

# FACTORS AFFECTING THE POTENTIAL MARKET IN CUBA FOR SELECTED U.S. FOREST PRODUCTS

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Over the years substantial areas of forest cover in Cuba have been cleared to make room for grazing land and production of sugarcane. Nearly three-fourths of the country at one time was covered by trees. Today, slightly more than one-fourth of Cuba's land area is in trees—forest cover and wooded land. Forest cover alone accounts for about 17 percent of Cuba's land area. As a group, about one-fifth of the land area of the Caribbean is in forests.

## FOREST RESOURCES

**Forest Area:** Forest areas in Cuba, 1.8 million hectares, are located mainly along the coastline. Cuba's western province of Pinar del Río has the largest forest reserves. Of the total forest area, some 750,000 hectares (about 40 percent) are available for wood supply.<sup>1</sup>

Approximately one-third of Cuba's forest cover is tropical and subtropical coniferous pine forest land. Following the revolution, reforestation efforts focused on planting eucalyptus trees, but the species was not well-suited to Cuba's natural conditions. A shift in policy then placed emphasis on planting pine trees.

**National Forestation Efforts:** Efforts to reforest Cuba's wooded land were initiated by the Reforestation Law of April 10, 1959. During the next 30 years major emphasis was placed on planting trees.

Data reported by Cuba at the United Nations Conference on the Environment and Development in Brazil in 1992 indicated 500,000 hectares had been reforested since the revolution. While reforestation during this period appeared successful, it has been suggested that the reforestation accomplishments were achieved at a "very high economic cost." High tree mortality rates and poor decision making were cited as causes of the high economic cost. Poor decisions, reportedly, were made in management, especially concerning species planted, erosion control, and poor seedling care. Also, a grandiose scheme to plant coffee trees in an agricultural belt around Havana proved to be a poor decision.<sup>2</sup> Even though reforestation efforts following the revolution had increased the forested area significantly, the World Directory of Country Environmental Studies, published in 1989, reported that the state of Cuba's forests was poor.<sup>3</sup>

In the early 1990s Cuba developed a National Forestry Action Plan (NFAP). The NFAP contains three

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1. Food and Agriculture Organization (FAO) of the United Nations, information extracted from database on the internet, [www.fao.org/infosylva](http://www.fao.org/infosylva).

2. Sergio Díaz-Briquets, "Forestry Policies of Cuba's Socialist Government: An Appraisal." In *Cuba in Transition—Volume 6* (Washington: Association for the Study of the Cuban Economy, 1996), p. 431.

3. "Cuba Tropical Forestry Action Plan," World Directory of Environmental Studies, published in 1989, and reported on the internet by the World Resources Institute, [www.igc.apc.org/wri](http://www.igc.apc.org/wri).

sections. Part I provides a general overview of the country and its agrarian economy. Part II reviews the forestry sector. Part III presents profiles of various projects, such as increasing the production of sawnwood in the Province of Guantánamo. Implementation of the NFAP, according to a Food and Agriculture Organization of the United Nations (FAO) document published in 1993, would require a domestic investment of approximately 81 million Cuban pesos and external assistance in the amount of nearly \$35 million.<sup>4</sup>

More recently, on July 21, 1998, the National Assembly approved a comprehensive Forestry Act. The 70-article Forestry Act regulates the use of Cuba's forests, creates a forestry fund, seeks to preserve precious wood species, and extends forest acreage. Plans call for 27 percent of the national territory to be covered by forests by 2015.<sup>5</sup>

**Production:** Production levels of coniferous sawnwood, plywood or particle board have not changed during the past decade, according to data compiled by FAO. Annual production of sawnwood is placed at 58,500 cubic meters, plywood at 2,000 cubic meters, and particle board at 62,000 cubic meters.

Data appear suspect when they do not change during a decade, especially when they cover three different commodities or products. Therefore, it may be appropriate to draw the conclusion that these figures are estimates and may or may not reflect the actual situation. It seems probable, however, that production of sawnwood, plywood and particle board has not increased significantly over the past decade. In fact, production may have decreased in view of the problems of management, state of infrastructure and lack of production inputs.

