INTERNATIONAL ECONOMIC ASSOCIATIONS IN CUBA'S AGRICULTURAL SECTOR

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Prior to the Castro Administration takeover in 1959, foreign investment in agriculture was a major factor in Cuba's economy. In the sugar sector, which was the keystone of the economy, approximately 40 percent of the production resulted from U.S. investment capital. In addition, there were investments by U.S. and other foreign investors in the production of tobacco, rice, oilseeds, tomatoes, swine, poultry, beef, and dairy products.[1]

From 1959 until the late 1980s, there was no foreign direct investment in any sector of Cuba's economy. Foreign credits and favorable trade arrangements supported the economy and eliminated any perceived need for foreign investment. Cuba for nearly 30 years did not promote foreign direct investment, even though in 1982 the Castro Administration adopted Decree-Law No. 50 as the document to regulate international investments.

Lack of a favorable attitude toward foreign direct investment by the Cuban government, along with a need to establish additional benefits for investors, limited the effectiveness of Decree-Law No. 50. In the early 1990s, however, Cuba's attitude toward foreign investment changed significantly. The loss of Soviet Bloc assistance, amounting to around $5 billion annually, forced the Cuban government to encourage foreign investment.

In 1991, some 9 years after passage of Decree-Law No. 50, Cuba had its first foreign investment in agriculture. By the end of 1995, largely as a result of the change in attitude toward foreign investment, Cuba had registered 151 international economic associations that were incorporated and functioning.[2] In addition, 155 projects were in the process of negotiation.[3] Ten international economic associations had been established under Decree-Law No. 50 by the time Foreign Investment Law No. 77 was enacted in 1995.

During the next five years, under the new Foreign Investment Law No. 77, the number of international economic associations in agriculture doubled to 20. In total, another 180 associations had been formed. While the new law was promoted by the Cuban government to offer greater benefits for investors and open different sectors of the economy to associations with foreign capital, the principal factor in increasing foreign investment during that period appears to have been the Cuban government's attitude toward foreign investment

By the end of 2000, there were 392 functioning international economic associations with foreign capi-

1. Fernández Mayo, María Antonia and James E. Ross. *Cuba: Foreign Agribusiness Financing and Investment.* IW 98-7, Institute of Food and Agricultural Sciences, University of Florida. July 1998.

2. Consultores Asociados. *Inversiones y Negocios 1998-2000, p. 42.*

3. Banco Nacional de Cuba. *Economic Report 1995.*

tal that were active or in the process of being created.[4] Fifty-nine of these associations were established in other countries. Cuba's participation in joint ventures in foreign countries is basically the transfer of technology, especially in pharmaceutical manufacturing, the construction industry, and cattle raising in countries such as China, Venezuela, Mexico and Vietnam.[5]

Under Foreign Investment Law No. 77, there are three categories of international economic associations. One category is a Mixed Enterprise (joint venture), another is an International Economic Association Contract, and a third is a Totally Foreign Owned Company (100% foreign capital). All foreign investment in agriculture is either a Mixed Enterprise or an International Economic Association Contract, both usually providing foreign financing for importation of production inputs.

Overall, Spain, Canada, Italy, France, the United Kingdom, Mexico and Venezuela are the nations with the largest numbers of investments in Cuba.[6] At the end of 2001, Cuban officials anticipate foreign capital invested will total more than $5 billion.[7]

CITRUS

Citrus was the first agricultural commodity group to be affected by Cuba's policy shift to encourage foreign investment. It was an agreement involving an Israeli corporation, the BM Group registered in Panama, and Cuba's National Citrus Corporation (Corporación Nacional de Cítricos).

The Israeli investment, officially recognized in 1991, provides for foreign capital and technical expertise in the production and processing of citrus in the Jagüey Grande area, some 140 kilometers east of Havana. It was established as an international economic association contract for, reportedly, $22 million. The contract is renewable every five years.[8]

The objective of the project is to increase productivity and improve the quality of citrus being produced on 38,750 hectares, considered at the time to be the largest contiguous citrus grove in the world. More recent reports place the area receiving financing and preference for delivery of basic inputs for grove care at about 20,000 hectares. The packinghouse and processing plants also receive financing and inputs under the contract.

