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FEATURED Q&A

How Badly Have U.S. Relations With Cuba Deteriorated?

The Trump administration has toughened some rules regarding Americans' activities in Cuba. Havana's Malecón esplanade is pictured above. // File Photo: Granma.

Q The U.S. government on Nov. 8 announced new rules that make it harder for its companies to do business in Cuba and for its citizens to travel there. Businesses will be required to obey a new set of regulations that are "intended to steer economic activity away from the Cuban military, intelligence and security services," a senior White House official told reporters, and individuals can only visit the island as part of groups registered with the U.S. government. How important are the new rules to the evolving U.S.-Cuba relationship? Were the changes, anticipated for months, as forceful as expected? Which industries and companies are most affected by them?

A Paul Hare, professor at the Pardee School of Global Studies at Boston University and former British ambassador to Cuba: "The regulations will baffle Americans, and maybe that is what they are intended to do. Coupled with the health warning over the sonic attacks, an already nervous public will agonize about being prosecuted for visiting Cuba. Many will decide it's not worth the bother. Even so, the rules are unenforceable. Yes, it is possible to blacklist hotels and restaurants, but it is nearly impossible visiting Cuba to avoid 'financial transactions' with groups like CIMEX, Gaviota and especially GAESA, which really controls the others. A taxi from Havana airport or a tour bus meeting a cruise ship are all likely to be military-owned. So is the store where an American buys bottled water. Because, despite what the U.S. Treasury says, there are no legal privately owned 'stores' in Cuba. And the requirement to have a 'full-time schedule' of permitted activities is again a fantasy. Who can check? Trump's aim is to put Cuba again into

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TODAY'S NEWS

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Chileans Head to Polls Sunday

Former President Sebastián Piñera is expected to be the top vote-getter in Sunday's presidential election, though he is unlikely to avoid a runoff with Alejandro Guillier.

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América Móvil Sees Interest for KPN Stake

Mexico's América Móvil may sell its 21.4 percent holding in the Dutch telecommunications company, its CFO said.

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Venezuela, PDVSA Declared to Be in Default

The International Swaps and Derivatives Association declared Venezuela's government and its state oil company, PDVSA, to be in default following their failure to make required debt payments. President Nicolás Maduro's government is facing a cash crunch amid the country's severe economic crisis.

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Maduro // File Photo: Venezuelan Government.

ECONOMIC NEWS

Committee Declares Venezuela, PDVSA in Default

A committee of creditors on Thursday declared Venezuela's government and its state oil company, PDVSA, to be in default following their failure to make required debt payments, the Financial Times reported. The International Swaps and Derivatives Association, a finance industry body, unanimously voted that the government and the state oil company are in default, a decision that is likely to trigger insurance-like contracts on their bonds. Cash-strapped Venezuela has been using grace periods to try to stay current on its payments, and President Nicolás Maduro earlier this month called for a restructuring of the country's debt, which is estimated to be at least $120 billion. The ISDA committee members, which include JP Morgan, Goldman Sachs, Elliott Management, AllianceBernstein and Citadel, decided in a 15-0 decision that both Venezuela and PDVSA had a "failure to pay credit event," the Financial Times reported. The decision will mean that holders of credit default swaps, which bondholders typically purchase for protection in case the debt issuer defaults, will be able to cash in, CNBC reported. Committee members said they will convene on Monday in order to decide how the swaps will be settled, the Financial Times reported. The decision could be made more complicated by the fact that Venezuela and PDVSA remain current on some of their debts. There are credit default swaps in the amount of $1.3 billion for Venezuela's sovereign debt and in the amount of approximately $250 million for PDVSA, CNBC reported, citing Caracas Capital. Last month, Venezuela began failing to make interest payments ahead of two critical payments amounting to nearly $2 billion. The 30-day grace periods of the interest payments ended earlier this week. It is unclear which notes led to the credit event that the ISDA declared on Thursday, but the committee said it would offer additional details on Monday. Major credit ratings agencies have already declared Venezuela to be in "selective default" due to its nonpayment on various bond issues.

Venezuela's debt is estimated to be at least $120 billion.

