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Where to Next for Cuban Food and Agriculture

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Report Highlights:

In December 2014 the United States embarked on a new diplomatic journey with Cuba, in the process rejuvenating U.S. agriculture's interest in our southern neighbor. U.S. agriculture has high expectations because of Cuba's proximity to the United States. Despite the recent changes, Cuba's economic environment presents many challenges. This report summarizes the U.S. – Cuba agricultural trade relationship and Cuba's current describes Cuba's market potential for U.S. agriculture.

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I. Introduction

On July 20, 2015, after more than fifty years without formal diplomatic relations, Cuba and the United States re-opened their embassies. This was one of many steps the United States and Cuba must take to restore normal relations. Additional support from the U.S. Congress is needed in order to fully restore relations. The gradual thaw of relations between the United States and Cuba opens many opportunities for U.S. agriculture. This report will outline how U.S. suppliers can legally position themselves in the Cuban market while reducing financial risks.

This report will first recap U.S.-Cuban relations since the second half of the 20th century. Next it will describe the Cuban market, and Cuban consumption habits goods. It will then talk about steps the American government is considering taking, including bills different members of Congress have proposed, and what the removal of sanctions might mean for US-Cuba trade. Lastly, it will make the point that even as political relations thaw, tension between the two countries still exists. Trade can and does exist between countries on less than friendly political terms, but it does somewhat impede trade. This will likely be the case for the United States and Cuba's trading relationship.

II. American-Cuban Relations 1959-2015

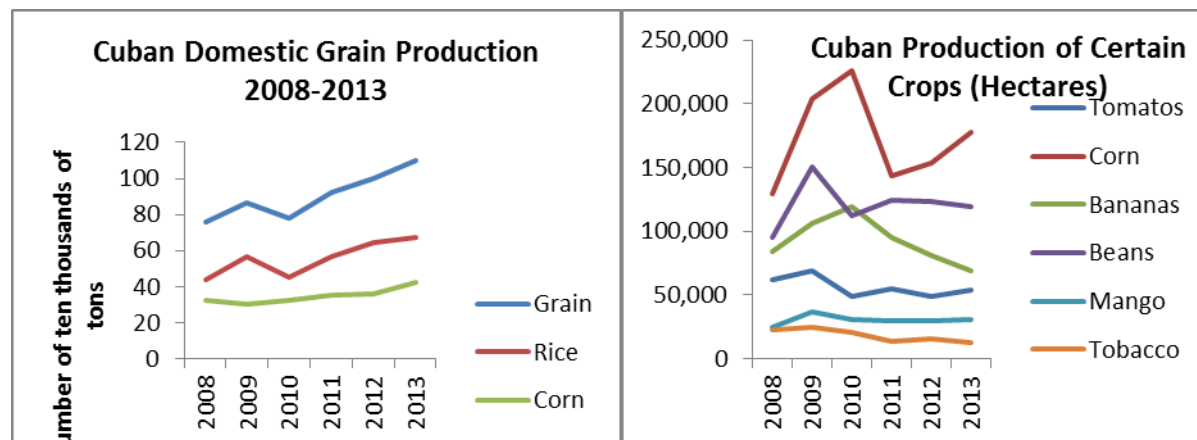
The state of the Cuban agricultural sector has closely tracked Cuba's political fortunes abroad. The sector's productivity plummeted after the Cuban Revolution and the subsequent U.S. economic sanctions. Cuban agriculture received a boost when the Soviet Union bought Cuban sugar at three times the world price in exchange for desperately-needed oil and machinery. When the Soviet Union collapsed, Cuban exports declined nearly 80 percent overnight.

