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U.S. Agricultural Sales to Cuba: Certain Economic Effects of U.S. Restrictions

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Errata Sheet

U.S. International Trade Commission. *U.S. Agricultural Sales to Cuba: Certain Economic Effects of U.S. Restrictions*, USITC Publication 3932. Washington, DC: USITC, 2007.

- Chapter 3, page 3-3, 2nd paragraph, 2nd sentence should read, "Current regulations allow for three general license categories for travel to Cuba: (i) official government travel, covering U.S. government officials, foreign government officials, and officials of international organizations of which the United States is a member;..."

U.S. International Trade Commission

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Certain Economic Effects of U.S. Restrictions

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Executive Summary

This report provides (1) an overview of Cuba's purchases of U.S. agricultural, fish, and forestry products since 2000; (2) an analysis of the effects that U.S. government restrictions on export financing terms and travel to Cuba by U.S. citizens have on those Cuban purchases; and (3) estimates of likely U.S. agricultural sales if export financing restrictions and travel restrictions are lifted. The report was prepared in response to a request from the Senate Committee on Finance.

To perform its analysis, the Commission relied upon Cuban production and consumption data as reported to the United Nations; reported world exports to Cuba; official Cuban statistics on production and trade; official data on U.S. exports to Cuba; interviews with the principal U.S. exporters and shippers to Cuba; academic studies; testimony at the Commission's public hearing; written submissions; and staff travel to Cuba.

To assess the effects on U.S. agricultural exports and on travel to Cuba, the Commission used two economic models: one to estimate the effect of lifting restrictions on U.S. citizen travel to Cuba, and another to estimate the effect that U.S. financing restrictions have had on U.S. agricultural exports to Cuba and the stimulus that additional travel by U.S. citizens to Cuba would have on the Cuban demand for U.S. agricultural exports. The Commission assumed no change in current U.S. investment policy towards Cuba (i.e., U.S. investment in Cuba remains prohibited) nor did it assume any policy changes within Cuba.

Major Findings

Estimated Effect on U.S. Sales of Agricultural Products to Cuba if Restrictions on Financing were Lifted

- Because of data limitations and the non-market aspects of Cuban purchasing decisions, the overall effect of removing all statutory restrictions on U.S. exports to Cuba is difficult to quantify. However, based on interviews with Cuban purchasing officials, sector modeling results, and discussions with U.S. industry officials, the Commission estimates that the U.S. share of Cuban agricultural, fish, and forest product imports would rise to between one-half and two-thirds.

- Financing restrictions raise Cuba's cost of purchasing U.S. products. Many of these costs are difficult to measure precisely. Therefore, Commission estimates of financing restriction effects are presented in the form of ranges. Staff interviews and analysis indicate that such costs range between 2.5 to 10 percent of the purchase price depending on the commodity sector.

- All agricultural commodity sectors would likely benefit from the lifting of the financing restrictions on U.S. agricultural exports to Cuba (table ES.1). Among the sixteen commodity groups examined, the largest gains in U.S. exports to Cuba were for other food products, including fresh fruits and vegetables (a rise of $34 million to $65 million annually), milk powder ($14 million to $41 million), processed foods ($18 million to $34 million), wheat ($17 million to $33 million), and dry beans ($9 million to $22 million).

Table ES.1 Estimated effects of removing U.S. financing restrictions on U.S. agricultural exports to Cuba

Commodity	Cuban imports from the United States	U.S. share of Cuban imports	Cuban imports from the United States	U.S. share of Cuban imports
	With restrictions	With restrictions	Without restrictions	Without restrictions
	$ million	*Percent*	*$ million*	*Percent*
Wheat	51	38	68 - 84	51 - 65
Rice	40	24	54 - 83	33 - 53
Corn	43	71	46 - 48	78 - 85
Animal feed	42	76	43 - 45	79 - 85
Soybeans	32	99	30 - 31	99 - 100
Fats and oils	22	57	24 - 27	63 - 74
Dry beans	20	25	29 - 42	37 - 56
Poultry	45	65	51 - 56	77 - 85
Beef	0.1	0.2	6 - 10	13 - 25
Pork	14	42	20 - 24	60 - 74
Milk powder	13	10	27 - 54	22 - 45
Other dairy	0.1	0.3	5 - 10	27 - 53
Processed foods	1	2	19 - 35	29 - 55
Fish products	0	0	8 - 15	30 - 56
Forest products	10	17	16 - 27	28 - 49
Other food products	5	3	39 - 70	29 - 53

Source: Global Trade Atlas and Commission estimates.

Note: Summing the individual partial equilibrium results for each commodity to obtain the total effect of removing restrictions is not supported by economic theory. The individual partial equilibrium results assume that prices in other markets remain constant and do not consider cross-commodity substitution.

Estimated Effect on U.S. Sales of Agricultural Products to Cuba if Travel Restrictions were Lifted

- If restrictions on travel of U.S. citizens to Cuba were lifted, among the sixteen commodity groups examined, measurable gains in U.S. exports to Cuba were for processed foods (a rise of $3 million to $8 million), poultry ($1 million to $3 million), beef and pork (each gaining $1 million to $2 million), and fish ($1 million to $4 million) (table ES.2). These are sectors where a large share of imports are distributed to the tourism sector.

- U.S. agricultural exports of most bulk products, including wheat, rice, corn, animal feed, soybeans, dry beans, forest products, and milk powder will experience virtually no gains owing to increased visits to Cuba by U.S. tourists, since only a negligible fraction of these Cuban imports are consumed in the tourist sector.

Estimated Effect on U.S. Sales of Agricultural Products to Cuba if Both Financing and Travel Restrictions were Lifted

- Eliminating financing restrictions on U.S. agricultural exports would likely have a larger impact on U.S. agricultural sales than lifting the travel restrictions on U.S. citizens (table ES.3). This is because most imported food from the United States consists of bulk commodities sold to Cubans, rather than foods that are sold to tourists.

Table ES.2 Estimated effects of removing U.S. travel restrictions on U.S. agricultural exports to Cuba

Commodity	Cuban imports from the United States	U.S. share of Cuban imports	Cuban imports from the United States	U.S. share of Cuban imports
	With restrictions	With restrictions	Without restrictions	Without restrictions
	$ million	*Percent*	*$ million*	*Percent*
Wheat	51	38	52 - 53	38
Rice	40	24	40	24
Corn	43	71	43 - 44	71
Animal feed	42	76	43	76
Soybeans	32	99	32 - 33	99 - 100
Fats and oils	22	57	23 - 24	57
Dry beans	20	25	20	25
Poultry	45	65	46-48	65
Beef	0.1	0.2	1- 3	3 - 7
Pork	14	42	15-16	42
Milk powder	13	10	13	10
Other dairy	0.1	0.3	0.3 - 1	2 - 4
Processed foods	1	2	4 - 9	5 - 11
Fish products	0	0	1 - 4	5 - 11
Forest products	10	17	10	17
Other food products	5	3	6 - 8	4 - 5

Source: Global Trade Atlas and Commission estimates.

Note: Summing the individual partial equilibrium results for each commodity to obtain the total effect of removing restrictions is not supported by economic theory. The individual partial equilibrium results assume that prices in other markets remain constant and do not consider cross-commodity substitution.

Table ES.3 Estimated effects of removing all U.S. financing and travel restrictions on U.S. agricultural exports to Cuba

Commodity	Cuban imports from the United States	U.S. share of Cuban imports	Cuban imports from the United States	U.S. share of Cuban imports
	With restrictions	With restrictions	Without restrictions	Without restrictions
	$ million	*Percent*	*$ million*	*Percent*
Wheat	51	38	68 - 85	51 - 65
Rice	40	24	54 - 84	33 - 52
Corn	43	71	47 - 49	78 - 85
Animal feed	42	76	44 - 46	79 - 85
Soybeans	32	99	31 - 32	99 - 100
Fats and oils	22	57	25 - 28	63 - 73
Dry beans	20	25	29 - 42	37 - 55
Poultry	45	65	54 - 58	76 - 84
Beef	0.1	0.2	9 - 13	19 - 29
Pork	14	42	22 - 25	58 - 70
Milk powder	13	10	28 - 55	22 - 44
Other dairy	0.1	0.3	6 - 11	29 - 52
Processed foods	1	2	27 - 42	33 - 53
Fish products	0	0	12 - 18	34 - 54
Forest products	10	17	16 - 27	28 - 48
Other food products	5	3	42 - 73	30 - 52

Source: Global Trade Atlas and Commission estimates.

Note: Summing the individual partial equilibrium results for each commodity to obtain the total effect of removing restrictions is not supported by economic theory. The individual partial equilibrium results assume that prices in other markets remain constant and do not consider cross-commodity substitution.

- If restrictions on financing of U.S. agricultural exports and on travel of U.S. citizens to Cuba were both lifted, the largest gains in U.S. exports to Cuba among the sixteen commodity groups examined were for other food products (including fresh fruits and vegetables) (a rise of $37 million to $68 million annually), milk powder ($15 million to $42 million), processed foods ($26 million to $41 million), wheat ($17 million to $34 million), and dry beans ($9 million to $22 million).

Recent Trends in U.S.-Cuba Agricultural Trade

- In 2000, U.S. agricultural exports to Cuba were negligible. Following implementation of the Trade Sanctions Reform and Export Enhancement Act (TSRA) of 2000, U.S. exports grew rapidly so that by 2004 the United States was the largest supplier of agricultural products to Cuba. In that year, Cuba imported $392 million in agricultural goods from the United States, equivalent to 42 percent of its total agricultural imports. The increase in U.S. exports to Cuba coincided with weather-related production declines in Cuba which necessitated increased imports. The majority of Cuban imports from the United States are consumed by Cuban citizens, with a small share going to the tourist market.

- The value of Cuban agricultural imports from the United States dropped by 10 percent in 2005 and a further 4 percent in 2006. A change in U.S. Department of Treasury, Office of Financial Asset Control (OFAC) financial transaction rules in March 2005 which require the seller to receive payment from the Cuban buyer before vessels carrying goods leave the U.S. ports, may partially account for this decline. Other factors also may have been important, such as OFAC's changes to U.S. regulations on Cuban remittances and favorable credit terms offered by U.S. competitors in the Cuban market, and an overall decline in imports in 2006.

- All Cuban imports of agricultural products from the United States are controlled by a state-trading entity, Alimport. Several factors, both economic and non-economic, are considered by Alimport in its food purchasing decisions. Therefore, even though the United States is, for many products, the most competitive supplier for Cuba in terms of price, quality, and delivery terms, Alimport considers non-commercial factors such as diversifying import suppliers, strengthening strategic geo-political relationships, and influencing the political debate over sanctions in the United States. Purchases are also allegedly geared to particular U.S. States or Congressional districts in an effort to heighten local interests in pressing the Administration to normalize trade with Cuba.

Effects of Changes in U.S. Export Financing Regulations on U.S. Agricultural Sales to Cuba

- Opinions on the effect of business travel and export financing regulations on U.S. exporters are mixed. Larger exporters (e.g., multinational commodity trading companies) that account for the vast majority of agricultural exports characterize the extra financial costs and the burden of obtaining travel licenses to conduct business in Cuba as small. In contrast, exporters with small sales volumes and new entrants characterize the process as non-transparent, time-consuming, expensive, and in some cases, a reason not to trade with Cuba altogether. While several U.S. industry officials indicated that their applications for travel licenses were initially denied, or took more time to process than expected, none indicated that they were ultimately unable to obtain travel licenses.

- U.S. regulations, especially financing regulations imposed after March 2005, which require the seller to receive payment from the Cuban buyer before vessels carrying goods leave the U.S. ports, reportedly increased the cost of U.S.-Cuba trade for both U.S. exporters and Alimport. This has made U.S. products less competitive relative to imports from other sources.

- Many U.S. exporters view OFAC's decision requiring that payments be made through letters of credit drawn on third-country banks as an impediment to sales to Cuba. Furthermore, the OFAC rule change disrupted U.S. exports to Cuba during late 2004 and early 2005 that were already under contract and/or in transit.

- OFAC appears to have restricted business travel to and from Cuba that is necessary for U.S. exporters to effectuate sales. Particularly important are Cuban officials traveling to the United States to inspect U.S. processing facilities, U.S. port facilities, fresh produce, live animals, and other products subject to sanitary and phytosanitary standards. For many of these products, restricting business travel effectively bars U.S. sales to Cuba.

- OFAC restrictions on maritime shipping of U.S. products to Cuba significantly increased freight charges for cargo to Cuba above freight charges to other Caribbean destinations.

Effects of Travel Restrictions on U.S. Agricultural Sales to Cuba

- U.S. restrictions on travel to Cuba limited the number of Americans traveling to Cuba to fewer than 200,000 in 2005 and reduced the amount of U.S. dollar remittances to Cuba from Cuban-Americans. A large proportion of these remittance dollars received by Cuban citizens are spent on U.S. agricultural products.

- Many Americans express interest in travel to Cuba, according to the American Society of Travel Agents, and U.S. travel to Cuba would increase markedly in the absence of sanctions. Cuba is increasingly able to meet U.S. tourist demand, owing to the addition of hotel capacity and recent improvements in tourism services and facilities.

- The Commission estimated that without the travel sanctions, travel by Americans to Cuba would increase from 171,000 to between about 554,000 and 1.1 million in the short term. Since these American visitors could, to some extent, displace current foreign tourists in Cuba, the net effect in the short term is a potential annual increase in additional tourist visits to Cuba of between 226,000 and 538,000. In 2006, the total number of visitors to Cuba was 2.2 million.

- Additional tourist arrivals would increase U.S. sales of agricultural goods to Cuba because of the increased tourist demand for food and because of higher Cuban economic growth boosting domestic demand for high quality U.S. food products.

CHAPTER 1
Introduction

Background and Purpose

Cuba is the largest Caribbean nation, with 11.4 million inhabitants and a land mass of over 110,000 square kilometers.[1] Since 1959, when Fidel Castro assumed power, Cuba has been a communist state characterized by a one party political system and a centrally planned economy. Per capita GDP was $3,900 in 2006,[2] and the economy is heavily dependent on the tourism sector. The U.S. economic embargo against Cuba was originally put into place in October 1960, but at the time it was limited in scope and did not include food and medicine. In February 1962, the Kennedy administration tightened the embargo, and by July 1963, travel by U.S. citizens to Cuba was prohibited, and financial and commercial transactions with Cuba were made illegal.[3] Although the embargo regulations have been loosened and tightened by successive Presidential administrations, the basic framework of the trade and travel restrictions has remained in place for more than 40 years. U.S. sales of food to Cuba are currently permitted under the Trade Sanctions Reform and Export Enhancement Act of 2000 (TSRA),[4] provided that Cuban purchases are paid with cash and not credit.

