

# CUBA'S EVOLVING AGRICULTURAL IMPORT PATTERNS

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In the spring of 2014, a series of news articles appeared indicating that U.S. food and agricultural exports to Cuba continued to plummet (“continuaron en picada”) (Café Fuerte; Cuba Standard; and Economic Eye on Cuba). Their evidence for this assessment was that the value of U.S. food and agricultural exports to Cuba in 2013 was substantially lower than in the peak year of 2008, coupled with a decline in the value of U.S. food and agricultural exports to Cuba of approximately 25% between 2012 and 2013. However, what these articles failed to mention was that U.S. food and agricultural exports to Cuba increased by 30% between 2011 and 2012, and that the decline seen in 2013 simply brought the export value back down very close to the levels in 2010 and 2011.

The misinformation provided in these articles is the result of a failure to carefully monitor the changes in the patterns of U.S. food and agricultural exports to Cuba over time, and a lack of understanding of the causes driving these changes. Furthermore, in addition to the shifts in the value of trade from year to year, there also are interesting changes taking place in the composition of Cuba's food and agricultural purchases from the United States and its other country suppliers. This paper will attempt to provide a more complete perspective on these shifting patterns of trade as they have evolved over time.

## BACKGROUND

Figure 1 documents the changes in the value of U.S. food and agricultural exports (USF&AE) to Cuba

since their inception pursuant to the Trade Sanctions Reform and Export Enhancement Act (TSRA) of 2000.

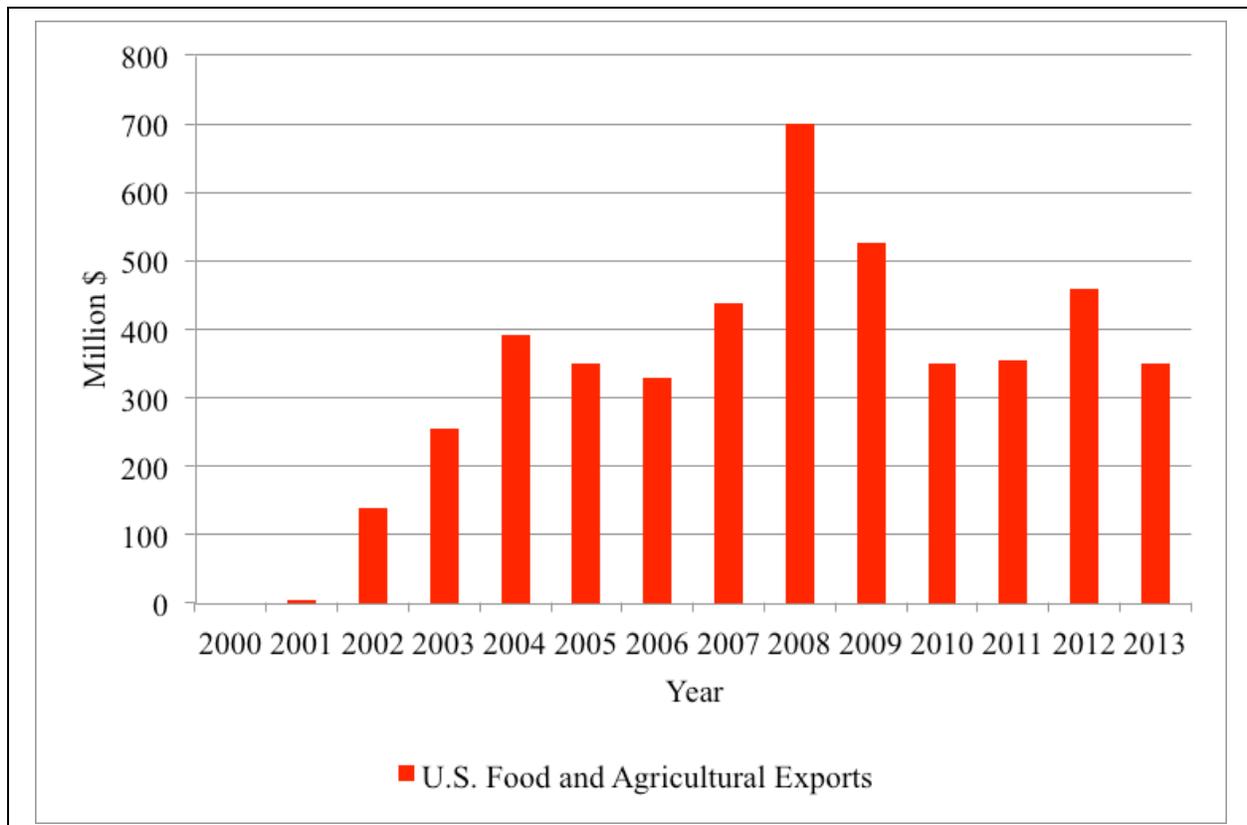
Previous presentations by the author at ASCE and in other writings have documented the changes in the value of U.S.-Cuba agricultural trade and the forces driving certain of the changes, including:

- the rapid growth of USF&AE to Cuba from the time of implementation of the TSRA through 2004;
- the decline in USF&AE to Cuba between 2004 and 2006 in response to the uncertainty created by the U.S. government's decision to re-evaluate the specific regulations relating to the “cash-sale” provision of the TSRA legislation;
- the reemergence of growth of USF&AE to Cuba beginning in 2007 following Cuban acceptance of the final determination of the new policy requirement for “cash sales” (i.e., that an irrevocable letter of credit with a third country bank be in place before ships loaded with food and agricultural products destined for Cuba could leave the U.S. harbor<sup>1</sup>); and
- the increase in global commodity prices which drove the majority of the increase in the value of Cuban food and agricultural imports from the United States between 2007 and 2008.

This paper will take a deeper look at the changes in the value and composition of USF&AE to Cuba from their peak year of 2008 to the present.

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1. Under the old terms of sale, letters of credit with third country banks had to be in place before ships could unload in Cuba.

**Figure 1. U.S. Food and Agricultural Exports to Cuba, 2001 to 2013.**

### DECLINE FROM THE PEAK

The year 2008 was truly unusual for U.S. food and agribusiness firms exporting to Cuba. Only eight years before, U.S. companies were not permitted to sell food and agricultural products (or indeed, any products) to Cuba, and yet in 2008 Cuba purchased over \$700 million in food and agricultural products from the United States. But 2008 was a year of particularly high global commodity prices, so that while the value of USF&AE to Cuba increased by more than 60% between 2007 and 2008, Messina (2009) documents that only about 11% of the increase was attributable to increases in the quantity of imports from the United States, meaning that the vast majority of the increase was the result of the higher commodity prices.

In 2009 the value of USF&AE to Cuba experienced a significant decrease. This decline was the result of several factors. First, global commodity prices decreased somewhat in 2009, which was responsible for a portion of the decline in the value of USF&AE to

Cuba. Second, during the year several other countries began to offer credit to Cuba to finance agricultural imports, in some cases with extended terms; this resulted in a decline in the quantity of Cuba's purchases from the United States as the Cuban government shifted a portion of their purchases to other country suppliers to avoid having to pay cash for their imports from the United States. Together, these factors both contributed to the decline in the value of USF&AE to Cuba of nearly 25% between 2008 and 2009, to \$527 million.

### REACHING AN EQUILIBRIUM?

In 2010, the impact of credit offered to Cuba by other countries and, in particular, extended credit terms (in some cases as long as 12 or even 24 months) contributed to a continuing decline in U.S. food shipments to Cuba, and the value of USF&AE to Cuba in that year fell to about \$350 million, or approximately half of the peak level of 2008. The situation remained fairly stable in 2011 when U.S. firms exported approximately \$354 million worth of food

and agricultural products, and it appeared as though USF&AE to Cuba may have reached an approximate equilibrium level. However, in 2012, the value of USF&AE to Cuba showed an unanticipated increase of nearly 30%, to \$460 million. The reason for this increase is not apparent until the trade data is analyzed more carefully. Breaking down the annualized data on a monthly basis shows that over 78% of the value of this annual increase took place in the first quarter of the year (Table 1). As it is unusual for such a large increase to be concentrated in a single quarter, further examination is in order.

