

THE CUBAN FACTOR: AGRICULTURAL TRADE WITH CUBA

Presentation in the
PIE Center webinar series
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MY CHALLENGE:

- Cuba is a complicated place!
 - ✓ Cuba's centrally planned, command and control economy results in strange policies and outcomes.
 - ✓ Market forces starting to operate in some sectors
- To talk about agricultural trade with Cuba, you have to understand something about Cuba's agricultural sector.
- We've been traveling to Cuba and collaborating with Cuban economists for over 20 years trying to understand how the food and agricultural systems operate and are evolving, and we're still learning because they are still evolving!



OUR ROLE . . . ANALYSTS AND OBSERVERS – NOT ADVOCATES FOR ANY PARTICULAR POLICY

- WE DO NOT MAKE RECOMMENDATIONS REGARDING THE U.S. EMBARGO
- We simply try to provide current data, information and objective analyses on Cuba's agricultural sector to all interested parties
 - Florida and U.S. agriculture, USDA, State Department, USITC, Commerce Department, Congressional Research Service, Congressional committees, etc.



WHY TALK ABOUT CUBA?

- President Obama's announcement of December 17th, 2014 changed the dynamic on U.S. policy toward Cuba dramatically!
- But for U.S. agriculture, the President's announced policy changes are likely to have relatively little impact on U.S. food and agricultural exports to Cuba in the short run.
- The real change came back in 2000 when U.S. firms were allowed to sell food and agricultural products to Cuba.
- In attempting to anticipate the future, we must consider the past . . .



TODAY'S PRESENTATION

- Brief historical look at the structure and function of Cuban agriculture
- The role of U.S. food and agricultural exports to Cuba since 2000
 - ✓ Shifting U.S. trade patterns: what and why?
 - ✓ Role of third country food suppliers to Cuba
- Impact of recent announcements
- Prospects for the future
- Why all of this is so important for Florida agriculture?



Cuba is NOT just another small Caribbean island



Cuba is NOT just another coral Caribbean island



- Good soils
- 70%+ of land is arable
- Some water issues



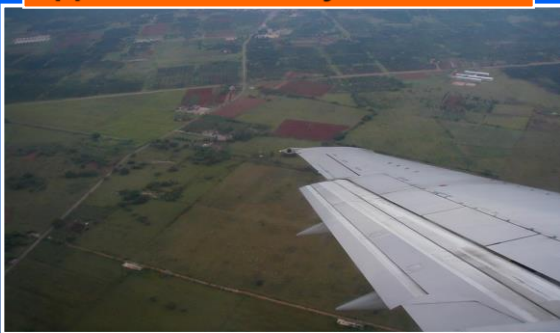
Climate is good, but HURRICANES! 2008 hurricane season was the most destructive in Cuban recorded history



T.S. Fay: 8/16 – 8/18
 H. Gustav: 8/30 - 9/1
 H. Hanna: 9/2 – 9/3
 H. Ike: 9/8 – 9/9
 T.S. Paloma: 11/8 – 11/9



Cuba's Agricultural Tradition is Apparent as You Fly into Havana



PINAR DEL RIO - WESTERN CUBA

Rounded limestone mountains called "mogotes"



EASTERN CUBA (SIERRA MAESTRA MTNS IN THE BACKGROUND)



Pico Turquino rises to 6,650 ft.



"VALLEY OF THE SUGAR MILLS" IN CENTRAL CUBA



CUBA'S AGRICULTURAL PRODUCTION SYSTEMS – 1960s

- There was a flurry of policy changes that occurred in the years immediately following the 1959 Cuban revolution and Fidel Castro's rise to power.
- Expropriation of large farms (and most businesses)
- Establishment of huge State Farms
- Centrally planned food collection system estab.
- Heavily subsidized food ration system implemented



CUBA'S AGRICULTURAL PRODUCTION SYSTEMS – 1970s & 1980s

- By the late 1960s, most of the major policy changes had been made.
- Cuban agriculture characterized by very large, input-intensive State farms (85% of production).
- Sugar exports generated over 80% of Cuba's total export earnings (from sale of sugar to the Soviet Union and Eastern Europe at preferential prices of over 30 cents per pound).
 - ✓ Soviet subsidies for oil imports



