Cuban Agricultural Development and Implications for U.S. Exports

Presentation to the USDA
Agricultural Outlook Forum 2012
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PRELIMINARY POINTS:

- **WE DO NOT ADVOCATE FOR ANY POSITION WITH RESPECT TO U.S. POLICY TOWARD CUBA! We simply provide data, analysis and information to:**
  - **Agricultural industry associations and companies**
  - **Federal and State legislators**
  - **Government agencies**
  - **Consumer groups**
  - **Any other interested parties**
- Why do we study Cuban agriculture? The strong similarities between Cuba's traditional agricultural production patterns and those of Florida will have important implications for Florida agriculture

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TSRA (2000)

- In 2000 the U.S. Congress passed and President Clinton signed the Trade Sanctions Reform and Export Enhancement Act (TSRA) which allowed U.S. firms to sell food and medicine to Cuba.
  - One way trade only
  - All sales must be in cash
- Fidel Castro said Cuba won't buy "a penny's worth" of food from the U.S. because of the terms.
- 2001 - Hurricane Michelle struck (strongest hurricane ever to strike Cuba) - Cuba started buying food from U.S. "to replenish stocks lost in the storm"

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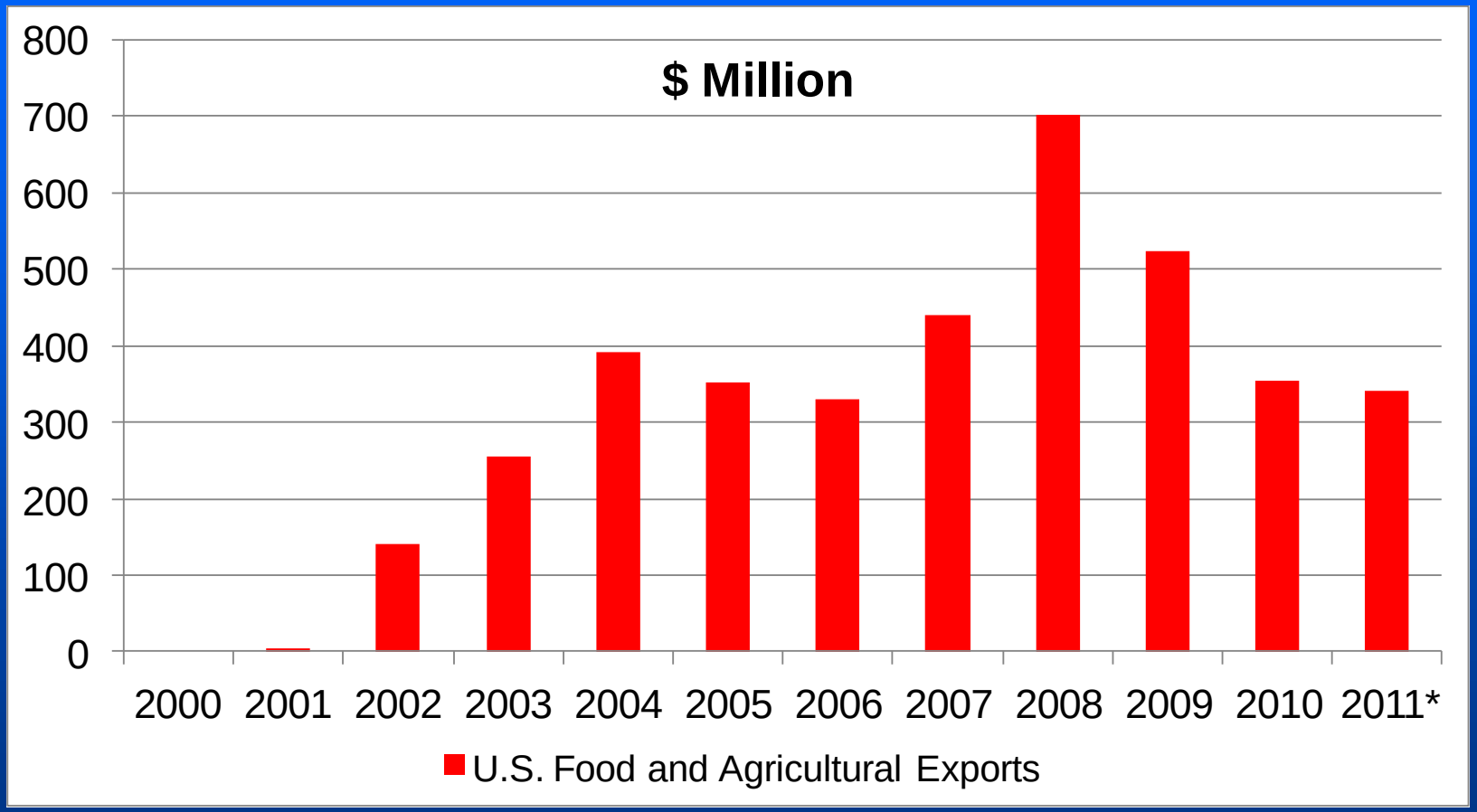
U.S. FOOD AND AGRICULTURAL EXPORTS TO CUBA UNDER, 2000-11



Source: U.S. Department of Commerce

Cuba doing more than replenishing lost stocks!

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TO CONSIDER TODAY:

- Explosive rise of the United States in Cuba's food and agricultural markets after 2001
- Decline in the U.S. role since 2008
- Factors driving these changes:
  - Fluctuating commodity prices
  - Cuban policy
  - U.S. policy
  - Policies of other countries
- Prospects for the future

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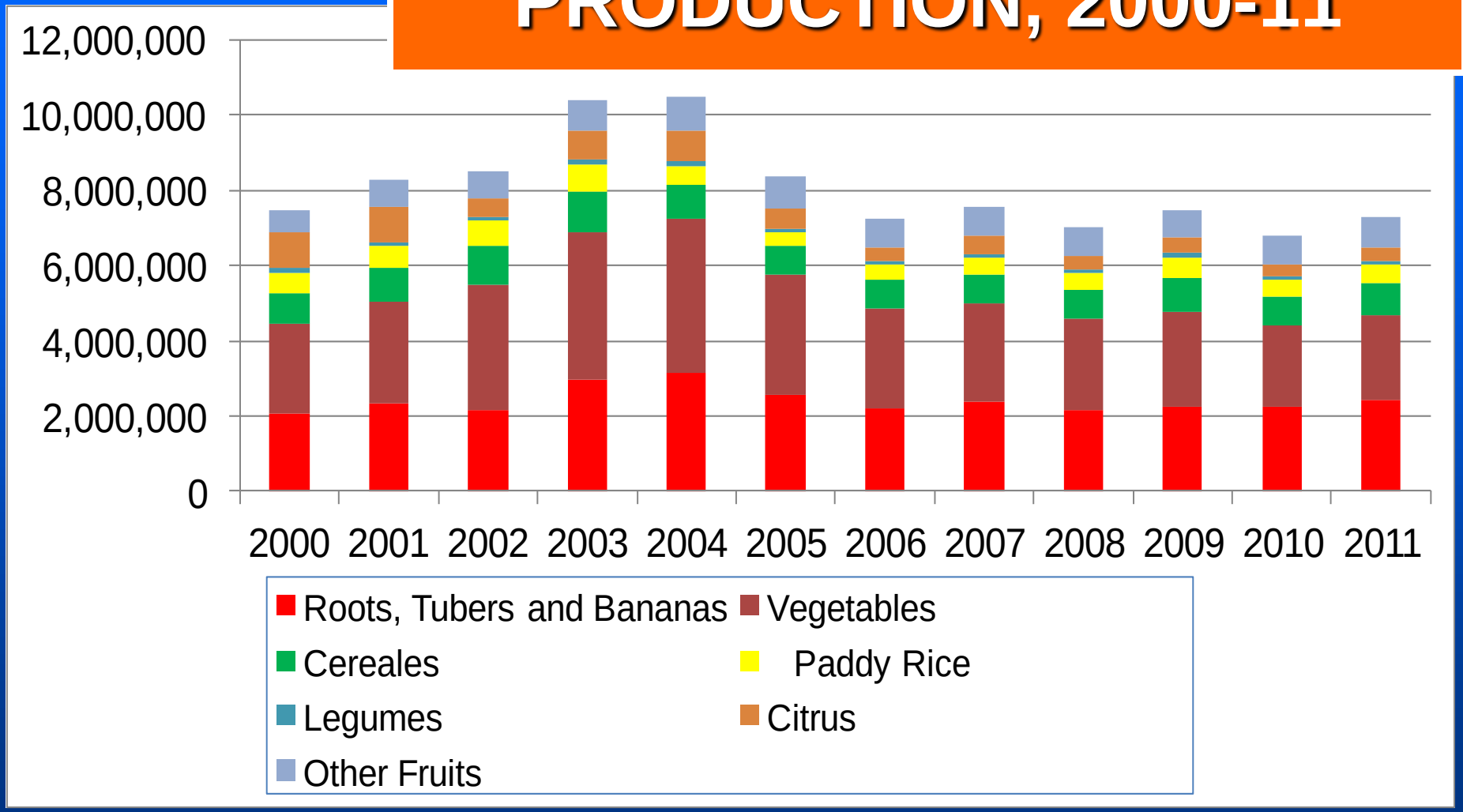
CUBAN AGRICULTURAL PRODUCTION, 2000-11



Source: Cuban Anuario Estadistico

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CUBAN AGRICULTURAL OUTPUT DOWN FROM 2004

- Since 2004 many policy changes have been proposed to help reinvigorate Cuba's agricultural sector.
- The ability of the GOC to effectively implement the proposed changes has been limited.
- Cuban agricultural output stagnant since 2006, at levels about 30% LOWER than in 2004.

