Senate Research Office

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FINAL REPORT OF THE SENATE STUDY COMMITTEE ON THE EFFECT ON GEORGIA OF NORMALIZATION OF RELATIONS WITH CUBA

COMMITTEE MEMBERS

The Honorable David Lucas, Sr., Chair
Senator, District 26

The Honorable Mike Dugan
Senator, District 30

The Honorable Frank Ginn
Senator, District 47

The Honorable Michael A. Rhett
Senator, District 33

The Honorable John Wilkinson
Senator, District 50

Prepared by the Senate Research Office
2015
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I. INTRODUCTION

The Senate Study Committee on the Effect on Georgia of Normalization of Relations with Cuba was created by Senate Resolution 494. The Committee was formed to strategize opportunities for Georgia to grow or expand its trade relations with Cuba; assess what normalizing relations between the United States and Cuba means for Georgia businesses; and evaluate what measures will be needed to allow Georgia businesses to take advantage of trading opportunities with Cuba.

The following members served on the Committee:

- Senator David Lucas, Sr. of the 26th, Chairman;
- Senator Mike Dugan of the 30th;
- Senator Frank Ginn of the 47th;
- Senator Michael A. Rhett of the 33rd; and
- Senator John Wilkinson of the 50th.

The Committee convened two times at the following locations:

- Tuesday August 11th, 2015; Room 125, Georgia State Capitol; and
- Monday November 16th, 2015; Room 125, Georgia State Capitol.

The members also had the opportunity to participate in the People-to-People Tour, which visited Cuba on official business from Sunday October 18th through Wednesday October 21st. The following Committee members participated in this trip:

- Senator David Lucas, Sr.;
- Senator Mike Dugan; and
- Senator Michael Rhett.

II. BACKGROUND

The year 2015 marked the 53rd anniversary of the ongoing U.S. embargo against Cuba, an island nation 90 miles off the coast of Key West, Florida. Cuba spans 44,200 miles, making it a bit smaller than the state of Pennsylvania. Cuba’s population is richly diverse, with 11.2 million residents. The embargo consists of economic sanctions against Cuba and restrictions on Cuban travel and commerce for all people and companies under U.S. jurisdiction. Washington, D.C. strengthened the embargo with the 1992 Cuba Democracy Act and the 1996 Helms-Burton Act. Adjustments have been made to the trade embargo to allow for the export of some U.S. medical supplies and agricultural products to the island; however, the Cuban government estimates that more than 50 years of stringent trade restrictions have amounted to a loss of $1.126 trillion dollars to the Cuban economy.

According to the Council on Foreign Relations, U.S. President Barack Obama has sought greater engagement with Cuba since taking office, and in 2009 reversed some of the restrictions on remittances and travel. During his first term, President Obama also permitted U.S. telecommunications companies to provide more cellular and satellite service in

2 These Acts state that the embargo may not be lifted until Cuba holds free and fair elections and transitions to a democratic government that excludes the Castros. (According to The New York Times, the current Cuban President Raul Castro has said he will leave office in 2018.)
3 http://www.cfr.org/cuba/us-cuba-relations

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Cuba, allowed U.S. citizens to send remittances to non-family members in Cuba, and allowed U.S. citizens to travel to the country under license for educational or religious purposes.

On April 11, 2015, Presidents Barack Obama and Raul Castro shook hands at the Summit of the Americas in Panama, marking the first meeting between a U.S. and Cuban head of state since the two countries severed their ties in 1961. As relations between the United States and Cuba slowly begin to relax, Georgia is seeking opportunities that will benefit companies, industries, and the state as a whole.

Georgia is already a top exporter to Cuba among U.S. states, shipping poultry and soy bean oil cakes through exceptions to the embargo permitted by the U.S. Department of Commerce. Mr. Terry Coleman, who previously served as the Deputy Agriculture Commissioner in Georgia, spoke at the August 11th committee meeting and stated “There’s a built-up desire for American products in Cuba. Georgia is in a better place than Florida because of the anti-Castro rhetoric in South Florida. ... We have a great opportunity.”

According to Ms. Mary Waters, Deputy Commissioner of International Trade for the Georgia Department of Economic Development, “Last year, the Port of Brunswick was the number one U.S. port in trade to Cuba. Until the embargo is lifted, Georgia business and government decision-makers should build relationships with the Cuban government and Cuban people that will position the State to do business with Cuba when the opportunity opens.”

