THE PRESIDENT'S EXPORT COUNCIL
WASHINGTON, D.C. 20230

June 8, 2016

President of the United States of America
The White House
Washington, DC 20500

Dear Mr. President,

We write to address your efforts to change the state of U.S. relations with the people of Cuba. In December 2014, you announced a significant shift in U.S. policy away from economic isolation and toward a normalization of relations with Cuba through increased engagement. Your Administration followed up in 2015 and 2016 with a series of important regulatory changes that revised the licensing policies for certain types of exports to, travel to, and financial transactions with Cuba within the context of the trade embargo that the United States has maintained since the early 1960s.

Separately, in May 2015, the U.S. designation of Cuba as a state sponsor of terrorism was rescinded; and, in July 2015, the United States and Cuba reestablished diplomatic relations and reopened embassies in their respective capitals. These steps predicated your historic visit to Cuba in March 2016, the first by a sitting United States President since President Coolidge visited the island in 1928.

The Chair and Vice Chair of the PEC traveled to Cuba during your March visit, in order to conduct fact finding to enable a deeper understanding of the potential impact of the regulatory changes implemented by your Administration with respect to Cuba. The findings of the Chair and Vice Chair are appended to this letter.

The private sector appointed members of the PEC have continued to engage in evaluation of the operation of regulatory changes promulgated by your Administration with respect to Cuba, and upon review, we offer the following recommendations for maximizing the impact of these changes to provide support for the Cuban people through increased bilateral commercial engagement.

First, your policy changes open up potentially significant new commercial opportunities across the region. The nations of Central America and the islands of the Caribbean have become important commercial nodes in global delivery and supply chains. For its part, the Cuban government has invested in expanding the capabilities of its deepwater port at Mariel, and has established an adjoining special economic development zone to invite further investment. As U.S. policy makers plan for the future, consideration should be given to envisioning Cuba as a regional logistics and supply chain hub; that evolution will present challenges and opportunities for Cuba as well as for governments and other stakeholders throughout Latin America. We therefore recommend that your Administration seek to incorporate assessments of the contributions of regional logistics and supply chains to local economic growth and development, as well as an evaluation of the challenges and opportunities presented by trends and changes in such supply chains, at the eighth Summit of the Americas scheduled to take place in Lima, Peru in March 2018.

Second, one of the regulatory changes promulgated by your Administration was to authorize the processing of U-turn transactions involving Cuban persons by U.S. financial institutions. We understand that this change was intended to incentivize the Cuban government to eliminate the 10 percent fee it imposes on foreign exchange transactions involving U.S. dollars. However, the Cuban government has not yet eliminated that extraordinary and punitive fee. We therefore recommend that your Administration continue to engage U.S. financial institutions to provide the necessary assurances that going forward, the processing of U-turn transactions involving Cuban persons who are not otherwise barred from the U.S. financial system is in accordance with applicable U.S. laws and regulations.

Third, Cuba's need for infrastructure investment offers important opportunities for bilateral engagement. American businesses offer leading technologies and solutions that Cuban officials should be aware of as they prioritize, design and implement new infrastructure projects for the benefit of the Cuban people, particularly with respect to environmental considerations and sustainability performance. We understand that current U.S. law restricts our government from generally providing technical assistance to facilitate trade with Cuba. Therefore, we recommend that your Administration establish a bilateral agreement with Cuba that invites exchanges with appropriate Cuban government officials and allows relevant experts and interested stakeholders the opportunity to discuss capacity-building in such areas as water resource management, underground utilities, and smart energy grids, as appropriate and consistent with U.S. law.

Fourth, in order for your policy changes to have maximum impact, the Cuban government must continue to address commercial barriers by updating its legal and regulatory framework to facilitate international trade and investment. Administrative transparency, regulatory predictability, and respect for the rule of law are critical to expanding capital investment in any market. We commend your Administration's efforts to date to advance a bilateral Regulatory Dialogue with Cuban officials. We further recommend that bilateral economic dialogues, including the Regulatory Dialogue, permit regularly scheduled engagement and continue to invite input from the private sector in order to identify areas meriting further reform as well as to provide feedback on the operation of existing reforms. Such timely, real-world input will best support the effective implementation and administration of reforms that improve the legal and commercial environment for conducting business in Cuba.

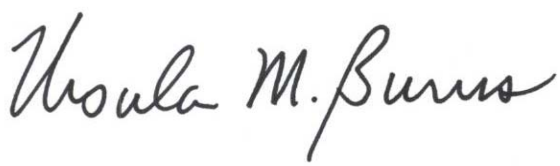
Fifth, as President, you have called upon Congress to lift the trade embargo that the United States has maintained against Cuba for over 55 years. This step is essential for American exporters to realize the full potential of normalized trade relations with Cuba. We therefore recommend that your Administration engage Congress to identify a timeline for legislative actions beginning this year that will culminate in a full repeal of the embargo and the elimination of travel restrictions as soon as possible.

