AGRIBUSINESS INVESTMENT IN CUBA'S POST EMBARGO PERIOD

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Research being conducted at the University of Florida, secondary data and information, and three visits to Cuba—1993, 1994 and 1996—are the basis for my comments on foreign agribusiness investment in Cuba.

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With that background, I would like to comment on: 1) the traditional areas of U.S. agribusiness investment in Cuba; 2) the current foreign agribusiness investment situation; and 3) potential areas of opportunity for U.S. agribusiness in a post-embargo period.

TRADITIONAL AREAS OF AGRIBUSINESS INVESTMENT

Prior to the 1959 revolution, the United States was the largest foreign investor in Cuba in terms of both number and size of investments. Other foreign investors, largely in non-agricultural enterprises, were from Canada, Mexico, Latin America and Europe.

U.S. investments in Cuba before the 1959 revolution were diversified and present in most economic areas of the country. In the agricultural sector, many of the largest U.S. corporations held investments in the sugar sector, cattle ranches, and tobacco plantations. Several small entrepreneurs were investing in production of rice, oilseeds, tomatoes, swine, poultry, and beef and dairy cattle.

Following the revolution in 1959, all foreign corporations were taken over by the revolutionary government. This included agricultural, as well as non-agricultural, corporations.

It was not until the early 1980s, more than 20 years after the overthrow of Batista, that the Cuban government took "steps to foster and encourage economic associations with foreign capital." The first step was approval of Law-Decree No. 50, "On Economic Association Between Cuban and Foreign Entities," in February 1982.

Six years later the first joint enterprise was established. A "foreign economic association" was made with Spanish investors to build and operate a hotel in the tourist center of Varadero. By the early 1990s there was increased interest in foreign investment, with a gradual extension to non-tourist investments—including agribusiness.

In July 1992, the National Assembly convened for three days to amend the 1976 constitution. Changes, in addition to abolishing references to the former Soviet bloc, included permitting joint foreign investment. On September 5, 1995, Cuba passed a new law aimed at attracting foreign capital—Law No. 77 on Foreign Investment.

Foreign investment plays a key role in Cuba's economic reforms. By turning over a limited amount of economic activity to private individuals and foreign investors, and by loosening government control over the economy, Cuba hopes to achieve increased productivity in all sectors of the economy.

CURRENT FOREIGN AGRIBUSINESS INVESTMENT

More than $5 billion in foreign investments in all sectors of Cuba's economy have been announced; however, less than $750 million have been committed, according to data reported by *El Nuevo Herald* on May 12, 1996. Over 90% of the anticipated capital is from Mexico, Canada, Australia, Spain, South Africa, Holland, Brazil, and Chile—in that order. Mexico, alone, accounts for two-fifths of the investments announced and one-third of the capital actually committed.

There are, according to Cuban officials, "international economic associations" constituted in 34 different branches and sectors of the country's economy, with capital from 55 countries. More than 200 "international economic associations" have been established in Cuba since 1988—over 90% of them since 1992. Tourism, mining, telecommunications, and basic industry are the major areas of investment.

Of the government's recorded 212 foreign "economic associations," only about 10% involve agribusiness. According to data compiled by the Cuban consulting firm Consultores Asociados of Havana, 10 agricultural economic associations with foreign capital have been registered with the Cuban Government since 1991. Registered investments in businesses related to agriculture, e.g., food processing, accounts for the estimated additional 5%.

While foreign investment in agribusinesses is relatively small, information does indicate that there is increasing interest in Cuba among international agribusiness investors.

Companies from Israel, Greece and Chile have made substantial investments in production, processing and marketing of citrus. Firms from Spain, France and the United Kingdom have significant investments in tobacco production and marketing. Investors from Honduras, Canada, Italy, and France, also, have notable investments in African palm, beer, rum, mineral water, sugarcane, vegetables and food processing. Russia and Holland also have made some investments in Cuba's agribusiness.

