

OVERVIEW OF CUBAN IMPORTS OF GOODS AND SERVICES AND EFFECTS OF U.S. RESTRICTIONS

Heidi Colby-Oizumi¹

This report examines Cuban imports of goods and services from 2005 to the present; the effects of U.S. restrictions on trade with and travel to Cuba; and Cuban nontariff measures, institutional and infrastructural factors, and other barriers that may inhibit or otherwise affect the ability of firms to conduct business in and with Cuba. It also presents a qualitative and quantitative sectoral analysis of potential U.S. exports of goods and services to Cuba in the event that U.S. restrictions are lifted and Cuban import barriers are reduced.

The U.S. International Trade Commission (Commission or USITC) conducted this investigation at the request of the U.S. Senate Committee on Finance. To produce this report, the Commission used information from a variety of sources, including publicly available literature and data, interviews and fieldwork, and the Commission's public hearing. The Commission used qualitative and quantitative measures to analyze the effects of U.S. restrictions and to estimate the potential for increased U.S. exports of goods and services to Cuba in the event that statutory, regulatory, or other trade and travel restrictions are lifted.

Information used by the Commission to identify U.S. goods and services sectors that could be significantly

affected by the removal of U.S. restrictions on trade with and travel to Cuba included Cuban import statistics; U.S. production and export data; information about Cuban market conditions; publicly available industry information; and anecdotal evidence obtained through fieldwork, the Commission's public hearing, written submissions, and contact with U.S. producers exporters, and trade associations.

Overall U.S. agricultural exports to Cuba could see significant gains from the removal of U.S. restrictions on trade. Some sectors may see immediate expansion, while others would more likely experience additional sales after Cuban tourism, incomes, and foreign capital have grown. For manufactured goods, exports would likely increase somewhat after the removal of U.S. restrictions, with prospects for larger increases in the longer term, subject to changes in Cuban policy and economic growth. In the services sector, U.S. exports would not likely grow significantly in the near term; however, exports of services could increase given a longer time span, additional economic growth and reforms in Cuba, and closer ties between the United States and Cuba. Features of the Cuban market that are most likely to affect the growth of U.S. exports of goods and services, such as government control of trade and distribution, weak

1. This paper is the executive summary for the United States International Trade Commission (USITC) study, *Overview of Cuban Imports of Goods and Services and Effects of U.S. Restrictions*, USITC Publication 4597, Investigation No. 332-552, March 2016. The entire report can be found on the USITC website at <https://www.usitc.gov/publications/332/pub4597.pdf>. The report was undertaken by a team of industry analysts and economists at the Commission. Heidi Colby-Oizumi was the project leader for the study and presented the paper at the ASCE meeting.

infrastructure, and limitations on investment, are discussed below.

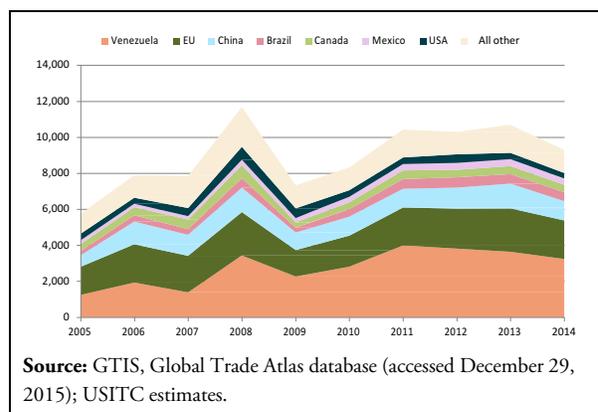
The following section gives an overview of Cuba’s imports of goods and services during 2005–14, including a discussion of major supplying countries, products, and market segments. This is followed by a description of possible Cuban barriers to U.S. exports and investment in the absence of U.S. restrictions. The last section discusses the effects of removing U.S. restrictions on U.S. exports of goods and services to Cuba for agricultural goods, manufactured goods, and services.

CUBAN IMPORTS OF GOODS AND SERVICES

Although the government and economic systems of the United States and Cuba are vastly different, economists, academics, government officials, and businesses all acknowledge that there are natural trade ties between the United States and Cuba and that the two countries are complementary markets. Before initial U.S. restrictions were implemented in 1960, Cuba was a major U.S. trading partner, ranking as the seventh-largest U.S. export market. In 2014, however, it ranked as the 125th-largest U.S. export market, with U.S. exports to Cuba totaling just \$299 million. While the announcement of normalized U.S.-Cuba relations and the liberalization of certain U.S. restrictions was expected to boost U.S. exports to Cuba, U.S. exports in 2015 actually declined by 40 percent to \$180.3 million from 2014. Cuba’s primary import suppliers are Venezuela, the European Union (EU), and China, which together accounted for 69 percent of total Cuban imports in 2014, the latest year for which such data are available for Cuba’s other trading partners (Figure 1).

Total Cuban imports of goods peaked at over \$11.7 billion in 2008; dropped sharply in 2009 because of the global recession; climbed to \$10.7 billion in 2013; and fell by 13 percent to \$9.3 billion 2014. Nonagricultural products accounted for the vast majority (79 percent or \$7.3 billion) of total Cuban imports in 2014 (Figure 2).

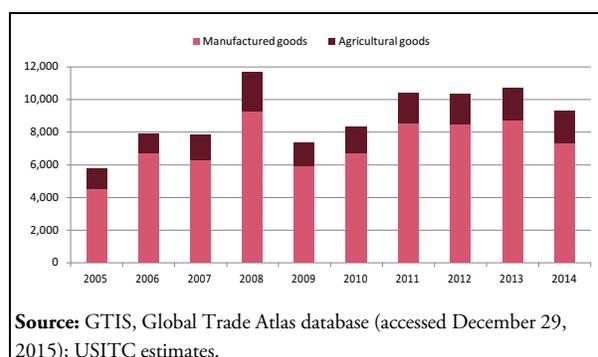
Figure 1. Cuban imports from the world by trading partner, 2005–14 (million dollars)



Agricultural goods accounted for only 21 percent (\$2 billion) of Cuba’s imports from the world in 2014. In contrast, U.S. exports to Cuba consist almost entirely of agricultural products, accounting for 95 to 99 percent of total U.S. exports to Cuba during 2005–14. Such exports totaled \$285 million in 2014.