The impact on Cuban agriculture was dramatic. Without sufficient inputs, large farming operations ground to a halt. The impact on food consumption paralleled production with the average caloric intake estimated to have fallen from approximately 3,000 calories a day to somewhere between 1,400 and 2,400, which included a 40 percent drop in the amount of protein consumed. After an initial period of intense hardship, the Cuban economy slowly began to recover. A new State sponsor arrived in the form of President Hugo Chavez' Socialist Bolivarian Republic which heralded the resumption of subsidized oil under the PetroCaribe program, which continues today. In more recent times, the Venezuelan

government has supplied the Cuban government with petroleum in exchange for service of Cuban medical providers. In 2000, U.S. President Bill Clinton signed into law the Trade Sanctions Reform and Export Enhancement Act that tightened overall sanction terms and conditions but exempted U.S. agricultural and medical products. Following Hurricane Michelle in 2001, U.S. agricultural exports began flowing into Cuba, recording a 42 percent market share by 2009 before dropping to just 16 percent in 2014.

III. The Cuban Market

Cuba is a tale of two markets, pre- and post-Castro. Before the Communist revolution, Cuba supplied the United States with many agricultural products, most prominent of which was sugar. Tobacco and citrus crops also played a role. During the 1930s, the United States generated 75 percent of Cuba's export revenue, which all ground to a halt with implementation of the U.S. embargo in 1959. Cuba depended upon agricultural exports to the United States to generate much-needed foreign cash reserves. Cuba also depended on U.S. agricultural imports to feed its population. For example, pre-embargo Cuba represented the number one market for U.S. rice. After the Revolution, the state played a dominant role in the agricultural industry by nationalizing holdings of all large farmers, and centralizing production planning. Cuban farmers were required to contribute a certain percentage of their harvest to the state, and had no input on valuation of their commodities. These changes left Cuban agriculture production in a precarious state as it dampened producer incentives.

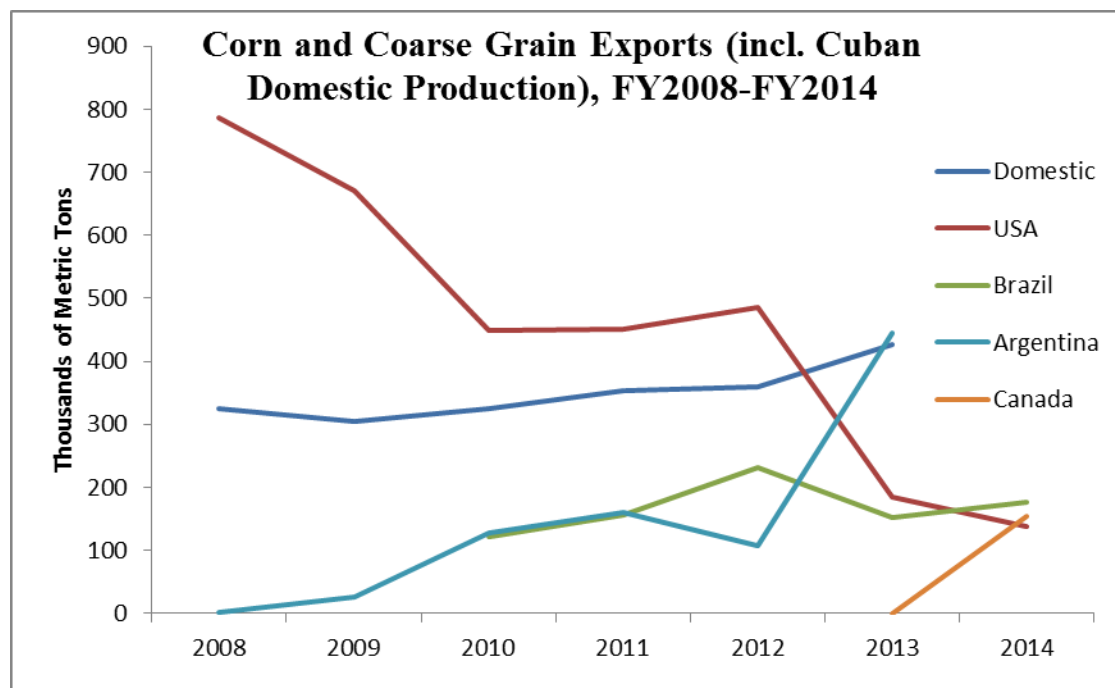


Source: Oficina Nacional de Estadísticas (Cuba)

According to the CIA World Fact book, the Cuban infrastructure to support the country's commerce consists of: 60,858 km of roadway (of which 29,820 km are paved), 8,203 km of railway (of which 8,134 km are standard gauge), 133 airports (2013) (of which 64 have paved runways), and eight major seaports. Aside from the Ports of Havana and Mariel, the latter which will be able to welcome post Panamax ships in 2016, Cuban ports lack dry and cold storage capacity, port depth, and efficient offloading capabilities.