**Table 1. Percent Change in U.S. Food and Agricultural Exports to Cuba, 2011–2012: 1<sup>st</sup> Quarter Compared with 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> Quarters Cumulative**

	1 <sup>st</sup> Quarter	2 <sup>nd</sup> , 3 <sup>rd</sup> , 4 <sup>th</sup> Quarters cumulative
Quantity	69%	-3%
Value	78%	13%

The U.S. Department of Agriculture breaks down its extensive trade databases into a variety of formats. One of the more interesting and informative formats involves compiling trade data into three general categories: Bulk agricultural commodities (e.g., bulk grains like wheat, soybeans or corn), Intermediate agricultural commodities (i.e., those with some processing, for example wheat flour or soybean oil), and Consumer-Oriented food and agricultural commodities (more highly processed goods like meat products, dairy products, breakfast cereals, etc.). USDA refers to this data format as their BICO data series (for Bulk, Intermediate and Consumer-Oriented) and it offers valuable insights on shifting trends in trade flows over time.

When the data for Cuban purchases of U.S. food products for 2011 and 2012 is broken down by BICO categories, it is apparent that very nearly all of the increase between 2011 and 2012 takes place in the Intermediate and Consumer-Oriented categories (Table 2). In fact, the Consumer-Oriented category total of over \$180,000 is the highest value for that category in the 13 years since Cuba has been purchasing food products from the United States.

**Table 2. Cuban Food and Agricultural Imports from the United States, Broken Down by USDA BICO Product Categories: Value and Percentage Change, 2011 and 2012 (in thousand U.S. dollars and %)**

Year	2011	2012	% change
Bulk	\$194,926	\$198,890	2.0%
Intermediate	\$37,070	\$79,776	115.2%
Consumer Oriented	\$120,784	\$180,812	49.7%
TOTAL	\$352,780	\$459,479	30.2%

It should be noted that Pope Benedict XVI visited Cuba in late March of 2012 and his visit resulted in a significant increase in visitors. Considering this information in conjunction with the aforementioned data, it would appear that Cuba's increase in food and agricultural imports (and in particular of Consumer-Oriented and Intermediate food products) from the United States in 2012 was likely influenced by Cuban government efforts to increase supplies of higher value, consumer-oriented food products in anticipation of the influx of visitors to Cuba related to the Pope's visit.

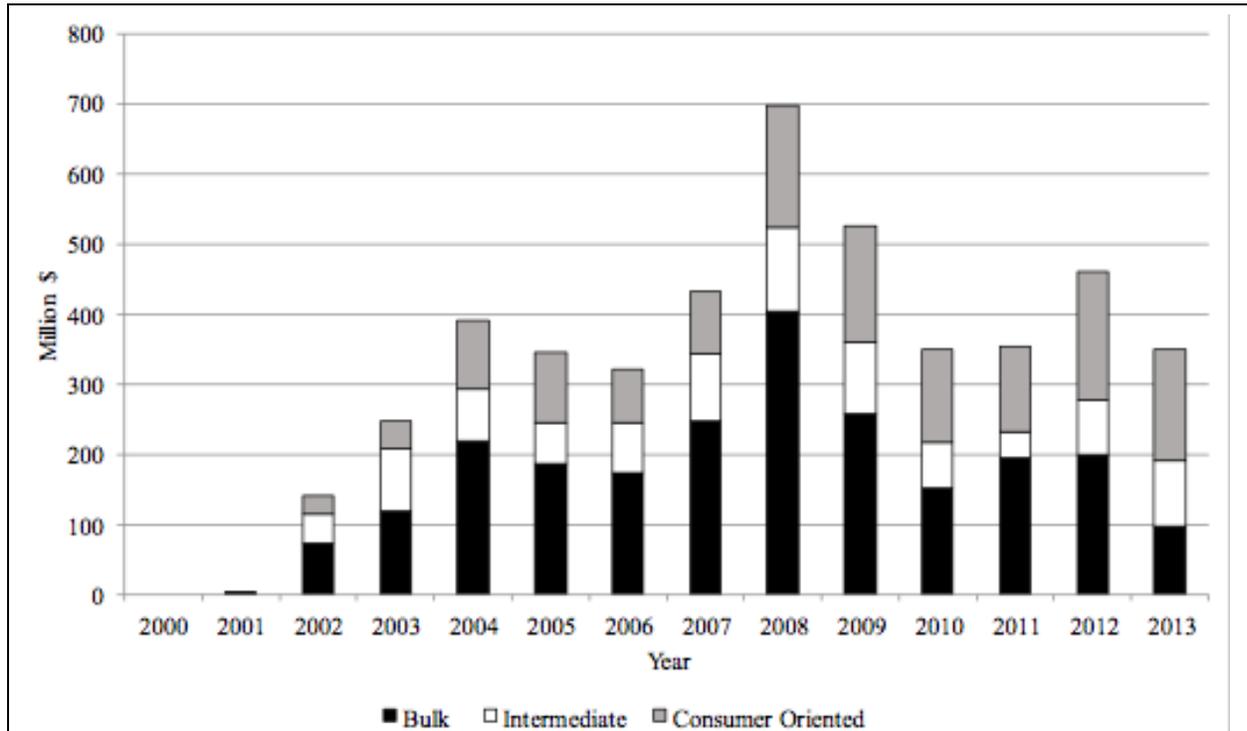
In 2013, the value of USF&AE to Cuba decreased to \$349 million, which is quite close to the export levels in 2010 and 2011. This is the decrease in trade which was highlighted in the two press articles mentioned at the beginning of this paper in an apparent effort to suggest that USF&AE to Cuba are "crumbling." However, this more careful examination of the data over time would suggest a return to historical trade patterns rather than deterioration.

