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Western European and Canadian Relations with Cuba after the Cold War

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Since the end of the Cold War the most important news about Western European and Canadian relations with Cuba has appeared on the business page, rather than in political columns. Modest market-oriented reforms undertaken by Fidel Castro's government have led many European and Canadian businesses to pursue investment and trade opportunities in Cuba. As the reform process has unfolded, the governments of Canada and several European countries have taken diplomatic initiatives to try to expand the Cuban economic opening and to improve their commercial ties with the island. Except in the case of Spain, which has always had relatively close ties with Cuba, European political links with the Castro regime have lagged behind economic relations. Cuba's authoritarian political system and U.S. policy remain significant obstacles in this regard. However, some countries, particularly Canada and the United Kingdom (UK), have begun to join Spain in engaging the Cuban government at senior levels in order to push for more reform in both the economic and political spheres.

Canadian and European support for Cuba's economic transformation has generated conflict between these regions and supporters of the U.S. policy of isolating Cuba. European and Canadian officials believe that engaging Cuba commercially and diplomatically is the approach most likely to bring about a peaceful transition to a free-market economy and democracy. Economic liberalization and growing contact with the West, they maintain, will gradually generate pressure for a greater political opening in Cuba; the U.S. embargo only makes Castro's government more resistant to change and works against the possibility of a non-violent transition. Although Canada and Europe have pressed Cuba to respect human rights and open its political system, they have not allowed lack of substantial progress in these areas to impede their growing economic involvement with the island. If progress is to be made toward closer political ties with Cuba, however, the questions of human rights and political freedoms will undoubtedly gain greater prominence. The recently initiated dialogue between the European Union (EU) and Cuba on expanded relations should begin to clarify what European countries expect of Cuba and what concessions Havana is willing to make.

The U.S. Congressional response to the Cuban economic opening has also given rise to increasing antagonism between the United States, on the one hand, and Europe and Canada, on the other. Washington's initiatives to tighten its embargo on Cuba have been interpreted by foreign diplomats as attempts to impose U.S. policy on other countries in defiance of international law. Of particular concern is the proposed Cuban Liberty and Democratic Solidarity Act, also known as the Helms-Burton bill (see below), which European and Canadian diplomats also believe would violate both the North American Free Trade Agreement (NAFTA) and the General Agreement on Tariffs and Trade (GATT).

Cold War Relations

Before the socialist bloc collapsed, Canadian and Western European relations with Cuba, while normal, were generally superficial and dependent on fluctuations in the Cuban government's revolutionary activism abroad. (The major exception was Spain, which always maintained close ties with the island.) Trade, though modest by developed-country standards, was unencumbered by the U.S. economic embargo and corresponded to Cuba's ability to pay in hard currency.

With the temporary exception of the former West Germany, all the major European countries and Canada have maintained normal diplomatic relations with Cuba since the 1959 Revolution. Partly as a result of Castro's pragmatic foreign policy, Cuba's relations with Canada and Europe improved steadily from the mid-1960s until the mid-1970s. This pragmatism can be seen in Cuba's less active promotion of revolution in Latin America and the 1967 agreements to compensate French and Swiss nationals for property seized during the revolution.

Diplomatic ties between Cuba and the Western industrialized countries began to deteriorate in the mid-1970s as a result of Cuba's military forays in Angola and Ethiopia and involvement in terrorism. As relations cooled, aid was reduced or cut off and trade suffered. Political ties between Cuba and both Europe and Canada improved somewhat in the mid- to late 1980s, but did not regain the level of the previous decade. The European Community established diplomatic relations with Cuba in 1988, as a result of its recognition of the Council for Mutual Economic Assistance (CMEA), the trade organization serving the Soviet Union and its socialist satellites. However, the Cuban government's heavy foreign debt, much of it owed to European creditors, and its 1986 decision unilaterally to suspend payments, introduced a new source of friction.

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Ignoring the U.S. embargo, Canada and Western Europe have maintained a modest but consistent trade relationship with Cuba, which has helped sustain the island's economy. Although this trade has responded mainly to market signals, it has also been influenced by political variables. Relations between France and Cuba improved in 1981 with the election of the socialist François Mitterrand as president in 1981, while the links between Canada and Cuba suffered in 1984 from the rise to power of a conservative, pro-U.S. government in Ottawa.

Of course, relations with Cuba varied substantially from country to country. Because of linguistic and historical links with Latin America, Spain has a special relationship with the region. These links are particularly strong in the case of Cuba, which separated from the mother country only in 1902, some eighty years later than the rest of Latin America. "Nowhere in the world, with the exception of Miami, is Cuba as much of a domestic issue as it is in Spain," states Wolf Grabendorff, director of the Instituto de Relaciones Europeo-Latinoamericanas (Institute of European-Latin American Relations) in Madrid. Even the fascist government of Francisco Franco established close ties with Cuba's socialist government after the Revolution. Although the relationship has had many peaks and valleys, Spain has consistently been Cuba's most important trading partner and, along with Mexico, its most trusted friend among non-communist countries. France, too, has had an unusually close political relationship with revolutionary Cuba. Like most other European countries, France did not view the embargo as a useful way of bringing about

change in Cuba and saw no reason to sever trade links with the island. French relations with Cuba have also symbolized France's independence from U.S. foreign policy, a point of pride in Paris. Maintaining good relations with a country that has obsessed every U.S. administration since Kennedy's became a vehicle for France to exercise its right to differ with the United States on foreign policy issues. To varying extents, this motivation probably also lay behind the interest of other European countries, as well as Canada, in maintaining normal relations with Cuba.