Canada, Mexico May Work With U.S. on NAFTA 'Sunset'

Trade negotiators from Canada and Mexico said this week they are prepared to work with the United States on the notion of a "sunset clause," once considered a "non-starter" U.S. demand in talks over the North American Free Trade Agreement, the Canadian Press reported Thursday. While the United States previously has proposed ending NAFTA after five years unless all three countries agree to extend it, both other countries this week expressed a willingness to discuss modifying the idea. The termination clause could be turned into a "review clause," meaning the agreement would still undergo assessments at regular intervals. Analysts suggested that the hint of compromise on a review-type clause raises the possibility that there might be some softer stances as the talks approach their hoped-for finish date of next March, according to the Canadian Press. Other issues being addressed in talks this week include rules of origin, labor and cross-border trade in services. In related news, Mexico's economy minister said Thursday that he did not agree with statements made by U.S. Commerce Secretary Wilbur Ross earlier this week that it would be "devastating" for Mexico if the United States pulls out of NAFTA, Reuters reported. "No, I don't think so," Ildefonso Guajardo said in a television interview when asked if he agreed with Ross. "Without a doubt, Mexico could face a short-term impact because the market is very sensitive to marketing, branding

NEWS BRIEFS

Chilean Candidates Wrap Up Campaigns Ahead of Sunday Vote

Chile's presidential candidates wrapped up their campaigns on Thursday ahead of the first round of the country's presidential election, Reuters reported. Conservative former President Sebastián Piñera and center-left candidate Alejandro Guillier are widely expected to finish first and second, respectively, in Sunday's vote, which would then allow them to move on to a runoff scheduled for Dec. 17.

Brazil Sees Higher Unemployment Rates for Non-Whites

Of the 13 million Brazilians unemployed in the third quarter of this year, more than 63 percent, or 8.3 million, were considered black or brown, Globo reported today, citing new data released by the by the Brazilian Institute of Geography and Statistics (IBGE). The unemployment rate for black and brown citizens was 14.6 percent, while the white population was 9.9 percent. The racial disparity in the labor market also extends to compensation. According to IBGE, black and brown Brazilians receive only half of the average income of whites.

Paraguayan Judge Approves Extradition of Ex-Soccer Chief to U.S.

A judge in Paraguay on Thursday approved the extradition to the United States of Nicolas Leoz, 89, the former president of South America's soccer confederation, the Associated Press reported. Currently under house arrest, he has been wanted since 2015 on charges of receiving millions of dollars in bribes from marketing companies in exchange for television and advertising rights to soccer tournaments. Leoz, who says he will fight the charges, was president of Conmebol for more than two decades, from 1986 to 2013.

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an adversarial category even though at the United Nations he said the United States did not seek 'to impose our way of life on anyone.' There could hardly be a worse time for the United States to be disengaging diplomatically from Cuba as Raúl Castro prepares to step down. Russia, China, Iran and others are delighted. The policies might have banned direct flights from the United States. The travel industry is obviously the main target, but all U.S. companies can no longer take space in the Mariel Free Port because that is administered by Almacenes Universales, part of GAESA."

A **Kezia McKeague, director at McLarty Associates:** "The new regulations reflect a shift in tactics rather than fundamental approach. As expected, they do not reverse most of the steps that the Obama administration took to ease the U.S. embargo on Cuba, and—in an unusual feature for sanctions policies—they provide remarkable protections for existing business activity. In one of two principal changes for future U.S. commerce and travel, the State Department's Cuba Restricted List generally bars direct financial transactions with entities linked to the Cuban military, intelligence and security services. The inclusion of the Mariel Special Economic Development Zone on this list has raised concern, yet companies may still apply for specific licenses to conduct transactions through the port if they make a case for benefits to the Cuban people. Indeed, much of the impact of the new rules will depend on how the Treasury and Commerce Departments adjudicate new license requests; it's too early to tell how generous or strict they will be in their interpretations. While many companies with business in Cuba have already determined that the new rules will have no significant impact on current or pending deals, an exception may be the tourism sector due to the second primary policy shift—a prohibition on self-directed 'people-to-people' travel without the involvement of a tour company. This restriction, coupled with the recent travel advisory in the wake of unexplained symptoms suffered by U.S. diplomats in Havana, may lead to a decrease in demand from U.S. travelers, with negative consequences for Cuban private enterprise and U.S. airlines. Overall, the regulations leave significant room for continued and even expanded U.S. business in Cuba, so long as companies are willing to persevere through both governments' bureaucratic process, the difficulty of securing financing from wary U.S. banks, and the current—perhaps temporary—uptick in political tension between the two governments."

