CUBA’S AGRICULTURAL SECTOR: STRUCTURE, FUNCTION, CURRENT ISSUES AND RESULTING TRADE PATTERNS

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OUR ROLE . . . ANALYSTS AND OBSERVERS – NOT ADVOCATES FOR ANY PARTICULAR POLICY

• WE DO NOT MAKE RECOMMENDATIONS REGARDING THE U.S. EMBARGO

• We simply try to provide current data, information and objective analyses on Cuba’s agricultural sector and U.S.-Cuban agricultural trade to all interested parties
  • Florida and U.S. agriculture, USDA, State Department, USITC, Commerce Department, Congressional Research Service, Congressional committees, etc.
“Es muy complicado.”

- Centrally planned, command & control economy results in strange policies and outcomes
- Market forces – ebb and flow . . .
- The food and agricultural systems are continually evolving, so even though we’ve been working there for 22 years, we are still learning!
FACTORS OF PRODUCTION

- LAND (including natural resource endowments)
- LABOR
- CAPITAL
- ENTREPRENEURSHIP
LAND - Cuba is NOT just another small Caribbean island

- About the size of Virginia (~42,800 sq. mi., or 27.4 million acres)
- Very nearly as large as all of the rest of the Caribbean islands added together
LAND - Cuba is NOT just another coral Caribbean island

- Good soils
- 70%+ of land is arable
- Some water issues
- No freezes
- Hurricanes
LABOR

• Impressive, universal education system

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<th>LITERACY RATE</th>
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<tbody>
<tr>
<td>CUBA</td>
<td>99.8%</td>
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<tr>
<td>UNITED STATES</td>
<td>99%</td>
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SOURCE: CIA World Factbook

• Well-trained scientists!

• Agricultural labor shortages gradually improving as agriculture becomes more lucrative
CUBA HAS A RICH AND LONG AGRICULTURAL TRADITION
SO CUBA SHOULD BE AN AGRICULTURAL POWERHOUSE

• It was at one time but is no longer.
• In 2008, the Cuban government began reporting that they were having to import over 80% of their total food supply!
• Our colleagues at the University of Havana tell us that they believe the number is closer to 60%.
• How did they get to this point?
• Can Cuban agriculture recover?
FACTORS CONTRIBUTING TO CUBA’S HEAVILY RELIANCE ON FOOD IMPORTS

• Historical heavy emphasis on sugar!
• Inefficiencies of central planning
• Historical unwillingness of the Revolutionary government to allow market forces to work
• Now the apparent constrained ability to allow market forces to work
• A lack of CAPITAL for investment
**CAPITAL IS SEVERELY LIMITED!**

- Very limited ability to generate domestic sources of capital (particularly since 1989/90) and limited lending channels
- Cuban officials say that they need $2 billion per year in foreign investment to achieve goals for economic growth.
- Cuba’s foreign investment laws are steadily evolving but they are not up to international standards.
FOREIGN CAPITAL

• There have been some successful foreign investments in Cuba, typically as a joint venture with the Cuban government as majority partner:
  • Tourist hotels
    • Meliá Hotels (Spanish)
  • Mining (nickel)
    • Sherritt International (Canadian)
FOREIGN CAPITAL in AGRICULTURE

• Foreign investment in agriculture has been largely limited to export crops (because of limited “effective” domestic demand)
  • Citrus – most foreign participation gone
  • Shellfish
  • Rum
  • Cigars
  • Greenhouse vegetables (Sherritt International - unsuccessful)
  • Sugar (recent)
## Cuban Sugar Production – Selected Years

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<td>8.4</td>
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- 2010/11 harvest volumes the lowest in more than a century!
Brazil is also investing in refurbishing a Cuban sugar mill and managing its operation.
### CUBAN SUGAR PRODUCTION – SELECTED YEARS

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- More than a 60% increase in production in only 4 seasons!
- Result of Brazilian investment.
THE LESSON FROM BRAZIL’S SUGAR INVESTMENT IN CUBA:

• Sugar is the only agricultural commodity sector in Cuba experiencing significant growth.

• This demonstrates how FOREIGN INVESTMENT CAN DRAMATICALLY CHANGE CUBA’S AGRICULTURAL SECTOR!

• Could be replicated for other crops.

• But for which crops might agricultural investment be made?
A FINAL OBSERVATION ON CAPITAL . . .

• “Socialist governments traditionally do make a financial mess. They always run out of other people’s money.”

  Margaret Thatcher

✓ Ran out of the Soviet Union’s money . . .
✓ May be running out of Venezuela’s money. . .
✓ Next Brazil???
CUBA’S AGRICULTURAL SECTOR & FOOD SYSTEM IN THE LATE 1980S = COSTLY BUT STABLE

- All farms have quotas they have to sell to the government’s centrally planned food collection agency *Acopio*.
- Imported food purchases subsidized by sugar exports to the Soviet Union.
- Domestic and imported food supplies sold in the food ration system
  - heavily subsidized but ensured an adequate food supply to the citizenry at very low prices.
PROBLEMS BEGIN . . .

- Fall of the Berlin Wall (1989), and collapse of the Soviet Union (1991) meant the sudden loss of preferential trading arrangements and subsidization from the Soviet Union and Eastern Europe ($6 billion per year).
- Cuba’s economy collapsed.
- Highly mechanized and input-intensive State farms were hit especially hard.
- Food shortages developed.
CUBA’S RATION STORES
FOOD SHORTAGES

- As ration food supplies continued to fall, the black market for food developed.
- Black market transactions were in hard currency.
- Those who did not have access to hard currency from foreign remittances or tips in the tourist sector could not purchase black market food.
- Led to civil unrest and an important government policy change.
• 1994 – Opening of Mercados Agropecuarios where farmers could sell production beyond their government quota, but transactions had to take place in Cuban pesos.

• Why? To make food more readily available for Cuban pesos = an effort to “bleach the black market”
CUBA’S AGRICULTURAL MARKETS = ENTREPRENEURSHIP
CUBAN NON-SUGAR AG. PRODUCTION, 2000 TO 2014

Despite other policy changes, production remains stagnant so reliance on imports remains high.

Source: Cuban Anuario Estadistico
CURRENT ISSUES & PRESSURES

- Tourist travel and travel from the United States to Cuba has exploded over the last 15 months, stretching infrastructure to (beyond?) capacity.
- Demand for food in tourist hotels and private restaurants is increasing rapidly, driving increases in food costs for Cuban citizens.
- Government response – introduce yet another food outlet into the already complex food system.
- Yet even more reliance on imported food!
CAN CUBAN AGRICULTURE RECOVER?

• YES, ABSOLUTELY!

WHEN WILL IT RECOVER?

• It depends a great deal on when agriculture starts to receive foreign investment.

• Lack of access to the U.S. market will constrain foreign investment.

• If and when investment does come, it could affect potential U.S. sales (e.g. rice)
CONCLUDING OBSERVATIONS

- U.S. sales to Cuba will continue to be constrained by cash sale requirements.
- The Cuban government is likely to be very slow and deliberate in the speed with which they allow changes to take place, and the degree to which they allow U.S. firms to get involved.
THANK YOU!

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