economic stabilization, law and order, food, medicines, the establishment of workable institutions for policy implementation and establishment of property rights are critical to Cuba's reconstruction and without doubt need to be addressed early on. Based on the widely differing experiences of Czechoslovakia, Hungary, Poland, East Germany and Russia, whatever process is followed must provide an unequivocal adjudication of property rights so that no legal obsta-

cles to the privatization of enterprises are interposed by the existence of unresolved property claims against them.

Therefore, while there is general agreement on the need to privatize state-owned enterprises and attract foreign investment to Cuba as rapidly as possible, there must first be a determination regarding the issue of property rights. Moreover, unless clear and transparent "rules of the game" are established and implemented, the amount and quality of investment

**Table 3. Potential Privatization Targets Within Selected Cuban State-Owned Enterprises**

<p><b>Banking</b></p>	
<ul style="list-style-type: none"> <li>• Banco Financiero Internacional. Commercial bank, handling export revenues and international banking relations.</li> <li>• Banco Popular de Ahorro. Savings bank with branches throughout the country.</li> </ul>	<ul style="list-style-type: none"> <li>• Empresa de Contratación de Asistencia Técnica (Cubatécnica). Imports and exports technical assistance.</li> <li>• Empresa Cubana Importadora de Fibras, Tejidos y Cueros (Cubatex). Imports fibers, textiles and hides; exports textiles and apparel.</li> <li>• Empresa Cubana Exportadora de Azúcar y Sus Derivados (Cubazucar). Exports sugar, molasses and alcohol.</li> </ul>
<p><b>Insurance</b></p>	
<ul style="list-style-type: none"> <li>• Intermar, .S.A. Handles inspection of goods, as well as insuring against ship and aircraft damages.</li> <li>• Empresa del Seguro Estatal Nacional (ESEN). Takes care of vehicle and agricultural insurance.</li> <li>• Seguros Internacionales de Cuba (Esicuba). Issues all types of coverage except life insurance.</li> <li>• Import/Export</li> <li>• Empresa Cubana Importadora de Alimentos (Alimport). Imports food and liquor.</li> <li>• Empresa Central de Abastecimiento y Venta de Equipos de Transporte Liger. Imports light-weight vehicles, motorcycles and spare parts.</li> <li>• Empresa Cubana Importadora y Exportadora de Aviación (Aviaimport). Imports aircraft and parts.</li> <li>• Empresa Exportadora del Caribe (Caribex). Imports and exports seafood and marine products.</li> <li>• Empresa Central de Abastecimiento y Venta de Equipos de Construcción y sus Piezas (Construimport). Imports and exports construction equipment and machinery.</li> <li>• Empresa Cubana Importadora de Artículos de Consumo General (Comsumimport). Imports and exports consumer goods.</li> <li>• Contex. Imports and exports items such as textiles, apparel, accessories, footwear and handicrafts.</li> <li>• Corporación Productora y Exportadora de Tecnología Electrónica (Copextel). Exports computer software.</li> <li>• Empresa Comercial y de Producciones Filatélicas (Coprefil). Imports and exports philatelic items, as well as handicrafts, electronics, communications equipment and time pieces.</li> <li>• Unión de Empresas Constructoras Caribe (Corporación Uneca). Imports and exports construction work services.