Cuba’s imports of services are limited, despite more than doubling from \$1 billion in 2005 to \$2.5 billion in 2014. By comparison, Cuba is a strong exporter of services and has run a persistent surplus in the balance of services trade over the past decade. This surplus was valued at \$9.8 billion in 2014, which has partially offset Cuba’s trade deficit in manufactured goods and agricultural products.

Figure 2. Cuban manufactured and agricultural goods imports from the world, 2005–14 (million dollars)



EFFECTS OF U.S. RESTRICTIONS ON TRADE WITH AND TRAVEL TO CUBA ON CUBAN IMPORTS OF U.S. GOODS AND SERVICES

U.S. restrictions have greatly curtailed the amount of U.S. trade that is permitted with Cuba. Even in sectors such as agriculture, in which U.S. exports to Cuba are allowed, market share has been lost to foreign firms that can offer Cuba credit and financing, use government funding to promote their exports, invest in Cuba, and whose staff can travel there freely.

U.S. exporters listed several U.S. restrictions in particular as limiting U.S. exports to Cuba. These rules often raise the cost of doing business enough to make U.S. exports uncompetitive in the Cuban market. Most often mentioned is the U.S. requirement that Cuba pay for most U.S. exports in cash or via financing through third-country sources. Other rules include:

- restrictions on the use of promotional and marketing funds sourced from the U.S. Department of Agriculture or U.S. industry;
- restrictions on business travel to facilitate trade, including travel by Cuban buyers to the United States;
- the ban on U.S. tourist travel, which both directly and indirectly reduces demand for other
- U.S. goods and services; and
- restrictions on U.S. investment, which limits linkages with customers and shrinks the U.S. business presence in the Cuban market.

POSSIBLE CUBAN BARRIERS TO U.S. EXPORTS AND INVESTMENT IN THE ABSENCE OF U.S. RESTRICTIONS

Cuba has a number of nontariff measures, institutional and infrastructural factors, and other barriers that affect the ability of foreign partners to trade with or invest in the country. Some of these factors are possible barriers because they are not yet faced by U.S. firms, due to the limited involvement of U.S. firms in the Cuban market; some are possible barriers because they do not necessarily act as barriers to all firms; and others are perceived as barriers, although it is not clear to what extent they might act as such. However, the high degree of state involvement in all aspects of the economy, and the fact that reforms to

open the market are both recent and relatively slow-moving, add to potential foreign partners' uncertainty.

Perhaps because Cuba depends so heavily on imports, many of its trade processes—such as customs duties and procedures, and the sanitary and phytosanitary measures applied to agricultural imports—do not appear to hinder trade. However, Cuba's lack of hard foreign currency and domestic fiscal constraints undercut its ability to import overall. This situation has led to an increase in market share for countries that are willing and able to provide Cuba with generous credit terms. As a result, the Cuban market may not be as open to U.S. goods as it would otherwise be.

The Cuban government has recently loosened some restrictions on foreign investment, and it has been actively seeking investment in areas it believes will eventually allow Cuba to substitute its own products for foreign imports, such as agricultural products and light manufacturing. These changes are too recent to accurately assess their effectiveness. However, because the government has announced that it will need \$2 billion to \$2.5 billion in foreign investment annually to meet targeted growth rates and reduce its dependence on imports, businesspeople and Cuba specialists tend to agree that Cuba's barriers to investment will ease further in the future. The issues are discussed in more detail below:

- **Politics in Cuban trade and investment decisions.** That the Cuban government frequently makes decisions about trade and investment based on political factors rather than on economic rationale was widely cited as the single most important factor affecting the ability of U.S. and foreign companies to do business in Cuba. Political considerations include, among others, an interest in furthering the country's foreign policy agenda; the desire to advance the country's domestic social policies and programs; a preference for diversifying Cuba's trading partners to protect the country from external shocks; and patterns of historical relationships, as well as the trust, or lack thereof, resulting from them.
- **Cuba's investment climate.** Cuba's 2014 foreign investment law provides for foreign direct invest-

ment (FDI) through joint ventures, wholly foreign-owned entities, or contract investments (such as contracts for hotel management or the provision of professional services). In practice, however, Cuba's government remains unwilling to approve most FDI projects that include wholly foreign-owned entities. Most approved projects are joint ventures (with at least a 51-percent Cuban equity share) or contract investments. In addition, a package of tax incentives for foreign investors is available only to joint venture projects. Joint venture projects listed in the government's *Portfolio of Opportunities for Foreign Investment* are quickly approved, as are projects that are in the Mariel Special Economic Development Zone or that meet other Cuban government objectives.

