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CUBA: OVERVIEW OF FOREIGN AGRIBUSINESS INVESTMENT

By

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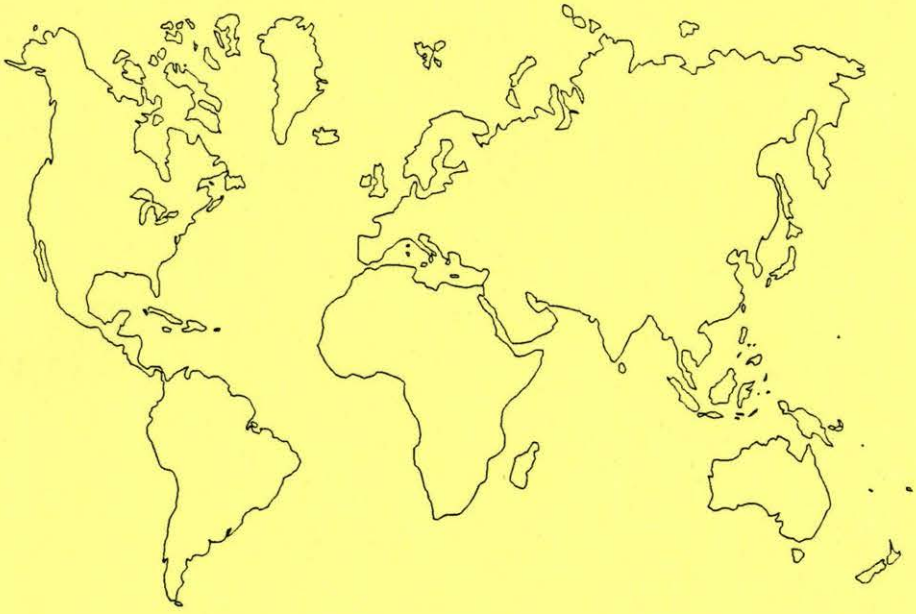

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4. Encouraging interaction between the University community and business and industry groups, state and federal agencies and policy makers, and other trade centers in the examination and discussion of agricultural trade policy questions.

CUBA: OVERVIEW OF

FOREIGN AGRIBUSINESS INVESTMENT

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Abstract

This paper provides an overview of current foreign investment in agriculture and related businesses in Cuba. Background information is included on the agribusiness investment climate, investment policy affecting agriculture and the legal framework for foreign investment. Information, to the extent available, is provided on specific investments in citrus, tobacco, sugar, non-export crops, and processed foods. Proposed projects and considerations for future agribusiness investments following removal of U.S. sanctions on trade and financial relations are discussed.

Key words: Cuba, Florida, agribusiness, investment, trade, economic association, joint venture, citrus, tobacco, sugar, sugarcane, African palm, sunflower, rice, tomatoes, vegetables, processed foods, agricultural inputs.

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Preface

Developments in the former Soviet Union and Eastern Europe since 1989 have had a dramatic impact on the economic situation in Cuba. This, in turn, has placed a great deal of pressure upon the Cuban government. In response, the Cuban government has entered into a process of economic reforms. There is speculation that these reforms, combined with other factors, may eventually lead to a resumption of trade and commercial relations between the United States and Cuba.

Given the striking similarity between historical agricultural production patterns in Cuba and Florida and the extensive pattern of agricultural trade between the United States and Cuba prior to 1960, agricultural producers and processors in Cuba, Florida and throughout the United States will face both challenges and opportunities if and when the U.S. embargo is lifted.

In an effort to provide timely research on this important potential policy issue, the International Agricultural Trade and Development Center (IATDC) in the Food and Resource Economics Department, Institute of Food and Agricultural Sciences at the University of Florida has initiated a comprehensive research project to study Cuba's agricultural and fisheries sectors. The project does *not* address the question of whether commercial relations between the United States and Cuba should be resumed. Rather, the research is designed to provide objective and current information on these sectors in Cuba and Florida for Federal and State legislators, government agencies, private firms, consumer groups and others to draw upon for discussion and debate if the issue should arise.

With the support of the John D. and Catherine T. MacArthur Foundation, this research is being conducted via a program of active collaboration between the IATDC and the University of Havana, Center for Research on the International Economy (Centro de Investigaciones de Economía Internacional, or CIEI). The MacArthur Foundation support has been a pivotal element of this research project and is hereby very gratefully acknowledged.

Although U.S. policy precludes U.S. investment and discourages other countries from investing, significant agribusiness investment in Cuba by U.S. allies has taken place. This study attempts to provide an overview of those investments. Additional focus of the study is on Cuba's new legal framework for investments, and its policies and efforts to attract additional foreign agribusiness investment.

The study draws on findings of research being conducted jointly by the University of Florida's International Agricultural Trade and Development Center (IATDC) and the Centro de Investigaciones de Economia Internacional (CIEI), University of Havana. Initial funding for the cooperative research was provided by the John D. and Catherine T. MacArthur Foundation.

Relations between the United States and Cuba have been a major factor in foreign investment in Cuba. Following Fidel Castro's assumption of power in 1959, U.S.-Cuban relations deteriorated rapidly. Within two years the United States broke diplomatic relations and within three years (February 3, 1962) it imposed sanctions on trade and financial relations.

Provisions of the U.S. legislation were amended in 1975, in subsequent years, and more recently in 1992 and 1996. The Cuban Democracy Act, passed in 1992, limits trade by third-country subsidiaries of U.S. companies and lets the President impose sanctions on Canada, Britain, and other allies that trade with Cuba. Legislation passed in 1996, The Cuban Liberty and Democratic Solidarity Act, strengthened sanctions against the Cuban government.

Among other actions, the Act signed into law on March 12, 1996--frequently referred to as the Helms-Burton Act--codified the economic sanctions that were in effect on March 1, 1996. Sanctions may only be changed by the President submitting an executive determination to the appropriate Senate and House of Representative Committees that a democratic transition government is in power in Cuba. A Joint Resolution of the U.S. Congress may override the President's determination.

Until these steps or other U.S. legislative actions are taken, U.S. investors are prohibited from investing in any way in Cuban agriculture and related businesses. In the meantime, investors from other countries are testing investment opportunities in agribusiness and other sectors in Cuba.

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I. AGRIBUSINESS INVESTMENT CLIMATE

Historical Perspective

Historically, major investors in Cuba were of Spanish origin. For the most part they were based in Cuba, and in the following generations they became native Cubans. The Cuban-based investments of Spanish origin were closely followed by the number and size of investments from the United States.

U.S. investments were diversified and present in most economic areas of the country. In the agricultural sector, many of the largest U.S. corporations held investments in the sugar industry, cattle ranches, and tobacco plantations.

A second group of foreign investors, largely in non-agricultural enterprises, were from Canada, Mexico, Argentina, Brazil, Venezuela and several European countries--Germany, France, Belgium, Holland, Italy and Scandinavia.

In addition to agribusiness investments by large U.S. corporations, numerous small agribusiness investors--including those from Cuba as well as the United States--were experimenting and/or investing in production of rice, oilseeds, tomatoes, swine, poultry and cattle--both beef and dairy.

For example, there were foreign investments in tomatoes in Pinar del Rio, rice in Sancti Spiritus, citrus in Ciego de Avila, and cattle in Las Villas.

Farm and ranch ownership in Cuba prior to the 1959 revolution was characterized by latifundia--vast rural property. At the time of the revolution, 56% of the total agricultural land was under control of 3% of the owners. Eight percent of the landowners controlled more than 70% of the land. Twenty-five percent of the land was in the hands of U.S. owners.

In the sugar sector alone, 28 companies (Cuban and foreign) owned 2,051,540 hectares. This area represented 83% of all the land planted to sugarcane and about 23% of all the land occupied by farms.

Following the revolution in 1959, all foreign corporations and small business investments were taken over by the revolutionary government. In addition, many Cuban investors fled to the United States, South America or Europe.

Geography and Population

Cuba, located 145 kilometers (90 miles) south of Key West, Florida, is the largest country in the Caribbean. With a land area of 110,860 square kilometers (42,803 square miles), it is roughly the same size as Ohio (41,330 square miles)--or approximately equal to three-fourths the size of Florida (58,664 square miles).

The terrain is mostly flat to rolling plains with rugged hills and mountains in the southeast. Nearly 60% of the 11 million- hectare land area is classified agricultural. Of the agricultural area, 70% is tilled land. Twenty percent of the tilled land is irrigated. Sugarcane occupies 40% of the tilled land area, followed by vegetables at 11%.

The climate is tropical and is moderated by trade winds. The dry season is November to April and the rainy season is May to October. Natural resources include cobalt, nickel, iron ore, copper, manganese, salt, timber and silica.

Cuba's population in 1994 was placed at 11.1 million, with a growth rate of 0.9%. The average age is 23 with 60% of the population born after 1959. About 20% of the labor force is employed in agriculture.

The ethnic divisions are 51% mulatto, 37% white, 11% black and 1% Chinese. Literacy, those 15 and over that can read and write, is 95% male and 93% female.

Economic Situation

Prior to the 1990s, agriculture was the mainstay of the Cuban economy, and the leading source of foreign exchange. In fact, from the 18th century until 1994, the Cuban economy was dominated by sugar production and prospered or suffered as a result of fluctuations in both domestic production and international sugar prices. Sugar accounted for more than 80 percent of Cuba's exports until the early 1990s. Since 1990, mining and tourism have become increasingly important sectors of the Cuban economy.

Prior to 1990, some $6 billion in Soviet aid to Cuba had been provided annually. In some years, Soviet financial assistance amounted to one-fourth of Cuba's national income. During 1990 the annual Soviet assistance was reduced to $4 billion. In 1991 it was $1 billion, and in 1992 it dropped to zero.

To counter the effects of the loss of Soviet support and preferential trading arrangements, the Cuban Government announced a new economic austerity program in 1990--a "Special Period in Peacetime." The Special Period program relies on rationing of food, fuel and electricity, and gives priority to domestic food production, development of tourism, and biotechnology.

During the 1990-93 period, the output of the Cuban economy fell by more than 50 percent. Foreign trade fell by 75 percent. Sugar and tobacco production, traditionally important foreign exchange earners, aggravated by "the storm of the century" and inefficient market conditions, fell by millions of tons. Lower production and loss of Communist Country markets dealt a severe blow to Cuba's agricultural export earnings, and to the overall economy.

During the early 1990s, sugar production had experienced a downward trend. The decline in sugarcane production was largely a result of lack of adequate production inputs and management.

Sugarcane production was about half of what it was prior to the 1990s. In addition, a breakdown in the sugar transportation system affected production of refined sugar.

In recent efforts to restructure its economy, Cuba has taken steps to reduce involvement of the State, liberalize the market for agricultural and industrial products, and increase opportunities for foreign investment and tourism. While Gross Domestic Production (GDP) in 1994 posted only 0.7% growth with mixed performance for the various sectors, growth in 1995 was reported at 2.4%. For 1996, Cuba reported a 7.8% growth in GDP. Total economic growth in 1997 is estimated by Cuban officials at 4 to 5% GDP.

Recent economic growth is a departure from the decline of the early 1990s. The major growth areas have been tourism, nickel and ore production, fisheries, manufacturing, and agriculture--especially vegetables.

Growth in tourism has been relatively rapid--546,000 tourists in 1993, 630,000 in 1994, 750,000 in 1995, and 1 million in 1996. Revenue from tourism in 1995 was estimated at $986 million, up from $850 million in 1994. By 1996 tourism income was reported to be $1.38 billion. Average expenditure per tourist day was calculated at $187.81. By the year 2000 Cuba projects 2.5 million tourists with income from tourism at $3.12 billion.

Cuba's trade deficit has continued throughout the 1990s; however, by the mid-1990s exports were more diversified than at the beginning of the decade. The value in Cuban Pesos (CP) of Cuba's exports in 1995 and 1996 totaled CP1.5 billion and CP2.0 billion, respectively. Imports were CP2.8 billion and CP3.4 billion. The trade deficit increased from CP1.3 billion in 1995 to CP1.5 billion in 1996. In 1996 nearly half of the country's exports went to Europe, almost one-fourth to Canada and Latin America, over one-fifth to Asia and the remainder to other destinations.

