



**Testimony Delivered Before the
United States International Trade Commission by
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June 2, 2015

Chairman Broadbent, Vice-Chairman Pinkert, Commissioners, Secretary Barton, Commission staff, it is a great honor to be here with you today, and I thank you for the opportunity to appear before you to discuss the economic effects on U.S. exports of goods and services resulting from the sanctions placed on trade with Cuba.

It was nearly 15 years ago that I served as an analyst here at the Commission on the study titled: Economic Impact of U.S. Sanctions With Respect to Cuba. As such, I understand first hand that the Commission houses expertise and deep institutional knowledge as it relates to trade (or no trade) with Cuba. Therefore, I would like to say at the outset that this agency serves as a critical actor in advancing U.S. Congress' understanding of the current economic, political/policy, and social landscape that exists in Cuba today and of the negative consequences that result because of the continued existence of sanctions.

My appearance today is on behalf of Cargill, Incorporated, but I should also highlight that I serve as Chair of the U.S. Agriculture Coalition for Cuba (USACC).

Cargill provides food, agriculture, financial and industrial products and services to the world. Together with farmers, customers, governments and communities, we help people *thrive* by applying our insights and 150 years of experience. We have 143,000 employees in 67 countries who are committed to feeding the world in a responsible way, reducing environmental impact and improving the communities where we live and work.

As it relates to this study, Cargill currently partners with U.S. farmers and others in the industry to execute on the sales and delivery of food to Cuba. Broadly our Cargill America's business serves all food deficit economies in the Latin American region. Over many years we have built strong customer relationships in Latin American countries and have established trust through supplementing domestic production in these economies.

And for an introduction to USACC, the Coalition represents a broad cross-section of American food and agriculture interests, a few members of which are testifying today. I have included USACC's Charter document in an attachment to this submission.

USACC was formed as a response to what we believe is a need to highlight the importance of reestablishing Cuba as a market for U.S. food and agriculture exports. Cargill is pleased to work alongside other USACC organizations and companies to advance an end to the embargo. We know that even with the current humanitarian exemptions that exist in the sanctions law today our industry is losing out on valuable opportunities to market U.S. food and agriculture products in Cuba. A figure you may hear over-and-over again is that since 2008, U.S. agricultural exports to Cuba have declined over 130%, from about \$700 million to about \$300 million. Cuba is still importing food, but is choosing our competitors as suppliers more often than not.

U.S. farmers, ranchers, and food businesses should not be losing out to other countries like Brazil, Canada, Argentina, Vietnam, and countries in the European Union. Cuba is a natural export market for the U.S. industry. Our farmers and businesses can win on proximity to the market; we can win on affordability; and we can win on quality and other specs; but we cannot win if we have to sit in the dugout while our competitors are on the field. All we want is a chance to play, and play to win.

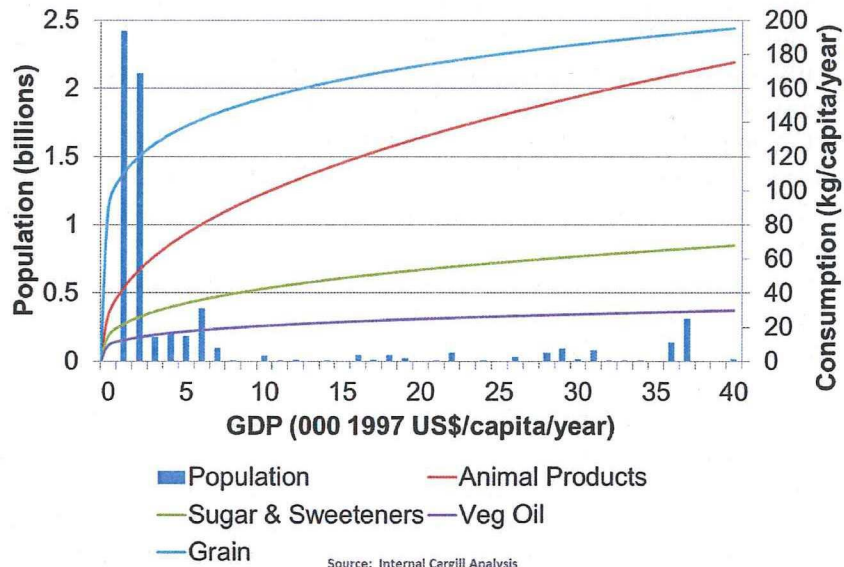
A "win" for the U.S. agriculture industry is not a one-sided proposition, but rather it creates a win for the Cuban people as well. Our industry's ability to competitively access the Cuban market enhances Cuban citizen's food security at the same time. Cuba imports between 60-80 percent of its food. Cubans spend roughly 60-75 percent of their incomes on food.¹ More supplier options for imports results in more affordable food prices for the Cuban people. Cuba ranks 44th in the 2014 UNDP Human Development Index, and while Cuba has largely eradicated hunger, according to the UN Food and Agriculture Organization, Cuba has modified its subsidized food basket recently and these changes have led to poor dietary diversity and high rates of anemia. The subsidized monthly food basket for Cubans previously covered 50 percent of household needs, but it has dropped to just 38 percent owing to Cuba's dependence on higher priced food imports, according to the World Food Programme.

