



Economic Benefits to the United States from Lifting the Ban on Travel to Cuba

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for

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EXECUTIVE SUMMARY

This study was undertaken for the Cuba Policy Foundation in order to estimate the potential economic benefits to the United States from lifting the ban on travel by U.S. residents to Cuba. In order to make these estimates, three possible “scenarios” for relaxing the travel ban were postulated to reflect the substantial uncertainties about the way in which the travel ban might be relaxed.

- • Scenario 1 assumes that it becomes legal for U.S. residents to travel to Cuba, but that all other aspects of the trade embargo remain in place. This implies that U.S. carriers and tour operators would not be allowed to carry passengers to Cuba and that U.S. residents would have to travel to Cuba via other countries and on other flag carriers.
- • Scenario 2 assumes that U.S. carriers and tour operators would be allowed to take U.S. residents to Cuba and thus to capture those economic benefits for the United States. However, it assumes that other types of companies (such as U.S. hotel operators) would not be allowed to make direct foreign investments or enter into management contracts in Cuba.
- • Scenario 3 assumes that the trade embargo is completely lifted, allowing any U.S. company to attempt to do business in Cuba, thereby maximizing the potential economic benefits to the U.S. economy and American workers and investors.

Estimates of the probable levels of U.S. travel to Cuba were made for each scenario. In addition, estimates were made of the extent to which U.S. travelers to Cuba are likely to represent diversions from other potential Caribbean-area destinations versus representing net new U.S. tourism to the region. The estimates of the “net” increase in travel provide the relevant basis for calculating potential economic benefits to the U.S. economy. In the absence of an established methodology for estimating the likely diversions, this study made the simplifying assumption that half of the additional travel to Cuba would represent a diversion from other destinations and half would be net incremental travel. The estimated increase in net U.S. arrivals to the region was estimated for both stay-over tourists and day-visitors from cruise ships and ferries as follows.

Net Increase in Total U.S. Caribbean-Area Arrivals*
(Number of Passengers)

	<u>Stay-over Arrivals</u>		<u>Cruise/Ferry Day Trips</u>	
	First Year	Fifth Year	First Year	Fifth Year
Scenario 1	300,000	840,000	0	0
Scenario 2	475,000	1,330,000	50,000	450,000
Scenario 3	500,000	1,400,000	50,000	450,000

* “Net arrivals equals arrivals to Cuba less diversion from other destinations.

The U.S. income and number of U.S. jobs associated with these arrivals was calculated for each scenario based on representative figures for each major industry segment that would directly serve the Cuban travel market (i.e., airlines, cruise lines, tour operators, travel agents, hotels and related hospitality services). In addition, the study estimated the indirect and induced income and jobs generated by expenditures of the primary industries and their workforce.

Under Scenario 1, which allows Americans to travel to Cuba legally, but does not allow U.S. companies to provide supporting services, the benefits are quite limited. We assume that only travel agents would earn income from the increased travel to Cuba. This would generate \$8.5 million in U.S. income and 45 jobs in the first year and \$23.9 million and 239 jobs in the fifth year, including the indirect and induced impacts.

Under Scenario 2, which allows U.S. carriers and tour operators to provide services to American travelers, the economic benefits to the United States increase dramatically. Allowing for indirect and induced effects, \$523 million in additional income and 3,224 jobs would be generated for the United States in the first year and \$1.7 billion and 10,749 jobs by the fifth year.

Under Scenario 3, which assumes complete elimination of the embargo, U.S. economic benefits would increase somewhat more, primarily because U.S. hotels and other hospitality providers could operate in Cuba. Total U.S. income would increase to \$545 million in the first year and 3,797 new jobs would be created. Total income would rise to over \$1.9 billion and 12,180 new jobs would be created by the fifth year.

Airlines would create the most income and jobs for the U.S. economy as a result of lifting the travel ban, followed by the cruise ship industry. U.S. hotel companies and tour operators would also be significant income and employment generators. For example, by the fifth year after completely lifting the embargo under Scenario 3, the allocation of U.S. income and jobs created by industry would be as follows:

Fifth Year Economic Benefits from Lifting the Embargo

	Income	Jobs
Direct Benefits		
- Airlines	\$595,000,000	2,975
- Cruise ships/ferries	247,000,000	1,907
- Tour operators	63,000,000	630
- Travel agents	21,000,000	210
- U.S. hotels	102,000,000	652
- U.S. other	10,000,000	56
Indirect/Induced Benefits	934,000,000	5,769
Total	\$1,972,000,000	12,180

The economic benefits to the United States from lifting the embargo, or at least relaxing the ban on U.S. travel and travel-related businesses would be substantial. The potential increase in income and jobs in the United States alone provides a compelling argument for re-thinking the U.S. policy toward travel by Americans to Cuba.

In addition to the benefits in the travel and tourism industry, U.S. agricultural exports could be expected to increase by over \$300 million because of increased U.S. tourism under Scenario 3. In order to avoid double-counting, food exports are not included here because they have been separately estimated in another study sponsored by the Cuba Policy Foundation that specifically examined the impact of lifting the embargo on U.S. agricultural exports. However, the income and jobs associated with U.S. agricultural exports to Cuba resulting from increased tourism would provide additional benefits to the American economy from lifting the trade embargo.

THE ECONOMIC BENEFITS TO THE UNITED STATES FROM LIFTING THE BAN ON AMERICAN TRAVEL TO CUBA

1. BACKGROUND AND SECENARIOS

In 1961 the United States instituted a trade embargo on Cuba that is still in effect. Cuba went from being the number one Caribbean tourist destination in 1958 to a little-known stopover with only 12,000 visitors by 1974. Until the mid-1980s Fidel Castro was vehemently opposed to any type of tourism or travel in his country. Initially, he labeled tourism as a “bourgeois” custom and wanted no part of it.

