CUBAN NON-SUGARCANE AGRICULTURAL TRADE PATTERNS: HISTORICAL PERSPECTIVES AND FUTURE PROSPECTS

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HISTORICAL PERSPECTIVE[1]

Prior to 1959 the United States was clearly an important trading partner for Cuba. However, the historical trading relationship between the two countries has been far more dynamic than many people realize. For example, in the early 1930s, the United States was providing only slightly over half of Cuba's total import requirements while it was the destination for around 70 percent of Cuba's total exports. Both of these percentages increased steadily through the 1930s as Cuba's other major trade partners in Europe became increasingly embroiled in the developments and conflicts leading up to the Second World War.

Despite the shifts in trading partners which were taking place over this period, Cuba's mix of traded commodities remained fairly stable. Agricultural and food products typically represented between 25 and 30 percent of the value of Cuban imports during the 1930s and 1940s. Rice was consistently the most important single agricultural commodity imported although wheat flour, lard and vegetable oil were other significant import commodities. During the same period, agricultural products consistently represented more than 90 percent of the value of Cuban exports. Sugar clearly dominated the export mix, making up between 75 and 85 percent of total exports.

Trading relationships between Cuba and the United States were at their strongest during the years of World War II because of the limitations in seaborne transportation given the hostilities. However, shortly after World War II, developments in the world marketplace caused some changes in Cuba's trade patterns. In 1947 the original GATT (General Agreement on Tariffs and Trade) was signed. In order to become a party to this agreement, Cuba had to suspend its Special Reciprocity Treaty with the United States and was forced to fall back on its 1927 tariff structure (with its subsequent revisions). This was an antiquated tariff structure which, in many cases, applied higher import duties to raw materials than to finished products. As a result, Cuba began to import fewer raw materials and more high-value processed products and the value of Cuban imports nearly doubled between 1946 and 1948. At the same time, increased competition in the post-war U.S. market drove down the value of Cuban exports somewhat, if not the volume. As a result, in 1948, Cuba registered a merchandise trade deficit with the United States for only the second time since 1902. Nevertheless, trade ties between Cuba and the United States remained strong through most of the 1950s.

It is worth noting that Cuba's commodity composition of trade in the late 1950s had changed very little since the late 1930s. Sugar continued to represent about 80 percent of total Cuban exports, tobacco and related products around seven percent, fisheries products one percent, other agricultural products 2

1. Summary of remarks by William A. Messina, Jr.

percent, minerals four percent and non-agricultural products approximately six percent. On the import side, agricultural products continued to represent about 29 percent of the value of Cuban imports.

During the 1950s Cuba had begun to expand their list of trading partners in an effort to seek more lucrative markets. As a result, in 1958 the United States was purchasing a somewhat smaller share of Cuba's exports—approximately 65 percent. Japan, and European countries made up most of the difference, with the Sino-Soviet bloc nations purchasing only about two percent of Cuba's exports. At this point in time, the United States continued to supply about 85 percent of Cuba's agricultural imports.

The value of U.S. exports to Cuba peaked in 1957 at slightly over $600 million, while the value of U.S. imports to Cuba peaked in 1958 at more than $500 million. With the imposition of the U.S. embargo, Cuba's pattern of trade changed rapidly and dramatically. By 1961, Cuba had completely shifted its primary trading partners with the Soviet Union and China purchasing over 70 percent of Cuba's exports and supplying about 65 percent of Cuba's import requirements.

With this as background, I would like to move on to our other speakers as they help us to assess Cuba's future prospects for non-sugarcane agricultural trade.

CUBA AS A POTENTIAL MARKET FOR U.S. AGRICULTURAL PRODUCTS[2]

For many years prior to 1960, Cuba was the number 1 or number 2 export market for U.S. agricultural products in Latin America. Similarly, the United States was the number 1 market for Cuban agricultural products. However, that all changed quickly in the late 1950's and early 1960's. Since 1961, U.S. policy has inhibited trade between the two countries. But the Cuban economy cannot function efficiently without a substantial volume of agricultural imports and exports. Cuba needs exports to provide the foreign exchange required to import food and inputs it can not produce.