</li> <li>• Empresa Importadora y Exportadora de Productos de la Electrónica (Cubaelectrónica). Imports and exports electronics equipment.</li> <li>• Empresa Cubana Importadora de Productos Mecánicos y Equipos Variados (Cubaequipos). Imports mechanical equipment.</li> <li>• Empresa Cubana Exportadora de Alimentos y Productos Varios (Cubaexport). Exports foodstuffs.</li> <li>• Empresa Cubana Exportadora de Productos Industriales (Cubaindustria). Exports industrial goods.</li> <li>• Empresa Cubana Importadora de Metales, Combustibles y Lubricantes (Cubametales). Imports and exports metals, crude oil and petroleum, as well as metal byproducts.</li> <li>• Corporación de Turismo y Comercio Internacional (Cubanacán). Imports and exports materials and inputs for development of the tourism industry.</li> <li>• Empresa Cubana Exportadora de Minerales y Metales (Cubaniquel). The country's sole exporter of minerals.</li> <li>• Empresa Cubana del Tabaco (Cubatabaco). Exports tobacco, cigars and cigarettes.</li> </ul>	<ul style="list-style-type: none"> <li>• Empresa Comercial de Industrias de Materiales, Construcción y Turismo (Ecimact). Imports and exports engineering services.</li> <li>• Empresa Comercial para la Industria Metalúrgica y Metalmecánica (Ecimetal). Imports metal milling and shaping equipment.</li> <li>• Empresa de Comercio Exterior de Publicaciones (Ediciones Cubanas). Imports and exports publications (i.e., books, magazines, newspapers).</li> <li>• Empresa de Grabaciones y Ediciones Musicales (Egrem). Imports and exports musical recordings and instruments.</li> <li>• Empresa Exportadora de la Construcción (Emexcon). Imports and exports consulting and engineering services; imports and exports building equipment and materials.</li> <li>• Empresa Importadora y Exportadora de Suministros Técnicos (Emiat). Imports technical equipment; exports furniture and housewares.</li> <li>• Empresa Especializada Importadora, Exportadora y Distribuidora para la Ciencia y la Técnica (Emidict). Imports and exports scientific/technical products and equipment, as well as ornamental fish and other live animals.</li> <li>• Empresa Operadora de Fuerza de Trabajo-UNECA (Empoft). Imports and exports personnel management services for construction projects.</li> <li>• Empresa Cubana de Acuñaciones. Exports coins and precious metals.</li> <li>• Empresa Importadora de Equipos Electroenergéticos (Energimport). Imports electrical generation equipment.</li> <li>• Empresa de Proyectos para la Industria Básica (Eprob). Exports engineering consulting services, industrial plants and turnkey projects.</li> <li>• Empresa de Proyectos para Industrias Varias (Eproyiv). Exports consulting services for industrial facilities and design.</li> <li>• Empresa de Suministros Industriales (ESI). Imports machinery and parts for industry.</li> <li>• Empresa Cubana Importadora y Exportadora de Ferrocarriles (Fecuimport). Imports and exports railway equipment.</li> <li>• Empresa Cubana Importadora de Artículos de Ferrería (Ferrimport). Imports hardware.</li> <li>• Fondo Cubano de Bienes Culturales. Exports fine arts and crafts.</li> <li>• Instituto Cubano del Arte e Industria Cinematográfica (Icaic). Produces, imports and exports movies, videos and filmstrips.</li> <li>• Empresa Importadora y Exportadora de Infraestructura (Imexin). Imports and exports infrastructure.</li> </ul>