As long as the former Soviet Union dumped billions of dollars into the Cuban economy, tourism was not needed as an economic development strategy. With the fall of the U.S.S.R., Cuba had to look elsewhere to replace the foreign exchange lost. International travel and tourism became a necessary measure to stimulate the economy despite any reservations that the Cuban government had about exposing its citizens to foreign influences. However, under the 1961 trade embargo, U.S. citizens were not allowed to travel to Cuba except under very special conditions, thus cutting off Cuba’s principal market.

Without the major American market, Cuba had to look abroad for tourists. Fortunately for Cuba there is a good market in such countries as Canada, Mexico, England, Spain, Venezuela and other South American nations. Cuba entered into numerous arrangements with international hotel and tourism developers (other than U.S.) to rebuild Cuba’s tourism infrastructure and to launch major marketing campaigns.

Over the past ten years the tourism industry in Cuba has changed dramatically. Many new hotels have been built, mostly with international investment capital. Some of the restrictions on American travel have been relaxed, such that journalists, medical missionaries, Cuban-Americans, researchers, and academics can fairly easily obtain visas to travel legally to Cuba. For example, the U.S.-Cuba Trade and Economic Council estimates that about 176,000 American citizens visited Cuba in 2001. About 124,000 of these were Cuban-Americans visiting family, 30,000 were other categories of legal visitors (journalists, academics, etc.) and 22,000 were illegal visitors – although others estimate the number of illegal visitors as high as 60,000^{i[i]}.

Whether Cuba will again become the number one tourism destination in the Caribbean once the travel embargo is lifted is one of the central questions addressed in this study. In attempting to answer that question, however, it is necessary to review the specific policies that the United States might follow in removing or easing the travel and trade embargo. The sequence and timing of relaxation of the U.S. trade embargo on Cuba is difficult to predict. Many different options for easing travel restrictions appear plausible.

For presentation purposes, three of the most likely “scenarios” are identified and the economic benefits to the United States are calculated for each.

Scenario 1: Allow U.S. Travel to Cuba, but Maintain Other Restrictions. Under this scenario, U.S. citizens would no longer be prevented from legally traveling to Cuba. The easing of the travel restrictions could be achieved directly by explicit removal of the travel ban by legislative action or indirectly by denying appropriation of funds to enforce the ban (as in the case of the “Flake Amendment” to the House Appropriations bill). Under this scenario, we assume that no other elements of the trade embargo would be lifted. Among other implications, U.S. airlines, cruise ship and tour operators would not be permitted to carry passengers or run tours in Cuba. Visitors to Cuba from the United States would, therefore, have to fly to third countries and take non-U.S. carriers to Cuba. The extra cost and inconvenience of having to make these connections and use non-U.S. carriers would significantly reduce potential U.S. travel to Cuba. More importantly, it would essentially deny the potential economic benefits to the U.S. economy since Americans would be served by flag carriers and tour operators from other countries.

Scenario 2: Allow U.S. Travel Companies to Carry Passengers to Cuba, but Ban all U.S. Direct Foreign Investment. The rationale for this scenario would be to permit U.S. carriers and tour operators to serve the travelers going to Cuba as under the first scenario, thereby capturing the economic benefits for the United States rather than allowing Cuban and other foreign companies to reap the benefits. The ban on U.S. foreign direct investment would be maintained. Under this scenario, therefore, the U.S. airlines, cruise lines and tour operators would have to use non-U.S. partners for in-country services, such as terminal operations, logistic support, and local in-bound tour operators. Other major participants in the travel sector, such as hotels, chain restaurants, and rental car companies would be prevented from making direct investments in Cuba or providing expertise through franchises or management contracts. This approach would facilitate greater U.S. travel to Cuba because of the convenience of direct flights and opportunities to use U.S. travel companies. The U.S. economy would benefit much more significantly than under the first option.

Scenario 3: Eliminate the Trade Embargo Entirely. Under this scenario, all special restrictions on travel and trade with Cuba would be removed. The rationale for this scenario is that the embargo has failed to meet its objectives and has prevented U.S. companies from competing for the income and jobs created by tourism to Cuba. It postulates that the United States would be better off economically and liberalization would be encouraged in Cuba by complete elimination of the trade embargo. Any U.S. company would be free to make investments in Cuba or to promote travel to the country. This approach would allow the United States to realize the maximum potential economic benefits from U.S. travel to Cuba, including hotel construction as well as revenues from operations and franchise and management fees from hospitality enterprises.

2. POTENTIAL DEMAND FOR U.S. TRAVEL TO CUBA

2.1 Historical Market Share.

Cuba currently receives about 1.8 million tourist arrivals per year, or about seven percent of the Caribbean area's totalⁱⁱⁱ. In the 1950s, Cuba averaged 18-21 percent of total Caribbean arrivals. If Cuba regained the same proportion within the next five years, total arrivals would be in the range of 3.7 to 4.3 million (assuming annual growth of five percent in the total Caribbean-area market). Lack of accommodations and other services would clearly limit the ability to reach this level quickly. However, given the country's many natural and cultural attractions, it seems plausible for Cuba to aspire to regaining its earlier relative position over the course of five years or so, which would allow time for construction of new facilities.

2.2 Comparable Caribbean Destinations

One way of independently assessing the realism of Cuba's regaining its 1950s share of tourism is to compare its carrying capacity with that of comparable Caribbean destinations. While arbitrary, it is useful to consider Cuba's capacity to accommodate more tourists in terms of land area and coastline. Many other factors will influence tourist intensity, of course, but these two measures probably provide the most realistic measure of relative tourism carrying capacity. Table 1 shows the number of stay-over tourist arrivals (by air, but not by cruise ship, since cruise passengers tend to be day visitors) per square kilometer of land area and per kilometer of coastline.