## TRADE AND INVESTMENT IN FOREST PRODUCTS

**Imports of Sawnwood, Plywood, and Particle Board:** In 1997, Cuba imported forest products valued at \$23 million. Exports of forest products were valued at \$60,000, according to FAO data. These data include sawnwood, wood-based panels, wood pulp, and paper and paperboard.<sup>6</sup> Imports of sawnwood and wood-based panels accounted for one-fifth of the total.

Coniferous sawnwood, the category in which U.S. Southern Pine would compete, has a wide range of uses. Common uses are for construction and for manufacturing of furniture, windows and doors. U.S. softwood panel products are also used widely in wood frame construction. Another important use is for concrete forming.

Cuban imports of lumber, in terms of both value and quantity, have declined in the 1990s with the loss of Soviet subsidies and Socialist Bloc trade preferences. Coniferous sawnwood imports by quantity decreased from 510,500 cubic meters in 1989-91 to 3,900 in 1998. Annual imports since 1991 are less than 1 percent of the amount imported in years when Cuba benefitted from Soviet subsidies.<sup>7</sup>

Plywood imports have decreased from 43,400 cubic meters to 5,800 cubic meters during the past decade. Imports of plywood in 1998 were only about 13% of the amount when Cuba received trade preferences from the Soviet Union and Eastern Bloc countries.

Particle board imports declined from 16,000 cubic meters in 1989-91 to 500 cubic meters in 1998. Annual imports, currently, are only about 3% of the previous level.

By value, sawnwood imports went from \$77.6 million in 1989-91 to \$613,000 in 1998. The decrease in particle board imports during the same time period went from \$14.4 million to \$3.9 million. Cuba

4. Díaz-Briquets, "Forestry Policies of Cuba's Socialist Government," p. 434.

5. U.S.-Cuba Trade and Economic Council, *Economic Eye on Cuba* (July 20-July 26, 1998), at [www.cubatrade.org](http://www.cubatrade.org).

6. FAO, internet database, [www.fao.org/infosylva](http://www.fao.org/infosylva).

7. FAO, internet database, [www.fao.org/stat](http://www.fao.org/stat).

## Factors Affecting the Potential Market in Cuba for Selected U.S. Forest Products

spent \$1.3 million for imports of particle board in 1989-91, but only \$176,000 in 1998.

**Foreign Investment:** A chronic deficit of industrial timber has caused the Cuban government to consider numerous projects for increasing output and modernizing the forestry sector. One of the more recent efforts by the Cuban government to increase production of forest products was to open the forestry sector to foreign investment.

In the 1990s, as a result of the collapse of the Soviet economy, the assistance and favorable terms of trade no longer existed. Cuba, because of the lack of foreign capital, limited access to improved technology, and erosion of foreign market competitiveness, was compelled to alter its economic policies.

One policy shift was to pass Foreign Investment Law No. 77 in 1995. As a result, there has been increased interest in foreign investment, with a gradual extension from a focus on tourism to other types of investments—including telecommunications, mining, basic industry, food, agriculture and forestry.

Of the Cuban government's recorded foreign "international economic associations," about 10 percent involve food, agriculture and forestry. Companies from Israel and Chile have substantial investments in production, processing and marketing of citrus. Firms from Spain, France, United Kingdom and Turkey have significant investments in tobacco production, manufacturing and marketing. Investors from Canada, Italy, France, Holland, Russia and a few other countries have notable investments in sugarcane, vegetables, rice, seed production, processed foods, beer, rum and mineral water.

One "international economic association" in the area of forest products, Cubaparquet S.A., is a 50-50 joint venture between the state-operated Grupo Industrial Forestal and Italy's Agroconsultores S.R.L. The joint-venture company will manage 700 hectares in central Cuba. Wood from the project will be used to produce Teca, a processed wood flooring, for export

to Italy. An additional 2,500 hectares will be developed for the national forestry reserve. Other forestry ventures, reportedly, are being negotiated.<sup>8</sup>

Cuba is seeking foreign investors for a forestry seedlings project. The project is aimed at producing and exporting 2,900 kilograms of improved seedlings obtained from several forestry species, based on clonal seedbeds and natural seeds. It is located in Pinar del Río, Villa Clara and Guantánamo. The estimated investment value is \$100,000. Requirements include foreign markets, working capital, machinery and equipment.

