

**THE IMPACT ON THE U.S. ECONOMY OF
LIFTING RESTRICTIONS ON TRAVEL TO CUBA**

Prepared for
Center for International Policy

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Executive Summary

- ✈ In response to a request from the Center for International Policy, *The Brattle Group* analyzed the long-term impact on the U.S. economy of lifting restrictions on travel by Americans to Cuba. Our study addressed four questions:
 - How many more Americans would travel to Cuba for overnight stay in the absence of travel restrictions?
 - What would be the resulting *net* increase in passenger demand for travel on U.S. air carriers (*i.e.*, excluding travel diverted from other destinations)?
 - How much additional economic activity would the increased demand for air travel generate?
 - How many passengers would visit Cuba on U.S.-based cruise ships, and how much additional economic activity would that generate?

- ✈ About 200,000 Americans visited Cuba in 2000, most of them under a “general” or “specific” U.S. government license allowing travel for humanitarian and limited other purposes. Of that number, 120,000 were Cuban Americans visiting close relatives.

- ✈ To estimate how many Americans would travel to Cuba in the absence of U.S. travel restrictions, we analyzed travel patterns of comparable groups. Based on our examination of the incidence of family visits by Dominican Americans, we estimate that the current 10 percent rate of such visits by Cuban Americans would increase to at least 33 percent – an additional 289,000 annual trips. Based on the very high rate at which Canadians travel to Cuba, we estimate that 2.8 million Americans would visit Cuba annually for tourism – 2.72 million above the current level. In all, we would expect an additional 3.01 million Americans to visit Cuba annually.

- ✈ In estimating increased demand for U.S. air travel to Cuba, the challenge is to distinguish between diverted travel (passengers who otherwise would have gone to another travel destination) and incremental travel (passengers who otherwise would not have traveled). Our first estimation method conservatively assumes that 80 percent of American tourist travel to Cuba would be diverted and only 20 percent would be incremental. Using this method, we estimate that U.S. airlines would earn an additional \$250 million a year in revenue in the absence of travel restrictions.

- ✈ Our second estimation method posits that the slightly higher rate at which Canadians, compared to Americans, travel to the Caribbean is due the availability of Cuba as a Caribbean travel option. If Americans respond similarly to the “opening” of Cuba – a reasonable expectation given the strong similarity between American and Canadian travel tastes and demographic and socioeconomic profiles – American tourist arrivals in the Caribbean would increase by 10.8 percent overall. As a result, U.S. air carriers would earn an additional \$415 million a year in revenue.

- ✈ This increased demand for air travel would generate significant economic activity due to the corresponding increase in demand for inputs to airline service and the ripple effect on consumer spending. Applying a multiplier estimate of 2.6 to capture these “indirect” and “induced” spending effects, the total impact would range from \$650 million to \$1.08 billion a year in additional U.S. output. The corresponding employment effects would range from 9,285 to 15,417 new jobs created.
- ✈ As for cruise travel, based on our earlier estimate that Cuba could expand the overall Caribbean travel market by 10.8 percent, we predict that 397,000 more passengers a year would take Caribbean cruises if Cuba were available as a port-of-call. As a direct impact, U.S.-based cruise lines would spend an additional \$280.15 million a year in the United States. Using a multiplier estimate of 1.9 to capture the total spending effects, cruise travel to Cuba would increase U.S. economic output by \$532.28 million a year and create 7,603 new jobs.
- ✈ As summarized in the table below, the total impact of lifting restrictions on travel to Cuba is measured as the combined impact of increased demand for air and cruise travel. Our estimates indicate that, in the absence of travel restrictions, U.S. economic output would expand annually by \$1.18 billion to \$1.61 billion over time. This expansion would create from 16,888 to 23,020 new jobs.

