CUBA TRADE BRIDGE

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Payments, Banking and Financial Risk in Cuba-Related Trade

Letters of Credit | Foreign Currency Accounts | Sanctions Screening | Exporter Protection

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Prepared by Cuba Trade Bridge

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Publication Note

This paper is part of the Cuba Trade Bridge Research Paper Series. It is intended to support foreign exporters, trade managers and business-development teams evaluating Cuba-related transactions.

The document is informational and analytical. It does not constitute legal, sanctions, banking, tax, customs, investment or financial advice. Transaction-specific advice should be obtained from qualified professionals, banks and relevant authorities.

Executive Summary

For foreign exporters, Cuba-related trade is not only a question of demand, pricing or import authorisation. It is also a payment-security question.

A Cuban buyer may have real commercial demand. An authorised importer may be involved. The product may be suitable for the Cuban market. However, none of these elements alone confirms that the exporter will be paid on time, in an acceptable currency, through a bankable route and without compliance disruption.

Letters of credit exist as a banking instrument in Cuba. Banco Exterior de Cuba lists the issuance and negotiation of letters of credit among its services. For exporters, however, the practical question is not simply whether an LC can be issued, but whether the exporter’s bank or an acceptable third-country bank will advise, confirm, negotiate or receive payment under that instrument.

Core thesis

In Cuba-related trade, payment security is not a back-office issue. It is a market-entry condition.

1. Why Payment Risk Matters

A sale is not secured when the buyer says “we can pay”. A sale is secured only when the payment route is verified.

Commercial element	What it may indicate	What it does not prove
Buyer interest	Potential demand	Verified payment capacity
Authorised importer	Possible import route	Bank guarantee
MIPYME demand	Market need	Foreign-currency availability
LC promise	Payment intention	Confirmable and bankable LC
Bank name	Possible transaction bank	Acceptance by exporter’s bank

2. Payment Methods: Exporter Protection Comparison

Payment method	Exporter protection	Practical assessment
Advance payment	Very high	Best protection, but buyer may resist.
Confirmed irrevocable LC	High	Strong option if confirmation is available and accepted by the exporter’s bank.
Irrevocable advised LC	Medium	Useful, but Cuban issuing-bank, transfer and country risk may remain.
Documentary collection	Medium-low	Documents may be controlled, but payment is not guaranteed.
Open account	Low	High risk with unknown buyers or unverified payment history.
Informal/indirect routes	Not recommended	Compliance, recovery and documentation risk.

Key message

No shipment before payment-route verification.

3. Letters of Credit in Cuba-Related Trade

Letters of credit can provide a structured payment mechanism in Cuba-related trade, but their effectiveness depends on the banking route behind the instrument.

An LC must be examined in terms of its issuing bank, advising bank, confirmation availability, currency, documentary conditions, sanctions exposure and the exporter's own bank's compliance position.

Control question	Why it matters
Which Cuban bank will issue the LC?	Defines issuing-bank and country risk.
Is the LC irrevocable?	Reduces cancellation or unilateral-change risk.
Is it subject to UCP 600?	Provides an international documentary-credit framework.
Will it be advised through SWIFT?	Supports banking authentication and communication.
Can it be confirmed by a non-Cuban bank?	May significantly strengthen exporter protection.
Which currency will be used?	Affects sanctions, bank acceptance and transfer route.
Will the exporter's bank accept it?	Determines whether the LC is practically usable.
Are documentary terms realistic?	Determines whether payment can actually be triggered.

Exporter rule

The exporter should not ship merely because the buyer says that an LC will be opened. Shipment should be conditional on receiving and reviewing an acceptable LC through the exporter's bank.

4. Confirmed LC vs Advised LC

The distinction between an advised LC and a confirmed LC is central for exporter protection. An advised LC is not the same as a confirmed LC.