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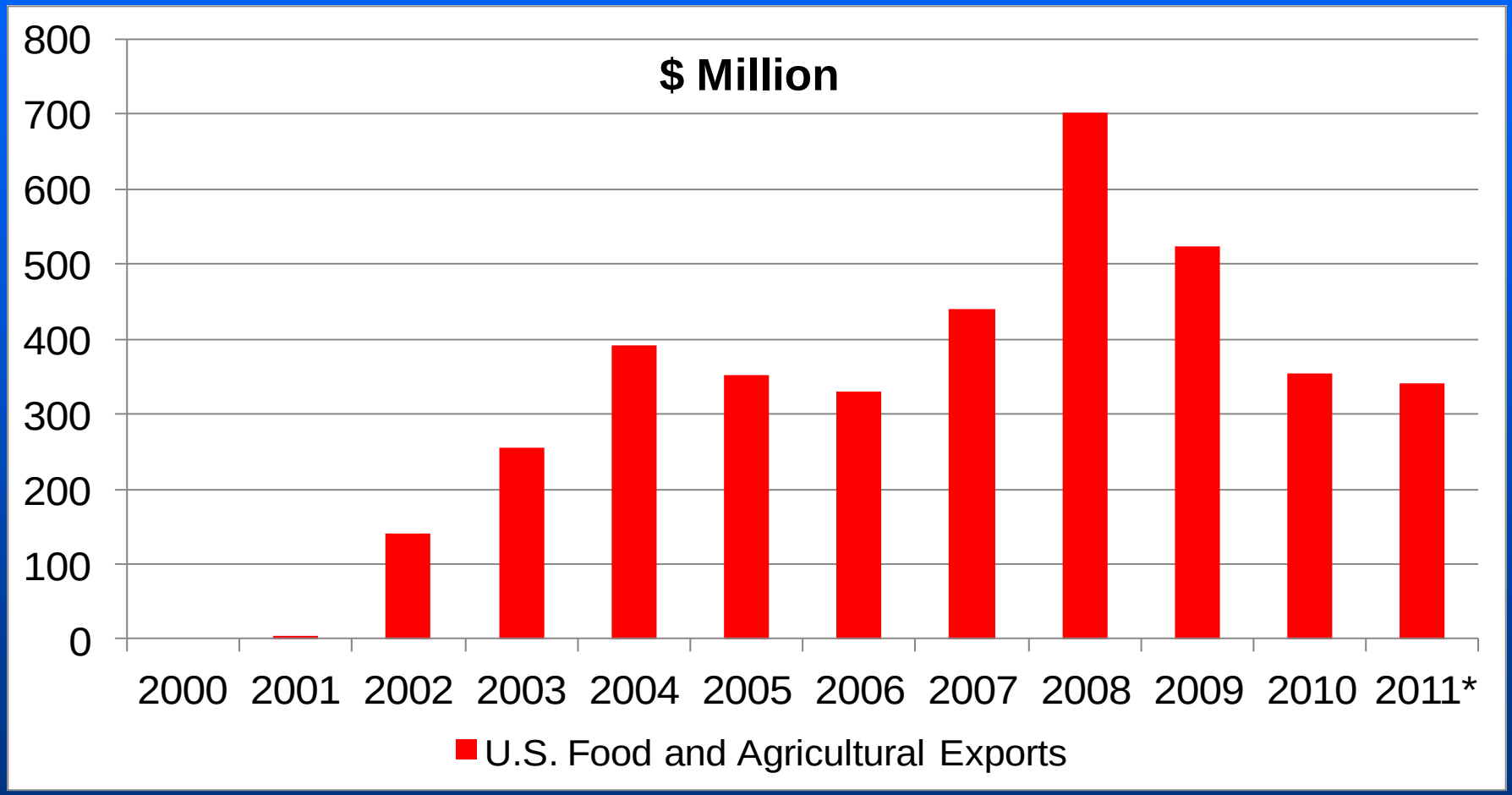

Source: U.S. Department of Commerce

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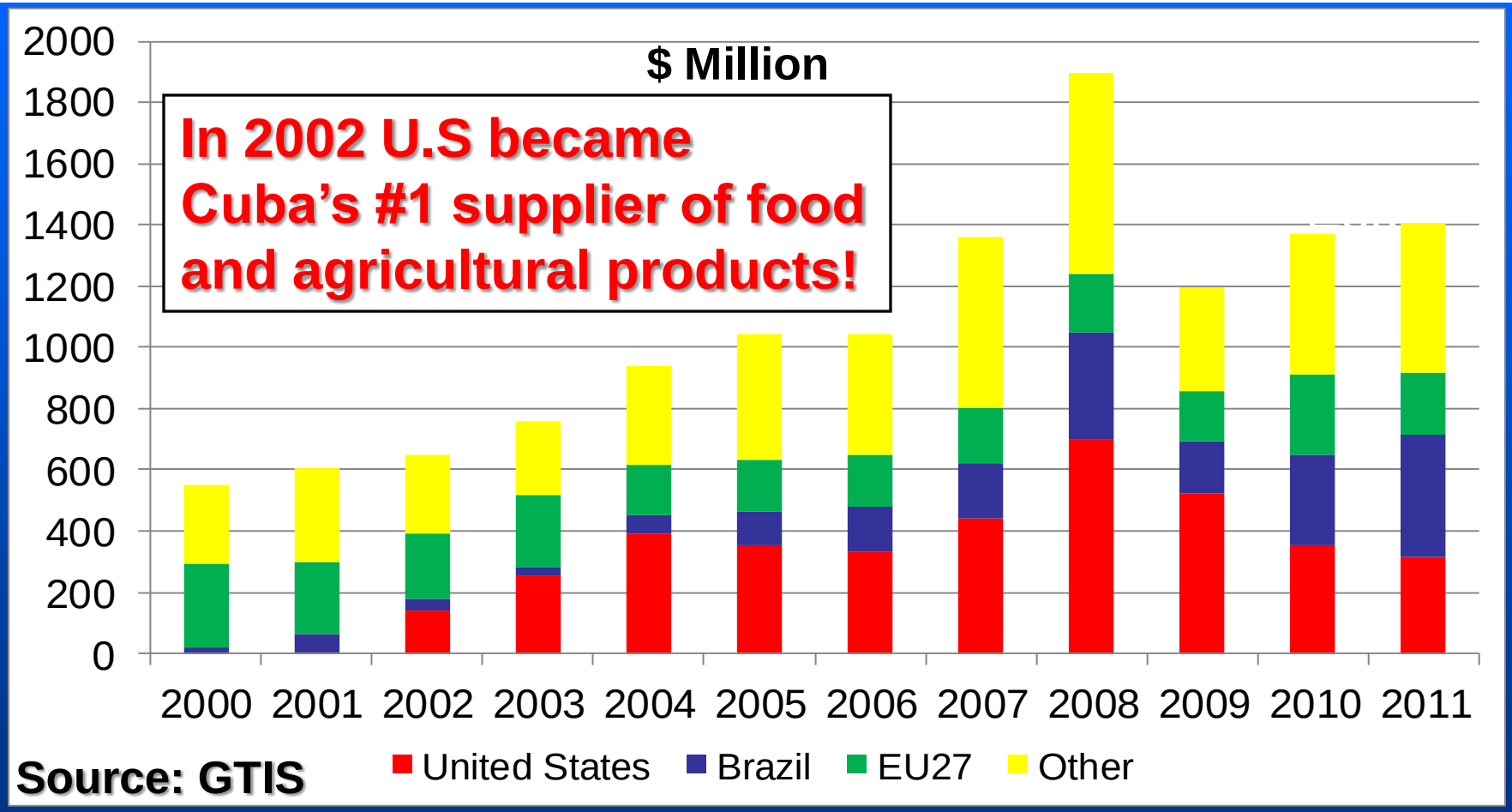
CUBAN IMPORTS OF TSRA-ELIGIBLE FOOD AND AG. PRODUCTS BY COUNTRY, 2000-11



