U.S. – Cuban Agricultural Trade: Recent Developments, Current Issues and Future Prospects

William A. Messina, Jr. and Spiro Stefanou

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U.S.-CUBAN AGRICULTURAL TRADE: RECENT DEVELOPMENTS, CURRENT ISSUES AND FUTURE PROSPECTS

Presentation to the IATRC Annual Meeting
December 4th, 2017
Washington, DC

by William A. Messina, Jr. and Spiro Stefanou
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Food & Resource Economics Department
The President of the United States DOES have the legal authority to resume or terminate DIPLOMATIC relations with a country.

The U.S. Embargo of Cuba is codified into law (Helms-Burton legislation from 1996), so it will require House, Senate and Presidential approval to be lifted.
DEVELOPMENTS IN 2016

• President Obama’s trip – March
DEVELOPMENTS IN 2016

- President Obama’s trip – March
- 7th Congress of the Communist Party of Cuba – April
- Antagonistic views toward Cuba by many of the primary candidates for the U.S. Presidency
- U.S. Election – November 8th
- Fidel Castro’s death – November 25th
June 2017 announcement by President Trump:

- THE RHETORIC – “reversing” Obama Administration policies toward Cuba
- THE REALITY – very minor changes in U.S. policy were implemented in November
- Recent health problems for U.S. Embassy personnel
The 2000 Passage of the Trade Sanctions Reform and Export Enhancement Act (TSRA)

- allowed U.S. firms to sell food and agricultural products (and medicine) to Cuba for the first time in nearly 40 years.
- Under TSRA, U.S. agriculture has shipped over $5 BILLION worth of products to Cuba!
THE BACKDROP

• Cuba: “... a riddle, wrapped in a mystery, inside an enigma ...”

• “I cannot forecast to you the action of Russia. It is a riddle wrapped in a mystery inside an enigma; but perhaps there is a key. That key is Russian national interest.”

• Cuba acts in its own national interest which is primarily to maintain political control.

• Centrally planned, command & control economy = strange policies and outcomes

• Market forces – ebb and flow ...
CUBAN FACTORS OF PRODUCTION

- LAND (including natural resource endowments)
- LABOR
- CAPITAL
- ENTREPRENEURSHIP?
LAND - Cuba is NOT just another small Caribbean island

- 105,000 sq. km. (~40,500 sq. mi.) nearly as large as Virginia
- Very nearly as large as all of the rest of the Caribbean islands added together
LAND - Cuba is NOT just another coral Caribbean island

- Good soils
- 70%+ of land is arable
- Some water issues
- Hurricanes
Pico Turquino rises to 6,650 ft.

EASTERN CUBA (SIERRA MAESTRA MOUNTAINS IN THE BACKGROUND)
“VALLEY OF THE SUGAR MILLS” IN CENTRAL CUBA
CUBA’S HISTORICAL AGRICULTURAL TRADITION
• **Impressive, universal education system**

<table>
<thead>
<tr>
<th>LITERACY RATE</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CUBA</td>
<td>99.8%</td>
</tr>
<tr>
<td>UNITED STATES</td>
<td>99%</td>
</tr>
</tbody>
</table>

**SOURCE**: CIA World Factbook, 2015

• Some labor shortages experienced in agriculture, but this is gradually changing as agriculture becomes more lucrative
SO CUBA SHOULD BE AN AGRICULTURAL POWERHOUSE . . .

• In 2008, the Cuban government reported that they were importing 84% of their total food supply!

• University of Havana research indicates that they believe the figure is closer to 60%.

• An embarrassment for a country with Cuba’s agricultural production potential.

• How did they get to this point?
WHY IS CUBA SO HEAVILY RELIANT ON FOOD IMPORTS?

• Five contributing factors:
  • Inefficiencies of central planning
  • Historical unwillingness of the Revolutionary government to allow market forces to work
  • Now the apparent struggle to allow market forces to work in selected cases
  • A lack of CAPITAL for investment
  • Perhaps most important, an historically heavy emphasis on sugar!
CUBA AND SUGAR – A LONG HISTORY!

• Cuba and sugar are inextricably linked

• “Sin azúcar no hay país” = Without sugar there is no country.

• The emphasis on sugar was a rational economic decision . . .
TODAY CAPITAL IS SEVERELY LIMITED!