Citrus

One of the largest agribusiness projects is an international economic association involving an Israeli Corporation and the Cuban National Citrus Corporation (Corporación Nacional de Cítricos). The Israeli investment is made through the **BM Corporation**, which is registered in Panama. It is an international economic association contract, not a joint venture. The objective of the project is to increase productivity and improve the quality of *citrus* being produced on 38,750 hectares in Jagüey Grande—considered the largest contiguous citrus grove in the world. The project was initiated in the 1960s, ended when Cuba broke diplomatic relations with Israel, and was renewed in 1990. The Israeli investment, reportedly, is $22 million. Fruit is marketed under the brand name "Cubanita."

A second economic association of the National Citrus Corporation is with Chilean companies **POLE** and **INGELCO**. Citrus, mainly grapefruit, is being produced on 11,000 hectares on the Isla de la Juventud. In addition, there is an economic association to produce and market 30 million liters of citrus juice annually under the brand name "Tropical Island." Recent information, however, indicates that the association with **POLE** has been terminated.

A third citrus project, which is a joint venture, has been established by the National Citrus Corporation with **Lola Fruit S.A.** The company was created in May 1993 by Lomar Shipping Ltd. (U.K.) and the Lavina Shipping Corporation (Greece). Lola Fruit leases 31,000 hectares of oranges, grapefruit and limes in Ciego de Avila from the Cuban National Citrus Corporation. A juice factory, producing frozen concentrate and oil extract, controls an additional 14,000 hectares in the central area of Cuba. Again, recent information indicates that the association with **Lola Fruit** has been terminated.

Tobacco

Other economic associations involve the production, manufacture and marketing of tobacco. Pre-financing agreements were signed in 1994 with two state tobacco monopolies, **Tabacalera** of Spain and **Seita** of France. The two agreements bind a large part of Cuba's tobacco exports.

Tabacalera, reportedly, agreed to pre-finance one-half of the Cuban tobacco harvest. One source reported Tabacalera agreed to provide $25 million per year to finance inputs and market tobacco from 21,875 hectares in Pinar del Río. Another source said the agreement was worth $30 million and included the supply of 25,000 tons of fertilizer, fuel and lubricants and parts for 350 tractors. **Seita** of France is reported to be providing a $3.5 to $4 million line of credit to finance inputs and market tobacco in France. Holland's **Lipoelif** is reported to also have been a provider of credit for harvest of Cuba's tobacco crop during the 1995-96 season.

The cost for the tobacco harvest ending in May, 1996 was estimated at $50 million. Production in 1995-96 was reported at 31,818 metric tons. This level of production is expected to enable Cuba's export-oriented cigar industry to produce 70 million cigars in 1996, 10 million more than in 1995. World demand for Habanos is estimated to be 120 million units.

A third economic association involving tobacco is a joint venture between the Cuban Tobacco Union and **Souza Crus**, a Brazilian subsidiary of the British-American Tobacco Company. The joint venture factory in Havana, BrasCuba, has six production lines producing 15,000 cigarettes per minute. Plans are to expand production to five billion units per year. Cigarettes will be exported under the Brazilian brand, "Continental." The Cuban brand, "Popular," will be produced for the domestic market. An initial investment of $10 million is expected to be recovered in three years.

Sugar

The most significant new agribusiness area in Cuba to become open to foreign investment is the sugar industry. Efforts to encourage foreign investment in the sugar sector appears to be focused on financing the production and marketing of sugar—not on the acquisition of assets such as sugar mills and refineries. Eight "territorial financing programs" have been established with international sugar producers and financial institutions, according to secondary sources.

For the 1995/96 sugarcane crop an estimated $200 million was secured from European sources for the pre-financing of essential inputs such as petroleum and fertilizers. Terms of financing, reportedly, reflected the risk involved. It was estimated production of sugar would need to increase one million tons to cover the pre-financing cost. With sugar production for 1995/96 at 4.4 million metric tons, that increase would have been achieved.