At the end of 1996, Cuba claimed 260 international economic association agreements signed with foreign businesses in 43 nations. The year before, the Cuban Government had reported 212 foreign investments or commitments totaling $2 billion. Thus, during 1996 the government claims to have signed 48 new economic association agreements. Cuba claims an additional 135 foreign business associations are under negotiation, including 85 in industry, 45 in tourism, 33 in mining, and 30 in petroleum extraction.

Although $1.5 billion in paid capital and credits entered Cuba in foreign investment from 1992 to 1994, the total is misleading because of a single large investment in telecommunications. A stable flow of $220 to $300 million per year in foreign investments is "a realistic possibility," according to the Vice Minister for Foreign Investment and Economic Cooperation.

Despite the more favorable economic outlook, Cuba has not terminated the "Special Period in Peacetime."

Agricultural Reforms

In an effort to increase agricultural production and make food products more readily available, the Cuban Government implemented two important reform measures. Both measures provide more freedom for the private sector.

One reform, initiated in September 1993, is the establishment of farm cooperatives within state farms. The objective is to stimulate agricultural production, especially sugar output. By giving workers more say in management, the Cuban Government hopes productivity will increase.

When the reform was initiated, more than three-fourths of the agricultural area was in State management. By 1995, less than one-third of the agricultural land remained in State farms. Much of the farm land, 43%, had been transferred to Basic Units of Cooperative Production (Unidades Basicas de Produccion Cooperativa --UBPC). Cooperatives of Agricultural Production (CPA) account for 11%, and Cooperatives of Credit and Services (CCS) account for 12% of the farm land area. Individual farmers account for less than 4%.

A second reform, a government decree published in September, 1994, allows all Cuban farmers to legally sell their surplus produce direct to the public. The state does not attempt to set prices but does tax income from the sales in the newly created farmers' markets. All persons "linked to agricultural production", including private farmers, cooperative farm members, state farms and "the army's farming collectives", are now able to sell freely any produce left over after delivering their contracted monthly quota to the state.

The decree legalizing farmers' markets specifies some scarce products, which may only be sold by special permit. (Rice may be sold by private farmers without a special permit; and, if it is not the principal production, by the UBPCs, CPAs, and CCSs.) Prices were high when the markets first opened, and were occasionally above black market prices. But as supplies continued to become available, prices fell.

More than 20,000 metric tons of farm products, reportedly, were sold through the 254 farmers markets in 1995. As a result, the farmers markets are reported to have handled some 25 to 30% of the farm products made available to Cuban consumers. Sales from the markets of CP1.7 billion (Cuban pesos) generated CP75 million from rent of counter space, scales and other services for the Cuban Government. Also, the Cuban Government collected nearly CP138 million in taxes from the sellers.

Agricultural Situation

Following the loss of Soviet aid and export markets in Eastern Europe, agricultural production continued to decline, reaching a cumulative decline in 1994 of 54% with respect to the 1989 level. The decline of Cuba's agricultural production in the early 1990s emphasized the need for investment of foreign capital in a diversity of forms.

The relatively poor performance of the sugar sector has been offset partially by increased production of tobacco and vegetables. Potato production, especially, has showed a significant increase. There, also, have been recent increases in production of some other commodities, e.g. corn, beans, milk, and non-citrus fruits.

Partially as a result of Cuba's efforts to attract foreign capital for agriculture, food production in general in 1995 was reported to have grown 11%. Non-sugar production in 1996 was reported to be substantially above 1995.

While the Cuban government indicated it was pleased with the improved agricultural production situation in 1995 and 1996, it is reported to be concerned with unacceptable efficiencies in harvest and post-harvest operations.

Table 1. CUBA: Production of Selected Agricultural Commodities in Metric Tons*, 1989 and 1993-96

COMMODITY	1989	1993	1994	1995	1996
Citrus	825,655	644,446	504,491	555,353	N/A
Tobacco	41,606	19,892	17,084	25,000	33,100
Sugar (000 m.t.)	8,120	4,246	4,000	3,300	4,446
Rice	563,381	226,213	226,095	222,838	252,400
Corn	47,000	49,449	73,623	80,989	107,000
Beans	14,107	8,819	10,771	11,472	15,000
Milk, cow	924,100	316,700	329,800	373,100	390,000
Eggs (millions)	2,523	1,362	1,376	1,121	1,017
Cattle (000 head)	4,920	4,583	4,617	4,632	4,300
Pigs (000 head)	1,292	558	587	N/A	N/A
Poultry (000 birds)	27,904	14,367	13,935	N/A	N/A
Tubers & Roots	681,200	668,727	484,537	863,000	1.568 million
-- Potatoes	281,660	235,245	188,334	281,559	318,181
Vegetables	610,235	329,883	322,164	360,000	470,000
-- Tomato	259,955	127,757	95,876	138,590	N/A

* All data are in metric tons unless noted otherwise.

Source: Investment and Business, Cuba, 1995-1996 and 1996-1997,CONAS; Granma International; and Cuban government data.

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II. FOREIGN INVESTMENT BACKGROUND

It was not until the early 1980s, more than 20 years after the overthrow of Batista, that the Cuban government took "steps to foster and encourage economic associations with foreign capital." The first step was approval of Law-Decree No. 50 of February 1982, titled "On Economic Association Between Cuban and Foreign Entities."

Six years later the first joint enterprise was established. A "foreign economic association" was made with Spanish investors to build and operate a hotel in the tourist area of Varadero, Matanzas Province. By the early 1990s there was increased interest in foreign investment, with a gradual extension to non-tourist investments.

In July 1992, the National Assembly convened for three days to amend the 1976 constitution. Changes, in addition to abolishing references to the former Soviet bloc, included permitting joint foreign investment.

On September 5, 1995, Cuba passed the current law governing foreign investment--Law No. 77.

Foreign Investment: 1960-1989

Investment in Cuba during the 1960s to 1980s was made with Cuban resources, commercial credits and credits from other governments. The investment rate, in relation to the gross national product, increased from 11-12% at the beginning of the 1970s to 26% in 1989.

In 1981 it was considered convenient to promote associations with foreign capital even though the economic and productive conditions were not unfavorable. The average production level of sugar during the first half of that decade was the highest in Cuban history, 7.4 million tons. In 1981 the average price for sugar was 0.17 dollars per pound but for many months it was over 0.25 dollars per pound.

The sugar industry was rebuilt with the cooperation of Eastern European countries, mechanizing the sowing and harvest. Soviet aid and Eastern Bloc trade also permitted mechanization of much of the remaining agricultural sector.

Nickel production increased as well as the generation of electricity. Distribution of electric power reached 94% of the homes. According to the Cuban government, the country created and equipped hundreds of new factories, building brigades were supplied and railway, automotive and air transportation systems were modernized.

Studies indicate that, in the Caribbean, Cuba has the greatest tourism potential because of its natural resources, ecology and hospitality of its inhabitants. That is why it was advantageous for Cuba to associate with foreign enterprises experienced with tourism. Using only national enterprises would have taken many years to develop tourism.

Tourism was one of the main factors taken into account in preparing legislation suited to the political environment in Cuba. As a result, Decree No. 50 was promulgated in February 1982, allowing association with foreign enterprises.

At the beginning of the 1980s, conditions were created to resume foreign investment in Cuba, but under new conditions. Those conditions, according to the Cuban government, permitted investments on the basis of mutual benefits for foreign investors and the country.

> "...As a complement to the efforts on investment that the country must carry out, foreign investment is stimulated in areas were it is convenient to bring capital, technology and market, using different kinds of associations like mixed enterprises, cooperation agreements, commercialization agreements and other kinds of agreements, according to regulations established in the legislation..." (October 1991-IV Congress of the Party. Resolution on Economic Development)

Foreign Investment: 1990s

Foreign investment plays a key role in Cuba's recent economic reforms. By turning over a limited amount of economic activity to private individuals and foreign investors, and by loosening government control over the economy, Cuba hopes to achieve increased productivity in all sectors of the economy.

According to the Cuban Government, 212 foreign "economic associations" were established in Cuba between 1988 and 1995--over 90% during 1992-94. A foreign "economic association" is defined by the Cuban Government as: "Joint action by one or more national investors and one or more foreign investors within the national territory for the production of goods, the offering of services or both for profit, in its two forms, which consist of joint ventures and international economic association contracts."

More than $5 billion in foreign investments in Cuba have been announced; however, less than $1 billion have been invested. More than 90% of the capital for investments announced are from Mexico, Canada, Australia, Spain, South Africa, Holland, Brazil, and Chile.

Tourism, mining, telecommunications, and basic industry are the major areas of investment. According to Cuba's Minister of Foreign Investment, Ibrahim Ferradaz, there are (as of May 1, 1996) "international economic associations constituted in 34 different branches and sectors of the country's economy, with capital from 55 countries.

The number of mixed enterprises and other kinds of association increased markedly in the 1990s, especially since 1992. Between 1994 and 1995 the number of approved associations was the same as the total number of associations approved in previous years. In May of 1995 there were reported to be 290 new association projects in negotiation.

Table 2. CUBA: Number of Economic Associations with Foreign Capital by Country of Origin, 1988-1995

COUNTRY	1988	1990	1991	1992	1993	1994	1995	TOTAL
Spain	1		3	9	10	14	10	47
Mexico			2	3	3	4	1	13
Canada				2	8	16		26
Italy				1	5	4	7	17
France		1		3	5	4	2	13
Holland				1	2	3	3	9
Free zones		1	3	10	5	12		31
Latin America			2	3	11	9	4	29
Rest of the World			1	1	11	10	4	27

Source: Investments and Business. Cuba, 1995-1996

Most of the economic associations are in mining, exploration and exploitation of oil, tourism, manufacture and construction, and building materials. Relative to these sectors of the economy, foreign investment in agriculture, the food and sugar industries and the fishing sector is small.

Foreign Investment Policy Affecting Agriculture

According to Law No. 77, in the Agricultural and Industrial (food and sugar) and Fishing Areas there are no restrictions on foreign investment. Investments may be direct or indirect:

a) Direct investments, where foreign investors participate in the creation of a mixed enterprise or an enterprise of totally foreign capital through a contract of international economic association.

b) Investments in stock or other assets, public or private which are not direct investments.

Foreign investments can be:

a) Mixed enterprises
b) Contracts of international economic association
c) Enterprises with totally foreign capital

The law does not show a distinction between agroindustry-food and fishing investments. Particulars generated "a posteriori" will be considered contributions of the sector to the foreign investment policy of the country.

In the agroindustry sector different types of associations have been created. The first type was created between the Cuban citrus producing enterprises and foreign enterprises that provided financing for inputs and marketing. Formation of this association was made more urgent because citrus production had been destined to the Soviet Union and Eastern Europe. Loss of these markets was an incentive to create the associations.

Another type of association was created in the tobacco sector. A major reduction in production created a need for foreign investment. Annual tobacco production had declined from 40-50,000 metric tons prior to 1990 to 17,045 in 1993-94. Financing was arranged to supply production inputs, provide incentives to the workers, and improve product quality.

The decrease of sugar production, because of similar problems to those of citrus and tobacco, cost Cuba an estimated $2.5 billion between 1994 and 1995. The 1994-1995 harvest, the lowest in the previous 50 years, was 3.4 million tons while in the 1980s the average was 7.4 million tons.

There are financing arrangements with international sugar enterprises, banks and other institutions by which entire provinces receive financial resources for inputs and salary incentives for the sugar cane industry workers. The loans are for up to five years and Cuba is obligated to repay the loan even if the production goals are not reached.

Financing arrangements are developing for other commodities. For example, the Banco de Bilbao Vizcaya extended a loan of $8.5 million to finance for five years the production of rice in the province of Granma on the eastern side of Cuba.

In addition to citrus, tobacco, sugar and rice, important financing arrangements have been opened for production, processing and marketing of cotton and tomatoes. Also, foreign investment interest has been shown in other agricultural sectors, such as oilseeds, fruits, flowers and ornamental plants. More recently, the government is looking for options in the cattle sector.

III. LEGAL FRAMEWORK FOR INVESTMENT

The objective of Cuba's new foreign investment law (Law No. 77, passed September 5, 1995) is to "create profitable activities, that will contribute to the economic strength and sustainable development of the country, based on respect to the national sovereignty and independence and on the rational use of natural resources."

