Testimony before the U.S. International Trade Commission

For the hearing
"Overview of Cuban Imports of Goods and Services and Effects of U.S. Restrictions"

by William A. Messina, Jr.
University of Florida, Institute of Food and Agricultural Sciences (IFAS)
Department of Food and Resource Economics
Gainesville, Florida 32611

June 2, 2015

Thank you for the opportunity to testify here today.

My name is Bill Messina and I am an agricultural economist with the University of Florida. In 1992 I was part of a team of colleagues in our Department of Food and Resource Economics who began conducting research on Cuba's agricultural sector. In 1994 we made our first trip to Cuba and established a collaborative research project with economists at the University of Havana who are among the foremost authorities on the economics of Cuban agriculture. That collaborative research has continued for over 20 years and, in fact, for the past few weeks we have been hosting four of our economist colleagues from the University of Havana on a research trip to the University of Florida and other professional events in Puerto Rico and New York City.

Given this, my comments today will focus on issues related to the agricultural and food sectors in the United States and Cuba. And I would add that we do not advocate for any position with respect to the embargo.

Much excellent research has been conducted analyzing potential trade flows between the United States and Cuba post-embargo. Indeed, our research in the early 1990s estimated that Cuba could potentially be a $1 billion market for U.S. food and agricultural product exports, and we even projected that U.S. exports of agri-chemicals and agricultural equipment could reach annual levels of as much as $700 million per year (Alvarez and Messina, 1993a, 1993b, 1992).[1]

The reality is that since passage of the Trade Sanctions Reform and Export Enhancement Act (TSRA) in 2000, even with other restrictions in place, U.S. farmers, ranchers and agricultural firms have shipped over $5 billion worth of food and agricultural products (hereinafter referred to simply as food products or food) to Cuba.

Given the charge to the USITC by the Senate Finance Committee, I would like to address three issues that I believe are key to understanding the context within which these U.S. food product sales to Cuba have taken place and will continue to take place, and the influence of other factors on trade flows.

Cuba's heavy reliance on imported food products:

Since 2008, Cuban government officials have been stating that Cuba imports more than 80 percent of its total food requirements. And since Cuba's non-sugar agricultural output was only slightly higher in 2005 than it was in 2008, this presumably has consistently been the case at least since 2005, the reference point specified for the upcoming USITC study.

Our collaborators at the University of Havana estimate that the proportion of the total food supply that is imported actually is closer to 60 to 65 percent, but this is still a very high figure given that Cuba is a large island with extensive arable land, good (albeit somewhat degraded) soils and very significant agricultural production potential.

There are a series of factors contributing to this high level of reliance on food imports including: 1) a disproportionately heavy emphasis on sugar production for export for most of the past 200 years; 2) the inefficiencies inherent in a strong system of central planning; and 3) a lack of capital committed to production of crops for domestic consumption.

---

[1] The equipment estimates were based on Cuba's large sugar industry, which has since contracted to only about 20 percent of its output in the late 1980s. In addition, Cuba is presently purchasing equipment for its sugar industry from Brazil, which is providing the funding for such purchases.

Following the loss of subsidization from the former Soviet Union and the countries of Eastern Europe[2] between 1989 and 1991, Cuba had no capability to develop investment capital internally, so the government began allowing foreign investment in agriculture and other selected sectors. Experience with such foreign investment demonstrated that it can drive improvements in production efficiency and increases in output. However, because of the low salaries of Cuban workers, the "effective demand" (as measured by ability to pay) is limited domestically, so foreign investment for agriculture has largely been limited to crops and products for export (e.g., citrus, shellfish, tobacco/cigars, and rum, and, more recently Brazil's important investments in Cuba's sugar industry). This preference on the part of foreign investors to invest in crops for export may not be likely to change appreciably until Cuban goods have access to the U.S. market, or until firms perceive that access to the U.S. market will be forthcoming.

