AGRICULTURE IN THE U.S. INTERNATIONAL TRADE COMMISSION REPORT

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I appreciate the opportunity to offer my observations on this important contribution to the body of research on the Cuban economy and U.S.-Cuban economic relations. Because of my work in the field of agricultural economics, I feel best able to comment on the portions of this report dealing with agriculture. For that reason, while I will make general comments on the report, most of my specific points will be related to the agricultural chapter, with the thought that these observations will extend to the broader report as well. I should add here that the issue of the impacts of U.S. sanctions is especially important to U.S. and Cuban agriculture as agricultural trade represented over 55 percent of total U.S.-Cuban trade in 1958.

I would like to start by pointing out what a Herculean task the analysts and economists at the U.S. International Trade Commission (ITC) were facing in the preparation of this report. Their charge from the U.S. House of Representatives was to "provide:

- an overview of U.S. sanctions with respect to Cuba;
- a description of the Cuban economy, Cuban trade and investment policies, and trade and investment trends;
- an analysis of the historical impact of U.S. sanctions on both the U.S. and Cuban economies, especially on affected sectors and, to the extent possible, on U.S. exports, imports, employment, consumers and investment; and
- an evaluation of the current impact of U.S. sanctions on U.S.-Cuban bilateral trade, investment, employment, and consumers, with particular attention to the effects on U.S. services, U.S. agriculture, and other sectors for which the impact is likely to be significant" (USITC report, page xiii).

I know that the talented and capable economists in the ITC's agricultural section have a great deal of knowledge and expertise on agricultural commodity markets and analysis. However, the group had, at best, a limited level of knowledge and expertise on Cuba. With that in mind, I think that the ITC staff did an outstanding job of pulling together data and information on Cuba's economy and soliciting input from a wide range of sources, including companies, organizations and analysts here in the United States as well as in Cuba, and in synthesizing this large body of information. The resulting report is very impressive in its scope and comprehensiveness for agriculture. The same appears to hold true for the chapters that I have read for other sectors, to the extent that my admittedly limited knowledge of these sectors allows me to comment.

I believe that the report does a solid job of addressing study objectives one and two: the overview of sanctions and the description of the Cuban economy and trade and investment policies and trends. The agriculture chapter is especially thorough in terms of the commodity coverage and level of detail in its descriptive portions.

In terms of addressing study objective number four, the report concludes that U.S. trade with Cuba, in the absence of sanctions, would be between $727 million and $1.1 billion dollars. That would seem to be a reasonable estimate of the immediate short-term trade potential if U.S. sanctions were to be lifted today, given the current state of the Cuban economy. This estimated range is based upon the United States' acquiring shares of Cuban trade of between 17 and 27 percent for Cuban imports and between 7 and 15 percent for Cuban exports. The share estimates "reflect a synthesis of several sources of information, including … the gravity model estimates" (page F-5). Despite the fact that gravity models are known more for their explanatory power than for their predictive capabilities, I think that the gravity modeling methodology is very appropriate for this analysis. In fact, as an interesting aside, an economist in Cuba whom I know and whose work I respect, sent me an email after having read the ITC report in which he stated "in the end, [gravity modeling] is the only way to make such estimates, nothing else." While I do not necessarily agree that it is the only approach that can be used, I am very comfortable with the use of gravity modeling in this application.

I do, however, have difficulty with several aspects of the manner in which the report addresses study objective three, "the analysis of the historical impact of U.S. sanctions on both the U.S. and Cuban economies." The fundamental problem, I believe, has to do with some of the underlying assumptions used in addressing this objective.

First, I think there are problems with use of a base year of 1960. Yes, it was in October of 1960 that the U.S. embargo of Cuba was imposed. However, consider that the United States conducted over $1 billion in trade with Cuba in 1958, and by 1960, U.S.-Cuban trade had fallen to $564 million, a decrease of nearly 50 percent.