Among other things, the law includes guarantees to investors, defines economic sectors that can receive foreign investment, identifies the ways in which investments should be carried out, provides procedures for investment authorization, specifies banking regulations, special taxes and labor related issues, and stipulates protection for the environment and for the rational use of natural resources.

The law considers for the first time the following topics: Guarantees to investors; Sectors that can receive foreign investment; Types of foreign investment; Investments in real estate; Banking regime; Export and import regime; Reserves and insurance; Registration and financial information; Environmental protection; and Free zones and industrial parks.

Of the topics considered for the first time, the most important for Cuba are the acceptance of totally foreign-owned enterprises, the creation of free zones and industrial parks, and investments in real estate. These types of investments are common practice around the world and Cuba will find stiff competition, especially from other Caribbean countries.

The most important sections of Law No. 77, particularly those affecting foreign agribusiness investment, are detailed below.

Definition of Terms

Terms used in the law are defined as follows:

a) International Economic Association. Union of one or more national investors and one or more foreign investors in the national territory for the production of goods, services or both, in the pursuit of profit either as mixed enterprises or international economic associations.

b) Authorization. Permit granted by the Executive Committee of the Advisory Board of Ministries or by a government commission to carry out a foreign investment specified by this Law.

c) Foreign Capital. Capital coming from outside the country as well as the profits belonging to a foreign investor and funds that are reinvested according to this Law.

d) Executive Positions. Executive and administrative positions in the mixed and foreign enterprises as well as the representatives of the parties in the contracts of international economic association.

e) Government Commission. Commission designated by the executive Committee of the Advisory Board of ministries with the power to approve foreign investments in their respective areas, according to this law.

f) Administrative Concession. Unilateral act by which the Government of the Republic of Cuba grants to an entity the rights to operate a public service, utilize a natural resource or build and use public property.

g) Contract of International Economic Association. Agreement between one or more national investors and one or more foreign investors to carry out actions proper to an international economic association.

h) Enterprise Totally of Foreign Capital. Without a national investor.

i) Mixed Enterprise. Mercantile Cuban company that adopts the form of corporation with shares in which there is the participation of foreign investors as share holders.

j) Employment Agency. Legal Cuban organization with the authority to sign contracts with mixed enterprises and enterprises with total foreign capital to provide qualified laborers.

k) Credits. Income, salary and other remuneration, compensations and other payments received by Cuban and foreign workers, with the exception of incomes from the economic stimulation fund, if there is one.

l) Foreign Investment. Investment made by foreign investors in any way described by the Law.

m) Foreign Investor. Natural or legal person with an address outside the country and with foreign capital that is a shareholder of a mixed enterprise or that is participating in an enterprise with totally foreign capital or that is part of a contract in an international economic association.

n) National Investor. Enterprise or entity with legal status or a legal person of Cuban nationality, with an address in Cuba and who is a shareholder or is part of an international economic association.

Guarantees to Investors

Foreign investments in Cuba are protected and cannot be expropriated, except in cases of public welfare declared by the government according to the constitution of Cuba, present legislation and international agreements about promotion and protection of investments signed by Cuba and with compensation paid in exchange currency according to the established commercial value.

Foreign investments are also protected against a third party according to the Cuban laws and the national justice system.

The State guarantees a free transfer of exchange currency outside the country, without the payment of any fee or tax of:

a) Net profits coming from the investment, and

b) The amounts received according to the articles 3, 4 and 6 of this law.

Foreigners working for a mixed enterprise, an international economic association, or an enterprise with totally foreign capital, who are not permanent residents, have the right to transfer outside the country their income, in the amount and according to the regulations of the National Bank of Cuba.

Forms of Foreign Investment

All sectors can receive foreign investment with the exceptions of health, public education, and the armed forces.

According to the new law, foreign investments are either:

a) Direct investments -- investments in which the foreign investor participates effectively in the formation of a mixed enterprise, or an enterprise consisting entirely of foreign capital, or an investment in an international economic association, or

b) Investments on shares or other values, public or private, that are not direct investments.

Foreign investments shall adopt one of the following forms:

a) Joint Venture
b) International economic association contract
c) Enterprise totally of foreign capital (no national investor)

Joint Venture. A joint venture implies the formation of an entity distinct from that of any one of the parties. They adopt the form of a corporation with shares under current legislation. The joint venture acquires a "juridical person" when it is registered with the Chamber of Commerce of the Republic of Cuba.

International Economic Association Contract. An international economic association contract does not imply the adoption of a juridical person different from the contractors. Its objective can be to carry out any activity authorized to the parties. The contractors are free to stipulate the clauses

convenient to their interests as long as it does not infringe on the conditions of the authorization or the present legislation.

Enterprise Totally of Foreign Capital. In an enterprise financed entirely with foreign capital, the foreign investor is the Chief Executive Officer (CEO) and has all the rights and duties described in the authorization. The foreign investor can act as a natural or juridical person inside the Cuban territory:

a) Creating a Cuban branch of the foreign entity that he or she owns in the form of a corporation with stocks and registering it in the Chamber of Commerce of the Republic of Cuba; or

b) Registering himself/herself in the Chamber of Commerce of the Republic of Cuba and acting as himself/herself.

Investments in Real Estate. A foreign person can invest in and own real estate. This, however, does not include agricultural land. According to the law, the real estate can be used for:

a) Housing, as private residence or residence for tourists, or persons with no permanent residence in Cuba;

b) Housing or offices for foreign "juridical persons;"

c) Development for tourist attraction.

Contributions and Their Valuation. Contributions, according to Law No. 77, are:

a) Free exchange currency
b) Machinery, equipment and other tangibles
c) Intellectual property rights and rights on other intangible goods
d) Property rights on real estate and its usufruct
e) Other goods and rights.

Contributions that are not made in foreign exchange are valued as such.

The transfer of state properties and rights to the investors are made under the principles established by the Constitution of the Republic with a previous certification of the Ministry of Finance and Prices and with the approval of the Executive Committee of the Advisory Board of Ministries.

Intellectual property and rights on other intangible goods will be dealt with according to the present legislation on that matter.

Negotiation and Authorization

To create an international economic association, the national investor must negotiate with the foreign investor each aspect of the investment: its economic feasibility, the investment amount of each side, the administration of the association as well as the legal documents for its formation.

If it is an enterprise totally of foreign capital, the Ministry for Foreign Investment and Economic Cooperation will tell the investor which Cuban entity is in charge of the area in which he or she wants to invest and where to get a written approval for the investment.

The authorization to make foreign investments in the national territory is granted by the Executive Committee of the Advisory Board of Ministries or by a Commission designated by this Committee.

It is an exclusive power of the Advisory Board of Ministries to grant authorization to make foreign investments in the national territory when:

a) The amount of the investments from the foreign and national investors is more than 10 million American Dollars.

b) The enterprises are developed with 100% foreign capital.

c) Public services, like transportation, communications, aqueducts, electricity are to be operated or built.

d) There is a foreign enterprise with capital from a foreign state.

e) A natural resource is to be utilized, according to the legislation to protect the environment.

f) There is transfer of state property or right.

g) The enterprising system of the armed forces is included.

The Government Commission will grant the authorization in cases not mentioned above.

The foreign investor that wants an authorization for an enterprise with 100% foreign capital will, together with the Cuban counterpart, request the authorization to the Ministry for Foreign Investment and Economic Cooperation.

For formation of a mixed enterprise or an international economic association, the request must be presented by the national and foreign investor to the Ministry for Foreign Investment and Economic Cooperation.

The decision denying or approving the authorization for foreign investment is granted in sixty (60) calendar days from the day of application, and should be notified to the applicants.

In the authorization are set forth the conditions, the objectives and the term of the investment.

If the objective of the approved investment is the exploitation of a public service or natural resource or the execution of a public work, the Executive Committee of the Advisory Board of Ministries can grant the administrative authorization with terms and conditions.

Regulations

Banking: Mixed enterprises, foreign and national investors, who are part of an international economic association, and the enterprises with 100% foreign capital can open free exchange money accounts, to be used for the operation of the enterprise, in any bank of the National Banking System.

Export and Import: Mixed enterprises, foreign and national investors, who are part of an international economic association, and the enterprises totally of foreign capital, have rights, according to the pertinent laws, to directly export their product and import directly what they need for their activity.

Labor: Present labor and social security laws apply to activities with foreign investment. Workers working in enterprises with foreign investment will be, as a norm, Cubans or foreigners with permanent residence. Nevertheless, the management of the mixed enterprises or enterprises totally of foreign capital, have the right to decide which management or technical positions should be filled by nonresidents and then the labor laws that apply and the rights and obligations of those workers will be determined.

Nonresidents that are hired are subject to the present immigration and foreign status laws.

Payments to Cubans and foreigners that are permanent residents are made in national currency, which must be bought with exchange currency, with exception of the cases presented in Article 27 of this law.

The enterprise individually hires the workers, Cubans and foreigners that are permanent residents, and pays them their salary.

Technological innovation and other intangible goods that are intellectual property and which were created in the framework of an international economic association or by the Cuban workers in a mixed enterprise are dealt with according to present legislation on that matter.

Taxes and Tariffs: Mixed enterprises, foreign investors and national investors who are part of an international economic association are subject to the following fiscal obligations:

a) Taxes on profits

b) Taxes on labor force utilization and social security

c) Tariffs and other custom payments

d) Taxes on land transportation, including property or vehicles used for transport on land

e) Taxes on the documentation of applications, renewals and terminations

The payments are made as follow:

a) Taxes on profits are 30% of the net profits. In cases of national interest the Executive Committee of the Board of Ministries can exonerate partially or totally taxes on profits that are reinvested in the country.

b) When natural resources, renewable or not, are involved, the percentage rate of taxes on profits may increase if the Executive Committee of the Board of Ministries decides so. In this case the tax rate can go up to 50%.

c) Tax rates on labor force and social security are

   1) labor force, 11%
   2) social security, 14%
   3) the taxes are applied on salaries and other income earned by the workers except income given to them as economic stimulation.

Foreign investors that are partners in a mixed enterprise or in an international economic association are exempt from taxes on personal income coming from the profits of the enterprise.

Enterprises with totally foreign capital have the obligation, for the length of their operations, to pay taxes according to the present laws.

According to this law, natural and legal persons referred to in this chapter can get easy terms from customs.

Payment of taxes, tariffs and other custom rights are made in free exchange money, even when the prices are in national currency, with exception established by the Executive Committee of the Board of Ministries.

The Ministry of Finance and Prices, given the opinion of the Ministry for Investment and Economic Cooperation, and considering the benefits and amount of the investment, the recovery of

capital and the indications of the Executive Committee of the Board of Ministries, can give temporary total or partial tributary exemptions.

Reserves and Insurance: Mixed enterprises, foreign and national investors that are part of an international economic association, and the enterprises of totally foreign capital must have a reserve to cover contingencies that can happen during their operation.

Industrial installations as well as tourism and any other class of installations, land rented from state enterprises or any other national organization must be insured by the tenant and be payable to the land owner.

Registration and Financial Information: Mixed enterprises, foreign and national investors that are part of an international economic association, and the enterprises of totally foreign capital must be registered, before they start operating, in the Registry of the Chamber of Commerce of the Republic of Cuba, during the first thirty (30) calendar days after the authorization date.

Natural and juridical persons, included in this chapter, must send to the Ministry for Foreign Investment and Economic Cooperation, during the first ninety (90) calendar days after the end of the fiscal year, an annual report of operations.

Free Trade Zones and Industrial Parks: The Executive Committee of the Board of Ministries can create free zones and industrial parks in order to stimulate international trade.

Free zones are those in which, by decision of the Executive Committee of the Board of Ministries, a special regime exists for customs, taxes, money exchange, labor, immigration, public order, capital investment and foreign trade and where foreign investors can participate in financial operations, import, export, re-export and production operations.

Industrial parks are those in which, by decision of the Executive Committee of the Board of Ministries, a special regime exists for customs, taxes, labor, capital investment and foreign trade to develop productive activities with foreign capital.

Environmental Protection: Foreign investment is promoted in the context of sustainable development which means that during its execution environmental protection and rational use of the natural resources is carefully controlled.

The Ministry for Foreign Investment and Economic Cooperation, when appropriate, sends investment applications to the Ministry of Science, Technology and Environment to be evaluated from an environmental point of view and to decide if an environmental impact study is required. This Ministry also grants environmental licenses and does inspections according to the present law.