On the opposite extreme was the former West Germany, whose relations with Cuba were frosty. Bonn's policy on Cuba was shaped by a combination of indifference and official disapproval of Havana's close ties with the German Democratic Republic (GDR). The latter led Bonn to sever diplomatic relations with Havana in 1963. Only in 1975, when the West German Social Democratic Party came to power, did Bonn reestablish relations with Cuba. West German trade with Cuba, though not restricted by formal sanctions, amounted to little more than a trickle.

Cuban relations with the United Kingdom also were cool, partly because of the special relationship between the UK and the United States. The UK joined other European nations in disregarding the U.S. embargo and maintaining normal diplomatic relations with Cuba. British ties with Cuba were mainly commercial, peaking in the mid-1970s. Similarly, Canada's relationship with Cuba during the Cold War was based principally on trade. After reaching unprecedented levels in the mid-1970s, Cuban-Canadian trade declined beginning in the mid-1980s because of a combination of economic difficulties in Cuba and the conservative turn of domestic politics in Canada.

Reform and Commercial Ties

Since 1990, the Cuban government has undertaken a series of increasingly significant market-oriented economic reforms. Firms on both sides of the Atlantic have moved aggressively to take advantage of the opportunities for investment and trade offered by these reforms. The absence of competition from American firms, barred by the U.S. embargo, has provided an extra incentive to get involved early, before the embargo is lifted. Largely as a result of private sector pressure, governments have sought to improve their commercial relations with Cuba and to encourage an expansion of the economic opening already taking place.

The major catalyst for economic change in Cuba, of course, was the sudden collapse of the socialist regimes of Eastern Europe and the Soviet Union. Before 1989 the socialist bloc had dominated Cuban trade, often buying and selling goods at prices designed to subsidize their Caribbean ally. The abrupt decline of this trade was a staggering blow to the Cuban economy. Between 1989 and 1992 Cuban imports fell by 75%, from \$8.2 million to \$1.7 million. The living standards of Cuban citizens deteriorated accordingly. In 1993 per capita caloric intake in Cuba fell to only 60% of its level in 1989.

The Cuban government's response to the crisis, though tentative at first and still modest, has demonstrated considerable flexibility. Of greatest interest to the international business community has been the gradual opening to foreign investment in the form of joint ventures between foreign firms and the Cuban government. Initially focused almost exclusively on tourism, the government is now willing to consider investment proposals in virtually every sector

of the economy, even the all-important sugar industry. Moreover, a much-anticipated investment law approved in early September permits 100% foreign property ownership. Although it falls well short of the expectations of many foreign investors and government officials, the new law is generally viewed as a step forward. Measures have also been taken to liberalize the internal economy, including legalization of U.S. dollar holdings, legalization of self-employment in certain sectors, and reopening of the free farmers' markets. The austerity budget adopted last year, which cut the fiscal deficit by 72%, indicates that the Castro regime may be willing to bring about the changes required to make Cuba competitive in the global capitalist system.

Cuba's authoritarian political regime has not undergone comparable reforms. While experts differ as to what, if any, changes have occurred in the Cuban political system, most agree that there has been no significant liberalization. Opposition to the government is still either repressed or effectively discouraged, and substantial numbers of dissenters remain in prison.

Estimates of the total volume of investment in Cuba vary widely. Cuban officials claim that \$2.1 billion has been invested in the island since 1990, according to the Wall Street Journal (August 7, 1995). Outside observers, however, suspect that this figure may represent investment commitments as well as actual disbursements and may thus be greatly exaggerated. Some experts peg actual investment in Cuba at only about \$200 million so far. The Cuban government puts the total number of joint ventures at 212, as reported by The New York Times (September 7, 1995). In addition, the Centro de Investigaciones sobre la Economía Mundial (CIEM - Center for Research on the World Economy), a Havana think tank, reported earlier this year that 300 new foreign investment proposals were pending approval by the Cuban government.

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Spanish investors are the most visible because they were the first to invest in the Cuban tourism industry, but they now appear to have been overtaken by Canadians. Hard data are lacking, but experts believe that the top investors in Cuba are now Canada and Mexico. The British have also made substantial gains.

Canadian investments are concentrated in the mining, petroleum, and tourism sectors. Sherritt, Inc., a Canadian mining and fertilizer concern, has more money invested in Cuba than any other foreign firm. In addition to being Cuba's largest oil producer, Sherritt recently concluded an agreement on a 50%/50% joint venture with a Cuban state company, Compañía General de Níquel (General Nickel Company), to mine, refine, and market Cuba's vast nickel and cobalt reserves. The company's escalating involvement in Cuba has drawn fire from the U.S. Treasury Department, which recently prohibited four Sherritt subsidiaries from trading with the United States. Considering that in 1992 Canada had only one joint venture in Cuba, the speed of Canadian entry into the Cuban market is impressive.

British firms are involved in the petroleum sector and soap and detergent manufacturing. In addition to the UK and Spain, other European countries with significant investments in Cuba include France, primarily in oil and tobacco; Italy, in tourism and textiles; the Netherlands, in

banking, tourism, and shipping; and Germany, in tourism. German firms have been reticent about entering Cuba thus far. This may be changing, however, as German firms in sectors other than tourism have reportedly expressed growing interest in Cuba. Virtually all foreign non-tourism investments are geared toward the export market.