**Table 3. Potential Privatization Targets Within Selected Cuban State-Owned Enterprises (cont.)**

<ul style="list-style-type: none"> <li>• Empresa Importadora y Exportadora de Plantas Alimentarias, sus Completamientos y Derivados (Imexpal). Imports and exports food processing plants and parts.</li> <li>• Empresa Cubana Importadora y Exportadora de Materias Primas y Productos Intermedios (Maprinter). Imports and exports raw materials and intermediate goods.</li> <li>• Empresa Cubana Importadora de Maquinarias y Equipos (Maquimport). Imports machinery and industrial equipment.</li> <li>• Empresa Cubana Importadora y Exportadora de Buques Mercantes y de Pesca (Marpesca). Imports and exports ships, as well as port facilities and fishing equipment.</li> <li>• Empresa Cubana Importadora y Exportadora de Productos Médicos (Medicuba). Imports and exports pharmaceuticals and medical goods.</li> <li>• Empresa Central de Abastecimiento y Venta de Productos Químicos y de la Goma (Produimport). Imports and exports automotive products and spare parts for motor vehicles.</li> <li>• Empresa Cubana Importadora de Productos Químicos (Quimimport). Imports chemical products.</li> <li>• Empresa de Jabonería (Suchel). Imports raw materials for detergents and perfumes; exports perfume and cosmetics.</li> <li>• Empresa de Servicios Técnicos e Ingeniería para la Industria Azucarera (Tecnoazucar). Imports equipment for sugar industry; conducts feasibility studies.</li> <li>• Empresa Cubana Importadora y Exportadora de Productos Técnicos (Tecnoimport). Imports technical goods.</li> <li>• Empresa Cubana Exportadora e Importadora de Servicios, Artículos y Productos Técnicos Especializados (Tecnorex). Imports technical and communications equipment; exports geodetic networks.</li> <li>• Empresa Central de Abastecimiento y Venta de Maquinaria Agrícola y sus Piezas (Tractoimport). Imports tractors and farm equipment; exports agricultural implements.</li> <li>• Empresa Central de Abastecimiento y Venta de Equipos de Transporte Pesados y sus Piezas</li> <li>• (Transimport). Imports and exports transportation equipment.</li> <li>• Unión de Empresas de Camiones y de Motores (Unecamoto). Imports vehicle accessories and auto parts.</li> </ul>	<p><b>Railways</b></p> <ul style="list-style-type: none"> <li>• Ferrocarriles de Cuba. Public rail services. Controlled by the Ministry of Transportation, the country's railway system is divided into the following five lines:</li> <li>• Western division: Serves Pinar del Río, Havana city, Havana province and Matanzas.</li> <li>• Central division: Serves Villa Clara, Cienfuegos and Sancti Spiritus.</li> <li>• Center-West division: Serves Camagüey, Ciego de Avila and Las Tunas.</li> <li>• Eastern division: Serves Santiago de Cuba, Granma, Guantánamo and Holguín.</li> <li>• Camilo Cienfuegos division: Serves part of Havana province and Matanzas.</li> </ul> <p><b>Shipping</b></p> <ul style="list-style-type: none"> <li>• Empresa Consignataria Mambisa. Shipping agent, ship chandlers, bunker supplies.</li> <li>• Empresa Cubana de Fletes (Cuflet). Freight agents for Cuban cargo.</li> <li>• Empresa de Navegación Caribe (Navecaribe). Operates Cuba's coastal shipping fleet.</li> <li>• Empresa de Navegación Mambisa. Operates dry cargo, reefer and bulk carrier vessels.</li> <li>• Flota Cubana de Pesca. Operates the county's fishing fleet.</li> </ul> <p><b>Airlines</b></p> <ul style="list-style-type: none"> <li>• Empresa Consolidada Cubana de Aviación (Cubana). Provides domestic service between Havana and 12 other cities. International service includes routes to Angola, Argentina, Barbados, Belgium, Canada, Czechoslovakia, Dominican Republic, France, Grenada, Guinea-Bissau, Guyana, Jamaica, Mexico, Mozambique, Nicaragua, Panama, Peru, Spain, Switzerland and Russia, among other destinations.</li> <li>• Aerocaribbean SA. International and domestic charter service.</li> </ul> <p><b>Tourism</b></p> <ul style="list-style-type: none"> <li>• Empresa de Turismo Internacional (Cubatur). International tour operator.</li> <li>• Empresa de Turismo Nacional (Viajes Cuba). Domestic tour operator.</li> <li>• Instituto Nacional de Turismo (Intur). International and domestic tourism promoter.</li> </ul> <p><b>Television</b></p> <ul style="list-style-type: none"> <li>• Televisión Cubana. Operates the Cubavision and Tele-Rebelde networks.</li> <li>• CRTV. A subsidiary of Tele-Rebelde.</li> </ul>
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taking place will be less than what is needed to put Cuba on a sustainable and high growth rate.

For these, and many other reasons, the most relevant example for Cuba is East Germany, where its Treuhand Agency (Treuhandanstalt) was able to resolve most of the problems dealing with property claims, clear title and pricing.