Fresh fruit and processed products are received by the BM Group on consignment and then marketed, under the brand name "Cubanita," primarily in Europe. There are no intermediaries between the BM Group and the agricultural and processing enterprises in the movement of fruit, processed products and inputs.[9]

More recently, the BM Group entered into a second international economic association contract for financing, production expertise and marketing of grapefruit on the Isle of Youth (Isla de la Juventud). In 1991, the National Citrus Corporation had formed an international economic association with the Chilean based Pole Group for production of citrus on the Isle of Youth. Production, mainly grapefruit, covered 11,000 hectares on the island until the agreement was terminated in 1996.

From 1996 until the BM Group entered into an agreement to provide services similar to those they were providing in Jagüey Grande, the National Citrus Corporation had relied on the Working Youth Army (EJT) to operate the citrus groves on the Isle of Youth. In 2000 the arrangement with the EJT was terminated.

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4. *Business Tips on Cuba*. Vol. 8/No. 6. June 2001, p. 21.

5. *Business Tips on Cuba*. Vol. 7/No. 4. April 2000, p. 6.

6. Consultores Asociados, S.A. *Cuba: Inversiones y Negocios 1998-2000*, p. 43.

7. *Business Tips on Cuba*. Vol. 8/No. 4. April 2001, p. 6.

8. Ross, James E. and María Antonia Fernández Mayo. *Cuba: Overview of Foreign Agribusiness Investment*. IW97-10. Institute of Food and Agricultural Sciences. University of Florida. September 1997.

9. Spreen, Thomas H., Armando Nova González, and Ronald P. Muraro. *The Citrus Industries in Cuba and Florida*. IW 96-2, Institute of Food and Agricultural Sciences, University of Florida.

Another international economic association in citrus that has been terminated was the joint venture known as Lola Fruit. It was terminated in the mid-1990s. The joint venture was formed in May 1993 between the National Citrus Corporation and Lola Fruit S.A., a company involving Lomar Shipping Ltd. (U.K.) and the Lavina Shipping Corporation (Greece). The project involved 31,000 hectares of oranges, grapefruit and limes in Ciego de Avila.

Currently, there are five active international economic associations in the citrus area:

- The BM Group has two production and processing investments, one in Jagüey Grande and the other on the Isle of Youth.
- The Chilean-based I.N.G. Corporation has an international economic association contract to operate a juice packing facility at Jagüey Grande. I.N.G. provides credit for basic inputs, spare parts and equipment for grove care, packinghouses and processing plants. Juice is marketed under the brand name Tropical Island.
- Palmara, an Italian firm, has an international economic association contract to operate a processing plant in the province of Pinar del Rio.[10] Built at a cost of over $8 million, the plant will produce essential oils and juice concentrate. A second phase could prepare the plant to process tomatoes and other fresh vegetables. The Cuban-Italian joint venture is the fourth international economic association in citrus and the country's fifth processing plant.
- The fifth international economic association, a joint venture, was approved by the Cuban government in May 2000. The mixed enterprise, Citrus International Corporation S.A., was formed between Cítricos Caribe S.A. de Cuba and Olex S.A. de Luxembourg for the production and marketing of citrus juice in the international market.[11]

SUGAR

Within the Ministry of Sugar (MINAZ), there are eight economic associations with foreign capital. Foreign partners include companies from Spain, France, Canada, Italy and Mexico. MINAZ, reportedly, is working to develop associations in all spheres of the sugar industry in need of capital, especially in the area of byproducts.[12] Examples cited include alcohol, molasses, bagasse boards and generation of electricity obtained from sugarcane bagasse. Cuba, in 2000, had 12 distilleries and 6 board factories.

According to the Director of Business Relations for MINAZ, Cuba would welcome proposals for investments, associations, joint ventures or other types of negotiation that can accelerate development of the sugar-agro industry.

The sugar sector was one of the last agricultural commodity areas to be opened to arrangements for international economic associations. It was not until 1994, following unfavorable production of 4.3 million metric tons of sugar in 1993, that the Cuban government actively began to seek foreign capital for the sugar industry. Efforts to encourage foreign participation in the sugar industry focused on financing production and marketing of sugarcane derivatives. Initially, financing plans (*esquemas de financiamiento*) were directed at sugar production at the provincial level.

