

## CUBA'S DOLLAR FOOD MARKET AND U.S. EXPORTS

James E. Ross and María Antonia Fernández Mayo

Cuban visitors and residents have the option of buying certain types of food with either pesos or dollars. They may use one of four different currencies and have access to more than eight different types of official food markets. Cuban pesos are used in the ration stores, and various agricultural markets. U.S. dollars and, to a lesser extent, convertible pesos and euros are used to purchase food in retail stores authorized to recover foreign exchange (*divisas*).<sup>1</sup>

Currencies are not interchangeable at point of purchase. Cuban pesos are not accepted in tourist facilities and dollars cannot be used in ration stores. Dollars and pesos, however, may be exchanged before the sale. For purposes of this paper, food that can be purchased only with U.S. dollars, Cuba's convertible peso or euros is referred to as "dollar food." The thesis of the paper is that the hard currency cost of Cuba's imported food is offset by sales in Cuba of food for dollars. That is, the amount of dollars spent by Cubans and foreign visitors in Cuba for food at the consumer level is equal to, or greater than, the amount of dollars spent by the government to import food.

### CUBA'S FOOD MARKETS

There are two general categories of food markets in Cuba, the peso food market and the dollar food mar-

ket.<sup>2</sup> Peso food markets are not meant to compete with food being sold in dollar stores; however, the same or similar products may be available in both markets. Of Cuba's official food markets, only the dollar stores (*tiendas en divisas*, also referred to as TRDs—*tiendas de recuperacion de divisas* and "la chopin") trade in dollars.

Other internal food markets include: ration stores (*Mercado de Alimentos Racionados*); free agricultural markets (*Mercados Libres Agropecuarios*—MLA); Ministry of Agriculture markets selling food at fixed prices (*Mercados Agrícolas a Precios Topados*); agricultural "fairs" held on the last Sunday of each month (*Ferias Agropecuarias*); urban garden markets (*ventas en los huertos y organopónicos*); places of sale direct to the consumer by the Cooperatives of Agricultural Production (*Cooperativas de Producción Agropecuaria*—CPA) and the EJT (Youth Work Army); and the *Cadena de Tiendas Imágenes*—stores selling processed foods under the jurisdiction of the Ministry of Internal Trade (*Ministerio de Comercio Interior*—MINCIN). Other food outlets include fish shops, bread stores, and the unofficial *mercado subterráneo* or the black market.<sup>3</sup>

---

1. Euros are being accepted in dollar stores, tourist hotels and restaurants in Varadero, but currently not in Havana or other tourist areas.

2. As used in this paper, the term "dollar food market" refers to the buying and selling in Cuba of food and beverage products, whether imported or produced domestically, for dollars.

3. For detailed information on the internal markets, including price comparisons and an explanation of why consumers buy at dollar stores when the same product can be purchased for less at other markets, see José Alvarez, "Rationed Products and Something Else: Food Availability and Distribution in 2000 Cuba," *Cuba in Transition—Volume 11* (Washington: Association for the Study of the Cuban Economy, 2001), p. 305. See also Armando Nova González, "El Mercado Interno de los Alimentos," in *Cuba—Reflexiones Sobre Su Economía*, La Habana, 2002, p. 193.

### SOURCES OF DOLLARS

Cubans who do not have dollars, or adequate pesos to exchange for convertible pesos, do not participate in the government's dollar food market. Reportedly, this applies to about one-third of the population. Another one-third has access to dollars from time to time. The remaining one-third has access to dollars on a continuing basis. Those Cubans living in Havana, about 20% of the 11.2 million, account for the highest percentage of the people with access to dollars.

Cubans who do not have direct access to dollars may purchase convertible pesos. One convertible peso is equal in value to one U.S. dollar. Convertible pesos may be purchased at government operated *Casas de Cambio, S.A.* (CADECA). During 2002, and until the present, *Casas de Cambio* have sold the convertible peso for 27 pesos and purchased U.S. dollars for 26 pesos. The peso and the dollar circulate freely in Cuba.<sup>4</sup>

There are three major sources for Cuban consumers to gain access to dollars: remittances, tourism and foreign businesses. Cuban nationals obtain dollars primarily through remittances, funds sent to them by family members living abroad. While the flow of remittances to Cuba is less than to many other Latin American or Caribbean countries, the amount is growing. Data from the Inter-American Bank show a 22% increase in 2002. Dollars sent to family members by the one million Cubans in the United States, and the thousands living in other countries, totaled \$1.138 billion in 2002.

In addition to remittances, Cubans providing services for tourists may receive tips in dollars. Cubans working for foreign businesses operating in Cuba sometimes receive bonuses in dollars. Some mixed enterprises supplement workers' income with dollars, either through negotiated arrangements with the Cu-

ban government or through other means. Private enterprises, such as in-home restaurants and home room-rentals, also earn dollars for Cuban families.<sup>5</sup>

### CUBA'S DOLLAR FOOD SUPPLY POLICY

Cuba's purchasing and distribution system supplying the dollar food market is decentralized and complex. It is an intricate network of organizations authorized to purchase from domestic production and importation, and distribute food products in Cuba for dollars and/or pesos. Organizations include government agencies, state-owned companies, mixed enterprises, associated foreign firms and licensed private restaurants.

All of the following buy and/or sell food in Cuba for dollars:

- retail stores trading only with dollars, and the holding companies supplying those market outlets;
- government-owned and foreign-associated hotels and restaurants catering to tourists for dollars, and the companies servicing those establishments;
- food processing companies purchasing both domestic and imported products and selling a portion of their production within Cuba for dollars;
- government agencies and mixed enterprises supplying the system and/or purchasing for their own account, or for other companies, and wholesale and retail for either dollars or pesos;
- small in-home restaurants servicing customers for dollars; and
- the underground (black) market.

Dollar foods purchased and sold in Cuba are both produced domestically and imported.