### General Considerations

Some groups take the position that claims against the Cuban state should not be limited to property claims, but should include all manner of torts — addressing involuntary or uncompensated work, unjust imprisonment, loss of life or limb, loss of loved ones, physical or psychological abuse and harassment by

agents of the state, discontinuance of pension payments, etc.—whose aggregate value defies imagination. Indeed, we doubt there is any legal or moral basis for assigning priority to settling claims against physical property over those claiming civil damages such as those suggested above. Moreover, precedents of various forms of compensation in ex-Socialist states such as East Germany, Czechoslovakia, Romania, and Hungary notwithstanding, the magnitude of the disaster in Cuba and the requirements to set the country back on track socially, politically and economically leads one to conclude that attempting to set up a process of claims adjudication in Cuba, at least during what will no doubt be an extremely difficult transition period, would be pure folly.

One essential question to be answered is whether attempting to arrange some form of non-cash compensation for property and tort claims will be more conducive to reconciliation than adopting a no-compensation policy. For example, in Romania it was felt that, like many of its citizens, the country was suffering from post-traumatic stress syndrome, for which it had to undergo a difficult process of critical self-examination, healing, and reconstruction. Under a victim compensation law, more than 100,000 Romanians claimed compensation which, aside from cash, was granted in the form of benefits such as free public transportation and preservation of job seniority.

### U.S. Claims

The U.S. Foreign Claims Settlement Commission (FCSC) was created as an independent U.S. federal agency with the directive to determine and render final decisions concerning the claims of U.S. nationals for loss of property in certain foreign countries. In response to the Cuban Government's nationalization and expropriation of billions of dollars in property belonging to U.S. nationals, the FCSC was given the authority to negotiate and settle Cuban claims. Under the International Claims Act of May 31, 1967, a deadline was established for filing Cuban claims, after which, all potential claimants were barred from presenting their claims.

Over 8,000 Cuban claims were filed, and 5,911 were allowed for a total of approximately \$1.8 billion in claims. Among the largest claimants are the Cuban Electric Co. (\$267.6 million), ITT (\$130.7 million), and North American Sugar Industries (\$109 million). Among the smallest corporate claimants are Sears, Roebuck (\$3.7 million), Pepsico (\$1.9 million), and General Dynamics (\$1 million).

The FCSC has concluded that, in accordance with principles of international law, interest on approved claims should be computed at six percent from the date of loss to the date of settlement. This seems equitable given that most funds and credit balances belonging to the Cuban government which were blocked by the U.S. under the Cuban Assets Control Regulations, are held in interest-bearing accounts.

The Cuban Government continues to maintain a strong position against the payment and settlement of such claims. Accordingly, the U.S. Government declared and implemented the Cuban Embargo. There is little doubt that a prerequisite for the lifting of the total embargo and the full normalization of relations between Cuba and the United States will be, among other matters, the eventual settlement of the Cuban claims.

### Restitution

Various arguments have been advanced in favor of the return of confiscated property to its former owners. These arguments fall into the following categories:

- Property rights were protected against confiscation by the Cuban Constitution of 1940; they should therefore be returned.
- Since the government of Cuba does not have (and will not soon have) the means to compensate promptly, adequately and fairly, restitution is the best (only) workable alternative.
- Restitution is the best way to implement rapid privatization and encourage recapitalization of the economy.
- In the case of corporate claims, former owners have the managerial talent necessary for rapid development of the enterprise.

- Other formerly socialist countries (Eastern Europe, Nicaragua) have implemented restitution policies.

Fortunately, most Cuban expatriate groups have recognized that restitution of dwellings or residential property is not advisable. The discussion can then be restricted to non-residential property.

Accepting the possibility of restitution in resolving claims also means accepting legal encumbrance on property. Lawyers representing claimants are being

disingenuous in arguing that restitution could be accomplished quickly. Ruling out restitution simply means that any litigation would be limited to challenges concerning the validity and quantification of the value of losses, and the compensation, if any. By ruling out restitution, a future government of Cuba could proceed immediately to privatize all small and medium-size businesses, and take steps to improve their financial footing prior to a full privatization program.