Fidel Castro learned quickly in the mid-1960s, that import substitution policies often do not work very well, particularly when a tropical country, such as Cuba, has become accustomed to consuming temperate zone crops it can not grow efficiently, if at all. After the U.S. severed trade relations with Cuba, the former Soviet Union (FSU) stepped in and filled the void created by the 1961 change in the official U.S. policy toward Cuba.

By 1970, the FSU had become Cuba's foreign trade mentor and was committed to supporting the Cuban economy with oil for sugar barter deals, and other economic and financial aid packages. This assistance continued until the early 1990's when Socialism crumbled in Eastern Europe, and the Soviet Union no longer could subsidize the Cuban economy. Cuba's economy, as we all know has declined dramatically since then and this is now part of Cuba's history. But the U.S. trade embargo remains in place and is a bench mark for the following remarks.

So, how large is the potential market for agricultural products in Cuba today, tomorrow, next year, or five years from now, assuming either the embargo was never enacted, or the embargo is lifted? This obviously is where the fairy tale begins, because U.S. companies are still not allowed to trade or invest in Cuba directly. Nevertheless, U.S. businesses would like to know if Cuba could once again become an important export market for U.S. agricultural and non- agricultural products as it was before 1960.

If so, how large a market would Cuba be for the United States, and what agricultural products would Cuba likely buy from the United States? The answers to these and related questions depend to a considerable degree on the methodologies and assumptions used to develop estimates.

Methodologies

One approach to answering these questions is to assume that Cuba has production capabilities and import needs similar to those of other islands in the Caribbean. With that assumption one can develop a

2. Summary of remarks by Richard N. Brown

country proxy for Cuba for studying production, consumption and trade flows for a selected group of Caribbean countries which are still trading with the United States, and proceed from there. For example, a proxy of the Dominican Republic, Jamaica and Trinidad and Tobago was prepared for this analysis, because this proxy group has about the same population and non-sugar agricultural production base as Cuba. A second methodology is based on trends and market shares of total Caribbean, Cuban and U.S. agricultural trade over the past 40 to 50 years. Access to U.S., Cuban, FAO and other international data sources are needed to apply the later methodology.

Initial Findings

Preliminary results of some recent research conducted by the University of Florida, the U.S. Department of Agriculture, and others, suggests that U.S. agricultural exports to Cuba today could easily approximate $1.0 billion annually. But this is really a fairy tale because the U.S. has not had formal trade and diplomatic relations with Cuba since 1961. On the other hand, even if the embargo were lifted tomorrow, it could easily take 5 to 10 years to build a $1.0 billion market for U.S. agricultural products in Cuba. This of course depends on many factors too numerous to elaborate at this time. But let us assume the current figure is about $1.0 billion annually, and then see how well the proxy variables support this hypothesis.

Some Questions and Comments

Different methodologies can be used to develop trade estimates, but due to space constraints, as mentioned above, only some of the results will be mentioned at this time. For example:

- At $1.0 billion annually, how would Cuba compare with other foreign markets of the United States? Cuba would be among the top 10 or 15 export markets for the U.S. today, and it probably would have been among the top 10 to 15 export markets for the past 40 years.
- How has Cuba's share of Caribbean agricultural trade changed since 1961, and what would Cuba's imports likely have been in the mid-1990s, if Cuba had been free to trade with the United States? FAO time series data show that Cuba accounted for about 40 percent of the total agricultural import trade of the Caribbean Islands (including Cuba) in the 1960s, 1970s and 1980s. However Cuba's trade has declined dramatically since 1989 when Cuba lost its Soviet assistance.
- How large was Cuba's market in the mid-1990s? Cuba's ability to import declined 50 percent or more between 1990 and 1995. But adjusted trade estimates suggests that the Caribbean Islands, with Cuba, would have imported $5 billion of agricultural products in 1995, $5.5 billion in 1996, and perhaps $6.0 billion in 1997. Cuba's 40 percent share would have totaled about $2.0, $2.2 and $2.4 billion respectively for these 3 years assuming the Soviet Union or some other benefactor was still supporting Cuba. Given the continued strong growth in non-Cuban Caribbean imports in 1996 and 1997, Cuba's 40 percent share of the total Caribbean Island market would have approached $2.5 billion per year sometime in 1998.
- How large would the U.S. share of the Cuban market be, given more normal diplomatic relations between the United States and Cuba since 1960? Even if the U.S. share of the Cuban import market dropped from highs of 60 percent or more per year in the 1950s, the U.S. would still appear to be marketing about $1.0 billion of product on a 40 to 50 percent share bases in the mid-1990s. By comparison, U.S. agricultural exports to the aforementioned three country proxy (Dominican Republic, Jamaica and Trinidad and Tobago), currently average $0.7 to $0.8 billion per year, which seems to support the conclusion.
- If Cuba were buying U.S. agricultural products today, would the product priorities be much different than in the 1950s? No, not likely, because Cuba would still need the same temperate zone grain, oilseed and livestock products it has been buying from Canada, Argentina and other countries since 1960.
- What are the primary products Cuba still needs from other countries? Cereals, animal feeds,