In discussing Cuba's agricultural production, there is another consideration. At its Communist Party Congress in 2011, the Cuban government adopted an important document entitled *Lineamientos de la Politica Economica y Social* or Guidelines for the Economic and Social Policy, which outlined sweeping changes to all sectors of the Cuban economy. The agro-industrial chapter was the second longest in the document and it proposed a series of unprecedented, market-oriented policy reforms for the sector. Progress in implementing these policy changes has been slow, as the process has been beset by a series of problems, not the least of which is a reluctance on the part of mid-level bureaucrats at the Ministries to give up the control over agriculture that they have had for decades. As the government is able to relax its controls over the agricultural sector in Cuba, there is a dynamism among many farmers and farmer cooperatives that should allow some progress in further expanding production. But it should also be recognized that expanded domestic agricultural production in Cuba will reduce the need for imported food products.

<u>The United States as an important supplier of food to Cuba</u>:

Although the TSRA became law in 2000, Cuba did not begin purchasing food products from the United States until 2001 following hurricane Michelle, which struck Cuba in November causing extensive damage to Cuba's agricultural sector. And yet, after not having shipped any goods to Cuba in nearly 40 years, once U.S.

[2] Estimated to have possibly been as high as $6 billion per year.

firms were notified of Cuba's interest in purchasing U.S. food products, U.S. companies responded very rapidly, shipping over $4 million worth of food in the last six weeks of the year. As quickly as 2002, the United States had become Cuba's largest supplier of imported food products. In fact, in 2004, U.S. firms sold Cuba approximately 40 percent of its total supply of imported food products – a proportion that the Cuban government felt was too high and which they lowered in subsequent years.

Table 1 demonstrates how U.S. food sales to Cuba have fluctuated over a wide range. These changes were driven by many factors including natural disasters, subtle shifts in U.S. and Cuban government policies, commodity price fluctuations, third country policy changes, and even the Pope's visit to Cuba in 2012 (proof of how tourist demand can influence Cuba's demand for imported food). But as can be seen in Table 2, it should be pointed out that the United States was Cuba's most important supplier of imported food products for 11 of the 13 years between 2002 and 2014.

It also should be noted that Cuba's food purchases from the United States have declined sharply since 2012. U.S. food sales to Cuba in 2014 were the lowest in 11 years, and Cuba's purchases from the United States for the first quarter of 2015 were only slightly over half of their level in the first quarter of 2014, which suggests that the decline will continue in 2015.

Neither time nor space in this testimony allow for a detailed, product-by-product examination of Cuba's shifting food import patterns from the United States. But an examination of USDA's data on U.S. sales to Cuba broken down into BICO categories, or Bulk (i.e. bulk grains), Intermediate (products that have undergone some level of processing, such as soybean oil, or wheat flower) and Consumer Oriented (high value or highly processed goods like meat or dairy products) products provides useful insights. Table 3 shows the same data as Table 1 – the value of U.S. food exports to Cuba over time – only it is broken down into the BICO categories. What becomes quickly apparent is that U.S. sales of Intermediate and Consumer Oriented food categories have held up fairly well over the past few years, and that nearly all of the decline in the value of U.S. food exports to Cuba has been as a result of declines in Cuban purchases of U.S. bulk grains.

However, these declines are not because Cuba is importing less food. To the contrary, reports from Cuba indicate that they will purchase more than $2 billion worth of imported food this year. What is happening is that Cuba is shifting its food import purchases away from the United States to other countries.

There are a number of factors that could be contributing to this trend, but the most important single factor is that other countries and companies are offering Cuba credit. It was credit offers from Thailand and Vietnam (in some cases with extended terms) that initially knocked U.S. rice suppliers out of the Cuban market, although Brazil and Argentina are shipping rice to Cuba now as well. Brazil and Argentina also have captured sizeable portions of Cuba's purchases of corn, soybeans, and soybean oil. In fact, Argentina's sales to Cuba have more than tripled since 2012, and in 2014 Argentina very nearly surpassed the United States to become Cuba's second largest supplier of imported food after Brazil.

