

U.S. FOOD AND AGRICULTURAL EXPORTS TO CUBA: PROGRESS, PROBLEMS AND PROSPECTS

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The theme of this year's ASCE meetings, *Where is Cuba Going?*, asks a question that is very much on the minds of U.S. exporters of food and agricultural (F&A) products. Based on recent developments, there does not seem to be a clear answer to this question.

After importing over \$700 million worth of F&A products from U.S. suppliers in 2008, Cuba's purchases fell steadily for the next three years, to \$340 million in 2011, or less than half of its 2008 record level. Over this period, as Cuba's purchases from the United States decreased, Brazil became increasingly more active in many sectors within the Cuban economy, including agriculture. In 2011, for the first time since 2002, the United States was not Cuba's largest F&A import supplier, with Brazil displacing Cuba as the island's most important supplier of F&A imports.

As 2012 began, there was little to suggest that U.S. F&A exports to Cuba would change significantly from 2011. However, Cuba's purchases from the United States exploded in the first quarter of the year, raising the question of what the rest of the year might bring.

This paper examines shipments of F&A products from the United States to Cuba from 2001 to 2011 and considers the factors driving changes in U.S. exports during four distinct time periods: 2000 to 2004; 2005 to 2006; 2007 to 2008; and 2009 to 2011. It then considers Cuba's F&A imports from other suppliers to identify shifts among suppliers. Finally, the paper discusses the sudden increase in Cu-

ban F&A purchases from U.S. suppliers in 2012 and attempts to assess the prospects for future Cuban purchasing patterns.

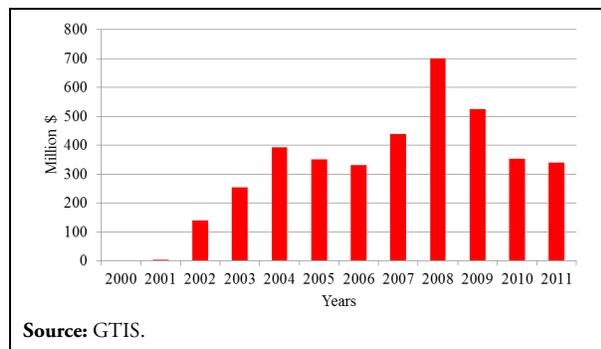
U.S.-CUBA AGRICULTURAL TRADE 2000 to 2004

In October of 2000, the U.S. Congress passed, and President Clinton signed, the Trade Sanctions Reform and Export Enhancement Act (known as the TSRA legislation), which allowed U.S. firms to sell agricultural and food products and medicine to Cuba. The terms of this legislation only permitted one way trade (U.S. firms could sell to Cuba but Cuba was not allowed to export any products to the United States), and all sales had to be on a cash basis. Cuban President Fidel Castro stated unequivocally in a number of speeches that Cuba would not purchase any products from the United States under these onerous terms.

That all changed after Hurricane Michelle struck Cuba causing extensive damage, including widespread destruction of agricultural crops in the fields and losses at food storage facilities. Following the storm, the Cuban government expressed interest in purchasing F&A products from the United States reportedly to replenish losses caused by the storm. The hurricane struck in early November 2001 and since the U.S. and Cuba do not have direct diplomatic relations, it was mid-November before Cuba's interest in purchasing F&A products from the United States was made clear. Quite interestingly, U.S. firms were able to deliver over \$4 million worth of F&A products to Cuba in the last six weeks of 2001.

U.S. F&A sales to Cuba increased quite remarkably in 2002 to \$140 million, which placed the United States in the surprising position of being Cuba’s largest country supplier of imported F&A products. U.S. F&A sales to Cuba continued to increase for the next two years to the point where they reached nearly \$400 million in 2004 (Figure 1).