The Ministry of Science, Technology and Environment provides recommendations when situations of danger to the environment and to the rational use of natural resources arises.

Natural or juridical persons responsible for damages must pay for the restoration of the environment and for the liabilities.

Solution of Conflicts: Conflicts among partners of a mixed enterprise, foreign and national investors in an international economic association, partners in an enterprise with totally foreign capital, are solved according to compromise.

IV. FOREIGN AGRIBUSINESS INVESTMENT

Foreign investment in agriculture is relatively small. Of the government's recorded "international economic associations," only about 5% involve production agriculture--most during the past five years. According to data compiled by Consultores Asociados of Havana, of the 212 economic associations recorded at the end of 1995 only 10 were classified agricultural.

Adding registered international economic associations related to agriculture, such as food and beverage processing, brings the total of foreign agribusiness investments to an estimated 10% of all foreign investments in Cuba. By the end of 1996 the Cuban Government claimed 260 economic associations had been registered--all since 1990.

Detailed data and information on specific joint ventures and management/marketing contracts in Cuba are difficult to obtain, and even more difficult to confirm. It must be emphasized, therefore, information reported below is subject to verification.

While joint venture agribusiness projects in Cuba currently are few in number, there is recent and significant Cuban Government effort--particularly since 1993--to encourage foreign investment in agribusiness.

Citrus

Cuba's National Citrus Corporation (Corporacion Nacional de Citricos--NCC) oversees a system of national entities that have ties to international economic associations and to national production organizations formed from state enterprises, i.e. Basic Units of Cooperative Production (UBPC) and the Working Youth Army (EJT) farms.

In addition to the citrus production entities, the national system under NCC supervision includes the processing enterprises, foreign economic associations, Citricos Caribe S.A. and the Citrus Research Institute. Foreign economic associations include the BM Group (Israel) and INGELCO (Chile). Citricos Caribe is a Cuban company formed to support and carry out functions specified in agreements with foreign partners.

Commercial transactions between the NCC and the citrus-related entities are made with national currency, except with foreign groups and with Citricos Caribe S.A.

No. 1: BM, an Israeli firm, in partnership with the National Citrus Corporation (NCC) manages a 38,750-hectare (96,000 acres) citrus plantation in Jaguey Grande, Matanzas province. (Originally, the Israeli agreement was with the Union de Citricos, which later became part of the NCC.)

The project, considered the largest of its kind, was actually initiated in the 1960s. Both countries at that period in time were working closely in agricultural projects, but the arrangement ended when

Cuba broke diplomatic relations with Israel. In 1990, the project was renewed. Its purpose is to increase productivity and improve the quality of fruit produced.

Table 3. CUBA: Foreign Agribusiness Investment in Citrus, 1990-96

No.	CUBAN AGENCY	FOREIGN FIRM	YEAR STARTED	INVEST-MENT	MAJOR ACTIVITY (Brand Name)
1	Corporacion Nacional de Citricos	BM ISRAEL	1960s & Renewed in 1990	Economic Assn. $22 M	38,750 ha. in Jaguey Grande (Cubanita)
2	Corporacion Nacional de Citricos	INGELCO CHILE	1992	Economic Assn.	Processing 30 mil. liters Jaguey Grande (Tropical Island)

The BM Group, through its international economic association agreement with the Cuban Government, has exclusive rights to the citrus areas of the Jaguey Grande enterprise. These rights are renewable every five years. It also includes the processing enterprise in the area.

The BM Group provides financing and delivery of basic inputs for grove care, the packinghouses and the processing plant. BM receives both fresh fruit and processed products on consignment and manages marketing abroad.

The estimated Israeli investment in the operation is $22 million. Cuba owns the land, while the BM Corporation-- registered in Panama--operates two packinghouses and lends expertise to the project. The citrus operation employs thousands of workers from the towns of Jaguey Grande, Torriente, Union de Reyes, Aguada de Pasajeros and others. Twenty Israelis, reportedly, are working as advisers to the project.

Orange crates, used at the packinghouses in Jaquey Grande and Torriente, are imported from Israel's Kibbutz Ein HaMifratz. The crates are marked "La Cubanita Oranges--Produce of Cuba." Crated oranges are trucked to the port of Cienfuegos for export to Holland, Portugal, and other Western European countries.

Israel is improving the export quality of Cuban citrus by using drip-irrigation technology, which regulates the flow of water and fertilizer to each tree. Modern sorting machines discard bruised or unsightly fruit, which would be rejected by Western consumers. In exchange for their investment and expertise, the Israelis get an unspecified share of the profits.

In the economic association with Israel, there are no intermediaries in the movement of fruit, processed products and inputs. Production cooperatives are paid immediately in national currency upon delivery of their fruit to the packinghouses or the processing plant. The costs of production

inputs provided to the producers are deducted from the payments. Settlement is carried out at the end of the season.

The association presents a statement with details on advance payments as well as the timing and amount of the amortization on the debt for the sale of fresh fruit and processed products by the agricultural or industrial enterprise. According to terms established in the contract, the surplus in foreign currency belongs to the NCC. BM is paid its share of the surplus in national currency.

Contributing to Israel's interest in the project is the fact that citrus production in Israel has been in steady decline, with few exceptions, since the second half of the 1980's. The decline is reported to have been the result of urbanization and lack of cultivable land, not keeping up with changes in market taste and failure to develop marketable varieties.

Most of Israel's exports in previous years were of the standard varieties and species: Shamouti and Valencia oranges and "white" Marsh Seedless grapefruit. Easy peeling varieties from Spain and Morocco, and higher quality red and pink grapefruit from Florida, are making it difficult for Israel to compete in the European market. Citrus production in Cuba may be more competitive.

No. 2: INGELCO S.A., a Chilean firm, has an economic association with Cuba's Corporacion Nacional de Citricos to produce 30 million liters of citrus juice annually. The factory is located in Jaguey Grande, 140 kilometers east of Havana. Juice is being sold nationally under the brand name "Tropical Island." It is also being sold for hard currency in Cuba's dollar shops and hotels.

The project, which began operations in 1992, uses packaging technology from the Swedish firm Tetrapack. A line of aseptic containers was acquired through external credit and is being paid back by the project. The containers are located in the area of the processing plant.

Because of its economic association contract to have exclusive rights to operate in Jaguey Grande, the BM Group receives a percentage of the sales revenues. The surplus belonging to Cuba is paid entirely to the NCC.

Termination of Citrus Economic Associations. At the end of 1995 and the beginning of 1996, two international economic associations involving citrus were terminated. Factors surrounding termination of the agreements have not been made public; therefore, the following provides information only on the extent of their operations when the agreements were in force.

In addition to the foreign economic associations with the BM and INGELCO corporations, the NCC had agreements with Lola Fruit and the Pole Group. Information about the economic associations are shown in the following table.

Table 4. CUBA: Discontinued Foreign Agribusiness Investments in Citrus, 1991-96

No.	CUBAN AGENCY	FOREIGN FIRM	YEAR STARTED	INVEST-MENT	MAJOR ACTIVITY (Brand Name)
3	Corporacion Nacional de Citricos	POLE S.A. CHILE	1991	Economic Assn.	Prod/Mktg-- esp. grapefruit 11,000 ha. Isla de la Juventud
4	Corporacion Nacional de Citricos	LOLA FRUIT, S.A. GREECE & U.K.	1993	Joint Venture	Prod., Mktg. & Processing 31,000 ha. on 9 plantations in Ciego de Avila

No. 3: Pole S.A., a Chilean-owned firm, entered into an economic association agreement with the Corporacion Nacional de Citricos to produce and trade citrus. The economic association was formed in 1991 and, reportedly, terminated in December 1995.

According to information available at the time of operation, the Pole Association was an economic association resulting from the agreement with a Chilean group, the Isle of Youth citrus enterprise and the processing plant in that area. The processing plant belonged to the citrus enterprise.

The operation involved 11,000 hectares (27,181 acres) in the province of Isla de la Juventud. Pole had little direct participation in grove care and management. It mainly provided credit for basic inputs, spare parts and equipment for grove care, packinghouses and processing plants. It received fresh fruit and processed products on consignment and managed marketing.

Peasant cooperatives and the plantation UBPC were paid immediately for delivery of fruit to the packinghouse. Production destined for export was recorded as an outstanding account at estimated prices until settlement was made based on realized revenue. The settlement was carried out at the end of the season.

Pole presented a statement to the National Citrus Corporacion (NCC) with details about advance payments as well as the timing and amount of the amortization of the debt for the sale of fresh fruit and processed products. Terms of the contract provided that the foreign currency surplus belonged to the NCC. Pole was paid its share of the surplus in national currency.

Exports were, principally, to Western and Eastern Europe, but also to Russia and the former Communist European countries. Initially, the project planned to export one million boxes of red and white grapefruit to Great Britain. No data, however, were ever made available to confirm the anticipated sale.

No. 4: Lola Fruit, S.A., was a true joint venture initially involving firms in Greece and the United Kingdom in partnership with Corporacion Nacional de Citricos. The foreign partner was the Green Fresh Fruit Company, a firm created in May 1993 by Lomar Shipping Ltd. (UK) and the Lavina Shipping Corporation (Greece).

Lola Fruit was referred to as a joint venture because it was a new company (a juridical entity) formed out of the economic association involving a Cuban entity and a foreign partner. Operations began in 1992 and, reportedly, were discontinued in 1996. No official information has been made available.

Lola Fruit, largely relying on Greek and Cuban capital, leased nine plantations from the NCC--31,000 hectares (76,601 acres) for the production and marketing internationally of oranges, grapefruit and limes. Lola Fruit imported direct the inputs needed for grove care, the packinghouses and the processing industry. It contracted the services of Citricos Caribe S.A. to receive, store and distribute the inputs to producers.

The Green Fresh Fruit Company provided credits during the preseason to purchase fertilizers, chemicals, cartons, spare parts and essential plants and materials. Loans were repaid from the proceeds as follows: first the shipping costs; second the operating costs of the Lola offices; third the investors' loans; and the remainder was split 50-50 between the partners. Lola Fruit claimed an increase in income from year one to year two of 59%.

Production for the 1994-95 season, an increase of 40% over the first year of production, was: Oranges, 135,400 metric tons; grapefruit, 44,460 metric tons; and limes, 7,240 metric tons. The season for oranges runs from November to May, for grapefruit from August to December, and limes all year-round.

Fruit was packed and palletized at one of five packing houses under Lola's management. The plantations produced, packed and loaded fruit on the ships. (Lomar and Lavina were reported to have a combined fleet strength of 75 refrigerated vessels.) Cold storage was provided at facilities in Havana for northwest Cuba production areas, Nuevits for the northeast, and Cienfuegos for southern Cuba.

Valencia oranges were sorted with counts of 64, 72, 80, 88, 100, 113 and 125 before being packed in cartons. Limes were packed in 5 kilogram cartons with counts of 48, 54 and 72. Grapefruit varieties included Ruby Red and White Marsh.

Lola Fruit bought the produce at fixed FOB prices. Fruit was then marketed and sold through Lola's Rotterdam and London offices. While Holland and France were the main markets for the fresh fruit, new markets were being developed in other Western European countries.

In addition to production and marketing of fresh fruit, Lola operated a processing plant to produce concentrated juices for export to the United Kingdom. It was located in Ceballos (Ciego

de Avila), where Lola controlled an additional 14,000 hectares of citrus. The factory produced frozen concentrate and oil extract.

Lola Fruit employed 8,548 people in Cuba, primarily in the nine citrus plantations and at the packing houses.

Tobacco

The worldwide reputation of Cuban tobacco products and a knowledgeable consumer market have supported Cuba's efforts to attract foreign capital. Currently, the tobacco industry has drawn resources from Spain, France, and the United Kingdom.

Pre-financing agreements were signed in 1993/94 with two state tobacco monopolies, Tabacalera of Spain and Seita of France. The two agreements bind a large part of Cuba's tobacco exports. In part as a result of the financing arrangements, the 1994-95 harvest increased 60% over the previous year. According to the Ministry of Agriculture, there also was an improvement in the quality of the leaf. The Ministry's objective is to reach an annual production of 45,000 tons.