Finally, it is essential that your Administration communicate effectively the full scope and meaning of recent regulatory changes to American businesses, including financial services companies. We appreciate the efforts of the Commerce and Treasury Departments to maintain and update detailed FAQs and other information relating to Cuba sanctions on their respective websites and to hold monthly phone calls open to all interested parties. This coordinated outreach to the business community is welcome and reflects the priority your Administration places on its shift in Cuba policy. There is no substitute for in-depth discussion of how these changes operate in practice. As well, such deeper dialogue may help inform the development of additional policies and practices for maximizing the impact of these changes by your Administration.

We therefore recommend that your Administration build on prior efforts and expand its ongoing outreach to include additional live, sector-specific webinars, during which officials from the Commerce and Treasury Departments, as well as from other agencies, as appropriate, can field questions from businesses and other stakeholders regarding the operation of these regulatory changes. We believe that a series of individual webinars each focused on a different sector of the American economy, beginning with banking and financial services and extending to such sectors as agriculture, technology, and small and medium-sized enterprises, will best facilitate in-depth discussions.

Thank you for your consideration of these recommendations.[1]

Sincerely,



Ursula M. Burns

[1] Please note that this letter was prepared by the private sector appointed members of the PEC.

President's Export Council: Fact-finding Trip to Cuba

March 20-23, 2016

Findings of Chair Ursula Burns and Vice Chair Arne Sorenson

As Chair and Vice Chair of the President's Export Council, we traveled to Cuba in our official capacities during President Obama's historic visit in March 2016 in order to conduct fact-finding to enable a deeper understanding of the potential impact of recent regulatory changes implemented by the Obama Administration. The following report summarizes our findings, which are based on our personal observations during our meetings and interactions in Havana and are limited in scope solely to economic and commercial considerations that arose during our stay.

Findings Overview

Cuba is a relatively small market of about 11 million people. Its close proximity to the United States makes it a natural trading partner, yet since 1960, the United States has maintained economic sanctions against Cuba that preclude normal trade relations. Cuba maintains a centrally planned economy, with prices and wages largely set by the government.

There is substantial potential for increased foreign investment and commercial engagement in Cuba's economy. The tourism and agriculture sectors offer two recent examples for such engagement. Cuba has long maintained strong education and primary healthcare systems, producing a talented workforce that appears eager to participate more fully in the globalized economy of the 21st century. Cuba has also fostered an innovative biopharmaceutical sector that appears capable of further international growth.

Cuba's need for investment in infrastructure, including ICT infrastructure, suggests the potential for high productivity growth in the coming years once those investments are completed. The Cuban government has begun that process by investing in the deepwater seaport of Mariel and establishing the adjoining special trade zone (ZED Mariel), which may well increase the appeal of Cuba as a hub for international supply chains.

Still, there are shortcomings in Cuba's economic performance, which the Cuban government has acknowledged and continues to address. The government also attributes some of these shortcomings in part to ongoing U.S. trade sanctions; however, the Cuban economy is in a state of transition and, setting aside U.S. trade sanctions, there are substantial challenges to conducting business in Cuba. Government officials in Havana continue to evaluate and implement reforms intended to promote certain non-state economic activities in order to foster the associated growth and increased prosperity, even as they seek to preserve the social benefits attributed to Cuba's system of government. The government's stated objective is to improve the standard of living for all Cubans by ensuring that the opportunities that flow from increased trade and foreign direct investment are distributed throughout Cuban society. The government also seeks to diversify its economy in order to avoid overreliance on any one trading partner.

In developing its reform agenda, the Cuban government examined the experiences of other countries, such as China, Singapore, and Vietnam, but found that no single country offered a model directly applicable to Cuba's circumstances; therefore, the Cuban government seeks to develop and implement its own unique form of blended economy that maintains the essential features of its governance structure. This approach raises some uncertainty regarding the pace and direction of future economic reforms.

The government's orientation toward reform based on centralized control of the Cuban economy manifests itself in ways that may challenge additional foreign direct investment even if the United States terminated all trade sanctions immediately. For example, with respect to hiring employees, Cuba requires foreign-invested enterprises to utilize government employment agencies that would actually hire and pay the workers, while the foreign-invested enterprise would then reimburse the employment agency. This system could challenge the ability of foreign businesses to evaluate potential workers and to incentivize worker performance directly.