Figure 1. U.S. Food and Agricultural Exports to Cuba, 2000–2011



2005 to 2006

From 2001 through 2003, the accepted practice for cash sales of U.S. F&A exports to Cuba had been that an irrevocable letter of credit be in place (with a third country bank since U.S. and Cuban banks were not permitted to have direct interactions as per U.S. law) *before a ship could unload U.S. goods in Cuba*. However, in 2004 the Bush Administration indicated that it was reconsidering the specific terms associated with Cuban cash purchases because of concerns brought to its attention that the existing terms actually represented offering “credit” to Cuba for the period of time during which the ship was in transit from the United States to Cuba.

In 2003 the United States supplied over one-third of Cuba’s total F&A imports and that share had grown to over 40% in 2004 (Table 1). Uncertainty over potential changes by the U.S. regarding terms of sale prompted the Cuban government to turn to other F&A suppliers. As a result, although Cuba’s F&A

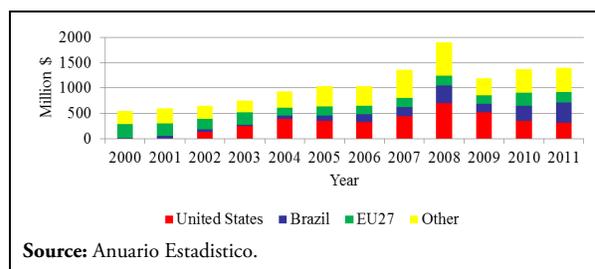
imports increased in 2005 and 2006, U.S. sales to Cuba decreased (Figure 2).¹

Table 1. U.S. Share of Cuba’s Food and Agricultural Imports, 2000 to 2011

Year	U.S. Share
2000	0%
2001	1%
2002	22%
2003	34%
2004	42%
2005	34%
2006	32%
2007	32%
2008	37%
2009	44%
2010	26%
2011	23%

Source: Calculated from GTIS data.

Figure 2. Cuban Food and Agricultural Imports by Country, 2000–2011



2007 and 2008

When the U.S. government finally settled on its new terms for cash F&A sales to Cuba they required that an irrevocable letter of credit be in place (still with a third country bank) before ships left U.S. ports. The Cuban government eventually accepted these terms and in 2007 they began to increase their F&A purchases from the United States.

The year 2008 was an exceptional one for Cuba in that the island experienced its most destructive hurricane season in recorded history.² The three hurri-

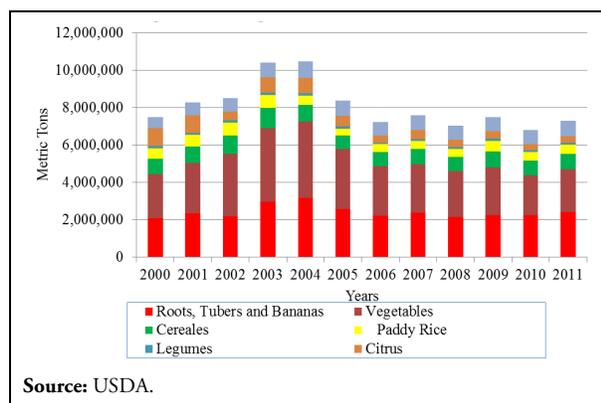
1. The Cuban government does not release trade statistics on trade by country, by commodity. The GTIS database provides “mirror data”—trade data from other countries on their exports to and imports from Cuba. This allows us to determine, for example, Cuba’s imports of soybean meal by compiling the trade data on soybean meal exports from other countries to Cuba.

2. For details see Messina (2009).

canes and two tropical storms that struck Cuba caused extensive damage to crops in the field as well as to F&A storage and processing facilities, and as a result the Cuban government had to increase its imports of F&A products to meet domestic demand. The United States was a major beneficiary of Cuba's increased purchases because its geographic proximity meant shorter delivery times for these important food supplies, and lower shipping costs, as well as lower economic order quantities (i.e., smaller order sizes which are possible while still maintaining reasonable per unit shipping costs). It should be noted, however, that the increased value of Cuban F&A imports in 2008 was not solely the result of increased volumes of purchases; 2008 also was a year of high commodity prices which also contributed to the increase in the value of Cuban F&A imports in that year.