At Cargill we understand first hand that dietary diversity is linked to higher incomes. The chart presented below tracks food consumption against rising levels of income and it demonstrates that as people move up the rungs of the economic ladder and as their per capita GDP begins to rise, personal food baskets become more diversified and people are able to add critical protein such as meat, fish/seafood, and eggs to their daily diets.

¹ Centro de Estudios de la Economía Cubana. 2013. Gastos básicos de una familia cubana urbana en 2011. Situación de las familias "estado-dependientes". Annual seminar on the Cuban economy and business management, 25-27 June 2013. Hotel Nacional de Cuba

Food consumption vs. income

(Animal products includes meat, fish/seafood, eggs – no dairy)



We know the story will read the same in Cuba as its economy becomes more open, which is why at Cargill we have taken a keen interest in the changing policy environment with Cuba.

As I mentioned earlier, Cargill has been in the business for 150 years now and we have observed and experienced the detrimental impact that closed markets can have on a society's food security. We do not believe food should be used as a weapon, which is why the company has advocated for an end to sanctions and for use of humanitarian exemptions where sanctions remain in place.

Cargill's trade relationship with Cuba was reignited when the humanitarian exemptions were introduced in 2000. Our first sale to ALIMPORT, our customer which is Cuba's state trading enterprise responsible for importing products into the country, was in March 2002. In fact, a recent Star Tribune article in Minneapolis reported on that sale, quoting a Fairmont Farmer, Lawrence Sukalski, as saying, "I was one of three farmers that was with Cargill to witness the first U.S. grain to come to the shores of Habana." Since 2002, our company has sold about one million tons of U.S. agricultural commodities to Cuba. Like the rest of the industry, there was an initial boost in sales and then since 2008, our exports have declined precipitously.

The decline in sales is because we face some unnecessary challenges in the Cuban market. The topline challenges are as follows:

1. **Restrictions on financing food sales.** Because of the strict requirements placed on U.S. exporters to secure a third country letter of credit or to receive cash up front (or as the new regulations state, cash on transfer of title), our industry simply cannot compete. Our

competitors are able to offer much more attractive terms and are able to move much more swiftly to finance individual transactions.

2. **Cumbersome payment process.** Because of the financing restrictions in place, the payment process is cumbersome and impacts U.S. exporters on a few fronts. Since cash is not really an option for payment, we must receive the letter of credit payment before we can turn over the vessel, which is a detailed process. First, we communicate to Alimport, Alimport communicates to its foreign bank (e.g., Canadian or French), that foreign bank communicates to Cargill's bank and then that bank communicates back to Cargill. This is a complicated transaction. While all of this is happening, we are unable to shift/move the vessel to a different load terminal owing to the terms on the Letter of Credit. All of this adds days to the transaction. Finally, when the shipment arrives, we have no ability to make settlements (i.e, Alimport pays Cargill or *vice versa*) for settlements on quality, discharge, and loading.
3. **Difficult to travel for discharge/loading related issues.** If a customer wants to be present for vessel loading in the United States, it's easy to do that with customers from other countries. Our Cuban customers have difficulty coming to the United States and getting a visa is next to impossible for loading, which is problematic. We are not able to offer this service as do businesses in Brazil and Argentina, for example.
4. **Inability to provide risk management services to our Cuban customer.** Because of the restriction on financing in U.S. law, we are not able to offer a suite of options for managing price risk like we would to other customers in the Latin American region. Lack of risk management tools creates greater instability for the Cuban customer and denies U.S. business additional opportunity to compete with our foreign counterparts.
5. **Lack of USDA and Alimport exchanges.** It is difficult to manage the trade relationship for U.S. ag commodities without the ability to engage in meaningful technical exchanges. Other countries that we trade with have the benefit of governments talking to one another. We think it would be beneficial if USDA could help us address some of the sanitary and phytosanitary (SPS) and technical barriers to trade (TBT) issues that often arise when vessels enter Cuban ports. We have established consultative mechanisms with other trading partners that facilitate agreement on difficult trade-related issues. Our hope is that when embassies open, one of first additions would be a Foreign Ag Service (FAS) Officer to help manage the relationship. Discussions could center around the adoption and implementation of international standards and removal of unnecessary protections. These discussions could lead to streamlining U.S. food and ag trade with Cuba.
6. **Inability to investment in the Cuban agro- and food sector.** Our industry cannot invest in Cuba, which limits our ability to create important linkages with Cuban farmers and consumers. The Bureau of Economic Analysis estimates that 45 percent of U.S. exports are linked to U.S. investment overseas, which highlights that U.S. investment is a magnet for U.S. exports. Cuba is no exception. The more our businesses are able to trade and invest with one another, the more growth we will experience in our own agriculture and food sector at home.