Table 1
Tourist Intensity, 2001

	Arrivals/sq. km.	Arrivals/km. Coastline
Cuba	16.0	475.1
Bahamas	103.2	406.3
Dominican Republic	57.0	2156.7
Jamaica	116.2	1249.0
Puerto Rico	133.6	2428.1

Source: Derived from 2002 Caribbean Tourism Organization data.

Table 1 indicates that the other destinations tend to have a much higher number of tourist arrivals per square kilometer of land area (an average of 102 versus 16 for Cuba, or over six times as tourist-intensive per unit of land). If Cuba were to realize a similar intensity of visitation, it would have 11.5 million visitors annually. Similarly, the other destinations have a much higher intensity of visitation per kilometer of coastline (an average of 1560 versus 475 for Cuba, or over three times as intensive). If Cuba were to realize a similar intensity of coastal visitation, it would have 5.8 million visitors annually. This potential range of visitation of 5.8-11.5 million visitors is not a prediction. It does, however, provide an independent validation for the hypothesis that Cuba should easily be able to physically handle its earlier share of 18 to 21 percent of the travel to the

Caribbean area. Specifically, a 20 percent market share would imply about 4 million arrivals versus roughly 6-11 million based on comparable tourist intensities per unit of land area or coastline.

Given the great differences among potential destinations in the Caribbean area, the numerical comparison above can only be a rough guide. Nonetheless, there appears to be no inherent physical reason why Cuba should not be able to increase its historical share of travel to the Caribbean area. It is, therefore, useful to supplement these mechanical comparisons with the judgment of experts in the travel industry who have been studying the potential for travel to Cuba.

2.3 Expert Opinion

Three U.S. experts have made fairly similar estimates of the likely level of visitation to Cuba:

- • Richard Copland, President of the American Society of Travel Agents (ASTA) recently visited Cuba and predicted that “If the ban was lifted tomorrow, we estimate that at least a million Americans would go there, the first year alone.” He further predicted that travel to Cuba would increase to five million by the fifth year after the travel ban is lifted^{iii[iii]}.
- • David Edgell, former Under Secretary of Commerce and Director of the U.S. Travel and Tourism Administration as well as Commissioner for Tourism for the U.S. Virgin Islands predicts about one million additional American tourists in the first year after lifting the travel embargo. He predicts about four and a half million arrivals in Cuba by the fifth year^{iv[iv]}.
- • Ernest Preeg, a former high-level State Department official, predicts at least one million additional visits in the first year, but is somewhat more conservative in his estimate that in the fifth year of a post-Castro Cuba, four million tourists would visit the island^{v[v]}.

In order to gain additional insight into the probable level of U.S. travel to Cuba, professionals in the field (tour operators, travel agents, airline and cruise ship operators) were interviewed. The sample was too small to be considered representative or statistically significant, but their views tend to reinforce the earlier estimates. Specifically, the industry professionals were asked, among other things, whether they thought that the estimate of one million American travelers in the first year and five million total arrivals in five years was: (a) too high; (b) about right; or (c) too low. Most indicated that they thought that the estimate was about right. By way of comparison, Cuban tourism officials have indicated that they plan on seven million tourist arrivals within ten years, which would be fairly consistent with these projections.

6.1.6.1. Our Estimate of U.S. Travel to Cuba

We believe that Cuba has great potential to sharply increase American tourism in view of the pent-up U.S. demand, its large land area, extensive coastline (including some 1300 offshore islands), its natural and cultural attractions, and high degree of physical safety. Based on the various projections, analysis of Cuba's past performance and tourism physical absorptive capacity, we estimate that **U.S. tourist arrivals to Cuba would be one million in the first year after a complete lifting of the embargo.** (Because of supply constraints, however, the increase in total arrivals to Cuba from all countries would probably be considerably less than the one million U.S. arrivals).

We assume that supply constraints would be removed by the fifth year and estimate that **total tourist arrivals would reach about four million by the fifth year following complete lifting of the embargo.** Although there is no methodology for estimating what percent of this increased travel to Cuba would be by Americans, it seems likely that the great majority of this increased travel would come from the United States. This is because of Cuba's proximity to the United States, the historically predominant role of Americans in visitation to Cuba, and the pent-up U.S. demand for travel to Cuba by Americans because of the embargo. As a result, for projection purposes throughout this study, we assume that within five years, Americans will comprise 70 percent of the total arrivals, slightly less than the proportion of Americans arrivals in similar Caribbean destinations^{vi[vi]}. This implies that the number of American stay-over tourists to Cuba would increase from one million in the first year to 2.8 million by the fifth year after lifting the embargo.

In addition to the stay-over tourist arrivals, we estimate that U.S. cruise ship passengers arrivals to Cuba would total about 100,000 in the first year (roughly doubling Cuba's current arrivals) and 500,000 by the fifth year^{vii[vii]}. Cuban officials have expressed some reservation about large numbers of cruise ship day visitors that would "use our bathrooms, bathe on our beaches, leave us the trash and no money" and suggest that they might require a percentage of the passengers to stay at Cuban hotels^{viii[viii]}. While Cuba might try to impose these types of restrictions, they would drive away most of the potential business. Therefore, we assume that all cruise ship passengers would be day visitors only and we report these numbers separately.

We also anticipate that four new high-speed ferries would be in operation by the fifth year. These ferries would carry up to 75 vehicles and 350 passengers each, with an estimated 219,000 U.S. arrivals to Cuba annually. Some of the ferry passengers would be day-visitors and others would be stay-over tourists who would stay in Cuba for one or more nights. We assume that half of the ferry passengers would be stay-over tourists and half would be day-visitors. We include these arrivals in the respective totals reported for stay-over tourist and day-visitor arrivals.