With its challenging economic situation, it is difficult for Cuba to come up with cash for purchases from the United States so, despite the advantages of geographic proximity that the United States offers, it appears that credit is perceived as a more important factor by the Cuban government in choosing where to purchase its food imports. However, it should be noted that the Cuban government has, in the past, spread its purchases strategically to include as many U.S. states as possible in an effort to generate broad support for lifting the embargo. In this case, Cuba may simply be using the opposite approach, shifting its purchases away from U.S. suppliers in an effort to get them to mobilize to promote a lifting of the embargo, or at least to allow credit sales.

<u>State-specific issues</u>:

Finally, given the charge to the USITC by the Senate Committee on Finance to include state-specific analyses, I would like to offer a few quick observations about the potential impacts of a resumption of trade and commercial relations between the United States and Cuba on Florida.

You already have heard from, and you will continue to hear from representatives from states from the Midwest and elsewhere in the United States about the economic benefits to be derived from a lifting of the embargo. Florida is, however, unique in that we are the only state in the United States that produces the same products as Cuba (vegetables, citrus, sugar, tropical fruit, marine and seafood products, etc.) in the same seasons as Cuba.[3] So while other states are seeing export opportunities, Florida will almost certainly face increased competition. Florida growers aren't afraid of fair competition, but they are concerned about subsidized competition. And subsidies can take many forms. In Cuba, for example, there are farms that operate without having to pay any rent or make any payments to the Cuban government for their land; this clearly is a form of subsidization. On the other side of the ledger, however, with its dual currencies and its policies for joint venture firms who hire Cuban workers, some of the existing joint venture businesses in Cuba report that Cuba's labor costs are among the most expensive in the developing world, so this is another factor that new foreign investors in Cuba will need to take into consideration.

Clearly, where some see competition, others see opportunity, and firms in the United States (both inside and outside of Florida) are looking at Cuba as a potential production platform for export to the United States whenever U.S. policy may change to allow it. The North American Free Trade Agreement fundamentally altered the competitive structure of the winter fresh vegetable market and industry in the United States, and it did so to the benefit of growers in Mexico and growers and brokers largely (though not exclusively) in the western United States. Resumption of trade and commercial relations between the United States and Cuba, whenever it might occur, may once again fundamentally alter the competitive structure of the U.S. winter fresh vegetable industry. The question is who will benefit? Farmers in Cuba? Farmers and brokers in Florida? Farmers and brokers elsewhere in the United States? Or farmers and brokers in Europe or Latin America who invest in Cuba before U.S. firms are able to do so? And, of course, there are the legal issues associated with expropriated properties that may take a considerable amount of time to resolve.

Finally, there is concern about the possibility of importing new pests and diseases into Florida from Cuba. This is not a new concern as, in 1993, three plant pathologists from the University of Florida traveled to Cuba to investigate the infestation of Cuban citrus groves by an insect pest, the brown citrus aphid, which transmits citrus tristesa virus. The evidence of the devastating economic impacts