Cuban land is also in poor condition. Cuban agronomist María Cruz wrote in a 2007 article that 75 percent of Cuba's farmland was degraded to some degree; 3 million hectares (45 percent) were low in fertility, 4.6 million hectares (69 percent) were low in organic matter, and 2.5 million hectares and 1 million hectares (15 percent), exhibited medium to severe erosion respectively.

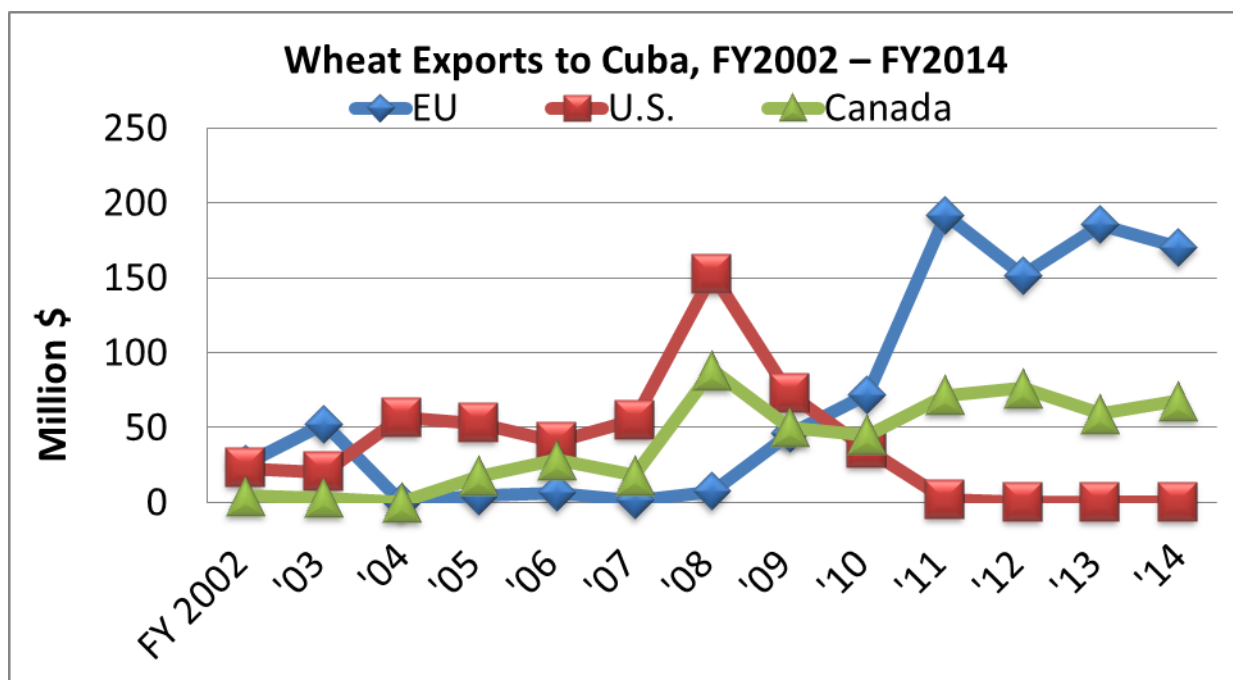
Roughly 60 percent of all Cuban land is arable. Sugar cane represented a little under a third of Cuba's agricultural production, down from nearly two thirds in 1990. Cuba's biggest production crops are, ranked in descending importance, sugar cane, vegetables and melons, cereals, and tropical fruit.