In recent years, farmer groups in the United States, such as the American Farm Bureau Federation and United States Rice Federation, have supported easing or repealing trade and travel restrictions.[5] Various members of Congress have introduced legislation to remove these barriers.[6] The Bush Administration, however, advocates maintaining both the economic embargo and travel restrictions.

This report provides an overview of Cuba's purchases of agricultural, fish, and forestry products since 2000 (chapter 2); an analysis of the effects that U.S. government restrictions on export financing terms and travel to Cuba by U.S. citizens have on those Cuban purchases (chapter 3); and estimates of likely U.S. agricultural sales if export financing

[1] Central Intelligence Agency, *World Factbook 2007*.

[2] Ibid.

[3] Sullivan, "Cuba: U.S. Restrictions on Travel and Legislative Initiatives in the 107th Congress," 1.

[4] *Trade Sanctions Reform and Export Enhancement Act of 2000*, Public Law 106-387, October 18, 2000 (at 22 USC §§ 7201-7209).

[5] Radelat, "Lawmakers propose Cuba-related bills, but few - if any - are expected to pass," 2. Another example is the Indiana Farm Bureau, which signed a commitment in October 2003 to work for the repeal of U.S. trade and travel restrictions against Cuba in return for Cuban pledges to purchase $15 million in agricultural products such as pork, soybeans, corn, poultry, eggs, and cattle. "Indiana farmers pledge to oppose Cuba embargo."

[6] For example, U.S. Representatives Jerry Moran (KS), Jo Ann Emerson (MO), Stephanie Herseth (SD) and Mike Ross (AR) introduced the Agricultural Export Facilitation Act of 2007 in February of this year, and Senators Mike Enzi (R-WY), Byron Dorgan (D-ND) and others introduced the Freedom to Travel to Cuba Act (S. 721) on March 1, 2007. Senators Max Baucus (D-MT) and Mike Crapo (R-ID) and U.S. Representatives Charles Rangel (D-NY) and Jo Ann Emerson introduced the Promoting American Agricultural and Medical Exports to Cuba Act of 2007 in June 2007.

restrictions[7] and travel restrictions were lifted (chapter 4). The report was prepared in response to a request from the Senate Committee on Finance.[8]

Product Scope and Coverage

The Commission's analysis covers Cuban purchases of agricultural, fish, and forestry products, including those from the United States. U.S. agricultural trade with Cuba is currently limited to a list of eligible products, as provided for in TSRA.[9] These include all or parts of the following chapters or subheadings of the Harmonized Tariff Schedule (HTS): 1- 24 (with limited exceptions, e.g., human hair), 3301-3302.10 (essential oils), 3501-3507 (casein, albumin, gelatin, peptones, dextrines, glues, rennet), 4001 (rubber), 41 (hides and leather), 43 (furskins), 4401-4421 (wood and wood products), 4701-4706 (wood pulp), 4801-4805 (paper products), 5001-5002 (silk), 5101-5102 (wool), 5202 and 5205 (cotton and cotton yarn), and 5301-5305 (other vegetable fibers).

Approach

The Committee requested that the Commission provide three distinct types of information and analysis: an overview of Cuban purchases of agricultural, fish, and forest products; analysis concerning how restrictions on export financing and travel have impacted U.S. sales of these products; and an estimate of likely U.S.-Cuba trade in the event that these restrictions are lifted.

For the first component, the Commission collected information on Cuba's imports of agricultural, fish, and forest products from 2000 to the present. The Commission used Global Trade Atlas (GTA) data on exports from major supplying countries to Cuba.[10] Data were collected for broad commodity groups (e.g., wheat, beef, and poultry) at the 6-digit HTS level. Information on how imported products are allocated among the major consuming segments (i.e., consumption by the local population versus tourists) was derived from published reports and academic papers on the Cuban food market system, as well as from interviews with U.S. and Cuban industry officials and academics.
For the second component, the Commission gathered information on the regulations

[7] In this report, the term "financing restrictions" are broadly defined to include all statutory, regulatory and other U.S. legal restrictions that prevent U.S.-Cuban trade from being conducted on the same basis as other U.S. trading partners. Such statutory and regulatory restrictions include: the export payment and financing restrictions imposed under the Trade Sanctions Reform and Export Enhancement Act; the restrictions on travel visas for Cuban officials wishing to visit the United States in order to purchase and inspect U.S. agricultural goods; the rules governing maritime shipping between Cuba and the United States; the ban on normal commercial credit for such U.S. exports; the ban on direct financial wire transfers of U.S. dollars from the Cuban National Bank to a U.S. bank for payment of U.S. exports; and limits on support services (marketing, technical assistance, and product promotion) in Cuba related to the sale of U.S. agricultural exports.

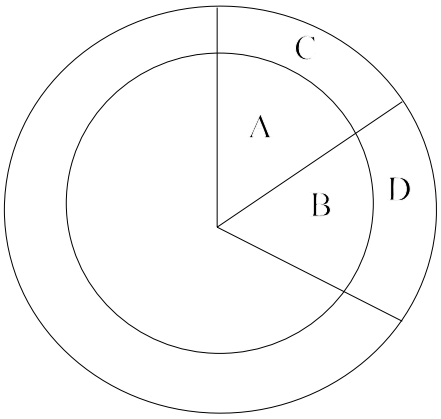
[8] On March 16, 2007, the U.S. Senate Committee on Finance (Committee) requested that the U.S. International Trade Commission (Commission) prepare a report under section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)). The Committee originally requested that the Commission submit its report no later than June 29, 2007, but subsequently changed that date to July 12, 2007. Copies of the request letters are in Appendix A, and the Commission's notice of investigation, published in the *Federal Register* of April 5, 2007 (72 FR 16817), is in Appendix B.

[9] The USDA maintains the complete list of U.S. products eligible for export to Cuba at www.fas.usda.gov/itp/cuba/ScheduleBEligibleCommodities06-28-06.pdf

[10] Cuban import data are reported in GTA only through 2004. Export data reported by the rest of the world to Cuba is, therefore, used as a proxy for Cuban imports.

themselves from the major Federal agencies that govern U.S.-Cuba trade and travel, namely the Department of Commerce, Bureau of Industry and Security (BIS), which regulates merchandise exports and re-exports to Cuba, and the Department of Treasury, Office of Foreign Assets Control (OFAC), which regulates imports from Cuba and financial transactions involving Cuban assets, including regulations that affect travel to Cuba. Next, the Commission developed information on the effects of these regulations from published sources, staff interviews with interested parties, testimony at the Commission's hearing, and written submissions by interested parties.[11] In all, Commission staff conducted interviews with over 40 representatives of key agricultural, shipping, travel and tourism industries, academics at the Universities in Texas and Florida, and officials at the U.S. Departments of Agriculture, Commerce, Transportation, and Treasury. Commission staff also conducted

Figure 1.1 Framework to analyze lifting financing and travel restrictions



Source: Commission staff.

field work in Havana, Cuba, interviewing Cuban officials from several government agencies and state-trading enterprises.

The final component of the study concerns the estimation of what U.S.-Cuba trade would look like absent the U.S.-imposed export financing and travel restrictions. Here, the analytical approach can be understood from a simple pie diagram (figure 1.1). Current Cuban imports of a commodity, say wheat, from all country sources are represented by a pie, with the initial U.S. share of imports represented by the slice labeled "A").

The Senate Finance Committee requested the Commission to evaluate three scenarios—(1) lifting all financing restrictions, (2) lifting travel restrictions, and (3) lifting both financing and travel restrictions jointly. In the first scenario, with financing restrictions removed, certain transaction costs associated with U.S. sales would decline, thereby making U.S.

[11] A list of hearing witnesses is appendix C and summaries of views of interested parties is appendix D.

exports more competitive in the Cuban market. This is represented in figure 1.1 by the share in the inner pie growing from A to A+B as U.S. exports displace other import suppliers of Cuba. In the second scenario, with restrictions on travel to Cuba lifted, there are two effects that increase the overall size of the pie (but not the share because the financing restrictions are assumed to remain in place). First, the pie grows owing to the macroeconomic impact of additional tourists on the Cuban economy. With more U.S. tourist expenditures, Cuba's GDP grows, thereby generating additional purchasing power by the local Cuban population to buy more imported food for itself. Second, the pie grows owing to the greater number of tourists that purchase and consume food while visiting Cuba. These changes are depicted in figure 1.1 by the pie size increasing, and with U.S. sales to Cuba represented by the area A+C. In the third scenario, with financing and travel restriction lifted, both the U.S. share and overall size of the import pie grow. U.S. imports to Cuba would be represented by the areas A+B+C+D.

Using this theoretical framework, the next task was to develop empirical estimates of the pie size and U.S. share in the three scenarios. This entailed compiling data on Cuban imports, broken out by commodity and country of origin, the market segments (i.e., for consumption by Cuban citizens versus tourists) into which imported products are sold, and food expenditure patterns by tourists. Also required were certain commodity demand and supply elasticities, and multipliers for macroeconomic variables. Finally, evaluating the scenarios required data on a price wedge, reflecting the additional transaction costs of U.S.-Cuba trade associated with the financing restrictions, and the number of additional tourists expected to visit Cuba if the travel restrictions were lifted. These data were compiled from GTA, economic literature, staff interviews, and hearing testimony provided by leading experts on the Cuban economy. Estimates of the number of U.S. tourists likely to visit Cuba were derived by the Commission using a comparative static equilibrium model. All of the above information was utilized to derive empirical estimates of U.S. sales of agriculture products to Cuba absent current restrictions. Owing to uncertainty on certain key assumptions of this framework (e.g., the price wedge and the number of additional tourist visits), sensitivity analysis was conducted to determine the robustness of the results to changes in several of those assumptions.

Overview of Cuba's Agricultural Sector and Food Trade

In 2006, the Cuban agricultural sector contributed only 5 percent of Cuba's GDP, but employed approximately 20 percent of the population.[12] Government policy plays a large role in determining which crops are locally grown and how the agricultural sector is structured. Traditionally, sugar and tobacco grown for export markets dominated agricultural production. Since the collapse of the Soviet Union, the Cuban government has focused on greater self-sufficiency in food production. Sugar production declined from 8 million tons to 1.3 million tons between 1989 and 2006, during which time the Cuban government has reoriented its agriculture sector toward the production of other products.[13] Cuba's agricultural economy is still largely centered around export cash crops such as sugar, tobacco, coffee, and citrus, but food staples such as potatoes, rice, corn, beans, sweet

[12] Central Intelligence Agency, *World Factbook 2007*.

[13] Korves, Ross, "Agricultural Trade with Cuba in the Post-Castro Era," and *CubaNews*, September 2006, 8.

potatoes, malanga (tropical yam) and a wide variety of vegetables are now grown for local consumption.[14]

Cuba is heavily dependent on food imports to feed its population and supply the food demands of tourists. *Empresa Cubana Comercializadora de Alimentos*, or Alimport for short, an agency within the Ministry of Foreign Trade, imports most intermediate food products and bulk goods, and acts as a central trading desk for all agricultural imports from the United States.[15] Alimport has wide discretion to choose the foreign companies and countries from which to make food purchases. Purchasing food at the lowest cost is reportedly not the only purchasing criterion,[16] as the Cuban government is interested in maintaining multiple supply relationships around the world as a hedge against regulatory or political risks.

Cuban agricultural imports were valued at $1 billion in 2006, representing 18 percent of total imports into Cuba in that year. The U.S. market share was 33 percent, or $337 million.[17] The majority of purchases from the United States were bulk commodities such as wheat ($51 million), corn ($43 million), rice ($40 million), soybeans ($32 million), and beans, peas, and lentils ($20 million). The remainder was primarily poultry meat ($44 million), soybean meal ($27 million), soybean oil ($21 million), pork ($13 million), and powdered milk ($13 million).[18] Alimport reported that Cuba imported $1.6 billion in food from all sources in 2006,[19] and expects imports to reach $1.7 billion in 2007.[20]

Overview of Cuba's Tourism Sector

Cuba has numerous features attractive to tourists. It is the largest island in the Caribbean, with 3,570 miles of coastline, including over 300 beaches, and possesses natural resources attractive to niche tourists, such as excellent reefs for scuba diving, forests for bird watching, and lakes for fishing. Cuba also contains the most extensive colonial architecture in the Americas, and because of its relative isolation since the early 1960s, Cuba maintains and operates vintage relics such as American automobiles from the 1950s and railroad locomotives built before 1920.[21]

Over time the number of tourists visiting Cuba has grown substantially. Though Cuba was a popular tourist destination prior to 1959, its current tourism industry did not develop until after the dissolution of the Soviet Union in the early 1990s. With the loss of economic support from its communist ally, Cuba began to develop its tourism sector in an effort to

[14] Central Intelligence Agency, *World Factbook 2007*. Some of the vegetable crops include onions, pumpkins and squash, and tomatoes.

[15] U.S. Department of Agriculture, Foreign Agricultural Service, "Market Development Reports: Cuba's Dollar Food Market and U.S. Exports, 2003," 9.

[16] Jones, Commission Hearing Transcript, 79-80, academic representative, e-mail message to Commission staff, April 5, 2007, and Alimport officials, interview with Commission staff, Havana, June 12, 2007.

[17] Data from Global Trade Atlas (GTA). Export data to GTA are FAS values, which do not include freight, insurance, and other transaction costs.

[18] U.S.-Cuba Trade and Economic Council, "Economic Eye on Cuba," February 13, 2007.

[19] Alimport officials, interview with Commission staff, Havana, June 12, 2007.

[20] Alimport's import projections are CIF values which include freight, insurance and other transaction costs.