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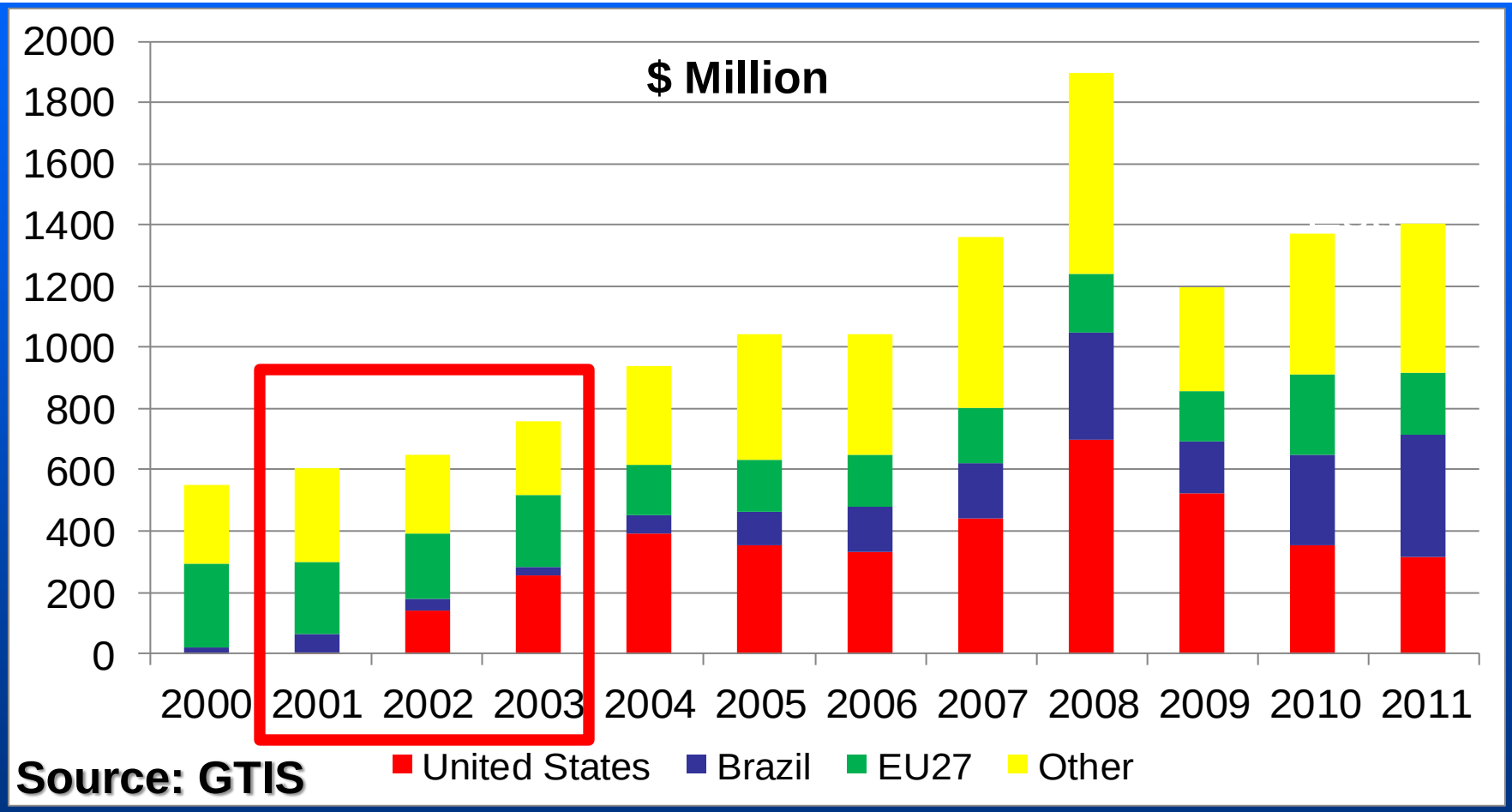

Source: GTIS

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BY 2003 . . .

- The United States was providing about 1/3 of Cuba's total food and agricultural imports.
- On the basis of its food and agricultural exports alone, the United States was:
  - Cuba's 4th largest supplier of TOTAL IMPORTS (after Venezuela, PRC and Spain)
  - Cuba's 5th largest trading partner overall - imports plus exports (after above countries and Canada)

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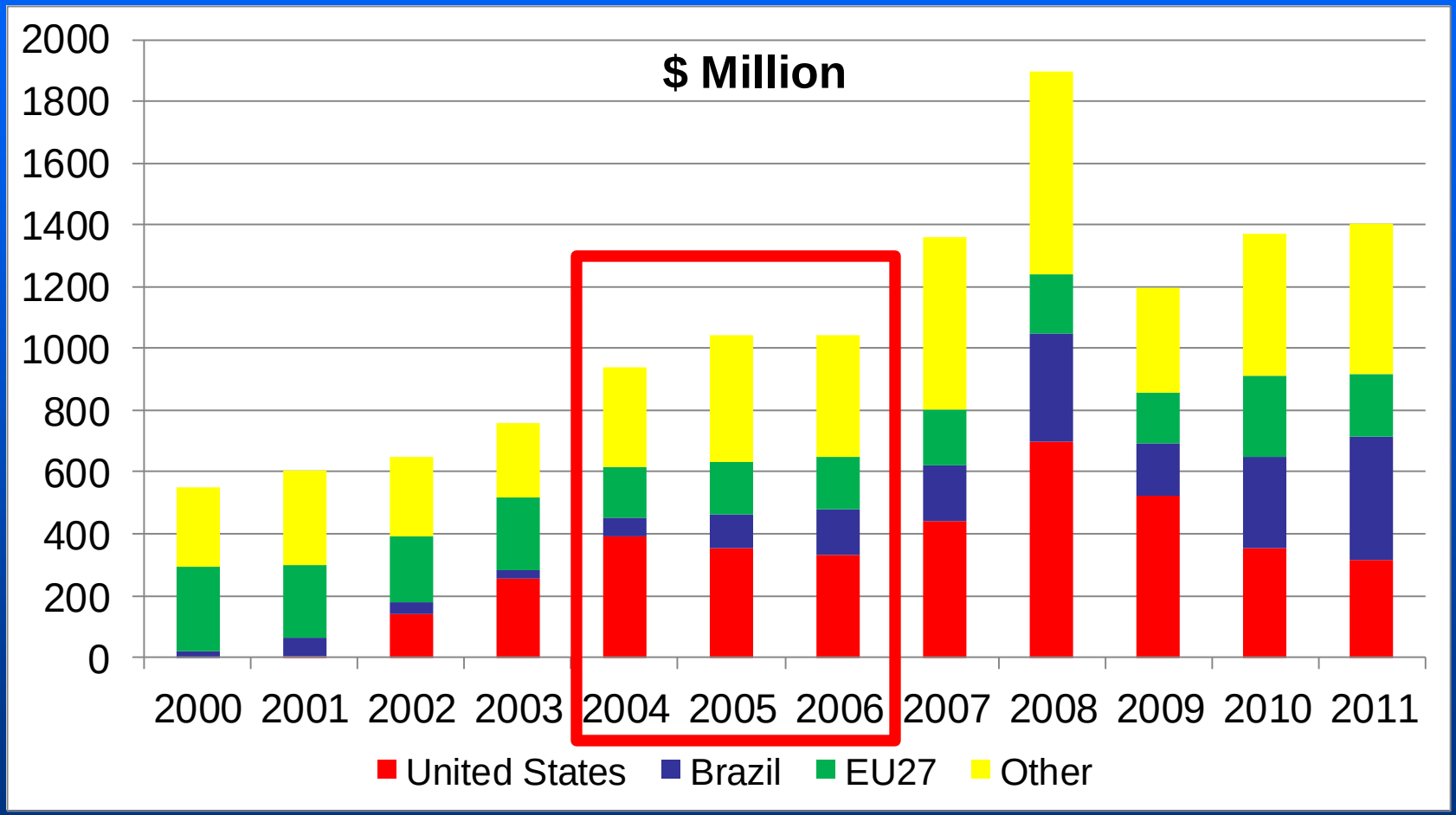

Source: GTIS

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WHY DID U.S. EXPORTS TO CUBA DECREASE IN 2005 AND 2006 WHEN CUBA'S IMPORTS WERE INCREASING?

- In late 2004 the U.S. government announced that it was reassessing the cash sale provisions for sales to Cuba.
- CUBAN GOVERNMENT GOT NERVOUS (past experience of 1961 and 1989 of suddenly losing a major supplier)
- New terms (2006) = irrevocable letter of credit in place before ships leave U.S. ports.
- Perverse consequences – U.S. policy change saved Cuban government millions in demurrage charges – used to purchase food from other countries!
- In 2007 the Cuban government became more comfortable with new U.S. terms and increased purchasing again.