Source: USDA/FAS Global Agricultural Trade System, Global Trade Atlas, Oficina Nacional de Estadísticas (Cuba)

Inclement weather, in particular hurricanes intermixed with periodic droughts, frequently limits Cuba's agricultural production. Since 2001, 16 tropical storms or hurricanes have directly landed on Cuba. In 2001 Hurricane Dennis, a Category 4 Storm devastated Cuban agriculture production to the point that the country had to import over \$4 million worth of food and agricultural products in the last six weeks of that year (Reference Messina). The storm deprived over 20 percent of the Cuban population of running water for several months. In 2012 Hurricane Sandy left a similar path of destruction across the island.

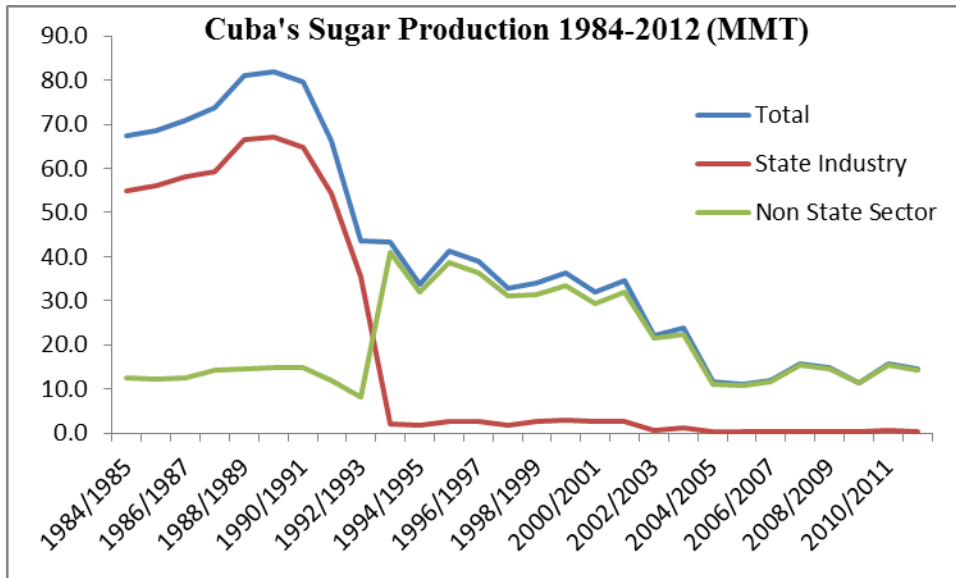
The droughts that have occurred appear when El Nino warms the Pacific waters that affect wind patterns across the region. In 2004 the worst drought then recorded in history reduced the country's water supplies leading to over one million people dependent solely on government water deliveries for many months. "The period from January (2015) up to the present (through August) has been the driest in terms of precipitation since 1901," per Cuba's state-run waterworks department. At the end of September 2015 Cuba's reservoirs were reported at about 35 percent of capacity, and in some provinces, they have run well below 20 percent. Of the country's 242 reservoirs, 25 were completely dry, and with just two months left for the rainy season, Cuban authorities had taken the drastic steps to seed clouds. Under such unpredictable weather patterns, focus on crop production has given way to basic survival in recent years.



Source: FAS Global Agricultural Trade System, Global Trade Atlas

The Cuban food market is heavily dependent on imports, creating an attractive environment for U.S. exporters. In 2014, for example, Cuba imported over \$200 million of wheat. As background, between 2004 and 2009, the United States was Cuba's largest supplier of wheat, supplying on average, and \$260 million per year. Likewise, the United States was Cuba's principal supplier of corn until 2013, reaching a high of 810,000 Metric Tons (MT) valued at \$180 million in 2008. Brazilian and Argentinian sources, combined with increased domestic production, have eroded U.S. market share. The United States export patterns of soybean and soybean meal to Cuba follow similar patterns. Between 2004 and 2009 the U.S. average annual exports of soybeans topped 127 MMT with a value of \$43 million, while soybean meal equaled 136 MMT with a value of \$39 million. In 2014, U.S. soybean exports totaled 57 MMT valued at \$31 million, while soybean meal equaled 129 MMT valued at \$67 million. Cuba, for its part, produces tropical fruit, seafood, tobacco, and sugar for export.