The government's priority for supplying the dollar food market is to buy and sell fresh produce, pro-

---

4. The government of Cuba maintains a fixed exchange rate for its international dealings and a more flexible exchange rate for domestic use. Cuba's government does not vary the value of the peso for commercial transactions regardless of any fluctuation with the value of the U.S. dollar or other currencies on the international market. *Economic Eye on Cuba*, U.S.-Cuba Trade and Economic Council, Inc.

5. For detailed information on main sources of hard currency and possible uses by the Cuban population, see Paolo Spadoni, "The Role of the United States in the Cuban Economy," in this volume.

cessed foods and other food products that are of national origin. The second priority is to purchase production from mixed enterprises. When products are not available through national production or from mixed enterprises, the government will import products to supply the dollar food market.

Much of the food imported from the United States, Canada and the European Union is sold in Cuba for dollars. In addition, some fresh produce and manufactured foods originating in Cuba earn hard currency through sales in Cuba's dollar stores, the tourist industry and via other market outlets.

### NATIONAL ORIGIN PRODUCTION

State production units include state farms, state-controlled agricultural cooperatives, and national food manufacturers. State farms and the Basic Units of Cooperative Production (UBPC) are the main national sources of fresh produce for the dollar market. They operate under the authority of the Ministry of Agriculture (*Ministerio de Agricultura*—MINAGRI). Processed products of national origin are provided by manufacturers operating under the jurisdiction of the Ministry of Food Industries (*Ministerio de la Industria Alimenticia*—MINAL).

**Fresh Produce:** Fresh fruit and vegetables of national origin are supplied by state-owned companies such as *Frutas Selectas S.A.* This semi-autonomous company, within the Ministry of Agriculture, selects the best fruits and vegetables produced by state-owned farms and state-controlled cooperatives. *Frutas Selectas* then markets the products to tourist hotels and restaurants.

Several other companies, under the jurisdiction of the Ministry of Agriculture, supply food and agricultural products for sale to the tourist trade. Companies include: *Cítricos Ceiba*, *Cítricos Ciego de Avila*, *Cítricos Caribe*, *CAN*, *La Cuba*, *Apicultura*, *Empresas Porcino*, *Empresa de Tabacos y Cigarros*, *Hortícolas*, *OROCA*, *CAI Arroceros*, *Empresas Pecuarias*, *Cuba Café* and *Suministros Agropecuarios*.

**Processed Foods:** All food manufacturers in Cuba are under the jurisdiction of the Ministry of Food Industries, created in 1965. MINAL oversees industries manufacturing milk and meat products, cereals, confections, bread, biscuits and crackers, pastries, fruit and vegetable products, alcoholic beverages, water, soft drinks, beer and other products. Industries milling bulk commodities, such as wheat and rice, also are under the jurisdiction of MINAL.

At the time of the establishment of the Ministry of Food Industries, Cuba was importing most of the processed food consumed in the country. In addition, most of the primary material used by the existing national food manufacturing industry was imported. There was little growth in food processing until food research centers were introduced. Between 1970 and 1975, the Food and Agricultural Organization of the United Nations and the governments of Sweden and the Netherlands provided financing for pilot plants devoted to applied research in the lactic, meat-processing, and vegetable and fruit-preserving branches.<sup>6</sup>

International assistance from 1975 to 1990 for research and development in Cuba's food industry led to substantial growth in food manufacturing. Production increases during this period included: canned meats, 157%; canned fruits and vegetables, 66%; cheeses, 143%; and wheat flour, 126%. The number of production lines had grown from 57 in 1975 to more than one thousand by 1989.

With the loss of Soviet and Eastern Bloc trade preferences in 1989 and 1990, there was a progressive decline in Cuban production in general until the mid-1990s. Food industry executives were forced to introduce products that made it possible to raise production volumes through increased use of extenders and substitutes in products destined for the domestic market. The imperative was to maintain nutritional values despite a reduction in agricultural production, especially of meat products.

---

6. *Business Tips on Cuba*, August 1996, p. 20.

Between 1990 and 1994, the worst period for the Cuban economy, the food processing industry registered a dramatic decline of 42% in the value of its output, along with a reduction of 74% in national raw-material supplies from the agricultural sector, and a 34% drop in imported raw materials.<sup>7</sup>

In 1994, Cuba's production of manufactured food products was 45% of the output in 1989. The output of beverages was 56%. By 2001, beverage production had increased to 83% of the 1989 level. Food manufacturing increased more slowly, reaching only 52%. While the food industry has had significant growth since 1994, production remains substantially less than the output level of more than a decade earlier.<sup>8</sup>

Production lines that are growing the most include: beer, soft drinks, mineral water, alcoholic beverages for export, powdered milk, pastas, flour, soft cheese, ice cream, and yogurt. Wheat flour production also showed some increase, while milled rice production decreased substantially.

### MIXED ENTERPRISE PRODUCTION

A mixed enterprise generating dollar sales of food products may include a food manufacturer or an agricultural production unit. Enterprises producing dollar foods may take the form of a joint-venture investment, an international economic association, or a cooperative production agreement. There are no totally foreign owned food production or manufacturing operations in Cuba.

Mixed enterprises, the second highest priority, include foreign-associated companies such as Sherritt Green. The joint venture company, formed with Sherritt International of Canada, produces fruit and vegetables for sale to tourist hotels and restaurants. Mixed enterprises producing for the tourist trade, in

addition to Sherritt Green, include Agro King of Canada, Grupo BM of Israel, and others.

Sixteen of Cuba's food-manufacturing companies are joint ventures and 12 are Cooperative Production Agreements.<sup>9</sup> Each of the 16 mixed enterprises are associated with Coralsa (*La Corporacion Alimentaria—CORAL S.A.*), a holding company constituted within MINAL in 1996. The Ministry restructured in the mid-1990s to promote increased support for food industry firms operating with foreign capital. Participation of Coralsa in the 16 enterprises ranges from 40% to 50%. Fixed assets of the companies at the time of restructuring were placed at \$36 million. They had \$4 million in working capital and \$25.5 million in the process of investment.