After bottoming out in 1993, trade between Cuba and Europe is picking up, apparently reflecting a moderate economic recovery on the island. From 1993 to 1994 British exports to Cuba almost doubled to \$47 million, while Cuban exports to the UK increased by 33%. Over the same period total trade with Spain grew from \$268 million to \$391 million, a 45% increase. Cuban trade with the other major European countries remained stable or increased moderately in 1994. Total trade between Cuba and Canada, meanwhile, decreased in 1994 due to a decline in Cuban imports of Canadian products. Total Cuban trade with all countries increased 37% in 1994 over the year before to about \$3.2 billion, suggesting that country may have begun to recover from its economic crisis (see table).

One of the clearest signs of progress in commercial relations has been the signing of investment promotion and protection agreements between Cuba and several European countries. These agreements provide for the protection of investments under the law of the host country and, in the event of expropriation, for the prompt and adequate payment of compensation. Since 1993 Italy, Spain, and the UK have all concluded investment protection agreements with Cuba. France and Germany are currently negotiating such accords, and Canada will probably do so shortly. Spain has had the least ground to make up in its economic diplomacy since it already had close relations with Cuba. However, Spain has taken advantage of the special relationship to encourage Cuba to broaden its economic reform program. In 1993, Spanish Prime Minister Felipe González, at Castro's invitation, dispatched to Cuba a team of experts led by his former economics minister, Carlos Solchaga, to assess the economic situation and advise the Cuban government. While the more radical measures proposed by Solchaga have not been adopted by Cuba, fiscal reform suggestions have been accepted. Spain also pressed for wider reforms during a visit to Madrid by Cuban Minister of External Relations Roberto Robaina in September 1994. Many Spanish technical assistance programs, involving such areas as the banking and legal systems, are intended to facilitate transition to a market economy, officials say. The same is true of a program that provides scholarships for gifted young Cubans to study in Spain.

Cuban Imports from Western Europe, Canada, and the World, 1989-1994 (in \$ millions)

	1989	1990	1991	1992	1993	1994
Canada	143	150	125	103	113	83
France	52	75	69	99	138	148
Germany	137	285	136	61	43	45
Italy	45	43	173	112	71	71
Netherlands	45	43	42	49	62	62
Spain	237	333	311	219	209	320
U.K.	97	79	55	63	23	47
World	3,241	2,945	2,387	1,571	1,574	2,043

Cuban Exports to Western Europe, Canada, and the World, 1989-1994 (in \$ millions)

	1989	1990	1991	1992	1993	1994
Canada	53	89	133	212	132	142
France	56	47	55	40	34	39
Germany	28	34	22	23	19	25
Italy	41	49	43	46	30	44
Netherlands	112	72	82	66	81	85
Spain	83	73	83	76	59	71
U.K.	52	48	29	21	11	15
World	1,661	1,351	1,064	1,149	777	1,173

Among the countries of the European Union (EU), the UK has moved the most assertively over the past two years to improve its commercial ties with Cuba. British businesses, intrigued by the profit-making possibilities presented by Castro's reforms, have played a central role in this process. It was largely as a result of the private sector's enthusiasm that Baroness Janet Young, a member of the House of Lords and a former high-level Foreign Office official, led a fact-finding mission to Cuba in early 1994. Young's report to the British government, emphasizing the importance of the economic reform process taking place in Cuba, helped spur the UK government to formulate a more active approach to Cuba. Later that year the Minister of Trade and Technology, Ian Taylor, led a delegation of British business people, becoming the first British minister to visit Cuba in more than two decades.

Taylor's visit led to the conclusion of an investment promotion treaty with Cuba in January 1995. Britain has also established a joint public-private initiative with the Caribbean Trade Advisory Group (CARITAG) to promote British trade and investment ties with Cuba and to work toward a resolution of Cuba's outstanding commercial debt to Britain. CARITAG, which represents British companies interested in doing business in the Caribbean, has urged the British government to take more active policy initiatives toward Cuba.

An ambitious private sector has also played a central role in prompting the Canadian government to become more active in Cuba. Since ascending to power in 1993, the Liberal government of Jean Chretien has discarded the ambivalent posture toward Cuba adopted by the previous government and moved swiftly to improve relations with the Castro regime. Although business interests are not the only factor responsible for Canada's overtures to Cuba, they are important. As Dalhousie University professor John Kirk wrote recently, "It can be argued that the private sector has been largely responsible for Ottawa's recognition of the need to revamp its Cuba policy."

The primarily commercial orientation of Canada's new Cuba policy was underscored in June 1994 by Christine Stewart, Secretary of State for Latin America and Africa, during a conference on new investment opportunities in Cuba. The conference, held in Havana, was sponsored by the Canadian firm Sherritt and the British news weekly *The Economist*. In unveiling Canada's new approach to Cuba, Stewart emphasized that Canada's top objectives were to improve commercial ties and to promote a peaceful economic and political transition. To that end, Stewart said, the

Canadian government had decided to increase its support for Canadian companies seeking to do business with Cuba.

Experts on European relations with Cuba say French and German business interests are also pushing their own governments to be more active in Cuba. During Fidel Castro's March 1995 "unofficial" visit to France, he was greeted warmly by officials of the country's most important business association. Several delegations of French business people have also visited Cuba over the past two years. The automaker Daimler-Benz is one of many major German manufacturing concerns that has recently expressed interest in doing business with Cuba. To date, however, neither Paris nor Bonn has taken initiatives comparable to those by the Canadian and British governments.