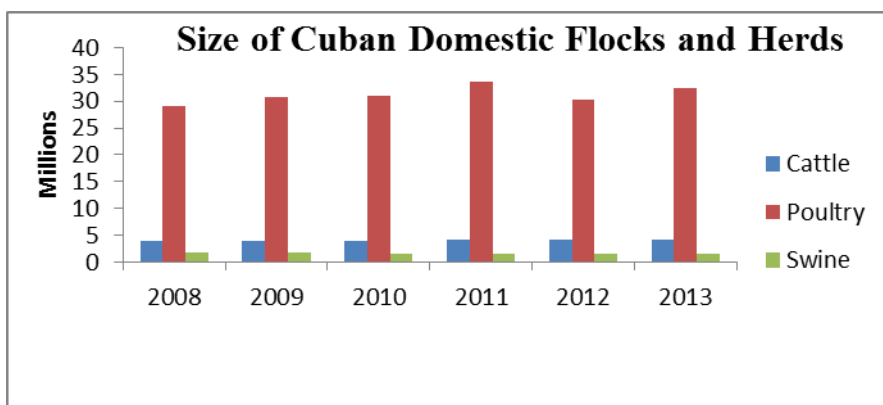
In the case of sugar, Cuba has a history of boom and bust in which preferential prices led to a massive buildup in production that inevitably crashed when support prices disappeared. At various times, the United States and the Soviet Union bought Cuban sugar at above-market rates. At present, Cuba has no such trade partner, thus production is correspondingly low at 1.6 Million Metric Tons (MMT) in 2013. In contrast from 1978 to 1991 annual production averaged over 7.2 MMT per year. Other potential export crops for Cuba are dry beans and peas, lentils, and potatoes.



Source: Oficina Nacional de Estadísticas (Cuba)

Euromonitor reports that Cuban food service consumption is on the increase. Between 2009 and 2014 Cubans consumed two million tons more food service items and purchased 36,000 tons more of foodservice packaged food.

The Cuban government has initiated "some" market reform. This involved distribution of the majority of public land to an assortment of small cooperatives, and the establishment of private agricultural markets for producers to sell surplus products after meeting their government set quota. President Raúl Castro's government strengthened the direction of these market-oriented reforms under a policy called *lineamientos* ("guidelines"). For many crops, production and yield have risen in tandem with producer's ability to market their surplus.