[21] Peters, Philip, *International Tourism: The New Engine of the Cuban Economy*, 3-4.

increase foreign exchange earnings, principally as a means to import food. During the 1990s, tourist arrivals grew more than 370 percent from approximately 340,000 to over 1.6 million annually.[22] Tourist arrivals grew a further 31 percent during 2000–05, reaching 2.3 million in 2005. Cuba now attracts a significant share of tourists traveling to the Caribbean. In 2005, Cuba received the third-most visitors of any Caribbean destination, trailing only the Dominican Republic (4.0 million) and Puerto Rico (3.7 million).[23] However, tourist arrivals declined in 2006 to 2.2 million, a 4 percent decline from 2005.[24] This drop is partly attributed to an 8 percent revaluation of the convertible Cuban peso in April 2005 that made Cuba relatively more expensive vis-à-vis competitor tourist markets, particularly the Dominican Republic and Mexico.[25]

Cuba receives tourists from all over the world, although the majority are Canadians and Europeans. In 2005, visitors from Canada represented the largest share of visitors to Cuba, accounting for 26 percent, followed by visitors from the United Kingdom (9 percent), Spain and Venezuela (8 percent each), and Italy (7 percent). The United States, with an estimated 7 percent share, was likely the sixth leading provider of tourists to Cuba in 2005.[26] An estimated 171,000 American citizens visited Cuba in 2005 and were mainly Cuban Americans visiting family.[27]

Between 2000 and 2005, average annual visitor growth rates from Venezuela (57 percent), the United Kingdom (14 percent), and Canada (12 percent) exceeded the average 5 percent growth rate overall. This growth in visitor arrivals from Venezuela is likely attributable to an informal arrangement between the Cuban and Venezuelan governments, whereby Cuba offers discounted tourism services to Venezuelan citizens as reciprocity for Venezuelan energy subsidies.[28] Increased arrivals from the United Kingdom are, in part, attributable to the establishment of direct air service from London to Havana by Virgin Atlantic in July 2005,[29] which doubled air capacity between the two countries. Similarly, growth in Canadian arrivals is attributable to increased airlinks. For instance, beginning in 2003, Air Canada joined carriers Cubana and SkyService in offering service from numerous destinations in Canada to several Cuban cities.[30]

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[22] Ibid., 3.

[23] USITC calculations based on data from United Nations World Tourism Organization, *Yearbook of Tourism Statistics*.

[24] Valdes, Rosa Tania, "Price Not Politics Slows Cuba Tourism," and "2007 Tourism Arrivals Take a Plunge," 13.

[25] Valdes, Rosa Tania, "Price Not Politics Slows Cuba Tourism."

[26] The Commission estimated the number of U.S. travelers to Cuba. See chapter 3 for full discussion.

[27] Commission staff estimate, based on UN World Tourism Organization data and Spandoni, *Effectiveness of Economic Sanctions in the Context of Globalization and Transnational Linkages.* See chapter 3 and table 3.1 for full discussion.

[28] Industry official, interview by Commission staff, Washington, DC, April 4, 2007. Venezuelans may visit Cuba for medical treatment, as well.

[29] Airline Industry Information, "Virgin Atlantic Launches Service to Havana," June 28, 2005.

[30] Chung-Wee, Roger, Caribbean Aviation, "International Flights to the Caribbean."

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CHAPTER 2
Overview of Cuba's Purchases of Agricultural, Fish, and Forestry Products, 2000–06

Cuban Imports of Agricultural, Fish, and Forestry Products[1]

Cuban imports of agricultural, fish, and forestry products rose from $550 million in 2000 to over $1 billion in 2006, an increase of 89 percent (figure 2.1).[2] Most of this growth occurred during 2002–05, with the largest year-on-year increase between 2003 and 2004, when imports rose about $181 million. The higher level of imports in 2004 coincided with agricultural production setbacks in Cuba owing to a severe drought in 2003–05 that inflicted extensive damage on Cuba's agricultural production and three hurricanes (Charley in August 2004, Ivan in September 2004, and Dennis in July 2005).[3] These natural disasters led to additional import purchases to meet domestic food consumption.[4] Imports peaked in 2005, as the Cuban government replenished food inventories, and then fell slightly in 2006.[5]

Major Products

Agricultural imports are concentrated in products that are either staples in the Cuban diet, such as rice and beans, or not produced efficiently in Cuba's tropical climate,[6] such as

[1] Trade data (FAS value, foreign port of export) were compiled from the Global Trade Atlas online database. Because of the unavailability of Cuban import data after 2004, data for other countries' exports to Cuba are used as a proxy for Cuban imports. Data are not available for Vietnam, and therefore Cuban imports of rice from the world presented in this report are significantly understated.

[2] Agricultural, fish, and forest products refer to USDA-eligible items under TSRA. These are found at www.fas.usda.gov/itp/cuba/ScheduleBEligibleCommodities06-28-06. For purposes of this report, the term "agricultural products" is used interchangeably with the term "agricultural, fish, and forestry products."

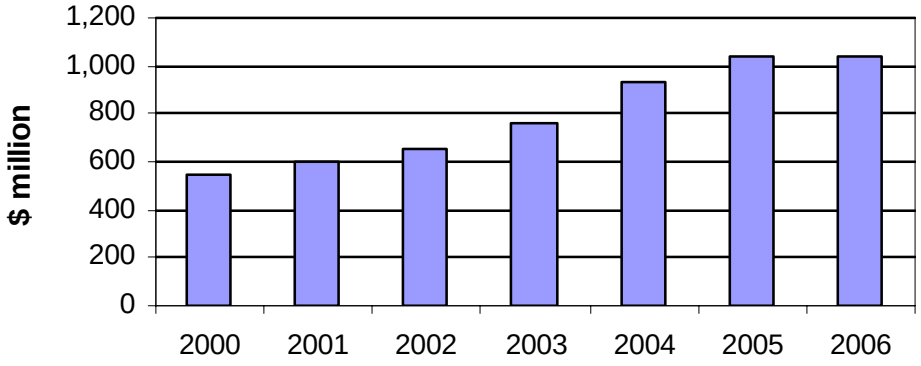
[3] According to estimates, the losses caused by the drought in 2004 totaled $835 million, representing 2.5 percent of Cuba's gross domestic product. Grogg, "Cuba: Food Aid for Victims of Worst Drought Since 1901" and Marx, "In Cuba, Drought Hits Crisis Level." The 2003-05 drought was the worst to affect Cuba in a century; Cuban 2004-06 production of most staple crops and poultry meat/ cattle slaughter fell by 10 and 40 percent, respectively. U.S. Department of State official, U.S. Interests Section, Havana, e-mail message to Commission staff, May 31, 2007.

[4] International Federation of Red Cross, "Cuba: Hurricane Charley Appeal No. 20/04 Final Report," January 18, 2006.

[5] Rainfall replenished Cuba's reservoirs to 80 percent of capacity by December 2006. U.S. Department of State official, U.S. Interests Section, Havana, e-mail message to Commission staff, May 31, 2007.

[6] U.S. Department of Agriculture, Economic Research Service, "Cuba's Agriculture: Collapse & Economic Reform" and Messina, Brown, Ross, and Alvarez, "Cuban Non-Sugarcane Agricultural Trade Patterns: Historical Perspectives and Future Prospects."

Figure 2.1 Cuban imports of agricultural products, 2000–06



Source: Global Trade Atlas.

coarse grains, wheat, and animal products.[7] During 2000–06, over 50 percent of the total value of Cuba's agricultural imports consisted of cereals, meats, and dairy products (primarily milk powder) (table 2.1).[8]

Cuba imports most of its domestic consumption of grain (wheat, wheat flour, rice, and corn).[9] Wheat cannot be grown commercially in Cuba, and domestic production of rice and corn account for about 42 percent and 43 percent of domestic consumption, respectively. Between 2000 and 2006, Cuban grain imports grew about 6 percent annually, reaching almost $247 million in 2006. During this period, grain accounted for more than one-quarter of all Cuban agricultural imports. Combined Cuban imports of wheat and wheat flour ranged annually between $130 million and $150 million annually.

Cuban imports of meat (mainly poultry, pork, and beef) have grown since 2000, because it is less expensive to purchase meat from efficient overseas suppliers than to produce livestock domestically with imported feedgrains.[10] Between 2000 and 2006, Cuban meat imports rose more than 180 percent in value terms, and accounted for about 15 percent of all Cuban agricultural imports in 2006 (table 2.1). Imports of beef and pork increased steadily over the time period, while poultry imports doubled between 2003 and 2004 in response to drought conditions and the hurricane damage to domestic poultry flocks. Poultry comprises the bulk of Cuban meat imports. Lower-priced poultry meat provides a more cost effective source of animal protein for the domestic market than either beef or pork. Over the period, Cuban per capita consumption of poultry increased, beef fell, and pork was stable.[11]

[7] Mattson and Koo, "An Overview of Cuban Agriculture and Prospects for Future Trade with the United States."

[8] Detailed commodity-level Cuban import data by import supplier is contained in appendix E.

[9] U.S. Department of Agriculture, Foreign Agricultural Service, "International Trade Report: Cuban Market, Good for U.S. Grain", August 5, 2005.

[10] Industry officials, interview by Commission staff, April 2007.

[11] FAO, *FAOSTAT Agricultural Consumption Data*.

Table 2.1 Cuban agricultural, fish, and forestry imports from the world, by commodity, 2000–06

Commodity	2000	2001	2002	2003	2004	2005	2006
	U.S. dollars (millions)						
Grains	180	190	210	193	238	246	247
Wheat	94	89	73	72	71	94	78
Flour	39	57	61	74	39	46	57
Corn	8	13	30	36	61	64	60
Rice	39	30	47	11	67	41	51
Other grains	([a])	([a])	([a])	([a])	([a])	([a])	2
Animal feed	33	28	29	31	52	50	56
Soybeans	3	7	25	35	40	40	32
Fats and oils	33	31	39	68	56	84	39
Dry beans	35	39	52	55	64	63	79
Meats	56	72	75	79	155	141	159
Poultry	33	41	48	52	103	86	69
Beef	4	5	6	8	25	19	42
Pork	13	18	14	11	16	26	34
Other meats	6	9	7	7	11	10	15
Eggs	([a])	([a])	1	1	1	([a])	([a])
Dairy products	88	95	79	102	134	176	147
Sugar, cane or beet	([a])	12	13	32	11	31	69
Processed food	36	38	43	65	64	59	67
Fish and seafood	29	31	17	14	23	27	26
Paper and wood	22	33	35	44	50	50	60
Other	32	28	33	38	46	75	57
Total	550	603	650	756	937	1,043	1,039

Source: Global Trade Atlas.

Note: Data are unavailable for Vietnam, however, Vietnam is believed to be the leading source of Cuba's rice imports.

[a]Less than $1 million.

In 2006, Cuban imports of dairy products were $147 million, or 14 percent of all Cuban agricultural imports that year. Dairy products have been among the fastest-growing agricultural imports, increasing 11 percent annually over the past 6 years. The bulk of these are milk powders (nonfat dry milk and whole milk powder), which are reconstituted into fluid milk and given primarily to children as part of food rations provided by the Cuban government. A significant share of Cuba's dairy consumption is imported. New Zealand and the EU supply most Cuban dairy imports.

Cuban imports of other agricultural products (table 2.1) rose as well during 2000–06. Although Cuba was once the world's largest sugar-exporting country, it became a net importer of sugar.[12] Cuban imports of sugar increased from 44,000 metric tons (mt) in 2000

[12] Cuba has experienced declining domestic production and exports of sugar since the dissolution of the Soviet Union. Plagued by the lack of agricultural inputs, the lack of spare parts, and periods of drought and hurricanes, the Cuban government began restructuring the domestic sugar industry in 2002, resulting in a contraction of the industry. Amuchastegui, "Cuba downsizes ailing sugar industry."

to over 250,000 mt in 2006.[13] At the same time, Cuba continued to fulfill long standing agreements with several countries, including China, for annual sugar export contracts.[14] Thus, Cuba must import sugar to ensure that both domestic and export demands are satisfied. Another notable trend is that Cuban imports of soybeans increased from about 10,000 mt in 2000 to over 130,000 mt 2006, as Cuba's first soybean processing plant commenced operations in October 2000.[15] The plant is a joint venture with Canadian Sherritt International and processes soybeans into soybean meal and soybean oil (a cooking oil).

Major Suppliers

In 2006, the United States was the leading supplier of Cuban imports of agricultural, fish, and forestry products, with a share of 32 percent. The other major suppliers were the EU (16 percent), Brazil (14 percent), Argentina (7 percent), and Canada (6 percent). These five countries together accounted for over $793 million, or 76 percent, of total Cuban imports of agricultural goods in 2006 (table 2.2).

Table 2.2 Cuban agricultural, fish, and forestry imports, by major supplier, 2000–06

Reporting country	2000	2001	2002	2003	2004	2005	2006
	U.S. dollars (millions)						
United States	([a])	4	140	254	392	352	337
EU	273	238	209	239	164	171	170
Brazil	22	58	41	27	62	110	149
Argentina	41	36	13	12	68	72	71
Canada	74	84	62	41	63	79	66
China	70	59	87	47	32	57	52
New Zealand	6	44	30	39	54	40	43
Chile	28	22	28	30	42	36	41
Uruguay	0	0	([a])	([a])	8	31	36
Mexico	28	31	16	17	18	38	24
All other	7	25	25	51	33	58	49
Total	550	603	650	756	937	1,045	1,039

Source: Global Trade Atlas.

Note: Data are unavailable for Vietnam, however, Vietnam is believed to be the leading source of Cuba's rice imports.

[a]Less than $1 million.

The suppliers of Cuban agricultural imports have changed significantly over the past 5 years. In 2000, with virtually no trade between the United States and Cuba, the EU accounted for 50 percent of all imports with the remaining share allocated fairly evenly among seven countries (Canada, China, Chile, Brazil, Mexico, New Zealand, and Argentina). Then, in 2001, the United States entered the market and, by 2004, had captured a 42 percent import share, mostly at the expense of the EU, Argentina, Canada, and Mexico. In 2006, the United

[13] U.S. Department of Agriculture, Foreign Agricultural Service, *Production, Supply and Distribution Online (PS&D)*.

[14] U.S. Department of Agriculture, Foreign Agricultural Service, "World Sugar Situation," December 2005.

[15] Ross and Fernandez Mayo, "International Economic Associations in Cuba's Agricultural Sector."

States accounted for a one-third share, the EU and Brazil, combined for another one-third, and the other countries comprised the remaining one-third.

United States

The 1992 Cuban Democracy Act all but prohibited commercial sales of agricultural products between the United States and Cuba.[16] The loosening of restrictions under TSRA and Cuba's need to import food in the wake of Hurricane Michelle in November 2001 provided the impetus for trade to resume.[17] In 2002, the first shipments of U.S. rice arrived in Cuba (table 2.3). The flow of products steadily increased from $26,000 in 2000 to a peak of $392 million in 2004. Sales fell 10 percent in 2005 to $352 million, and fell a further 2 percent in 2006 to $337 million. According to the Cuban government, this decline resulted from changes in U.S. regulations on export payments and financing in March 2005.[18] Other commentators have attributed the decline to other factors, such as the availability of favorable financing terms from competitive suppliers and an overall decline in imports in 2006.[19] The effects of the March 2005 regulatory changes are described in chapter 3.