2.5 Uncertainties and Caveats

Any forecasts about the probable level of U.S. travel to Cuba are subject to substantial uncertainty. One of the main uncertainties about the possible increases in U.S. travel to Cuba concerns the extent to which Cuba liberalizes its economy and creates a more favorable environment for foreign investment. This study assumes that the country continues to encourage foreign investment necessary to overcome supply bottlenecks in areas such as accommodations. However, if the Cuban government were to stop encouraging foreign investment in its tourism products, supply bottlenecks could sharply reduce the number of American tourists potentially traveling to Cuba.

Another possibility is that Cuba may adopt “Punish America” discriminatory requirements even if the United States liberalizes its travel ban. For example, reports suggest that the Cuban Government is considering placing special requirements on American travel companies wanting to do business in Cuba. These special requirements could force prices for Americans up by 20-30 percent^{ix[ix]}. If these kind of discriminatory provisions are imposed, travel to Cuba by Americans will be significantly reduced. At a minimum, Cuba will probably take actions to avoid becoming overly dependent on any single country in the way that it depended on the United States through the 1950s or the Soviet Union prior to 1990. This will limit to an unknown degree the extent to which U.S. companies will be able to count on a “level playing field” when it comes to doing business in Cuba.

Ultimately, the level of American travel to Cuba will depend on how the product is perceived in the U.S. market. That will depend on a wide variety of considerations including not only Cuban government policies, but such things as the effectiveness of marketing programs, investments in competing destinations, fears about personal safety at various destinations, and worldwide economic and political events. None of these developments are easy to predict, so all the forecasts about future levels of U.S. tourist travel to Cuba are subject to considerable inherent uncertainty.

Finally, American policy will have a substantial impact. As noted earlier, the U.S. Government has a wide variety of potential courses of action short of complete elimination of the embargo. The next section discusses the probable level of travel to Cuba under the three postulated alternative Scenarios.

3. LEVEL OF U.S. TOURISM UNDER THE DIFFERENT SCENARIOS

6.1.6.1. Scenario 1

The prohibition on any direct flights or cruises from the United State would significantly reduce the number of Americans traveling to Cuba because of the additional cost, time and hassle of having to make connections with foreign flag carriers in third countries.

While it is difficult to predict exactly how much travel would be reduced, a simple model that reflects both the higher cost and additional time associated with having to travel through third countries suggests a significant adverse impact. For example, the requirement to connect through third countries is likely to add something on the order of an additional 20 percent in direct costs and 20 percent in the opportunity cost of the additional time. A travel demand model with a unitary elasticity of demand (which is conservative) indicates that stop-over travel by Americans in the first year following removal of travel restrictions would be about 600,000 (versus the projected 1 million with complete elimination of the embargo). That number would be expected to increase to about 1.7 million by the fifth year.

U.S. carriers and tour operators might benefit slightly under this option, since American airlines would carry at least some additional passengers to make connections in third countries, such as Mexico and Canada, and tour operators would make some of the arrangements. However, we believe that this effect would probably be offset by the diversion of business from other destinations that they serve. As a result, we estimate that only U.S. travel agents would benefit from this Scenario as their clients would hire them to book tickets on foreign airlines and cruises to Cuba originating from foreign gateways.

6.2.6.2. Scenario 2

Under this scenario, U.S. airlines, cruise ships, tour operators and travel agents would be allowed to serve American travelers to Cuba. We project that nearly the full one million U.S. stop-over travelers would travel to Cuba under this option in the first year. A small proportion of potential American tourists might pass up the opportunity to visit Cuba because they could not stay in U.S.-flag hotels or eat in U.S.-owned restaurants, but the number of these potential tourists should be relatively small. For forecasting purposes, we have arbitrarily estimated that five percent of potential American travelers would decide not to go to Cuba if they could not stay in U.S.-flagged hotels. This would imply 950,000 American tourist arrivals in the first year and about 2.7 million arrivals by the fifth year. Supply constraints, however, will be a major problem in the near-term because of the surge in American tourists, but should largely be removed over five years because non-U.S. hotel, rental car, restaurant, tour operator and other service providers would move in to fill the gap.

For simplicity, we assume that all of American air travelers to Cuba would travel on U.S. flag carriers. The economic benefits to the United States, while much larger than under Scenario 1, will still be significantly smaller than under Scenario 3 because U.S. hospitality and other service firms would not be allowed to compete in the Cuban travel market. As noted, U.S.-based-cruise ship arrivals would increase by an estimated 100,000 in the first year and 500,000 by the fifth year, perhaps necessitating the construction of new vessels to meet the demand. However, based on current procurement patterns, none of these ships are likely to be built in the United States. The projected 219,000 arrivals by high-speed ferries implies the construction of four new ferries to

carry cars and passengers to Cuba. These vessels could be built in the United States and would create additional U.S. income and jobs.

6.3.6.3. Scenario 3

Under this scenario, we anticipate that U.S. stay-over tourist arrivals would be a full one million in the first year and 2.8 million by the fifth year. U.S.-based cruise ship and ferry arrivals are estimated to be the same as under Scenario 2. The primary difference with that scenario is that U.S. hospitality enterprises would be allowed to invest and operate in Cuba, thereby gaining opportunities to compete in the hotel construction and related markets. This would yield one-time economic benefits in terms of architectural and engineering fees and export of U.S.-supplied construction supplies, furniture, fixtures and equipment. It would also generate annual benefits in terms of repatriated profits, concession and management fees. Scenario 3 also assumes complete lifting of the embargo, which would allow other U.S. industries, primarily agriculture to export to Cuba in order to meet the needs of American tourists.