Enterprises associated with Coralsa produce and market sausages, candies and confections, products derived from wheat, instant beverages, wines, beers, soft drinks and mineral waters, as well as technological and refrigeration equipment for the food industry. In 1994 the mixed enterprises had a combined value of production of \$20 million. By 2000 the value of production of the mixed enterprises had reached \$140 million, representing 6% of national production.<sup>10</sup>

Another area of activity in the Cuban food industries sector has been the overseas food processing operations in which there is Cuban capital and technology. A portion of the earnings from these industries is returned to Cuba. *Cia. de Tasajo de Uruguay*, for example, was established in Uruguay to process jerked beef and other meat products for export to Cuba and other Latin American and African countries. A Coralsa-owned company, *Carnes del Mercosur S.A.*, located in Cuba, imports and markets the products in Cuba for the internal market.

---

7. *Business Tips on Cuba*, August 1996, p. 18.

8. *Anuario Estadístico de Cuba* (2002). Capítulo VIII, Sector Industria.

9. Omar Everlery Pérez Villanueva. "La inversión extranjera directa en Cuba: Evolución y perspectiva," *Cuba—Reflexiones Sobre su Economía*, La Habana, 2002 p. 90.

10. Pérez Villanueva, p. 90.

**Table 1. Cuba's Food and Beverage Imports, in Thousand Cuban Pesos<sup>a</sup> and as Percent of Total Imports**

Year	Total Imports	Food Imports <sup>b</sup>	Beverage Imports	Food and Beverage Imports	Food and Beverage Imports as % of Total Imports
1990	7,416,525	827,341	3,728	831,069	11.2
1991	4,233,752	825,377	908	826,285	19.5
1992	2,314,916	498,569	12	498,851	21.5
1993	2,008,215	474,176	155	474,131	23.6
1994	2,016,821	467,331	2,760	470,091	23.3
1995	2,882,530	610,883	14,068	624,951	21.7
1996	3,480,608	689,108	11,676	700,784	20.1
1997	3,987,256	724,463	27,367	751,830	18.9
1998	4,181,192	703,940	21,208	725,148	17.3
1999	4,349,090	721,168	21,508	742,676	17.1
2000	4,759,613	671,569	16,853	688,422	14.5
2001	4,787,753	754,356	16,138	770,494	16.1
2002 est.	4,838,000	—	—	832,000	17.2

Source: Anuario Estadístico, various volumes.

a. Official Cuban exchange rate is 1 Cuban peso equal to 1 U.S. Dollar.

b. Excludes imports of live animals.

## FOREIGN SOURCES

Historically, before and after the revolution, imported food has been an important factor in feeding Cuba's population. During the years of favored trade with the Soviet Union and the Eastern Bloc countries, Cuba had the financial means to continue importing many of the bulk and U.S. branded food items that its consumers preferred. With the loss of Soviet aid beginning in the 1990s, food imports declined significantly in dollar value but increased dramatically as a percent of total imports.

In 1990 food and beverage imports were 11% of total imports. In the early 1990s those imports increased to 20% or more and did not recede until economic reforms were initiated in the middle 1990s. During the past three years, a decade after the loss of Soviet support, food imports have averaged about 16% of total imports. The higher percentage at the beginning of the 1990s was a result of a reduction in total imports and a continuing need for Cuba to import food to feed its people. The lower percentage at the beginning of this century is a result of the government's effort to increase food production and to feed

its population with lower-value imported food products (see Table 1).

Foods sold or made available direct to consumers and the tourist industry for dollars, generally, include those products that can be classified as consumer-oriented, but may also include intermediate products. Most bulk products require processing. Grains are an example of bulk products. Processed products, such as flour and vegetable oils, are an example of intermediate products, and meats and poultry products are examples of consumer-oriented foods.

Cuba's Ministry of Agriculture is responsible for regulating importation of bulk and intermediate agricultural products. Consumer-oriented products are imported under the jurisdiction of the Cuban Ministry of Public Health (*Ministerio de Salud Pública*—MINSAP).<sup>11</sup>

**Food and Beverage Importers:** Decentralization in Cuban foreign trade started in 1992, allowing state and private enterprises, joint ventures and international economic associations, direct access to external markets. Since then, the number of foreign business-

11. Caribbean Basin Agricultural Trade Office of the USDA/Foreign Agricultural Service in Miami. See recent reports on food laws and the food service sector, GAIN Reports #CU2001, 2002, and 2003.

**Table 2. Cuban Companies Authorized To Import Meat**

Residencial Turístico Marina Hemingway, S.A.	Distribuidora CIMEX S.A.
Compañía Hoteles Cubanacán S.A.	Empresa Importadora de Abastecimientos Técnicos
Grandes Hoteles del Caribe S.A.	Gaviota S.A.
Compañía de Tiendas Universo, S.A.	AT Comercial S.A.
Grupo de Exportación e Importación de la Oficina del Historiador de la Ciudad de la Habana	Empresa Cubana Exportadora e Importadora de Servicios, Artículos y Productos Técnicos Especializados
Palmares S.A.	CORATUR S.A.
Inversiones Locarinos S.A.	Empresa Cubana Importadora de Alimentos
Parque Central S.A.	SERVIMPORT
Comercializadora D' Leone	Cubanacán
Aerocatering S.A.	Servicios Comerciales Argos S.A.
Suministro Marítimo-Portuario A.C.	Comercializadora ITH S.A.
Cadenas de Tiendas TRD Caribe	CUBALSE
Firma Comercial Importadora "Pesmar"	"Importadora del Mar"
Cadenas de Tiendas Caracol S.A.	Firma Comercial Importadora EMSUNEX
Empresa Cubana Importadora y Exportadora de Productos Técnicos	Comercial Mayorista de Alimentos "Casabe"

men opening branch offices in Cuba or represented by agents has increased. Many warehouses were established and duty free zones and industrial parks were opened. Authorizations increased for companies to import food, for example 30 companies are currently authorized to import meat (see Table 2).