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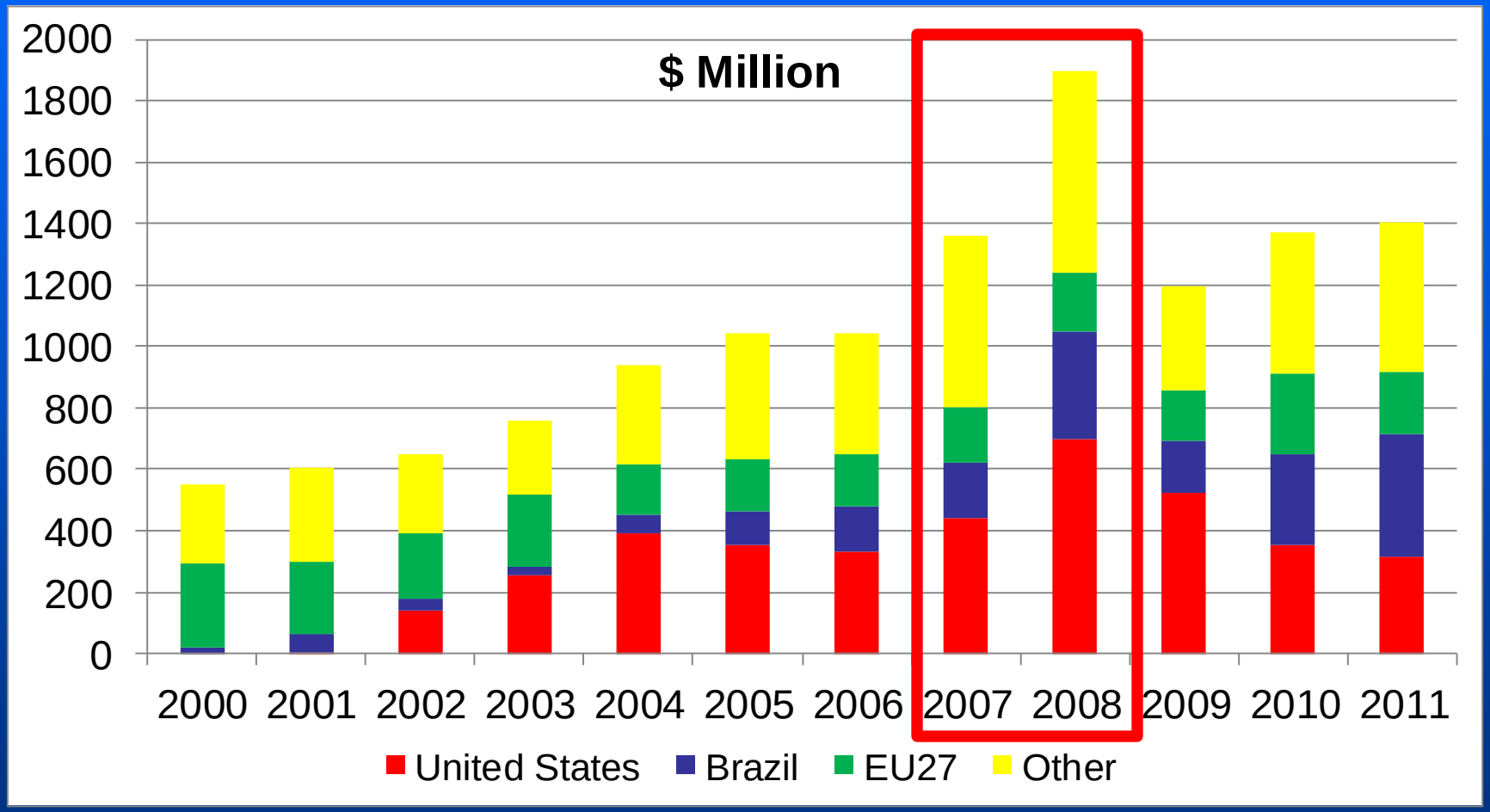

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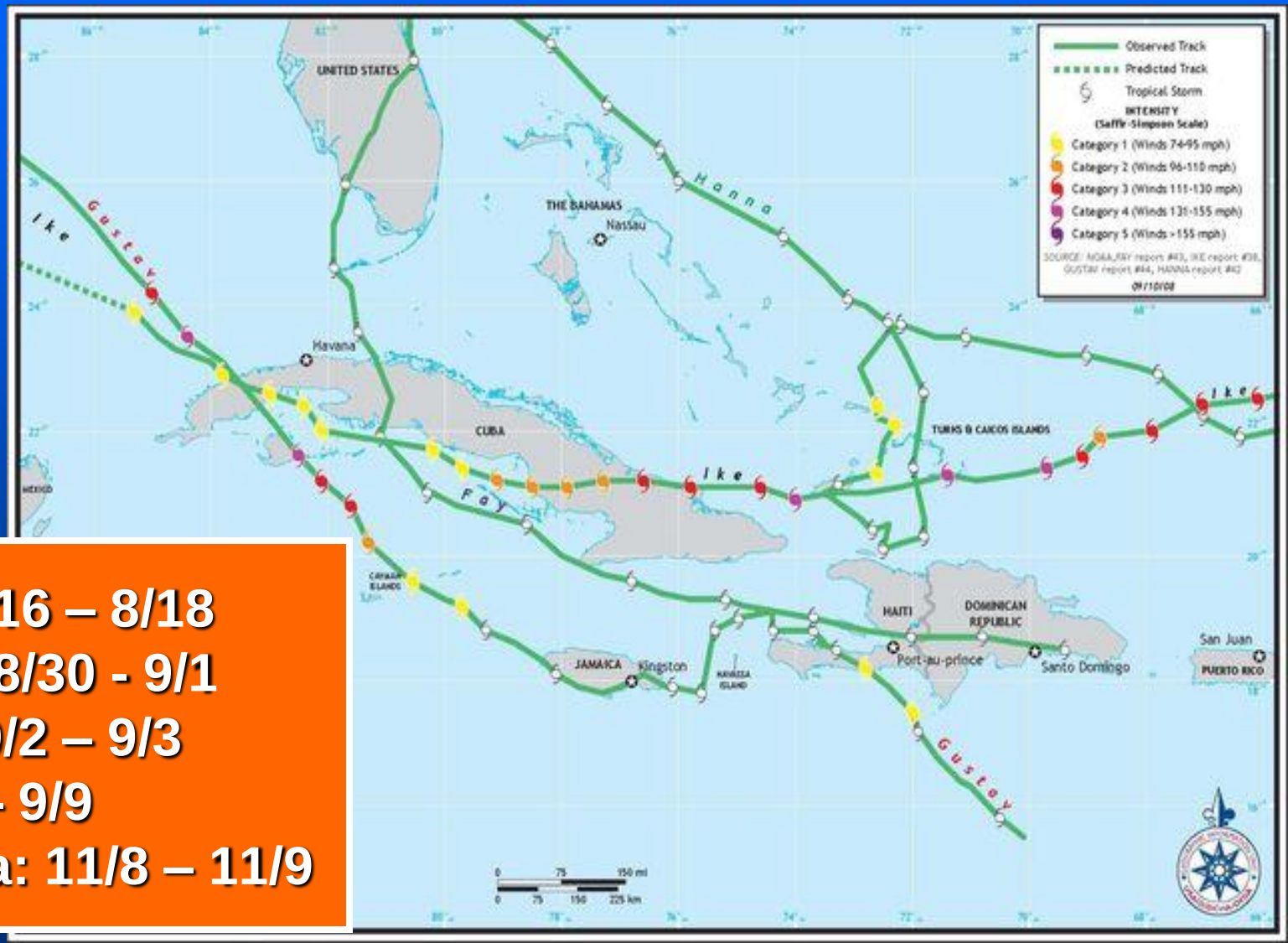
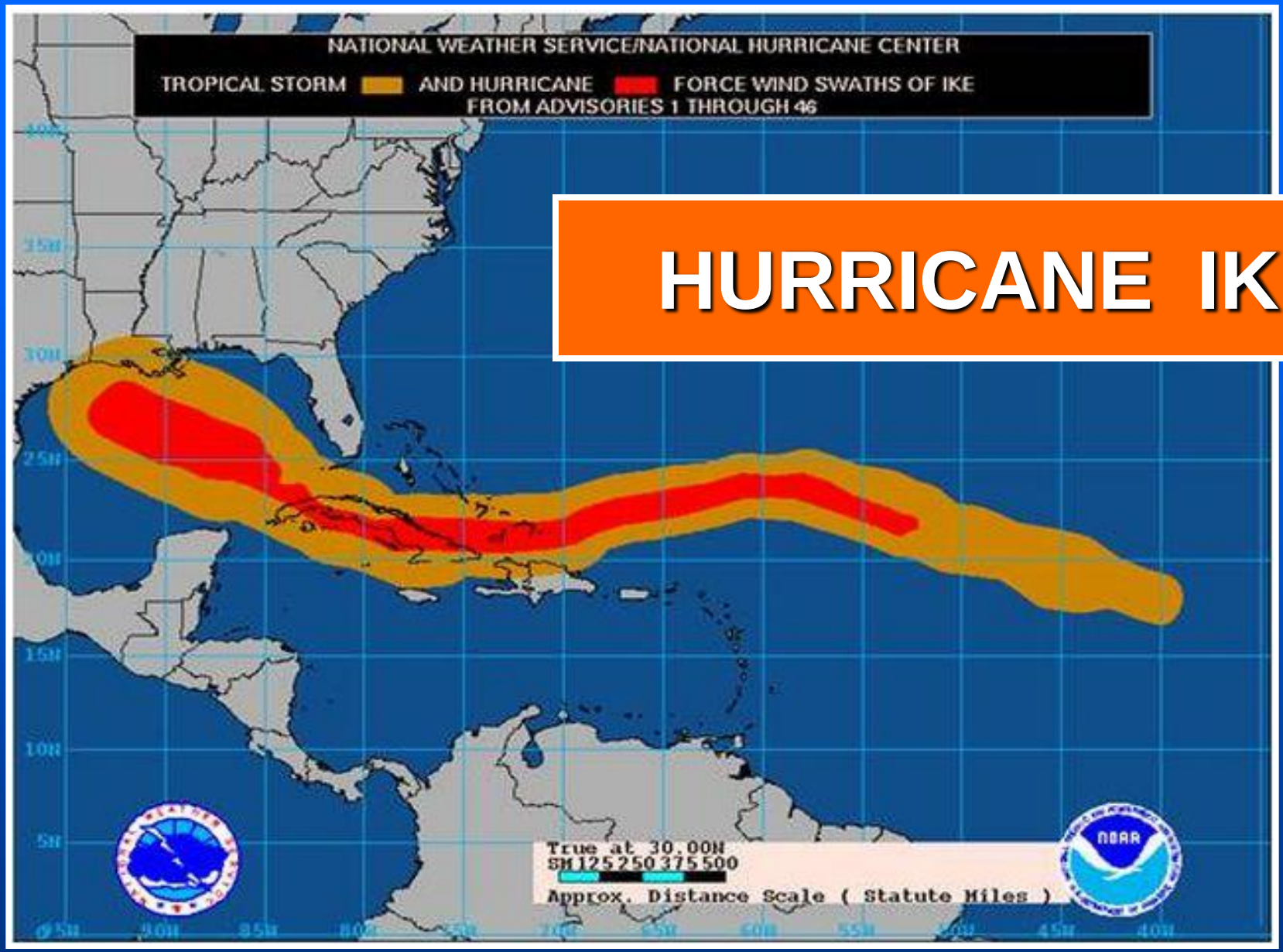
2008 HURRICANE SEASON – most destructive in Cuban recorded history