In general, agricultural products imported from the United States have lower costs of delivery and warehousing than competitive products from third-country exporters because of the proximity of the U.S. ports to Cuba, the marketing efficiency of the U.S. exporters, the smaller volume of individual shipments, and the transportation and handling capacity of U.S. ports.[20] In 2002, an unnamed Cuban official estimated that the proximity of U.S. Gulf ports saves freight, warehousing, and interest costs, and gives U.S. exporters the equivalent of up to a 20 percent price advantage over third-country suppliers to Cuba.[21] The lack of domestic storage capacity for agricultural products and poor internal rail[22] and truck delivery heightens the advantages U.S. exporters have in being able to make timely deliveries of smaller shipments on a "just-in-time" basis. U.S. suppliers are reported to service the three major Cuban ports in a matter of one day or less, as compared to 25 days for sailing from Brazil.[23]

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[16] Between 1990 and 1999, cumulative U.S. agricultural exports to Cuba amounted to less than $20,000. USITC, Interactive Tariff and Trade Database (Dataweb).

[17] Messina, *U.S.-Cuban Agricultural Trade: Present Realities and Future Prospects.*

[18] *CubaNews*, "USTEC: Food exports to Cuba fell 11% to $350m in 2005."

[19] Cuba imported 500,000 metric tons of rice from Vietnam in 2005–06 with preferential financing. *CubaNews*, "Cuba to Triple Rice Production by 2015," and Echevarría, "U.S. Rice Producers Expect Cuba Market to Keep Growing." China has provided considerable official credit to Cuba. Economic Intelligence Unit, *Cuba Country Profile 2007*, 43-44.

[20] U.S. Department of Agriculture, Foreign Agricultural Service, *International Trade Report: Cuban Market, Good for U.S. Grain*.

[21] Marc Frank, "Cuba slashes imports amid ongoing cash crunch," *Reuters*, October 2002, quoted by Spandoni, "Effectiveness of Economic Sanctions in the Context of Globalization and Transnational Linkages: The Case of Cuba," 182.

[22] Cuban rail cars can hold only 30 tons each (as compared to the 80 ton maximum in the United States) becasue of weight limits of Cuban rail lines. Thus, direct maritime delivery is particularly important to Cubans. Cuban industry official, interview with Commission staff, June 14, 2007.

[23] United States Poultry and Egg Council, written submission to the Commission, May 8, 2007 and Cuban industry official, interview with Commission staff, June 14, 2007.

Table 2.3 Cuban agricultural, fish, and forestry imports from the United States, by commodity, 2000–06

Commodity	2000	2001	2002	2003	2004	2005	2006
	U.S. dollars (millions)						
Grains	([a])	2	52	83	180	145	136
Wheat	0	0	23	37	58	51	51
Flour	0	0	0	([a])	([a])	0	3
Corn	0	2	23	36	58	55	43
Rice	([a])	0	6	11	64	39	40
Other grains	0	0	0	0	0	0	0
Animal feed	0	0	19	26	36	24	42
Soybeans	0	0	21	34	28	33	32
Fats and oils	0	0	22	52	24	28	22
Dry beans	0	0	([a])	1	8	12	20
Meats	0	2	23	37	63	66	59
Poultry	0	2	23	37	61	58	45
Beef	0	0	([a])	0	([a])	0	([a])
Pork	0	0	([a])	0	2	8	14
Other meats	0	0	0	([a])	0	0	([a])
Eggs	0	0	([a])	([a])	([a])	([a])	0
Dairy products	0	0	([a])	([a])	27	30	13
Sugar, Cane or Beet	0	0	0	0	0	0	0
Processed food	0	0	([a])	12	10	2	1
Fish and seafood	0	0	0	([a])	([a])	([a])	([a])
Paper and wood	0	0	([a])	5	10	6	10
Other	0	0	([a])	3	5	5	2
Total	([a])	4	140	254	392	351	337

Source: Global Trade Atlas.

Note: Data are unavailable for Vietnam, however, Vietnam is believed to be the leading source of Cuba's rice imports.

[a]Less than $1 million.

In 2006, the United States accounted for a substantial percentage of Cuban imports of wheat (66 percent), corn (71 percent), rice (77 percent), poultry (65 percent), pork (42 percent), soybeans (100 percent), and animal feed (76 percent). The drop in imports from the United States in 2005 was concentrated in a few products, mainly rice and animal feed. Cuban imports from the United States of several commodities increased between 2004 and 2005, including soybeans, fats and oils, pork, dairy products, and dry beans.

The Cuban government's access to foreign exchange limits Cuban imports, especially those from the United States, since no U.S. commercial credit can be provided. This underscores the importance of Cuban-American family travel and remittances and dollar receipts from tourism to the Cuban economy. Changes in U.S. government regulations from March 2003 to June 2004 eased family travel restrictions to Cuba and increased the amount that each traveler could carry from $300 to $3,000.[24] This action had the potential to substantially

[24] Sullivan, "Cuba: U.S. Restriction on Travel and Remittances," 5.

increase the Cuban government's access to foreign exchange and its ability to purchase food and agricultural products from the United States during this period.

EU

The EU was the second largest supplier of agricultural products to Cuba in 2006 but has seen its share of the Cuban import market decline from 50 percent to less than 20 percent between 2000 and 2006. EU sales of wheat and poultry to Cuba fell in 2004 when the Cuban government shifted to other suppliers such as the United States, Brazil, Argentina, and Canada. The significant appreciation of the Euro against the Cuban peso and U.S. dollar during 2003–06 made U.S. and third-country agricultural products relatively less expensive.[25]

Lower EU wheat sales to Cuba coincided with increased Cuban wheat imports from the United States and Canada. This shift away from the EU toward imports from the North American suppliers may suggest a Cuban preference for higher quality wheat and away from wheat flour.[26] The building of several Cuban wheat mills also contributed to higher wheat, and lower wheat flour imports. EU poultry sales to Cuba fell from $14.5 million to $2.7 million during 2000–06 and were offset by increased imports from Brazil and the United States.[27] The EU still retains a large percentage of the Cuban import market for milk powder and wheat flour.

Brazil

Cuban agricultural imports from Brazil increased more than six-fold during 2000–06. In 2006, Cuban imports of Brazilian sugar were over $50 million, up from zero in 2000. Brazilian meat exports to Cuba also increased six-fold from $6 million in 2000 to almost $40 million in 2006. Pork accounted for 61 percent, and beef and poultry for 29 percent of the total value of Brazilian meat exports to Cuba in 2006. Brazil also sold significant quantities of powdered milk and soybean oil to Cuba.

An important factor in the increase in Cuban food imports from Brazil was reportedly the Cuban government seeking political support for admission to Mercosur. Cuba acceded to Mercosur in July 2006.[28] Brazil imported the vast majority of Cuba's exports to Mercosur countries in 2004,[29] and continues to purchase large quantities of Cuban goods.

Argentina

Cuban imports from Argentina increased 73 percent by value between 2000 and 2006. This increase was primarily led by gains in corn, powdered milk, and dry beans. Dairy and corn each accounted for 25 percent of total shipments in 2006. Dry beans increased significantly, from $288,000 in 2000 to $13 million in 2006. Like Brazil, Argentina is member of

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[25] Data on exchange rates taken from www.oanda.com.

[26] Mattson and Koo, "An Overview of Cuban Agriculture and Prospects for Future Trade with the United States."

[27] Overall poultry exports decreased between 2001 and 2006, likely an outcome of EU enlargement in 2004, which led to an increase in intra-EU poultry trade. Farm Foundation, *The Future of Animal Agriculture in North America*.

[28] Mercosur is a South American trading bloc consisting of Argentina, Brazil, Paraguay, Uruguay and Venezuela, as well as associate members Bolivia and Chile. Hearn, "Castro rallies trade bloc."

[29] Resende, "How Cuba fits into Brazil's plans."

Mercosur, and it is possible that Cuba's shift in food suppliers away from the EU to Mercosur members was designed to support Cuba's accession to the trading bloc. The Argentine peso declined about 50 percent relative to the U.S. dollar from 2001 to 2006,[30] and increased Argentine price competitiveness.

Canada

Canada fell from the second to the fifth leading supplier to the Cuban market during 2000–06. In 2006, Canada exported $66 million and its market share decreased to 6 percent. The appreciation of the Canadian dollar against the U.S. dollar since 2004 reduced Canadian price competitiveness in much the same way as the Euro's rise.[31] The unwillingness of the Canadian agricultural sector to extend additional credit to the Cuban government and delayed Cuban payments[32] may have played a role as well.

Increased competition resulting from the re-entry of the United States into the Cuban market resulted in declining Canadian export sales of corn, wheat, pork, and poultry.[33] Canadian wheat sales to Cuba have been affected not only by U.S. wheat, but by Cuban imports of Argentine wheat starting in 2004.

Cuban imports of Canadian poultry also declined during this period from $12 million in 2000 to $1 million in 2006. This decline coincided with a large increase of imports from the United States and Brazil, with sales of poultry from these countries reaching almost $65 million in 2006. Canadian pork exports to Cuba remained fairly constant during 2000–06, averaging $10 million per year, but Canada's share of pork imports declined from 69 to 32 percent over the same period.

Food Procurement and Distribution

Cuba's food procurement and distribution system is highly complex. It consists of many parts, including domestic agricultural production and imports, several entities involved in food procurement, and various types of food sales outlets, serving both Cubans and tourists (figure 2.2). The system is further complicated by two major factors: central planning and dual currencies.

Large sections of the system are centrally planned. For example, imports are tightly controlled by the Cuban government, particularly imports from the United States, and most Cubans receive their food through government-controlled ration stores. Within the system, however, there are large pockets where free enterprise is allowed to operate. For example, imports from non-U.S. suppliers are sold directly to hotels, and farmers with excess production sell their products in private farmers' markets.[34]

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[30] Real annual country exchange rate per U.S. dollar. U.S. Department of Agriculture, Economic Research Service, *Agricultural Exchange Rate Data Set*.

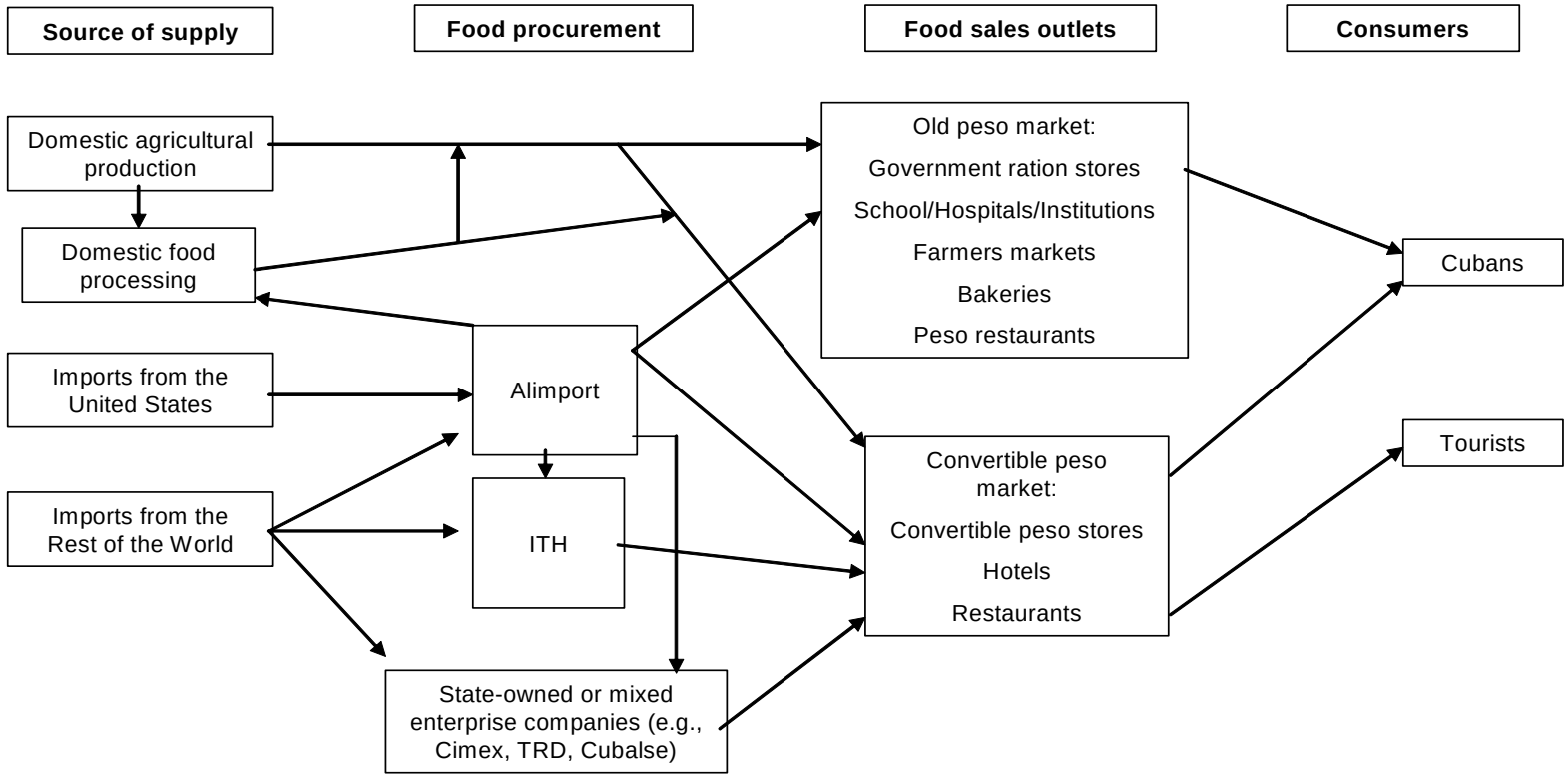
[31] Data on exchange rates taken from www.oanda.com.

[32] "Canadian food suppliers getting stiffed; U.S. rivals like status quo," *CubaNews*, 11.

[33] Agriculture and Agri-Food Canada. "Agri-Food Past, Present & Future Report Cuba, July 2005."

[34] Industry officials, interviews by Commission staff, April 2007. Commission staff fieldwork, Havana, Cuba, June 11-15, 2007.

Figure 2.2 Overview of Cuba's food production, purchasing, and distribution system



Source: Commission fieldwork.