Table 1. Cuban Production of Selected Non-Sugarcane Agricultural Commodities, 1989 and 1993 to 1996 (in metric tons unless otherwise noted)

COMMODITY	1989	1993	1994	1995	1996
Citrus	825,655	644,446	504,491	555,353	N/A
Tobacco	41,606	19,892	17,084	25,000	33,100
Rice	563,381	226,213	226,095	222,838	122,000
Beans	14,107	8,819	10,771	11,472	15,000
Cattle (000head)	4,920	4,583	4,617	4,632	4,300
Pigs (000head)	1,292	558	587	N/A	N/A
Poultry (000birds)	27,904	14,367	13,935	N/A	N/A
Tubers & Roots	681,200	668,727	484,537	863,000	1.568,000
Potatoes	281,660	235,245	188,334	281,559	318,181
Vegetables	610,235	329,883	322,164	360,000	470,000
Tomatoes	259,955	127,757	95,876	138,590	N/A

Source: *Investment and Business Cuba, 1995-1996* and issue for 1996-1997; Consultores Associados; Ministry of Agriculture; *Granma International*; and Cuban government data.

beans, dairy and livestock products would still top the list. Cuba's list of imports however can be expected to be more diverse in the future as tourism expands and domestic demand increases. Additional insights in this regard can be obtained by observing how U.S./Caribbean trade has changed over the past 40 years.

IMPACT OF FOREIGN INVESTMENT ON NON-SUGARCANE AGRICULTURAL TRADE[3]

Production of important Cuban (non-sugar) agricultural export commodities and products dropped significantly beginning in 1989 following the loss of preferential markets in the Soviet Union and Eastern Bloc countries (Table 1). In particular, production of both citrus and tobacco declined by about one-third from 1989 to mid-1990.

Because of the lack of production inputs, such as fertilizers and farm chemicals, output of commodities for the domestic market also dropped. Production of rice, beans and livestock and poultry products also fell substantially. Even production of vegetables, especially tomatoes, plunged to about half the level of the late 1980s. Only tubers and roots appeared to maintain their approximate production level.

Although some foreign investment had taken place earlier, it was not until 1993 that major foreign investment promotion in non-cane agriculture got underway. That year the principal government agencies in food and non-sugarcane agriculture, the Ministry of Agriculture and the Ministry of Food Industry, became aggressive in efforts to attract foreign investments in their respective areas.

Of the reported 260 economic associations signed by the end of 1996, less than 5 percent are agricultural projects. About the same number of economic associations have been formed in food processing (Table 2). During the past two years, information available indicates five new association agreements in food and agriculture have been entered into each year. Most of the economic associations in agriculture are pre-financing arrangements. Very few are joint ventures and none are enterprises formed entirely with foreign capital.

3. Summary of remarks by James E. Ross. For additional detail on the topic of foreign investment in Cuba's agricultural sector, see "Cuba: Overview of Foreign Agribusiness Investment," by James E. Ross and María Antonia Fernández Mayo, Department of Food and Resource Economics, International Working Paper Number IW97-10 (1997).