### FACTORS AFFECTING THE POTENTIAL MARKET

**Need to Buy:** One measure for determining the potential market will be the country's need to buy lumber once U.S. economic sanctions are lifted. Reviewing trade history is one factor that may provide insight into the potential market. Another indicator is the need to rebuild and improve infrastructure, housing and tourism facilities.

- **Highways**—There are 15,484 kilometers of paved highway in Cuba. In addition, there are 12,216 kilometers of unpaved road.<sup>9</sup> One of Cuba's future commercial strengths is the relatively good condition of its highways. Highways will provide a relatively good opportunity for land cargo transport, but will require improvement to handle expansion of commerce. Lumber will be required in extension of the highway system.
- **Railways**—Cuba has 4,677 kilometers of railway. A large amount of track was in the private sector before the revolution, and most were located in sugar plantations. It is anticipated that a large amount of track will require railroad tie replacement, and other improvements.
- **Airports**—Cuba has 77 airports with paved runway, and 94 with unpaved runway. There are five international airports. In addition, there are several military airports that could be converted

8. *Caribbean UPDATE* (December 1998), p. 8.

9. *CIA Factbook*, [www.odci.gov/cia/publications/factbook/cu.html](http://www.odci.gov/cia/publications/factbook/cu.html).

for commercial use. Airport construction and reconstruction will require substantial quantities of lumber.

- **Ports and Harbors**—Cuba has 3,735 kilometers of coastline with seven major ports: Cienfuegos, Havana, Manzanillo, Mariel, Matanzas, Nuevitas, and Santiago de Cuba. Lumber will be required to improve these ports and to expand cargo operations at others.
- **Housing**—There is an extensive shortage of housing in Cuba. Large amounts of lumber will be required following lifting of economic sanctions to build and repair housing in Havana, other major cities, and in rural areas.
- **Tourism**—Once Cuba lost Soviet Bloc subsidies, tourism became a priority sector for development. Several autonomous government-owned companies were established to encourage tourism and to enter into international economic associations with foreign entities. Cuba's efforts to attract tourists have been relatively successful. Tourist arrivals have gone from 315,000 in 1989 to more than 1 million in 1998. Tourist receipts have increased from \$204 million to more than \$1 billion during the same time period. As tourism in Cuba expands, hotel accommodations, restaurants, and other facilities will need to be updated and expanded. Large amounts of lumber will be required to service housing and tourism.

**Ability to Pay:** Construction needs and past trade data indicate potential strong demand for softwood lumber. The real question is not whether there will be a need to buy U.S. forest products, but how effective will the demand be? What will be the outlook for economic growth and increased per capita income after economic sanctions are lifted? Where will the foreign exchange come from that will be needed to import?

While production of forest products, according to FAO data, has remained steady during the 1990s, Cuba's total economy has showed qualified recovery. After falling about 40 percent from the 1989 level through 1993, the economy in 1994 showed a turnaround. There was a period of increasing growth from 1994 to 1996 followed by declining rates of growth in 1997 and 1998.<sup>10</sup> Past economic growth in Cuba's centralized economy, however, will not be a dependable indicator of economic growth in a potential free-market economy.

Availability of foreign exchange will be a key determinant in Cuba's ability to import. Currently, remittances from Cuban relatives and friends abroad have become the major source of net foreign exchange earnings for Cuba.<sup>11</sup> Following lifting of U.S. economic sanctions, the flow of funds from these sources could become an even more important factor in the country's ability to import.

Other major sources of foreign exchange include sugar exports, tourism and nickel exports. All of these sources have the possibility of increasing their earnings of foreign exchange. In addition, international financing and assistance, along with foreign direct investment, offer prospects of providing substantial amounts of foreign exchange.

Assuming foreign exchange in significant quantities becomes available to Cuba, there are the concerns of foreign debt and U.S. claims that will need to be addressed. Another demand that may take priority over use of foreign exchange to import forest products is the pressing demand to improve diets of the Cuban people.

Adequate nutrition is one of the most serious problems facing Cuba. Nutritional intake by the Cuban population is below the minimum requirement established by the World Health Organization and the Food and Agriculture Organization.<sup>12</sup>

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10. Jorge F. Pérez-López, "The Cuban Economic Crisis of the 1990s and the External Sector," in *Cuba in Transition—Volume 8* (Washington: Association for the Study of the Cuban Economy, 1998), pp. 387-389.