7. **Travel ban.** Because American citizens cannot travel to Cuba, our market potential in Cuba is much smaller than it should be. If Americans are able to choose Cuba as a vacation destination, then U.S. industry stands to gain from shipping more high valued food products to meet the needs of the tourist population.

Many of the aforementioned challenges could be dealt with in government-to-government negotiations, but unfortunately most of them will take an act of Congress to unravel. Fortunately, we see some inclination from Congress to address the sanctions legislation. There are several promising pieces of legislation that have been introduced including the *Freedom to Export to Cuba Act* that Senator Klobuchar testified on this morning which results in a repeal of the trade sanctions, and that Act coupled with the *Freedom to Travel to Cuba Act* would essentially repeal the trade and travel bans with Cuba. There is also the *Agricultural Export Expansion Act* that creates a pathway for removal of private financing restrictions on U.S. agricultural exports. Cargill is encouraged by the leadership being exhibited on the issue in Congress. We are hopeful that the issue will gain momentum in 2015.

As it relates to the task before the Commission, I would like to offer some final observations on some additional areas of focus that could enhance understanding of the opportunities that exist in Cuba for the U.S. food and agriculture industry and that support the development of the Cuban agriculture and food sector.

1. **Impact of Cuba's Foreign Investment Law on U.S. food and ag interests.** In 2014, Cuba's National Assembly passed a new foreign investment law in an effort to increase capital investment in the country. The new law opens up investment in new sectors. A number of months after the law was passed the government issued a report, "Portfolio of Opportunities for Foreign Investment," appealing for foreign investment and 32 of the highlighted projects in the report were related to agriculture. The report seeks joint ventures in cattle, pork, and poultry production as well as in citrus, peanuts and shrimp farming. Cuba's new investment policies allow private farms and non-farm cooperatives to form ventures with foreign investors. We would like to better understand the details of these opportunities presented by the Cuban government.
2. **Opportunities for our industry in the Port of Mariel Food Processing Zone.** We would like to better understand the prospects for food and feed processing for U.S. investors in the zones that have been established.
3. **Exploration of Benefits of two-way food and agriculture trade.** There are many sectors where Cuban farmers could benefit from exporting to the United States. These sectors could benefit from access to U.S. technology, agricultural services, sharing of best practices, etc. It would be helpful to have USITC uncover the additional benefits to the U.S. sector through collaboration with Cuban farmers with the expressed goal of enhancing their export capabilities.
4. **WTO Membership.** Underpinning the US-Cuba trade relationship is the fact that both countries are members of the WTO. Albeit each country has declined to offer MFN

status to each other, the question before us is what would the benefits of MFN status look like for exporters and investors? It would be helpful for USITC to explore what would preferential access be denied before of inability to offer MFN status to one another.

Thank you for the time to converse with you on this important topic today. We know the analysis and facts that the USITC will present to Congress will continue to advance a meaningful dialogue on the need to establish normal commercial relations with Cuba.

In the case of Cuba, humanitarian exemptions are simply not doing enough for the Cuban population. Cargill believes that holistic liberalization of the U.S.-Cuba trade relationship is needed to spur the necessary growth of the entire Cuban economy. This is not just about a one-way trade relationship with U.S. agriculture commodities and food products flowing to Cuba. What Cargill supports is full repeal of the sanctions so that trade in goods, capital, and services can flow freely between both countries. The Cuban people need a way to make money. They need to unleash their individual economic potential across all sectors. The more income they have in their pockets, the greater the ability they have to meet their growing food demands and other critical needs.