- In late 1980s sugar exports to the Soviet Union and COMECON generated more than 85% of Cuba’s total export revenues.
- Since the collapse of the Soviet Union, economic crisis, therefore very limited ability to generate internal/domestic capital.
- $2 to $2.5 billion per year in FDI needed to achieve goals for economic growth.
- FDI laws are evolving but . . .
- Announced versus delivered FDI
Since the collapse of the former Soviet Union there have been some successful foreign investments in Cuba, typically as a joint venture with the Cuban government as majority partner:

- Tourist hotels
  - Meliá Hotels (Spanish)
  - Now Starwood/Sheraton/Marriott
- Mining (nickel)
  - Sherritt International (Canadian)
FOREIGN CAPITAL in AGRICULTURE

- Foreign investment in agriculture has been largely limited to export crops (because of limited “effective” domestic demand)
  - Citrus – most foreign investors gone now
  - Shellfish
  - Rum
  - Cigars
  - Greenhouse vegetables
  - Sugar (recent Brazilian)
A FINAL OBSERVATION ON CAPITAL . . .

“Socialist governments traditionally make a financial mess. They always run out of other people’s money.”

Margaret Thatcher

- Cuba ran out of the Soviet Union’s money . . .
- They’re running out of Venezuela’s money. . .
- Brazil’s problems . . .
- Who’s next?
  - China? Russia?
CUBAN NON-SUGAR AGRICULTURAL PRODUCTION 2000 TO 2016

Metric tons

Source: Cuban Anuario Estadistico
TO INCREASE AGRICULTURAL OUTPUT AND PRODUCTIVITY

- Increase access to inputs:
  - Make more available; and
  - Eliminate government monopoly.
- Decrease central planning rigidities.
- Decrease regulation in their food supply chain.
- Increased FDI.
- Contingent on U.S. market access?
- BUT efforts to expand agricultural output will continue.
CUBA’S AGRICULTURAL MARKETS = ENTREPRENEURSHIP
CUBA FOOD AND AG PURCHASES FROM THE UNITED STATES (> $5B)

Source: USDA GATS database
CUBAN FOOD AND AG. IMPORTS FROM THE U.S. - BICO - 2000 TO 2016

Bulk, Intermediate, and Consumer-Oriented breakdown

Source: USDA GATS database
CUBAN FOOD AND AG. IMPORTS FROM THE U.S. - BICO - 2000 TO 2016

- 47% ↑ 2015 – 2016
- ↑ in Bulk
- CO mostly poultry

Bulk, Intermediate and Consumer-Oriented breakdown

Source: USDA GATS database
CONTINUED GROWTH IN 2017

• Note increase in Bulk and Consumer Oriented but decline in Intermediate

Cuba uses agricultural purchases as a political tool! Sending a message?
U.S. STRENGTHS & WEAKNESSES

• U.S. strengths as a supplier:
  + Geographic proximity
    • lower transportation costs
    • faster delivery (particularly important for highly perishable, high value commodities)
    • allows for lower economic order quantities
  + Supplier of high quality products

• U.S. weaknesses as a supplier:
  – Cash sale requirements
  – Transactions must go through third-country banks – soon to change?
  – U.S. policy can be erratic.
CUBA FOOD AND AG PURCHASES FROM THE UNITED STATES (>$5B)

Source: USDA GATS database
CUBAN FOOD AND AG. IMPORTS BY COUNTRY/REGION, 2000 - 2016

Source: GTA database

- United States
- Brazil
- EU27
- Other
MODELING OF POTENTIAL FOR U.S. AGRICULTURAL EXPORTS TO CUBA

- Alvarez & Messina (1993)
- USITC studies
- USDA/ERS 2015 publication
- Texas A&M Economic Impact studies
- ESTIMATES ALL BASED ON TRUSTED TRADING RELATIONSHIP!
RECENT DIPLOMATIC DEVELOPMENTS

• “Health attacks”
  ✓ U.S. removes all but essential personnel from the U.S. Embassy in Havana
  ✓ U.S. expels 15 diplomats from Cuban Embassy in Washington, DC “to ensure equity in our respective diplomatic operations.”
U.S.-CUBA POLICY ADRIFT?

- U.S.-Cuba policy future?
  - June announcement of roll-back of Obama Administration initiatives
  - November implementation of new, tightened regulations
  - Recent “health issues” for U.S. Embassy personnel and reduction of Embassy staff
- Yet, Cuba has been increasing its purchases of U.S. food and agricultural products.
- So despite an unclear future policy direction, food sales could be an area where important interchanges continue.
FINALLY . . .

- Chad Bown – “The Slow Unravelling of U.S. Trade Policy in the Age of Trump.”
- Next week I will be in Havana making a presentation at a conference organized by Cuba’s International Policy Research Center – the theme of the conference is “Trends and Perspectives of Cuba-U.S. Relations during the First Year of the Trump Administration.”
THANK YOU!