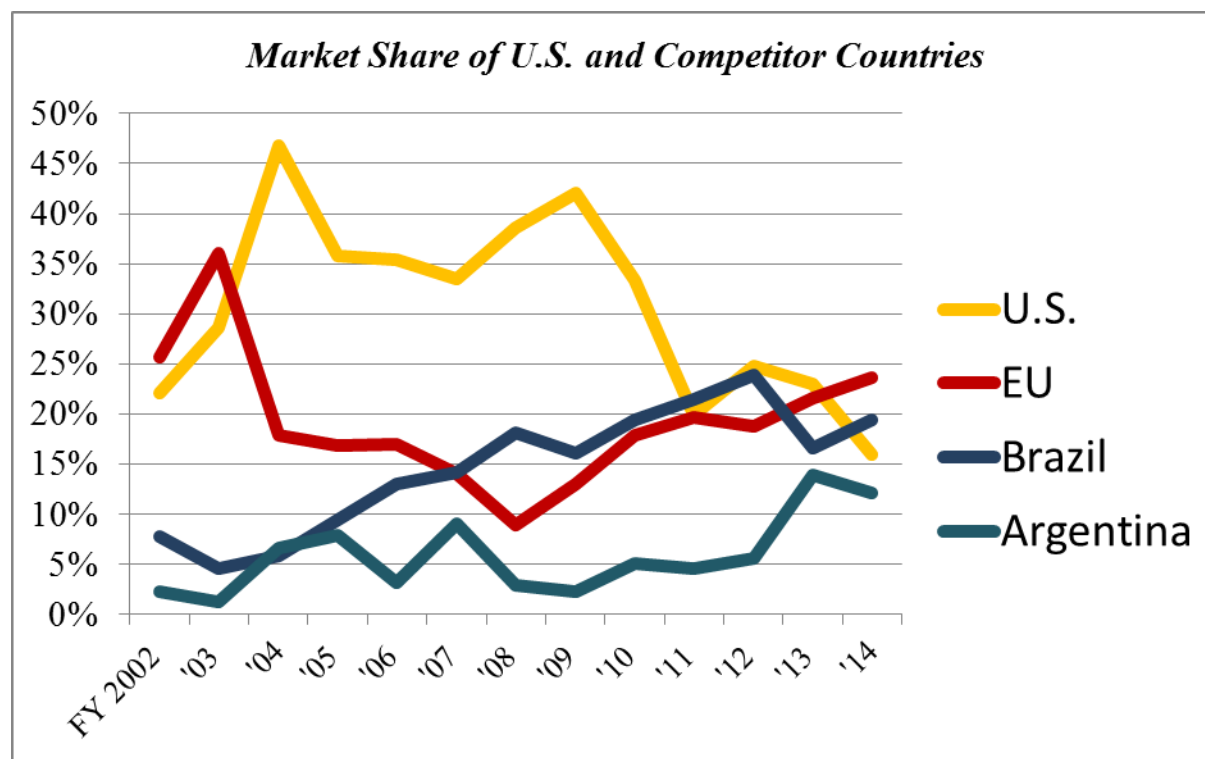


Source: Oficina Nacional de Estadísticas (Cuba)

IV. Competitors

In July 2007, the U.S. International Trade Commission published a report titled "U.S. Agricultural Sales to Cuba: Certain Economic Effects of U.S. Restrictions." One section of the report looked at what might

happen to U.S. agricultural exports, were sanctions to be lifted. Among other findings, it concluded that U.S. agricultural exports would increase for all major commodity groups except soybeans, and in particular with other food products, milk powder, processed foods, wheat, and other crops. The report runs through each sector, and how the removal of sanctions might change it. In 2007, when the report came out, the United States boasted a 33 percent market share of Cuban agricultural imports, more than double the European Union and Brazil's respective share of the market. In 2014 U.S. market share stood at 16 percent.



Source: FAS Global Agricultural Trade System, Global Trade Atlas

While U.S. market share has been declining, competitor nations have increased their presence in Cuba. Brazil is financing \$700 million of a nearly \$1 billion Port of Mariel expansion project to better accommodate post Panamax ships, after completion of the Panama Canal expansion expected in the 2015-2016 period. In return for port financing provided by Brazil's development bank, it was agreed that at least \$800 million would be spent on Brazilian goods and services.^{1/}

^{1/} "In funding Cuba port project, Brazil set to gain key foothold", LA Times 2/17/2015

Since the early 1990s, the European Union (EU), as part of its outreach to Latin America and the Caribbean, has hosted rotating conferences. The latest such meeting took place in Brussels June 10-11, 2015. The [CARIFORUM](#) is the body that comprises Caribbean African, Caribbean and Pacific (ACP)

states for the purpose of promoting and coordinating policy dialogue, cooperation and regional integration with the European Union. Cuba is one of 16 Participating State. In that regard, Cuba benefits directly from regional resources under Caribbean Regional Indicative Programs financed by the European Development Fund (EDF). The 11th European Development Fund (EDF) Caribbean Regional Indicative Program (CRIP) is valued at €346 million and provides for a significant allocation for Regional Economic Cooperation and Integration. The 11th EDF for the Caribbean region will run from 2014-2020 with a total funding of €1 billion.^{2/} The CARIFORUM group also belongs to the preferential trade arrangement with the European Union.

Cuba is also a member of the Bolivarian Alliance, an eleven member association, which started as an agreement between Cuba and Venezuela to exchange Venezuelan oil for Cuban medical assistance. In 2006, the last year for which Cuba has released total trade information; China was Cuba's largest trading partner. The 2013 incident wherein old Soviet weaponry was intercepted enroute to Pyongyang from Havana highlighted that some cooperation existed between North Korea and Cuba. In September 2015 the agriculture ministers of Argentina and Cuba signed a bilateral cooperation agreement for the next five years. The agreement focuses on food security, health and safety, and will involve joint ventures, technical cooperation and commercial contracts for livestock, animal products, arable and vegetable products, according to Argentina's agricultural ministry. For the livestock sector, added-value meats (poultry, pig and beef) will be covered, as well as nutrition and management of dairy cattle and milk technology.

