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Cuba: An Emerging Market for Iowa Agriculture?

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Despite the collapse of communist political societies nearly a decade ago, Cuba remains an interesting mix of economic planning, social welfare, and intellectual achievement. Though urban decay and inadequate infrastructure suggest that Cuba has failed to achieve its utopian dream of social and economic justice, a deeper analysis of the food rationing system shows the country is clearly a master of economic scarcity, of making a little go a long way.

Perhaps herein lies the reason that the October issue of *AgExporter* magazine, published by the U.S. Department of Agriculture, showcased the Caribbean Market with no mention of Cuba or the Trade Sanctions Reform and Export Enhancement Act of 2000 allowing U.S. food and agricultural products into Cuba for the first time in over four decades. The State Department, too, has been dismissive and often critical of U.S. political officials and businesses seeking deals with the Castro regime. After all, why waste so much time on Cuba when the market's paltry 11.3 million citizens with average monthly salaries under \$25 pale considerably when compared with other markets worldwide.

But Cuba's outward appearance of a failed economic system belies another story of interest. Cuba spends more than \$1 billion annually importing food and agricultural products, and, until recently, Iowa farm products have not been part of the mix. Clearly, Cuba is far more interesting than one might assume at first glance.

By putting Cuba into a Caribbean context and analyzing the food needs of this import-dependent country, Iowa agribusinesses and policy leaders will have a better understanding of why this fal-

tering communist state is a potential food market now open for business. Surprisingly, Cuba has the potential to be one of Iowa's top export markets in a number of key product categories, ranging from corn and soybeans to meat, poultry, and processed egg products.

THE CARIBBEAN MARKET

In 2001, the Caribbean region imported nearly \$1.7 billion worth of U.S. food and agricultural products (USDA-FAS, *BICO Report*, October 2002). As a region, this puts the Caribbean in the top half of U.S. agricultural export markets. Purchases by Cuba in the first year of exemptions to the embargo resulted in only \$4.5 million in U.S. food shipments—an understandable amount considering the time needed to develop a capable trading regime, time to license shipping lines for moving freight into Cuban ports, and time for companies to market products to Cuban purchasing agents. Through September of 2002, U.S. food sales to Cuba

reached \$105.5 million, and estimates by the Washington, D.C.-based Cuba Policy Foundation portend a strong year, with sales as high as \$165 million by the end of the year (Figure 1). Estimates for 2003 suggest continued export growth of up to \$260 million worth of food and agricultural products from the United States.

As a market, the Caribbean is diverse, buying bulk commodities, meat and poultry, snack foods, and other high-value, consumer-oriented food products. In 2001, Caribbean meat imports were dominated by broiler meat; it accounted for half of the value of the region's meat imports, reaching \$219 million and more than 200,000 metric tons. The U.S. market share of Caribbean meat imports hit \$113 million that same year, according to the USDA's Foreign Agricultural Service.

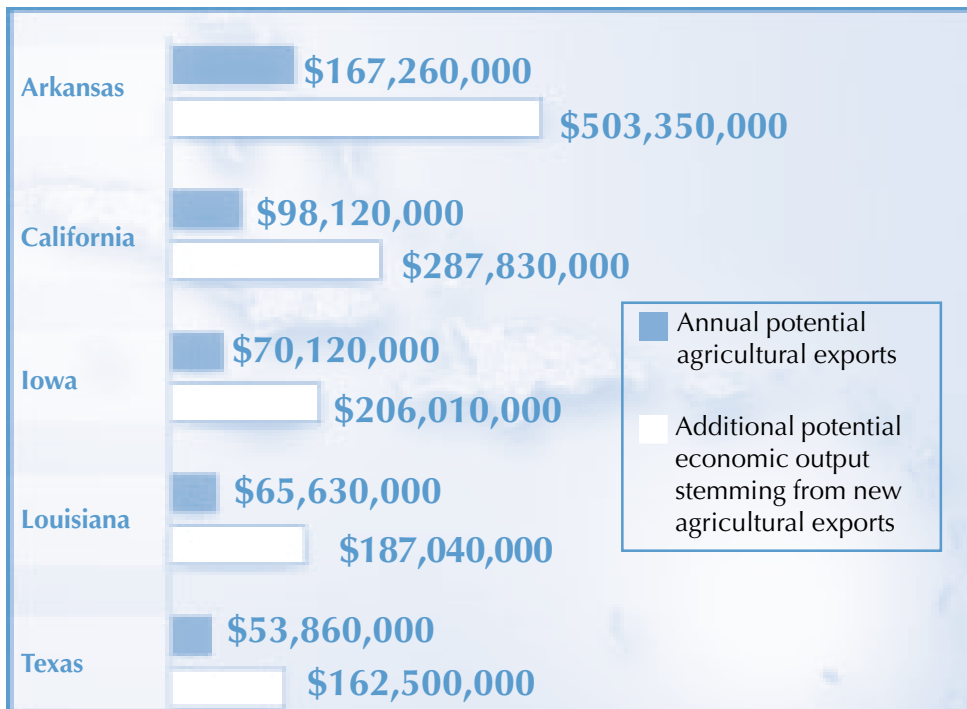
Although not as strong, region-wide tourism and the hotel and restaurant industry (HRI) contribute significantly to the demand for high-