Financing arrangements were granted annually, although it was Cuban policy to negotiate five-year agreements. Payments to the lenders were made in sugar to cover the principal, interest and a portion of the profit. Conditions were based on increases in production above the average production level and upon fluctuations of sugar prices in the world market.

10. Nova González, Armando, Thomas Spreen and Carlos Jauregui. *The Citrus Industry in Cuba 1994-1999.* IW 01-4, Institute of Food and Agricultural Sciences, University of Florida.

11. Information obtained from the Ministry of Agriculture in Havana, June 2000.

12. *Business Tips on Cuba*. Vol. 7/No.4. April 2000, p. 6.

Cuba's policy has not been to seek direct foreign investment in the acquisition of assets, such as sugar mills and refineries. In 1997, however, Cuba announced a joint venture to produce alcohol from sugar molasses. The distillery is located at the Antonio Sánchez sugar mill in the province of Cienfuegos. Cubalcohol and two Spanish companies formed the joint venture, AFLIC S.A., with an estimated value of $65 million. The highly purified alcohol is to be used for the biotechnological, pharmaceutical, and perfume industries. Start-up of the distillery in 2000 was expected to make available 900 hectoliters daily of "extrafine" alcohol. The Spanish partners were to guarantee a market for 93% of the production, while the Cuban market would assimilate 15,000 hectoliters per year.[13]

TOBACCO

Tobacco became the second commodity group, after citrus, to attract foreign capital under Cuba's efforts to encourage foreign investment. Foreign financing agreements involving tobacco production, manufacturing and marketing were signed in 1994, a year before the new foreign investment law was passed. Two agreements were signed, one with Tabacalera of Spain and another with Seita of France, binding a large part of Cuba's tobacco exports. Recently, the two companies merged to form Altadis S.A.

In the following year, April 1995, a mixed enterprise known as Brascuba was approved. It is a joint venture between the Cuban Tobacco Union (Unión de Empresas del Tabaco de Cuba—UNETA) and Yolanda Participaciones S.A. Yolanda Participaciones is owned by Souza Cruz de Brasil, a Brazilian subsidiary of the British American Tobacco Company. The joint venture was formed to produce and market cigarettes. Reportedly, the initial investment of $10 million was expected to be recovered in three years.

During its first year of operation, Brascuba distributed 571 million cigarettes in three brands. This year it is expected to produce 2 billion cigarettes, valued at $20 million, for the national and export markets. Brascuba markets six brands: Popular, Romeo y Julieta, Monterrey and Vegas (strong cigarettes) and Hollywood and Lucky Strike (mild cigarettes). Currently, Brascuba covers 95% of Cuba's domestic foreign-currency market for cigarettes.[14]

Two more international economic associations in tobacco were approved by the Cuban government in 1999. COTIAS S.A., approved in February, is a joint venture between UNETA and Spain's CITA S.R.I. The company manufactures cigarettes weighing less than three grams, and markets the cigarettes internationally. TABACUBA S.A., a mixed enterprise, was approved April 9, 1999. The joint-venture company was formed between MKI of France and UNETA HABANOS de Cuba. Cigars weighing less than three grams are produced for both the international and domestic markets.

More recently, UNETA HABANOS de Cuba and the Cigar Trading C. Holding S.A. de España formed ICT S.A., a joint venture to mechanize production of cigars using 100 percent Cuban tobacco (*puritos*). The cigars, weighing equal to or less than three grams, are to be marketed internationally; however, 20 percent can be sold in the national market. ICT will manufacture eight of Cuba's best known national brands. Plans call for production of 68 million units in 2001, generating sales of $13 million. Until inauguration of the ICT factory in the Boyeros municipality of Havana, the mechanized production of small cigars, known as midi and mini, were produced in Europe with Cuban tobacco.[15]

Another joint venture in tobacco is known as TEKA S.A. Shareholders of the company are the State Company for Tobacco, Alcohol and Salt of Turkey (La Compañía Estatal para el Tabaco, Alcohol y Sal de Turquía—TEKEL S.A.) for Turkey, and CATEC, UNETA and Habanos S.A. for Cuba. TEKA S.A. will produce cigars with 100% Cuban tobacco and

13. *Business Tips on Cuba*. Vol. 7/No. 4. April 2000, p. 8.
14. *Business Tips on Cuba*. Vol. 8/No. 6. June 2001, p. 22.
15. *Business Tips on Cuba*. Vol. 8/No. 3, May 2001, p. 6.