Separately, while the government acknowledged its intent to unify its currency, Cuba still maintains a dual currency with fixed exchange rates; domestic transactions largely utilize the Cuban peso (CUP), whereas transactions involving foreign exchange utilize Cuba's convertible peso (CUC). The CUC is significantly overvalued at a fixed exchange rate of 1:1 with the U.S. dollar, compared to an internal exchange rate for the non-state sector of about 25 CUP to 1 CUC. This system, in combination with the foregoing constraint on hiring workers, results in a significant surcharge on labor because the employment agency is reimbursed in CUCs but pays workers in CUPs. Such additional cost may undermine the competitiveness of an otherwise well-educated workforce.

Cuba also continues to maintain an additional 10 percent fee on foreign exchange transactions that involve U.S. dollars. This penalty on U.S. dollar transactions imposes an extraordinary cost on American businesses seeking to do business in Cuba.

More generally, the administration of commercial laws and regulations in Cuba appears uncertain and subject to sudden change. Cuba's various tax regimes also appear difficult for foreign businesses to understand in practice. Certain commercial activities such as retail sale, marketing and distribution remain off limits to foreign investors. Commercial transactions for individual Cubans are typically cash-based, as credit and debit card use is generally unavailable at this time.

Investment in maintaining infrastructure is evidently lacking. The existing infrastructure is old and requires updating, and basic utilities such as electricity service are less than reliable. Cellular phone service is still spotty. While there are dozens of public hotspots offering Wi-Fi access around the island, in general, home access to the Internet is not widely available. Technology that is in use, such as computers and cell phones, appears to be of older generation and largely sourced from China and Vietnam.

The continued application of U.S. trade sanctions may well be impeding the Cuban government from responding fully to international competition for capital investment; for example, by impeding Cuba's access to international trade financing. Still, even in the absence of U.S. trade sanctions, in a broader geographic context Cuba is but one of 190+ countries competing for capital investment, and its regulatory and administrative landscape has a profound impact on its ability to draw in capital from around the world.

At the highest level, there appear to be gaps in Cuban-U.S. understanding that need to be bridged on both sides in order for bilateral economic relations to be strengthened. For example, the Cuban government appears to harbor some mistrust of U.S. intentions. It will take time to rebuild trust, and the continued application of U.S. trade sanctions are an impediment in that regard.

The regulatory reforms introduced by the Obama Administration in 2015 and 2016 offer an important opportunity to begin rebuilding trust and understanding in bilateral economic relations between the United States and Cuba, and to build momentum for additional reforms in both countries.

Findings re: the Cuban Economy

- Non-state sector. Although the government controls most sectors of the Cuban economy, government reforms now allow a substantial number of self-employed people (known as cuentapropistas) to operate profit-driven businesses in a number of sectors of the economy, including: private tutors; taxi drivers; hair stylists; repair technicians; private restaurants (many in family homes, known as paladares); private accommodations (known as casas particulares); and, private farmers and agricultural cooperatives.

- Government reforms. The Cuban government has taken steps to invite increased foreign investment, balancing social good and private enterprise so that all Cubans can benefit. The government updated its foreign investment law to provide a streamlined approval process for joint ventures, as well as preferential tax rates for foreign investors in joint ventures. In addition, the government has released a portfolio of investment opportunities in Cuba, to be updated annually, which identifies specific projects in which foreign investors are invited to partner with local enterprises.

- Remittances from abroad. Remittances from relatives living abroad are an important source of hard currency for Cubans, and recent U.S. regulatory changes have removed restrictions on such remittances from the United States.

- Competitive sectors. Competitive sectors of the Cuban economy include: medical services; tourism; nickel mining; and, certain biopharmaceutical research and production.

- Economic strengths. Among Cuba's economic strengths is the government's longstanding investment in human capital; education and healthcare are free, and the quality of the education system and of primary healthcare services appear strong. The result is a ready pool of talented students and workers who appear enthusiastic to fill opportunities that may arise from new foreign investment and increased economic activity on the island.

- Tourism and hospitality. Cuba's rich cultural heritage distinguishes the island as a tourist destination offering artistic, culinary, educational and ecological pursuits, in addition to the historical bonds between Cuba and the United States. Development of the tourism and hospitality sector in Cuba offers substantial opportunities.

- ZED Mariel. The Cuban government established a special economic zone (ZED) in conjunction with its development of the deepwater port of Mariel. The ZED Mariel is divided into separate zones, each dedicated to a specific industrial sector such as logistics, technology, and food and agriculture. Foreign investors in the ZED Mariel enjoy preferential tax rates, as well as the realistic opportunity to obtain approval of 100 percent foreign ownership of their investment.