CUBAN ECONOMY IN EQUILIBRIUM

- Sugar was driving the entire Cuban economy.
- The Soviet Union was providing huge subsidies to the Cuban government (perhaps \$6 **BILLION** per year by the late 1980s!)
- Food ration system was expensive (estimated cost to the Cuban government of about \$1 billion per yr.), but it fed the population.
- Little incentive to change without a **CATALYST**



CATALYSTS FOR CHANGE

- **CATALYSTS** – Fall of the Berlin Wall (1989), and collapse of the Soviet Union (1991) meant the sudden loss of preferential trading arrangements and subsidization from the Soviet Union and Eastern Europe
 - ✓ Sugar subsidies disappeared, so 80% of Cuba's export earnings were lost
 - ✓ All productive sectors suffered and the economy collapsed
 - ✓ Highly mechanized and input-intensive agricultural sector was hit especially hard
 - ✓ Ration food supplies dwindled



CUBA'S RATION STORES



FOOD SUPPLIES AS A CATALYST FOR CHANGE

- Shortage of ration food supplies stimulated development of a large black market in food, **with transactions dollar denominated**
- Led to social divisions – between Cubans with access to hard currency from remittances and/or tips in tourist sector, and those without
- Led to civil unrest (beginning in 1993)
- Led to the rafters crisis (in 1994)
- **RESPONSE** – changes in agricultural and food policy



RESULTING (UNPRECEDENTED) POLICY RESPONSES

- 1993 – breakup of State Farms into *Unidades Básicas de Produccion Cooperativas* (UBPCs)
 - Why? Government noted that production on coops hadn't decreased as much as on State Farms
- 1994 – Opening of *Mercados Agropecuarios*
 - Why? An effort to “bleach the black market”
- Agriculture seen as “leading the way toward a more market-oriented economy”



CUBA'S AGRICULTURAL MARKETS



THE PROBLEMS . . .

- Prices in the Agricultural Markets are high for Cubans who only earn about \$20 per month.
- Cuban government was able to stop the economy's free-fall after 1994, and they quickly stopped market-oriented policy changes for agriculture and most all sectors of the economy.
- Modest increases in agricultural productivity experienced in 1993 and 1994 ceased.



TRADE SANCTIONS REFORM AND EXPORT ENHANCEMENT ACT (TSRA) OF 2000

- In 2000 the U.S. Congress passed and President Clinton signed the TSRA allowing U.S. firms to sell food and medicine to Cuba as a humanitarian gesture.
 - Cash sale requirements
 - One way trade only
- TSRA received less than a warm welcome from Fidel Castro

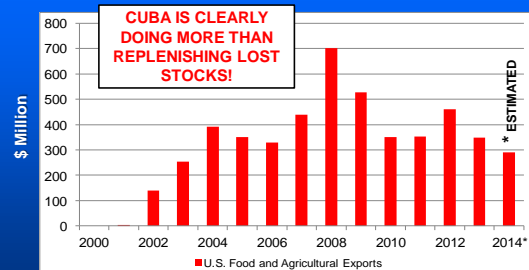


ANOTHER CATALYST, AND RESPONSE

- **CATALYST** – Hurricane Michelle, Nov. 2001
- United States offers food aid
- Cuban government says no thanks, but they would like to buy food from U.S. “to replenish stocks lost in the storm”
- **RESPONSE** – U.S. firms shipped over \$4 million worth of food and agricultural products in the last 6 weeks of 2001 – SHOWS THE RESPONSIVENESS OF FIRMS IN A MARKET ECONOMY!
- “Replenishment of lost stocks . . . ?”
Not exactly



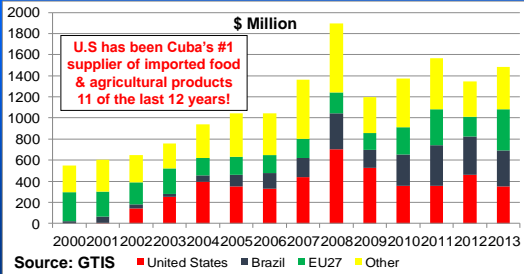
CUBA FOOD AND AG PURCHASES FROM THE UNITED STATES (>\$5B)