#### FURTHER INSIGHTS FROM BICO DATA

Still further examination of the USDA BICO data suggests that while the overall value of USF&AE to Cuba has been relatively stable for the past four years, important changes in the composition of trade are taking place.

Figure 2 replicates Figure 1 on total USF&AE to Cuba, except that the bar graphs in Figure 2 are broken up into Bulk, Intermediate and Consumer-Oriented

**Figure 2. Cuban Food and Agricultural Imports from the United States, Broken Down by BICO Categories, 2001 to 2013**

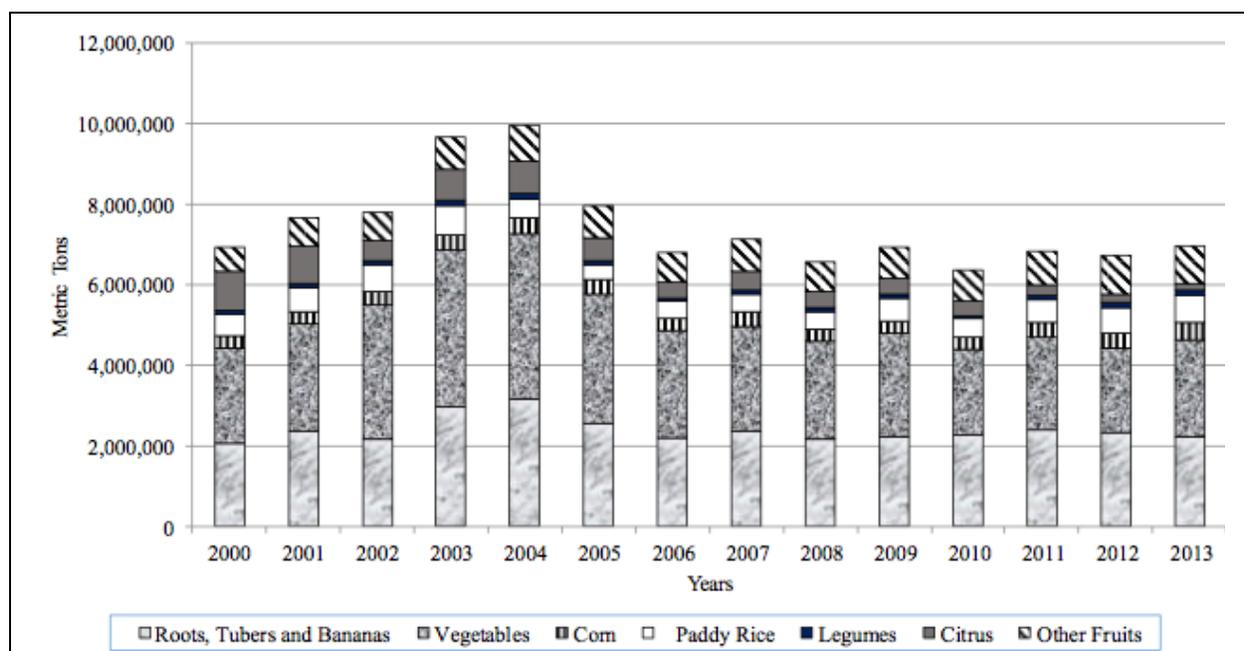


product categories. What is readily observable from this figure is the fairly steady decline, since 2008, of the importance of Bulk commodities and the corresponding increase in the importance of Intermediate and Consumer-Oriented products in the U.S. pattern of food and agricultural exports to Cuba.

The question arises as to what is influencing the shifts in the composition of Cuban purchases of food and agricultural products from the United States? Several reports from Cuba over the past few years have indicated that the country is importing about 60% of its food requirements, so shifts in Cuba's food import patterns would be expected to have important impacts on food availability. If Cuba is purchasing less food from the United States, is this being driven by an increase in Cuba's agricultural output, thus decreasing its need for imported food products? Or are they supplanting food purchases from the United States with purchases from other countries? Or is food consumption simply decreasing in Cuba (an unlikely scenario)?

Figure 3 shows that Cuba's non-sugar agricultural output has remained largely stagnant since 2006, so domestic production has not been able to lessen the need for food imports. This despite the passage of the *Lineamientos de la Política Económica y Social* at the 2011 Communist Party Congress that laid out an important series of market-oriented policy reforms for the agricultural sector (and other sectors) of the Cuban economy. To date, bureaucratic intransigence has not allowed these new policies to be