Bilateral Political Links

The significantly stronger commercial links between Cuba and Western Europe and Canada respectively have generally not led to a comparable improvement in bilateral political relations. Two factors have restrained political relations with Cuba: the lack of progress on human rights and a desire to avoid conflict with Washington. A third factor, the failure of the Cuban government to allow greater political pluralism, is of lesser importance. European and Canadian officials apparently believe that it is unrealistic to expect substantial political change in Cuba in the near future.

Promoting a transition to democracy and free markets in Cuba has become a key priority of Spanish foreign policy ever since signs began to appear that such a transition might be possible. Ties of history, culture, and blood, discussed above, make Cuba an issue of great domestic interest in Spain. Spain also sees Latin America as its natural sphere of influence. To act as the midwife for the birth of democracy in Cuba would undoubtedly boost Spain's prestige in Latin America and allow it to assume an even greater role in Latin American and world affairs.

The question of political liberalization is... problematic, since the Cuban regime sees suppression of political dissent as necessary for survival.

In addition to encouraging the Cubans to make deeper and more rapid economic reforms, Spain has also pressured Havana to allow greater political pluralism and to respect human rights. The Spanish embassy in Havana closely tracks individual cases of political imprisonment and often lobbies hard for the release of such prisoners. About seventy political prisoners have been released from Cuban jails over the past three years thanks to Spain's efforts, according to Spanish officials. The most prominent prisoner to gain freedom because of Spanish pressure was Eloy Gutiérrez Menoyo, who was released in 1986. After an extended pause beginning in the mid-1980s, Cuba again began to release political prisoners in the early 1990s.

The question of political liberalization is somewhat more problematic, since the Cuban regime sees suppression of political dissent as necessary for survival. Although Spain emphasizes its desire to see a political opening in Cuba, the main thrust of policy has been to keep in touch with all non-violent opposition groups and to promote dialogue between the government and the opposition. When Cuban Minister of External Relations Roberto Robaina visited Madrid in 1994, for example, Spanish officials arranged meetings for him with the leaders of opposition

groups based in Spain. Spanish leaders believe that these contacts may eventually facilitate a transition to greater pluralism in Cuba.

The most recent Spanish initiative has been in the potentially controversial area of military relations. Earlier this year, Spanish and Cuban military officials agreed to engage in exchanges to contribute to the modernization and education of the Cuban armed forces. Spanish officials stress that the agreement does not involve training in warfare or joint maneuvers. The Spanish wish to build closer relations with and learn more about an organization that is bound to play a major role in any Cuban transition. Also, the Spanish military's own domestic experience may help the Cuban officer corps cope with change in their country. "It's very useful for the Cuban military to break [out of] its isolation and to know the experience of the Spanish military in our own transition," commented one Spanish diplomat.

France, a country which traditionally maintained good relations with the Castro government, has not had a very proactive policy toward Cuba since the end of the Cold War. There have been no official visits by high-ranking Cuban or French officials since 1993 and no agreements signed. "The level of political exchange is quite low," remarked one French diplomat recently. The mid-1995 election of a conservative, Jacques Chirac, as president may well cause French policy toward Cuba to become even more cautious. The lack of Cuban progress in the areas of human rights and political freedoms may be one reason for France's low-key posture. The French government also may not consider improving relations with Cuba important or an endeavor where increased involvement is likely to yield rewards. Therefore, France has chosen to express its views on Cuba through the EU, rather than bilaterally.

Castro's highly publicized visit to France in March 1995 was not arranged by the French government and had more to do with former President Mitterrand's personal ties to the Cuban leader than with France's Cuba policy. No important official of Prime Minister Eduard Balladur's government met with Castro during his stay.

Nevertheless, the unofficial mission to Cuba undertaken by Mitterrand's wife, Danielle, in April 1995 was viewed by many Europeans as an example of how engaging the Cuban government can yield concrete results. Danielle Mitterrand visited Cuba as leader of her non-governmental human rights organization France-Libertés. In an apparent gesture of gratitude for his warm reception in Paris, Castro took the unprecedented step of inviting Madame Mitterrand and France-Libertés to evaluate the human rights situation in Cuba. As a direct result of the visit, the Cuban government released six political prisoners, including the prominent dissidents Yndamiro Restano and Sebastián Arcos.

The UK's energetic pursuit of stronger ties with Cuba over the past two years has focused on commerce rather than politics. Nonetheless, diplomatic missions by a government minister, Taylor, and an important member of parliament, Baroness Young, have significant political implications. In May 1994, moreover, the British Inter-Parliamentary Union hosted a delegation of Cuban legislators, headed by Cuban National Assembly President Ricardo Alarcón. The UK is trying to signal its support for the fledgling reform process while also emphasizing that the

political situation in Cuba remains an obstacle to closer relations. Rather than extending a full bilateral aid program to Cuba, for example, the UK government established a British Partnership program last year, which provides token funding (about \$225,000) for government development projects.

Deepening the British engagement in Cuba is contingent on Cuba's willingness to continue the economic reform process and to make tangible progress in political liberalization, including ensuring human rights. The UK's special relationship with the United States is clearly also an important factor in British calculations. While the British government will not let U.S. policy prevent it from taking advantage of commercial opportunities in Cuba, other matters requiring American cooperation are of greater importance. "The British don't want to get too far ahead of the United States on Cuba," David Jessop, director of CARITAG, maintains. "A political engagement with Cuba would necessitate that the British take into consideration relations with the U.S."