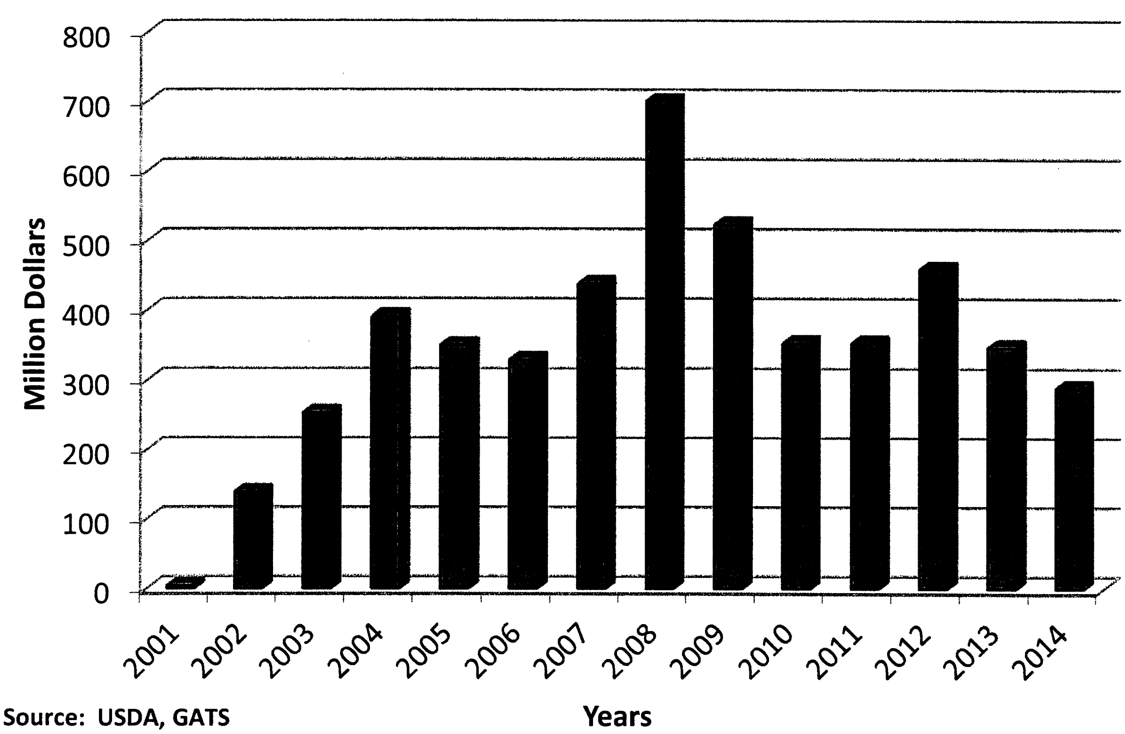
[3] California faces some of these same issues, although their geographic separation on the other side of the country will make them somewhat less susceptible to the influence of the entry of Cuban agricultural products into the U.S. market.

of imported invasive pests and diseases is clear: for example, Florida's citrus acreage has declined by 38 percent and its citrus output has declined by 59 percent since their peak levels as a result of the invasive HLB (citrus greening) disease that escaped detection and was brought into Florida.

U.S. imports of agricultural products have increased by more than 67 percent over the past 10 years and there is evidence to suggest that current regulations, procedures, protocols and inspection processes are no longer adequate to protect not just Florida agriculture, but all of U.S. agriculture from imported, invasive pests and diseases.

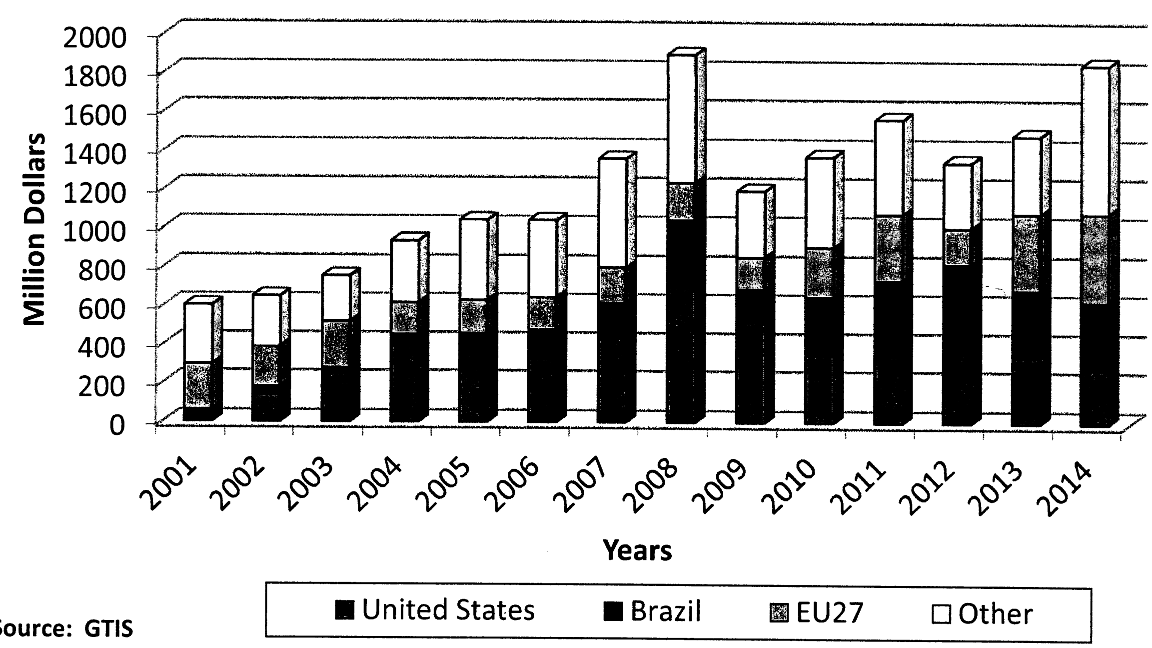
Thank you again for your time and I hope to be able answer any questions you may have.