FIGURE 1. U.S. AGRICULTURAL EXPORTS TO CARIBBEAN ISLANDS, JAN.–SEPT. 2002



Source: USDA-FAS.

FIGURE 2. TOP FIVE STATES AFFECTED BY THE U.S. EMBARGO AGAINST CUBA: AGRICULTURAL SECTOR



Source: Rosson and Adcock 2002.

FIGURE 3. CUBAN AGRICULTURAL MARKETS



Source: American Farm Bureau 2002.

quality pork and beef. In Cuba, tourism has grown from less than a half billion U.S. dollars in 1990 to more than \$2.2 billion in 2001 from more than 2 million foreign visitors (Chamber of Commerce of the Republic of Cuba 2002). Furthermore, Cuban consumers prefer pork to other meats, with consumption accounting for 34 percent of the Caribbean's total imports. To date, the United States has recorded little in the sale of pork to Cuba, but with aggressive marketing efforts, much of the Cuban pork market could be dominated by U.S. exports in the near future.

CUBA: A NEW MARKET FOR IOWA FOOD AND AGRICULTURE

During the first U.S. Food and Agribusiness Exhibition in September 2002, Cuban officials signed deals worth nearly \$90 million, and earlier this year, Ohio-based Marsh Foods secured a deal to deliver \$750,000 worth of branded U.S. grocery items to Cuban consumers. During the show, Iowa-based FC Stone secured a \$5 million contract for corn and soybeans (including the cost of transportation). Additional sales opportunities exist for Iowa companies willing to investigate the Cuban market.

According to a study conducted for the Cuba Policy Foundation, Iowa ranks third after Arkansas and California as the state most likely to benefit from trade with Cuba (Figure 2). The study concluded that Iowa likely would gain more than \$70 million in agricultural sales to Cuba, with an additional spin-off of more than \$206 million into the Iowa economy (Rosson and Adcock 2002). In testimony before Congress, the American Farm Bureau highlighted data from the United Nations Foreign Agricultural Organization, suggesting that many of the top products imported by Cuba can be sourced from Iowa companies (Figure 3). Demand for pork, beef, processed egg products, animal feed, and soy protein and oil

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will mean that Iowa quite likely will benefit from growing trade with Cuba. Arkansas benefits the most from the high demand for poultry meat; however, for every pound of poultry exported, a pound of soybean meal moves off the market, indirectly benefiting Iowa soybean growers.

SUCCESS HINGES ON ECONOMIC GROWTH

Export sales to Cuba are limited by a number of factors, including the continued recovery of the economy following a decade of declining aid from and exports to Russia. Furthermore, long-term export growth will be dependent upon domestic economic reforms and a liberalization of the Cuban trading regime. Less problematic, though complicated, is the U.S. regulatory framework to legally ship U.S. products to an embargoed country.

Despite the existence of a number of food distribution firms and joint venture resorts with Canadian and European partners, all purchasing must be funneled through Cuba's state trading organization,

Alimport. At present, Cuban purchasing decisions are being made as much on political grounds—by targeting states with important votes to end the embargo—as they are for price, quality, and need. Firms seeking to do business with Cuba should seek out prospective distributors as well as understand the function and purpose of Alimport. A list of food distributors is available from the Cuban Chamber of Commerce in Havana. ♦

SOURCES AND MORE INFORMATION

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For information on policies and procedures for securing a travel license, product license, or a license exemption for agricultural products, go to www.exportpartnership.com or call the Iowa Export Assistance Center at the Greater Des Moines Partnership at (515) 286-4950. E-mail enquiries can be forwarded to info@exportpartnership.com.

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