Meat and other consumer-oriented foods may be imported through several different agencies and companies. Most intermediate products and bulk commodities are imported through Alimport (*Empresa Cubana Importadora de Alimentos*, under the auspices of the *Ministerio del Comercio Exterior*). Consumer-oriented foods also may be imported by Alimport to supply the peso market, such as ration stores, school lunch programs, hospitals and other institutions. Alimport also imports food ingredients for the food industry sector. In addition, dollar stores and other government-owned companies may receive food products imported by Alimport.

Alimport decides who to do business with, what quantity to buy based on end customers' needs, and negotiates and fixes prices. It also decides buying terms depending on: seller, delivery terms and place, financial facilities, and freight advantages.<sup>12</sup>

For FAS and FOB operations, Alimport relies on a logistics group in charge of chartering vessels and monitoring the entire process of transportation from the operational standpoint. Alimport works with Cuban flag vessels, brokers, or directly with foreign flag-ship owners, and agrees on terms and operates with them as per international practice standards.

For other operations, the Alimport logistics group ensures shipping terms are in accordance with contract terms. It also follows up on shipment and carriage of goods until delivery at port of destination. Alimport negotiates and agrees on discharging terms with port terminal and stevedoring companies. According to Alimport's president, Alimport looks after needs of its end-customers and its purchasing strategy is based on such needs.<sup>13</sup>

Other official importing agencies of dollar foods include government-owned holding companies that supply retail dollar stores and government-owned companies and mixed enterprises that own or operate tourist facilities.

**Food and Beverage Imports:** Food and beverage imports, in terms of total value, are currently at the level of the beginning of the 1990s. Food imports in

12. Presentation by Mr. Pedro Alvarez Borrego, President of Alimport, Agricultural Sales Conference, Cancun, Mexico, Jan. 30-Feb. 2, 2002.

13. *ibid.*

1990 were \$827 million and beverage imports totaled \$4 million. In 2001 food imports were valued at \$754 and beverage imports at \$16 million. Wine at \$5.7 million in 2001 accounted for 35% of the beverage imports. From 1991 to 1995 wine imports were negligible.

Increased wine imports since 1995 reflect the government's emphasis on tourism, which has become the driving force of the economy. Tourism also requires importation of higher value foods. With the return of tourism forecast, Cuba may increase the value of food and beverage imports in 2003 over the \$832 million estimated for 2002.

### MAJOR MARKETING OUTLETS FOR DOLLAR FOODS

There are two principal marketing outlets for food sold for dollars in Cuba. They are the dollar stores and the tourist trade. Other entities involved in the dollar food chain include in-home family restaurants known generally as *paladares*<sup>14</sup> and the underground or black market. The importance of the black market, which deals in both pesos and dollars, has fluctuated with the availability of food through official channels and economic reforms and regulations imposed by the government.

In-home restaurants are limited to family employment and may serve only 12 customers at one time. They may charge their customers in either pesos or dollars; however, most *paladares* request dollars for payment. *Paladares* do not import food products, but purchase those products through the retail dollar stores, state-operated agricultural markets, semi-private *agromercados*, and from other sources using both pesos and dollars. Economic impact of the private restaurants has been reported to be negligible.<sup>15</sup>

Impact of *paladares* on the dollar food market, however, may be of greater proportional importance than

for the total economy. In addition to purchasing food for dollars at retail dollar stores, *paladares* owners may exchange dollars for pesos at CADECAs in order to purchase food in the peso agricultural markets.

### Retail Dollar Stores

Retail stores selling food and beverage products for dollars are scattered throughout the country. Dollar stores are owned by the Cuban government. No foreign investment in these stores has been permitted. In all of these retail stores, food products that have been imported or produced domestically are sold for dollars.

In Havana there are approximately 300 dollar stores, and in the entire country roughly 1,000. Most of the dollar stores outside Havana are located in the tourist areas of Varadero and Jardines del Rey, Norte de Camagüey, Norte de Holguín, Santiago de Cuba, Costa Sur and Archipiélago de los Canarreaos.

**Holding Companies Serving Dollar Stores:** Companies servicing the dollar stores are government-owned, but operate as semi-autonomous private companies. The companies are incorporated and have the *Sociedad Anónima* (S.A.) designation. Generally, the companies control their own hard-currency revenues and can make purchases on their own account. S.A. companies must remit a monthly payment to the government. The amount is negotiated between the government and the company directors.<sup>16</sup>

Names of the major dollar store chains and the government corporations owning them include: 1) *Tiendas Panamericanas* (CIMEX S.A.), (2) *Tiendas Universo* (Cubanacán S.A.), (3) *Tiendas Caracol* (Caracol S.A.), (4) *Tiendas Meridiano* (CUBALSE S.A.), (5) *Tiendas TRD Caribe* (Caribe S.A.), and (6) *Tiendas Habaguanex* (Habaguanex S.A.).

14. *Paladar*, translated means palate or taste, but the origin of the use for Cuban family restaurants is said to be taken from a Brazilian soap opera. The main character goes to the capital and establishes a chain of small restaurants called *Paladares*.

15. Ted Henken, "Last Resort or Bridge to the Future? Tourism and Workers in Cuba's Second Economy," *Cuba in Transition—Volume 10* (Washington: Association for the Study of the Cuban Economy, 2000), p. 331.

16. *Cuba: A Guide for Canadian Businesses*. Department of Foreign Affairs and International Trade. The Canadian Trade Commissioner Service, June 1999.

**Purchases and Sales of Dollar Stores:** Based on data obtained pertaining to some of the dollar store purchases, it is estimated by the authors that approximately 40% to 60% of the value of food products purchased for sale in dollar stores are imported. Remaining needed supplies are provided from national production.