In 1996 a third economic association contract was signed with the British-American Tobacco Company's Brazilian subsidiary, SouzaCruz.

Tabacalera S.A., a Spanish firm, agreed in 1993 to finance the production of 21,875 hectares (54,116 acres) of tobacco in San Luis and Consolacion del Sur municipalities of Pinar del Rio province. Tabacalera agreed to finance shipments to Cuba of fertilizers, pesticides, water pumps, and other equipment to improve cultivation of tobacco. The crop was sold to Tabacalera. Estimated cost of the inputs to be financed by Tabacalera was $25 million per year.

Pursuant to the three-year agreement, Tabacalera agreed to finance 50 percent of its import of Havana cigars and tobacco leaves with its line of agricultural inputs. An office for Tabacalera was to be established in Havana to supervise implementation of the agreement.

In 1993, Cubatabaco supplied Tabacalera with 20 million Havana cigars and 3,000 tons of tobacco leaves for production of cigarettes. The transactions were valued at approximately $28 million.

Under the 1993 agreement, the export of Havana cigars was scheduled to increase annually under the following schedule: 27 million Havana cigars in 1994; 30 million in 1995; and 34 million in 1996.

Tobacco leaf exports were targeted to increase to 7,500 tons in 1995. The increased shipments were also tied to trade credits granted by the Spanish government.

Table 5. CUBA: Foreign Agribusiness Investment in Tobacco, 1993-96

CUBAN AGENCY	FOREIGN FIRM	YEAR STARTED	INVEST-MENT	MAJOR ACTIVITY
Cubatabaco	TABAC-ALERA S.A. SPAIN	Late 1993	$25 M per year	Finance inputs & market- - 21,875 ha in Pinar del Rio
Cubatabaco	SEITA FRANCE	May 1994 thru Dec 1998	$4M line of credit	Finance inputs & market tobacco in France
Cuban Tobacco Union	Souza Cruz BRAZIL	1996	$10 M	Joint Venture

This agreement was also expected to provide a solution to the trademark dispute that had previously existed regarding the sale of Cuban cigars in Europe. Cubatobaco has a marketing agreement with Tabacalera to market Tabacalera's existing and new products on a worldwide basis to its network operations.

Also of interest is Cubatabaco's trademark action in the United States. On January 15, 1997, Cubatabaco (Empresa Cubana Del Tabaco) filed a petition in the United States Patent and Trademark Office (USPTO) to cancel the company's U.S. registration for the name Cohiba in connection with cigars. General Cigar Holdings, Inc. first filed for registration of the trademark in the United States in 1978. General Cigar contends that this registration was "prior to Cubatabaco's first commercial use of the trademark."

SEITA (Societe d'Explotation Industriel de Tabac et d'Alumettes), a French state-owned company, entered into a joint venture with Cubatabaco in May 1994. The agreement, which runs through December 1998, provides a line of credit to Cuba amounting to $4 million. Production inputs, such as fertilizers, pesticides, water pumps, and other equipment will be imported using the line of credit. SEITA will distribute Havana tobacco in France and sell six million cigars a year. In addition, SEITA has acquired a license to produce "Mino-Cohiba" cigarettes in France.

SOUZA CRUZ. A third economic association involving tobacco is a joint venture between the Cuban Tobacco Union and Souza Cruz, a Brazilian subsidiary of the British-American Tobacco Company (BAT). BAT owns 70% of Souza Cruz. The joint venture factory in Havana, BrasCuba, has six production lines producing 15,000 cigarettes per minute. Plans are to expand production to five billion units per year.

Cigarettes will be exported under the Brazilian brand, Continental. Continental will be similar to a Virginia tobacco blend. The Cuban brand, Populares, will be produced from Cuban black

tobacco for the domestic market. An initial investment of $10 million is expected to be recovered in three years. When completed, the processing plant will have an estimated capacity of 150 million cigarettes per day, or about 5 billion cigarettes per year. This capacity represents 45% of the present production of seven cigarette factories currently active in Cuba.

Holland's Lipoelif is reported to also have been a provider of credit for harvest of Cuba's tobacco crop during the 1995-96 season. The cost was placed at $50 million for the harvest ending in May. Production in 1995-96 was reported at 33,100 metric tons. This level of production enabled Cuba's export-oriented cigar industry to produce 8 million more cigars in 1996 than the year before. Actual production of cigars was reported to be 162 million in 1995 and 170 million in 1996.

Sugar

The most significant new agribusiness area in Cuba to become open to foreign investment is the sugar industry. Efforts to encourage foreign investment in the sugar sector appear to be focused on financing the production and marketing of sugar--not on the acquisition of assets such as sugar mills and refineries.

Sugarcane has encountered problems similar to those of citrus and tobacco. A decrease in sugar production cost Cuba an estimated $2.5 billion between 1994 and 1995. The 1994-1995 harvest, the lowest of the previous 50 years, was 3.3 million tons. Production in 1995-96 was 4.4 million tons. In the 1980s Cuba's average sugar production was 7.5 million tons.

The 1995-96 sugar cane crop was financed up to 50% by six international banks. Ten loan agreements were signed with six banking institutions for the sugar, food and nickel sector. The agreements were signed with the ING Bank of Holland, Societe Generale de Paris, Banco Exterior de España, Banco Bilbao Vizcaya, Banco Sabadell and Banco Exterior de México.

Credit for the sugar sector for the 1995-96 crop was given in nine of the thirteen provinces where sugar cane is cultivated. The Cuban government indicated that the new financing would stabilize production at six million tons per year starting in 1996.

Terms of the loans vary and call for repayment, including interest, within one to five years. The marketing of the production increment will be done through a joint account with CUBAZUCAR as a sales agent. Cuba is obligated to repay the loan even if the production goals are not reached.

Starting with a base price agreed to by both parties, the profits coming from the international marketing of the sugar will be divided between both parties. At the beginning of the 1995-96 harvest eight arrangements were already working.

European firms, reportedly, are providing roughly $300 million annually to finance inputs for Cuba's sugar crop. France provides a short-term credit line for $150 million. France, also, renewed

a wheat-for-sugar barter agreement valued at $140 million. (In 1995 Cuba imported 600,000 metric tons of wheat from France. Total Cuban wheat imports were 800,000 tons.)

Table 6. CUBA: Foreign Agribusiness Investment in Sugar, 1996

FOREIGN FIRM	YEAR STARTED	INVESTMENT	MAJOR ACTIVITY
European Banks and Trade Houses	1995/96 and 1996/97 crops	$300M+ short-term line of credit	Prefinance Inputs, e.g. petroleum, fertilizers & spare parts

The Netherlands' ING Bank, Britain's ED&F Man Sugar, and Vitol--the Anglo-Dutch company, also provided financing for Cuba's 1995/96 sugar crop and were expected to provide credits for the 1996/97 harvest.

The Internationale Nederlanden Group (ING) is based in Amsterdam, and has representation in Havana. ING, reportedly, planned to invest in nickel, tourism, fisheries and sugar. Sugar was to receive between $150- to $200 million. ING ultimately did not provide credits for the 1996/97 sugar crop as planned, with the financing reportedly coming from the Dutch government instead.

ED&F Man Group is a London based international trade and financial services group. It has maintained a long-term presence in Cuba. Vitol S.A. and affiliates is a worldwide oil and trading company. Vitol has entered into various contracts in Cuba relating to oil, sugar, nickel, and tourism companies involving barter and cash arrangements.

For the 1995/96 sugarcane crop an estimated $200 million was secured from European sources for the prefinancing of essential inputs such as petroleum and fertilizers. Terms of financing, reportedly, reflected the risk involved--3 years at 15%. Principal was to be repaid from sugar proceeds in the first year, while one-half of the interest payment was to be paid in the second year and the remainder in the third year.

It was estimated that production of sugar would need to increase one million tons to cover the prefinancing cost. With sugar production for 1995/96 at 4.45 million metric tons, that increase was achieved.

For the 1996/97 sugarcane crop, the Ministry of Sugar was reported to be seeking $60 million in addition to commitments of $300 million to finance the November 1996-May 1997 harvest. It was seeking up to $20 million per investor, for each of five years, at LIBOR rates, with an 18-month initial credit, and the rest on a revolving 12-month basis.

Investors would receive 25% of the profits from increased production over the average of the previous two harvests. They also would be given the first option to sell inputs to the industry at competitive prices.

Plans called for production of 5.2 to 5.3 million tons in 1996/97; however, the U.S. Department of Agriculture forecast Cuba's sugar production in 1996/97 at 4.2 million metric tons. A delay in completing sugarcane plantings and the extended 1995/96 harvest are the main reasons for the lower forecast. Preliminary indications are that production for 1996/97 will only total about 4.2 million metric tons. Based on this volume, it may be difficult for Cuba to repay the foreign loans from foreign exchange earned from sugar exports.

On September 9, 1995, The Financial Times reported that most of Cuba's hard currency earnings from its sugar harvest were targeted to pay off its short-term debt payments, leaving Cuba with a shortage of hard currency to pay for imported fuel and basic foods.

Non-Export Crops

As a result of efforts to reduce agricultural imports and to supply the country's tourist hotels, Cuba has opened investments in agriculture for non-export crops such as rice and beans, as well as pork and dairy products. By mid-1995 it was reported that over 200 foreign firms had discussed these new investment opportunities with Cuban officials. Negotiations to form economic associations in production of animal feed, rice and dairy products were said to be well advanced.

Table 7. CUBA: Foreign Agribusiness Investment in Commodities Other than Citrus, Tobacco and Sugar, 1996

COMMODITY	FOREIGN FIRM	YEAR STARTED	INVESTMENT	MAJOR ACTIVITY
African Palm	Facuss' Foods HONDURAS	1995	$100M over seven years	20,000 hectares African Palm Vegetable Oil and Soap Mfg.
Sunflower	AGRIDEAL SL ITALY	1996	N/A	Production on 5,000 acres- - processing & bottling plant
Rice	U.K.	1995	N/A	Pinar del Rio & Sancti Spiritus
Fruit & Vegetables	Sherritt Green CANADA	1995	N/A	200 hectares in Matanzas - - production, processing & packaging
Tomatoes & Cotton	SPAIN	1996	$4M	Pinar del Rio
Dairy Products	INGELCO CHILE	1997	$5M	Milk plant in Sancti Spiritus

African Palm. Facuss Foods, a Honduran company, in a joint venture with the Cuban Corporation Cressida, plans to cultivate 20,000 hectares (49,420 acres) of African Palms in Cuba.

Initially, the project is expected to produce palm oil and soap for the Cuban market. Later, products will be exported to Facuss's food and cosmetic plants in Honduras, Guatemala, El Salvador, and Costa Rica. Facuss Foods plans to invest $100 million over the life of the 7-year project.

Sunflower. The Ministry of Agriculture and an Italian firm, AGRIDEA SL, are cooperating to produce sunflower oil in Las Tunas Province, 700 kilometers east of Havana. The project includes more than 5,000 acres of land and a processing and bottling plant. The Italian company will provide financing, technical personnel, seed, fertilizer and other inputs, and market the product. Cuba will provide duty-free access, land, labor, and transport machinery.

Rice. A British company was reported in 1995 to have signed an agreement to fund rice production in the provinces of Pinar de Rio and Sancti Spiritus. Rice production in 1996 was 252,400 metric tons, compared to a record 260,000 metric tons in the late 1980s. Miguel Rodriguez, Rice Union Director in the Ministry of Agriculture, stated foreign credits would help to raise rice production to meet the domestic demand of 450,000 metric tons by the year 2000.

More recently, China's Xintian Corporation for International Cooperation and Cuba's Fernando Echenique Agroindustrial Complex have formed an economic association in rice production. The production area, located in the province of Granma, is farm number 10 of the municipality of Yara. One hundred and fifty hectares were harvested in 1996. The yield was reported at 4.7 tons per hectare.

Initially, the association will operate for three years (six harvests) under the direction of four Cuban and three Chinese specialists. The experience and results obtained will serve as the basis for action on a letter of intent (already signed) for the creation of a Chinese-Cuban rice-growing joint venture on 5,000 hectares.