III. TESTIMONIES

A. August 11th 2015

![U.S. Exports to Cuba 2007-2014](image)

In 2014, the U.S. exported approximately $300,000,000 worth of goods to Cuba; out of that total, Georgia exported over $60,000,000 in total goods. However, poultry exports from Georgia to Cuba were declining. In 2010, Georgia exported over $55,000,000 worth of poultry to Cuba. In 2014, that number had declined to approximately $10,000,000⁴. See charts below.

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⁴ According to the Georgia Department of Economic Development
Ms. Mary Waters, Deputy Commissioner for International Trade, Georgia Department of Economic Development:

Ms. Waters stated that there has been a declining trend in U.S. exports to Cuba; and that the United States moved from fourth in trading with Cuba to fifth in 2014 (behind Venezuela, Spain, China, and Brazil). She expressed that Georgia, along with neighboring states, has declined in trading with Cuba as well. Georgia only sold poultry and soy bean oil cakes to Cuba last year. The number one product sold to Cuba is poultry; and Georgia is the number one producer of poultry in the country. Georgia sold $8 million dollars’ worth of poultry products to Cuba in 2014, which is a 40 percent decrease than previous years. The Port of Brunswick was the top port that traded with Cuba last year. From January through June 2015, Georgia has already exported $7 million worth of goods to Cuba. This is an increase from last year. Still, trade between Georgia and Cuba will remain limited until the embargo is lifted by the U.S. Congress.

Mr. Jorge L. Fernandez, Vice President of Global Commerce, Metro Atlanta Chamber:

Mr. Fernandez testified that currently there are political openings in Cuba; however there are not any economic openings. The climate has changed in Cuba; in 2002, he felt intimidated when he visited; then in 2015, he felt comfortable. It is vital that we remember the importance of making alliances and cultivating relationships with the people in Cuba. Although economic reform still needs to take place, it is critical that the Committee understands the importance of building relationships and incorporating the people of Cuba.

http://www.senate.go.gov/committees/Documents/GAEconomicDev.pptx
Mr. John Cushnie, Senior Vice President of Economic Development and Market Strategies, Georgia Chamber of Commerce:

Mr. Cushnie recently visited Cuba and testified that the infrastructure is pleasant in the resort areas of Cuba. Through his discussions with young adults in Cuba, Mr. Cushnie found that they lack the zeal to carry on the communism attitude. Most Cubans do not want to continue the revolution. He plans on returning to Cuba in March 2016 to engage in a higher level of business discussion.

Mr. Terry Coleman, President, Coleman Consulting:

There are over 11 million people in Cuba. There is great opportunity for Georgia in Cuba, and Georgia has a better opportunity than South Florida. China has helped build some of Cuba’s railroads, Brazil has helped build ports, Canada assisted with electrical power, and Europeans are building hotels. The United States is the only country left out. The hotels have improved gradually in Havana, but still do not have the capacity needed; they have raised their rates by 30 percent. Just like the hotels, privately owned businesses are expanding.

Ambassador Charles Shapiro, President, World Affairs Council of Atlanta:

Ambassador Shapiro informed the Committee that the embargo is law, not policy. The U.S. has trade restrictions with Cuba, Iran, North Korea, Sudan, Syria, and Burma. In 2015, the United States exported the following agricultural products to Cuba:

- 47.8 percent of frozen chicken;
- 27.3 percent of soybean oil cake;
- 10.2 percent of soybean flour/meals;
- percent of calcium phosphates;
- 4.5 percent of corn; and
- 4.7 percent of other items.

The dollar value of exports has declined over the years. In 2008, the U.S. exported over $700,000,000 worth of goods to Cuba. In 2015, the U.S. exported just over $1,000,000 worth of goods. Growth of U.S. agricultural exports to Cuba has been reduced by the financial restrictions imposed by embargo. While U.S. exporters are prohibited from extending credit to Cuban buyers, exporters from other countries are able to do so. As a result, U.S. exporters of wheat, rice, dried milk, soybean oil, and other commodities have seen their sales to Cuba drop to zero, where previously they held considerable market share.

B. November 16th 2015

While in Cuba, the People-to-People Tour:

1. Met with a Professor of Economics from University of Havana discussing:
   A. Special Taxation Regime for Foreign Investment; and
   B. Mariel Economic Empowerment Zone;
2. Met with a Dean at the School of Barber Services;
3. Visited an assisted living facility – senior home;
4. Conducted a meeting with Comodoro of Yacht Club de Havana; and
5. Toured a Cigar factory, a rum factory, old Havana, New Havana, and an open market.