For the 1996/97 sugarcane crop, the Ministry of Sugar is reportedly seeking $60 million in additional financing. Investors would, in addition to interest payments, receive 25% of the profits from increased production over the average of the previous two harvests. They also would be given the first option to sell inputs to the industry at competitive prices.

Sugar production for the 1996/97 season is forecast by the U.S. Department of Agriculture at 4.2 million metric tons. A delay in completing sugarcane plantings and the extended 1995/96 harvest are the main reasons for the lower forecast. If sugar production is lower in the 1996/97 season, it may reduce the availability of foreign financing for future sugarcane crops.

Other Areas

As a result of efforts to reduce agricultural imports and to supply the tourist hotels, Cuba has opened investments in agriculture for non-export crops such as rice and beans, as well as pork and dairy products. By mid-1995 it was reported that over 200 foreign firms had discussed these new investment opportunities with Cuban officials. Negotiations to form economic associations in production of animal feed, rice and dairy products were said to be well advanced.

A British company was reported in 1995 to have signed an agreement to fund rice production in the provinces of Pinar del Río and Sancti Spíritus. Rice production in 1995 was only 80,000 metric tons, approximately one-half of pre-revolution production levels and less than one-third of record harvests in the late 1980s. Foreign credits, according to Miguel Rodríguez, Rice Union Director in the Ministry of Agriculture, will raise 1996 rice production to 180,000 metric tons. Rodríguez said Cuba could meet domestic demand projected at 450,000 metric tons by the year 2000. (An estimated additional 100,000 metric tons of rice was sold through the new agricultural markets in 1995.)

Sherritt International, a Canadian company that mines nickel-cobalt in a joint venture at Moa (near the eastern tip of Cuba), has established a 200-acre experimental farm. The objective of the farm is to demonstrate how strawberries and green peppers can be grown for the export market and for sale to the tourist industry in Cuba. The agricultural company formed by Sherritt International is known as Sherritt Green.

Production of cotton and tomatoes is being supported by Spain, primarily the Spanish Agency for International Cooperation. The project, "Project for Development of Rural Integration," is being carried out in Pinar del Río. Among the resources, reported to be valued at some $3,976,000, will be high quality seeds, tractors, harvesting machinery, and systems for leveling land with laser beams. The project also includes a cotton gin and a tomato processing plant.

Another international economic association includes production of African palm on 20,000 hectares. **FACUSS' Foods** of Honduras, reportedly, is providing $100 million over seven years to finance inputs and manufacture soap using the palm oil.

In addition to the international economic associations involving agricultural production, there are a number of other economic associations involving processing of agricultural products. The products include processed foods, bottled water, rum and beer. Some of the mixed companies include:

- Meztler of Canada, established in 1994. The company produces instant drinks, pasta, hot chocolate, crackers, soda biscuits, etc. It manufactures in Havana.
- Confitel S.A., a joint venture with Russia. The firm produces cookies and candies.
- CONAICA, a Cuban-Spanish operation, produces caramelos of all types.
- Diego Montero is a mineral water joint venture with Spain.
- Emprea Confitera Gamby is a Cuban-Italian operation started in 1995. It produces a line of pastas for the dollar trade at tourist hotels.

POTENTIAL AREAS OF AGRIBUSINESS OPPORTUNITY

In Cuba's post-embargo period, agribusiness opportunities will depend largely on three principal factors. They are: 1) the degree of Cuba's openness to agribusiness trade and investment; 2) effective domestic demand, and 3) competition in international markets.

Openness to Trade and Investment

The first factor is perhaps the most important and least predictable of the three. Cuba's decision to open its borders to foreign investment under Law No. 77 was borne of economic necessity. It was not an enthusiastic political decision.

In the post-embargo period, policies reflecting the degree of openness to trade and investment in Cuba may be affected equally by politics and economics. It is conceivable that the government in control will not be reluctant to encourage foreign trade and investment. In fact, Cuba may earnestly invite foreign agribusiness investment in an effort to reconstruct a poorly managed sector of the economy.