Prices of products sold in the dollar stores are normally higher than those offered in other internal food markets. The consumer may pay a price that is 200% or more above the imported price or the price in one of the internal food markets.<sup>17</sup> Products similar to those available in the dollar stores may be found at lower prices in other internal markets. Dollar stores, reportedly, sell imported products at 240% of cost, and products of national origin at 170%.

### **Tourist Hotels and Restaurants**

Cuba rates its hotels on a star basis, ranging from one to five stars. A five-star hotel is better than a four-star, etc. The rating system does not compare facilities and services to comparable stars of hotels in other countries, but is used only to compare quality of hotels within Cuba. With current standards, most international tourism and the resulting market for dollar foods, is concentrated in three, four and five-star hotels. While two-star and one-star hotels provide a limited market for imported dollar food products, the major source of food for these hotels is the domestic market.

Cuba has approximately 300 tourist properties with about 40,000 rooms. Five-star and four-star hotels account for approximately 40% of the hotels and 70% of room occupancy. Three-star hotels account for about 35% of the hotels and one-fifth of the rooms, while two star-hotels account for 25% of the hotels and 10% of room occupancy. Annual growth in tourism in the 1990s was more than 15%, but in 2001 the number of tourists was only slightly more

than the year before, approximately 1.8 million. A slow start for tourism in 2002 resulted in even fewer tourists, 1.7 million, than recorded each of the previous two years.

In the early 1990s, when tourists numbered some 300,000, only 12% of the products and services required for the tourist industry were provided through national production. Almost all food products needed for tourist hotels and restaurants were imported. All of the beer and bottled water served to tourists was imported. As a result of economic reforms in the mid-1990s, pursuit of a policy of import substitution, and international assistance to the food industry, the supply situation was reversed and Cuba now supports, according to a Cuban study, some 65% of the tourist hotel and restaurant needs through national production. One national brewery, a joint venture, supplies about 95% of the tourist market for beer and another joint venture supplies almost all of the bottled water.<sup>18</sup>

**Holding Companies Serving Tourism:** Several semi-autonomous holding companies service the tourist industry. They include: Corporación Cubanacán, Grupo Hotelero Gran Caribe, Horizontes Hoteles, Habaguanex, Grupo de Turismo Gaviota, Isla Azul, Grupo de Recreación y Turismo Rumbos, Compañía de Marinas Puerto Sol, and the Complejo de Convenciones. Some description of each company is given in Box 1. To some extent, all of the companies compete with each other, but they concentrate on different segments of the tourist market. No foreign investment has been introduced in the ownership of these companies.

A few foreign companies have negotiated contract agreements that permit them to import food directly for their tourist facilities. Foreign companies having arrangements under Foreign Investment Law No. 77 with the Cuban companies often operate as hotel ad-

---

17. Armando Nova González, "El Mercado Interno de los Alimentos," in *Cuba—Reflexiones Sobre Su Economía*, La Habana, 2002, p. 193.

18. Miguel Alejandro Figueras Pérez, "El turismo internacional y la formación de clusters productivos en la economía cubana," in *Cuba—Reflexiones sobre su Economía*, La Habana, 2002, pp. 111 and 112. (Cuban data on national supply, however, may consider a food product manufactured with imported food ingredients, or a repackaged foreign product as national origin.)

**Box 1. Holding Companies Supplying the Tourism Trade**

**Corporación Cubanacán S.A.** was formed to operate four and five star hotels, restaurants, cafeterias, retail stores, water recreation centers, tourist health facilities, and tourist reception and other recreation centers. Cubanacán also produces and sells artisan handicrafts and operates a transportation company that provides tour buses and rents automobiles. Many of the tourist hotels, administered as either international economic association contracts or joint ventures, involve Cubanacán. Joint investment arrangements under Foreign Investment Law No. 77 have been developed by Cubanacán with Grupo Sol Meliá (Spain), LTI (Germany), Golden Tulip (Holland), and SuperClubs (Jamaica).

**Grupo Hotelero Gran Caribe S.A.** operates more than 40 hotels classified as four and five star hotels. Gran Caribe hotels have 9,500 rooms for tourists scattered throughout the country, but are located mainly in Havana and Varadero. In addition, the group operates three primary tourist attractions in Havana, the Restaurant La Bodeguita del Medio, Bar and Restaurant La Floridita and the Cabaret Tropicana.

**Horizontes Hoteles S.A.** is a hotel chain, mostly three and four stars, with more than 7,000 rooms. Horizontes also operates facilities with mineral water baths, treatment for stress, etc. One spa treats patients with health problems characteristic of the Caribbean.

**Grupo de Recreación y Turismo Rumbos S.A.** founded in 1994, has grown approximately 20% annually. It operates facilities for both national and international tourists in Cuba's major tourist cities and rustic locations. Rumbos is diversified, and has established businesses in: a travel agency; various types of restaurants, including fast food (comidas rápidas, restaurants and parrilladas); small lodges in cities, on beaches, in the country, at golf courses,

airports, and marinas; and eco-tourism with 40 routes. Currently, Rumbos is planning eight new golf courses to meet the standards for both international golf amateurs and professionals.

**Compañía de Marinas Puerto Sol S.A.** was created to develop marinas, piers, recreational boat activities, etc. The company owns 390 two star and local hotels to meet the needs of tourists and nationals.

**Grupo de Turismo Gaviota S.A.** is a tourism company controlled by the Revolutionary Armed Forces. It is dedicated to operation of four and five star hotels, development of marinas, restaurants and cafeterias, recreational water facilities, and health facilities for tourists. It also operates a transportation company that offers tourist buses and rental of automobiles and taxis.

**Habaguanex S.A.** is part of the Office of the Historian of Havana (Oficina del Historiador de la Ciudad). It was established to develop three and four star hotels for international tourists in the Historic Center of Old Havana (Centro Historico de la Habana Vieja). Currently, it is renovating various hotels and opening restaurants in the oldest part of the city.

**Isla Azul S.A.** was established to develop two and three star hotels for international tourists seeking low-cost accommodations.