- **Physical property rights and other barriers to investment.** The lack of rights to own land and some physical goods in Cuba is reportedly a significant concern for foreign investors in Cuba. Although long-term leases are available in some cases, most land in Cuba is owned by the state. The inability of foreign entities to own real property related to their investments creates risks for foreign companies conducting business in Cuba. This, combined with numerous other investor concerns—including competing or partnering with state-owned enterprises; the country's labor system, which can complicate both hiring and laying off workers; onerous approval processes; and licensing procedures—creates an atmosphere that is generally considered challenging to foreign investment in Cuba.
- **Cuban legal system, dispute settlement, and anticorruption efforts.** The Cuban legal system has been a cause for concern, particularly for potential foreign investors in Cuba. Cuban lawyers are all employees of the Cuban government; there is no private practice of law in Cuba. The domestic arbitration system lacks transparency, so there is little information available to determine whether the system is fair to foreign investors or favors the state. While some industry sources say it is difficult or impossible to find favorable resolutions of disputes against the Cuban government,
- others suggest that in commercial matters, the system is fair and often finds against the government. In matters relating to national security, however, or those with political implications, it is generally agreed that the Cuban government will prevail. The Cuban government's recent willingness to allow international arbitration clauses in contracts may indicate a desire to create a friendlier environment for foreign investment.
- **Intellectual property (IP) rights.** Many of Cuba's IP laws and institutions have evolved to address the requirements of the World Trade Organization's (WTO) Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). In the area of trademarks and patents, for example, Cuba has modern laws and functioning administrative systems. By contrast, Cuba's copyright law has not been modified to comply with TRIPS or to address the digital environment. Copyright infringement reportedly is widespread and pervasive. Notwithstanding the wide gaps in legal protections, U.S. and other foreign IP owners are registering their rights in Cuba and exploring market access and collaboration opportunities. While modernization of the Cuban copyright regime to address these problems could provide opportunities for U.S. and Cuban creators of copyright-sensitive products, the removal of U.S. restrictions would not be expected to have a large impact on U.S. firms in the near term, given the need for legal reforms and current economic conditions in Cuba.
- **Dual currency and exchange rates.** Cuba currently uses two currencies, the Cuban peso (CUP) and the convertible peso (CUC), neither convertible outside of Cuba. Pegged to the U.S. dollar, the CUC is used for foreign trade, the tourism sector, some restaurants and *paladares* (private restaurants), high-end stores, and much of the private sector. The CUP is used by the Cuban population for most domestic transactions, and all wages to Cubans are paid in CUP, regardless of the sector in which they work. Cuba also has multiple exchange rates. An official exchange rate of 1 CUP: 1 CUC is used by the government and all state-owned entities, while ex-

change centers use a rate of 24 CUP: 1 CUC or 25 CUP: 1 CUC, depending on whether the currency is being bought or sold. The multiple currencies and exchange rates have created serious distortions in the Cuban economy. The government announced plans to merge the two currencies by April 2016, but the merger appears to be delayed, and official information on the process has yet to be released. For foreign investors, Cuba's dual currency and exchange rates add a layer of confusion to an already complex business environment. Unification will ultimately ease business operations, but the uncertainties associated with the process concern investors.

- **State trading, storage, and distribution.** The Cuban government currently controls most aspects of international trade and domestic distribution. Most imports and exports go through Cuban state-owned entities, and distribution is controlled by the government. To encourage foreign investment, the government has allowed some foreign firms to import and export directly, but the growing private sector and cooperatives in Cuba have little to no ability to source or access the foreign inputs they need if they are to grow. Further, an inefficient distribution process causes supply bottlenecks throughout the country. One result of these limitations is that an increasing flow of the goods needed for the private and cooperative sectors, valued as high as \$3.5 billion yearly, is entering Cuba via travelers from the United States. If U.S. restrictions are removed, growth in U.S. exports to Cuba likely will continue to depend on the purchasing decisions of Cuban importing entities. The degree of government control over storage and distribution channels may further limit potential U.S. exports to Cuba and deter potential investors.
- **Customs duties and procedures.** As a member of the WTO, Cuba adheres to global guidelines simplifying customs duties and procedures. Cuba's average applied duty as a percentage of value is 10.6 percent, well below the average bound rate of 21 percent that it has committed to. Further-

more, Cuba is the only Latin American signatory to the International Convention on the Simplification and Harmonization of Customs Procedures (the Kyoto Convention). Because so few Cuban firms are allowed to import and export directly, it is difficult to assess Cuban customs procedures. However, the country depends heavily on food imports and equally heavily on exports to generate much-needed foreign currency. It is therefore unlikely that Cuban customs procedures, while bureaucratic, significantly hinder trade.

- **Sanitary and phytosanitary measures (SPS).** As a WTO member, Cuba is subject to the WTO's Agreement on the Application of Sanitary and Phytosanitary Measures. SPS is one of the few Cuban trade measures not visibly affected by political considerations, likely because of Cuba's heavy reliance on food imports, which supply 60 to 80 percent of total food consumption. Only a few cases of SPS problems have been reported in U.S.-Cuba trade since 2000. Although these were minor incidents, any expansion in bilateral trade involves the potential for additional or more problematic issues. However, with U.S.-Cuban diplomatic relations restored, it may be easier to exchange information to resolve trade conflicts involving SPS.
- **Infrastructure.** Cuba's infrastructure needs both repair and further development. In recent years, however, there have been successful upgrades to Cuban infrastructure, including the new port of Mariel, the railway expansion to the new port, and telecommunications improvements in certain areas, among others. Because the Cuban government manages most imports and handles the distribution of imported goods within the country, it is difficult to estimate the extent to which poor infrastructure affects trade. Nevertheless, telecommunications connections are still poor, both within the island and to the rest of the world; this is viewed as an obstacle to doing business that affects all foreign firms.

EFFECTS OF THE REMOVAL OF U.S. RESTRICTIONS ON U.S. EXPORTS OF GOODS AND SERVICES TO CUBA

This report uses both qualitative and quantitative analysis to evaluate the likely effects of removing U.S. restrictions on U.S. exports of goods and services to Cuba. It provides qualitative and/or quantitative analysis on U.S. export potential in 9 agricultural sectors, 22 manufactured goods sectors, and 3 services sectors. These sectors are not all-inclusive, and a number of other sectors may also experience increased exports if U.S. restrictions are lifted.

Under specific scenarios, the Commission was able to use an economic model to estimate the potential quantitative effect of removal of U.S. restrictions on U.S. exports of goods to Cuba in selected sectors. Additionally, the Commission used the model to estimate the potential combined effects of the removal of U.S. restrictions on trade and a lowering of Cuban import barriers. See “Effects of the Removal of U.S. Restrictions and the Reduction of Cuban Barriers—Selected Scenarios” below for additional information on the modeling and the modeling results.

