The Economic Impact of Tightening U.S. Regulations on Cuba

An analysis prepared by Engage Cuba

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Executive Summary

Rolling back the current U.S. policy on Cuba could cost U.S. businesses and taxpayers **$6.6 billion** over the course of the President's first term and affect **12,295 jobs** across the country. Communities most reliant on the manufacturing, tourism, and shipping industries would be disproportionately affected, especially Gulf states with deep-water ports and cruise terminals.

Over the past few years, we have experienced the removal of the many regulatory barriers that U.S. companies and citizens interested in doing business in Cuba have faced. Numerous U.S. companies have already begun to capitalize on the opening, and more are poised to do so in the near term. The regulatory changes have resulted in rolling back the red tape in the U.S.-Cuba commercial relationship. However, a trade embargo remains in effect, and studies have already shown that the embargo on Cuba costs U.S. businesses and farmers an estimated $5.9 billion per year in lost export revenue.[i]

This analysis demonstrates that the U.S. policy of engagement toward Cuba has had a direct positive impact on U.S. economic activity. Progress toward normalized relations with Cuba has generated real jobs and revenue, despite U.S. sanctions still in place on most forms of trade and investment. The President could potentially cost billions in revenue and thousands of jobs to our economy by reversing these policy changes and failing to allow in-progress business deals to come to fruition.

Table 1. Total Economic Cost After Four Years

COST CATEGORY	ECONOMIC COST (USD MILLIONS)	AFFECTED JOBS
Air Travel	$1,990	3,990
Cruises	$1,520	6,164
Remittances	$1,245	782
Immigration	$953	-
Manufacturing & Chemical	$929	1,359
Total	$6,637	12,295

Methodology and Caveats

This analysis assumes a scenario in which the Administration rolls back the entire U.S. regulatory regime toward Cuba, including legalized travel, expanded remittances, the end of "wet foot, dry foot," and general licenses for certain exports and research collaboration. For the sake of simplicity, all estimates are expressed as discounted values after the four years of President Trump's first term.[ii] **This study represents our best guess given available data.** It focuses primarily on estimated direct effects to specific sectors, and it does not take induced effects into account.

Although there is some data available on recent U.S.-Cuba commercial activity, many of the estimates in this study were calculated using demand projections from secondary sources, imperfect primary data collection, and price averages, all of which contribute to a degree of uncertainty. This analysis also does not account for the various multiplier effects of revenue flow to individual industries. Because of these omissions, the costs cited in this study may be underestimated or overestimated for certain sectors.

Travel estimates were calculated under the assumption that up to 95 percent of revenue and employment generated by access to Cuba are delivering *additional* benefits to the industry rather than displaced from other destinations.[iii] This analysis excludes agricultural and medical exports because provisions allowing for limited exports in these sectors were authorized by Congress and predate Obama-era regulatory changes.

It is important to note that the ability of American companies to maximize their potential market share depends in part on Cuban import controls. U.S. regulations can only directly influence commercial activity from one side of the equation. However, it is our belief that expanded dialogue and engagement with Cuba is an avenue for ensuring a robust and mutually beneficial trade relationship between our two nations.

Finally, it is beyond the scope of this study to quantify costs such as lost potential for collaboration in academia, medical research, environmental protection, and law enforcement, because there has not been enough time since various agreements were signed between the U.S. and Cuba to quantify the scope of such projects. Based on the content of these agreements and the initial progress made, however, we are confident that reversing these policies would incur costs to the U.S. economy in the long-run, and thus have included a discussion of these programs.

Travel

U.S. travel to Cuba was liberalized over the past few years by expanding legal justifications in 12 categories, including the broad "people to people" category frequently used by U.S. travelers. Our best estimate is that rolling back expanded travel will cost airlines $512 million annually, or almost **$2 billion** over four years, based on the average ticket fare.[iv] The projected revenue loss is broadly distributed across the U.S. airline industry, affecting major carriers such as American Airlines, Delta Air Lines, JetBlue, Southwest Airlines, and United Airlines.

Eliminating the additional 1.5 million commercial airline seats per year will also affect airline jobs. Labor costs account for roughly 35 percent of airline revenue, which means that an annual revenue loss of $512 million could cost up to **3,990 jobs** in the airline industry.[v]

The induced economic effects of commercial flights also support jobs. For instance, the industries closely linked to air travel—including private and public transportation, retail, food services, hospitality, travel services, equipment manufacturing, facilities management, and air traffic control—have invariably seen a greater demand for labor at airports with high Cuba traffic volume, such as Miami, Tampa, and Fort Lauderdale.