In 2007, Cuban Vice Minister of Economy and Planning Magalys Calvo stated that Cuba was importing 84% of the basic food supply. This statement was made in a speech emphasizing the need to increase domestic food production, but it served to highlight a particularly troubling trend with regard to Cuba's stagnant agricultural production and productivity. While Cuba's agricultural output had shown some increases from 2000 through 2004, beginning in 2005 output levels began to decline again, and remained stagnant through 2011 (Figure 3).

Figure 3. Cuban Agricultural Production, 2000–2011



Despite Cuba's stated strategic policy of replacement of imports with domestic production, beginning with foodstuffs and agricultural products, stagnation in the agricultural sector meant continued heavy reliance on imported F&A products. Cuba's financial situation at the time looked as though it would constrain its ability to purchase the necessary imports of F&A products and a food crisis appeared to be looming. But in late 2008, several countries began to offer Cuba extended credit terms for agricultural purchases.

2009 to 2011

The value of Cuba's F&A imports in 2009 were considerably lower than in 2008, which is not surprising given that the challenges presented by the 2008 hurricane season had largely been met, and that world crop prices decreased in 2009. And while U.S. sales to Cuba decreased in value, the United States actually played an increasingly important role in the Cuban F&A import market, representing nearly 45% of Cuba's total F&A imports that year (Table 1).

However, beginning in 2010, the U.S. share of the Cuban F&A import market declined significantly, replaced in large part by Brazil. This reflects the increased interest and activity of Brazil in many sectors of the Cuban economy.

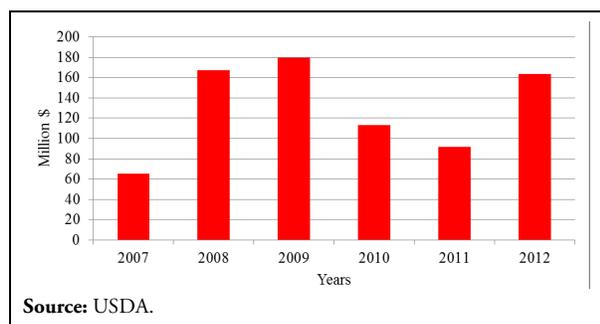
Brazil's share of Cuba's F&A import market increased further in 2011 to the point where Brazil replaced the United States as Cuba's chief supplier of imported food and agricultural products. A visit to Cuba by Brazilian President Dilma Rousseff in early 2012 and continued collaboration on many economic fronts (e.g., Brazilian financing of the refurbishing and expansion of the Cuban port of Mariel, credits for food purchases, loans and assistance to improve agriculture) suggests that relations and economic cooperation between Cuba and Brazil will continue to strengthen.

With specific regard to Cuba's agricultural sector, over the last 18 months to two years, Brazil has provided financial and technical assistance in Cuba's sugar industry, which is deemed as being responsible in large part for the notable increase in Cuba's sugar production in the 2011/12 season to about 1.4 million metric tons.

2012

Given the declining levels of U.S. F&A exports to Cuba in 2010 and 2011, and the lack of indication of changes in Cuban purchasing policies, there was little reason for U.S. agriculture to expect any significant change in its position in the Cuban market in 2012. Nevertheless, U.S. F&A exports to Cuba exploded in the first quarter of 2012, nearly doubling over their first quarter 2011 level, and approaching the levels of the record year for U.S. F&A exports to Cuba in 2008 (Figure 4). This obviously led to speculation about what the balance of the year might bring.

Figure 4. U.S. Food and Agricultural Exports to Cuba, First Quarter, 2007–2012



Initial analyses indicated that unit export values in the first quarter of 2012 only increased by about 8%, suggesting that the bulk of the increase in Cuban F&A purchases from the United States was, in fact, driven by increases in purchasing volumes. An initial examination can be carried out using the USDA “BICO” category breakdown for U.S. agricultural exports of “Bulk, Intermediate, and Consumer-Oriented” goods.³ Table 2 shows the BICO breakdown of Cuban imports from the United States for the first quarters of 2011 and 2012.