I am open to any questions you might have.

ATTACHMENT #1: USACC Charter



USACC

U.S. Agriculture Coalition for Cuba

Charter

Coalition Background: Prominent members of the U.S. food and agriculture community agreed to officially form a national coalition to address liberalizing trade between the United States and Cuba. The coalition's primary focus is on ending the embargo and allowing open trade and investment to occur.

Under current sanctions, U.S. food and agriculture companies can legally export to Cuba. However, financing restrictions limit the ability of the U.S. industry to competitively serve the market. Foreign competitors such as Canada, Brazil, the European Union and Argentina are increasingly taking market share from U.S. industry because those countries do not face the same restrictions on financing.

Cuba is a logical market for U.S. food and agriculture exports with 11 million consuming citizens only 90 miles off the coast of the United States. Normalizing trade relations between the United States and Cuba will enhance Cuban citizens' access to affordable food while providing the U.S. farm and business community with new market access opportunities. Liberalized trade will drive growth in both countries and allow the U.S. farmers, ranchers and food companies to efficiently address Cuban citizens' food security needs.

Coalition Purpose: The purpose of the coalition is to re-establish Cuba as a market for U.S. food and agriculture exports.

Coalition Approach: We will achieve our purpose by advancing a constructive dialogue in the United States on U.S.-Cuba relations. We will actively engage to end the long-standing embargo. We will work with key stakeholders to build momentum that drives historical change. We will take public platforms and explain the moral imperative of liberalizing trade between the two countries.

Coalition Membership

Agriculture Organizations National
American Farm Bureau Federation

American Soybean Association
American Seed Trade Association
American Feed Industry Association
Corn Refiners Association
Council of State Governments
CNFA: Cultivating New Frontiers in Agriculture
Dairy Farmers of America
International Dairy Foods Association
National Association of Wheat Growers
National Association of Egg Farmers
National Barley Growers Association
National Black Growers Council
National Chicken Council
National Corn Growers Association
National Council of Farmer Cooperatives
National Farmers Union
National Grain and Feed Association
National Milk Producers Federation
National Oilseed Processors Association
National Sorghum Producers
National Turkey Federation
North American Export Grain Association
North American Meat Institute
Rural & Agricultural Council of America
Soyfoods Association of North America
US Canola Association
US Cattlemen's Association
US Dairy Export Council
US Dry Bean Council
US Grains Council
US Soybean Export Council
US Wheat Associates
US Rice Producers Association
USA Dry Pea & Lentil Council
USA Rice Federation

Agriculture Organizations State

Agribusiness Council of Indiana
Arkansas Rice Growers Association
Illinois Cuba Working Group
Illinois Soybean Growers
Illinois Farm Bureau
Indiana Farm Bureau
Indiana Corn Growers Association
Indiana Soybean Alliance
Indiana Corn Marketing Council

Iowa Farm Bureau
Food Export Association of the Midwest USA
Food Export – USA Northeast
Cherry Marketing Institute
Michigan Agri-Business Association
Michigan Apple Association
Michigan Bean Shippers
Michigan Bean Commission
Michigan Milk Producers Association
Michigan Corn Growers Association
Michigan Soybean Association
Michigan Potato Industry Commission
Missouri Corn Growers Association
Missouri Department of Economic Development
Missouri Department of Agriculture
Missouri Rice Council
Missouri Forest Products Association
Missouri Farm Bureau
National Foreign Trade Council
Texas Farm Bureau
University of Missouri-Fisher Delta Research Center
Virginia Department of Agriculture and Consumer Services

Agriculture Corporations

ADM
AGCO
Bunge
Butterball
Cargill, Incorporated
Chicago Foods International
Campbell Farms
Clark AG Company
CoBank
Franklin Electric
GreenStone Farm Credit Services
Hampton Alternative Energy & Feedlot
Hover Farms
Intertek Agriculture Services
Kerley Nutritional Consulting
Louis Dreyfus Commodities
Missouri BioZyme, Inc
Missouri Burnett Farms
Martin Rice Company
Michigan Allied Poultry Industries, Inc
Net Worth Feeds & Feeding
Orrick Farm Services

Sandy Ridge Cotton Company
Smithfield Foods
Sun-Maid Growers of California
St. James Winery
Thomas E. Jennings and Associates, Inc.
US Wellness Meats