4. DIVERSION FROM OTHER DESTINATIONS

In projecting the potential economic benefits to the United States from relaxing the trade embargo, it is necessary to estimate the degree to which the additional travel to Cuba will represent a net increase in overall U.S. international travel. The opportunity to visit Cuba as a new destination will stimulate some people to visit Cuba who would not otherwise have traveled. Other potential travelers are likely to decide to go to Cuba in lieu of some other destination, and these travelers represent a diversion from other countries and will not increase overall travel or economic benefits to U.S. carriers or travel companies.

6.1.6.1. Potential Diversion from Caribbean Destinations

The bulk of diversion from other destinations is likely to come from other Caribbean countries, especially the Spanish speaking destinations such as the Dominican Republic, Cancun in Mexico, and Puerto Rico. In the absence of a methodology for estimating the extent of diversion versus net new travel, we included a question about potential diversion in the survey questionnaire. The travel industry experts offered a wide range of opinions on this, with one tour operator predicting that as much as 95 percent of the travel to Cuba would be additional (i.e., only five percent would be diversions). Given the differing opinions, we have made the simplifying assumption that half of the American travelers to Cuba would represent a net addition to total travel to the region with the other half representing a diversion from other Caribbean destinations.

6.2.6.2. Potential Diversion from U.S. Destinations

The travel industry experts were asked whether they thought Cuba would divert destination business from U.S. cities. Opinions on this varied as well, but most indicated that opening the Cuban market would probably ultimately increase visitation to the U.S. gateway cities (primarily in Florida) as visitors stopped over while connecting with flights and cruises based in these destinations. Given the uncertainties about these predictions, however, and in order to be conservative, we have not included this possible increase in visitation to U.S. gateway cities in the estimates of economic benefits.

6.3.6.3. Net Cruise Ship/Ferry Travel

Cruise vacations are inherently different from air travel in that the ship is often the primary destination, with ports of call an additional attraction. While many Americans will be attracted to cruises that include, or even feature, Cuban ports-of-call, many other potential cruise clients are likely to make the decision to cruise the Caribbean area first and then select preferred itineraries. As a result, the opening of Cuba to U.S. cruise ships may not have as large an impact on the overall level of demand for Caribbean-area cruises, even though the number of cruise arrivals in Cuba may be substantial. Lacking a rigorous methodology for estimating the net increase in Caribbean-area cruise volume, we “guesstimate” that the net increase in cruise passengers will only be about half of the total increase. This would imply about 50,000 net new cruise passengers to the Caribbean area in the first year and 250,000 new passengers by the fifth year. This would represent an increase of about seven percent over the estimated level of Caribbean-area arrivals that would occur if Cuban ports-of-call were not available to U.S.-based ships

Several industry professionals also predicted that fast ferry service would be established with Cuba. There was some ferry service to Cuba in the 1950s, but the emergence of the large, fast ferries (40 knots or higher), opens up a whole new market, which can serve both passengers and vehicles (personal autos and tour buses). This would be a very different situation than existed before and there are no good precedents upon which to base demand estimates. Accordingly, the study assumes that four new 350-passenger ferries would be built, making one round-trip per day. We anticipate that direct ferry service would transport over 200,000 annually to Cuba by the fifth year. These high speed ferries could be built in the United States at a cost of about \$30 million apiece, creating one-time income of \$120 million for the United States

6.4.6.4. Estimates of Net Increase in U.S. Travel

Based on the estimates of travel to Cuba by Americans, we estimate that net U.S. travel (i.e., the amount by which U.S. travel to the Caribbean-area will increase after allowing for the reduction in U.S. travel to competing destinations) will increase by the following amounts.

Table 2
Net Increase in Total U.S. Caribbean-Area Arrivals
 (Number of Passengers)

	<u>Stay-over Arrivals</u>		<u>Cruise/Ferry Day Trips</u>	
	First Year	Fifth Year	First Year	Fifth Year
Scenario 1	300,000	840,000	0	0
Scenario 2	475,000	1,330,000	50,000	450,000
Scenario 3	500,000	1,400,000	50,000	450,000

5. PROJECTED DIRECT INCREASE IN U.S. JOBS AND INCOME

Travel to Cuba by Americans involves spending overseas and the services being provided to tourists while they are overseas are considered service imports. Nonetheless, the increase in travel to Cuba will generate considerable economic activity within the United States and create substantial direct employment and income in those industries serving American travelers. Depending on the scenario, the economic benefits to the American economy will vary widely. The direct benefits to the U.S. economy will come from the U.S. jobs and income generated by the expenditures of American travelers getting to and staying in Cuba. We are including the construction of new U.S. flag hotels as one of the “direct” impacts of increased travel to Cuba.^{x[x]} The import of American food into Cuba and other indirect and induced benefits are separately estimated in Section 6.

5.1 Projected Composition of Air Travel Expenditures to Cuba

On average, in 1999 U.S. international air travelers spent \$2,534 per trip^{xi[xi]}. Of this total, expenditures on airfare accounted for 51 percent of the total, expenditures at the U.S. airport were less than one percent, and expenditures outside the United States accounted for 48 percent. Only 14 percent of the U.S. international air travelers went on organized tours and they spent \$1,871 per trip, significantly less than the average traveler, but there was no breakdown by expenditure category because of the package nature of the trip. Trip expenses to Cuba are likely to be well below the average for all U.S. international travel because of Cuba’s proximity and its current positioning as a relatively low-cost destination. We anticipate that a higher-than-average proportion of American travelers would take group tours in the early years because of difficulties in getting reservations and uncertainties about product quality. Assuming that one-third the

travelers went on group tours, we estimate that the average trip to Cuba would break down as follows:

Table 3
Projected Expenditures per Tourist Arriving by Air

	Cost in US dollars
Airfare	\$500
Tour operator	150
Travel agents	15
Accommodations	700
Other	<u>400</u>
Total	

These expenditures directly create income and jobs for the U.S. airlines, tour operators and travel agents that serve the American traveler. The income generated by the airlines and each other sector of the industry is then calculated directly from the projected number of arrivals and composition of spending. The number of new jobs created for each sector is calculated by using industry average employment to revenue ratios^{xiii[xiii]}. The increase in travel to Cuba is projected to generate up to \$212 million in U.S. income and ,063 jobs in the first year and up to \$595 million in U.S. income and 2,975 jobs by the fifth year after lifting the embargo.