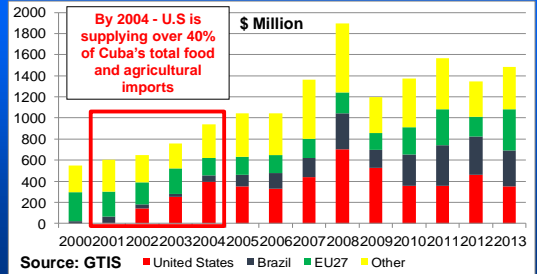
Source: USDA Global Agricultural Trade System data



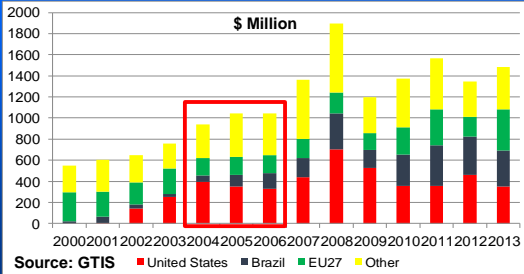
CUBAN FOOD AND AG. IMPORTS BY COUNTRY, 2000 - 2013



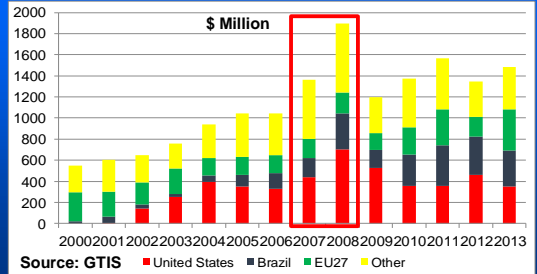
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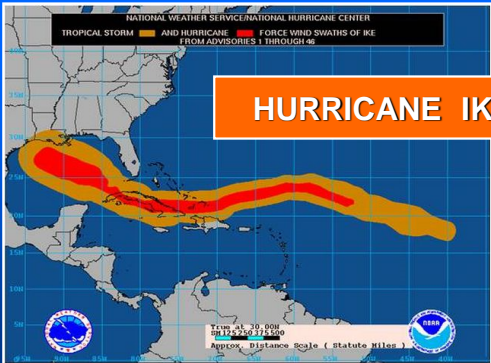
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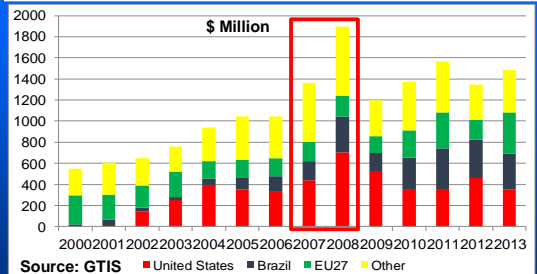
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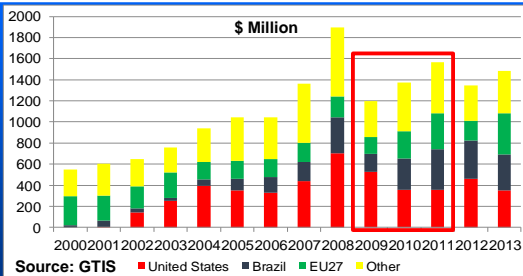
HURRICANE IKE



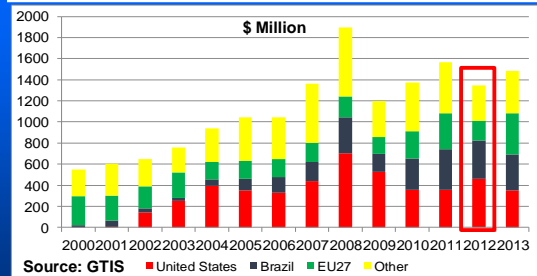
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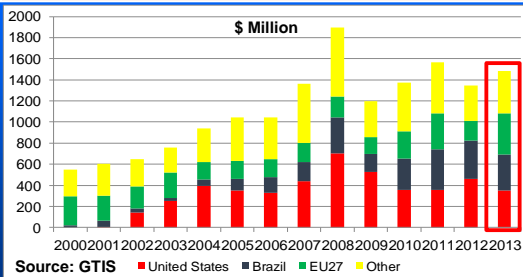
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CUBAN FOOD AND AG. IMPORTS BY COUNTRY, 2000 - 2013



IMPACT OF TSRA LEGISLATION

- Over **\$5 BILLION** in U.S. food and agricultural exports to Cuba since 2001
- The United States has become Cuba's:
 - **LARGEST SUPPLIER** OF IMPORTED FOOD PRODUCTS IN 11 OF THE LAST 12 YEARS!
 - **5TH LARGEST SUPPLIER** OF IMPORTED PRODUCTS OF ALL TYPES (after Venezuela, People's Republic of China, Brazil and Spain)!
 - **8TH LARGEST TRADING PARTNER OVERALL** (after the above countries and Italy and Canada)!