Of the major European countries, Germany has been the slowest to react politically to the economic opening in Cuba. According to one German diplomat, Bonn will not be ready to improve political relations with Cuba until the Castro government shows clear signs of progress in allowing political liberalization and guaranteeing human rights. Like their British counterparts, German leaders are sensitive to U.S. interests and thus wary of moving too quickly on Cuba. Germany provides Cuba with a modest amount of humanitarian aid, which is channeled through non-governmental organizations (NGOs) rather than the government. For German leaders, clear political reform is a precondition to government-to-government aid.

Cuba's close relationship with the former GDR raises some thorny problems as well. At the time of its reunification with West Germany, the GDR had substantial trade and development aid commitments to Cuba, including a contract to purchase a large quantity of sugar every year. The German government's decision not to honor those commitments, even though it honored GDR commitments to other countries, has created friction between Germany and Cuba. Cuban officials believe that the contracts should have been phased out incrementally, rather than broken, and that their country deserves compensation. To gain leverage in the dispute, Havana has refused to cooperate on the issue of Cuban debt to German creditors until Germany changes its stance on the GDR commitments.

Italy appears to have fewer inhibitions about engaging Cuba in closer political relations, but has not yet made a major gesture in this area. The recent instability in Italian politics may have hindered such an initiative. The Dutch business community has been quite energetic about pursuing opportunities in Cuba. The Dutch government, however, has been slow to react diplomatically, probably because of sensitivity to U.S. policy.

No government discussed in this paper has moved more assertively to improve relations with Cuba than has the Chretien administration in Canada. Secretary of State Stewart's June 1994 speech in Havana outlined what she called "a somewhat more activist approach to our relationship, and a desire on our part to be more engaged at a senior level." In addition to seeking

more frequent contact with top Cuban officials and legislators, Stewart said, Canada would reinstitute development aid to Cuba, discontinued in 1978 because of Castro's military involvement in Angola. Canadian officials, including Foreign Minister André Ouellet, have frequently stated opposition to the U.S. embargo on Cuba. They have also urged the Organization of American States to consider renewing Cuba's participation in the organization, which was suspended in 1962.

The continued warming of relations between Canada and Cuba was reflected this year in the separate visits to Ottawa of Cuban Minister of External Relations Robaina and National Assembly President Ricardo Alarcón. In spite of their decision to pursue warmer relations with Cuba, Canadian diplomats maintain that their government has strong reservations about human rights abuses and the lack of political pluralism in Cuba. Canada regularly raises these issues in its senior-level contacts with Cuba. The Canadian government, for example, insisted that Robaina meet with officials of Canada's most prominent human rights groups during his official visit. The Canadian mission in Havana also maintains regular contact with opposition groups on the island.

In addition, Canadian officials stress that, because of reservations about the political situation, their government does not have a full bilateral assistance program for Cuba. As in Germany, Canadian aid is disbursed through NGOs, not through the Cuban government. Recently, however, Canada tentatively agreed to make an exception to this rule by providing Cuba with technical assistance on monetary policy issues. A Canadian official said the idea behind the program was to encourage the implementation of market-oriented policies.

Why did Canada move so quickly on Cuba, particularly in light of the friction such a policy was bound to cause with the United States? Clearly, Canadian business executives and policy makers believe that Cuba holds considerable potential for profit-making. However, observers of Canadian politics also suggest that the Chretien government was not oblivious to the domestic political benefits to be reaped by demonstrating its independence from Washington on a high-profile issue. "Twisting the tiger's tail," they say, is an effective way of appealing to Canadian nationalist sentiments.

The European Union

The European Union has not yet taken a significant role in European relations with Cuba. This may change soon, however. Spurred by the interest of member states, the EU has begun to explore the possibility of strengthening its ties to Cuba. The initiative is likely to bring the issues of human rights and democratization to the forefront of European-Cuban relations since its success may well depend on the Cuban government's willingness to meet minimum European requirements in these areas.

While the EU does maintain normal diplomatic relations with Castro's government, Cuba is the only Latin American country with which the EU has not concluded a trade and cooperation agreement, the formal framework within which relations between the EU and developing countries are usually conducted. Some observers doubt this absence can be explained adequately by the nature of the Cuban regime since the EU recently concluded a cooperation agreement with

Vietnam, another nominally socialist country, albeit one that has instituted far deeper economic reforms. Certainly, European sensitivity to U.S. policy has hindered closer ties with Cuba. Nevertheless, over the past two years the European Parliament _ which plays a largely symbolic role in EU government _ has passed a pair of resolutions reflecting the interest of member states in having the EU more actively promote change in Cuba. Both urged the EU to initiate talks with the Cuban government aimed at reaching a cooperation agreement. The primary purpose of the first resolution, passed in September 1993, was to condemn the United States Cuban Democracy Act of 1992, which sought to prevent foreign subsidiaries of American companies from trading with Cuba. The second resolution, passed a year later in response to the Cuban refugee crisis, called for the lifting of the U.S. embargo. In 1993, despite the absence of a cooperation agreement, the EU began providing Cuba with humanitarian aid channeled through European NGOs. The EU also established individual development projects related to the desired transition toward a more open society. EU humanitarian aid to Cuba totaled about \$17 million in 1994, with a similar amount expected to be disbursed in 1995. Upon assuming the rotating presidency of the EU Council of Ministers in July of this year, Spain proposed "exploratory talks" be pursued with the Cuban government to discuss closer EU-Havana ties. The European Commission, under Spanish leadership, recommended that the talks be used to determine whether there is enough common ground between the two parties to initiate negotiations toward closer relations. Contrary to the hopes of the Cuban government, the Commission did not recommend immediate negotiations on a cooperation agreement.