5.2 Projected Cruise Ship and Ferry Income and Jobs

The cruise industry is in the middle of an unprecedented expansion. The North American cruise industry had a fleet of 163 cruise ships as of 2000 and is planning on at least 49 more ships through 2005, costing about \$15 billion. Given the current structure of the ship-building industry none of the cruise ships destined for Caribbean cruises are likely to be built in U.S. shipyards, but once in service, much of the repair and maintenance will be done in U.S. yards. The additional cruise passengers created by opening the Cuban market are projected to generate \$45 million per year in U.S. income and create 357 new U.S. jobs in the first year and \$247 million in income and 1,920 jobs by the fifth year^{xiii[xiii]}.

We also anticipate that at least four high speed ferries would begin operations to Cuba before the fifth year. They would be built in U.S. shipyards at an estimated cost of \$30 million apiece thereby generating \$120 million in one-time revenue. They would also annually generate \$44 million in income and 120 new U.S. jobs^{xiv[xiv]}.

6.1.6.1. Projected U.S. Hotel Construction and Operations

Cuba's ability to accommodate an additional 1 million visitors in the first year following relaxation of the travel ban is questionable. Therefore, the study assumes that the surge of American tourists in the first year would displace a substantial number of non-American visitors. However, if the Cuban government continues to encourage foreign investment in tourism infrastructure, we anticipate that foreign investors would step in to build the capacity necessary to accommodate the projected increase in visitation by year five even if U.S. companies are not allowed to operate in Cuba. Despite the fact that European, Canadian, and Mexican hotel groups have a strong foothold in the market, U.S. customer preferences for American-flagged hotels should allow U.S. companies to compete effectively for new hotel construction and management contracts if the U.S. Government allows them to.

Based on the forecast level of arrivals and an average stay of seven days, Cuba would need about 9,500 new hotel rooms just to accommodate the increase in American visitation in the first year, with approximately another 11,500 rooms to meet the projected demand by the fifth year. Adjusting to reflect the fact that hotel companies from other countries already have a foothold in Cuba, we estimate that U.S. hotel companies would capture roughly 40 percent of the market for new hotel construction. We further assume that 30 percent of the hotel construction costs would return to the United States in the form of payments for architectural and engineering work, furniture, fixtures, equipment and other exports of U.S. products. The construction and U.S. hotels in Cuba would, therefore, lead to an average of \$51 million per year in construction income to the United States and 354 U.S. jobs per year over the course of five years.^{xv[xv]} In order to be conservative, we are including the income and jobs from hotel construction only in the fifth year totals, even though some of these benefits would be felt as early as the first year in terms of architectural and engineering work and orders for long lead time items. Annual operations are estimated to yield an additional \$51.1 million in U.S. income and 510 jobs^{xvi[xvi]}.

American tourists will generate demand for other U.S. based-services in addition to hotels, such as chain restaurants and car rental agencies. Cuba will probably try to keep as much as possible of this type of business for local companies, so it is difficult to predict how successful U.S. companies will be in breaking into the Cuban market. In the absence of a methodology for making these estimates, we have made the simplifying assumption that all of these other industries will generate U.S. income and employment equal to about ten percent of that of the hotel industry^{xvii[xvii]}.

6.2.6.2. Projected Increase in Direct Jobs and Income by Sector

Table 4 summarizes the direct income and employment from air arrivals, cruise ships and hotel construction and operations.

Table 4
Summary of Direct Economic Benefits
(Income in \$ in millions)

	Year One		Year Five		Income	Jobs
Scenario 1					4.5	
Scenario 2	275.1	1,697	885.1	6,056		
Scenario 3	287.2	1,998	1,038.3	6,411		

Tables 5 and 6 show the projected increase in income by the major sectors of the travel industry as a result of relaxing the travel ban for years one and five respectively. They indicate that the airlines will be by far the largest generator of U.S. income and that this income will grow substantially over the five year period.

Table 5
Increase in Direct Income in Year One

Industry	Scenario 1	Scenario 2	Scenario 3
Airlines	0	201.9	212.5
Cruise ships	0	44.7	44.7
Tour operators	0	21.4	22.5
Travel agents	4.5	7.1	7.5

Total	4.5	275.1	287.2	—
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Table 6
Increase in Direct Income in Year Five

Industry	Scenario 1	Scenario 2	Scenario 3
Airlines	0	565.2	595.0
Cruise ships	0	247.4	247.4
Tour operators	0	59.8	63.0
Travel agents	12.6	12.6	21.0
U.S. hotels	0	0	101.7
U.S. other	0	0	10.2
Total	12.6	885.1	1,038.3

Tables 7 and 8 show the projected number of American jobs created for years one and five respectively by direct employment in the major travel industry sectors. In the first year, airlines are still the predominant generator of jobs, but the cruise and ferry industry begins to catch up by the fifth year as the new ferries are built and begin operations.