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FUTURE PROSPECTS FOR U.S. FOOD AND AG. EXPORTS?

- Wide range of factors affecting U.S. food and agricultural exports to Cuba:
  - U.S. government policy (e.g., 2000, 2005-6)
  - Cuban government policy (e.g., 2005-7)
  - Natural disasters (e.g., 2001, 2008)
  - Commodity price fluctuations (e.g., 2008)
  - Third-country policy changes (e.g., 2009+)
  - Developments like the Pope’s visit (2012)
  - Current legislative initiatives . . . ?

SHORT-TERM PREDICTIONS ARE DIFFICULT!
GETTING DEEPER INTO THE DATA

- USDA’s “BICO” format for trade data:
  - **Bulk commodities** - e.g., bulk grains like corn, soybeans or wheat;
  - **Intermediate goods** – commodities with some processing, for example wheat flour or soybean oil;
  - **Consumer Oriented food products** – more highly processed goods like dairy products, meat products, etc.

- Helps us see the big picture and identify shifting trends (important when looking at trade data)
CUBA FOOD AND AG PURCHASES FROM THE UNITED STATES (>5B)

Source: USDA GATS database
FOLLOWING ARE EXTRA SLIDES THAT I CAN USE DURING THE Q&A IF PARTICULAR QUESTIONS ARISE, AND IF TIME PERMITS
### CUBAN SUGAR PRODUCTION – SELECTED YEARS

<table>
<thead>
<tr>
<th>Year</th>
<th>Production (MILLION metric tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989/90</td>
<td>8.4</td>
</tr>
<tr>
<td>2010/11</td>
<td>-</td>
</tr>
<tr>
<td>2014/15</td>
<td>-</td>
</tr>
</tbody>
</table>

- Cuba was the third largest sugar producer in the world (behind Brazil and India)
- and the world’s largest sugar exporter
- driven by high prices paid by Soviets
CUBAN SUGARCANE WITH NATIONAL INVESTMENT ONLY
CUBAN SUGARCANE WITH NATIONAL INVESTMENT ONLY

A very poor cane crop . . .
CUBAN SUGARCANE WITH NATIONAL INVESTMENT ONLY

Frequent breakdowns
**CUBAN SUGAR PRODUCTION – SELECTED YEARS**

<table>
<thead>
<tr>
<th>PRODUCTION (MILLION metric tons)</th>
<th>1989/90</th>
<th>2010/11</th>
<th>2014/15</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRODUCTION</td>
<td>8.4</td>
<td>1.1</td>
<td></td>
</tr>
</tbody>
</table>

- **2010/11 harvest volume the lowest in more than a century!**
BRAZILIAN EQUIPMENT IN CUBA, October 2011
BRAZILIAN EQUIPMENT IN CUBA, October 2011
Brazil also invested in refurbishing a Cuban sugar mill and managing its operation.
CUBAN SUGAR PRODUCTION – SELECTED YEARS

<table>
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<th>2010/11</th>
<th>2014/15</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>8.4</td>
<td>1.1</td>
<td>1.8</td>
</tr>
</tbody>
</table>

- More than a 60% increase in production in only 4 seasons!
- Result of Brazilian investment.
THE LESSON FROM BRAZIL’S SUGAR INVESTMENT IN CUBA:

• Sugar is the only agricultural commodity sector in Cuba experiencing significant growth.
• Sugar is the only agricultural commodity sector receiving significant FDI.
• This demonstrates how FDI CAN DRAMATICALLY CHANGE CUBA’S AGRICULTURAL SECTOR!
• Could be replicated for other crops.
• But for which crops will FDI be made?
• What is the incentive?
VEGETABLES
(traditional production system)
VEGETABLES
(organoponicos or urban gardens)
TROPICAL FRUIT
LIVESTOCK AND CATTLE RANCHING
MARINE FISHERIES

Map of Cuban Spiny Lobster and Shrimp Fishing Areas
CUBA’S AGRICULTURAL PRODUCTION PATTERNS AND FLORIDA’S ARE VERY SIMILAR!

- Sugar
- Citrus
- Vegetables
- Tropical Fruit
- Marine and Seafood Products
- Livestock and Ranching

For Florida, nursery and landscape, and forestry also important
Resumption of trade between the U.S. and Cuba, whenever it occurs, may have a more significant impact on Florida agriculture than any single event in the history of our state!