Findings re: Commercial Challenges
The Cuban government has taken steps to diversify its economy by promoting targeted non-state economic activity and by inviting targeted foreign direct investment. However, it is still not clear when, or to what extent, the government will address the significant legal, administrative, and commercial barriers to trade and investment that remain in Cuba, which include:

- Dual currencies. The Cuban government maintains the Cuban peso (CUP) and the convertible peso (CUC). The CUP is used to pay wages of domestic workers and for domestically produced goods, while the CUC is used for foreign trade and in the tourism sector. The official exchange rate is 1 CUC : 1 CUP while domestic transactions must use an exchange rate of about 1 CUC : 25 CUP. The Cuban government had announced its intent to unify its currency by April 2016, but that deadline has not been met. The government continues to acknowledge the need to unify its currency, but that process will likely be gradual so as to avoid the shock that would ensue from an immediate unification.

- Exchange fee on U.S. dollar transactions. The Cuban government imposed an additional 10 percent fee on foreign exchange transactions involving U.S. dollars in 2004, in response to a U.S. prohibition on U-turn payments involving Cuban parties. The Cuban government announced its intent to revoke this fee once U.S. financial institutions resume processing U-turn payments to Cuban parties through the U.S. financial system. The Obama Administration reauthorized such U-turn payments in March 2016; however, the Cuban government has yet to rescind this 10 percent fee.

- Credit / Debit card access. U.S. visitors must still bring substantial amounts of cash when visiting the island because credit and debit cards are not yet widely available in Cuba for payment by visitors from the United States.

- Inadequate infrastructure. Cuba’s infrastructure is in need of significant investment and upgrade, both with respect to renovating existing infrastructure (e.g., buildings, roads and transportation services, power grid) as well as erecting new infrastructure (e.g., telecommunications services, housing).

- Constraints on hiring. The Cuban government currently requires that all labor be hired through government employment agencies, which are responsible for actually paying wages. Because the foreign investor pays the agency in hard currency and workers are paid in CUPs, this creates a significant de facto surcharge on labor. This also impedes the ability of foreign investors to evaluate talent or to incentivize job performance directly. More information is required to understand the extent to which foreign investors may be able to hire preferred employees by vetting them in advance and identifying their preferences to the government employment agencies; even if such prior vetting is feasible, this constraint increases the cost and uncertainty of hiring and incentivizing employees in Cuba.

- Commercial restrictions. Foreign-invested firms are prohibited from distributing or transporting goods within Cuba and from engaging in retail sales other than after-sale warranty parts and services.

- Uncertain legal framework. The process of promulgating and administering policies and regulations in Cuba is sometimes unpredictable and less than transparent from the perspective of a foreign investor. Separately, the process for procuring required licenses and approvals is not uniform and appears cumbersome (though projects in the ZED Mariel may receive expedited attention); such licenses are issued for relatively short terms (though they may be eligible for extension), creating further uncertainty that can impede business planning.

- Commercial financing. U.S. economic sanctions have made it difficult to obtain trade financing for commercial transactions with Cuban parties, even from third countries.

- Access to microfinance. The nascent private sector faces challenges in accessing capital to grow businesses, particularly small and medium sized enterprises and particularly among the Afro-Cuban community.

- Limited telecommunications services. Cell phone coverage was spotty and inconsistent; email is not generally available, and even government officials may not have access to email. Internet access is available only via public Wi-Fi hotspots, which are growing in number.

Conclusions re: Potential Impact of Recent U.S. Regulatory Changes

The U.S. trade embargo will continue to constrain the ability of American firms to conduct business in, or with, Cuba; however, the regulatory changes adopted by the Administration in 2015 and 2016 should result in increased economic activity between the United States and Cuba, particularly once U.S. commercial airlines begin operating regularly scheduled flights to Cuba later this year.

Increased people-to-people exchanges made possible by recent regulatory changes should help to deepen mutual understanding and allay misgivings on both sides, and such progress will help build trust and maintain momentum for taking further actions to promote bilateral economic growth and investment.

The Cuban government was clear in expressing its view that proposals for trade and investment from the United States must demonstrate an understanding and support for Cuba's social goals, and serve as a basis for mutual respect, in addition to producing economic gains for both parties. At the same time, it would be helpful for the Cuban government to further appreciate that private sector capital flows are a function of assessments of the various risks and rewards that markets pose around the world, and those assessments are constantly evolving.

Additional reform of the legal, administrative and commercial landscape in Cuba will be needed to help reduce uncertainty and thereby maximize the potential impact of the regulatory changes adopted by the Obama Administration, even as the Administration needs to remain vigilant in ensuring its regulatory changes are implemented with full effect.