The retail food distribution system operates under a dual currency—the old peso (CUP) and the new convertible peso (CUC), a hard currency backed by foreign exchange, such as U.S. dollars or Euros.[35] Consumer outlets using CUPs include farmers' markets, schools, hospitals, and government ration stores (*bodegas* and *placitas*),[36] as well as many commercial establishments, such as shops selling non-luxury items and restaurants primarily serving Cubans. The CUC, which was introduced in 1993, is used in establishments that accept foreign exchange, such as hotels, tourist restaurants, and retail outlets selling luxury items. In CUC retail outlets, food and other items are subject to significant mark-ups (as high as 300 percent) as a means by which the Cuban government can acquire foreign exchange.[37]

Domestic Food Production

Cuba is a net food importer, with slightly over one-half to two-thirds of its consumption of staple food products being imported.[38] Much of Cuba's agricultural production system is centrally-planned and inefficient, making domestic food production costly. According to Cuban national income statistics, total agricultural output shrank by nearly one-half during the economic crisis period of 1990–94. This decline coincided with the collapse of the Soviet Union and the removal of subsidies to the Cuban agricultural economy in the form of petroleum, fertilizer and other farm chemicals, and farm machinery. Since then, the Cuban government has promoted food self-sufficiency through the use of more organic forms of production. However, current agricultural output is only about 55 percent of the level in 1990.[39]

The structure of agricultural production in Cuba is diverse, including small producers selling to farmers' markets, large state farms, and state-controlled agricultural cooperatives (UBPCs). Traditionally, Cuban agriculture has been centered on sugar for export, but with the loss of the Soviet subsidies and market, agricultural exports have diversified into products such as cigars, rum, and citrus products.[40] Production for domestic consumption is focused on rice, potatoes, beans, fresh fruit and vegetables, and, to a lesser extent, livestock. In the non-sugar cane sector, output currently remains below the level of production in 1989.[41] Cuban cattle herds and fluid milk production have not rebounded to the 1989 levels, despite heavy government spending on imported higher quality live cattle and genetics

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[35] The Cuban government eliminated the circulation of U.S. dollars, which had been in use since the early 1990s, and all other foreign currencies on November 4, 2005. To enforce the elimination of dollars, a 10 percent fee was added to all conversion of U.S. dollars to CUCs, a fee not charged for the conversion of other foreign currencies into CUCs. Prior to March 2005, the Cuban Central Bank reported the value of US$1 as equal to CUC1. In March 2005, the CUC was revalued 7.4 percent.

[36] *Bodegas* are stores which sell a broad variety of foods, while *placitas* are small shops that sell only fruits and vegetables. Alverez,"Overview of Cuba's Food Rationing System," 4.

[37] Ross and Fernandez Mayo, *Cuba's 'New' Peso Food Chain: Linkages and Implications for U.S. Exporters*.

[38] Imports supply the majority of Cuban consumption of wheat, rice, dry beans, corn, vegetable oil, and poultry meat. See chapter 4 for commodity analysis.

[39] Economist Intelligence Unit, *Cuba Country Profile 2007*, 34.

[40] *CubaNews*, "RHC: Cigar, Honey Industries Back on Track" and *CubaNews*, "Citrus Crop Recovers from Last Year's Disasters."

[41] U.S. Department of Agriculture, Foreign Agricultural Service, "Caribbean Basin Market Development Reports, Cuba's Dollar Food Market and U.S. Exports," and USDA official, U.S. Interests Section, Havana, e-mail message to Commission staff, May 31, 2007.

improvements.[42] In addition, the 2004 hurricane and the 2005 drought damaged livestock and crops throughout Cuba.[43]

Counter to the general downward trend, certain commodity sectors have grown in recent years. For example, fruit and vegetable production in 2006 was higher than before 1994, and small farmers grow an abundance of plantain and tropical root crops (potatoes, sweet potatoes, and malanga), as evidenced by their supplies at the free farmers' markets.[44] Cuban pork production rose between 2000 and 2005, as private, small-scale hog farms expanded (and state and UBPC hog farming diminished).[45] Cuban egg production also rose by 20 percent during 2000–05.[46]

All food processing operates under the Ministry of Food Industries, either as wholly state-run entities or as foreign joint ventures that produce for the domestic tourist trade or export markets. The leading joint ventures in food production are Sherritt International and AGRO King of Canada, Nestle of Switzerland, Labatt Breweries of Canada, and Grupo BM of Israel.[47] Foreign joint ventures in beer, soft drink and mineral water bottling, rum, tobacco (cigars), citrus (oranges and grapefruit), and greenhouse vegetables have boosted production of these products in recent years.[48]

The major components of domestic food processing industries are the dairy industry (mainly milk processing); meat products (mainly poultry and pork); grain milling; oilseed processing; confections and sugar; bread and baked goods; fruit and vegetable products (including orange juice); alcoholic beverages (mostly rum and beer); and bottled water and other soft drinks.[49] The food sectors that had the highest growth since 1994 include beer; soft drinks and mineral water; alcoholic beverages (rum) for export; powdered milk (imported product being reconstituted into fluid milk); pasta; wheat flour; and cheese and ice cream (using reconstituted imported dry milk).[50]

Cuban food processors face considerable difficulties, many of which concern the timely delivery of food inputs, and poor food transportation and storage infrastructure.[51] For example, Cuban port operations for unloading a bulk agricultural vessel can take two to three

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[42] Cuban beef production fell from 76,000 metric tons in 2000 to 60,000 metric tons in 2005 and fresh whole milk production fell from 614,000 metric tons to 334,000 metric tons in the same period, according to data from FAO.

[43] U.S. Department of State official, U.S. Interests Section, Havana, e-mail message to Commission staff, May 31, 2007.

[44] Commission staff field visit, Havana, Cuba, June 12-14, 2007.

[45] Cuban pork production rose from 76,000 metric tons in 2001 to 97,000 metric tons in 2005, according to data from FAO; however, this is still below the 116,000 metric tons produced in 1996.

[46] Cuban egg production rose from 76,000 metric tons in 2001 to 91,000 metric tons in 2005, according to data from FAO.

[47] U.S. Department of Agriculture, Foreign Agricultural Service, "Caribbean Basin Market Development Reports, Cuba's Dollar Food Market and U.S. Exports, 2003," 7.

[48] Industry officials, interview by Commission staff, June 21, 2007.

[49] U.S. Department of Agriculture, Foreign Agricultural Service, "Caribbean Basin Market Development Reports, Cuba's Dollar Food Market and U.S. Exports, 2003," 6.

[50] Ibid., 7.

[51] Domestic Cuban food quality and food distribution were considered erratic and of poor quality in 2006, as was acknowledged in debate in the Cuban National Assembly in December 2006. Economist Intelligence Unit, *Cuba Country Profile 2007*, 36.

times the time to unload the same vessel in other Caribbean ports.[52] Internal distribution of agricultural products can also be difficult.[53] Coupled with poor grain storage and inadequate railroad rolling stock, grain spoilage and losses in 2006 were severe, according to U.S. industry sources.[54] Joint venture hotels often experience problems with delivery of fresh produce as trucking and refrigeration are often lacking.[55] However, a U.S. port official stated that Cuban bulk handling and cold storage facilities in 2007 have adequate capacity to receive and maintain the quality of U.S. food exports (like frozen chicken and dry beans).[56]

Imports

Cuban imports of food products, including bulk commodities, intermediate (semi-processed) products, and consumer-ready products, account for the majority of domestic food consumption. Typically, imports are sold to different market segments depending on the type of commodity. Imports of bulk commodities (e.g., grains, oilseeds, and dry beans) have accounted for close to one-half of all Cuba's agricultural imports since 2001 (table 2.1); most of these bulk commodities are imported for the ration stores and government institutions, as well as for food processing companies and feed mills. Some intermediate products, such as soybean meal and soybean oil, are also sold to food processing and feed mills. A large percentage of intermediate and consumer-ready products (e.g., meat, dairy products, cooking oil, and snack foods) are sold directly to consumers through the convertible peso stores, government-owned restaurants, and tourist hotels and restaurants.[57] Imported food is sold in both currency market outlets. However, the majority of U.S. imports are bulk and, after domestic food processing, are sold through the old peso markets; the majority of non-U.S. food imports, on the other hand, are sold in the convertible peso markets.

Import Procurement

Alimport

Alimport (*Empresa Cubana Comercializadora de Alimentos* under the Ministry of Foreign Trade) is the sole Cuban agency authorized by the government to import food from the United States.[58] Alimport purchased $1.6 billion of Cuba's total food imports in 2006,[59] and primarily supplies ration stores, school lunch programs, hospitals, and other government institutions. Alimport also imports food ingredients for the food processing sector (e.g., wheat flour), convertible peso stores (*tiendas de recupación de divisas*), and other

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[52] Cuban ports do not generally have sufficient forklifts and cranes necessary to rapidly unload cargo and move it to port storage. The only significant container port is in Havana, and during 2004–06 it was frequently overwhelmed with non-food storage containers until the Cuban Army provided emergency assistance to reduce the backload. Industry officials, interview by Commission staff, May 4, 2007 and June 21 and 25, 2007.

[53] Reed, Commission Hearing Transcript, 129.

[54] Industry officials, interview by Commission staff, May 4, 2007.

[55] Johnson, Commission Hearing Transcript, 145-146. Industry officials, interview by Commission staff, May 4, 2007.

[56] Bonilla, Commission Hearing Transcript, 109.

[57] U.S. Department of Agriculture, Foreign Agricultural Service, "Caribbean Basin Market Development Reports, Cuba's Dollar Food Market and U.S. Exports," 14.

[58] However, there are reports that small amounts of branded U.S. food products such as Coca-Cola and California wines are transhipped through third countries to Cuba. Academic representative, interview by Commission staff, May 15, 2007; and Weissert, "U.S. Brands get to Cuba."

[59] Ministry of Foreign Trade Official, interview by Commission staff, Havana, Cuba, June 12, 2007.

government-owned companies.[60] Alimport imports most of the bulk and intermediate agricultural products entering Cuba.

The Alimport logistics group charters Cuban and foreign flag vessels and monitors transportation of the products to Cuba. According to U.S. industry sources, Alimport buys U.S. agricultural products on both a free-on-board (f.o.b.) and a delivered (c.i.f) basis because Alimport sometimes charters the vessel or other times has the U.S. exporter charter delivery to Cuba. In either case, Alimport pays for shipping and any demurrage charges.[61]

Several factors reportedly go into Alimport's buying decisions.[62] Purchase price, transportation cost, quality, and delivery considerations are all important economic factors that make the United States an attractive supplier. Another economic factor is the availability of bartering and credit financing from non-U.S. suppliers. For example, China and Vietnam have provided official credit for the purchase of rice,[63] and Canada has provided credit guarantees for $300 million of exports (mostly non-agricultural) to Cuba since 1990.[64] The French export credit agency, COFACE, has provided long- and short-term credit for Cuba's purchase of French wheat and other products.[65] However, U.S. exporters are prohibited by federal laws from extending export credits to Cuba.

Non-economic factors also enter into Alimport's buying decisions. For instance, Alimport maintains multiple supply relationships to hedge against the risk that laws or regulations in a given supplying country could change, thereby making a supplier, such as the United States, unavailable.[66] The Cuban government also has cultivated import relationships because of political motivations.[67] For example, Cuba maintains close political ties to China and Venezuela and benefits from special financial arrangements with these countries. In addition, Alimport reportedly initiated a policy in 2003 that limited or ceased purchases from U.S. companies that did not actively lobby the U.S. government for changes to laws and regulations regarding trade with Cuba.[68] Purchases are also allegedly geared to particular U.S. States or Congressional districts in an effort to heighten local interests in pressing the Administration to normalize trade with Cuba.[69]

Even in the period of expanding U.S. exports to Cuba prior to the 2005 changes to U.S. regulations, the Cuban government had indicated that the U.S. share of Cuban agricultural imports would likely rise to only 60 percent.[70] The subsequent rules change highlighted the vulnerability of Cuban food imports to a U.S. trade action, and likely reduced the share of

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[60] Jones, Commission Hearing Transcript, 80.

[61] Demurrage charges are fees paid as compensation for the delay of a ship or freight car or other cargo beyond its scheduled time of departure.

[62] Industry representative, e-mail to Commission staff, April 5, 2007.

[63] Cuba imported 500,000 metric tons of rice from Vietnam in 2005-6 with preferential financing, *CubaNews*, "Cuba to Triple Rice Production by 2015," and Echevarría, "U.S. Rice Producers Expect Cuba Market to Keep Growing." China has provided considerable official credit to Cuba. Economic Intelligence Unit, *Cuba Country Profile 2007*, 43-44.

[64] *CubaNews,* "Despite the Risks, Canadian Companies Find Cuba Fertile Ground for Trade Deals."

[65] Industry officials, interview by Commission staff, April 2007.

[66] Industry official, e-mail to Commission staff, April 5, 2007.

[67] U.S.-Cuba Trade and Economic Council, "Economic Eye on Cuba: 2006 U.S. Export Statistics for Cuba."

[68] Kavulich, Commission Hearing Transcript, 17 and San Martin, "Feud Erupts Over Cuba Trade."

[69] Industry official, e-mail message to Commission staff, April 5, 2007; industry officials, interviews with Commission staff, April-May, 2007; and media representative, interview with Commission staff, Havana, Cuba, June 14, 2007.

[70] Spandoni, 2005, 182.

its total food imports that Cuba would purchase from the United States. U.S.-Cuban trade experts reported to the Commission that, absent U.S. legal restrictions on trade, the U.S. share of Cuban food imports may rise to 50 percent, but likely no higher because of Cuban food security concerns.[71]

Other Cuban Importing Entities

While U.S. agricultural exporters are required to sell exclusively to Alimport, Cuba's other trading partners sell directly to many other state-trading enterprises and companies within Cuba. Food imports have traditionally been controlled by a small number of government ministries. After 1992, however, the decentralization in Cuban foreign trade permitted state and private enterprises, as well as joint ventures and other companies, to import food.[72] There are five leading channels through which non-U.S. agricultural products can be purchased by Cubans.[73]

- ITH (Commercializador ITH, S.A.) is the principal supplier to the tourist hotels and restaurants (operating under the Ministry of Tourism).[74]

- Six major chains (government-owned corporations) operate the convertible peso stores, including CIMEX, S.A. (Tiendas Panamericanas); Cubanacán, S.A. (Tiendas Universo); Caracól S.A. (Tiendas Caracol); CUBALSE S.A. (Tiendas Meridiano); GAE S.A. (Tiendas TRD Caribe); and Tiendas Habaguanex S.A. No foreign investment in convertible peso stores is permitted, and the chains do not compete for business (i.e., by not setting up stores in close proximity to one another).[75]

- Government-owned corporations that own and operate hotels in Cuba. Cubanacán (with 28 hotels, 50 restaurants, and many cafeterias) is the largest such corporation, accounting for more than one-third of tourist receipts. Others include Grupo Hotelero, Gran Caribe, Horizonte Hoteles, Habaguanex, and Grupo de Turismo Gaviota.[76]

- Roughly 30 percent of Cuban hotels are foreign joint ventures. These ventures are permitted to import food for their facilities, generally through ITH or ABATUR (Ministry of Tourism).[77] Import purchases are often influenced by the needs of chefs designing menus for the hotel restaurants.[78] The major joint venture hotel groups are Grupo Sol Melia (Spanish), Accor and Club Med (France), LTI and RIU (Germany), Leisure Canada, Inc. (Canada), and SuperClubs (Jamaica).