Table 2. Foreign Investment in Food and Agricultural Products in Cuba, by Number of International Economic Associations, 1991 to 1996

Investment	1991	1992	1993	1994	1995	1996	Total
Citrus	1[a]	1					2
Tobacco			1	1		1	3
AfricanPalm					1		1
Sunflowers						1	1
Rice					1		1
Fruit & Vegetables					1		1
Tomatoes & Cotton						1	1
Processed Foods			1	2	2	1	6
Beer, Rum & Mineral Water			1	1		1	3
TOTAL	1	1	3	4	5	5	19

a. International Economic Associations which have been terminated.

Early Cuban government efforts to attract foreign capital in agriculture focussed on citrus production and marketing. That was for a very good reason—of the exportable non-cane agricultural products, citrus fruit was the most affected by the loss of markets in Eastern Europe.

The first foreign investment arrangement was with the BM Corporation of Israel. In 1990 the BM Corporation entered into an international economic association with Cuba's Unión de Cítricos, which later became part of the National Citrus Corporation (NCC). The economic association was actually an agreement to renew and expand cooperative efforts which had begun in the 1960s but was ended when Cuba broke diplomatic relations with Israel. BM, through an economic association with NCC, agreed to manage a 38,750-hectare (96,000 acres) citrus plantation in Jagüey Grande, Matanzas province. The objective of the association was to increase productivity, improve the quality of the fruit, and find new markets for the citrus and citrus products.

In 1992 Ingelco S.A., a Chilean firm, entered into an economic association with NCC to produce 30 million liters of citrus juice annually at a processing plant in Jagüey Grande. Currently, citrus juice produced through this economic association is being sold under the brand name "Tropical Island."

In 1991 NCC entered into an economic association with a Chilean-owned firm, POLE S.A., to produce and export citrus. The operation involved 11,000 hectares (27,181 acres) of grapefruit on the Isle of Youth. Reportedly, the economic association agreement between POLE and NCC has been terminated.

In 1993 Lola Fruit S.A., a true joint venture involving firms in Greece and the United Kingdom in partnership with NCC, leased nine citrus plantations from NCC covering 31,000 hectares (76,601 acres). The objective was production and marketing internationally of oranges, grapefruit and limes. Reportedly, the joint venture arrangement was terminated in 1996.

Partly because of lower output but also as a result of the lack of markets, Cuba's fresh citrus export volume has fallen from the 1990 export level of 456,697 tons. Exports in 1991, 1992 and 1993 were: 107,300, 45,011, and 98,230 metric tons, respectively. Oranges accounted for more than half of all of the country's citrus exports during the decade before termination of Soviet aid and the loss of preferential markets in Eastern Europe. Grapefruit made up about 40 percent of the citrus exports and limes the remainder over that period. During the early 1990s, the ratio reversed. Fresh grapefruit exports have become larger than fresh orange exports, accounting for more than half to three-fourths of the value of all citrus trade. Trade data are not available for citrus concentrate, which might indicate an increase in exports of processed citrus products as a result of foreign investment.

From 1961 through 1990 Cuba's citrus exports were destined almost exclusively to the former USSR and former socialist countries of Eastern Europe. From 1981 to 1990 alone, the volume of citrus exports to these countries nearly doubled. Shipments were made at preferential prices and without the market demands of a competitive system. Therefore, little attention was given to quality, timeliness of delivery, economic efficiency and other factors important in a competitive market. Following the loss of preferential markets for Cuba's fresh citrus, exports shifted from Eastern Europe to Western Europe. The Netherlands became the dominant market for Cuba's fresh citrus during the 1990s. The United Kingdom, France and Germany have been other important markets.

With the loss of markets in Eastern Europe, according to data compiled by the U.S. Central Intelligence Agency, export earnings from citrus fell from $150 million in 1990 to $35 million in 1995—less than one-fourth of the level five years earlier. FAO data, however, show exports at $48 million rather than $35 million in 1995. Still a significant reduction from the late 1980s; and, whichever data are closer to actual export value, the loss of foreign exchange earnings is substantial. Some of the loss from fresh citrus exports may be offset by exports of processed citrus. Data, however, are not available to substantiate this possibility.