= Challenges and Opportunities
CHALLENGES AND OPPORTUNITIES

- Challenges – concerns expressed in Florida
  - Invasive pests and diseases
  - Potential for subsidized foreign competition
- Opportunities:
  - Some Florida growers (and growers from other U.S. states) have expressed interest in possible joint ventures/partnerships.
  - Foreign investment . . .
The United States imported **OVER $5.1 BILLION** WORTH OF FOOD & AGRICULTURAL PRODUCTS FROM CENTRAL AMERICA AND THE CARIBBEAN IN 2016!

U.S. food and agricultural imports from the region have **averaged more than $5.7 billion/year over the past five years!**
## U.S. Food and Agricultural Imports – 2016 (Thousand $)

<table>
<thead>
<tr>
<th>Region</th>
<th>Total</th>
<th>Country</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central America</td>
<td>$5,172,700</td>
<td>Guatemala</td>
<td>$1,912,566</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Costa Rica</td>
<td>1,624,642</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Honduras</td>
<td>747,921</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Nicaragua</td>
<td>574,100</td>
</tr>
<tr>
<td></td>
<td></td>
<td>El Salvador</td>
<td>235,067</td>
</tr>
<tr>
<td></td>
<td></td>
<td>other</td>
<td>78,403</td>
</tr>
<tr>
<td>Caribbean</td>
<td>$581,323</td>
<td>Dominican Republic</td>
<td>$417,414</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Jamaica</td>
<td>105,363</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Trinidad &amp; Tobago</td>
<td>24,042</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Haiti</td>
<td>20,799</td>
</tr>
<tr>
<td></td>
<td></td>
<td>other</td>
<td>13,705</td>
</tr>
</tbody>
</table>
IMPORT OF INVASIVE PESTS AND DISEASES . . .

• The fundamental questions:
  • Are USDA SPS regulations and protocols effective?
  • If they are for these other countries, then the same protocols should be effective for Cuba.
  • If not, then an entire rethinking of APHIS regulations may be in order.
  • Or are current inspection and control systems stretched to/beyond their breaking point?
Subsidies can take many forms:

- Some Cuban farms have usufruct access to land and pay no rent.
- That said, Cuban government policies for joint ventures to hire Cuban employees makes Cuban labor among the most expensive in the developing world.
WHAT OF THE FUTURE?

• NAFTA fundamentally altered the competitive structure of the winter fresh vegetable market in the United States.
• Open trade and commercial relations with Cuba could once again alter the competitive structure . . .
• But it will require FDI!
• Will foreign investors be interested?
• If so, who will they be? Florida firms, or firms from other U.S. states or firms from other countries?
• Is access to the U.S. market key?
WHY ARE THE OTHER 49 U.S. STATES SO EXCITED ABOUT TRADE WITH CUBA?

1. THEY GAINED AND THEN LOST THE CUBAN MARKET! (Particularly grains)
WHY ARE THE OTHER 49 U.S. STATES SO EXCITED ABOUT TRADE WITH CUBA?

1. THEY GAINED AND THEN LOST THE CUBAN MARKET! (Particularly grains)
2. THEY AREN’T AS CONCERNED ABOUT INVASIVE PESTS AND DISEASES.
3. THEY DON’T PRODUCE THE SAME PRODUCTS DURING THE SAME SEASONS AS CUBA THE WAY FLORIDA DOES!
The Role of Venezuela

- Venezuela has been an important source of economic support for Cuba!
  - sending large volumes of oil to Cuba at very inexpensive prices
    - So much that Cuba has been re-exporting some of the Venezuelan oil
  - Cuba pays for this oil by sending doctors and nurses and teachers to Venezuela
  - Terms of trade are VERY beneficial to Cuba
  - But Venezuela has its own economic and political challenges now!
CUBA'S POTENTIAL GAME CHANGER – OIL!

SHOULD FLORIDA BE CONCERNED THAT OIL RIGS ARE 75 MILES FROM KEY WEST?

Photo by: Javier Galeano
Associated Press
1-19-2012
OCEAN SURFACE CURRENTS IN THE STRAITS OF FLORIDA
IS BRAZIL ANOTHER POTENTIAL “GAME-CHANGER” FOR CUBA?

- Brazil provided $680 million in financing to refurbish and expand Cuba’s Port at Mariel.
- $400 million in credits for food purchases
- Brazil was Cuba’s largest food supplier in 2011 and 2014, and 2015.
- $200 million to “improve agriculture”
- Brazil has invested in Cuba’s sugar and poultry industries.
- Brazil is assisting with soybean production.
- But Brazil has its own political and economic challenges now