implemented to a significant enough degree to impact Cuba's agricultural output. However, if the Cuban bureaucracy were able to fully and effectively implement them, they could potentially stimulate substantial increases in Cuba's agricultural productivity, which would decrease the need for imported food products—an important stated goal of the Cuban government.

Figure 4 shows Cuba's food and agricultural imports from the United States, Brazil, the EU27 countries and cumulative imports from all other trading partners for the years 2000 through 2013 as obtained from the Global Trade Information Services (GTIS)

**Figure 3. Cuban Non-Sugar Agricultural Production**

database. This data is shadow data—i.e., it is not data provided by the Cuban government, but instead reflects the data reported by Cuba’s trading partners; for example, Cuba’s food import data is generated by compiling food exports to Cuba by Cuba’s trading partners.

Several interesting insights can be drawn from Figure 4:

- First, it is apparent that the value of Cuba’s food and agricultural imports has been fairly steady from 2010 to 2013. This indicates that Cuba has largely replaced its declining purchases from the United States with purchases from other countries. Nevertheless, the United States remained Cuba’s largest supplier of imported food products in 2012 and 2013. In fact, the United States became Cuba’s largest supplier of food products as early as 2002, and it held that distinction in 11 of the past 12 years; the only year when the United States was not Cuba’s most important food supplier was 2011, when it was narrowly edged out by Brazil.
- Second, Brazil’s food sales to Cuba have been steady or declining since their peak in 2011. This is somewhat surprising given Brazil’s expanding investment activity in Cuba in many sectors, in-

cluding its funding of the expansion at Cuba’s port of Mariel, as well as investments in Cuba’s sugar industry. Further examination of the GTIS data shows that Argentina is becoming an increasingly important food supplier to Cuba, displacing Brazil in some commodities like corn and soybeans.