Other. Sherritt International, a Canadian company that mines nickel-cobalt in a joint venture at Cardena (near the eastern tip of Cuba), has established a 200-hectare farm in the Matanzas Province. The objective of the farm is to demonstrate how fruit and vegetables can be grown for the export market and for sale to the tourist industry in Cuba. The joint venture agricultural company formed by Sherritt International and the Union Nacional de Acopio (Ministry of Agriculture) is known as Sherritt Green.

Sherritt Green produces tomatoes, broccoli, cauliflower, lettuce, carrots, green peppers, strawberries, papaya, and melons. The fruit processing and packing system, reportedly, was imported from Spain. Products are to be exported to Canada and other countries.

Production of cotton and tomatoes is being supported by Spain, primarily the Spanish Agency for International Cooperation. The project, Project for Development of Rural Integration, is being carried out in Pinar del Rio. Among the resources, reported to be valued at some $3,976,000, will be high quality seeds, tractors, harvesters, and systems for leveling land with laser beams. The project also includes a cotton gin and a tomato processing plant.

Early in 1997 INGELCO, a Chilean firm, announced the establishment of a 50-50 partnership with Cuba's state-owned Union Lactea. The joint venture will produce dairy products for the Cuban market. INGELCO will invest $5 million in a dairy plant in the province of Sancti Spiritus.

A Cuban-Vietnamese joint venture in cattle and swine breeding operations was announced in June 1997. The initial investment is reported to be US$ 8.6 million. The Vietnamese agricultural enterprises Phung Thuong and Don Giad contributed 66.5% of the investment and the Cuban cattle-raising enterprise, Bacuranao, contributed the remainder.

The new joint venture was created to develop production and processing of beef and pork. Tourism is expected to be an important market. In addition, the new firm will produce semen for herd improvement.

Processed Products

In addition to the international economic associations involving agricultural production, there are a number of other economic associations involving processing of agricultural products. The products include processed foods, bottled water, rum and beer.

Table 8. CUBA: Foreign Agribusiness Investment in Processed Foods

FOREIGN FIRM	YEAR STARTED	CUBAN AGENCY OR FIRM	MAJOR ACTIVITY
Confitel RUSSIA	1993	Empresa Confitera de la Habana	Cookies and candies
CONAICA SPAIN	1994	Empresa Confitera Habana	Caramelos of all types
Metzler CANADA	1994	Empresa de Confituras y Pastas	Instant drinks, crackers, hot chocolate, pasta, soda biscuits, etc.
Confitera-Gamby ITALY	1995	Empresa de Confituras y Pastas	Pastas for Dollar Stores and Tourist Hotels
Stella ITALY	N/A	Union de Pastas y Confituras	Bakery products, pastas and candies for the dollar and domestic markets
Valencia Caribbean Products SPAIN	1996	Ministry of Food Industry	Meat processing/packing plant--$4 million project. Produce 2,000 tons of cold cuts, hot dogs, etc.

Confitel, S.A., a joint venture with Russia, was one of the first mixed food industry companies to be established. The firm is a joint venture created in April 1993, with 53% of its shares held by Empresa Confitera de la Habana and 47% by private Russian capital. It is the only joint Cuban-Russian company existing in Cuba at the present time. Confitel produces cookies and hard candies. It exports primarily to Russia, but also has markets in Great Britain, Canada and the Netherlands.

One of the more recent foreign food companies investing in Cuba is Metzler of Canada. Metzler entered into an economic association with Cuba's Empresa de Confituras y Pasta in 1994. The company produces instant drinks, pasta, hot chocolate, crackers, soda biscuits, etc. It manufactures in Havana.

Other foreign investments in Cuba's food industry include CONAICA, a Cuban-Spanish operation. CONAICA produces caramelos of all types. Empresa Confitera Gamby is a Cuban-Italian operation started in 1995. It produces a line of pastas for the dollar trade at tourist hotels.

One of the newest joint venture investments is a meat packing plant that will produce 2,000 metric tons of cold cuts, hamburgers, hot dogs, and other products for Cuba's dollar and export markets. The joint venture is with the Spanish holding company, Valencia Caribbean Products. It is a $4 million project.

Table 9. CUBA: Foreign Agribusiness Investment in Beer, Rum and Mineral Water

CUBAN AGENCY	FOREIGN FIRM	YEAR STARTED	INVESTMENT	MAJOR ACTIVITY
Cuba's "Ron & Licores"	Pernod Ricard Group FRANCE	1993	Joint Venture --Havana Club Intl.	Market Cuban Rum Worldwide & Pernod Ricard Products in Cuba
Hatuey & Cristal	Labatt Intl. CANADA	1994		Produce Hatuey & Cristal beer in Cuba
N/A	Ciego Montero SPAIN	N/A		Mineral Water
Union de Bebidas y Licores	San Pellegrino Group ITALY	1996	Joint Venture --Los Portales S.A.	Produce bottled water & import San Pellegrino beverages for domestic market
N/A	FANTINELLI CO. ITALY	N/A	Joint Venture	Produce wine in Cuba

France's Pernod Ricard Group entered a joint venture with Cuba's Ron y Licores to market and distribute Cuban rum worldwide. A new company, called Havana Club International, was established in November 1993. Although the agreement calls for exclusive distribution, current contracts with third parties were to remain in force until they expire. It was also agreed that Cuba's Ron & Licores would market Pernod Ricard products in Cuba.

A Canadian company, Labatt International Breweries, entered an economic association in 1994 to produce Cuba's Hatuey and Cristal beers. The beer was expected to be produced in Labatt's Halifax plant, and sold in Cuba's dollar shops and hotels. Labatt, however, reconsidered production in Halifax and now has a technical service agreement with the Holguin based Mayabe beer production facility.

Production of Mayabe beer in Cuba began in 1990 based on technology from East Germany and Czechoslovakia. This is the only line of canned beer in Cuba. In addition to Hatuey and Cristal, Mayabe also produces Bucanero beer.

Ciego Montero is a mineral water joint venture with Spain.

Italy's San Pellegrino Group, the world's third largest mineral water producer, has formed a joint venture with the Union de Bebidas y Licores. The new company, Los Portales S.A., will bottle water from Pinar del Rio's Los Portales springs in Guane for the Cuban market. Plans call for production of soft drinks and other non-alcoholic beverages. Los Portales, S.A. has the exclusive right to import and market San Pellegrino products in Cuba.

Italy's Fantinelli Company is reported to have entered into a joint venture to produce wine in Cuba. The winery, located in San Cristobal, will produce red and white wines using grapes imported from Italy. Eventually, grapes grown in Cuban vineyards will be used. Wines from the San Cristobal winery will be sold for U.S. dollars in Cuba, and exported to Caribbean and Latin American markets.

Proposed Projects

Cuban companies producing or marketing agricultural products have proposed several joint venture projects since the government decided to promote foreign investment. Some of the first projects were proposed at a foreign investment conference in Havana on July 16, 1993. The projects included production of ice cream, rum and mineral water. The ice cream, rum and mineral water projects, as well as several others, were again promoted in a Colombian newspaper in 1994.

On February 14, 1994, the Cuban Chamber of Commerce placed an advertisement in the Colombian Economic Daily, "La Republica." The advertisement listed 132 Cuban companies seeking foreign investors.

Agricultural industries and food accounted for 2 of the 12 sectors listed. The agricultural industries included four companies. They were: "Pinar del Rio y Ciego de Avila," a citrus growing

company; a flower growing company (no name listed); a national poultry company; and a soils study institute.

Food companies seeking foreign investors included beer, rum, mineral water, vegetable processing, dairy products, meat processing, candy, and other products.

The beer, rum and mineral water companies seeking foreign investors included: La Polar de Ciudad de la Habana, beer; other beer plants (no company names listed); mineral water production plant (no company name listed); Santa Cruz, a rum distillery; and Habana Bocoy, another rum distillery;

Vegetable processing companies included: La Habana y Libertad de Matanzas, and La Conchita de Pinar del Rio.

Dairy products companies included: Coppelia, a premium ice cream industry and Camaguey, a powdered milk plant.

Meat processing companies included: Las Espanolas, a pork meat processing plant; Antonio Maceo, a slaughterhouse located at Havana City; and Santiago de Cuba, a meat processing plant.

Other Cuban agribusiness companies seeking foreign investors included: a glucose syrup and starch industry, located at Cienfuegos (no company name listed); Habana Villa Clara y Holguin Sorbet Factory; Confitera Trinidad de Sancti Spiritus, a candy factory; Mercancias de Ciudad Habana, a food processing plant.

Projects currently being promoted include a diversity of non-sugarcane agricultural products. For example, the Institute of Agricultural Research announced the possibility of a joint venture in the "exploitation of a technology for the production of paprika." The proposed project includes production of a green pepper with high pigment content and a food processing plant.

As indicated in the previous section, some of the projects proposed in the earlier efforts have been accepted by foreign investors. More recent efforts have focused on production of sugarcane, seeds, rice, beans, pork, poultry, beef, milk, bananas, tropical fruit, processed fruit and vegetables, and forest products.

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V. FUTURE INVESTMENT CONSIDERATIONS

Following lifting, at some future date, of U.S. sanctions on trade and financial relations, Cuba's food and agricultural situation can be expected to be much different than it is at the present time. Knowledge of the agricultural economy during the "Special Period in Peacetime" (1990-present) may supplement information available at that time and provide insight for foreign agribusiness investment.

Findings presented below are based, largely, on data gathered by the International Agricultural Trade and Development Center (IATDC), University of Florida, in cooperation with the Centro de Investigaciones de Economia International (CIEI), University of Havana, and published in the IATDC International Working Paper Series. Those findings are supplemented with additional secondary data and information gathered in Cuba.

Agricultural Production Inputs

When preferential trade arrangements for Cuba with the Soviet Union and Eastern European countries ended in 1989, Cuba became deprived of its main source of supply for most agricultural inputs. In an effort to restore the needed inputs, the Cuban government began encouraging foreign investment and credit arrangements.

Credit arrangements through foreign firms entering into international economic association contracts became an important means of obtaining equipment, fertilizers, herbicides, pesticides and other production inputs.

Agricultural Machinery. Large State Farms, organized in Cuba after the 1959 revolution, required heavy use of agricultural machinery. Local plants were built or expanded in Cuba to satisfy some of the growing demand for machinery; however, much of the machinery and equipment needs for agriculture were filled through imports.

Most of Cuba's agricultural machinery and equipment imports prior to 1990 came from the U.S.S.R. Other supplying countries included Spain, Italy, the German Democratic Republic, France, Japan, United Kingdom, Sweden, Bulgaria, and Romania.

The value of these imports reached a peak of CP526 million (Cuban Pesos) in 1984. During the rest of the decade, the value remained around CP300 million.

Imports of tractors with rubber tires, for example, averaged more than 7,000 per year during the last half of the 1980s, and were valued at CP58.5 million (CP8,357 per tractor). Crawler tractor imports averaged nearly 700 per year over the same period and were valued at approximately CP13 million (CP18,571 per tractor). Spare parts for tractors totaled CP42 million and for other agricultural equipment, CP68 million in 1989.

Lack of foreign exchange prevented Cuba from importing new tractors, fuel, and spare parts to keep the existing tractors running. The Cuban government turned to animal power and in 1992 acknowledged that the country was using in excess of 100,000 oxen to replace tractors in agricultural production.

While there is no doubt that Cuba will need large inputs of tractors and other agricultural machinery in the future, specific needs will depend to a large extent on the structure of the agricultural economy that emerges.

Animal and Poultry Feed. During the 1980s there was a growing dependence on imported feedstuffs. Imports of animal and vegetable meal rose 52% from 1980 to 1989. The imports of feedstuffs totaled nearly 400,000 metric tons and were valued at CP122 million in 1989. Feedstuff import increases are explained, in part, by the prolonged drought Cuba experienced from 1982 to 1987.

After 1989, as a result of discontinued Soviet aid, there was an enormous drop in feedstuff imports and a near catastrophic decline in many areas of the livestock sector. Prior to 1990, the former Soviet Union was the main supplier of animal feed, while the Netherlands sold substantial quantities in some years. Other supplying countries included the German Federal Republic, France, Peru, Chile and others.

In addition to the drop in imports, lack of domestic production exacerbated the situation. Corn and other coarse grain production dropped significantly from the 1980s to the 1990s. As a result of the lack of feedgrains, animal feed production dropped from 1.9 million metric tons in 1989 to 723,000 tons in 1994--a reduction of over 60%.