From the earliest days of the revolution, Fidel Castro gave numerous indications that he intended to try to strengthen trade and political ties with the Soviet Union and COMECON nations. The expropriation of U.S. assets alone shows a wanton disregard for business relationships with the United States on the part of the Castro government. Thus, it is clear that, even if U.S. sanctions had not been put in place, U.S.-Cuban trade likely would not have recovered to 1958 levels and it very possibly could have fallen lower than the 1960 level. Still, in my view, the U.S. economic sanctions did not shut down a $564 million dollar export market for the United States; rather, it closed the door on an export market with proven potential of over $1 billion.

Please understand that I am not raising the question of whether or not the United States should have imposed economic sanctions. I am simply arguing that, to my way of thinking, failure to acknowledge the importance of pre-1960 U.S.-Cuba trade levels limits the ability of the ITC study to provide an accurate estimate of the true and full historical impact of the U.S. sanctions of Cuba.

Second, I also am troubled by the fact that, in numerous places in the agricultural chapter of the ITC report, statements are made about how the historical impacts of the embargo on the individual commodity sub-sectors were small "because U.S. exporters found alternative markets relatively quickly and easily" (page 5-3) and "Cuba found alternate suppliers" (page 5-6). Such an approach clearly underestimates the importance of lost sales opportunities in my opinion. I wouldn't have a problem with this line of thought if I could be convinced that we were talking about perfectly substitutable commodities and a case of pure trade diversion where overall world trade volumes did not change, but trade flows between countries simply shifted. However, I do not believe that this accurately describes the situation. Let us not forget that the rationale for using gravity models is to attempt to account for the role of geographic proximity (along with size of the economies) in influencing trade flows. There is hardly an example anywhere in the world where the "distance between the capitals or other major cities of the two countries" (report page F-3, footnote 2) is less than between Havana and Miami. (Although it should be noted that, for reasons not at all clear to me, the ITC chose to use New York as the U.S. port in the gravity model even though Havana and Miami were such important hubs for U.S.-Cuban trade.)

Third, a final point that should be mentioned is that, in its effort to estimate historical impacts, the ITC study appears to assume that Cuba's economy and its overall trade patterns would have developed in the same way and at the same rate with or without U.S. economic sanctions in place. I suspect that few of us in this room feel that this is a totally valid assumption. In fact, part of me wants to argue that the ITC should have engaged in a creative exercise of describing a range of economic and trade growth scenarios for Cuba in the absence of 40 years of U.S. sanctions to generate a range of estimated historical impacts of the sanctions. However, in reality, I recognize that this would be so subjective and speculative as to be impractical. Given the constraints, I understand the rationale for this assumption. Furthermore, because of the role of Soviet trade preferences and subsidies, I can accept this assumption as providing a reasonable proxy for economic and trade growth for Cuba in the absence of U.S. economic sanctions.

This assumption also provides for a simple approach to the analysis of the historical impact of sanctions—an approach that the ITC does not utilize, however. Under this assumption, one can estimate projected levels of participation of U.S. exports in the Cuban market and Cuban exports in the U.S. market (i.e., estimates of percentage market shares) for each agricultural commodity examined in the study. Multiplying these estimated participation levels or market shares by Cuba's actual trade volumes for the commodities for the years 1960 through 1999 would provide a very straightforward estimate of post revolutionary, non-sanction trade between the United States and Cuba. Totaling these estimates of "lost sales" would be one way of measuring the historical impact of sanctions. The estimates would, however, underestimate the lost sales because of one important consideration—had the United States been involved in trade with Cuba in the years leading up to the collapse of the Soviet Union, it is unlikely that the Cuban economy would have undergone contractions of GDP and trade of the same magnitude as it experienced following the loss of trade preferences with the Soviet Union. Generally, I was disappointed that the agricultural chapter did not more rigorously address what I think is the most important and intriguing of the study objectives, estimating the historical economic impact on U.S. and Cuban agriculture of 40 years worth of U.S. sanctions.

In conclusion, allow me, once again, to offer my sincere congratulations to Jonathan Coleman and all of the involved staff at the U.S. International Trade Commission for their outstanding efforts on this study. They produced a fundamentally sound report on an immensely complex problem and have offered very useful insights into to the economic impact of U.S. sanctions with respect to Cuba.