**Complejo de Convenciones** includes operation of the Palace of Conventions (Palacio de las Convenciones), Hotel Palco, the restaurants Rancho Palco and El Palenque, and Club Habana. It also administers the Sala de Exposiciones (PABEXPO), the Mansión Residencial (*Casa de Protocolo*—Protocol House), and the auto rental agency, Palcocar. Basically, the complex specializes in the development of tourist events and conventions.

ministrators and assume responsibility for food and beverage services. Some have taken equity positions

in the hotels owned by the holding companies. These include, among others: Grupo Sol Meliá and Hoteles

C from Spain; Accor and Club Med from France; LTI and RIU from Germany; Delta Hotels and Resorts, Commonwealth Hospitality, Ltd., and Leisure Canada, Inc. from Canada; Viaggi di Ventaglio and Press Tours from Italy; and SuperClubs from Jamaica. About 30% of Cuba's hotels involve investments with foreign companies. There are no totally foreign owned hotels in Cuba.

**Principal Supplier for Tourism:** Comercializadora ITH, S.A. is the principal company importing supplies for tourist hotels and restaurants. ITH operates under the auspices of the Ministry of Tourism (*Ministerio del Turismo*—MINTUR) importing products for government-owned tourism holding companies, mixed enterprises, and individual hotels and restaurants. It is the only company supplying food and other items for tourist facilities throughout the country. Food products may be imported directly by ITH, or it may import through Alimport, or any of the official importing agencies. Products are purchased by ITH from both domestic and foreign sources.

Some joint-venture hotels have agreements under the foreign investment law to import direct, without going through a government purchasing company. At times, because of the foreign company's supplier contacts and expertise, government-owned hotels may import through the joint venture or contract agreement companies. The supply and quality of food products available through the importing company may determine which source is used.<sup>19</sup>

**Food Purchases, Sales and Tourism Revenue:** Gross revenues from tourism in 2002 from 1.7 million tourists totaled \$1.5 billion, with \$350 million in gross profits. Cuba has projected 3.1 million visitors in 2005, and revenue from tourism at \$2.5 billion. For 2010, Cuba has projected 6.2 million visitors and \$10 billion in revenue. In view of factors affecting tourism in Cuba and worldwide, it is doubtful these figures will be achieved.

Increased tourism of this magnitude obviously would affect the demand for food, both from domestic production and imported. The proportional increase would probably favor imported food. Increased demand for imported food would impact the need for additional hard currency. With the high markup policy on food sold through tourist hotels and restaurants, however, the country may advance the foreign currency needed to import the food needed for tourism. Food is sold through tourist hotels and restaurants, generally, at 300% of the imported dollar cost. As in dollar stores, food of national origin transacted through tourism is sold at a lower price markup.

Cubanacán S.A. accounts for a large percentage of the tourist market. It is comprised of 15 companies registered in Cuba, including Cubanacán Hoteles administering 28 hotels. Other Cubanacán companies include Palmares Restaurantes, operating 50 restaurants and numerous cafeterias. Tiendas Universo owns a network of commercial centers and stores catering to the tourist trade. Cubanacán, and the mixed enterprises in which Cubanacán maintains interest, represent 34% of Cuba's tourism receipts.

### VALUE OF PRODUCTS ENTERING THE DOLLAR FOOD MARKET

Complete data are not available to the authors stating the value of food, imported or produced domestically, sold for dollars through dollar stores or tourism. Estimates of the value of food distributed through dollar stores and the tourist industry are made based on both official and unofficial sources (see Table 3).

### Value and Sources of Domestic Supplies

Domestic supplies of dollar food originate with the Ministry of Agriculture, the Ministry of Food Industries and mixed enterprises.

Food production, mostly fresh produce, sold through the Ministry of Agriculture to the tourist sector and dollar stores in 2001 totaled \$168 million, an increase of 3.5% compared to gross revenues of US\$162 million reported in 2000.<sup>20</sup> In 1998 and

19. Caribbean Agricultural Trade Office, USDA/FAS, Miami.

20. U.S.-Cuba Trade and Economic Council, *Economic Eye on Cuba*, March 18, 2002.

**Table 3. Estimate of Annual Value of Food Sold in the Dollar Food Market, Value of Dollar Earnings from Food Sales in the Dollar Food Market, and the Sources of Food Entering the Dollar Market, Million U.S. Dollars**

Source of Food Sold	Dollar Market	Value of Food at "Wholesale"	Multiplier	Value of Dollar Earnings
Imported	Dollar Stores	40 - 60	2.4	100 - 140
Imported	Tourist Industry	40 - 60	3.0	120 - 180
Ministry of Food Industries	Dollar Stores & Tourism	150 - 180	1.7	250 - 300
Ministry of Agriculture	Dollar Stores & Tourism	160 - 180	1.7	270 - 300
Mixed Enterprises	Tourist Hotels & Restaurants	5 - 10	1.7	10 - 15
Agricultural Markets	CADECAs <sup>a</sup>	5 - 10	-0-	5 - 10
TOTAL		400 - 500		750 - 950
Earnings Adjusted <sup>b</sup>				650 - 800

a. CADECAs located at various agricultural markets exchange dollars for pesos. Individuals who have exchanged dollars for pesos may then purchase food with those pesos for their own private use and/or for sale through their private restaurants (paladares). Dollars exchanged through all CADECAs in 2001 earned \$100 million for the government, of which it is estimated by the authors 5% to 10% was used for food. It is an indirect use of dollars to purchase food.

b. Dollar earnings adjusted to compensate for the import cost of food (bulk and intermediate) used in the manufacture of food products sold in the dollar market, and the import cost of food sold through tourism and in the dollar stores.

1999, MINAGRI reported gross revenues from marketing agricultural commodities to the tourism sector of US\$59 million and US\$70 million, respectively. Information is not available to explain the large increase from \$70 million in 1999 to \$162 million in 2000. Assuming the higher level of food supply will continue to be available for sale to the tourist industry; however, an estimated value of food produced under the auspices of the Ministry of Agriculture and sold for dollars through tourism could range from \$160 million to \$180 million in 2003.