Table 7
Increase in Number of Jobs in Year One

Industry	Scenario 1	Scenario 2	Scenario 3
Airlines	0	1,009	1,063
Maritime	0	357	357
Tour operators	0	214	225
Travel agents	45	71	75
U.S. hotels	0	0	232
Total	45	1,652	1,998

Table 8
Increase in Number of Jobs in Year Five

Industry	Scenario 1	Scenario 2	Scenario 3
Airlines	0	2,826	2,975
Maritime	0	1,907	1,907
Tour operators	0	599	630

Travel agents	126	200	210
U.S. hotels	0	0	652
U.S. other	0	0	56
Total	126	5,531	6,411

7.7. INCREASE IN INDIRECT AND INDUCED JOBS AND INCOME

In estimating expected economic benefits, it is important to capture the full economic benefit of a new activity, not just the immediate income and jobs created. These broader impacts are traditionally categorized as “indirect” and “induced” effects. The indirect effects are those created by the demand for inputs needed to produce the initial good or service. For example, airlines need to purchase aircraft and equipment to provide their services. This creates additional income and jobs in the industries providing the aircraft and equipment. “Induced” effects result from the spending of the employees of the firms providing the various services. For example, employees of the airlines and other firms serving the airlines will spend a portion of their income on food, housing, entertainment and the like. The impacts of all these indirect and induced effects are captured in so-called “multipliers”, which indicate the extent to which the initial spending in specific industries spreads through the economy creating additional jobs and income.

7.1.7.1. Increase in Related U.S. Exports to Cuba

In addition to the traditional multipliers, in the case of travel to Cuba, American travelers will spend money that will come back to the United States in the form of exports to Cuba to meet their needs. We have already covered the potential benefits from hotel construction and income from hospitality enterprises in the preceding section. The other primary U.S. export opportunity because of U.S. travel to Cuba will probably be food exports. American tourists will expect to eat a variety of foods that are not available in the necessary quantity or quality in the Cuban market. As a result, many of the resulting food imports into Cuba will come from the United States.

The potential economic benefits from U.S. agricultural exports to Cuba have been estimated in a study by Texas A&M University sponsored by the Cuba Policy Foundation^{xviii[xviii]}. That study projected increased agricultural exports to Cuba of between \$410 million and \$1.2 billion under different scenarios driven in part by a projected increase in U.S. tourists of one million. Although not separately broken out in the study, the authors report that about \$200-250 million of the \$1.2 billion in their high estimate would come from U.S. food exports to Cuba given their estimate of demand generated by an assumed one million American tourists. Under Scenario 3, the net increase in U.S. tourists would total 1.4 million, which would imply U.S. agricultural exports of over \$300 million if the same relationships apply. However, since these U.S. agricultural exports have already been identified in the Texas A&M study, it would be double counting to combine the estimates of additional food exports from both studies when estimating the total economic benefits across all sectors that would result from eliminating the Cuban trade embargo. As a result, we note the importance of potential U.S. agricultural exports, but do not include them in the totals in this study.

American tourists are also likely to stimulate the demand for a wide range of other U.S. exports to Cuba to meet their needs. For example, U.S. car rental companies would presumably seek to enter the Cuban market as would U.S. chain restaurants. Based on experience elsewhere in the Caribbean-area, they could be an important source of demand for U.S. autos and a variety of equipment and consumable items. American tourists will also want a variety of U.S.-made personal items ranging from medicines to film. Given the uncertainties about the size of these other markets, we have just made the simplifying assumption that they will equal ten percent of the hotel market.

7.2 Total Increase in U.S. Jobs and Income (Indirect and Induced)

Several established input-output models have developed multipliers, such as IMPLAN and RIMS II, that are typically used for estimating indirect and induced impacts on output, income and employment. These multipliers typically yield relatively similar results and are based on industry categories such as the Standard Industrial Classification (SIC) Codes. For most purposes, the industry classifications conform fairly closely with the domestic activities being undertaken, although it is usually necessary to develop

conversion tables that match the specific activities being undertaken with the industry classification codes in the multiplier models.

In the case of estimating the economic impacts of increased tourism to Cuba, however, the existing models and industry classifications do not necessarily fit well. For example, some of the expenditures by the U.S. airlines that fly to Cuba will be made in Cuba and will not generate the same economic benefits to the U.S. economy. In other cases, major beneficiaries such as tour operators, do not have a separate industry classification and have to be lumped into larger groupings, which may have very different multiplier characteristics. As a result, it is likely to be as accurate to assume economy-wide average multipliers as to attempt to use sector-specific multipliers that were developed for domestic activities and may or may not accurately reflect the impacts of travel to Cuba.

Calculations of tourism multipliers range widely from country to country and within a country as well. Typically the estimated domestic tourism multipliers range from between 2.0 and 4.0^{xix[xix]}. Based on the limited data available on tourism multipliers calculated for industries operating internationally and in order to be conservative, we have used a multiplier of 1.9 to estimate the indirect and induced U.S. income and jobs resulting from travel to Cuba^{xx[xx]}. This implies that for most activities, an increase in expenditure in the industries in question will generate almost twice that level of economic activity once the indirect and induced effects work their way through the economy. This may significantly under- or over-state the impact of particular segments of the U.S. travel industry (e.g., airlines, cruise ships, tour operators and travel agents, new hotel construction), but should be fairly accurate for the total impact.

Table 9 presents the estimates of total jobs and income from direct, indirect and induced activities resulting from the relaxation of the travel ban. It presents the results for both Year One and Year Five and includes the average one-time benefits from hotel and ferry construction in Year Five.

Table 9
Summary of Total Economic Benefits
(U.S. Income in \$ millions)

	Year One		8.5	Year Five		86
	Total Income	Total Jobs		Total Income	Total Jobs	
Scenario 1						
Scenario 2	522.6	3,224		1,695.6	10,749	
Scenario 3	545.6	3,797		1,972.4	12,180	

8. 8. CONCLUSIONS

The potential economic benefits to the United States from relaxing the ban on U.S. resident travel to Cuba would be substantial, but vary greatly depending on the Scenario.