Cuba, in a period without U.S. sanctions, will provide a substantial market for exporters of feedgrains, and animal and vegetable meals. Even with increased domestic production of feedstuffs, rebuilding the livestock population will require additional imports. In addition to feedgrain export opportunities, feed mills could become an area for foreign investment consideration.

Fertilizers and Pesticides. Fertilizer, herbicide and other pesticide imports showed dramatic growth through 1989. From 1958 to 1989 fertilizer imports increased over 900%. Growth of herbicide imports for the same period was over 3,000%.

Imports of anhydrous ammonia reached 73,000 metric tons in 1989. Sulphur imports were over 154,000 metric tons. Urea, simple and triple superphosphate, ammonium sulfate, potassium chloride, potassium sulfate, ammonium nitrate and mixed fertilizers showed similar increases. Until 1989, the majority of fertilizer imports were from the U.S.S.R., with some quantities from the German Democratic Republic and a few western countries.

Fertilizer production in Cuba dropped from 899,000 metric tons in 1989 to 95,000 metric tons in 1993 and 136,000 metric tons in 1994.

For the five years prior to 1990, herbicide imports averaged more than 10,000 metric tons per year. Herbicides and other pesticides were purchased mainly from Switzerland, both German Republics, the United Kingdom and other western countries.

Citrus Production and Processing

In an effort to diversify its economy, following the 1959 Revolution, Cuba invested heavily in citrus production. Acreage in citrus expanded more than 100% following the revolution to more than 350,000 acres at present. Production is scattered throughout the country, but the largest concentration is in the western and central areas.

Organization and management of Cuba's citrus industry reflect the centrally planned nature of the country's economy. Production units are managed by the Corporacion Nacional de Citricos (formerly by the Junta Central de Planificacion--JUCEPLAN). There are 13 separate citrus-producing enterprises, which account for about 90% of the total citrus production. The balance is accounted for by the non-State sector.

Cuba ranks 14th among world citrus producers and accounts for less than 2% of total world production. Oranges, mostly Valencia, account for 60% of Cuba's citrus production. Grapefruit production accounts for slightly more than 30%. Currently, white seedless grapefruit accounts for 80% of the grapefruit production. Cubans, however, are replanting with mostly red and pink varieties. Limes account for another 6% of total citrus production, and tangerines add 2%.

Although Cuba has substantial technical expertise, productivity is rather low. Citrus production has been hindered by delays in delivery of important inputs, such as herbicides, diesel fuel, fertilizer, pesticides, and spare parts. The average per acre yield for bearing orange trees of all ages in Cuba is estimated to be about 110 boxes (90 lbs. per box) per acre.

Cuba's citrus industry has become a major area of interest by competitors of U.S. exporters. U.S. investors in a period without U.S. restrictions on trade and investment with Cuba, particularly Florida firms, may also become interested in exploring investment opportunities in production, marketing and processing of oranges and grapefruit. Cuban citrus is on the world market about one month before that of Florida.

Cuba's fresh citrus season typically is from August to March. The peak grapefruit harvest normally runs from August through December, while oranges are harvested from December to March. Most of Cuba's citrus production in the past has been exported to fresh fruit markets-- nearly half of the orange production and more than half of the grapefruit output. About 20 packing houses scattered throughout the citrus producing areas pack citrus for the fresh fruit market.

Currently, an increasing amount of Cuba's citrus production is being processed. It is estimated that about 5.0 million boxes of citrus are being processed annually. Most of the processed fruit goes into the manufacture of concentrated juices for export. The industry now has the capacity to process

about 11 million 90-lb. boxes of citrus during the season, which normally parallels the marketing of fresh citrus. Most of the fruit for processing comes from packinghouse eliminations.

Increased Cuban citrus production is expected to affect the Florida citrus. In fact, Florida and Cuban grapefruit are already competing in the European market.

Livestock and Poultry Production

In the August 1967 cattle census, the number of cattle in Cuba totaled 7.2 million. By 1989 the number had dropped to 4.9 million. About 25% in 1989 were held by the non-state sector. Beef and dairy numbers grew in the early 1980s; however, by the middle of the decade, herd size in both industries began to decline. While milk production per cow continued to increase, the number of dairy cows declined and total milk production decreased.

Fresh milk production in 1994 was less than 40% of what it had been in 1989. Efforts are being made to increase availability of milk, both fresh cow milk and soy milk. For example, a dairy promotion program in Cuba is said to be one of the most successful projects of the World Food Program. Since the project began in 1992, private farmers in Las Tunas province have acquired facilities worth more than $20 million--about half financed by the World Food Program.

The collapse of feed imports after 1989 also affected productivity of the hog industry. During the 1980s, the state-owned sector of the hog industry had been a notable success. But because of an increased mortality rate, the government had to reduce the number of hogs slaughtered. Although the government controls most large production units, many private farmers maintain small numbers of hogs. Numbers of swine had fallen more than 50% in 1994 compared to 1989.

The same shortages that plagued the livestock sector in the 1980s also affected poultry and egg production. Production of poultry and eggs had been steady, but by the 1990s strict rationing was enforced. Egg production in 1994 was about 40% below that of 1989.

Exporters of breeding stock--beef, dairy, swine and poultry-- should find a market in Cuba when U.S. sanctions are lifted.

Rice Production and Milling

Historically and currently, rice is the most important grain in the Cuban diet. In 1958 consumption per capita exceeded that of any other country in the Western Hemisphere--10.2 pounds per month.

At present and since implementing the Special Period program, because Cuba does not produce enough rice to meet its needs and lacks foreign exchange to import, rice is rationed at 6 pounds per person per month. Availability of rice, however, has improved since opening of the free farmers' markets in October 1995.

In 1989 there were 205,800 hectares planted to rice, a decline of 14% from 1970. The state sector accounted for 88% of the planted area. By 1994, milled rice production had dropped to only 75,000 metric tons, a decrease of 70% from the 1989 production level. Much of Cuba's rice land is under irrigation. Rough rice production from both the state and non-state sectors during the 1980s was reported at over 500,000 metric tons.

Imports of milled rice during the 1980s remained relatively stable at around 200,000 metric tons. China, the European Union, Pakistan, Thailand and Vietnam have been the main suppliers. Imports account for about 30% of total domestic consumption.

Prior to 1959, Cuba was an important market for U.S. rice. It accounted for about 25% of the volume and 30% of the value of total U.S. rice exports.

Sugarcane Production and Processing

Cuba represents only a small fraction of total world sugar production, now running about 114 million metric tons. But in trade terms, it is a heavyweight, with an outsized impact on prices, as pointed out in a Wall Street Journal article published March 6, 1995.

That's because unlike larger producers, such as Europe and Australia, Cuba retains only about 500,000 metric tons of its crop for domestic use. The rest of the output is sold overseas, representing a large portion of the roughly 30 million metric tons that actually trade on the world market. Even with the lower production figures of recent years, about half of the 8 million metric tons produced prior to the 1990s, Cuba remains one of the largest sugar exporters--after the European Community, Australia and Thailand.

If Cuba were to regain its former production levels of the 1980s, Cuba could be in a position to double its exports and again become the world's largest sugar exporter.

Sugar exports in 1992, while still accounting for 92 percent of total agricultural export earnings, had fallen to 46 percent of the value exported in 1986. In 1993 sugar brought in $720 million and tourism $650 million. Together they supplied the bulk of Cuba's exports of goods and services of $1.7 billion. Some $500 million of this sum was spent on imports of food in 1993.

Currently, only about 20 of the 156 sugar mills in Cuba are in operation. This is largely due to the lack of sugarcane, but also many of the mills have outdated equipment and/or are in need of repair.

Some Cuban officials believe that sugar will not become an important export to the United States following lifting of U.S. sanctions. They believe the market may be only about 100,000 metric tons. Still, Cuba would be expected to remain an important exporter to the world market. Foreign investors in sugarcane production, milling and refining could provide much needed inputs and technology to make the sugar economy in Cuba more efficient.

Tobacco Production and Manufacturing

Before 1959, tobacco ranked behind sugar as a main earner of foreign exchange--although less than one-tenth of the value of sugar exports. Until U.S. sanctions were imposed in 1962 about three-fourths of Cuba's unmanufactured tobacco exports went to the United States.

Cuban tobacco has been famous for many years because of its quality and aroma. Extensive use has been made of Cuban tobacco for blending in the manufacture of cigars.

Tobacco production, which had dropped to low levels in 1930-45, rose sharply in the decade after World War II, but then leveled off at about 60,000 hectares and 50,000 metric tons. About half of the production was exported.

Cuban tobacco production for the 1995-96 season, which ended in May, was 31,818 tons--well below the 1960 level of 52,200 tons. Production in 1996-97 is forecast at 41,000 tons. Some 70 million cigars are expected to be manufactured from the 1995-96 crop. Income is anticipated at around $100 million.

Spain's Tabacalera, S.A., France's Seita, Holland's Lipoelif, and various Cuban companies financed the harvest cost of $50 million. Cuban officials expect to invest $60 million in tobacco production this year and will expand the tobacco area to 60,400 hectares--up 25% from the previous year, but still below the 1955 area of 62,300 hectares.

World demand for Havana cigars is estimated at 120 million by Cuban officials. About one-fourth of the estimated demand will be met under the three-year agreement with Spain's Tabacalera, S.A.

Vegetables, Fresh and Processed

Prior to U.S. economic sanctions, Cuba was a major supplier of fresh vegetables to the United States. Tomatoes and cucumbers were the two most significant vegetables imported by the United States, with avocados, peppers, eggplant and a number of other vegetables also being important. These imports occurred primarily in the months from January to March when Florida and Mexico are major suppliers to the U.S. market.

Despite not being able to capitalize since 1962 on the growing market in the United States for fresh vegetables, Cuba has increased its horticultural crop production substantially. Official statistics indicate the area planted to horticultural crops increased from 91,600 acres in 1970 to 384,500 acres in 1989.

Cuban exports of fresh and processed vegetables prior to the "Special Period" (1986-90) averaged about $13 million, but fell afterward (1991-95) to less than three-quarters of that level. Imports of fresh and processed vegetables remained relatively stable during both five-year periods

at about $65 million. Dried beans and lentils make up approximately three-fourths of the vegetable imports.

Beans have been the only pulse grown in Cuba in significant quantities. Black beans account for about 80% of production, while red beans make up the remainder. Imports of dried beans and lentils, prior to the 1959 revolution, accounted for about half of the supply. In 1989, however, imports of dried beans and lentils ceased.

During the five-year period prior to the revolution, potato imports averaged about 25,000 tons. Imports in 1989, however, dropped to 10,000 tons and have remained low relative to both the pre-revolution and pre-Special Period years. Seed potatoes make up much of Cuba's potato imports.

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VI. CONCLUSIONS AND OUTLOOK

For three decades the defects in Cuba's economy, and effects of economic sanctions imposed by the United States on February 3, 1962, were partially offset by financial assistance from the former Soviet Union and favorable trade relations with the countries of the former Soviet bloc.

Those supports, however, ended abruptly with the collapse of the Soviet bloc in the late 1980s and with the demise of the Soviet Union in 1991. To counter the effects of preferential market losses, Cuba implemented a program referred to as the "Special Period in Peacetime"--an austerity program designed to soften the effects to the Cuban economy from the loss of Soviet support and preferential trade arrangements.

Another important measure taken by the Cuban Government to offset the loss of external assistance was the enactment of legislation to permit foreign direct investment. In September 1995 Cuba announced a new foreign investment law, which had been under study for approximately two years.

In efforts to implement the new foreign investment law and to support the Special Period program, tourism was given priority--and has been the most successful area for attracting foreign investment. Agriculture, although less successful, has been an area of increased interest by foreign agribusiness investors.

Foreign Agribusiness Investment

Foreign agribusiness interest has largely been in entering into economic associations emphasizing financial arrangements rather than joint ventures. An economic association arrangement provides the least risk for the foreign investor, and permits an opportunity for both parties to determine if entering into a joint venture following the agreement period would be advantageous.

Current foreign investment in Cuba's agriculture, for the most part, has targeted export markets. Citrus, tobacco and sugar have attracted the most foreign capital. Some commodities, mainly for domestic consumption, have attracted recent interest by foreign investors. These commodities, however, are targeted primarily for the tourist hotel and dollar store markets.