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[71] Jones, U.S.- Cuba Trade Association, written statement to the Commission, May 1, 2007. Industry official, e-mail message to Commission staff, April 5, 2007.

[72] Ross and Fernandez Mayo, "Cuba's Dollar Food Market and U.S. Exports."

[73] Alimport also negotiates with its non-U.S. trading partners on behalf of other Cuban state-trading enterprises. Jones, Commission Hearing Transcript, 114. CIMEX and CUBALSE Officials, interviews by Commission staff, Havana, Cuba, June 12, 2007.

[74] ITH Officials, interview by Commission staff, Havana, Cuba, June 13, 2007.

[75] Academic representative, interview by Commission staff, May 15, 2007. CIMEX and CUBALSE Officials, interview by Commission staff, Havana, Cuba, June 12, 2007.

[76] Ross and Fernandez Mayo, "Cuba's 'New' Peso Food Chain: Linkages and Implications for U.S. Exporters."

[77] U.S. Department of State official, U.S. Interests Section, Havana, e-mail message to Commission staff, May 31, 2007.

[78] Academic representative, interview by Commission staff, May 15, 2007.

- There are about thirty companies licensed to import meat directly from all foreign countries except from the United States.[79] It is likely that these companies are permitted by the Cuban government to directly import a wide variety of other food items destined primarily for the tourist trade.[80]

Food Sales Outlets

As previously noted, food for final consumption in Cuba can broadly be separated into outlets that accept the CUP, serving mostly Cubans, and those accepting only CUCs, serving mostly tourists and Cubans with access to CUCs.[81] CUCs are the basis of exchange in the CUC stores and hotels and restaurants that cater to the tourist industry. In addition to formal restaurants and hotels, other tourism outlets that accept CUCs are in-home family restaurants (*paladares*) and bed and breakfast homes (*casas particulares*).

The basis of the CUP market is the government ration store. The ration (*libreta*) provides every Cuban with a basket of staple food items at heavily subsidized prices. Such items include rice, beans or peas, potatoes, plantains, sugar, cooking oil, coffee, and, when available, soy/meat blend, chicken, and beef.[82] In addition, children under the age of seven are provided with milk, and children aged 7-14 receive soy yogurt.[83] The government also provides subsidized food through school lunch feeding programs, work programs, institutions, and hospitals ("social meals"), that supplement food made available through the ration stores.[84] The ration stores provide at most two-thirds of nutritional food requirements for a typical Cuban, since frequently no meat or produce is available.[85] However, malnutrition is not prevalent in Cuba and life expectancy is reportedly close to the U.S. rate.[86]

Other markets where Cubans can purchase food using CUPs include agricultural markets (*agromercados*), state markets, *topados*, EJT (Working Youth Army) markets, urban gardens, *organopónicos*,[87] fish shops, and supermarket-type stores (*imágenes*).[88] Cubans with access to foreign currency can exchange it for convertible pesos at the government exchange

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[79] U.S. Department of Agriculture, Foreign Agricultural Service, "Caribbean Basin Market Development Reports, Cuba's Dollar Food Market and U.S. Exports, 2003."

[80] Academic representative, interview by Commission staff, May 15, 2007.

[81] In April 2007, Economy Minister Jose Luis Rodriguez said that 57 percent of the population has access to hard currency either through jobs in tourism or remittances from relatives living abroad. The U.S. Commission for Assistance to a Free Cuba estimated in 2004 that remittances from the United States totaled $1 billion a year. Weissert.

[82] Archer, "Caribbean Basin Market Development Reports: How Cubans Survive 2003," and Alimport, interview with Commission staff, June 13, 2007.

[83] Cuba Transition Project, "Food Security and Nutrition in Cuba."

[84] Messina, Commission Hearing Transcript, 195.

[85] Bonilla, Jones and Messina, Commission Hearing Transcript, 125-128, 195.

[86] Testimony before the USITC, Commission Hearing Transcript.

[87] *Agromercados* are open air markets with products from private farmers and surpluses of cooperative farms that have fulfilled their production quotas. State markets are usually located next to the *agromercados* and are authorized to sell more processed goods, such as tomato sauce, peanut bars, and guava paste. *Topados* sell products of larger agricultural cooperatives, and regularly fix prices approximately 25–30 percent lower than the rates at the agromercados. The Worker's Youth Army (EJT) produces food for the military and sells its surplus in these markets. Products sold in EJT markets are often the cheapest option. *Organopónicos* are organic gardens with raised container beds. Cuba Transition Project, "Food Security and Nutrition in Cuba."

[88] Archer, "Caribbean Basin Market Development Reports How Cubans Survive 2003."

bureaus (CADECAs)[89] and purchase food at convertible peso stores.[90] Black market outlets accept both currencies.

Both domestically produced and imported food flows into all of these food sales outlets. Most of the imported food from the United States is bulk commodities and sold to Cubans through CUP outlets. Most food imported from non-U.S. suppliers, such as Canada and Europe, typically is sold in convertible peso market outlets.[91]

In 2003, the U.S. Department of Agricluture's Foreign Agricultural Service estimated the distribution of food imports sold through CUC outlets within Cuba (table 2.4). Total sales in these outlets were estimated to range between $400 million and $500 million. However, the share of these sales sourced from imports is difficult to measure. Imports sold directly to CUC stores and the tourist industry together account for $80 million to $120 million. At least half of the Ministry of Food Industries products (i.e., $75 million to $90 million) likely were derived from imported inputs (e.g., wheat to produce wheat flour). On this basis, it is plausible that $155 million to $210 million (39 to 42 percent) of the total CUC food sales were derived from imports.[92]

Table 2.4 Annual value of food sold in Cuban convertible peso (CUC) market

Source of food sold	Market channel	Wholesale value of food	Share of total
		$ million	*Percent*
Direct import	Convertible peso stores	40-60	10-12
Direct import	Tourist industry	40-60	10-12
Ministry of Food Industries (imported and domestic inputs)	Convertible peso stores and tourism	150-180	36-38
Ministry of Agriculture (mostly domestic)	Convertible peso stores and tourism	160-180	36-40
Mixed enterprises (mostly domestic)	Tourist hotels and restaurants	5-10	1-2
Free agricultural markets (domestic)	CADECAS (convertible peso for old peso exchange)	5-10	1-2
Total		400-500	100

Source: U.S. Department of Agriculture, Foreign Agricultural Service, "Caribbean Basin Market Development Reports: Cuba's Dollar Food Market and U.S. Exports, 2003." GAIN Report Number C13010, September 24, 2003, 24.

The remaining $245 million to $290 million (58 to 61 percent) of total CUC sales were therefore domestically produced, sold through the Ministry of Agriculture, foreign joint ventures (mixed enterprises), free agricultural markets, and Ministry of Food Industries.

[89] CADECA (Caja de Cambio, S.A.) is the foreign exchange bureaus that sell convertible pesos. Ross and Fernandez Mayo, 2003, 5.

[90] Cuban state workers receive part of their wages in CUCs and part in CUPs, As of December 2006, one CUC equaled 24 CUPs (unofficial rate), Economic Intelligence Unit, *Cuba Country Profile 2007*, 3.

[91] Ross and Fernandez Mayo, "Cuba's 'New' Peso Food Chain: Linkages and Implications for U.S. Exporters."

[92] Total composed of direct imports of $40 - 60 million for convertible peso stores, $40 - 60 million for the tourist industry, and an estimated $75 million to $90 million from the Ministry of Food Industries.

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CHAPTER 3
U.S. Restrictions on Travel and Agricultural Product Sales to Cuba: Regulatory Framework and Major Effects

Regulatory Framework

A number of laws and regulations provide the legal framework under which trade with and travel to Cuba are conducted. Trade with Cuba was prohibited by Proclamation 3447 issued by President Kennedy on February 3, 1962, under the authority of the Foreign Assistance Act of 1961.[1] Cuban Assets Control Regulations (CACR)[2] were issued by the U.S. Government on July 8, 1963, under the authority of the Trading with the Enemy Act.[3] The Cuban Democracy Act of 1992 (CDA) and the Cuban Liberty and Democratic Solidarity Act of 1996 (LIBERTAD, also know as Helms-Burton) placed additional restrictions on trade with Cuba.[4] The CDA, however, included provisions that allowed for licensed exports in support of the Cuban people, including food donations (but not commercial sales), medicines and medical devices, low-level Federal Communications Commission-approved telecommunications equipment, and items for news bureaus and groups that promote democracy.

In 1999 there was a minor relaxation of rules when the Bureau of Export Administration (BXA, precursor of the Bureau of Industry and Security) published regulations legalizing sales of agricultural commodities to independent, non-governmental entities in Cuba.[5] The Trade Sanctions Reform and Export Enhancement Act of 2000 (TSRA) offered additional opportunities to expand agricultural exports to Cuba.[6]

Trade with and travel to Cuba are primarily regulated by two U.S. agencies. The Bureau of Industry and Security (BIS), in the Department of Commerce, regulates merchandise exports and re-exports to Cuba. The Office of Foreign Assets Control (OFAC), in the Department of Treasury, regulates imports from Cuba and financial transactions involving Cuban assets, including regulations that affect travel to Cuba.

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[1] President John F. Kennedy, Proclamation, "Embargo on All Trade With Cuba, Proclamation 3447" and *Foreign Assistance Act of 1961*, Public Law 87-195, September 4, 1961.

[2] 31 CFR Part 515.

[3] *Trading with the Enemy Act,* October 6, 1917.

[4] *Cuban Democracy Act of 1992,* Public Law 102-484, October 23, 1992 and *Cuban Liberty and Democratic Solidarity Act of 1996,* Public Law 104-114, March 12, 1996.

[5] U.S. Department of Commerce, Bureau of Export Administration, "Exports to Cuba, Final Rule," *Federal Register*, Vol. 64, No. 92, 25807.

[6] *Trade Sanctions Reform and Export Enhancement Act of 2000,* Public Law 106-387, October 18, 2000 (at 22 USC §§ 7201–7209).

Bureau of Industry and Security

BIS is the primary gatekeeper for the export of agricultural commodities to Cuba. Prior to the TSRA, applications to sell agricultural commodities to Cuba were reviewed by BIS on a case-by-case basis. Owing to the narrow conditions defined by existing laws and regulations, licenses were routinely denied and agricultural exports were very limited.[7] To implement the TSRA, BIS created License Exception Agricultural Commodities (known as the AGR process). Under this process, BIS authorizes exports to Cuba of those TSRA-eligible products that are EAR99 (i.e., those not listed on the Commerce Control List), subject to certain criteria and restrictions.[8] Exporters of TSRA-eligible items are not required to use the AGR process and may seek a standard export license. However, applications for standard export licenses can take more than three times as long to process and be approved than applications under the AGR process.

To ship agricultural products under the AGR process, exporters must submit notification of sales to BIS and obtain confirmation that no agency objects to the transaction taking place.[9] Within two business days of entering the notification into its database, BIS electronically refers the notification to the Departments of State and Defense, as well as other agencies as appropriate.[10] If no agency raises an objection within 9 business days, the authorization is approved. Within 12 business days of being registered in the database, BIS notifies the exporter if objections are raised. Agencies may object if: (1) the goods are not agricultural commodities, (2) the goods are not EAR99, (3) the export would violate the terms of a denial order,[11] (4) the recipient may promote international terrorism, or (5) the transaction raises nonproliferation concerns.

Exports to Cuba must also be made on the basis of a written contract between a U.S. seller and a Cuban buyer, and must take place within 12 months of signing the contract. BIS licenses are also required for supplies (such as fuel, petroleum and related items, food for crew members, and medicine for crew members) used in vessels carrying authorized agricultural exports to Cuba. License applications for such supplies are processed under standard procedures, but are valid for 24 months once issued.

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[7] Standard export licensing procedures are set forth in Executive Order 12981, which provides up to 39 days for initial interagency review. U.S. Department of Commerce, Bureau of Industry and Security, "Exports and Reexports to Cuba."

[8] EAR99 is the designation for dual-use goods that are covered by the EAR (Export Administration Regulations) but are not specifically listed on the Commerce Control List (CCL). EAR99 items can be shipped without a license to most destinations under most circumstances. In fact, the majority of commercial exports from the United States fall into this category. However, if EAR99 items are to be exported to an embargoed country (in this case, Cuba), to an end-user of concern, or in support of a prohibited end-use, a license may be required. U.S. Department of Commerce, International Trade Administration, "What is an Export License and Do All U.S. Exports Require One?"

[9] Notifications and supporting documents can be submitted using Form BIS -748P (the BIS multi-purpose application form) or electronically using the Simplified Network Application Process (or SNAP-R) at http://www.bis.doc.gov/SNAP/index.htm. United States Department of Commerce, Bureau of Industry and Security, "Exports and Reexports to Cuba, Iran, and Sudan Under the Trade Sanctions Reform and Export Enhancement Act."

[10] The Department of Defense has authorized BIS to review notifications on its behalf. BIS officials, interview with Commission staff, April 24, 2007; and U.S. Department of Commerce, Bureau of Industry and Security, "Exports and Reexports to Cuba."

[11] A denial order states that the denied person may not participate in any way in any transaction involving any commodity, software, or technology exported from the United States that is subject to the Export Administration Regulations (EAR).