While the loss of markets in Eastern Europe made it necessary to think of foreign investment as a means of obtaining new markets for citrus, it was also true for tobacco products. The worldwide reputation of Cuban tobacco products and a knowledgeable consumer market have supported Cuba's efforts to attract foreign capital to this commodity sub-sector. Currently, the tobacco industry has drawn major resources from Spain, France, and the United Kingdom.

Cuba signed international economic association agreements in 1993 and 1994 with two state tobacco monopolies, Tabacalera of Spain and Seita of France. The two pre-financing agreements bound a large part of Cuba's tobacco exports. In 1996 Cuba signed a third economic association agreement involving tobacco; the Cuban Tobacco Union entered into a joint venture with Souza Cruz, a Brazilian subsidiary of the British-American Tobacco Company (BAT). Plans call for the production of five billion cigarettes per year at the joint venture factory, BrasCuba.

Tobacco as a percentage of total agricultural exports averaged 2.2 percent for the five years 1986 through 1990. For the next five years, 1991 through 1995, tobacco exports averaged 7.4 percent of total agricultural exports. The percentage has climbed steadily, reaching 9.4 percent in 1995. The value of tobacco exports, however, fell from $135 million in 1990 to $75 million in 1994 and 1995. The reduced value of exports was accounted for by both unmanufactured tobacco and tobacco products.

Spain, France, Switzerland, and the United Kingdom have been the major export destinations for Cuban tobacco during the past decade. Spain, alone, has accounted for more than 50 percent of Cuba's export market for tobacco. Except for Switzerland, the major market countries are also the countries entering into economic association agreements with Cuba. Cuban tobacco is well-known in foreign markets for its quality and aroma. With the world-wide trend toward cigar smoking, prospects are favorable for a viable and growing Cuban tobacco export market.

Cuban efforts to attract foreign investment in commodities for the domestic market have met with limited success. Cuba has, however, signed economic association agreements to produce African palm, sunflowers, rice, cotton, strawberries and vegetables, such as green peppers and tomatoes. Earlier this year, an economic association was formed to produce dairy products.

The Vice-Minister of Agriculture has said that Cuba wants to find new markets for timber, root crops, fruit, and cattle, and is ready to negotiate. In addition, the Ministry of Agriculture has announced that it is seeking financing or forms of economic association in accordance with Law No. 77 for the production of beans, bananas and pork.

In the interview with *Business Tips on Cuba* in August 1996, the Vice-Minister of Agriculture said that Cuba is more than satisfied under present conditions with the export levels of citrus and tobacco. Export data for fresh citrus and tobacco, however, do not support a reason for satisfaction. Citrus exports in 1995 were one-third the value of those in 1990. Tobacco exports in 1995 were about half of the value of tobacco exports in 1990. In addition to data on trade, citrus and tobacco production data show output levels substantially below those of the 1980s.

It can only be assumed that this satisfaction was based on the importance of citrus and tobacco trade relative to exports of other agricultural commodities. Data indicate that the value of citrus exports, as a percent of total agricultural export value, increased significantly from the 1990 level. In 1990 citrus exports accounted for 3.1% of total agricultural exports. Since 1990 there has been an upward trend and in 1995 citrus exports accounted for 6.0 percent, nearly double the significance of five years earlier.

Even more revealing is the change in importance of exports of tobacco products. In 1990 tobacco as a percent of the total value of agricultural exports was only 2.8 percent. By 1995 the relative value of tobacco exports had increased more than three times—to 9.4 percent of the total.

Some of the increase in these percentages can be accounted for by the substantial reduction in sugar exports and the corresponding drop in total agricultural exports. It appears, however, that foreign investment in non-sugarcane agriculture, particularly citrus and tobacco, has prevented Cuba's agricultural exports from falling even more than they might have without foreign investment.

Based on the information I have presented, my conclusions are:

- Data do not indicate that foreign investment has had heavy impact on the export of non- sugarcane agricultural commodities from Cuba.
- Data do indicate that foreign investment in citrus and tobacco has helped to increase the relative significance of these commodities in Cuba's total agricultural trade.
- Information does indicate that foreign investment in non-sugarcane agriculture, particularly citrus and tobacco, probably prevented the value of Cuba's agricultural exports from falling even more than it otherwise would have.