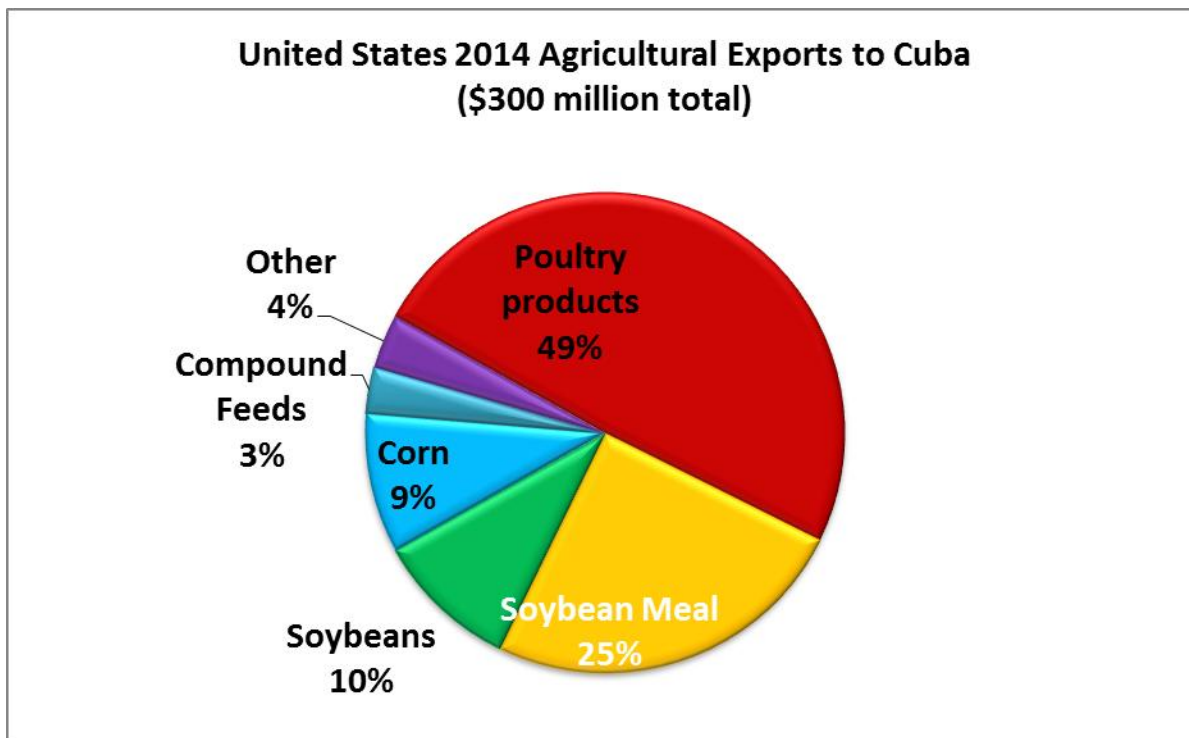
V. The United States

The U.S. legislature remains undecided whether to remove or strengthen Cuban sanctions. In 2015, Congress has debated various bills circulating on the hill with the more notable ones identified here. On Feb 12, Senator Amy Klobuchar (D-MI) introduced the **Freedom to Export to Cuba Act**, which would lift the embargo. However, Representative Chris Smith (R-NJ), introduced HR 1782, the **Cuba Human Rights Act of 2015**, which would forbid the U.S. government from making any changes until the "government of Cuba cease violating the human rights of the people of Cuba." On June 11, Senators Jerry Moran (R-KS) and Angus King (I-ME) introduced the **Cuba Trade Act of 2015**, which would permit private businesses to export goods and services to Cuba but would maintain the restriction on use of federal funds to underwrite trade. On July 28, Representatives Tom Emmer (R-MN) and Kathy Castor (D-FL) introduced the **Cuba Trade Act of 2015** in the House of Representatives, which would grant