Table 1. U.S. Food and Agricultural Exports to Cuba, 2001 to 2014



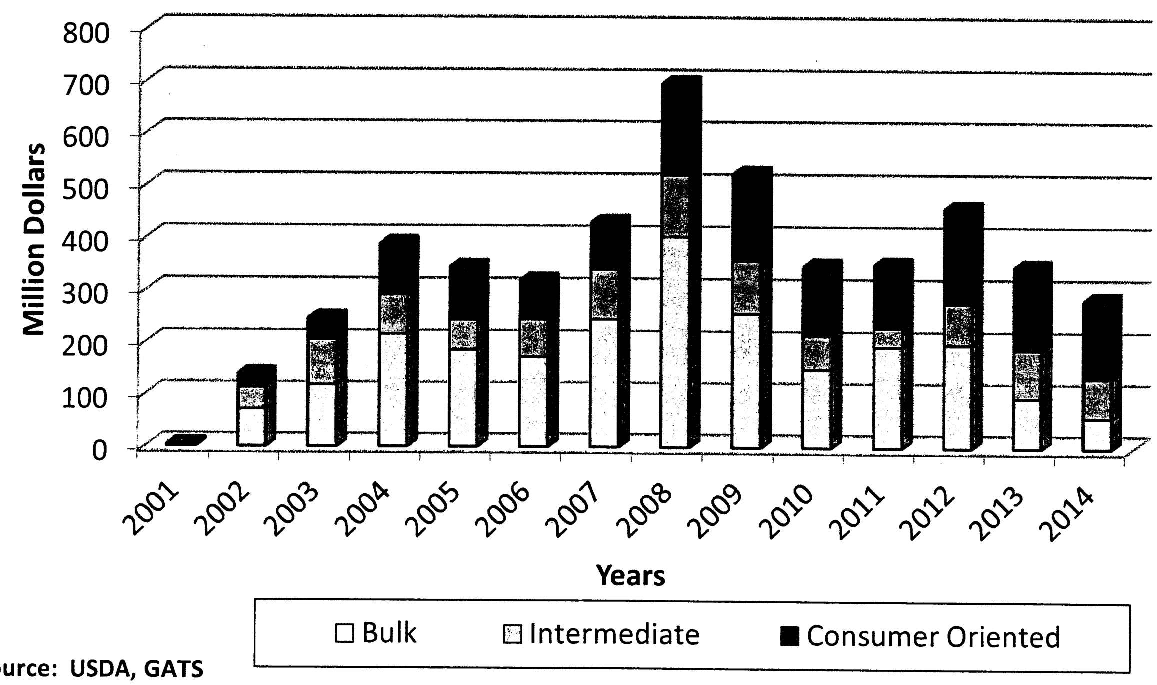
Source: USDA, GATS

Table 2. Cuban Food and Agricultural Imports, by Selected Trading Partners, 2001 to 2014



Source: GTIS

Table 3. U.S. Food and Agricultural Exports to Cuba, Bulk, Intermediate and Consumer Oriented (BICO) breakdown, 2001 to 2014



Source: USDA, GATS