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



HURRICANE IKE

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2008 HURRICANE SEASSON

- Hurricane damage (crops in field lost from winds and flooding, tree damage, and losses of stored food)
- U.S. a major beneficiary because of:
  - + Geographic proximity
  - + Lower economic order quantities
  - − Cash sale requirements
- U.S. food and agricultural exports to Cuba increased by more than ¼ of a billion dollars between 2007 and 2008 to over $700 million.
- Commodity prices high in 2008

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ANOTHER CATALYST FOR CHANGE IN 2008

- In 2008 Cuban Ministry of Agriculture officials publicly reported that **OVER 80% OF CUBA'S TOTAL FOOD SUPPLY WAS IMPORTED!**
- This led to a more formal, stated policy goal of "the replacement of imports, beginning with foodstuffs and agricultural products, as a strategic objective for Cuba" (Granma, December 26, 2008).

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ANNOUNCED POLICY RESPONSES FOR AGRICULTURE IN 2008

- Programs to distribute unused land to small holders (began in early 2000s but expanded)
- Opening of stores to sell agricultural inputs
- Decentralization of planning & decision making
- Increased prices paid for quota volumes for selected commodities
- Increase speed of payments to farmers for quota sales
- Increased emphasis on urban gardens

REPRESENT A GOOD RECIPE FOR IMPROVING OUTPUT, HOWEVER . . .

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STILL CONFUSION WITHIN THE SYSTEM

Cuban economist Dr. Armando Nova wrote:

> **"We encouraged urban and rural gardens for family consumption, pushed cooperatives and allowed some free marketing that helped see us through the difficult times. But the current system is an inefficient mishmash . . . It is comprised of state farms, state directed cooperatives, and more autonomous cooperatives usually formed by peasants, with no one knowing from one year to the next what to expect in terms of government policies or supplies."**

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TROUBLING TRENDS, BUT ALSO A POSITIVE DEVELOPMENT

- Continuing declines in Cuba's domestic food production meant high reliance on imported food
- But financial problems constrained Cuba's ability to import food
- **A FOOD CRISIS APPEARED TO BE LOOMING, UNTIL . . .**
+ In 2008 some countries begin to offer Cuba credit for agricultural purchases

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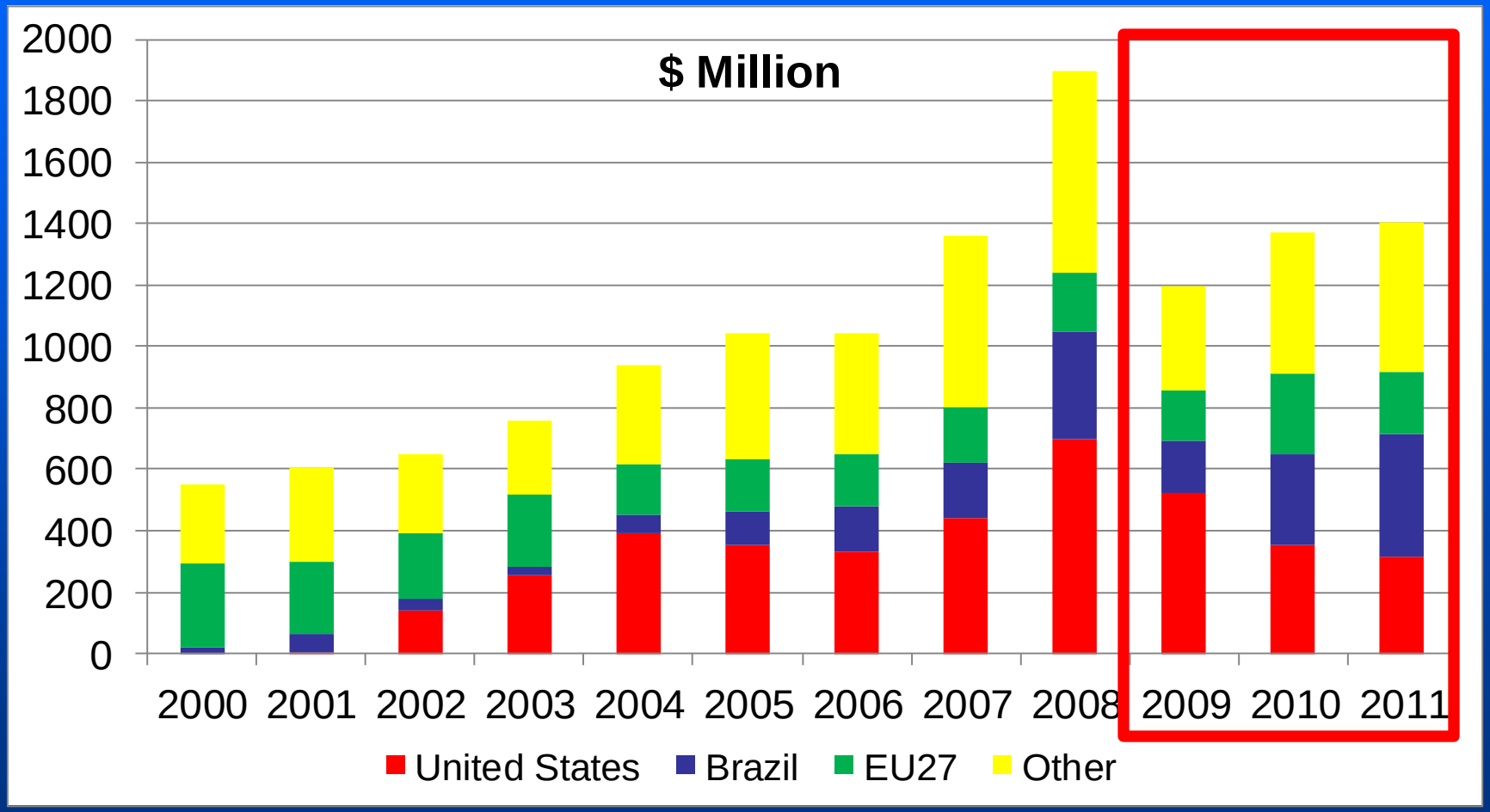

Source: GTIS

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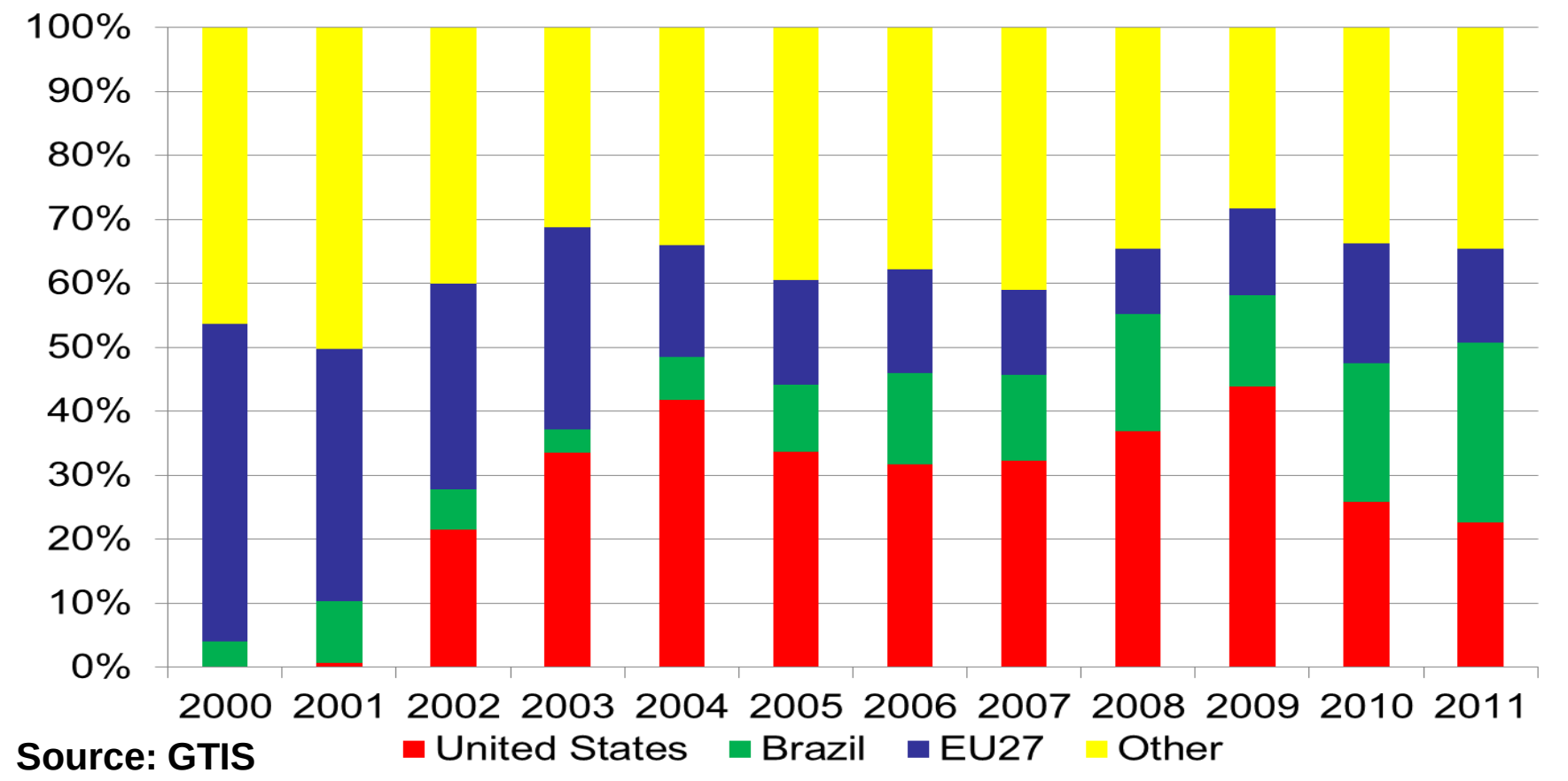
CUBAN IMPORTS OF TSRA-ELIGIBLE AG. PRODUCTS - SHARE by Major Suppliers, 2000-11