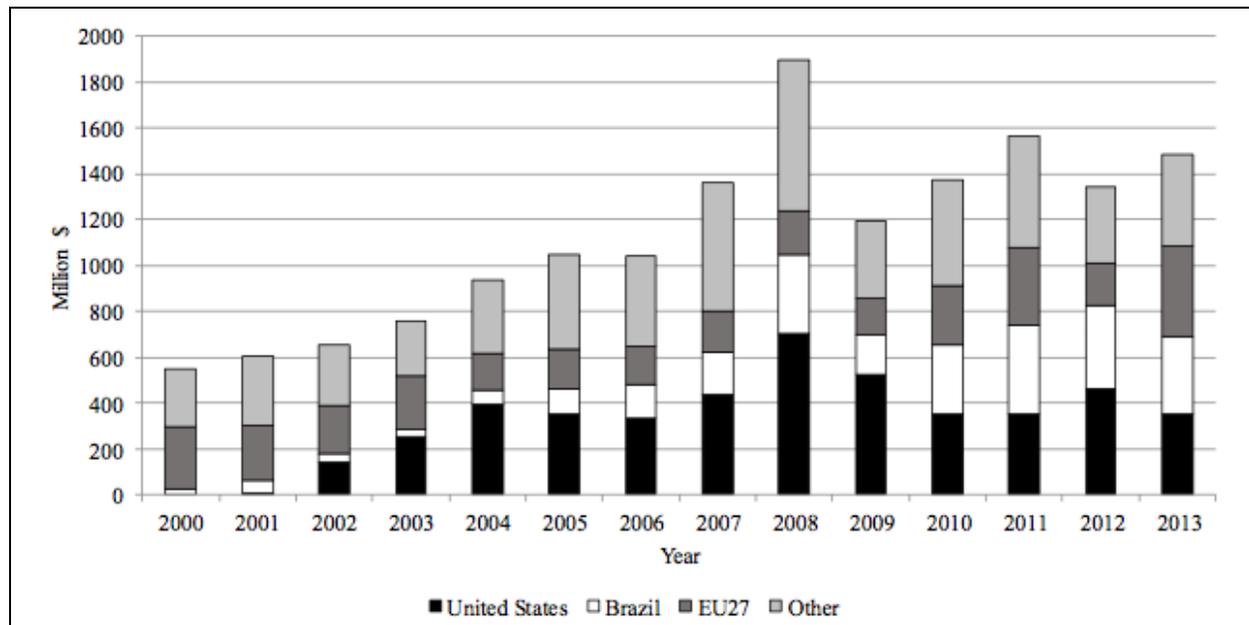
- For Bulk commodities, Brazil and Argentina appear to be replacing U.S. shipments to Cuba. However, U.S. shipments of Intermediate and Consumer-Oriented food products have been holding steadily or increasing slightly over the past several years.

### PROSPECTS FOR THE FUTURE

Since U.S. food sales to Cuba resumed in 2001, a wide range of issues have influenced trading patterns, including U.S. government policy, Cuban government policy, weather patterns (hurricanes), commodity price fluctuations, third country policy changes, and seemingly unrelated developments like the Pope’s visit. In such a sensitive environment, it is difficult to assess the prospects for the future.

The geographic proximity of the United States and Cuba offers many advantages to the United States for sales to Cuba including:

Figure 4. Cuban Food and Agricultural Imports by Country, 2000 to 2013.



- lower transportation costs;
- faster delivery (particularly important for highly perishable, higher-value commodities like poultry meat—an essential consideration for U.S. poultry producers since Cuba is the largest market for U.S. poultry meat exports); and
- smaller economic order quantities (a central issue for high-value and Consumer-Oriented food products where Cuba's purchasing volumes will not be particularly large, and/or for perishable commodities since Cuba has somewhat limited refrigerated storage capacities).

At the same time the United States faces weaknesses as a supplier, most notably the cash sale requirements of U.S. regulations, and the fact that all transactions must be conducted through third-country banks, which increases transaction costs.

Barring any unforeseen political developments in either the United States or Cuba, sales of Consumer-Oriented and Intermediate food and agricultural products by U.S. suppliers to Cuba would be expect-

ed to remain fairly stable or increase slightly in the near term. Over the same time horizon, U.S. sales of Bulk commodities may continue to be adversely impacted by sales from Argentina, Brazil and other suppliers.

Cuba clearly has the potential to become an agricultural powerhouse because of its extensive arable lands, good soils, accommodating climate (hurricanes notwithstanding) and its rich agricultural heritage. However, it is difficult to anticipate if and when the policies outlined in the *Lineamientos* will be implemented to a significant enough degree to notably improve Cuba's agricultural output. In the meantime, if foreign investment and/or the opening of Cuba's Free Trade Zone at Mariel should stimulate a significant expansion of Cuba's light assembly and manufacturing industries, there is a possibility that labor may be bid away from agriculture. Clearly, many questions remain regarding the direction and nature of Cuba's future agricultural and industrial development.

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