The proposal was approved by the EU Council of Ministers in October, 1995, and the exploratory talks began on November 6 in Havana. The EU delegation included high level diplomats from France, Spain, and Italy, as well as officials from the European Commission in Brussels. As this paper went to press, the delegation was preparing recommendations for the consideration of the Council of Ministers. European diplomats said the Council might respond to the report before the end of the year. Obviously, the other critical factor in the EU-Cuba talks is the Cuban government's willingness to accommodate European expectations. Senior Cuban officials have already stated publicly that they are open to discussions on "whatever" subjects the EU wants to raise, including human rights. If nothing else, the EU-Cuban dialogue may reveal how ready Cuban authorities are to accept even limited political change.

The Argument for Engagement

The European and Canadian willingness to invest in Cuba and to encourage the government's economic reform initiatives has not been well received by U.S. authorities and the American pro-embargo lobby. Washington has interpreted the reform process as a measure of Castro's weakness and an indication that the Cuban regime is becoming vulnerable to international pressure. Engaging in trade and investment with Cuba now, U.S. officials have suggested, serves only to buoy an authoritarian regime that would otherwise sink and give way to democracy. European and Canadian diplomats argue that the U.S. policy is based on flawed assumptions. Engaging the Cuban government and people through commerce, diplomacy, and the work of NGOs, they contend, is more effective than isolation and confrontation in bringing about a peaceful transition to democracy and free markets in Cuba.

European and Canadian diplomats interviewed for this paper made three major arguments in favor of a policy approach to Cuba based on engagement rather than isolation.

- Economic liberalization leads to greater political freedom. The diplomats say that economic liberalization gives individuals and groups more room for action and organization autonomous from the state and exposes the population to foreign products, ideas, and life-styles. Both of these effects encourage people to seek greater freedom and participation in the political arena. "It is very difficult to keep the reins on political liberalism once you have economic liberalism," commented one Canadian official. Critics point to China and Vietnam, in which command economies have gradually opened without any concomitant political opening, as demonstrations of the error of this perspective. Political authoritarianism, they hold, can coexist with free market economics. European diplomats retort that the lessons provided by the recent transitions from authoritarian rule in the former Soviet Union and Eastern Europe have more significance for Cuba, an essentially Western society, than do the Asian examples of China and Vietnam. European socialism, they argue, began to collapse when incipient liberalization exposed these societies to the virtues of democracy and capitalism. European and Canadian diplomats make a similar argument in favor of aid channeled through NGOs. Because this type of aid does not go through the Cuban government, they claim, it tends to strengthen civil society relative to the state, advancing the cause of democratization.
- Open dialogue is more effective than confrontation and isolation. European diplomats frequently admit doubt about whether Castro would permit a full transition to free markets and democracy. They express confidence, however, that for the time being no transition can take place in Cuba without the commander-in-chief's approval. A pragmatic approach to bringing about change in Cuba, therefore, must be oriented toward convincing Castro to permit change from within, rather than toward overthrowing him. "At the moment," remarked one Spanish official, "you can't do anything without Castro. He has to be leading the process." The intransigent posture of the United States toward Cuba actually strengthens the Castro regime and discourages change, according to this view. American efforts to undermine the Cuban government, Canadian and European diplomats maintain, are interpreted for public consumption as attacks on the Revolution, social justice, and Cuban sovereignty. Confrontation is thus used to justify the persistence of limits on political pluralism, since a country whose sovereignty and basic values are threatened by a foreign rival cannot afford to be tolerant of internal dissent. To yield to pressure from external actors who question the Cuban government's legitimacy, moreover, would be a tacit admission that those actors are correct. "We feel the embargo has a stabilizing effect on the Cuban government," stated one German diplomat. If U.S. policy initiatives succeed in diminishing foreign investment in and trade with Cuba, they may also slow or halt the progress of economic reform. The relative strength of reformers in the Cuban government, some diplomats contend, is determined largely by the extent to which reforms are rewarded with greater investment from foreign firms and diplomatic gestures from foreign governments. For this reason, among others, European and Canadian officials have expressed opposition to the Helms-Burton bill (explained below).

On the other hand, say proponents of engagement, maintaining an open, non-threatening dialogue with the Cuban government may make Cuban officials less resistant to change. Cuban authorities will resist hostile demands for change, but they may listen to suggestions for change couched in a less threatening approach. Some European diplomats point out that their disagreement with the United States on the Cuba question reflects broader differences in foreign policy approaches. The same conflict exists, for instance, with regard to Iran. While the U.S. administration seeks to isolate Iran, European governments think change can best be achieved through a "critical dialogue" with officials in Teheran. "If you want to influence a government, you have to dialogue with it," commented a British official.

Both Europeans and Canadians see U.S. policy toward Cuba as shaped more by dogma and passion than reason and expertise. Many criticize American conservatives for failing to acknowledge that the Cold War is over and that only in the case of a social upheaval in Cuba could the island pose any real threat to American interests. Pragmatic solutions must prevail over ideology, they say, if the United States is to adapt to a changed world and help stop the suffering in Cuba.

- The embargo promotes chaos, not peaceful change. The third and final argument in favor of engagement is more implicit than explicit. It involves the kind of change U.S. policy is likely to bring about in Cuba. European and Canadian diplomats frequently state that they share with Washington one objective in Cuba: a peaceful transition to democracy and free markets. Upon further questioning, however, they often express the view that the U.S. embargo on Cuba, to the extent that it promotes change, encourages a violent, chaotic end to the Castro regime. While they do not believe that this is necessarily the goal of the current U.S. administration, some diplomats suggest that it may be the objective of Cuban-American groups supporting the embargo.