Sales of processed food for the tourist sector and dollar stores in 1998 totaled \$171 million, 21% more than the year before. Production was three times greater than in 1994, when the food processing industry began focusing on the dollar market. Approximately 15% of total output of the food processing industry were destined for the tourist trade and export. By 1999, the dollar market represented 20% of production sales. Processed foods sold through the Ministry of Food Industries to the tourist sector and dollar stores, assuming most of the mixed enterprise production and some of the national company production enter the dollar market, could range from \$150 million to \$180 million.

Data are not available on the value of food produced in Cuba, largely fresh fruit and vegetables, for the

tourist market by mixed enterprises, but could range from \$5 million to \$10 million.

#### Value and Sources of Foreign Supplies

The European Union and Canada in the 1990s provided about half of Cuba's food imports, while Mexico, and Latin American (Argentina and Brazil for soybean products) and Asian countries (China, Thailand and Vietnam for rice imports) were also important sources of food imports. More than half of Europe's agricultural exports to Cuba, which totaled \$185 million in 1999, consisted of wheat flour, vegetable oils and consumer-ready products, primarily dairy products and poultry meat. Wheat accounted for about 45% of the total. Canada's agricultural exports to Cuba, \$115 million in 1999, were largely (83%) pulses and consumer-oriented products, such as red meat, poultry and dairy products.

Official data show food and beverage imports in recent years ranging from \$700 million to \$800 million. Approximately half of the food imported by Cuba meets the classifications of intermediate and consumer-ready products. The remaining half consists of bulk commodities, such as wheat, coarse grains, soybeans, pulses, and rice. Most of the bulk and some of the intermediate products imported by Alimport are for the accounts of the ration stores, institutions and food manufacturing companies. A large percentage of the imported food products clas-

**Table 4. U.S. Food and Agricultural Sales to Cuba, 2001-2002, and January through May, 2002-2003 (\$1,000)**

Product	2001	2002	2002 Jan-May	2003 Jan-May	Percent Change (2003/2002)
<b>Bulk Products</b>	<b>2,327</b>	<b>72,774</b>	<b>38,605</b>	<b>36,099</b>	<b>-6.5</b>
Wheat	—	22,789	16,005	4,832	-69.8
Coarse Grains	2,327	22,739	6,538	14,746	125.5
Rice	—	6,266	6,266	8,077	28.9
Soybeans	—	20,922	9,796	8,213	-16.2
Pulses	—	58	—	230	—
<b>Intermediate Products<sup>a</sup></b>	<b>—0—</b>	<b>41,316</b>	<b>7,812</b>	<b>36,796</b>	<b>373.3</b>
Soybean Meal	—	19,281	3,807	12,745	234.8
Soybean Oil	—	21,438	3,577	23,403	554.3
Animal Fats	—	428	428	17	-96.0
Other	—	165	0	489	—
<b>Consumer Oriented Products</b>	<b>2,247</b>	<b>25,723</b>	<b>8,554</b>	<b>15,575</b>	<b>82.1</b>
Snack Foods	—	176	0	83	—
Breakfast Cereal	—	41	0	0	—
Red Meats	—	254	0	32	—
Poultry Meat	1,959	22,946	7,713	13,597	76.3
Dairy Products	288	336	265	67	-74.7
Eggs & Products	—	767	267	641	140.1
Fresh Fruit	—	366	0	501	—
Fresh Vegetables	—	28	0	0	—
Processed F&V	—	189	0	92	—
F&V Juices	—	3	0	0	—
Tree Nuts	—	11	0	38	—
Wine & Beer	—	46	0	0	—
Other	—	562	308	524	70.1
<b>Total</b>	<b>4,574</b>	<b>139,814</b>	<b>54,971</b>	<b>88,650</b>	<b>61.3</b>

a. Excludes live animals (\$3 million in 2002). Cumulative values for major products from December 2001-May 2003 (in million dollars): soybean oil, 45; coarse grains, 40; poultry meat, 39; soybean meal, 32; soybeans, 29; wheat, 28; rice, 14; eggs and products, 1.4; and fresh fruit, 0.9.

sified as intermediate and consumer-oriented, is sold direct to consumers through dollar stores, government-owned restaurants, and tourist hotel cafeterias and restaurants.

### U.S. Share of Cuba's Food Market

With changes in U.S. policy regarding food and agricultural exports to Cuba and Cuba's reduced food supply as a result of tropical storms, food imports from the United States have been initiated in the new century. In the year 2001, the United States exported \$4.6 million in food to Cuba. In 2002, U.S. food exports to Cuba increased to \$140 million (see Table 4).

The Cuban government has designated Alimport as the sole importer of food and agricultural products from the United States. Dollar store and tourism holding companies must obtain authorization from

Alimport before importing food from the United States. This procedure is not required for other countries.

Excluding political considerations, it is anticipated Cuba will continue buying U.S. food because of lower transportation costs and a competitive U.S. agricultural sector that wants to trade with Cuba. Another factor, less obvious, is that Cubans are familiar with U.S. brands and appreciate the quality of U.S. food products. Until 1992, soon after the loss of favored trade with the Soviet Bloc countries, Cuba purchased U.S. branded foods directly from foreign subsidiaries of U.S. based companies. With passage of the 1992 Cuban Democracy Act (the "Torricelli Act"), U.S. Treasury authority to issue licenses for most U.S. subsidiary trade with Cuba was revoked. (The Torricelli Act also banned for 180 days vessels

that had entered a Cuban port from loading or unloading in U.S. ports.)

In 1996 the Cuban Liberty and Democratic Solidarity Act (the “Helms-Burton Act”) further tightened the embargo. Although trade between Cuba and U.S. foreign-based subsidiaries was not legal, according to U.S. law, food products with popular U.S. brands continued to be available in Cuba throughout the 1990s. It was not until January 1999, when President Clinton announced substantial changes in U.S. commercial policy toward Cuba, before prospects improved for food and agricultural exports to Cuba.