Structure	Meaning	Exporter risk
Advised LC	A foreign bank notifies the LC but does not add its own payment obligation.	Cuban issuing-bank risk remains.
Confirmed LC	A foreign bank adds its own payment undertaking to the issuing bank's undertaking.	Stronger protection if the confirming bank is acceptable.
Unconfirmed LC	Exporter relies mainly on the issuing bank.	Bank, country and transfer risk remain.
Sight LC	Payment is due shortly after compliant documents are presented.	Often stronger than deferred payment, subject to terms.
Usance LC	Payment occurs after a credit period.	Adds time, credit and country risk.

Practical position

For exporters with no established relationship with the Cuban buyer, a confirmed irrevocable LC payable at sight is generally stronger than an unconfirmed LC or open-account sale, subject to bank acceptance and compliance review.

5. LC Transaction Workflow

Step	Action	Exporter checkpoint
1	Buyer proposes LC payment	Do not accept until issuing bank and currency are identified.
2	Cuban side identifies bank	Ask whether the bank can issue an irrevocable LC for this transaction.
3	Exporter consults own bank	Ask whether the bank will advise, confirm, negotiate or receive funds.
4	Draft LC reviewed	Check documentary terms, dates, shipment terms and discrepancy risk.
5	Compliance screening	Screen buyer, importer, banks, product and currency route.
6	LC issued and advised	Confirm authenticity through the exporter's bank.
7	Shipment	Ship only after acceptable LC activation or other verified payment protection.
8	Document presentation	Prepare documents exactly as required by the LC.

6. Cuban Banks and Correspondent Banking Risk

A Cuban bank's willingness to issue a payment instrument is only one side of the transaction. The exporter's bank must also be willing to advise, confirm, negotiate, discount, pay or receive funds under that instrument.

For this reason, payment verification should involve the exporter's bank before shipment. A payment route that appears possible from the buyer's side may still be rejected by the exporter's bank for compliance, correspondent banking, currency or sanctions-related reasons.

Question for exporter's bank	Reason
Will you advise this LC?	Confirms whether the bank can formally notify the instrument.
Will you confirm this LC?	Determines whether stronger exporter protection is available.
Will you negotiate documents?	Clarifies whether document presentation/payment handling is available.
Will you receive funds from this route?	Checks correspondent and compliance acceptance.
Which currencies are acceptable?	Avoids later currency-route rejection.
What screening is required?	Identifies sanctions and restricted-party checks before shipment.

Key message

A Cuban-issued payment instrument is not automatically equivalent to a bankable exporter-protection mechanism.

7. MLC, Foreign Currency Accounts and Non-State Actors

Cuba's foreign-currency environment requires careful interpretation. Official references continue to use MLC-related terminology, while the foreign-currency purchase mechanism for non-state economic actors refers to a separate "cuenta en divisas".

For exporters, the relevant issue is whether the buyer or authorised importer can fund the specific transaction through an acceptable banking route.

Concept	Practical meaning	Exporter question
MLC	Currency-linked Cuban banking/payment concept.	Is the transaction linked to an MLC account or reference?
Cuenta en divisas	Foreign-currency account mechanism for non-state actors.	Are funds available for this transaction?
MIPYME demand	Commercial need from a non-state actor.	Has payment capacity been verified?
Authorised importer	Operational import channel.	Who is the payment party?
Bank approval	Financial-execution capability.	Does the bank accept this route?

Key message

A MIPYME's demand should not be treated as verified foreign-currency payment capacity.

8. Sanctions and Export-Control Screening

Payment security and compliance screening should be reviewed together. A payment route that fails bank compliance review is not a usable payment route.

Screening area	Exporter checkpoint
Buyer / importer	Screen names, ownership and role in the transaction.
Banks	Check whether the exporter's bank will process the route.
Currency route	Assess USD exposure and correspondent-bank path.
Product classification	Check whether the item is subject to export controls.
U.S. nexus	Review U.S.-origin content, U.S. persons and U.S. banks.
Product category	Distinguish agricultural commodities from other authorised exports/reexports.
Restricted-party exposure	Review OFAC, SDN, Cuba Restricted List and other relevant restrictions.