European and Canadian officials seek to avoid such a transition scenario for several reasons. First, from a humanitarian perspective, violent upheaval would inevitably escalate the costs of a transition. A conflict between pro- and anti-Castro forces could be long and bloody and wreak havoc on Cuba's infrastructure and, therefore, its potential for future growth. Furthermore, such a transition would probably send shock waves throughout the Caribbean and might have troubling consequences for the British, French, and Dutch dependencies in the region. An extended, violent conflict might disrupt Caribbean trade flows and send boatloads of refugees to neighboring islands.

One can infer a further motive for avoiding a chaotic transition in Cuba. As foreign investment in Cuba grows, the business community has a rising interest in preventing a transition through violent regime collapse. Such a scenario could damage or destroy foreign investments and the infrastructure necessary to support them. Equally important, there is no guarantee that the successor government will respect the Castro regime's commitments to investors. The danger of expropriation would appear to be significantly greater if the transition is effected through violent overthrow by opponents of the Revolution, rather than through gradual liberalization and participation by reformist forces on the island. Cuban-American anti-Castro forces have, in fact, warned foreign

investors that they would not respect such commitments were they to come to power in Cuba.

Has engagement produced results? The answer depends on whom one asks. Defenders of the embargo policy say foreign investment and trade has succeeded only in giving Castro breathing room in exchange for superficial economic reforms and no political liberalization. Europeans and Canadians contend that rewarding Cuba's grudging reforms with investment and encouragement has made the Castro government somewhat more cooperative and opened a space for civil activity that did not exist before. The day will come, they say, when the Cuban government will no longer be able to control the market forces it is gradually unleashing. Without outside encouragement Cuba's economic opening might have gone nowhere, they argue. European officials also say the Cuban government's release of political prisoners after the visit to the island by Danielle Mitterrand reflects Castro's willingness to compromise in return for respectful treatment.

U.S. Policy Initiatives After the Cold War

The American perception that economic reform in Cuba reflects the increasing vulnerability of the Castro regime has led the U.S. Congress to undertake legislative initiatives which, among other things, seek to tighten the embargo by limiting commercial relations between Cuba and third countries. These initiatives, particularly the Helms-Burton bill, have provoked strong opposition from European and Canadian officials, who see them as unlawful attempts by the United States to impose its own laws on their countries. Together, the 1992 Cuban Democracy Act (CDA) and the currently pending Helms-Burton bill have elevated the Cuba debate to a new international level and pushed both Europe and Canada to argue their anti-embargo positions more boldly.

Europe and Canada have long questioned the wisdom, and sometimes the legality, of the thirty-four-year-old U.S. embargo on Cuba. Until recently, however, opposition to the embargo was muted, as most countries preferred not to raise a prickly issue that did not affect their ability to trade with Cuba.

This scenario began to change in late 1992 with the passage of the CDA, which expanded the embargo in ways that many countries viewed as extraterritorial. Among other things, it prohibited foreign subsidiaries of U.S. companies from trading with Cuba and ordered the U.S. government to penalize parent companies for infractions. Under the so-called "Track Two" measures it also sought to increase the flow of information and humanitarian aid to Cuba. The legislation led Cuba's trading partners to begin to see U.S. policy as an obstacle to their ability to do business in an increasingly promising market. In addition they perceived in the CDA a troubling U.S. desire to regulate companies incorporated in their own territories and to infringe on their sovereign right to trade with whomever they please. The CDA legislation led Canada and a few European countries to express more openly their opposition to the U.S. policy of isolating Cuba. Furthermore, both Canada and the U.K. enacted legislation specifying that subsidiaries of U.S. companies operating on their soil were prohibited from complying with the U.S. legislation. Violating this prohibition, they warned, could expose the subsidiaries to fines and other penalties.

Passage of the CDA also drew responses from both the European Parliament and the United Nations that went beyond simply criticizing the extraterritorial nature of the law. In its September 1993 resolution, as mentioned above, the European Parliament condemned the CDA and called on the European Union to initiate talks with the Cuban government aimed at improving EU-Cuban relations. In 1992, the UN General Assembly passed a resolution calling on the United States to lift its embargo on Cuba. The resolution did not mention the CDA, but was clearly inspired by its passage. Similar resolutions have been passed in each subsequent year, with growing positive vote margins.

Canada and the European countries do support "track two" of the CDA. This, they point out, is in line with their objective of increasing interaction between Cuba and the rest of the world.

One can infer a further motive for avoiding a chaotic transition in Cuba. As foreign investment in Cuba grows, the business community has a rising interest in preventing a transition through violent regime collapse.

While the CDA irritated Canadian and European relations with the United States, the Cuban Liberty and Democratic Solidarity Act, introduced in February 1995 by Senator Jesse Helms (R, N.C.) and Representative Dan Burton (R, Ind.) has the potential to cause more serious strains. In its original form, the Helms-Burton bill includes measures that foreign governments consider blatantly extraterritorial, contrary to international law, and in violation of existing trade agreements, including GATT and NAFTA.

Canadian and Western European diplomats have expressed particularly strong opposition to four elements of the original Helms-Burton bill.