**Overall Impact on the U.S. Economy of
Lifting Restrictions on Travel to Cuba**

	Due to Increased Demand for Air Travel	Due to Increased Demand for Cruise Travel	Combined
Increase in GDP (thousands)			
Estimation Method 1	\$650,004	\$532,277	\$1,182,281
Estimation Method 2	\$1,079,228	\$532,277	\$1,611,505
Total Jobs Created			
Estimation Method 1	9,285	7,603	16,888
Estimation Method 2	15,417	7,603	23,020

The Impact on the U.S. Economy of Lifting Restrictions on Travel to Cuba

INTRODUCTION

Congress currently is debating whether to lift restrictions on travel by Americans to Cuba. In connection with that debate, *The Brattle Group*, an independent economic research and consulting firm, was asked by the Center for International Policy (CIP) to estimate the impact that such a policy change would have on the U.S. economy. In response to CIP's request, we conducted an economic analysis designed to answer four questions:

- How many more Americans would travel to Cuba for overnight stay if U.S. travel restrictions were lifted?
- What would be the resulting *net* increase in passenger demand for travel on U.S. air carriers (*i.e.*, excluding travel diverted from other destinations)?
- How much additional economic activity would the increased demand for air travel generate?
- How many passengers would visit Cuba on U.S.-based cruise ships, and how much additional economic activity would that generate?

Our analysis focused on airline and cruise travel because increased transportation demand is the most direct way in which a decision to lift travel restrictions would affect the U.S. economy. We used our estimate of the direct increase in transportation demand to calculate the broader impact on the economy that lifting restrictions would have. This overall impact also includes "indirect" effects (*i.e.*, increased demand for labor, equipment, and other inputs to travel) and "induced" effects (*i.e.*, consumer spending by employees of airlines, cruise lines and their suppliers). We examined, but did not attempt to quantify, other economic effects of lifting travel restrictions, including inland travel and the "consumer surplus" benefits of giving Americans another travel option.

In conducting our analysis, we looked at the *long-term* economic impact of lifting the travel ban, rather than the impact in the first few years. Thus, we disregarded any near-term constraints in the supply of hotel rooms and other tourist infrastructure in Cuba, in the belief that supply would increase to meet demand over the long term. Similarly, we assumed that over time, Cuba would provide effectively unrestricted access to U.S. airlines in an effort to attract American travelers.

Finally, we made two assumptions about the scope of potential legislation. First, we assumed that elimination of the travel ban would not only allow Americans to go to Cuba but also enable U.S. companies to transport them there. Second, we assumed that the broader trade embargo against Cuba would remain in place.

BACKGROUND

Restrictions on Travel to Cuba

Restrictions on travel have been a key component of U.S. policy toward Cuba for most of the last 40 years.¹ In 1962, President Kennedy imposed a trade embargo on Cuba to punish the new Communist regime of Fidel Castro. A year later, the Department of the Treasury's Office of Foreign Assets Control (OFAC) issued comprehensive regulations to carry out the embargo. Although OFAC regulations did not ban travel itself, they placed restrictions on any financial transactions related to it, effectively banning travel.

OFAC's regulations have changed many times since 1963. In 1977, President Carter lifted the ban on travel to Cuba altogether. Five years later, President Reagan reimposed restrictions on tourist and business travel but allowed continued travel by Cuban Americans visiting close relatives. President Clinton made repeated changes to the OFAC regulations in response to actions by the Cuban government. For example, after suspending flights between Cuba and the United States in 1996, Clinton in 1998 allowed resumption of charter flights from Miami to Havana, and in 1999 announced a new policy permitting direct flights to Cuba from New York and Los Angeles as well.

Who Can Travel? President Clinton's 1999 policy, designed to promote people-to-people contacts, also relaxed the OFAC rules governing who can travel to Cuba. Currently, 12 categories of travelers can visit Cuba under either a *general* license, which requires no written authorization, or a *specific* license, which requires OFAC approval.²

Most of the travel done under a general license consists of family visits by Cuban Americans. Specifically, U.S. residents with close relatives in Cuba can visit once every 12 months under self-defined circumstances of "humanitarian need," such as a sick or dying relative. (From 1994 to 1999, OFAC required "extreme humanitarian need.") Others who can travel under a general license include scientists, academics and researchers; fulltime journalists employed by a news organization; U.S. government officials; and non-professional athletes participating in international competitions.