9. Stop / Continue Matrix

Situation	Suggested decision
Buyer exists but no bank information is provided.	Stop until bank route is identified.
LC is promised but no draft is available.	Stop until draft LC is received and reviewed.
LC is issued but exporter’s bank refuses the route.	Stop or restructure payment route.
LC is advised but not confirmed.	Risk review; assess issuing-bank and country risk.
Confirmed irrevocable LC is available.	Continue subject to documentary and compliance review.
Advance payment received.	Continue subject to compliance and documentation checks.

10. Questions to Ask the Cuban Side

- Which Cuban bank will issue the payment instrument?
- Can the payment be structured as an irrevocable letter of credit?
- Can the LC be advised through SWIFT?
- Can the LC be confirmed by a non-Cuban bank?
- Which currency can be used?
- Does the buyer or authorised importer already have the required funds?
- Will the bank require full cash collateral before issuing the LC?
- What is the estimated timeline for LC issuance?
- What banking fees apply?
- Has the buyer completed similar LC-based import transactions recently?
- Can a draft LC text be shared before shipment?

11. Red Flags

The following signals do not automatically mean that a transaction is impossible. They indicate that enhanced verification is required before shipment.

Red flag	Why it matters
Buyer resists bank details	Payment route cannot be verified.
Buyer asks for open account with no history	Exporter assumes credit risk.
LC promised but delayed repeatedly	May indicate funding or bank-process issues.
Documents requested are inconsistent	Could cause LC discrepancy and non-payment.
Unclear payment party	Contract, invoice and payment route may not align.
USD route unclear	Potential sanctions/correspondent-bank risk.
Bank refuses confirmation	Risk remains with issuing bank and country route.

12. Exporter Protection Checklist

Before signing

- Contractual buyer identified.
- Authorised importer or payment party identified.
- Payment method agreed in principle.
- Currency route identified.
- Sanctions screening initiated.
- Product classification reviewed.
- Exporter’s bank consulted.

Before production or procurement

- Payment route pre-approved by exporter’s bank.
- LC draft reviewed if LC is used.
- Documentary conditions checked for realism.
- Shipment terms aligned with payment terms.
- Insurance and freight responsibilities clarified.
- Bank charges and confirmation costs allocated.

Before shipment

- LC received through bank or advance payment received.
- LC authenticity confirmed.
- Confirmation obtained if required.

- All parties screened.
- Documents prepared exactly as required.
- No shipment before payment route activation.

13. Source Register

The following sources form the official and institutional source register for this edition.

Source	Relevance	URL
Banco Exterior de Cuba - Services	Lists issuance and negotiation of letters of credit as a banking service and explains the documentary nature of the instrument.	https://bancoexteriorcuba.cu/sections/Services
Banco Central de Cuba - Venta de divisas a Actores Económicos No Estatales	Official page on foreign-currency purchase mechanism for non-state actors and foreign-currency account treatment.	https://www.bc.gob.cu/divisas-actores-no-estatales
Banco Central de Cuba - Tasas de cambio	Shows official exchange-rate references and MLC transfer terminology.	https://www.bc.gob.cu/tasas-de-cambio
OFAC FAQ 766	Payment and financing terms for authorised exports/reexports of items other than agricultural commodities to Cuba.	https://ofac.treasury.gov/faqs/766
OFAC FAQ 767	Payment and financing terms for authorised exports/reexports of agricultural commodities to Cuba.	https://ofac.treasury.gov/faqs/767
BIS - Cuba Export Controls	Export/reexport licence and licence-exception framework for items subject to the EAR.	https://www.bis.gov/licensing/country-guidance/cuba-export-controls
15 CFR 746.2 - Cuba	Regulatory reference point for EAR Cuba controls and licence exceptions.	https://www.ecfr.gov/current/title-15/subtitle-B/chapter-VII/subchapter-C/part-746/section-746.2

14. Disclaimer

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Cuba-related transactions may be affected by changing legal, regulatory, banking, sanctions, currency, logistics and operational conditions. Exporters should verify transaction-specific facts before making commercial commitments, shipping goods or extending credit.

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