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6 http://www.senate.gov/commerce/Documents/WACAtl-Cuba.pptx
8 Mr. Paul Hackett provided the committee with the Tour Agenda.
Dr. William F. Bina, III, Dean, Mercer University School of Medicine (MUSM):

Dr. Bina gained a greater understanding of the cultural, legal, and economic environment that can ultimately lead to a medical and health educational partnership while in Cuba. He stated that MUSM's mission is focused on education of physicians and other professional to serve Georgia's citizens in its rural and underserved areas. MUSM is seeking to develop a partnership with Cuban health institutions in education, training, and research to enhance the understanding of community based primary care health education practice, and academic training. The medical partnership with Cuba will focus on an exchange of medical and public health information and appropriate technology structured to improve health care, education, and research. This will directly encourage meetings between the administration, faculty, and other officers for the purpose of joint planning to achieve an understanding of the problems related to medical education and health care with hopes of affecting changes which favorably benefit both institutions.

During the partnership, MUSM is hoping to:

- Exchange undergraduate and graduate students;
- Exchange faculty members and research scholars;
- Participate in joint research activities such as:
  - Exchange of academic materials, publications, and academic information;
  - Exchanges of academic personnel for research, lectures, and seminars; and
  - Co-organize and participate in research, lectures, seminars, and conferences.
- Mutually share medical information and technology regarding the improvement and development of health care, education, and medical research; and
- Promote mutual development of community responsive physicians, community based education and administration systems.

Paul B. Hackett, Director of Business Development, PharmaLife:

Mr. Hackett presented two slides to the Committee. The taxation slide below outlines the special taxation regime for foreign investment. Mr. Hackett testified that this is VERY AGGRESSIVE tax regime for purposes of attracting foreign dollars and opportunities for employment of Cuban people.

### The Special Taxation Regime for Foreign Investment

<table>
<thead>
<tr>
<th>Taxes</th>
<th>Law No. 118: Foreign Investments</th>
<th>Special Economic Development Zones of Mariel</th>
<th>Law No. 135: Taxation System</th>
</tr>
</thead>
<tbody>
<tr>
<td>About Profit</td>
<td>Zero percent during eight years and as an exception for a longer period. Subsequently 12 percent application of lay no. 118 for profits of reinvestment. Exempted</td>
<td>Zero percent during ten years and as an exception for a longer period. Subsequently a 12 percent application of lay no. 118 for profits reinvestment. Exempted</td>
<td>35 percent — may increase to 50 percent for exploitation of natural resources.</td>
</tr>
<tr>
<td>Contribute to Local Development</td>
<td></td>
<td></td>
<td>Is being established gradually in the budget law.</td>
</tr>
<tr>
<td>Avoid Sales or Service</td>
<td>Zero percent during investment recovery. Zero percent during the first year of operations; subsequently 50 percent discount on wholesale sales and on services.</td>
<td>Zero percent during the first year of operations, subsequently one percent.</td>
<td>Two percent on wholesale and ten percent on services. New taxable items shall be gradually phased out.</td>
</tr>
</tbody>
</table>
The “Mariel” slide below shows new areas created specifically for foreign investment to utilize natural resources—water, land, and labor. The new constitutional laws (118, 113—shown on taxation slide) are backed by a guarantee of no nationalization of new private business created by foreign investment (as with 1959/1960 coup). Cuba may repatriate profits at any time; and foreign entities cannot own property/land—they must instead, sign a 99 year lease.

Mr. Hackett senses Cuba is energized by our recent political overtures and conveyed that the next Cuban leader is openly and actively on board for America’s commercial involvement. Brazil and Spain are already active (Brazil has built four loading cranes for the Mariel port area).

Mr. Hackett concluded that, Cuba is ready for the “next-step” towards capitalism. It has a wealth of human capital and has made great strides by passing constitutional laws to promote an atmosphere and pathway for the creation of new large-scale businesses, such as manufacturing.

IV. RECOMMENDATIONS

Currently, there cannot be normal relations between Cuba and the United States as long as the rigorously applied economic, commercial, and financial embargo continues. Cuba’s government anticipates that 10 million Americans eventually will visit annually as travel restrictions are liberalized, up from about 1 million from 2015. The country now receives approximately 3 million foreign visitors a year, mostly from Canada and Western Europe, according to the Cuban government’s data.

Georgia needs to be prepared and ready for when the opportunity does open. Atlanta can become the business gateway to Cuba. The best that Georgia businesses and government decision-makers can do right now until the embargo is lifted is build relationships with the Cuban government and Cuban people that will position Georgia to do business when the embargo is lifted.
V. SIGNATURE PAGE

Respectfully Submitted,

THE SENATE STUDY COMMITTEE ON THE EFFECT ON GEORGIA OF NORMALIZATION OF RELATIONS WITH CUBA

[Signature]

The Honorable David Lucas, Sr., Chair
Senator, District 26