Source: GTIS

In 2011 BRAZIL BECAME CUBA'S #1 SUPPLIER OF FOOD & AG. PRODUCTS

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2011 PARTY CONGRESS

- 9 years overdue (should happen every 5 years but last one was 14 years prior)
- Considered a wide range of profound policy changes throughout the economy.
- It came at a pivotally important time as:
  - Raul Castro's 1st Party Congress as Head of Sate (his position now permanent)
  - Raul is charting Cuba's future course under very difficult economic conditions.

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CUBA'S 2011 PARTY CONGRESS

- In the *Lineamientos* document that formed the basis for discussions leading up to the Congress, the Agro-Industrial section was among the longest in the document.
- Policy recommendations proposed represent a move toward a more market-oriented agricultural and food system.
- But the Cuban agricultural bureaucracy has proven to be very slow to implement policy changes that reduce their influence

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QUESTIONS LOOMING LARGE:

- How committed is the Cuban leadership to implementing changes? **Probably VERY!**
- How committed is the Cuban bureaucracy to implementing changes? **To this point, indications are, NOT VERY!**
- Why not? Are mid-level bureaucrats in Havana unwilling to allow planning decisions to be made on a local level because it would mean they would no longer be needed in their jobs?

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POTENTIAL FOR CUBAN AGRICULTURE IS HUGE!

- There is no reason for Cuba to be importing 60% or more of its food supply!

Cuba has:

- Extensive arable land
- Good soils
- Water
- Climate
- Good farmers

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THE FUTURE OF AGRICULTURE?

- Cuban agricultural production for 2011 increased between 6 and 9% - but volumes still below levels of 2005.
- Also, food prices increased > 19% in 2011!
- CAN Cuba continue to increase agricultural production and grow more food?
  - It would not be economically efficient for them to be totally food self-sufficient (e.g., rice), but they clearly should be able to become much more food-secure.

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THE FUTURE OF ARICULTURE?

- WILL Cuba grow the food and agricultural products that they need?
  - Probably not in the near term because:
    - They lack technology; and
    - There are hindrances to incentive systems and significant operational constraints.
- THE GOVERNMENT HAS INDICATED ITS DESIRE TO MAKE POLICY CHANGES BUT IT HASN'T DEMONSTRATED ITS ABILITY TO DO SO.

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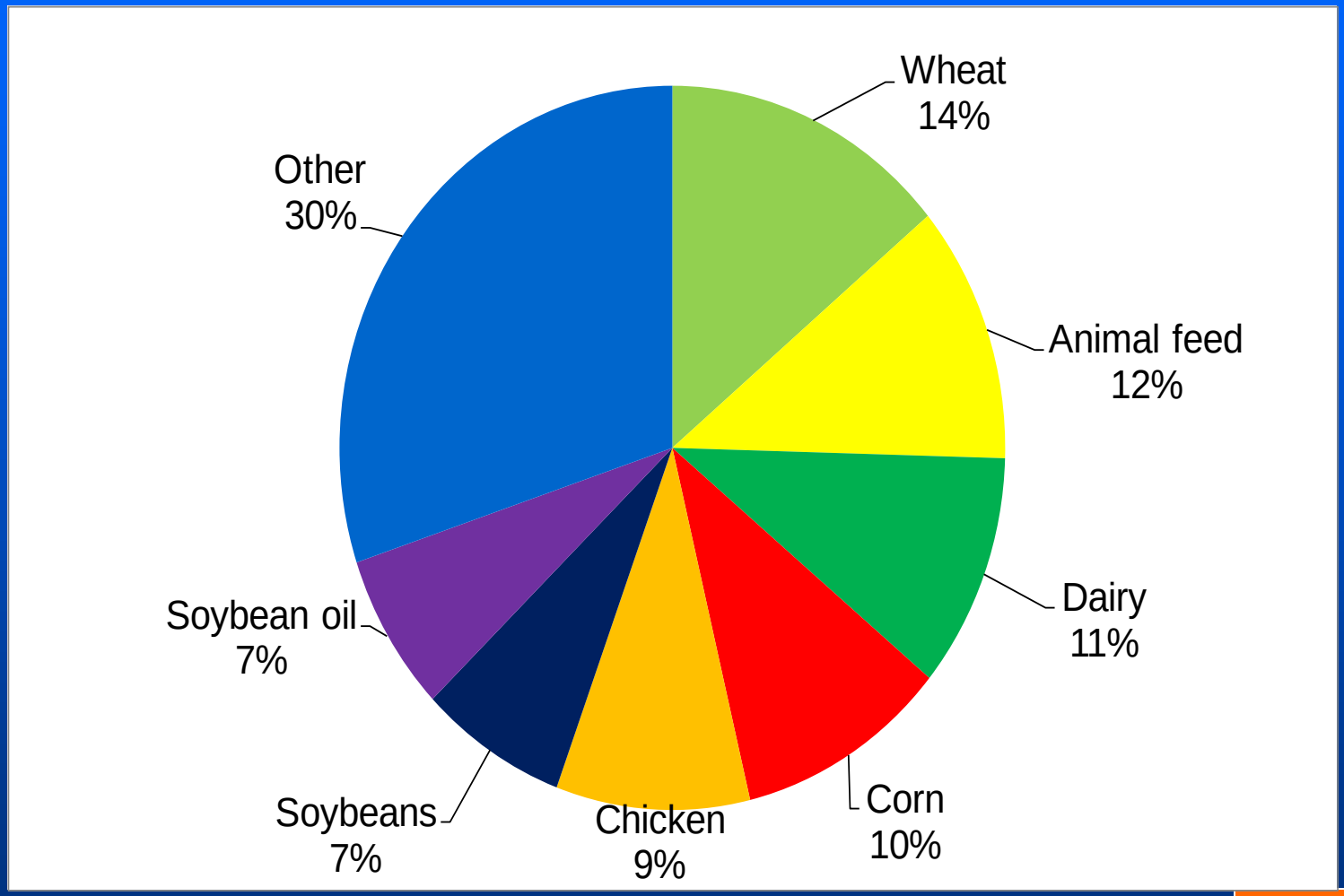
CUBAN IMPORTS OF TSRA-ELIGIBLE AGRICULTURAL PRODUCTS FROM WORLD, BY VALUE 2010