Effective Domestic Demand

The second factor is effective domestic demand. It seems clearly predictable that, in a post-embargo situation, there will be pent-up demand in Cuba for the products of agribusiness.

The failure of agriculture in Cuba since 1959 is well known. Production of many food items has fallen from the 1959 production level, e.g., milk, pork, beef, poultry meat and eggs, corn, beans, rice and sugar. At the same time, Cuba's population has grown from 6.7 million in 1959 to over 11 million. Thus, there is an increase in the need for food of more than 60% merely to maintain the same food consumption level sustained 37 years ago.

For some agricultural products, output has fallen by a larger percentage than the population has increased. Corn production, for example, has fallen from the pre-revolution period by more than 60%. Thus, production of corn has not only not keep pace with population growth, it has fallen dramatically. Along with less corn for animal feed, there has been decreased production of animal proteins—beef and veal, pork, and poultry meat. These are food products that are consumed in larger quantities as incomes rise.

Also, as a result of lower agricultural production, especially sugarcane, there has been less foreign exchange earned from agricultural exports to import food products. Based on data for 1951-55, Cuba was the number one country in the world for sugar production, accounting for 15% of the world's supply. In 1993-94 Cuba ranked eighth among all countries and accounted for less than 4%.

With lower per capita production levels and less foreign exchange to import food, there is bound to be a pent-up demand in Cuba for higher quality foods and food products. The real question is not whether there will be an increase in demand for food, but will there be an increase in effective demand? Will the Cuban consumers have money to buy the products generated by foreign agribusiness investment?

Again, it seems plausible that following lifting of the embargo there will be a substantial capital inflow combined with the introduction of new technologies. Capital and technology will increase productivity. The result will be increased employment opportunities, higher wages and a significant and steady rise in personal real income. Thus, Cuban consumers will have more money to buy agricultural products, including more processed and higher value foods.

Competition

The third factor is competition. This includes competition in Cuba among agribusiness traders and investors from other countries, and in the markets abroad where Cuban products might be sold.

Agribusiness companies already established in Cuba will have an advantage over companies new to the market. It is also likely that they will increase their investments in the post-embargo period to take advantage of the expanding market. The mixed-capital companies that have had substantial experience in the Cuban market will be strong competition for new agribusiness investors.

Companies new to the market, but with proven records of efficiency and substantial capital backing, however, will have an opportunity to become competitive. The companies that can produce for both the Cuban domestic market and the export market will be especially competitive.

As I mentioned at the beginning, historically the United States has been the major investor in Cuban agriculture. U.S. corporations held major investments in Cuba's sugar, cattle and tobacco industries. While all three industries will offer significant opportunities for investment in the post-embargo period, I believe that U.S. agribusiness investments in Cuba's post-embargo period will be more diversified than in the past.

Cuba's citrus industry has become a major area of foreign investment. U.S. investors, particularly Florida firms, may be interested in exploring investment opportunities in production, marketing and processing of oranges and grapefruit. Cuban citrus is on the world market about one month before that of Florida.

In addition to the current export crops of sugar, tobacco and citrus, U.S. exporters and investors may find trade or investment opportunities in the following products:

- **Bulk agricultural**: wheat, coarse grains, rice, soybeans, pulses and cotton.
- **Intermediate agricultural**: wheat flour, vegetable oils, live animals, semen, embryos, complete feeds and supplements (protein meals, vitamins, minerals and trace minerals), and seeds.
- **Consumer-oriented agricultural**: fresh, chilled, frozen and processed meats, dairy products, poultry products, tropical fruits, potatoes, wine, beer, snack foods and other consumer-ready food products.

- **Manufactured agricultural**: fertilizers, pesticides, tractors and other agricultural machinery and equipment.

Foreign investment in these areas of opportunity, following lifting of the embargo, will be essential for rapid growth of Cuba's agriculture. Capital and technology transferred by the investments will have a major impact on agricultural productivity, which will be a key factor in Cuba achieving increased economic growth.

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