cigars with 50% Turkish tobacco. Cigars will weigh equal to or less than three grams.[16]

VEGETABLES

Production and marketing of vegetables, primarily for the tourist trade, is being carried out through an economic association contract between Cuba's UNA (Unión Nacional de Acopio) and Sherritt International of Canada. The company is known as Sherritt Green. Horticulturists from Canada have assisted with farm operations. The objective of the farm, located near Cárdenas, is to demonstrate how strawberries, green peppers and other vegetables can be grown for the export market and for the tourist industry in Cuba. Sherritt Green was approved August 21, 1995.

A second international economic association contract with a Canadian firm to produce and market vegetables was approved in March 1996. AGROKING was formed between Cuba's UNA and Agroking S.R.L. of Canada.

In addition to two citrus international economic associations, the BM Group of Israel is producing vegetables and flowers for the tourist market in Cuba. Flor Caribe is a joint venture between Cuba's Tropiflora and the Grupo BM (La Sociedad Mercantil Panameña BM, Inc.) Approval for the mixed enterprise was given by the Cuban Government on February 15, 1995.[17]

Flor Caribe grows tomatoes, peppers, cucumbers, as well as some lettuce, broccoli, and other vegetables, on about 30 hectares for the tourist hotels and dollar markets. Production is located in a valley near Sancti Spíritus. The annual market value in 2000 was estimated at about $2 million.

An Italian firm began producing vegetables for the export market in March 1998. El Pomodoro Cubano is a hot house operation located in the Free Trade Zone, east of Havana. The foreign investment began with one hectare producing tomatoes. By 2000 the firm had five hectares growing a variety of fruit and vegetables, such as peppers, cucumbers, onions, melons and other horticultural products. At the end of 2001, El Pomodoro plans to have 6 hectares under plastic. The final plan is to have 11 hectares of hothouse production requiring 100 workers.[18]

OTHER SELECTED ASSOCIATIONS

Rice: TAICHI S.A. is a joint venture between the National Rice Union of Cuba (Unión Nacional del Arroz) and a Chinese company, China Xintia. The project includes production and marketing of rice from 3,250 hectares in the province of Granma and 5,000 hectares in the province of Pinar del Río. Approval for the project was issued in December 1998.

Seeds: The joint venture CARISEM S.A. was formed for the production and marketing of seeds and other agricultural products. It was formed between Cuba's Empresa de Semillas Varias and SEMENCOOP (Liga Italiana de Cooperativas) of Italy in December 1998. The two partners contributed equal amounts of assets and capital.[19]

Soybean Processing: Cuba's first soybean processing facility began operations in October 2000. Procesadora de Soya S.A. is a joint venture between Canadian Sherritt International and Cuba's Ministry of Food Industry. The $22 million facility is located along the western shore of the bay of Santiago de Cuba. Imported soybeans are used to produce animal feed, flour and cooking oil. The estimated combined retail value of those products is $50 million.

Livestock: A mixed enterprise with its legal domicile in Vietnam was approved in May 1997. The Cuban-Vietnamese joint venture in cattle and swine was inaugurated in Nin Binh in June 1997; however, recent reports indicate the project has been dissolved. Originally, the Vietnamese enterprises, Phung Thuong and Don Gia, were to contribute two-thirds of the $8.6 million investment. Bacuranao, a Cuban

16. Ministry of Agriculture, June 2000.
17. Ministry of Agriculture, June 2000.
18. *Business Tips on Cuba*. Vol. 7/No. 3. March 2000. p. 26.
19. *Business Tips on Cuba*. Vol. 6/No. 5, May 1999, p. 5.

cattle enterprise, was to contribute the remainder. The joint venture was created to produce pork and beef for the tourist trade.

CONCLUSIONS

1. For the first 23 years after the Revolution, there were no provisions by the government to promote foreign investment. A policy shift occurred when the Cuban administration issued Decree-Law No. 50 in 1982. It was strengthened by passage of Foreign Investment Law No. 77 in 1995. Since the beginning of the 1990s, foreign investment has been encouraged; however, another policy shift may be in the making. In 2000, only 18 foreign investments were authorized. During the preceding six years, there was an annual average of 38 approvals of foreign investments. The much lower number in 2000, assuming the level of foreign interest has continued, may indicate a shift in policy toward being more selective in approving international economic associations.