For the qualitative assessment, the Commission evaluated the impact of removing U.S. restrictions on U.S. exports of goods and services to Cuba by examining top Cuban imports over the 2005–14 period and identifying those sectors and products that could be supplied by U.S. firms. The qualitative analysis also took into consideration anecdotal information from Cuba specialists and scholars, U.S. and foreign firms with business experience in Cuba, legal experts, and Cuban academic and government officials. In many cases, the qualitative assessment was at a different level of aggregation than that used in the modeling, and therefore the results are not always comparable.

The following sections provide a more detailed look at the qualitative and quantitative analysis evaluating the effects of removing U.S. restrictions on trade in goods and services. The first three sections present the qualitative assessment on the potential effects for (1) agricultural goods, (2) manufactured goods, and (3) services. The last section provides the results from

the quantitative analysis for selected agricultural and manufactured goods.

Agricultural Goods

Cuba is highly dependent on imports to feed its population, with significant imports of many Cuban dietary staples (wheat, rice, corn, soybeans and related products, dry beans, meats, and dairy products). During 2005–14, Cuba’s imports of agricultural, fish, and forestry products rose from \$1.3 billion to \$2.0 billion in value and became increasingly concentrated among a few major suppliers: the EU (particularly France, Spain, and Germany), Brazil, the United States, Argentina, and Canada. After 2008, however, U.S. agricultural exports declined in quantity and variety, becoming more concentrated in a few major products. In 2014, the value of Cuba’s imports of agricultural products from the United States was \$285 million, the lowest level in over 10 years and less than half the peak level of \$701 million in 2008.

U.S. suppliers cite their inability to offer credit and to travel to Cuba in order to facilitate transactions as key challenges stemming from the U.S. restrictions. The restrictions on credit are considered a major factor in the 2009–14 drop in U.S. agricultural exports to Cuba. Because the global recession beginning in 2008 depressed remittances and tourism to Cuba, the Cuban government became more dependent on financing to buy agricultural products, and less willing to pay cash for U.S. goods.

If U.S. restrictions were lifted, the ability to offer credit would put U.S. agriculture exporters on a more level playing field with other foreign suppliers. Further, U.S. producers can offer a wide variety of high-quality goods—such as grain and dairy products, as well as inputs for animal feed—suited to Cuban needs and tastes. U.S. products enjoy a cost advantage because of the production and marketing efficiency of U.S. exporters and the proximity of U.S. ports, resulting in lower transportation costs and faster delivery times (especially important for perishable commodities). U.S. suppliers can also deliver smaller shipments and serve less accessible Cuban ports using smaller ships, as compared with suppliers from more distant countries.

It is unknown, however, whether the lifting of U.S. restrictions would change the Cuban government's requirement that agricultural imports from the United States be handled exclusively through the state trading entity, Alimport, or whether it would allow other Cuban importing companies to buy such products from the United States. The potential for increased U.S. exports of agricultural goods could also be affected by Cuba's desire to diversify its supplier base to avoid overdependence on one country, especially on the United States.

Overall Effects

Overall U.S. agricultural exports to Cuba could see significant gains from the removal of U.S. restrictions on trade. However, the small size of Cuba's economy, coupled with the meager purchasing power of its residents, would likely limit the overall benefit to U.S. agricultural exporters. Additionally, U.S. exports of some agricultural goods may continue to be subject to the purchasing decisions of Alimport, which could limit the growth of U.S. exports in some sectors.

According to industry representatives, being able to offer Cuba credit to purchase U.S. products would provide the greatest boost to exports if U.S. restrictions were lifted. Sources note that removing travel restrictions would also increase demand for U.S. products, not only directly from U.S. tourists consuming such items, but also by increasing the purchasing power of the Cuban economy through higher tourism revenues. Several industry representatives also mentioned that lifting travel restrictions would increase U.S. agricultural exports to Cuba by allowing on-site inspections and otherwise facilitating business relationships between the two countries.

Selected Sectoral Effects

- Wheat.** Following the removal of U.S. restrictions, U.S. wheat exports to Cuba could resume and could expand to 2005–09 levels, when U.S. exports averaged \$75 million, after several years. The primary obstacle to U.S. wheat exports to Cuba—the inability to offer credit—would be eliminated. U.S. industry representatives expect the U.S. share of total Cuban wheat imports to
- increase to 80 to 90 percent from zero in 2012–14. Exports could exceed \$150 million annually.
- Rice.** Following the removal of U.S. restrictions, U.S. rice exports to Cuba could resume, but may not reach previous levels immediately. The U.S. rice industry, however, expects that within 2 years of lifting the restrictions the United States could supply up to 30 percent of Cuba's rice imports, valued at up to \$60 million annually. Within 5 years, industry sources indicate that U.S. rice could account for as much as one-half of Cuban rice imports, and up to three-quarters of Cuban rice imports within 10 years. However, although Cuban consumers prefer the quality of U.S. rice, U.S. rice would continue to face competition from Vietnam, which offers credit terms unlikely to be matched by U.S. industry.
- Corn.** U.S. corn exports to Cuba could expand to previous levels following the removal of U.S. restrictions and the ability to extend credit. Because the United States has a logistical advantage over major competitors, in the long term, exports could exceed 2005–09 levels, when the United States had a majority market share, as Cuban feed demand will expand with its livestock industry.
- Soybean complex (soybeans and soybean oil and meal).** The United States is already the leading supplier of soybeans and soybean meal to Cuba, and up until 2010 was a leading supplier of soybean oil as well. In the absence of restrictions, U.S. market share could grow for all three products because of the U.S. industry's competitive product and logistical advantage. Total U.S. exports to Cuba of soybean oil and meal should see additional overall growth. The United States may also be able to increase its share of the Cuban soybean market; growth in the total size of that market, however, may be constrained by Cuba's limited soybean crushing capacity.
- Pulses.** The United States has exported no pulses (dry beans, chickpeas, peas, and lentils) to Cuba since 2011. Absent U.S. restrictions, however, these exports could resume and could eventually exceed 2005–11 levels. U.S. exports would almost exclusively consist of dry beans. The U.S. industry, however, would be competing with Ar-