OTHER ISSUES AND FINAL COMMENTS[4]

The final formal presentation of this roundtable intends to make several summary observations on the future prospects for Cuba's non-sugar agricultural trade, with emphasis on citrus, other fruits, and vegetables. The bulk of this presentation follows the current realities as described in the previous discussions; that is, Cuba is in desperate need of investment capital in its agricultural sector and most of the little that has been invested by foreign firms so far falls under the Helms-Burton legislation.

Although sugar is not part of the topic, one needs to make a couple of brief comparisons with the non-sugar commodity sectors to set the discussion in the proper context of the Cuban agricultural economy. First, although the sugar sector needs heavy capital investment, such investment is not a significant element in most of the non-sugar commodity sectors. Examples include citrus and other fruits, and vegetables. The important elements in the latter groups are not in expensive industrial machinery and equipment as in the case of sugar, but in production inputs and, especially, in post-harvest technology and marketing expertise. Second, while almost all of the sugarcane land and mills represent expropriated properties with pending claims, the percentage of fruits and vegetable land and industrial facilities in this situation is far lower than in the sugar case. The importance of this issue is the potential for litigation under the

4. Summary of remarks by José Alvarez.

Helms-Burton legislation, with its obvious implications on foreign investment and thus future production and trade.

Let us move now to four observations we want to make concerning the potential for future changes in Cuba's agricultural exports. The first observation is that Cuba has a tremendous potential for increasing production of fruits and vegetables. After devoting the initial increases in production to supply the expanding tourist market, most of the best quality production would be devoted to the export market, and any remaining balance would be sold in the domestic market.

The second observation relates to current production. In recent months, increasing evidence suggests that agricultural production during 1996 is actually decreasing. Supplies at the new agricultural markets have decreased during 1996 and 1997. Recent statistics released by the Cuban government show that sales by the state sector in the agricultural markets during 1995 amounted to 11.5 percent of the total, while the corresponding figure for the first semester of 1996 was 24.7 percent. Private farmers' participation decreased from 83.4 percent to 71.5 percent, while UBPCs and CPAs together went from 5.1 percent to 3.8 percent during the same time period. The situation evidently has worsened during the last year and the state sector is trying to maintain an adequate level of supply at these markets. Although the reasons for this phenomenon are many and beyond the scope of this roundtable, the result may have translated into a decrease of agricultural exports for 1996-97, for which we have not found official statistics.

The third observation relates to the historical regulations of the U.S. Department of Agriculture concerning certification of agricultural products for import into the United States. The procedure includes validation of field research in the exporting country for each product, and many other bureaucratic steps that may take several years to complete. Therefore, even if the U.S. economic embargo is lifted tomorrow, it could easily be from three to five years before Cuba can export nearly any agricultural commodity to the United States—and perhaps longer. Under this scenario there would not be any immediate substantial changes in the direction of trade flows from Cuba from those delineated by my colleagues in their presentations. At this point, we must emphasize that the historical trade patters before 1959 illustrate commercial relations between the United States and Cuba and should not be taken as predictors of future events. Many changes have occurred in the U.S. since that time. A few examples include changes in market structures, the increasing importance of Mexico as a U.S. supplier, the recent North American Free Trade Agreement (NAFTA), and others.

The final observation relates to an announcement made last July 24. With the approval of the U.S. administration, ITT entered into an agreement with the Italian communications firm Stet International to receive $25 million for the use of ITT-claimed property in Cuba for the next 10 years. The transaction, according to State Department officials and even Senator Helms, is a victory for the Helms-Burton legislation.

Without debating the meaning of the words "victory" or "defeat," we believe that, if such an arrangement is copied by U.S. agribusiness firms, it could lead to substantial increases in Cuba's agricultural production and exports. Under that scenario, the impact of foreign investment on both sugar and non-sugar agricultural trade would be many times more important than the one discussed in this roundtable today.