Source: GTIS

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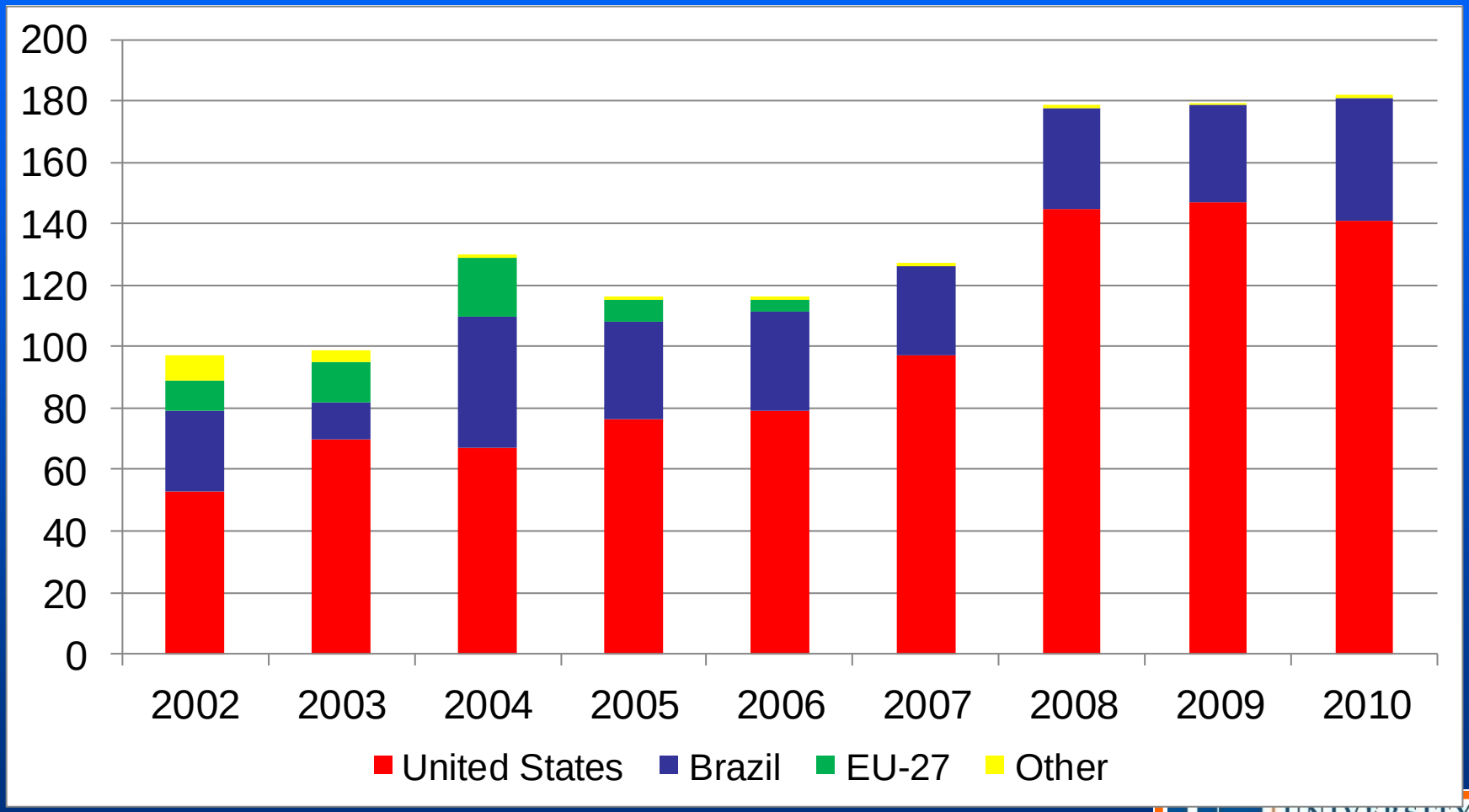
POULTRY MEAT: CUBAN IMPORTS BY COUNTRY, 2002 - 2010

1,000 mt



Source: GTIS

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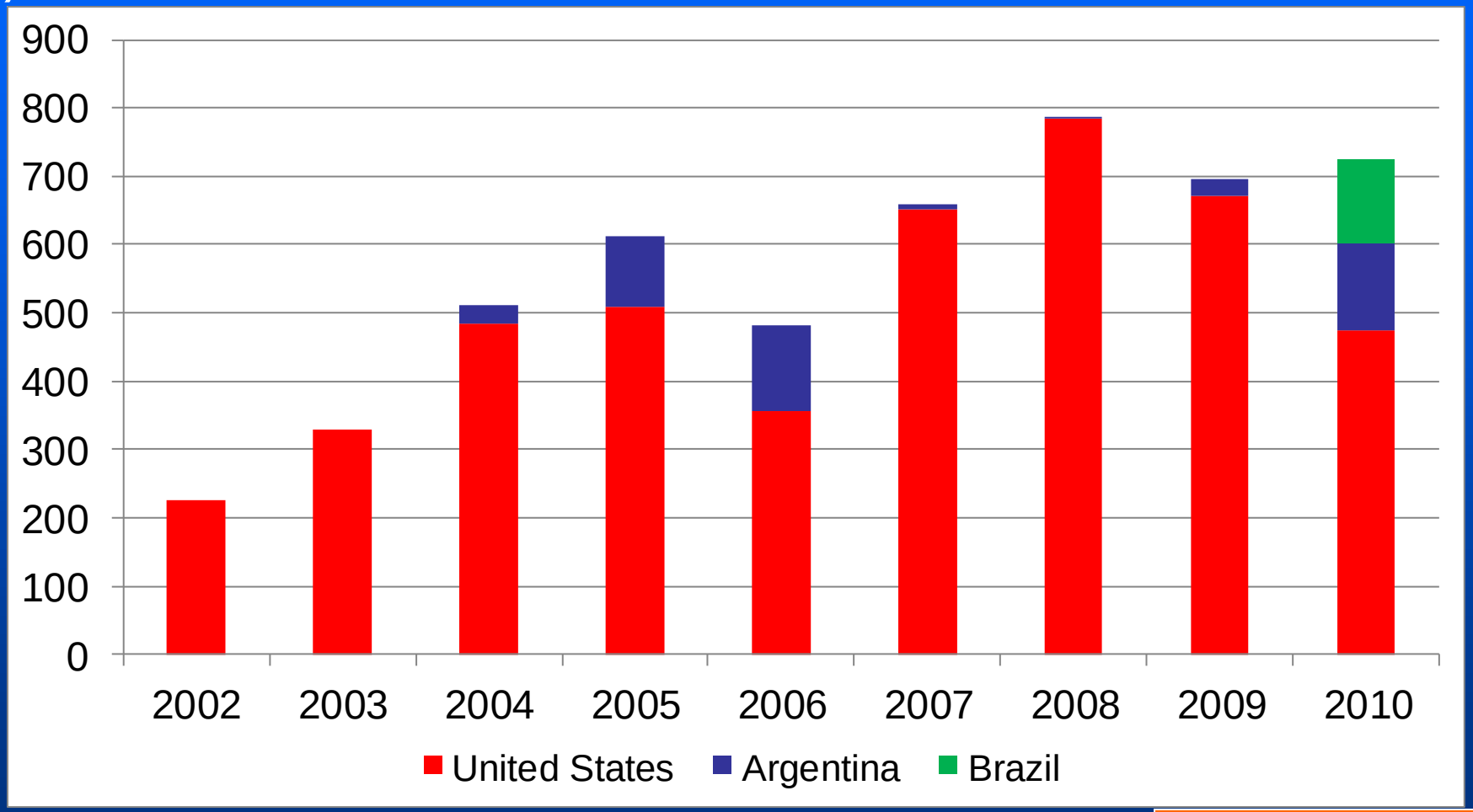
CORN: CUBAN IMPORTS BY COUNTRY, 2002-2010

1,000 mt



Source: GTIS

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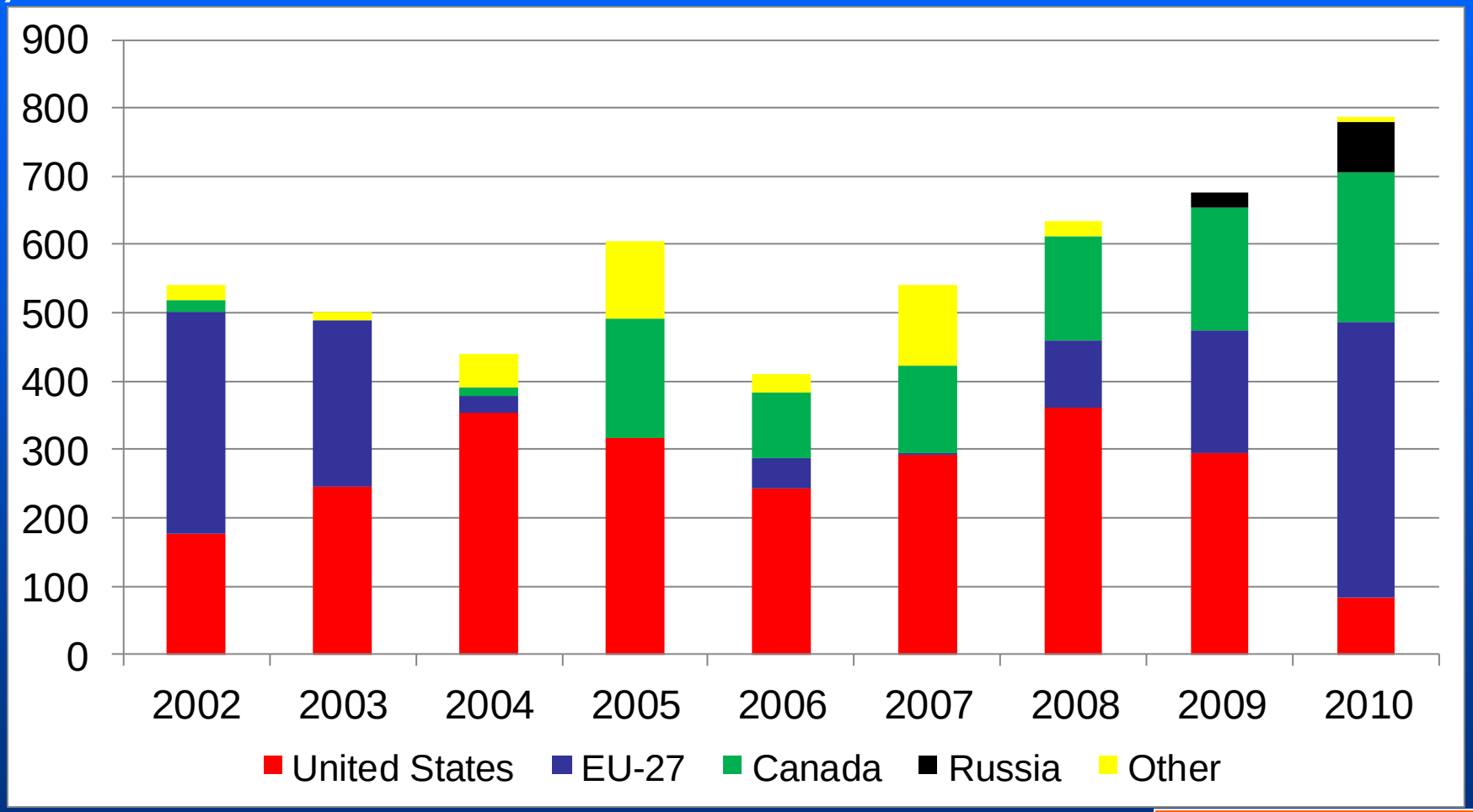
WHEAT: CUBAN IMPORTS BY COUNTRY, 2002-2010