The American cruise industry also benefits from the regulatory changes toward Cuba. There are roughly 140 commercial cruises scheduled for 2017 from the U.S. with both large and mid-sized cruise companies, including major cruise lines such as Carnival, Royal Caribbean, and Norwegian. If all cruises sold out, they would collectively carry almost 205,000 people to Cuba this year, which could amount to over $200 million in cruise industry revenue.[vi] This year's potential 205,000 cruise passengers from Florida to Cuba will also have a broader economic impact on the U.S. According to a passenger survey commissioned by Port Everglades, passengers spend over $800 per day before and after their cruises in port communities. Based on the survey's sample, eliminating cruises to Cuba could cost an additional $212.8 million to South Florida's economy, bringing our estimated total revenue loss to $392.2 million, or **$1.5 billion** over four years.[vii]

Cruises to Cuba also support employment in the industry and related industries. Based on economic impact estimates from the Cruise Lines International Association, up to **6,164 jobs**, concentrated mostly in the state of Florida, could be affected by ending U.S. cruises to Cuba over four years.[viii]

Table 2. Costs to Airlines and Cruise Lines

COST CATEGORY	REVENUE LOSS (MILLIONS USD)	AFFECTED JOBS
Air Travel	$1,990	3,990
Cruises	$1,520	6,164
Total	$3,510	10,154

Manufacturing & Chemical Exports

Within the manufacturing sector, industries authorized to export to Cuba range from energy companies that specialize in efficiency and quality monitoring to producers of fiber optic cables and satellites. Manufacturing companies are finalizing commercial contracts that will create $1.1 billion worth of exports from the U.S. to Cuba over the next five years, and companies in the chemical sector will create $13 million worth of exports in the same period.[ix] Ending this process could diminish U.S. exports by **$**227.6 million per year, or **$929 million** over four years, once the contracts are finalized. According to industry-specific revenue per employee ratios, ending the manufacturing deals in progress could also affect **1,359 jobs** per year**.**

Table 3. Costs to Manufacturing and Chemical Sectors

COST CATEGORY	REVENUE LOSS (MILLIONS USD)	AFFECTED JOBS
Manufacturing	$875.4	1,343
Chemicals	$53.6	16
Total	$929	1,359

Remittances

Estimates on U.S. remittances to Cuba range from $1.4 to $4 billion annually.[x] It is well documented that remittances leaving the U.S. benefit the U.S. economy. American money transfer companies charge an average of 8 percent commission on wire transfers to Cuba. Current remittances to Cuba generate up to $320 million annually for U.S. money transfer companies, totaling **$1.2 billion** over four years.[xi] A rough estimate of American jobs supported by remittances to Cuba at the largest money transfer companies is **782.**[xii]

Table 4. Costs to Money Transfer Services

COST CATEGORY	REVENUE LOSS (MILLIONS USD)	AFFECTED JOBS
Remittances	$1,245	782

Immigration Policy & Cost to U.S. Taxpayers

In January 2017, the controversial "wet foot, dry foot" policy was ended, which granted refugee status to any Cuban immigrant who arrived in the United States by land. The policy had increased the number of immigrants entitled to federal healthcare, retirement, social security, and tax benefits and state-sponsored education and research benefits. In the span between December FY2016 and February FY2017, the U.S. Customs and Border Patrol (CBP) Southwest Border Field Office's apprehensions of Cubans dropped from 4,955 to 65.[xiii]

In addition, the Congressional Budget Office estimates that the change in policy will save the federal government $2.45 billion over 10 years, or **$953 million** after four years.[xiv] A deliberate rollback of this vital component to a normalized relationship with Cuba would reverse this effect and pass the burden of this $2.45 billion cost back to American taxpayers.

Table 5. Costs to U.S. Taxpayers

COST CATEGORY	TAXPAYER COST (MILLIONS USD)
Immigration	$953

Telecommunications

The U.S. telecommunications sector has begun to offer services in Cuba over the past few years. As of 2016, the four largest telecommunications companies in the U.S.—AT&T, Verizon, T-Mobile, and Sprint—all offer mobile roaming on the island. In 2015, the U.S. and Cuba also established direct calling capability for the first time in 15 years. Given how many Cubans and Cuban-Americans reside in the United States, U.S.-origin calls to Cuba have benefitted American telecommunications providers. Additionally, U.S. tech giant Google recently struck a deal with Cuban telecommunications provider ETECSA to allow for faster, easier access to its services, effectively expanding its market to Cuba.

Scientific and Cultural Collaboration

Since the process of normalizing relations with Cuba began, professionals from a diverse range of sectors have been traveling to Cuba and forging lasting connections for future business collaboration and cultural ties. In total, the U.S. and Cuba have signed 24 MOUs in areas such as education, medical research, counter-narcotics, and environmental protection. Among the most significant is an MOU between the Cuban Ministry of Public Health and U.S. Department of Health and Human Services, which deepened collaboration in the development of pharmaceuticals for both communicable diseases such as Zika and dengue and non-communicable diseases such as cancer. For example, the Roswell Park Cancer Institute in Buffalo, NY has already begun intensive cancer research collaboration with Cuba and is preparing for clinical trials of the Cuban-origin therapeutic lung cancer vaccine, CIMAvax-EGF.