Office of Foreign Assets Control

Regulation of Travel Licenses

Travel to Cuba for U.S. citizens and residents is restricted, although not prohibited.[12] Such restrictions were introduced initially under CACR and are administered by OFAC.[13] Regulations prohibit U.S. residents from purchasing tourism services, such as lodging, meals and transportation, while visiting Cuba.[14] Under certain circumstances, however, OFAC is authorized to grant general or specific licenses to U.S. travelers permitting them to purchase finite amounts of Cuban tourism services.[15]

General licenses are issued to travelers to Cuba for official government or professional purposes without direct authorization from OFAC. Current regulations allow for three general license categories for travel to Cuba: (i) official government travel, covering U.S. federal and state government officials, foreign government officials, and officials of international organizations of which the United States is a member; (ii) journalism travel, covering journalists regularly employed in that capacity by news reporting organizations, including technical support personnel; and (iii) full-time professional research travel, covering professionals conducting research in their professional area, or attendance at certain professional meetings or conferences. Rather than directly contacting OFAC, a general license applicant may simply sign an affidavit of their purpose of visit to Cuba before an OFAC-licensed travel service provider. Travelers under these licenses must be able to document that their travel qualifies under that category and must keep records that may be demanded by OFAC or other law enforcement officials for a period of five years after the travel takes place.[16]

Specific licenses are issued on a case-by-case basis, and require direct authorization from OFAC. Travel under specific licenses is limited to persons visiting immediate family members (i.e., grandparents, parents, children, grandchildren, siblings, spouses, or the same immediate family members of a spouse, or spouses of those family members); freelance journalists; students in structured higher education programs; members of religious organizations undertaking religious activities in Cuba; amateur or semi-professional athletes participating in competitions; advocates of human rights and democracy; humanitarian aid workers; individuals exchanging informational materials; and business-persons seeking to facilitate exports authorized by the Department of Commerce. Data on the number of specific licenses granted during 2004–06 are presented in table 3.1.

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[12] Sullivan, "Cuba: U.S. Restrictions on Travel and Remittances," 2.

[13] 31 CFR Part 515 and U.S. Department of the Treasury, Office of Foreign Assets Control, "Cuba, What You Need To Know About the U.S. Embargo," 1.

[14] U.S. Department of the Treasury, Office of Foreign Assets Control, "Comprehensive Guidelines for License Applications to Engage in Travel-Related Transactions Involving Cuba," 4.

[15] Cuban-Americans visiting family members are limited to only $50 per day. For other travelers, the limit is $167 per day based on the U.S. Department of State's *per diem* allowance providing estimated daily costs for food and lodging in Havana. The rate is adjusted periodically.

[16] For additional details, see U.S. Department of the Treasury, Office Of Foreign Assets Control, "Comprehensive Guidelines for License Applications to Engage in Travel-related Transactions Involving Cuba."

Table 3.1 Number of specific licenses issued for travel to Cuba, by type, 2004–06

Cuba travel category	2004	2005	2006
Family visits[a]	19,766	25,304	40,308
Journalistic activities (Freelance)	17	13	4
Research/meeting	167	107	87
Academic activities	84	96	90
Religious activities	208	256	331
Humanitarian projects	34	36	19
Public performance	20	23	12
Support for the Cuban people	30	86	78
Research institutes	11	10	8
Informational material	35	28	34
Licensed exports	269	258	184
Agriculture	201	196	137
Agriculture and medical[b]	29	21	16
Medical	18	19	16
Donations	21	22	15

Source: U.S. Department of the Treasury, Office of Foreign Assets Control.

[a]Each traveler receives a separate license. For the other categories, multiple travelers may travel on one license.
[b]Travelers using this type of licences are permitted to engage in activities pursuant to the export of either agriculture or medical goods.

Although the number of specific licenses issued gives insight into overall trends in U.S. travel to Cuba, it does not provide data on the actual number of travelers. License recipients are eligible to travel to Cuba, but may, in fact, not actually travel. Furthermore, multiple U.S. residents may travel to Cuba on all the types of specific licenses except those granted for family visits.

The three-year available time series precludes extensive analysis of trends in the number of specific licenses granted. However, the 59 percent increase in the number of family visits licensed in 2006 can be attributed to licensing provisions, instituted in 2004, permitting Cuban-Americans to visit family in Cuba only once in a three-year period. Therefore, Cuban-Americans who had traveled to Cuba in 2003 under the previous licensing regime that allowed one annual visit were not eligible to travel again to Cuba until 2006.

U.S. agricultural exporters wishing to visit Cuba for business purposes, such as making contacts with Cuban buyers or signing transactions, do not qualify for a general license. Instead, they must obtain a specific license from OFAC. The regulations provide that travel must be directly incident to the marketing, sales negotiation, accompanied delivery, or servicing of eligible exports. Applications of individuals whose qualifications have no apparent connection to these licensing criteria are denied.[17] Licenses are typically issued to cover an unlimited number of trips in a 12-month period. However, licenses must be amended if any criteria of the original application change.

[17] U.S. Department of the Treasury, Office of Foreign Assets Control, "Comprehensive Guidelines for License Applications to Engage in Travel-related Transactions Involving Cuba," 65; and OFAC officials, interview with Commission staff, May 2, 2007.

The criteria for travel license eligibility has changed over time. Current license categories were established under the TSRA. Since then, the trend has been toward greater restrictiveness. For example, in 2001, President Bush directed OFAC to prevent "excessive travel,"[18] and in 2003, people-to-people educational travel unrelated to coursework was prohibited.[19] In 2004, OFAC reversed a brief relaxation of family travel that had permitted Cuban-Americans to visit a relative within three degrees of relationship (e.g., great-grandparents or second cousins).[20] Furthermore, family visits were limited to one trip in a three-year period. In addition, the 2004 measures prohibited "fully-hosted travel," which had allowed access for visitors whose expenses were fully funded by Cuban nationals and also eliminated educational exchanges sponsored by secondary schools. Finally, in 2005, another restriction limited religious organizations from sending more than 25 members to Cuba once per year.[21]

Regulation of Export Payments and Financing

In addition to regulating travel to Cuba, OFAC is the primary agency regulating all financial transactions with Cuba. Prior to the TSRA, the CACR provided a general license for financial transactions and other activities related to shipping in connection with exports to Cuba authorized by BIS.[22] This meant that an exporter receiving a BIS license to export to Cuba was not required to seek additional authorization from OFAC to undertake financial transactions and other regulated activities such as shipping. After the TSRA was implemented, a general license for financial transactions continued to be required in order to export agricultural products to Cuba authorized under AGR. However, the TSRA added additional conditions, most notably that payments by Cubans for agricultural products must be in the form of cash in advance, or financed through a third-country bank.

Prior to late 2004, exporters believed that transactions conducted in the form of "cash-against-documents" fulfilled the "cash-in-advance" condition.[23] Cash-against-documents transactions do not specifically link the physical shipment of the goods from the port at which they are loaded to the completion of the financial transaction. Shipments would leave the departure port while the financial transaction was in process. Exporters maintained ownership of the product because the documents that transferred ownership were not exchanged. Upon receipt of payment, the seller would authorize the transfer of the documents necessary to transfer ownership of the product to the Cuban buyer. The available information suggests that virtually all transactions prior to late 2004 took place under these arrangements.[24]

In late 2004, completion of some financial transactions involving exports of BIS-authorized agricultural products were blocked because U.S. financial institutions questioned whether cash-against-document transactions were, in fact, permitted under the cash in advance rule.[25]

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[18] Sullivan, "Cuba: U.S. Restrictions on Travel and Remittances," 4.

[19] *Federal Register*, March 24, 2003 (68 F.R. 14141-14148).

[20] *Federal Register*, June 16, 2004 (69 F.R. 33768-33775).

[21] This restriction was implemented by an adjustment to guidelines issued by U.S. Department of the Treasury, Office of Foreign Assets Control. U.S. Department of the Treasury, Office of Foreign Assets Control, *Comprehensive Guidelines*, 40.

[22] U.S. House of Representatives, Committee on Agriculture, *Review of U.S. Agricultural Trade With Cuba,* Hearing transcript, 8.

[23] Industry officials, interview with Commission staff, April and May, 2007.

[24] Ibid.

[25] OFAC does not review all financial transactions involving agricultural exports to Cuba to assure that they are within compliance, but relies on U.S. financial institutions to assure that transactions are in compliance with the regulations. On March 16, 2005, the Director of OFAC, Robert Wagner, testified before

While researching the issue, OFAC allowed trade to continue. However, after completion of its research, OFAC officials announced a clarification of the term "cash-in-advance" in a February 2005 *Federal Register* notice.[26] Under this clarification, payment of cash in advance was defined to mean that the seller must receive payment before the vessels carrying the goods leave the port at which they were loaded. Moreover, transactions similar to cash-against-documents transactions would not be permitted after March 24, 2005.[27] After this clarification, Alimport chose not to pay in cash. Instead it arranged payments in the form of letters of credit through third-country banks, a process that had always been permitted under OFAC regulations.[28] Reportedly, Alimport refused to pay cash in advance because by doing so, the exported products would become Cuban property while still in the U.S. port, and thus would be vulnerable to confiscation by Cuban exiles in the United States with legal claims against the Cuban government.[29]

Effects of Travel License Regulations on Agricultural Sales to Cuba

The effect of OFAC travel regulations as they pertain to sales-related visits is most likely small for large exporters (e.g., multinational commodity trading companies) that account for the vast majority of agricultural exports to Cuba. Such exporters indicated in interviews for this report that they have few, if any, problems in initially receiving or renewing travel licenses.[30] Furthermore, these large exporters noted that neither the current licensing processes nor current travel restrictions hinder their ability to compete for sales to Cuba. Nonetheless, these exporters view the ability to travel to Cuba as critical to completing sales contracts because Cuban purchasing officials are routinely denied visas to travel to the United States.

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the U.S. House of Representatives Committee on Agriculture that OFAC believes that an article describing trade with Cuba and associated financial transactions triggered the inquiries by financial institutions. U.S. House of Representatives, Committee on Agriculture, *Review of U.S. Agricultural Trade With Cuba,* Hearing transcript, 8. Some U.S. exporters believe that the holds were prompted by OFAC. Industry representative, interview with Commission staff, April 3, 2007. OFAC documentation states that U.S. financial institutions initiated the holds to request guidance on whether sellers were required to receive payment before the goods were shipped from the United States or before the goods were delivered to Alimport. If payment were not received before goods were shipped, U.S. exports could have been, in effect, extending credit to Alimport. OFAC officials, interview with Commission staff, May 2, 2007; U.S. Department of Commerce, Bureau of Export Administration, "Exports to Cuba, Final Rule," and OFAC officials, interview with Commission staff, May 2, 2007.

[26] OFAC officials, interview with Commission staff, May 2, 2007; and U.S. Department of Commerce, Bureau of Export Administration, "Exports to Cuba, Final Rule." *Federal Register*, Vol. 70, No. 37, 9225.

[27] U.S. Department of Commerce, Bureau of Export Administration. "Exports to Cuba, Final Rule." *Federal Register*, Vol. 70, No. 37, 9225.

[28] Radelat, "In Wake of Tough New OFAC Regulations, Food Exporters Turn to Letters of Credit."

[29] Ibid.

[30] It has been reported that 5 of 173 companies that attended an Alimport negotiating conference in early 2004 accounted for 80 percent of the sales at that conference. Luxner, 1; Kavulich, Commission Hearing Transcript, 20; and industry officials interviewed by Commission staff, April 2007.

While large multinational commodity trading companies appear to be able to successfully navigate OFAC travel regulations, other exporters painted a different picture. For example, exporters with small sales volumes or those attempting to sell agricultural products to Cuba for the first time reported that they found the travel licensing process to be cumbersome, non-transparent, and time consuming. Some industry officials indicated that documentation from all previous travel to Cuba had to be presented in order to have a license renewed, something not previously required.[31] Others indicated that their applications were initially rejected, but after some minor adjustments that did not seem substantiative, the applications were approved.[32] Testifying before the Commission, North Dakota Commissioner of Agriculture, Roger Johnson, characterized the process as "terribly, terribly time consuming, inefficient, and frustrating."[33]

Data from OFAC indicate the the number of travel licenses issued for U.S. agricultural sales to Cuba fell from 201 to 137 during 2004-06 (table 3.1). OFAC officials told the Commission that license applications for travel to Cuba were most often denied because applications were incomplete.[34] They said that applications are typically deemed incomplete because the justification for travel of one or more persons identified on the application (or on an amendment to a previous application or license) does not meet the criteria for being directly incident to the marketing, sales negotiation, accompanied delivery, or servicing of agricultural exports.[35] Further, they reported that applications are also often denied because of missing or incomplete certification that (i) the proposed transactions constitute a full-time schedule for all of the participants and (ii) that the travel cannot be completed in a shorter period of time. While several industry officials indicated that their applications for travel licenses were initially denied or took more time to process than expected, none indicated that they were ultimately unable to obtain travel licenses.[36]

Many industry officials who were interviewed stated that relaxing restrictions on visits to the United States by Cuban official would facilitate trade. They indicated that Cuban purchasing officials are either denied visas altogether, or are issued visas that are so restrictive (e.g., in the number of days the visa is valid) as to render the proposed travel unworkable. For example, testimony at the Commission's public hearing revealed that sales of seed and table potatoes from North Dakota have been precluded by the inability of Cuban phytosanitary experts to obtain permission to travel in the United States.[37] Another witness testified that many industry officials declined to testify at the Commission hearing out of fear that their applications to renew travel licenses would be subject to additional scrutiny or rejected by OFAC.[38]

Another area of concern reported by industry representatives is related to travel by U.S. port officials. OFAC reportedly limits travel licenses for U.S. port officials to one 7-day visit per 12-month period.[39] When issued, travel licenses for U.S. port officials exclude certain related port representatives, such as port commissioners, port consultants, or port tenants and

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[31] Industry officials, interview with Commission staff, April and May, 2007.
[32] Ibid.
[33] Johnson, Commission Hearing Transcript, 209.
[34] OFAC officials, interview with Commission staff, May 2, 2007.
[35] Ibid.
[36] Industry officials, interview with Commission staff, April/May, 2007.
[37] Johnson, Commission Hearing Transcript, 170-171.
[38] Jones, Commission Hearing Transcript, 78.
[39] OFAC officials, interview with Commission staff, May 2, 2007; and Bonilla, Commission Hearing Transcript, 49.

shippers, from traveling on the port authority's license.[40] OFAC officials indicated that without a letter from a licensed exporter indicating that port officials are conducting business directly incident to the marketing, sales negotiation, delivery, or servicing of eligible exports, the port's application does not meet the criteria as outlined.[41] However, OFAC officials suggested that, if accompanied by a letter designating the port authority as agents of an exporter, port officials' applications might be considered differently.[42]

Effects of Payment and Financing Terms on Agricultural Product Sales to Cuba

Based on interviews and testimony provided to the Commission for this investigation, there is a consensus among exporters and industry officials that eliminating cash-against-documents transactions as an eligible method of payment has had a substantial negative effect on the sale of agricultural products to Cuba. There is also consensus that CACR requirements that transactions be processed through third-country financial institutions also contributes to increased costs of agricultural product sales to Cuba. These difficulties can be illustrated through a hypothetical scenario that compares the differences in structure between a dollar-denominated cash-against-documents transaction for a bulk shipment of wheat[43] exported from the United States to the Dominican Republic, and a dollar-denominated letter-of-credit transaction for a bulk shipment of wheat to Cuba.