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

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

Given these variables, it is very challenging to try to predict the prospects for future U.S. food and agricultural sales to Cuba!

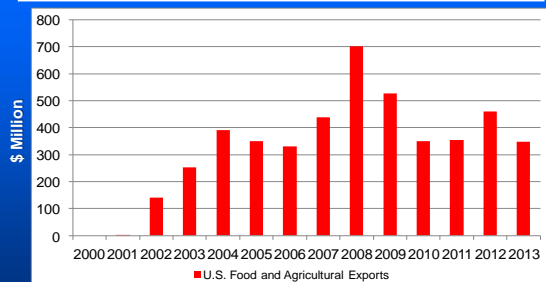


GETTING DEEPER INTO THE DATA

- USDA's "**BICO**" format for trade data:
 - **B**ulk commodities - e.g., bulk grains like corn, soybeans or wheat;
 - **I**ntermediate goods – commodities with some processing, for example wheat flour or soybean oil;
 - **C**onsumer **O**riented food products – more highly processed goods like dairy products, meat products, etc.
- Helps us see the big picture and identify shifting trends (important when looking at trade data)



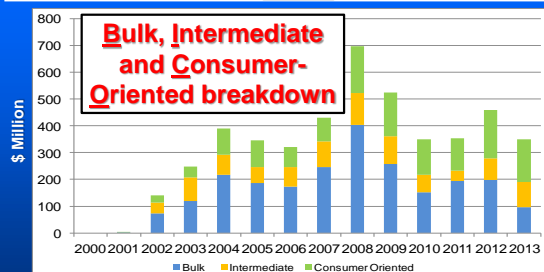
CUBAN FOOD AND AG. IMPORTS FROM THE U.S. 2000 TO 2013



Source: USDA Global Agricultural Trade System data



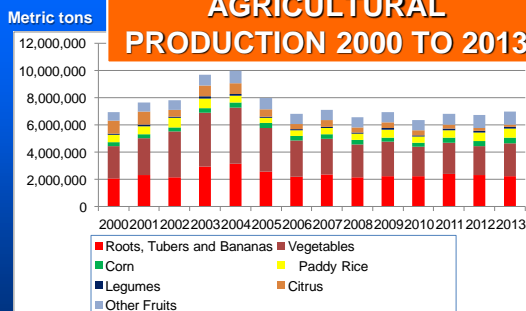
CUBAN FOOD AND AG. IMPORTS FROM THE U.S. - **BICO** - 2000 TO 2013



Source: USDA Global Agricultural Trade System data



CUBAN NON-SUGAR AGRICULTURAL PRODUCTION 2000 TO 2013



Source: Cuban Anuario Estadístico



CUBA'S AGRICULTURAL OUTPUT STAGNANT . . . FOR NOW

- Cuba's 2011 Communist Party Congress approved the *Lineamientos* to implement sweeping changes to all sectors of the Cuban economy
- Agro-industrial chapter was the second longest chapter in the document, and proposed a set of unprecedented market-oriented reforms
- Results for agriculture – limited so far



QUESTIONS LOOMING LARGE:

- How committed is the Cuban leadership to implementing the *Lineamientos* policy changes? **FOR AGRICULTURE, PROBABLY VERY!**
- So why aren't they being implemented more rapidly?
- Bureaucratic rigidities are hampering the process
- So domestic agricultural production remains stagnant – for now . . .



THE CUBAN GOVERNMENT RECOGNIZES THAT INCENTIVES WORK!

