COMMENTS ON

"The Cuban Cigar Industry as the Transition Approaches" by Joseph M. Perry, Louis A. Woods, Stephen L. Shapiro and Jeffrey W. Steagall

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This is a well structured and written paper. The topic could not be more important this year since tobacco is now among Cuba's top four earners of foreign exchange. The paper starts by discussing the international cigar market, followed by a section on tobacco and cigars in Cuba, then the quantification of the U.S. cigar boom. The paper ends with two sections on cigars and the Cuban economy today, and its near term prospects, which includes different pre- and post-transition scenarios.

The paper, however, does not include what is happening in Cuba's agricultural tobacco sector. The title would not require this inclusion, but the current trends in Cuba's cigar exports that the paper quantifies originate at the farm level. These comments are intended to fill that gap.

The agricultural tobacco sector is showing signs of recovery. To this discussant, three reforms are responsible for the improvement:

Land distribution to families: This program started after Resolution 357 of 1993 established the distribution, in usufruct, of idle lands to families with experience in growing several crops, including tobacco ("Crece," 1995). From September 1993 to December 1996, 27,700 hectares were turned over to about 13,000 tobacco farmers. According to the Ministry of Agriculture, only 3% of this land has had to be reclaimed on account of contract shortfalls ("More land," 1997). An interesting and important point is the fact that *campesinos* (small farmers) are responsible for 92% of the country's tobacco production (Paneque Brizuelas, 1997). The latter figure must reflect the agricultural reorganization that came about after the break-up of the state monopoly on land in September 1993.

Foreign currency incentives system: This system covers the entire productive chain: from seed production to exports. When a worker has fulfilled the production norms, s(he) receives a certificate that can be used to purchase goods in the so-called dollar stores ("Estímulo," 1995). This type of foreign exchange (convertible currency) incentive reaches around 5% of workers' wages (Mondelo, 1995). In 1996, about 60,000 tobacco workers received this form of incentive (Tobacco, 1997). The payment of foreign currency incentives is strictly enforced and seems to be working. For example, in order to increase yields, the number of new plants actually planted are counted; if a farmer does not reach the specified number in the contract, s(he) does not receive the portion of the incentive payment corresponding to that phase of production (Pagés, 1996).

Foreign financing: Starting in 1994, and mentioned by Perry et al. in their paper, the Spanish tobacco firm Tabacalera, S.A. signed an agreement with Cuba aimed at financing the necessary inputs for tobacco production in the farms at Vuelta Abajo, on the western part of the island. In return, Cuban producers must guarantee certain levels of cigar production for the Spanish market (Mondelo, 1995). The $25 million financing was mainly arranged by Pedro Pérez, president of Tabacalera, for which he received the title of "Cigar Man of the Year" in Havana (Oramas, 1995). In addition to Tabacalera, S.A., other entities involved in similar deals include the French monopoly Seita, and other exclusive cigar distributors (Opup, 1995).

As mentioned by Perry et al., the Cuban cigar industry has shown some recovery in the last few years, but not to the previous peak level. In that regard, the authors make an interesting point: expansion is possible up to some limiting level, where natural resources in Cuba and conditions in the market place dictate a ceiling. This statement challenged the discussant's curiosity, who found the necessary base figures for the analysis in an article by Pagés (1996).

Cuba's maximum land potential for tobacco production appears to be 5,000 caballerías (70,000 ha), which was reached in seven campaigns (two before and five after the 1959 revolution), according to a study covering 61 years. The same study concluded that the maximum average yield potential for the country of 30,000 lb/cab (1mt/ha) was never achieved during the study period, although some individual producers may have surpassed that figure (Pagés, 1996). Thus, total potential production of the country is about 70,000 metric tons per season. Cuban tobacco exports in 1989 were approximately 14,520 mt,[1] or about 21% of the maximum potential production. As Perry et al. recognize, that was before the current cigar boom, at a time when tobacco exports were not a high priority of the Cuban government. In contrast with the current situation, it was also the era of a heavily subsidized Cuban economy.

The modest advances that the Cuban tobacco industry has made in recent years, when compared with 1989, have been primarily the result of the three reforms taking place in its agricultural sector. The tobacco sector, as opposed to a stagnant and even declining sugar sector, appears to be moving forward. After producing 100 million cigars in 1997, the goal for 1998 was set at 160 million, 175 million for 1999, and 200 million for the year 2000. These figures, however, do not obtain the high foreign exchange earnings that the Cuban leadership is attributing to them. For example, it has been reported that the 160 million cigars expected to be produced by Cuba in 1998 would represent between $170 and $180 million[2] (*El Nuevo Herald*, June 18, 1998, p. 8A). Furthermore, the 21% of potential capacity achieved in 1989 resulted in exports of about $85.2 million; at 1989 prices, total capacity utilization would have resulted in exports of $405 million. That figure is about half of the $800 million per year that CEPAL has recently reported as the value of remittances to Cuba. An additional difference is that the latter are net while the former are gross figures. Thus, even at today's prices, total potential foreign exchange earnings from the exports of tobacco products would not be as high as many people would like to believe.

For those thinking about a booming future U.S.-Cuba cigar trade, data in Perry et al. show U.S. imports of 176 and 294 million cigars in 1995 and 1996, respectively. It is going to be very hard for Cuba to capture a substantial share of the U.S. market. Perhaps anticipating that situation, The Pacific Cigar Company Ltd., based in Hong Kong, has been given the responsibility by the Cuban government of marketing Cuban cigars in Asia and the Pacific. There are great expectations for selling Cuban cigars to almost half of the world's population in a growing market (Campos, 1995). The world market appears to be a realistic potential market to expand Cuba's foreign exchange earnings from tobacco exports.

1. Calculated on the basis of data in CEE (1989, p. 267) for 1989.

2. Based on a price per cigar between $1.06 and $1.12. A simple computation made with the data for 1989 in CEE (1989, p. 267) yields an average export price of $0.74 per cigar.

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