^{2/} July 15, 2015 Press release: [Joint Communiqué – Third Meeting of the Joint CARIFORUM-EU Council](#)

U.S. businesses the freedom to trade with Cuba, while protecting taxpayers from any risk associated with such trade. Representative Mario Diaz-Balart (R-FL), had shepherded three appropriation bills through the House that contained a provision that would prohibit the State Department from using funds to create an embassy in Cuba, and undo some other changes President Obama's executive order on Cuba

put into action. The current Republican Congressional leadership is opposed to liberalizing relations with Cuba, even though a number of Republicans have supported engagement,



Source: USDA FAS Global Agricultural Trade System, Global Trade Atlas

Several Senators—on the record—supporting rapprochement with Cuba, hail from states whose agricultural sector would benefit from normalization (two from Kansas, one each from Minnesota, Wyoming, Maine, and Arkansas). Other states with significant agricultural sectors that would benefit by normalization include: Louisiana (third biggest rice-producing state), Mississippi (fourth biggest rice-producing state), North Dakota (largest wheat-producing state), Montana (third largest wheat producing state), and Alabama (where the poultry industry represents 48 percent of agricultural exports).

The U.S. Agricultural Coalition for Cuba is a lobbying group dedicated to ending the U.S. trade embargo. The coalition is composed of various industry leaders—the National Barley Growers Association, the USA Rice Federation, the U.S. Meat Institute, and Cargill, among others. Cargill, which had \$134.9 billion in revenue in 2014, is by far the largest of any company in these industries.

VI. Post Contact and Further Information:

A. For more information on Cuba, please contact Post at:

Caribbean Basin Agricultural Trade Office
Foreign Agricultural Service
United States Department of Agriculture

909 SE 1st Ave., Suite 720
Miami, FL 33131
Phone: (305) 536-5300
Fax: (305) 536-7577
E-mail: atocaribbeanbasin@fas.usda.gov

Staff:

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Please visit our website for more reports and information on the islands of the Caribbean Basin:

<http://www.cbato.fas.usda.gov>

B. Select Cuban Government Agencies:

For a full explanation on Cuban import procedures and government contacts, please see: [*Cuba's Food and Agricultural Import Regulations and Standards*](#)

For general purchasing, documentation, and logistics issues related to the importation of bulk and intermediate U.S. agricultural products:

Empresa Cubana Importadora de Alimentos (Alimport)
Infanta #16, 3er Piso
Vedado, Plaza
La Habana, Cuba
Tel: [53] 836-9583 X135, X136, X137
E-mail: alimport@alimport.cu, aortiz@alimport.com.cu, secretarias@alimport.com.cu

For general purchasing, documentation, and logistics issues related to the importation of processed U.S. agricultural products:

Alimport MID

Calle 8 No. 508

E/5ta y 5ta B Playa

Tel: 011 (537) 204-1395/1274

Fax: 011 (537) 204-1395

For sanitary registration of food products and other food safety issues:

Instituto de Nutrición e Higiene de los Alimentos (Institute of Nutrition and Food Safety)

Ministerio de Salud Pública (Ministry of Public Health)

Infanta No. 1158 entre Llinás y Clavel

Centro Habana

Ciudad da la Habana, Cuba CP 10300

Tel: 011 (537) 878-1429, 878-1429, 878-5919, 870-5531 to 34

C. Select U.S. Government Agencies:

Office of Foreign Asset Control

United States Department of the Treasury

Treasury Annex

1500 Pennsylvania Ave., NW

Washington, DC 20220

Tel: [1] (800) 540-6322

Website: <http://www.treasury.gov/about/organizational-structure/offices/Pages/Office-of-Foreign-Assets-Control.aspx>

Office of Exporter Services

Bureau of Industry and Security

United States Department of Commerce

Tel: (202) 482-4811

Website: <https://www.bis.doc.gov/>

E-mail: ECDOEXS@bis.doc.gov

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