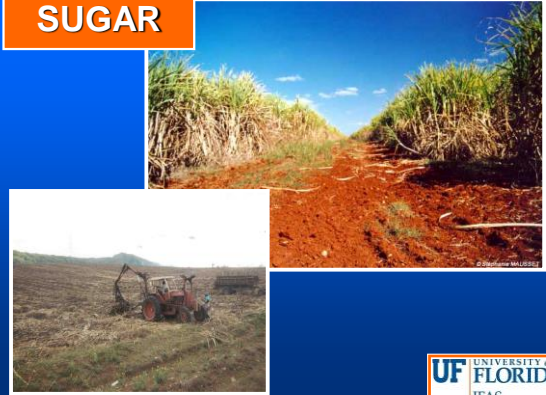


TODAY ...

- Cuba imports over 60% of its total food requirements! (The Cuban government reports the figure at over 80%.)
- Three reasons:
 - Inefficiencies of central planning
 - Historical unwillingness to allow market forces to work
 - Now the apparent inability to allow market forces to work



SUGAR



CUBA'S SUGAR INDUSTRY

IN THE LATE 1980s, CUBA WAS:

- The third largest sugar producer in the world after Brazil and India
- The largest sugar exporter in the world, (almost all to the Soviet Union and Eastern Europe at very high preferential prices)
- Cuba's sugar exports represented about 80% of total Cuban merchandise exports.

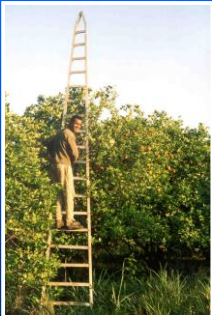


SUGAR EXPORTS - THE BASIS FOR SOVIET SUBSIDIZATION (~\$6 B / yr)

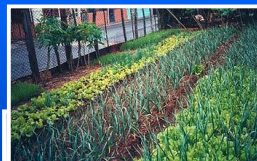
- In the late 1980s, Cuba was producing over 8.5 million metric tons of sugar and exporting almost all of it at 30+ cents/lb.
- This market was lost almost overnight.
- 2011/2012 harvest only 1.1 million m.t.
 - Lowest sugar harvest in a century
 - In 2011/12 Cuba only exported about 400,000 m.t., or about 5% of their volume from the late 1980s at ~ 9 cents/lb. (= the "world" sugar price)
- But Brazilian investment is helping Cuba to increase sugar output



CITRUS



VEGETABLES



TOBACCO



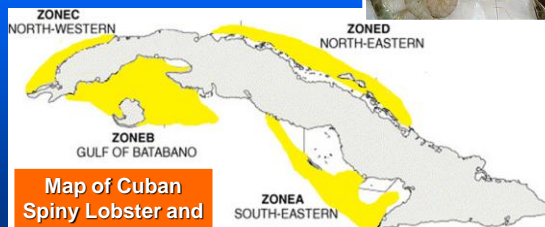
TROPICAL FRUIT



LIVESTOCK AND CATTLE RANCHING



MARINE FISHERIES



Map of Cuban Spiny Lobster and Shrimp Fishing Areas



CUBA'S AGRICULTURAL PRODUCTION PATTERNS AND FLORIDA'S ARE VERY SIMILAR!

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

For Florida, nursery and landscape, and forestry also important



↑ = 90 MILES

Resumption of trade between the U.S. and Cuba, whenever it occurs, will have a more significant impact on Florida agriculture than any single event in the history of our state! = **Challenges and Opportunities**



CHALLENGES AND OPPORTUNITIES

- Challenges – concerns expressed in FL
 - Potential foreign competition
 - Concerns over invasive pests and diseases
- Opportunities – some growers interested
 - Possible joint ventures
- NAFTA fundamentally altered the competitive structure of the winter fresh vegetable market in the United States – open trade and commercial relations with Cuba could once again alter the competitive structure
- Who will capitalize and benefit?



CUBA'S POTENTIAL GAME CHANGER – OIL!



Photo by:
Javier Galeano
Associated
Press
January 19,
2012



BRAZIL IS ANOTHER POTENTIAL “GAME-CHANGER” FOR CUBA

- Brazil has invested in Cuba’s poultry industry
- Brazil is assisting with soybean production
- Brazil provided \$680 million in financing to refurbish and expand Cuba’s Port at Mariel
- \$400 million in credits for food purchases
 - Brazil was Cuba’s largest food supplier in 2011 and may be again in 2014
- \$200 million to “improve agriculture”
- AND if there is any question about Brazil’s level of interest in Cuba . . .