While all three of the BICO categories showed increases from the first quarter of 2011 to 2012, the category with the largest increase is the Consumer-Oriented category, with a 254% increase. In a coun-

Table 2. U.S. Food and Agricultural Exports to Cuba using USDA’s BICO Commodity Categorization, First Quarter, 2011 and 2012

	Jan to Mar 2011	Jan to Mar 2012	% Change 2011 to 2012
	Million \$		
Bulk	\$66.1	\$95.3	44%
Intermediate	\$9.7	\$12.0	24%
Consumer-Oriented	\$15.8	\$55.9	254%
TOTAL	\$91.6	\$163.2	78%

Source: USDA

try facing financial challenges, dramatic growth of Cuba’s Consumer-Oriented product purchases from the United States would be unexpected, particularly given that these purchases had to be in cash. However, a look at broader developments in Cuba offers a plausible explanation for this incongruity—in late March of 2012, Pope Benedict XVI traveled to Cuba and it may have been that the Cuban government was stocking up on Consumer-Oriented food and agricultural products to meet the increased demand from the expected flood of visitors, and members of the press, traveling to Cuba for the Pope’s visit.

After the extraordinarily strong performance in the first quarter of 2012, Cuba’s F&A purchases from the United States for the second and third quarters of 2012 (cumulatively) are actually down slightly from the like period in 2011 (Table 3). An examination of the data in Table 3 suggests that there may be a shift occurring in Cuba’s purchasing patterns from the United States. Substantial declines occurred in Cuba’s purchases of Bulk commodities from the United States in the second and third quarters of 2012 versus 2011, while purchases of Intermediate and Consumer-Oriented products actually increased year-to-year.

PROSPECTS FOR U.S.-CUBA AGRICULTURAL TRADE

Experience has demonstrated that U.S. F&A exports to Cuba are influenced by a wide range of factors including: U.S. government policy (e.g., changes in

3. The Bulk category includes products like bulk grains—wheat, soybeans, corn—and rice. Intermediate goods are processed products such as vegetable oil, soybean meal, flour, animal feeds, etc. Consumer-Oriented products include higher-value products like poultry meat, dairy products, fresh fruits and vegetables, eggs, etc., and high-value processed food products.

Table 3. U.S. Food and Agricultural Exports to Cuba using USDA's BICO Commodity Categorization, Second and Third Quarters (cumulative), 2011 and 2012

	Apr to Sept 2011	Apr to Sept 2012	% Change 2011 to 2012
	Million \$		
Bulk	\$103.6	\$64.8	- 37%
Intermediate	\$12.6	\$26.8	113%
Consumer-Oriented	\$59.9	\$78.5	31%
TOTAL	\$176.1	\$170.1	- 3%

Source: USDA.

regulations for cash sale transactions, allowing unlimited visits of Cuban-Americans, etc.); Cuban government policy (e.g., policies that may impact domestic agricultural production, decisions on where to source F&A import requirements, etc.); policy changes on the part of Cuba's other trading partners (e.g., offers to Cuba of extended credit terms for F&A purchases, foreign direct investment in Cuba's agricultural production and processing sectors, and other technical or financial assistance, etc.); natural disasters (e.g., hurricanes); commodity price fluctuations; and even seemingly unrelated developments like the visit to Cuba of the Pope. Given the wide range of these factors and associated vagaries it is extremely difficult to predict or project future U.S. F&A export patterns to Cuba. However, some observations may be offered on U.S. sales trends as well as other developments which could potentially influence Cuba's F&A purchases from the United States.

Cuba's future imports of F&A products clearly will be linked with its agricultural output. While Cuba's agricultural production (with the exception of sugar in the last year) has been stagnant, the *Lineamientos* adopted at the recent Party Congress lay out a series of policies for agriculture that could do much to stimulate output in the sector. However, there are indications that bureaucratic intransigencies may make effective implementation of these policies a slow process.