gentina and China; Cuban consumers prefer the quality of U.S. dry beans, but Cuba is a price-sensitive, currency-constrained market, and China offers extended credit terms unlikely to be matched by U.S. industry. Furthermore, Alimport has recently shifted to purchasing lower-priced dry peas and lentils, mostly from Canada. Even if U.S. restrictions are removed, Canada likely would continue to be the major source for Cuban dry pea and lentil imports, as Canada is a highly cost-competitive producer of these goods, due in part to a favorable climate.

- **Poultry.** Poultry is Cuba's top agricultural import, and the United States is already the lead supplier. As a result, it is unlikely that the removal of U.S. trade restrictions would lead to significantly more U.S. exports to Cuba in the short term, although it could increase shipping efficiency and reduce transportation costs. In the long term, growth in Cuban incomes and tourism could result in higher U.S. poultry exports to Cuba.
- **Pork.** Although pork accounted for less than 1 percent of all Cuban agricultural imports in 2014, U.S. pork exports to Cuba could grow after U.S. restrictions are lifted. Initially, exports would consist of low-value pork muscle cuts and variety meats, competing with frozen pork from Canada. Over time, exports could expand to include higher-value pork cuts for the hotel, restaurant, and institutional sectors. The efficiency of U.S. pork production and the short shipping distance would be competitive advantages for U.S. pork exports.
- **Beef.** Beef accounted for less than 1 percent of total Cuban agricultural imports by value in 2014. However, the removal of U.S. restrictions could result in more trade opportunities for U.S. beef, particularly lower-priced cuts and frozen offal for consumption by the Cuban domestic population, as well as higher-end beef cuts for tourists. The United States has a logistical advantage vis-à-vis other major beef suppliers (Canada and the EU). Removing restrictions also would allow the U.S. beef industry to conduct market promotion

in Cuba, which industry representatives now identify as a major limitation on sales.

- **Dairy.** U.S. dairy exports to Cuba could resume following the removal of U.S. restrictions. In 2014, milk powder was Cuba's second-largest agricultural import; however, the United States has exported no milk powder to Cuba since 2012. U.S. dairy exporters benefit from lower freight costs relative to other major suppliers. U.S. exports of milk powders would likely see the most immediate growth. Over time, increased U.S. tourism to Cuba and rising Cuban incomes could result in demand for other U.S. dairy products, such as yogurt and cheese. U.S. industry representatives expect that the United States could eventually account for 50 to 75 percent of Cuban imports of lactose, skim milk powder, whey products, and fresh and soft manufactured dairy products, as well as 40 to 60 percent of butter and cheese imports. Potentially, the United States could supply 30 percent of total Cuban dairy imports by the decade's end.

Manufactured Goods

Cuba's manufacturing base deteriorated after the collapse of the Soviet Union, and now Cuba relies heavily on imports for many of the manufactured goods it once produced. Total Cuban imports of manufactured goods grew from \$4.5 billion in 2005 to a peak of \$9.3 billion in 2013 (an increase of 107 percent) before declining 21 percent to \$7.3 billion in 2014. Although Cuba imports a wide variety of manufactured goods, energy and energy-related products accounted for almost one-half of all its imports of manufactured goods in 2014. Imports of manufactured goods from the United States were very low during 2005–14, totaling just \$14.1 million in 2014, reflecting tighter U.S. restrictions on exports of most manufactured goods compared with U.S. restrictions on agricultural exports.

As with agricultural goods, the willingness of U.S. suppliers to offer credit will likely be an important factor affecting potential U.S. exports to Cuba. The higher costs of capital goods, combined with the Cuban government's obligation to spend available foreign currency on imports of basic necessities such as food, mean that financing will play an important part

in Cuban purchases of manufactured goods from the United States. Experts state that Cuban buyers will need to develop close and reliable relationships with U.S. suppliers for product support, spare parts, maintenance, and training before U.S. exports in certain sectors can reach significant levels.

Overall Effects

There are likely a number of opportunities for U.S. exporters of manufactured goods in the event that U.S. restrictions on trade with and travel to Cuba are lifted, and the proximity of the United States to Cuba offers additional competitive advantages. The United States can produce many of the products that Cuba currently needs and ship most items at a lower cost than competitors. In the short to medium term, Cuban imports will likely be limited to currently imported products and goods in sectors deemed necessary to Cuba's plans for economic growth. U.S. exports may, however, be hindered by U.S. firms' unwillingness to provide the long-term financing or barter arrangements that Cuba currently enjoys from some of its main trading partners. In the longer term, as Cuban purchasing power increases and Cuban GDP grows, opportunities will likely expand for increased U.S. exports in a wide variety of sectors.

Selected Sectoral Effects

- **Refined petroleum products.** It is unlikely that Cuba will become a major market for U.S. exports of refined petroleum products in the near term, even if U.S. restrictions on Cuba are lifted. Many U.S. refinery products, such as motor fuels, are too high in octane or have other chemical characteristics that make them unsuitable for use in Cuban automobiles, in electric power plants, or for other industrial purposes. Generally, Cuba was a net importer of refined petroleum products during 2005–14, importing certain products while exporting others. Cuba is currently highly dependent on Venezuela for crude petroleum to feed its refineries, a situation that is likely to continue.
- **Fertilizers and pesticides.** Cuba needs fertilizers and pesticides to increase domestic agricultural yields and decrease its dependence on imported food; both goals are explicitly stated government

priorities. Because Cuba's fertilizer and pesticide industry is small and cannot adequately supply the domestic market, there are opportunities for U.S. exports in the event that U.S. restrictions are removed. The U.S. industry could potentially supply these products to Cuba cheaply and efficiently due to the competitiveness of U.S. firms and their proximity to the Cuban market.