Individuals who may be eligible for specific licenses include free-lance journalists, students, and business travelers arranging permitted export sales (medicine, medical equipment, and agricultural equipment and products to non-profit entities). In addition, Cuban Americans visiting close relatives for humanitarian reasons can apply to travel more than once a year. Although OFAC grants specific licenses on a case-by-case basis, an individual license may authorize more than one traveler (*e.g.*, an entire family or the staff of a research institution) and multiple trips over an extended period of time.

¹ For a detailed discussion of this issue, see Congressional Research Service Report RL31139, *Cuba: U.S. Restrictions on Travel and Legislative Initiatives in the 107th Congress*, by Mark P. Sullivan, updated March 27, 2002. Available under "Long Reports" at <http://www.house.gov/markgreen/crs.htm>.

² See Prepared Statement of R. Richard Newcomb, "Restrictions on Travel to Cuba," Hearing Before the Senate Appropriations Subcommittee on Treasury and General Government, February 11, 2002, pp. 40-44.

Number of Americans Traveling to Cuba

Because of the nature of its licensing process (*i.e.*, general licenses require no written approval and specific licenses can cover multiple travelers and trips), OFAC lacks precise data on how many Americans visit Cuba each year. However, the agency does track the number of Americans who travel to Cuba on (OFAC-licensed) charter flights, the only means of direct air transport from the United States. In addition, OFAC estimates the number of Americans who travel legally to Cuba (*i.e.*, under a general or specific license) via a third country.

During 2000, the last year for which it has done an analysis, OFAC estimates that 156,000 Americans traveled to Cuba legally.³ That is nearly double the figure for 1999 (82,000), presumably reflecting the Clinton Administration's "people-to-people" initiative. Most of those travelers – 70 percent or more, according to OFAC's estimate – were Cuban Americans visiting close relatives. The vast majority of them (135,000) traveled to Cuba on direct charter flights; the rest went via a third country.

While most Americans travel legally to Cuba, some travel illegally (*i.e.*, through a third country, without a general or specific license). In response to questioning at a recent Senate hearing, the director of OFAC, Richard Newcomb, indicated that as many as one-third of all Americans traveling to Cuba do so illegally.⁴

The Government of Cuba also tracks the number of Americans who visit Cuba.⁵ According to Cuban Foreign Minister Felipe Perez Roque, some 200,000 U.S. residents visited Cuba in 2001. Perez stated that 120,000 of them were Cuban Americans legally visiting relatives, and the rest were U.S. citizens, many traveling illegally.⁶ Consistent with those figures, Cuba's official tourism statistics, which exclude most Cuban Americans, report 76,900 arrivals from the United States in 2000.⁷

³ Telephone interview with senior OFAC official, May 2002. Although OFAC does not issue formal statistics on travel to Cuba, the agency compiled the figures cited in this paragraph in preparation for a recent congressional hearing.

⁴ "Restrictions on Travel to Cuba," *op. cit.*, p. 52. Thus, using OFAC's estimate of 156,000 legal visitors, the number of Americans who traveled to Cuba in 2000 could be as high as 234,000. At the same hearing, Newcomb responded positively when asked if the number of Americans who visited Cuba in 2001 was "between 150,000 to 200,000," but he may have been referring just to those who traveled there legally.

⁵ The Cuban government does not recognize dual citizenship; specifically, any Cuban-born American citizen who left Cuba after 1970 is considered to be solely a Cuban citizen. Hence Cuba classifies most Cuban Americans who visit Cuba as "U.S. residents," rather than "U.S. citizens," because it still considers them Cuban citizens.

⁶ "U.S. Travel Association Eyes Forbidden Cuba," *Reuters*, April 6, 2002.

⁷ Caribbean Tourism Organization, *2000 Caribbean Tourism Statistical Report*, "Table 10: Tourist Arrivals from the United States."