> **"The new regulations reflect a shift in tactics rather than fundamental approach."**
> **— Kezia McKeague**

A **Ray Walser, retired foreign service officer and former Latin American policy analyst at the Heritage Foundation:** "The Trump administration's last action further distances the U.S. from the Castro regime. The downward spiral clearly began when President Trump took office, vowing to roll back the generally popular Obama strategy of engagement and diplomatic normalization. (It had 73 percent approval in a December 2016 Pew poll.) The new hard line gained substance in the president's June speech prioritizing a 'regime change' agenda, in the September expulsion of Cuban diplomats after alleged sonic attacks sickened U.S. embassy staff and the recent policy changes aimed at ending revenue flows to hotels, businesses and companies linked to Cuban military and security forces. The temporary thaw in relations is being swiftly refrozen. A

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... Our ability to adjust, and the manner in which we do it, is what will allow us to resist any potential change," he added.

Jamaica Expects Four Million Tourists This Year

Jamaica's Tourism Minister, Edmund Bartlett, is expecting tourist arrivals to reach four million this year as earnings from the sector top $3 billion, the Jamaica Gleaner reported Thursday. Bartlett said the island continues to have record-breaking arrivals, welcoming 3.3 million visitors during the first nine months of the year, a 9.5 percent increase as compared to the same period last year. Gross foreign exchange earnings for the first 10 months of the year were $2.34 billion, which is a 10.8 percent increase over the corresponding period in 2016. An unusually damaging hurricane season elsewhere in the Caribbean has not hurt Jamaica's tourism sector, according to the report.

BUSINESS NEWS

América Móvil Sees Interest for Stake in KPN

Mexico's América Móvil has seen interest from possible buyers for its 21.4 percent stake in telecommunications group KPN and may sell its holding in the Dutch company, América Móvil's chief financial officer said today at an investor conference in Barcelona, Reuters reported. "We have gotten expressions of interest in the past from other players but we are getting expressions of interest again," said Carlos García Moreno. América Móvil has held shares in KPN since it tried to take it over in 2013, an attempt that drew opposition from Dutch politicians. In 2015, América Móvil issued 3 billion euros in bonds ($3.54 billion) that are convertible into KPN shares or cash in 2020.

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reassertion of executive controls and stricter enforcement of the 'embargo' will restrict travel, bar participation in the Mariel port project and slow food and other exports. American business involvement will diminish although not disappear. Hardline critics claim recent measures do not go far enough to empower and embolden the Cuban people to unseat their authoritarian overlords. They argue that additional entities need to be proscribed and that Cuba's feet must be held to the fire on unresolved property claims. Fingers are pointed at tepid officials (the 'deep state') who lack sufficient toughness on Cuba. Pro-engagement critics see only self-defeating, backward steps that ultimately strengthen anti-American hardliners in Cuba's 2018 leadership transition. They predict the absence of an active, reliable U.S. presence further opens the door for China, Canada and Spain as well as Russia, Iran and North Korea to solidify economic and security ties. Others are confused by the Trump administration's quixotic approach on democracy and human rights, featuring praise for communist China and condemnation for Castro's socialist Cuba. While entirely predictable, the Cuba policy reflects an administration still searching for a directional compass and inclined to cater to its militant if apparently minority base."

> **"The changes may most affect the travel and tourism industry..."**
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> **— Larry B. Pascal**

A **Larry B. Pascal, partner and co-chair of the international practice group at Haynes and Boone in Dallas:** "The Trump administration has followed up on the president's June 16 speech in Miami regarding U.S. policy toward Cuba by implementing new restrictions on trade with Cuba that became effective Nov. 9. The restrictive measures include (a) creating a new 'Cuba Restricted List' in which the State Department names 180 Cuban entities with which new commercial relations (after June 16, 2017) are to be prohibited, (b) eliminating the individual 'people-to-people' travel category, and (c) requiring other travel for educational and religious purposes to be under the auspices of a group licensed by OFAC for that purpose. The rules are fairly in line with expectations and did not surprise Cuba watchers. Analysts had largely surmised that the June announcement would harm relations and trade between the two countries, but not roll back 100 percent the policies of the Obama administration. The changes may most affect the travel and tourism industry, in part because it is one of the sectors most opened by the Obama administration reforms. Commercial airline and ferry service is still permitted, but lodging and tour costs are likely to go up due to the additional restrictions. Moreover, some people may be confused or put off by the new restrictions, and therefore select other destinations in the region. Finally, given the direction of these new rules, it is unclear that OFAC will issue new special licenses to U.S. hotel groups for the development of Cuban hotels, an area in which Cuba hopes to see more activity."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at **gkuleta@thedialogue.org**.

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