Beyond the issue of possible changes in agricultural production levels in Cuba, there appears to be a distinct shift in Cuba's purchasing patterns from the United States. In Table 3 the data for BICO exports

of F&A products from the United States to Cuba suggested a change in Cuba's purchasing patterns from the United States in the second and third quarters of 2012 as compared to 2011, with declining purchases of Bulk commodities and increased purchases of Intermediate and Consumer-Oriented products. Table 4 contains the same BICO data on U.S. F&A exports to Cuba for the first three quarters of 2012 (the latest data available), which would appear to be consistent with this perceived shift in purchasing patterns.

Table 4. U.S. Food and Agricultural Exports to Cuba using USDA's BICO Commodity Categorization, January through September, 2011 and 2012

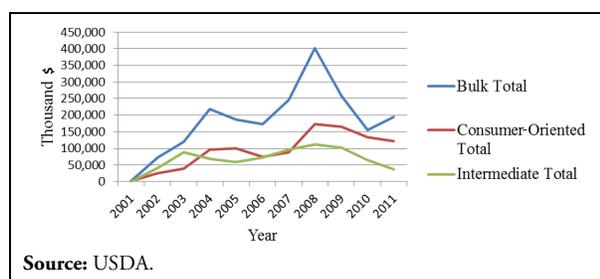
	Jan to Sept, 2011	Jan to Sept, 2012	% Change 2011 to 2012
	Million \$		
Bulk	\$169.7	\$160.1	- 6%
Intermediate	\$22.3	\$38.8	74%
Consumer-Oriented	\$75.7	\$134.4	78%
TOTAL	\$267.7	\$333.3	25%

Source: USDA.

Looking at longer term trends, the BICO data from 2001 through 2011 show a significant decline in Cuba's purchases of Bulk commodities from the United States since the 2008 (Figure 5). Cuba's purchases of Intermediate and Consumer-Oriented goods from the United States have consistently been lower in magnitude than its Bulk purchases and, while they have decreased since 2008, they have not declined nearly as much on a proportional basis as Cuba's Bulk purchases. The trend in Table 4 suggests that, barring any major shift in Cuba's purchasing patterns from the United States for the remainder of 2012, the value of Cuba's purchases of Consumer-Oriented goods in 2012 may well approach and possibly even exceed its purchases of Bulk commodities from the United States. This trend may, in part, be explained by the fact that some Consumer-Oriented products tend to be more perishable than either Bulk or Intermediate goods. It would be advantageous for Cuba to purchase perishable products from the United States to minimize transit time and thus improve product

quality and maximize product shelf life in Cuba. From 2001 to 2011, poultry meat has represented, on average, nearly 80% of Cuba's total Consumer-Oriented goods purchases from the United States, so this would appear to be an important factor contributing to the relative strength of Cuba's Consumer-Oriented product purchases from the United States as compared to Bulk and Intermediate goods.

Figure 5. Cuban Food and Agricultural Purchases from the United States using USDA's BICO Category Breakdown, 2001–2011



Over the last few years Brazil has been expanding its involvement and investment in Cuba and has come to play an increasingly important role in many aspects of Cuba's economy. Brazil is a major player on the world stage for selected agricultural commodities and will be a competitive supplier for some of Cuba's F&A import requirements. Beyond that, it can offer technical assistance for a number of agricultural commodities, and it already has provided investment for Cuba's sugar industry as mentioned previously.

Investment is a critically important component for any significant recovery of Cuba's immense agricultural production potential, and Brazil is making clear its intentions to expand its activities in sugar and other areas in Cuban agriculture (as well as in other sectors of Cuba's economy). Of particular note is the fact that Cuba recently adjusted its policies to allow foreign participation in the sugar industry for the first time since the 1959 revolution. In November 2012, a subsidiary of the Brazilian firm Odebrecht SA reportedly began management of the sugar mill

"5th of September" in Cienfuegos province,⁴ evidence that Brazil is expanding its involvement in Cuba's sugar industry beyond field production into processing.