11. *CUBANALYSIS*, internet e-mail service, www.cubananalysis@aol.com, No. 1, received on December 9, 1998.

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While Cuba's economy suggested a turnaround in 1994 and has reported positive rates of growth since then, food production data do not indicate significant improvement. On the other hand, data on food consumption indicate some recovery.<sup>13</sup> Cuba has increased per capita food consumption from the 1993-94 level by giving priority to food imports over other merchandise previously imported.

By allocating a larger percentage of foreign exchange for the importation of food, Cuba has had to restrict importation of other items, such as forest products. Priority in use of foreign exchange to import is now, and will be after U.S. economic sanctions are lifted, a major concern of the Cuban government.

### POTENTIAL MARKET

It is worth noting that others have concluded that "... there is a large untapped potential for future investment in Cuba's forestry sector" and "... there is a strong need for private sector participation coupled with enlightened public sector regulation."<sup>14</sup>

While these comments were made a few years ago, they are just as valid today. Cuba does not have the financial resources needed for investment in its forestry sector, and there is little foreign investment in the country's forestry industry. Private sector participation by U.S. firms, obviously, is directly linked to U.S.-Cuba relations, and will be affected by many other factors.

Under current conditions, and without U.S. participation, Cuba has limited potential in the forestry industry. According to FAO, Cuba has a dearth of raw materials, obsolete technology, and inadequate infrastructure which results in the country importing 55 percent of its wood product needs.<sup>15</sup>

For sawnwood and plywood, Cuba has imported more than 55 percent of its needs. During 1989-91, Cuba imported 90 percent of its sawnwood supply

and 96 percent of its needs for plywood. About one-fifth of the country's need for particle board was imported. (Cuba is the only significant producer of particle board in the Caribbean.)

If Cuba becomes a free-market economy, U.S. economic sanctions are lifted, and there is a substantial inflow of foreign exchange to assist the country's economic recovery..... a big IF, what quantities and dollar-level of U.S. Southern forest products might Cuba import?

It is anticipated that Cuba's need for forest products would be even greater than during the period immediately before the loss of Soviet subsidies. During the 1989-91 period, Cuba's annual imports of sawnwood, particle board, and plywood were valued at \$93 million. The quantities in cubic meters (cm) were: sawnwood, 510,500; plywood, 43,400; and particle board, 16,000.

Cuba's sawnwood imports during 1989-91 accounted for more than half of the total market in the Caribbean. Cuba's imports of plywood accounted for more than one-fourth, and particle board represented nearly one-half. Assuming the need in Cuba for these products would have grown during the past decade at the same rate as in the other Caribbean countries, Cuba would now be importing 867,850 cm of sawnwood, and 62,930 cm of plywood. Particle board imports in the Caribbean during the 1990s have declined significantly, not only in Cuba but also in Jamaica. Increased imports of particle board in Barbados, the Dominican Republic and other islands have not offset the decrease.

The potential market value in Cuba of all three products, based on past market growth in other Caribbean islands, is about \$150 million. In 1998, Cuba imported less than \$5 million in sawnwood, plywood and particle board.

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12. DevTech Systems, Inc., *Cuba Monthly Economic Report*, Vol. 2, No. 7 (November 1998), p. 3.

13. *CUBANALYSIS*, No. 6, November 1998.

14. René Costales, "Comments on 'Forestry Policies of Cuba's Socialist Government: An Appraisal,' by Díaz-Briquets," in *Cuba in Transition—Volume 6* (Washington: Association for the Study of the Cuban Economy, 1996), p. 439.

15. Díaz-Briquets, "Forestry Policies of Cuba's Socialist Government," p. 434.

The U.S. share of the total market in the Caribbean for softwood lumber is approximately two-thirds.<sup>16</sup> If the U.S. could realize a similar share of the Cuban market, and Cuba has the foreign exchange to import, U.S. exports of softwood lumber to Cuba could

amount to about \$100 million soon after resuming trade. Canada, however, has a major share of the Cuban forest products market and it could be difficult for U.S. firms to capture the same share of the market as in other islands of the Caribbean.

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16. Southern Forest Products Association, "Market Assessment Worksheet," via facsimile, April 12, 1999.