1,000 mt



Source: GTIS

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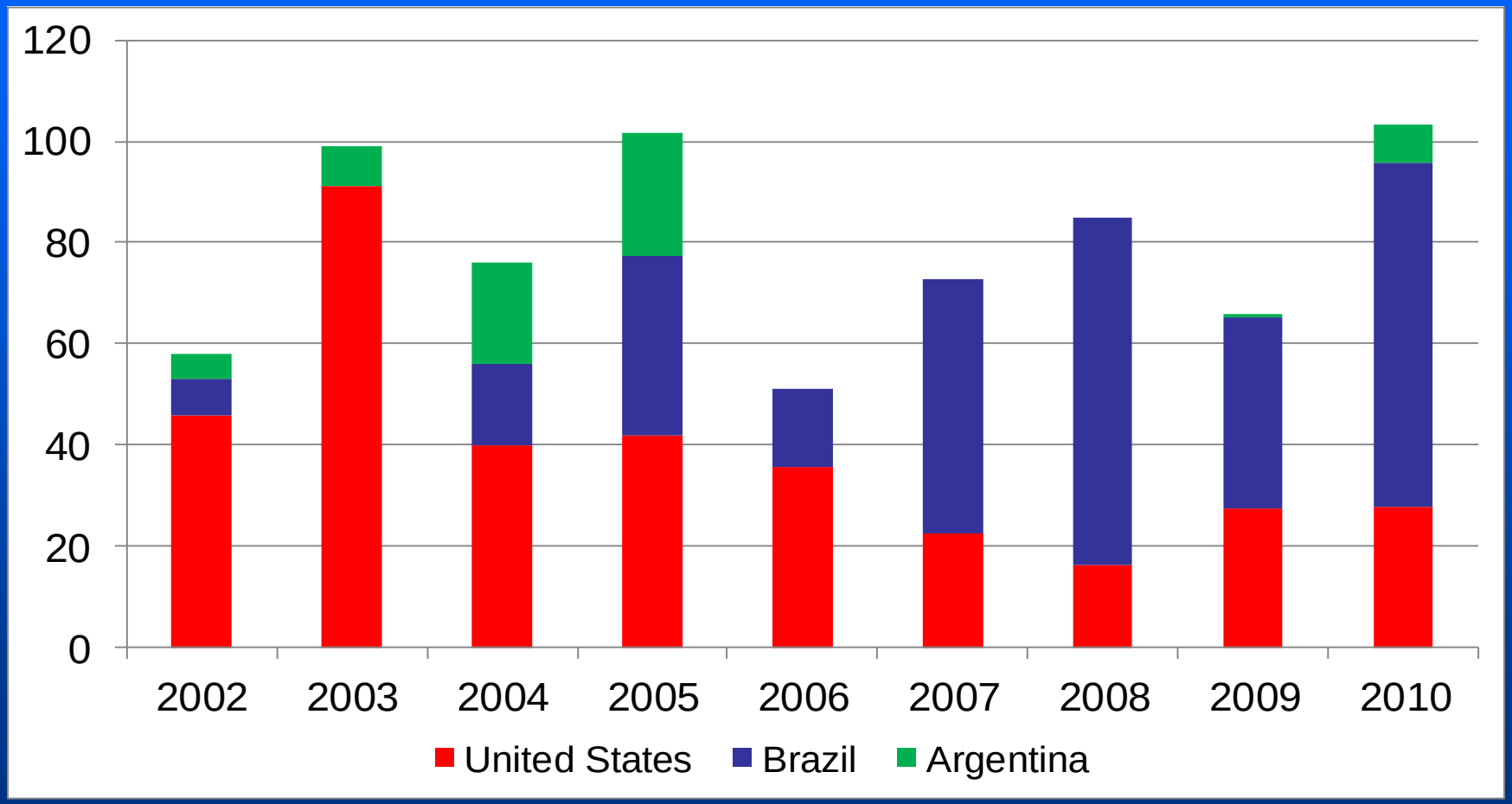
SOYBEAN OIL: CUBAN IMPORTS BY COUNTRY, 2002-2010

1,000 mt



Source: GTIS

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FUTURE PROSPECTS FOR U.S. FOOD AND AGRICULTURAL EXPORTS TO CUBA

- U.S. food and agricultural exports to Cuba decreased about 3.5% from 2010 to 2011 to $340 million.
- Would expect Cuba's purchases from the United States to remain fairly stable in 2012, except for one unpredictable factor . . . the increasing role of Brazil in Cuba.

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BRAZIL IS A "WILD-CARD" AND COULD TAKE U.S. SHARE IN SOME COMMODITIES

- Brazil has recently invested in Cuba's poultry industry
- Brazil is assisting with soybean production
- President Rousseff's recent visit
- $680 million to refurbish Cuba's Port Mariel
- $400 million in credits for food purchases
- $200 million to improve agriculture
- AND if there is any question about Brazil's level of interest . . .

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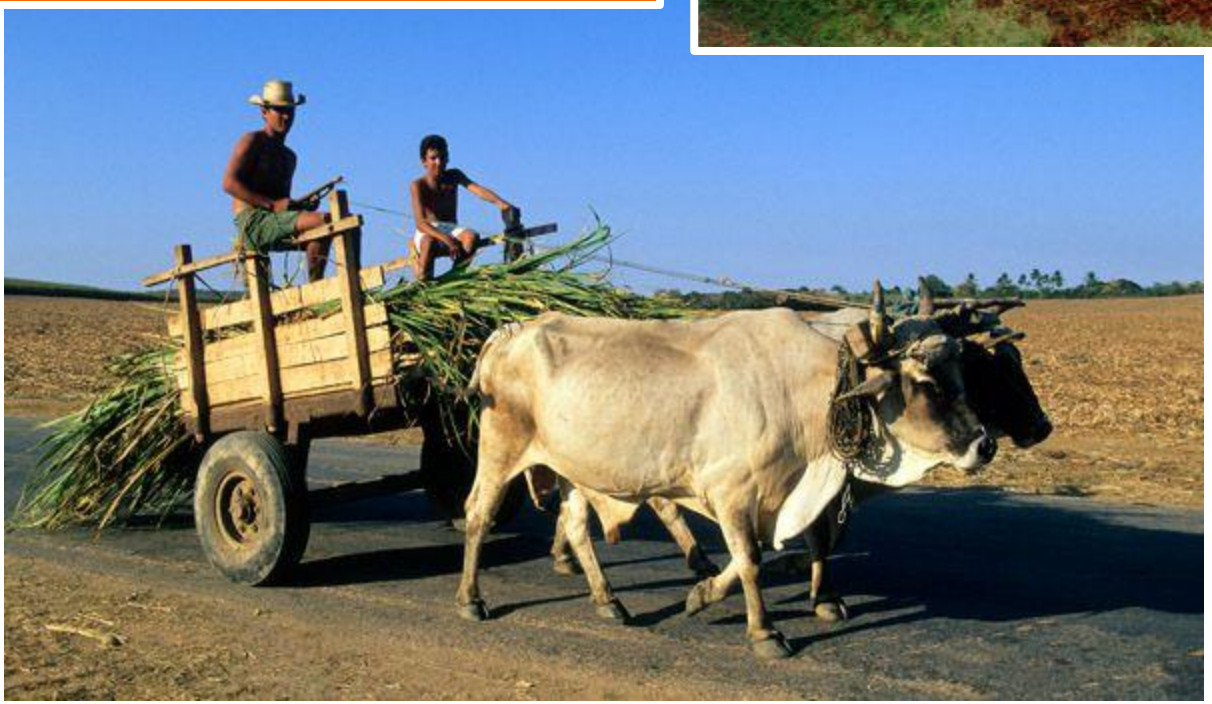
CUBAN AGRICULTURE IN THE "SPECIAL PERIOD"



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BRAZILIAN EQUIPMENT IN CUBA, October 2011

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BRAZILIAN EQUIPMENT IN CUBA,
October 2011

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BRAZILIAN EQUIPMENT IN CUBA, October 2011

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THE CUBANS READILY ADMIT THAT THIS IS A "MODEL" FARM

- Brazil is becoming an increasingly important player in Cuba.
  - ✓ Now Cuba's #1 agricultural import supplier
- Foreign investment has the potential to dramatically change Cuba's agricultural sector!
- BUT WILL ANYONE BE WILLING TO INVEST FOR CUBA'S DOMESTIC MARKET, WHERE THE EFFECTIVE DEMAND (AS MEASURED BY ABILITY TO PAY) IS LIMITED?

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CUBA'S POTENTIAL GAME CHANGER – OIL!

Photo by:
Javier Galeano
Associated Press
January 19, 2012

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