- **Construction and agricultural machinery.** The removal of U.S. restrictions is likely to provide immediate export opportunities to U.S. construction and agricultural machinery manufacturers, owing to Cuba's construction needs and its desire to increase self-sufficiency in agriculture. Recently revised U.S. regulations allow some trade activity in these areas, and this may help some U.S. manufacturers gain early entry into the market.
- **Building materials.** Cuban infrastructure, buildings, and tourist facilities need upgrading, modernization, and expansion. Such needs are imminent and will provide immediate opportunities for U.S. exporters of building materials if U.S. restrictions are lifted.
- **Telecommunications equipment.** Cuba represents a small potential market for U.S. exports of telecommunications equipment. Cuba will need such equipment in order to support increased tourism and provide the infrastructure needed to attract foreign investment. If U.S. restrictions on U.S. exports to Cuba are lifted, U.S. exports are likely to focus first on the enterprise segment of the telecommunications equipment market (i.e., the telecommunications and Internet networking equipment used by businesses and government agencies), followed by the wireless infrastructure segment. U.S. exports are also likely to follow U.S. direct investment in Cuba. Opportunities in other segments, such as Cuba's core telecommunications network, are likely to be limited by the presence of Chinese and EU firms that have been supplying the Cuban market and that have close relationships with the Cuban government.
- **Medical devices.** Although the United States is the world's largest medical device manufacturer,

the level of U.S. medical device exports to Cuba has historically been low. This situation is due, in part, to Cuba's relatively limited access to capital to purchase devices; the conditions on U.S. exports to Cuba of these goods; Cuba's relatively small healthcare market; and the country's government-provided healthcare system. These factors will likely limit U.S. exports to Cuba in the near term if U.S. restrictions are removed, with greater export potential in the longer term, as Cuba has expressed a need for state-of-the-art medical equipment and has identified medical tourism as an area of potential growth.

- **Motor vehicle parts.** Although motor vehicle parts are a key Cuban import sector, the Cuban government's regulations on motor vehicle ownership and retail distribution, and the limited purchasing power of Cuban citizens, would likely limit U.S. industry's chances of exporting significantly more in this market, even with U.S. liberalization. However, some U.S. aftermarket parts manufacturers, such as those producing parts for classic cars, would likely benefit from the opening of the Cuban market in the short term. Longer-range benefits for both original equipment manufacturers and aftermarket suppliers are likely if Cuba ends current barriers to trade and market growth. U.S. parts manufacturers are considered to have several competitive advantages, including the quality of their products, the warranties and aftersales service they offer, and geographic proximity.

Services

Cuba's services imports are quite small relative to its services exports. Cuba's surplus in services trade, owing to strong exports of medical and tourism services, is a crucial source of the foreign currency required to sustain the country's high import levels. While Cuba's tourism sector will likely continue to grow in coming years, and U.S. regulations on U.S. participation in Cuba's telecommunications and financial services sectors have eased, these areas are characterized by heavy state control, and thus are unlikely growth sectors for U.S. exports in the near term.

However, in the medium to long term, these and other services sectors may prove to have significant potential for U.S. exports of services, as well as for exports of goods to support the provision of these services.

- **Travel services.** Cuba's travel services imports from the United States are currently negligible, with only around 40,000 Cubans visiting the United States annually. This is not expected to increase with the removal of U.S. restrictions on Cuba. However, tourism is a major source of foreign exchange for Cuba, and the removal of U.S. restrictions would increase Cuba's tourism revenue from U.S. visitors, improving Cuba's ability to pay for imports of U.S. goods and services. U.S. exports of travel services to Cuba could also increase through foreign affiliate sales if highly competitive U.S. firms are allowed to operate in the travel services sector in Cuba.
- **Financial services.** Recent changes to the U.S. restrictions have allowed some new U.S. banking activity to take place in Cuba. For instance, U.S. banks can now open correspondent accounts with Cuban banks; these accounts allow one bank to handle payments or other financial transactions for another bank. Cuban banks are all state owned, so even in the event that all U.S. restrictions are removed, the near-term potential for Cuban imports of U.S. banking services remains small. Cuban imports of other financial services, such as credit card payment processing, have significant potential, particularly if there is an increase in U.S. visitors to Cuba.
- **Telecommunications services.** Despite the underdeveloped nature of the Cuban telecommunication services market, and Cuba's reported new receptiveness to investment in the sector, it is unlikely that U.S. carriers will enter the Cuban market for services beyond mobile roaming agreements and/or direct telephone services. The primary reasons for this reluctance include concerns that payments to the Cuban telecommunications provider (for connecting telephone calls in Cuba) will be garnished to satisfy judgments by winning plaintiffs in U.S. civil lawsuits against the Cuban government; Cuba's long-

Table 1. Estimated U.S. exports to Cuba in selected sectors without U.S. restrictions and with lowered Cuban import barriers

	Base year (2010–13 average)	Estimated annual value (medium term)	Percent change ^a
	Million dollars		
U.S. restrictions are removed			
Selected U.S. agricultural exports	312.8	797.1	154.8
U.S. manufactured exports	225.0	1,222.7	443.5
U.S. agricultural and manufactured exports	400.8	1,790.2	346.7
U.S. restrictions are removed and Cuban import barriers are lowered			
Selected U.S. agricultural exports	312.8	886.2	183.3
U.S. manufactured exports	225.0	1,631.9	625.4
U.S. agricultural and manufactured exports	400.8	2,232.3	457.0

Source: USITC estimates.