- The provision banning the importation of sugar, syrups, and molasses from countries that import the same products from Cuba would be particularly harmful to Canada, but has also caused concern in Europe.
- The clause prohibiting U.S.- owned or -controlled firms from financing other firms that are involved in "trafficking" of properties confiscated by the Cuban government is considered extraterritorial by both the Canadian government and the EU because it would include firms located in other countries.
- The provision denying entry into the United States by officers and shareholders of foreign companies involved in "trafficking" of property confiscated by the Cuban government would be considered by Canada as a breach of NAFTA. European diplomats said that the measure was simply excessive.
- The "Title III" provision extending U.S. federal court jurisdiction to allow U.S. citizens to sue foreign companies that engage in business involving expropriated properties has been criticized by Canadian and European officials as contrary to numerous tenets of international law and established international practice. The bill, say officials, attempts to give U.S. courts unlawful extraterritorial jurisdiction and ignores the existing international mechanisms for settling foreign claims. In addition, by giving Cuban-Americans whose property was confiscated before they became U.S. citizens the right to sue in U.S. courts, the bill would violate another principle of international law: that a country cannot claim damages on behalf of an individual unless that individual was a citizen of that country at the time the property was taken. Finally, in a more

practical vein, diplomats have complained that this clause would make it easy for American companies to harass foreign firms doing business with Cuba.

The Helms-Burton bill's potential impact on certain international issues has also been a source of concern for European officials. For example, the EU has expressed concern about a provision of the bill that would withhold up to \$200 million in aid to Russia if the Russian government continues to pay that amount each year to Cuba to operate an electronic eavesdropping facility on the island. In a letter sent to the leaders of the House and Senate, Andreas van Agt, head of the EU's Washington delegation, and Jacques Andreani, French ambassador to the United States, said the EU believed that "such a measure would weaken Western leverage in favor of reform and would risk strengthening anti-democratic political forces in Russia." They also expressed opposition to the clause ordering the U.S. administration to withhold payments to international lending agencies, such as the International Monetary Fund, in amounts equal to loans or other assistance rendered to Cuba.

In its communication on Cuba, the European Commission voiced the fear that such a law might undermine the position of reformers in Cuba by penalizing, rather than rewarding, Cuba for its economic opening. The communication also suggests that, if passed, the bill would make the issue of compensation for expropriated property an impossible one for the United States and Cuba to resolve by expanding the number of claimants and hence, the total amount of claims. Canada, the European countries, and the EU have expressed to the United States their deep consternation over the Helms-Burton bill through diplomatic channels, contacts with legislators, and media interviews. In a letter sent to the leaders of the House and Senate, officials from the Washington Delegation of the European Commission said the EU "considers that the collective effects of these provisions have the potential to cause grave and damaging effects to bilateral EU-U.S. relations."

The CDA legislation led Canada and a few European countries to express more openly their opposition to the U.S. policy of isolating Cuba.

Observers of European politics suggest that the bill has helped generate support among EU member states for the recent initiative to open talks with Cuba. "Helms-Burton amplifies tensions between the U.S. and Europe that would otherwise have been managed more discreetly," remarked Dietmar Dirmoser, a political analyst with the Friedrich Ebert Foundation of Germany. Canadian officials say the Helms-Burton bill, almost by itself, has raised Cuba's prominence as an issue in their country. If the bill were approved, they say, the Canadian government would probably feel substantial pressure to react strongly.

European and Canadian officials have been gratified by the Clinton administration's opposition to the original Helms-Burton bill. As of early November, however, two different versions of the bill had been passed in the House of Representatives and the Senate. Both either removed or substantially watered down the sugar provision, addressing one concern of trading partners. The Senate version also removed the "Title III" provision concerning suits by owners of confiscated property. Both bills still contain the other clauses that trouble the Canadian and European governments, however. The bills must now be reconciled in conference, and it is not clear

whether President Clinton will follow through on his veto threat when the final version reaches his desk.

Prospects for the Future

In the foreseeable future, European and Canadian relations with Cuba are likely to be shaped more by events and decisions in Havana than by those in Madrid, Brussels, or Ottawa. The critical factor will be Havana's willingness to continue opening its economy and to begin making progress in human rights and political liberalization. The evolution of U.S. Cuba policy will also affect these relations, though probably not as profoundly.

If the gradual, halting Cuban moves toward economic liberalization continue and Cuba does not experience new social unrest, investment in and trade with Cuba should continue to grow apace. A retrogression in either the economic or political spheres, however, could have an adverse impact on business ties.

If Castro were willing to allow reforms that suggest real political change _ perhaps by permitting greater expression of anti-government views _ Canada and some European countries would be prepared to improve bilateral ties, albeit still keeping in mind U.S. policy. Moreover, Cuba's chances of obtaining a cooperation agreement from the European Union would increase tremendously.

At least in the short to medium term, Canada and Europe will probably continue to cement closer commercial ties with Cuba without moving toward a comparable warming in political relations. They will look with favor on whatever market-oriented economic reform Cuba adopts and continue pressing diplomatically for a greater political opening, even if it does not produce tangible results. A British diplomat summarized the Foreign Office's view: "The British doubt that there will be wholesale political change under Castro. We're happy to push for incremental change."

While European and Canadian diplomats insist that a more intransigent U.S. stance on Cuba would not affect their relations with the island, it is obvious that a move by Washington in the opposite direction would facilitate closer ties on both the economic and political level. In fact, signs that the United States is willing to open a dialogue with Cuba would probably prompt a flood of European and Canadian investment in the island. Countries that have been more reticent about engaging Cuba because of sensitivity to U.S. policy, furthermore, would feel more comfortable about engaging in senior-level contacts with Castro's government. A move in the direction of compromise by the United States, in short, would constitute an important step toward closer relations between Cuba and the rest of the world.

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