The Executive Order President Clinton signed in 1999, although interpretation was questionable, permitted U.S. food sales in Cuba to small private farmers, private cooperatives, individual Cuban nationals, private home-based restaurants, non-government organizations (NGOs), and the government-formed Basic Units of Cooperative Production (UBPCs). Although these private sales opportunities were permitted, there were no significant sales of food to Cuba until 2001. In fact, there were no significant sales of U.S. food and agricultural products to Cuba for more than 40 years, from 1960 to 2001.

More recent action, the Trade Sanctions Reform and Export Enhancement Act (TSRA), was signed into law late in 2000. It was not until July 12, 2001, however, that the implementing regulations were published. One of the primary purposes of TSRA was to require the U.S. Government to license commercial sales of agricultural commodities to purchasers in Cuba. All sales by U.S. companies would be authorized only in U.S. dollars—no credit transactions would be permitted.

Initially, Cuba cast aside offers of U.S. food products, including donations for disaster assistance. Following Hurricane Michelle in November 2001, however, Cuba’s food reserve was depleted and Cuba turned to the United States for food, especially bulk

commodities, such as wheat, coarse grains, soybeans and rice, to supply food industries, ration stores and to furnish institutional food. All purchases have been for cash.

In May 2002, the Cuban government designated Alimport as the exclusive purchasing agent for U.S. based companies that want to export food products direct from the United States to Cuba. Alimport purchases agricultural and branded food products from U.S. based companies and re-sells, or transfers, the products to other Cuba-based companies or institutions.<sup>21</sup>

Cuba has indicated it will continue a high level of food imports from the United States in 2003. Cuba seems to be doing this. During the first five months of 2003, Cuba has increased imports of U.S. food 61% over imports in 2002. Since exports of U.S. food to Cuba began in December 2001, Cuba has purchased U.S. food valued at \$233 million (Table 4).

U.S. bulk agricultural exports to Cuba from December 2001 through May 2003 totaled \$111 million, intermediate product exports were \$78 million, and consumer-oriented exports reached \$44 million. Major commodity exports were: soybean oil, \$45 million; coarse grains, \$40 million; poultry meat, \$39 million; soybean meal, \$32 million; soybeans, \$29 million and wheat, \$28 million.

With prospects for regaining a higher level of tourism, Cuba’s need for high-value food may increase. A study by the Cuba Policy Foundation<sup>22</sup> states that expenditures of \$30 per day for food by U.S. tourists would require \$126 million in food imports annually by Cuba, based on 1.5 million tourists staying seven days in Cuba. Higher estimates of dollar food expenditures and larger numbers of tourists, whether from the United States or other countries, would result in higher estimates of food import needs.

---

21. On May 12, 2002, the president of Alimport reported that Alimport would be the exclusive agent in Cuba for U.S. based companies. U.S.-Cuba Trade and Economic Council, [council@cubatrade.org](mailto:council@cubatrade.org).

22. Cuba Policy Foundation, “Estimated Agricultural Economic Impacts of Expanded U.S. Tourism to Cuba,” [www.cubafoundation.org](http://www.cubafoundation.org), Washington, D.C., February 2003.

### CONCLUSION AND COMMENTS

Combining estimates of domestic and foreign food supplies entering Cuba's dollar food market provides a total of all foods sold in Cuba for dollars at roughly \$400 million to \$500 million. The value of dollar earnings from food being sold for dollars could range from \$750 million to \$950 million. Allowing for the cost of imported food sold in the dollar market would provide adjusted dollar earnings of \$650 million to \$800 million.

Based on the findings, the hard currency cost of imported food appears to be offset, in general, by sales in Cuba of food for dollars. In other words, dollar earnings from sales in Cuba of imported and domestically produced food appear to be equal to or greater than the amount of foreign exchange used to import food.

Estimating the dollar value of food sales at dollar stores and tourist facilities provides a check on the value of dollar food entering those outlets. Dollar store sales totaled \$1.22 billion in 2001.<sup>23</sup> If the level of sales continues in 2003 and half of the dollar store sales is for food, the value of dollar food sold would be about \$600 million. Tourism in 2001 was reported at 1.8 million and in 2002 at 1.7 million. If tourism returns in 2003 to the 2001 level and each tourist stays seven days and spends \$30 to \$45 per day for food, the range in value of food sold would be \$360 million to \$540 million. Combined, dollar food sales in tourist facilities and dollar stores would total roughly \$1 billion.

In addition to the dollar expenditures for food sold in dollar stores and through tourist hotels and restau-

rants, Cubans exchange dollars for pesos to buy food at the agricultural peso food markets. CADECAs often are located at or near agricultural markets to exchange dollars for pesos. The dollars then become hard currency generated from the sale of domestic food.

Growth of Cuba's dollar food market, to a large extent, is contingent on continuation of a relatively high level of remittances, and increases in tourism and foreign investment. With elevated security concern worldwide following events on September 11, 2001 in the United States, and economic recession in Canada and Europe, growth of tourism in Cuba decreased in 2002 but has risen in the first part of 2003. Foreign investment appears to be continuing on a descending trend.

With a lower rate of tourist growth and shrinkage of disposable income worldwide for tourists, as well as reduced foreign investment, Cuba's dollar food market could be affected negatively. On the other hand, if there is sustained international economic recovery, tourism increases and Cuba implements effective growth policies, the demand in Cuba for dollar food could increase. The United States, in particular, would be in a favorable position because of its competitive prices and lower freight costs.

Perhaps the greatest unknown is the future of travel restrictions for U.S. tourists to Cuba. Lifting the U.S. imposed restrictions on travel to Cuba could result in a substantial increase in the number of tourists going to Cuba. This would create an increased demand in Cuba for imported, as well as domestically produced, dollar food and beverage products.

---

23. Paolo Spadoni, "The Role of the United States in the Cuban Economy," in this volume.