While Cuba's food production could be increased substantially with foreign investment, it is doubtful that current economic policies and investment incentives are adequate to encourage meaningful private foreign investment in agricultural production for the domestic market.

With appropriate economic policies and production incentives, foreign investment capital and management, and the accompanying transfer of technology, Cuba's food and fiber industries could be greatly enhanced. These conditions, however, are not likely to develop until U.S. economic sanctions are lifted.

Factors Affecting Agribusiness Opportunities

In a period following the lifting of U.S. economic sanctions, agribusiness opportunities are likely to depend largely on three principal factors: 1) the degree of Cuba's openness to agribusiness trade and investment; 2) effective domestic demand, and 3) competition within Cuba and in international markets.

The first factor is perhaps the least predictable of the three factors. Cuba's decision to open its borders to foreign investment under Law No. 77 was borne of economic necessity. Political support is still on trial. Only a few agribusiness projects are joint ventures and none are 100% foreign owned.

Future policies reflecting the degree of openness to trade and investment in Cuba will be affected equally by politics and economics. Following lifting of U.S. economic sanctions, an "open-door policy" for trade and investment could greatly enhance the country's effort to reconstruct its agricultural sector.

The second factor is effective domestic demand. It seems clearly predictable that, following lifting of U.S. sanctions, a pent-up demand will surface in Cuba for the products of agribusiness.

Production yields of many agricultural products in Cuba have fallen from 1959 production levels, e.g. feedgrains, beans, rice and sugar. Less grain for animal feed has resulted in decreased production of animal proteins--beef and veal, pork, and poultry meat. These are food products that are consumed in larger quantities as incomes rise.

At the same time that per capita production has fallen for many food products, Cuba's population has grown from 6.7 million in 1959 to over 11 million. Thus, there is an increase in the need for food of more than 60% merely to maintain the same per capita food consumption level sustained 38 years ago.

Also, as a result of lower agricultural production, especially sugarcane, there has been less foreign exchange earned from agricultural exports to import food products. Based on data for 1951-55, Cuba was the number one country in the world for sugar production, accounting for 15% of the world's supply. Currently, Cuba ranks eighth among all countries and accounts for less than 4%.

With lower per capita production levels and less foreign exchange to import food, there is bound to be a pent-up demand in Cuba for higher quality food products.

The real question is not whether there will be an increase in demand for food, but will there be an increase in effective demand. Will the Cuban consumers have money to buy the products generated by foreign agribusiness investment?

Again, it seems predictable--assuming an open-door policy--that following lifting of U.S. economic sanctions there will be a substantial capital inflow combined with the introduction of new technologies. Capital and technology will increase productivity.

The result will be increased employment opportunities, higher wages and a significant and steady rise in personal real income. Thus, Cuban consumers will have more money to buy agricultural products, including more processed and higher value foods.

The third factor is competition. This includes competition in Cuba among agribusiness traders and investors from other countries, and in the markets abroad where Cuban products might be sold.

Undoubtedly new foreign investors will face strong competition from mixed-capital companies that have had substantial experience in Cuba. Agribusiness companies already established in Cuba will have an advantage over companies new to the market. It is also likely that they will increase their investments in the period following lifting of U.S. economic sanctions to take advantage of the expanding market.

Companies new to the market, but with proven records of efficiency and substantial capital backing, however, will have an opportunity to become competitive. The companies that can produce for both the Cuban domestic market and the export market will be especially competitive.

Outlook

Foreign agribusiness investment, following lifting of U.S. economic sanctions, will be essential for rapid growth of Cuba's agriculture. Capital and technology transferred by the investments will have a major impact on agricultural productivity, which will be a key factor in Cuba achieving increased economic growth.

Cuba has the potential to offer unique opportunities to foreign agribusiness investors: geographic proximity to the U.S. market, a growing tourist industry that requires high-quality products, proximity to markets for tourist hotels and restaurants in the Caribbean, a highly educated and under-employed work force, fertile soils and the largest area for agricultural production of any island in the Caribbean, and a population of 11 million with a pent-up demand for better quality foods and diversity in their diets.

Because of the vast size of the U.S. market and its influence on world affairs, prospects for foreign agribusiness investment in Cuba are closely related to U.S.-Cuba relations. The outlook described below is based on a period when the United States and Cuba have resumed diplomatic and economic relations.

In addition to the principal export crops of sugar, citrus, and tobacco, U.S. investors may find opportunities in the production, and/or processing in Cuba of the following:

- Bulk products and live animals: e.g., production of coarse grains, rice, soybeans, pulses, cotton, cattle (beef and dairy), hogs and poultry.

- Intermediate and non-edible agricultural products: e.g., mills to process wheat into flour, oilseeds into vegetable oils, and grains into animal feed; and production and export of flowers and ornamental plants.

- Food products: e.g., processing plants for meat, dairy and poultry products and preserving tropical fruits and vegetables; and manufacturing of wine, beer, snack foods and other consumer-ready food products.

ANNEX

FOREIGN AGRIBUSINESS INVESTOR SERVICES

Three principal contact organizations in Cuba provide information and services related to agribusiness investment. They are the Ministry of Foreign Investment and Economic Cooperation, the Chamber of Commerce and the "independent" consulting firm, Consultores Asociados S.A.

Depending on the type of agribusiness investment, other ministries and agencies, such as the Ministry of Agriculture and/or the Ministry of Food Industries, may provide additional specialized information.

Ministry of Foreign Investment and Economic Cooperation

The Ministry of Foreign Investment and Economic Cooperation (Ministerio para la Inversion Extranjera y la Colaboracion Economica--MINVEC) is the lead agency in the Cuban government for foreign investment.

Based on development strategy and policies established by the State to promote foreign investment in Cuba, MINVEC coordinates with other agencies the implementation of government policies in matters of economic collaboration.

In addition to the common functions of all government agencies, MINVEC has responsibility to conduct the following:

a) Promote foreign investment in Cuba as well as carry out government legislation pertaining to foreign investment.

b) Direct the negotiation process for establishment of economic associations and other forms of participation by foreign investors; evaluate the proposed agreements in accordance with guidelines established in the best interests of the country.

c) Prepare, negotiate and sign the agreements developed with foreign official institutions.

d) Evaluate the organization agreements for compliance with the bases and principles approved for economic associations and other forms of association authorized between Cuba and foreign entities. Assure compliance with legislation in force and propose to the government any necessary measures.

e) Direct the process of preparation of the negotiations to guarantee application of the policy of approved economic collaboration, and execute them when agreed. Watch to see that they reach the results anticipated.

f) Propose the creation of intergovernmental commissions of economic collaboration and other similar organizations; raise at opportune times proposed directives for the sessions; make sure that in the development of this activity the order established for each case is followed.

g) Analyze, prove, and control, within the scope of its competency, and execute when fitting the actions and negotiations for obtaining the financial resources and materials necessary for the country. Resources might be in the form of credits for development or donations, with international organizations, governments, and non-governmental agencies. Provide and effect the established features with respect to utilization and control of the resources that might be obtained.

Ministry of Agriculture

While the Ministry of Foreign Investment and Economic Cooperation is the lead agency within the Cuban government for all foreign investment, the Ministry of Agriculture is an important agency for agriculturally related investments.

An interview with the Minister of Agriculture, Alfredo Jordan, reported in the August 1997 issue of "Business Tips on Cuba," provides insight to the role of the Ministry of Agriculture in foreign investment.

According to the Minister, "Negotiations of the Ministry of Agriculture with foreign capital began in 1990.....At the end of 1994, a Negotiating Group was named to channel and develop this activity (foreign investment in agriculture) toward new objectives."

The Ministry has "always worked in this area without rigid rules, treating each business proposal as a particular case, which can range from obtaining financing to setting up joint ventures.

In view of the importance of this aspect of the Ministry's work, each negotiation is entrusted to the chief of the specialized ministerial area involved. The Ministry's official is also required to follow up the work of the economic association that is created."

Cuban Chamber of Commerce

Cuba's Chamber of Commerce (Camara de Comercio de la Republica de Cuba) has two main goals: 1) promotion of exports and of investment opportunities in Cuba; and 2) services to associated members and to the foreign entities linked to the institutions.

Economic reforms in Cuba have led to increased activity for the Chamber. The increased number of associates is a direct result of the number of Cuban enterprises involved foreign trade---50 in 1990.

In 1995 there were 33 new members in the Chamber, raising total membership to 273. Several of the new members came from the provinces, indicating some decentralization of foreign trade.

A subsidiary office of the Chamber is located in Santiago de Cuba to service the five eastern provinces of Las Tunas, Holguin, Granma, Santiago de Cuba and Guantanamo. Another subsidiary office in Matanzas.

As an office of Public Law, the Chamber has been assigned certain functions by the Cuban Government. Prior to 1995, the Chamber had two registers: the National Register of Foreign Investments and the National Register of Exporters and Importers. In 1995 two new registers were added: the National Register of Commission Contracts, to register both the Cuban and foreign entities authorized to sell merchandise on consignment and customs deposit; and the National Register of Travel Agencies. Also, the Chamber issues Certificates of Origin for exports.

In 1995 the Chamber received 42 trade missions with 554 members. In addition, the Chamber reported that it was contacted by some 250 business persons seeking information and business contacts in Cuba.

Notable visitors in 1995 included the presidents of: World Trade Center Tampa and World Trade Center Washington; the President of the Fairs Committee of the World Trade Center Association, of which the Chamber is a member; and representatives from the World Trade Centers in Venezuela and Amsterdam.

During 1995 the Chamber organized 11 fairs abroad and 10 in Cuba, and served as one of three sponsors of the Havana International Fair. Other sponsors include the Havana Convention Center and the EXPOCUBA fairground. Forty-nine countries and 1,675 firms are reported to have participated in the Havana International Fair XIII.

Regional contacts have shifted since 1990. More attention is being placed on Latin America and the Caribbean. In 1990 only 5% of Cuba's trade originated in Latin America. Currently, Latin America accounts for about 40% of Cuba's total trade.

In addition to encouraging participation at the Havana International Fair held at the EXPOCUBA fairground near Havana, the Chamber organized EXPOCARIBE '95, the international trade fair of the Caribbean. EXPOCARIBE seeks to make Santiago de Cuba and the eastern region of the country a place for trade contacts between countries of the Caribbean and the rest of the world.

Emphasis also is being placed by the Chamber on contacts with firms in the European Union. The European Union participates in both the Havana International Fair and EXPOCARIBE.

CONSULTORES ASOCIADOS S.A. (CONAS)

Consultores Asociados S.A. (CONAS) was established in 1992 as an independent company (Sociedad Autonomous). It is authorized by resolution of the Ministry of Justice to provide services to foreign firms seeking investment information. While other independent companies have been authorized by the Cuban Government, they are specialized--working in areas such as law, shipping and research. CONAS is the only independent company to provide general assistance in foreign investing.

CONAS, a member of the Cuban Chamber of Commerce, describes itself as "a team specialized in providing consulting services, with sound expertise in various branches of Cuban economic and social life." Clients include "companies and economic associations based both in Cuba and abroad, as well as international organizations. CONAS offers investors all kinds of services need to incorporate and consolidate Economic Associations in Cuba." (1)

CONAS has 50 full-time employees and hires specialists as needed. For example, if a specialist in agriculture is needed, CONAS could hire an employee of the Ministry of Agriculture. The employee could work four hours per day for CONAS and at the same time maintain his position with the Ministry of Agriculture.

Work conducted by CONAS is on a fee basis. It has offices in Matanzas, Cienfuegos, and Santiago de Cuba in addition to the main office in Havana. In addition, it has affiliated offices in several countries, including five in Spain.

Growth in services has been rapid, going from approximately $100,000 in 1993 to $500,000 in 1994 and over $1 million in 1995. Currently, CONAS has about 110 clients and receives 5 or 6 visiting firms per day. Approximately 90% of their clients have invested in joint ventures, while the remaining 10% have been involved with international economic association contracts or trade.

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(1) Brochure of Consultores Asociados S.A., 5ta. Avenida No. 16210 entre 162 y 164, Miramar, Playa. Ciudad de la Habana, Cuba. Tel: 33 6011, 33 6280. Fax: 33 6012.