Under Scenario 1, which allows Americans to travel to Cuba legally, but does not allow U.S. carriers or tour operators to provide supporting services, the benefits are quite limited. Our estimate is that only travel agents would be able to earn income from the increased travel to Cuba. This would generate a relatively small \$8.5 million in income and 45 jobs in the first year and \$23.9 million and 239 jobs after all the direct, indirect and induced impacts are included.

Under Scenario 2, which allows U.S. carriers and tour operators to provide services to American travelers, the economic benefits to the United States increase dramatically. Allowing for indirect and induced effects, \$523 million in additional income and 3,224 jobs would be generated for the United States in the first year and \$1.7 billion and 10,749 jobs by the fifth year.

Under Scenario 3, which assumes complete elimination of the embargo, U.S. economic benefits would increase somewhat more, primarily because U.S. hotels and other hospitality providers could operate in Cuba. Total U.S. income would increase to \$545 million in the first year and 3,797 new jobs would be created. Total income would rise to over \$1.9 billion and 12,180 new jobs would be created by the fifth year.

Under all scenarios, the U.S. airlines and their employees would be the biggest income and job generators resulting from relaxing the ban on travel to Cuba, followed fairly closely by the cruise industry and fast ferry service providers. Under the study assumptions, tour operators would also be large gainers, as would the U.S. hotel industry. The induced and indirect income and employment generated from these primary industries would be spread widely throughout the U.S. economy as travel industries and employees purchased needed products and services.

ENDNOTES

ⁱ[ⁱ] Available at <http://www.cubatrade.org/market.html>.

ⁱⁱ[ⁱⁱⁱ] Throughout this study, we follow the standard definition of “tourist” as being a visitor that stays at the destination for at least one night, in order to differentiate between tourists and day visitors, whose spending patterns are very different.

ⁱⁱⁱ[ⁱⁱⁱ] Cited in TED Case Study available at www.american.edu/projects/mandala/cuba.htm.

^{iv}[^{iv}] Personal communication with the authors.

^v[^v] TED Case Study op cit. Interestingly, the staff of the International Trade Commission estimated that only 100,000 to 350,000 U.S. residents would travel to Cuba in the absence of sanctions, but gave no explanation for their estimate, which seems to be extremely conservative in light of the pent-up demand for travel to Cuba and historical travel patterns. See USITC, The Economic Impact of U.S. Sanctions with Respect to Cuba (USITC Publication 3398, February 2001).

^{vi}[^{vi}] This compares with the 1950s situation when 85% of tourists to Cuba were Americans and to the current situation in Cancun, Mexico, where Americans comprise 72% of arrivals.

^{vii}[^{vii}] The North American cruise industry is in the most ambitious expansion in its history and is anxious to add new ports-of-call to its itineraries. There is considerable uncertainty about the speed at which Cuban ports could be expanded to handle increased cruise arrivals. Current arrivals in the Caribbean area are less than three million, so 500,000 arrivals to Cuba would represent almost 20 percent of total arrivals, which seems reasonable. However, our forecasts of arrivals to Cuba are more “guesstimates” than analytically-derived forecasts and should be viewed with caution. The income and jobs generated by cruise traffic, however, are less significant than several other sectors, so these uncertainties may not be that important to the overall findings.

^{viii}[^{viii}] Roberto Marty, advisor to the Minister of Tourism, quoted in an April 21, 2002 article in the Orlando Sentinel.

^{ix}[^{ix}] Telephone conversation with International Expeditions.

^x[^x] As discussed later, economic benefits are typically calculated in terms of direct, indirect and induced impacts. See Section 6.

^{xi}[^{xi}] From In-flight Survey of U.S. Travelers to Overseas and Mexico (U.S. Dept. of Commerce).

^{xii}[^{xii}] For example, U.S. airlines average about five employees for every million dollars of revenue, cruise lines about seven employees, and services vary widely, but many require more than ten employees per million dollars in revenue.

^{xiii}[^{xiii}] These estimates are derived from a detailed analysis prepared for the International Council of Cruise Lines that found that 53 percent of cruise lines gross revenues was spent in the United States. See, The Contribution of the North American Cruise Industry to the U.S. Economy, Business Research & Economic Advisors, October 2001.

^{xiv}[^{xiv}] These estimates assume that each ferry makes one round trip to Cuba per day with an average fare of \$200 and a crew of 30.

^{xv}[^{xv}] This estimate assumes that 30 percent of the construction costs would return to the United States in the form of architectural and engineering services and exports of items such as furniture, fixtures and equipment.

^{xvi}[^{xvi}] This estimate is based on the assumption that 10 percent of gross revenues returns to the United States in the form of profits, management fees, and consumables.

^{xvii}[^{xvii}] This should be very conservative in view of the wide range of industries and activities that would be stimulated by increased travel to Cuba. They include not only restaurants and auto rentals, but items like travel insurance, computer services, advertising and marketing, vessel repair and maintenance.

^{xviii}[^{xviii}] Rosson, Parr and Flynn Adcock, Economic Impacts of U.S. Economic Agricultural Exports to Cuba (Texas A&M University, prepared for the Cuba Policy Foundation, October 2001).

^{xix}[^{xix}] See David L. Edgell, Sr., Tourism Policy: The Next Millennium, (Sagamore Publishing, Champaign, Illinois, 1999), page 18.

^{xx}[^{xx}] The 1.9 multiplier is derived from The Contribution of the North American Cruise Industry to the U.S. Economy, op. cit., pages 39-40. The multiplier for the cruise industry was carefully estimated, but may or may not be reflective of other industries, for which similar calculations are not available.