2. While there may be a slowing of the number of total foreign investments approved by the Cuban government, there appears to be no less emphasis on promotion of foreign investment in agriculture. The Ministry of Agriculture's business promotion office (Director de Negocios) is strongly encouraging opportunities for foreign investors in agriculture. In addition to the Ministry of Agriculture, the Ministries of Food Industries and Sugar are actively promoting foreign economic arrangements.

3. Based on previous studies and available data, it can be estimated that approximately 50 international economic associations are active in agribusiness. In the non-sugar agricultural sector, in 2000 there were 20 associations representing 5 percent of the total. This compares to 10 in 1995, which was about the same share, and indicates growth in numbers of foreign investors in agriculture has been about the same as in all sectors of the country's economy. For agribusiness, including agriculture, food and sugar, the number of international economic associations is nearly 13 percent of all registered associations. Assuming the capital intensity of investments in agribusiness is approximately equal to the average of investments in other sectors, the estimated value of foreign investments announced in agriculture would be about $650 million. (Thirten percent of the total foreign capital invested in Cuba—$5 billion anticipated by the Cuban government by the end of 2001.)

4. Even if the value of foreign agribusiness financing were less than 13 percent of the total foreign capital invested, it would appear that the impact on Cuba's agricultural economy has been significant. This is especially true for financing and investment in citrus and tobacco, and in products serving the dollar market (tourist hotels and restaurants, and the dollar stores). Foreign financing of sugar, undoubtedly, was important in preventing sugarcane production from falling more than it has.

5. Foreign financing, technical assistance and marketing arrangements have been significant in the citrus industry. Data on foreign financing and assistance are not available; however, it appears that the value of foreign investments in Cuba's citrus industry has been important. For example, in 1994 processed citrus production was 110,000 metric tons. By 1999, production totaled 260,000 metric tons.

6. Perhaps even more significant than in citrus, foreign involvement in the production, manufacturing and export of tobacco products has been substantial. Eight international economic association contracts have been signed with firms in Spain, France, Brazil and Turkey. Exports of Cuban cigars from January to May 2001 totaled 53 million, compared to 36 million for the same period last year. The Habanos S.A. group, founded in 1994, distributes tobacco leaves and over 30 Cuban hand-rolled cigar brands in more than one hundred nations. Habanos, with foreign investment assistance, exported about 118 million cigars worth some $150 million in 2000.[20] Brascuba, a joint venture with Brazil, now has 95 percent of the domestic cigarette market.[21]

7. Various international economic contracts have been signed to promote production of vegetables, fruit, flowers and other products that would service the tourist industry. To date, the projects are relatively small and have had only minor impact on Cuba's economy. Domestic production of inputs for tourism, other than food, appears to have grown rapidly. The Cuban government reported that almost two-thirds of the inputs for the tourist industry are now supplied from Cuban sources. During 1990, when Cuba had 34,000 tourists, participation of the national production was 18 percent. By 1999 participation reached 53 percent, an increase of 31 percent. In 2000, there were 1,774,000 tourists and the national economy supplied 61 percent of the tourist industry's needs.[22] While the Cuban government reports that approximately two-thirds of the inputs for the tourist industry are supplied through domestic production, it must be kept in mind that a substantial amount of that domestic production is derived from joint venture firms and international economic associations.

8. If U.S.-Cuba normal trade and investment relations were restored under the current scenario, U.S. agribusiness investors would face strong competition from Canadian and European firms already established in Cuba. On the other hand, U.S. firms investing to meet the needs of Cuba's growing tourist industry—about 2 million at present and projected to reach 7 million annually by 2010—would find significant opportunities. Investments in joint ventures to import and process/market bulk U.S. agricultural commodities and agricultural production inputs, intensely needed by the Cuban economy, would depend to a great extent on Cuban policy and credit arrangements available to the foreign investor.

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20. Business Tips on Cuba. Vol. 8/No. 3, May 2001, p. 20
21. *Business Tips on Cuba*. Vol 9/No. 6. June 2001, p. 22.
22. Agencia Informativa Latinoamericana S.A. *ECOCUBA: Boletín Semanal Sobre Economía Cubana*. Junio 2001.