At the recently concluded Havana International Trade Fair (FIHAV 2012), the Director General of APEX-Brazil (Brazil's Trade and Investment Promotion Agency) Hipólito Rocha Gaspar publicly expressed Brazil's interest in expanding its working relationships in Cuba:

Brazil is intent on accompanying Cuba in its development through joint work in major sectors with great socioeconomic demand, such as agriculture and cattle raising, public health, the scientific research centers west of Havana (with technological transfers and purchase of products), education, computer science, energy, public finance and tourism, among others...Brazil can contribute much to Cuba, much technology, equipment, modern machinery. The priority will be agriculture, the field of foods [Claro 2012].

Claro cites another APEX-Brazil source who indicated that Brazil may be interesting in building as many as 10 new sugar processing facilities in the island.

And Brazilian companies are not the only ones interested in investing in Cuba's agricultural sector; a day after the Odebrecht announcement, Havana Energy, Ltd., a subsidiary of the British Esencia Group, announced a joint venture with the Cuban government to build a \$45 million biomass plant in Ciego de Avila province, with plans to build as many as four more plants in Cuba [Frank 2012].

As a final observation regarding foreign investment in Cuba's agricultural sector, in recent years a number of foreign firms that have been operating in Cuba for a many years have indicated increased difficulty in dealing with their joint venture partners, and over the last year several foreign executives of joint venture operations have been arrested in Cuba and are being held pending the outcome of investigations regarding accusations of improper business dealings. Also, past experience has shown that "announced" levels of foreign investment in Cuba do not always

4. Valdés and Frank (2012).

fully materialize. This is not to discount the importance of Brazilian and other involvement and investment in Cuba, but rather to try to realistically assess the prospects for these joint venture investments taking into consideration past experience.

Another important factor for Cuba's future that affects trade in agricultural products relates to its efforts at oil exploration off of its north shore. If successful, this would dramatically change the financial situation on the island. Initial efforts by a number of foreign joint ventures to commercialize Cuba's oil reserves have not yet resulted in any viable wells. However, even the U.S. Geological Service has confirmed that there are vast undersea oil reserves off of Cuba's north coast, and independent oil industry authorities have expressed confidence that these oil fields will be commercialized even though the initial drilling efforts have been disappointing. If Cuba's fortunes were to change with the ability to exploit commercially viable oil reserves, it may be that Cuba would choose to increase its F&A purchases from the United States given that the U.S. does offer significant advantages in terms of low shipping costs and rapid delivery times for perishable commodities.

Another consideration is that deadlines for payments on offers of extended credit for Cuba's purchases of F&A products from some of its Asian trading partners are rapidly approaching. Cuba's ability to con-

tinue to purchase from these countries may be contingent upon it meeting its payment obligations, unless its countries choose to extend payment deadlines. Of course, if Cuba does not have the money to pay its bills with other trading partners, it is unlikely that they will have the funds to pay cash for purchases from the United States, although in the past there have been instances where Cuba's ability to purchase in smaller volumes from the United States (e.g., container loads of grain as opposed to a ship-load) stimulated cash purchases from the United States while other creditor countries were not paid.

The interrelated network of factors influencing U.S. food and agricultural exports to Cuba is complex and constantly evolving which makes it particularly difficult to try to predict or project future trading patterns. It is clear that many U.S. agribusiness firms remain interested in selling to Cuba, a nearby market where this is no credit risk because of U.S. regulations requiring cash sales. And despite the cash sale requirements, the United States represents an attractive source for Cuba's F&A purchases for a host of reasons discussed previously related to geographic proximity. But the influence of foreign investment in Cuba's agricultural sector and its economy more broadly could dramatically alter the dynamics of U.S. F&A sales to Cuba.

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