BRAZILIAN EQUIPMENT IN CUBA, October 2011



BRAZILIAN EQUIPMENT IN CUBA, October 2011



BRAZILIAN EQUIPMENT IN CUBA, October 2011



BRAZILIAN EQUIPMENT IN CUBA, October 2011



Brazil is also investing in refurbishing a Cuban sugar mill and managing its operation



BRAZIL'S AGRICULTURAL INVESTMENT, THOUGH LIMITED, HAS HAD AN IMPACT

- Sugar production improved last season (to about 1.4 million MT) and is expected to again this season (target of 1.8 million MT)
- Sugar is the only agricultural commodity sector in Cuba experiencing growth.
- **Brazil's experience in sugar demonstrates how foreign investment has the potential to dramatically change Cuba's agricultural sector!**
- But for what markets? Their long run plans for investment in Cuba is unclear.



BRAZIL IS BECOMING AN INCREASINGLY IMPORTANT PLAYER IN CUBA

- As former British Prime Minister Margaret Thatcher said: "Socialist governments traditionally do make a financial mess. They always run out of other people's money."
 - ✓ Ran out of the Soviet Union's money . . .
 - ✓ May be running out of Venezuela's money. . .
 - ✓ Next Brazil???



U.S. STRENGTHS & WEAKNESSES

- U.S. strengths as a supplier:
 - + Geographic proximity
 - lower transportation costs
 - faster delivery (particularly important for highly perishable, high value commodities)
 - allows for lower economic order quantities
 - + Supplier of high quality products
- U.S. weaknesses as a supplier:
 - Cash sale requirements
 - Transactions must go through third-country banks
 - U.S. policy can be erratic



HOW DOES THE RECENT ANNOUNCEMENT AFFECT U.S. STRENGTHS AND WEAKNESSES?

- U.S. strengths as a supplier:
 - + Geographic proximity – **No change**
 - + High quality supplier – **No change**
- U.S. weaknesses as a supplier:
 - Cash sale requirements – **Minor change**
 - Transactions must go through third-country banks – **Soon to change**
 - U.S. policy can be erratic – **No change**



HOW MIGHT THE RECENT ANNOUNCEMENT AFFECT U.S. FOOD AND AG EXPORTS TO CUBA?

- President Obama's recent announcement regarding changes in U.S.-Cuba policy do not materially change the terms and conditions for U.S. food and agricultural product sales to Cuba
- Therefore no significant change in U.S. exports anticipated
 - Decreases could continue unless Cuba perceives some benefit to increasing purchases from the U.S.
- But the announcement does open up discussions that haven't been held for over 50 years!

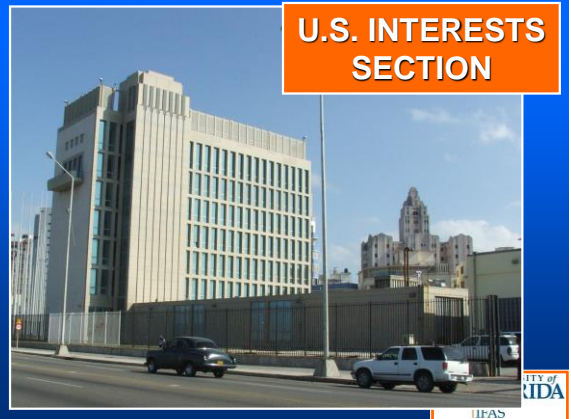


OF PARTICULAR NOTE REGARDING THE RECENT ANNOUNCEMENT . . .

- RESUMING DIPLOMATIC RELATIONS DOES **NOT** EQUAL RESUMING TRADE AND COMMERCIAL RELATIONS
- Diplomatic relations can be resumed by executive order
- Resumption of trade and commercial relations requires Congressional approval!



U.S. INTERESTS SECTION



THE ULTIMATE IRONY?



The United States and Cuba do not have diplomatic relations, yet for at least the last 20 years, the U.S. Interests Section has had the largest delegation of foreign service personnel in Cuba of any country in the world!

In this May 14, 2004 file photo, tens of thousands of people marched on the oceanfront Malecon boulevard in front of the U.S. Interests Section building, to protest against U.S. policy in Havana, Cuba. (AP Photo/Janet Figueredo/Juventud Rebelde, File)



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