Dozens of universities from around the United States have initiated educational exchange programs with Cuba and embarked on joint research projects with academics on the island. The programs range from study abroad programs, training in sports and fine arts, and sending English language specialists to the island. Increased collaboration has also allowed Cuba to participate in U.S. regional fellowship and scholarship opportunities for the first time.

Religious leaders and humanitarian organizations also have greater freedom to engage with the Cuban people and make a positive impact on the island. The U.S. and Cuban governments have also pledged to cooperate on their shared interests in environmental protection, disaster risk reduction, and lowering emissions.

U.S. Business Opportunities

Finally, before changing U.S. regulations, the Administration should consider carefully the impact on future opportunities for U.S. business. Several American companies have started doing business with Cuba, and many more are now exploring or have deals in progress. Because we could not factor most in-progress business deals into this analysis, the estimates for revenue losses are grossly underestimated.

Cuba needs investment across the board – telecom/IT, agriculture, construction, housing, pharmaceuticals and biotechnology, and energy. Cuba also needs imports to support investment and for consumption (food, consumer goods, consumer durables), and American exporters are best positioned to address these needs.

As Cuba continues its slow progress toward more rational economic policies, the opportunities available to U.S. business will only increase. Competitors like China, Russia, Brazil, and other countries whose businesses are already established in Cuba are poised to expand if American companies are kept out by their own government.

Conclusion

The recent amendments to U.S. Cuba regulations have catalyzed economic activity across the nation. A reversal of these changes would result in a commercial slowdown and loss of thousands of jobs, even before induced effects are taken into account. These effects would be especially prominent in manufacturing and coastal states. Maintaining commercial and cultural ties to Cuba is a win for U.S. businesses, security, research initiatives, and economic development.

Appendix

1. U.S. airlines with service to Cuba
    1. Alaska Airlines

    2. American Airlines
    3. Delta Air Lines
    4. JetBlue
    5. Southwest Airlines
    6. Sun Country Airlines
    7. United Airlines

2. U.S. cruise lines with service to Cuba
    1. Carnival Cruises
    2. Norwegian Cruises
    3. Pearl Seas Cruises
    4. Royal Caribbean
    5. Viking Cruises

3. U.S. telecommunications companies with mobile roaming in Cuba
    1. AT&T
    2. Sprint
    3. T-Mobile
    4. Verizon

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Endnotes

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[i] Estimate of $5.9 billion by the Peterson Institute for International Economics' *Towards Economic Normalization with Cuba: A Roadmap for U.S. Policymakers*.

[ii] Benefits discounted using the 5-year U.S. Treasury interest rate at the time this report was written (April 18, 2017), which was 1.88%.

[iii] An assumption provided by an aggregate of tour operator estimates.

[iv] Revenue loss based on the average ticket fare, $341, and the number of available commercial airline seats from the U.S. to Cuba in a given year, 1.58 million. The passenger capacity reflects available flights as of early February 2017, when this report was written.

[v] Employment estimate based on the industry average for flight attendant salaries, which is $44,860. It does not account for pilots, who are generally paid higher salaries than the rest of the flight crew.

[vi] Data on scheduled sailings, fares, and ship capacity collected from seven cruise lines' booking websites.

[vii] Market behavior statistics from Port Everglades 2015 Cruise Passenger survey, indicating 13.6% stay an average of 3.4 days before their cruise and 48.4% stay 1 day, spending an average of $806 per passenger per day; 6.7% stay an average of 2.6 days upon return and 14.3% stay 1 day upon return, spending an average of $933 per passenger per day.

[viii] CLIA estimates the cruise industry's impact on labor to be American 373,738 jobs in one year in its 2014 economic impact study (*The Contribution of the International Cruise Industry to the U.S. Economy in 2014*). Florida accounts for 62% of total passengers, and Cuba cruises will account for 2.8% of Florida's passengers. This represents 1.7% of total passengers, from which we can estimate 6,488 jobs generated by U.S.-origin cruise traffic to Cuba. These jobs would not all be eliminated if cruises were rolled back but would be significantly affected either through cuts or relocation.

[ix] Data for projected revenue over a five-year period provided by U.S. Chamber of Commerce.

[x] Data from the Havana Consulting Group study *Cuba: The Fastest Growing Remittances Market in Latin America*.

[xi] Data from Western Union and calculated using $4 billion figure for annual U.S.-Cuba remittances.

[xii] Remittances from the U.S. to Cuba represent 3 percent of total remittances. Based on a rough summation, there are about 26,050 employees among seven of the most popular money transfer companies.

[xiii] Data on border inadmissables from U.S. Customs and Border Protection.

[xiv] CBO estimate as reported in the *Miami Herald.*