Note: There is some overlap in agricultural and manufactured products, so total exports are less than the sum of agricultural and manufactured exports. The results include the effects of increased tourism in Cuba due to lifting of U.S. restrictions.

a. Calculations are based on unrounded values.

standing ambivalence towards foreign investment in the telecom sector; and the small, low-income nature of the market.

EFFECTS OF THE REMOVAL OF U.S. RESTRICTIONS AND THE REDUCTION OF CUBAN BARRIERS—SELECTED SCENARIOS

The Commission used an enhanced gravity model to estimate the potential effect of removal of U.S. restrictions on U.S. exports of goods to Cuba in sectors where the impact of the removal of restrictions is likely to be significant. The model was also used to estimate the combined effects of removing U.S. restrictions on trade and lowering Cuban import barriers.

The model provides medium-term estimates (approximately five years after the removal of restrictions) and it requires certain assumptions. For example, as with other standard economic models, the Commission's model uses economic factors alone as the basis for estimates of Cuban purchasing decisions. Thus, it cannot account for political or security considerations, which play an important role in trade with Cuba. As a result, the model may overestimate the share of U.S. goods in Cuban imports if U.S. restrictions are lifted. In addition, productivity in all countries, including Cuba, is held constant during the es-

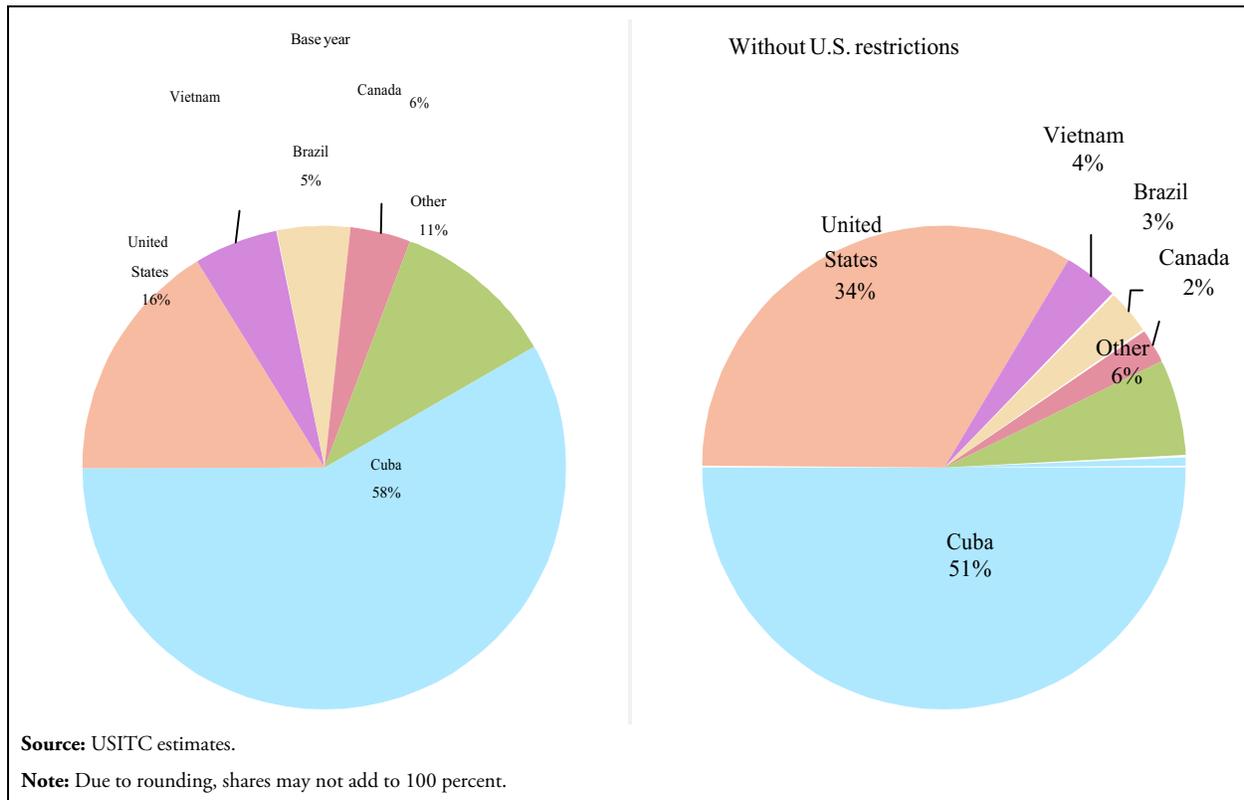
ti[mation. Therefore, under the selected scenarios, Cuban income is not significantly affected by the removal of U.S. restrictions.

Removal of U.S. Restrictions

The quantitative analysis for segments of the economy for which data were available suggests that if U.S. restrictions on U.S. exports to Cuba were lifted, U.S. exports to Cuba of selected agricultural sectors² and all manufactured products could increase by about \$1.4 billion to approximately \$1.8 billion annually in the medium term (within five years), a 347 percent increase from their 2010–13 average level (Table 1). As noted above, even if U.S. restrictions are lifted, Cuban government policies, institutional factors, and infrastructural limitations also affect the composition and value of Cuba's trade with the United States and the rest of the world, as well as domestic and foreign investment in Cuba. If U.S. restrictions were removed and Cuban import barriers were reduced to the level of the calculated average for developing countries, the quantitative analysis suggests that U.S. exports of selected agricultural and manufactured goods could increase by an additional \$442 million, to a total of about \$2.2 billion. Model results show that there may be substantial new trade in many industries, primarily in ones where there is currently little or no trade, such as non-food manufactured

2. Selected agricultural sectors include wheat, rice, corn, pulses, soybeans, other oilseeds, beef, pork, and poultry.

Figure 3. Cuban market for nine agricultural industries, with (base year) and without U.S. restrictions



goods. This is largely a result of fewer current restrictions on agricultural goods relative to manufactured goods. The results show that most of the new U.S. exports to Cuba would come at the expense of other countries' exports to Cuba as well as Cuba's domestic producers.

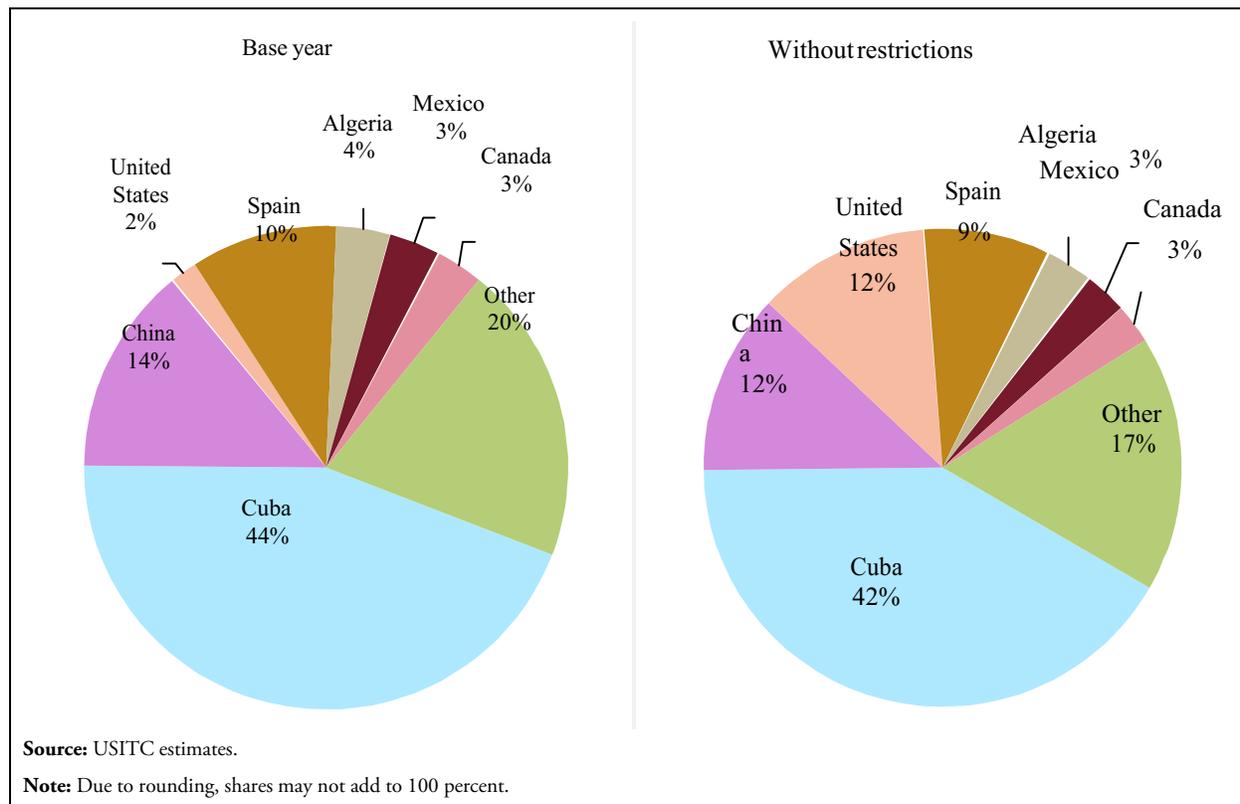
Total U.S. exports of the nine selected agricultural products to Cuba are estimated to increase up to 155 percent from their 2010–13 average level to \$797 million. This amount represents 68 percent of total Cuban imports of agricultural products. The amount includes the additional demand for U.S. products generated by an increased number of tourists in Cuba once U.S. restrictions are removed. The model estimates that wheat would become the largest of the nine agricultural sectors in the absence of U.S. restrictions, with \$188 million in annual exports, capturing over 50 percent of the Cuban import market. U.S. exports of rice would increase significantly from virtually no exports in the base year to comprising over 40 percent of Cuban imports, valued at \$142

million annually. Poultry, currently the largest U.S. agricultural export sector, would see modest growth, with the U.S. market share of Cuban imports increasing from 74 percent to 87 percent, valued at \$175 million.

The model results show that while the U.S. share of Cuba's market for agricultural products would more than double, from 16 percent with restrictions to 34 percent without restrictions (Figure 3), the shares of other suppliers to the Cuban agricultural market would decline.

Total U.S. exports of manufactured products to Cuba are estimated to increase up to 444 percent from their 2010–13 level to \$1.2 billion. This represents 20 percent of Cuban imports of manufactured goods. The industry with the largest U.S. exports to Cuba in the absence of U.S. restrictions is estimated to be the processed food and beverages industry; the second largest is estimated to be the chemicals and chemical products industry.

Figure 4. Cuban market for manufactured goods, with (base year) and without U.S. restrictions



The model results show that the U.S. share of Cuba’s market for manufactured goods would grow from less than 2 percent with restrictions to 12 percent without restrictions (Figure 4). China, the largest foreign supplier of manufactured goods to Cuba, would see its share drop from 14 percent to 12 percent.

Removal of U.S. Restrictions and Reduction in Cuban Barriers

If U.S. restrictions are removed and Cuban barriers are lowered to the calculated average level of devel-

oping countries, U.S. exports of agricultural and manufactured goods could increase to about \$2.2 billion (compared with \$1.8 billion after removing U.S. restrictions alone). U.S. exports of agricultural products could increase by 183 percent from their 2010–13 average levels; U.S. exports of manufactured goods, by 625 percent. Thus while U.S. exports to Cuba would increase further if Cuban tariff and nontariff measures were decreased, the largest share of the effects on U.S. exports would come from the removal of U.S. restrictions on trade.