In the case of the Dominican Republic, the Dominican buyer and U.S. seller agree on a shipping date and port (figure 3.1). The buyer arranges for the appropriate-sized vessel to be at the selected U.S. port and loaded within an agreed time frame. The seller arranges for transportation of the product to the appropriate U.S. port facility. Assuming that the vessel and the product both arrive within the contracted time frame, the ship is loaded and leaves port to travel to the Dominican Republic. To complete the transaction, the Dominican buyer instructs its bank to transmit the appropriate funds to the seller's bank, paying appropriate transfer fees and exchange fees if the buyer's accounts are not denominated in U.S. dollars. When the seller's bank confirms that the funds have been received into the buyer's account, shipping and certification documents are exchanged, and ownership of the product is transferred to the buyer, regardless of the location of the vessel.

In a similar transaction involving wheat exports to Cuba (figure 3.2), Alimport and the U.S. seller agree on a shipping date and a port. However, the selection of shipping date and port would not necessarily be based on economic criteria; rather, a port would be chosen where an existing shipping company has been appropriately licensed to handle shipments to Cuba. Alimport would arrange for the appropriate sized vessel to be at the selected U.S. port within an agreed time frame. The seller would arrange for transport of the product to the selected U.S. port facility.

[40] Bonilla, Commission Hearing Transcript, 50.
[41] OFAC officials, interview with Commission staff, May 2, 2007.
[42] Ibid.
[43] Grains and cereals are primarily shipped in bulk.

Figure 3.1 Hypothetical comparison: U.S. export transaction with Dominican buyer

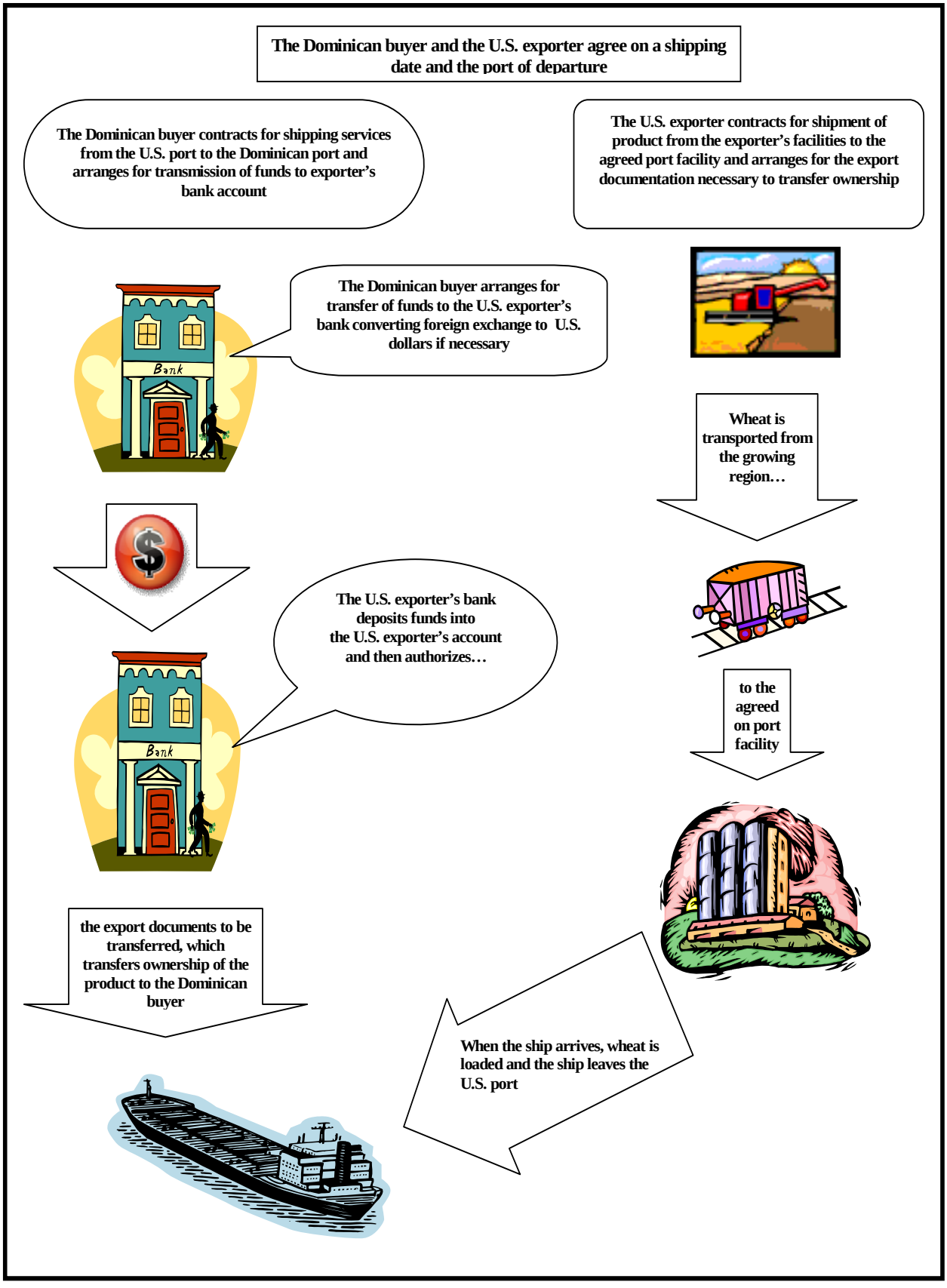
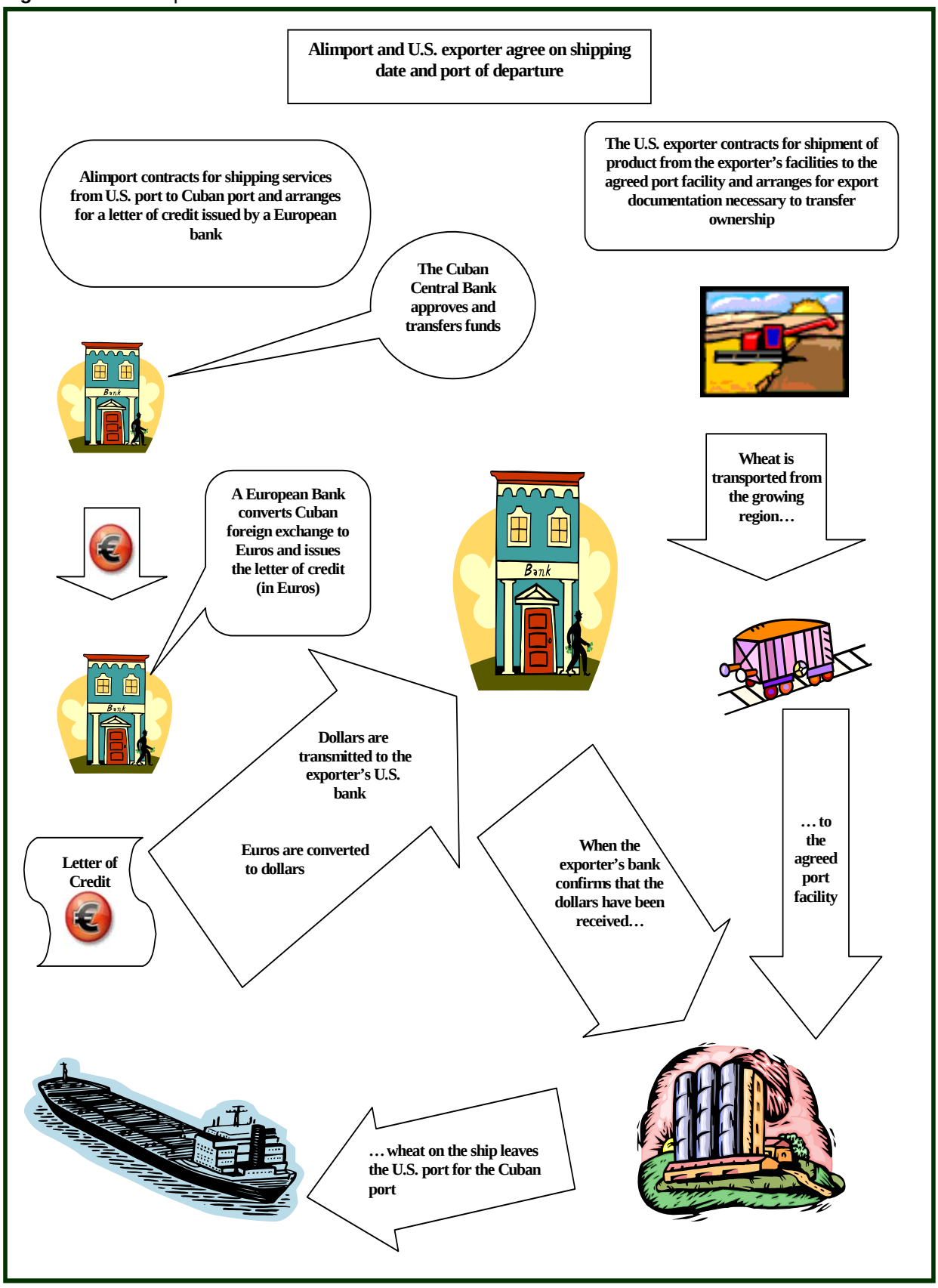


Figure 3.2 U.S. export transaction with Cuba



During this time, Alimport must also arrange for a Euro-denominated letter of credit with a foreign bank.[44] Alimport must first obtain approval from the Cuban Central Bank to transfer sufficient funds to cover the letter of credit to an account in the foreign bank. If Alimport has an insufficient supply of Euros to complete the transaction, it must pay exchange fees to convert U.S. dollars to Euros, as well as a fee for the letter of credit ranging from 1/8 to 1/4 of one percent of the value of the letter of credit (up to $2,500 per $1 million of value).[45] The letter of credit is irrevocable: the foreign bank releases the funds to the U.S. exporter upon presentation of an invoice indicating that the product is loaded and ready for shipment. The Euros are then exchanged into dollars for transfer to the account of the U.S. exporter in a U.S. bank. The product is physically exported once the U.S. exporter's bank confirms receipt of the released funds. If the letter of credit is not available by the agreed time frame for loading and shipping, Alimport is responsible for demurrage charges ranging from $10,000 to $15,000 per day depending on the size of the vessel. Meanwhile, the U.S. exporter could incur additional storage charges because the product remained in U.S. port storage facilities longer than anticipated.

The CACR requirement that all financial transactions flow through third-country banks can also increase transaction costs, especially for small- and medium-sized exporters who do not have established commercial relationships with the appropriate foreign banks. Delayed delivery of letters of credit appears to have an even larger effect on small- and medium-sized exporters whose shipments are less than a full vessel load. Because each discrete shipment on a vessel is required to have a confirmed letter of credit in place before the vessel leaves port, the delay of any single letter of credit delays all shipments on the same vessel. Delays can range from one to ten days, in some cases increasing total shipping costs by $20,000 to $40,000.[46]

As the above illustrations demonstrate, payment and financing terms for agricultural sales to Cuba can significantly increase transaction costs, which reduce the competitiveness of U.S. agricultural product sales to Cuba. Furthermore, as stated in OFAC's February 2005 clarification notice, CACR requirements can be altered without a notice of proposed rulemaking, without the opportunity for public participation, and without any delay in the effective date.[47] This contributes to uncertainty for Alimport purchase managers and can result in U.S. suppliers being viewed as unreliable. The clarification of the definition of cash in advance in 2005 also cut across preexisting contracts and caused U.S. exporters to violate the terms of those contracts.[48] Breaches of contracts reportedly added to the climate of commercial uncertainty faced by Alimport purchase managers and further eroded the perceived reliability of U.S. exporters.[49] Alimport may have responsed to this uncertainty

[44] In this case, a letter of credit authorizes the U.S. seller to draw funds from an account held by a foreign bank. In the case of U.S.-Cuba trade, this most often involves a European bank dealing primarily in Euros.

[45] U.S. industry representative, interview by Commission staff, June 16, 2007.

[46] Roger Johnson, North Dakota Agricultural Commissioner, post-hearing written submission to the Commission, May 7, 2007.

[47] "Because the CACR involves a foreign affairs function, the provisions of the Executive Order 12866 and the Administrative Procedure Act (5 U.S.C. 553) (the "APA") requiring notice of proposed rulemaking, opportunity for public participation, and delay in effective date are inapplicable. Because no notice of proposed rulemaking is required for this rule, the Regulatory Flexibility Act (5 U.S.C. 601-612) does not apply." Department of Treasury, Office of Foreign Assets Control, *Federal Register* Vol. 70, No. 37, 9225.

[48] Martin, Commission Hearing Transcript, 72.

[49] Industry officials, interviews with Commission staff, April 17, 2007; Alimport official, interview with Commission staff, Havana, Cuba, June 12, 2007.

and the perception of unreliability by diversifying its import suppliers, despite certain competitive factors favoring U.S. suppliers, such as price, product quality, and proximity.[50]

In effect, CACR regulations do not permit the extension of credit to the Cuban government by U.S. financial institutions or firms. Opinions on the effect of the prohibition on the extension of normal commercial credit terms by U.S. firms on agriculture sales to Cuba are mixed. Many industry officials advocate normalizing commercial relations with Cuba, including the extension of normal commercial credit to agricultural export sales. For example, the U.S. wheat industry noted that the ability to extend normal commercial credit terms on U.S. sales to Cuba would benefit U.S. wheat sales.[51] The wheat industry also stated that the largest single factor affecting potential U.S. wheat exports to Cuba was the administrative burden on Alimport related to the clarification of payment in advance.[52] By contrast, some exporters and industry officials stated that lifting the ban on U.S. firms extending commercial credit terms for U.S. agricultural sales to Cuba could have a negative effect.[53] With the current ban in place, exporters are not put in the position of having to deny credit to Alimport during sales contract negotiations.[54]

Effects of Other Factors on U.S. Agricultural Sales to Cuba

Many agricultural industry associations rely on federal farm promotion programs, so-called check-off funds, and U.S. Department of Agriculture (USDA) Market Access Program funds for international market research and promotion activities.[55] Several industry officials indicated that their ability to support their industry's efforts to expand agricultural sales to Cuba is limited because they are prohibited from using funds from these sources to support activities eligible under CACR, such as marketing activities, sales negotiations, and servicing exports to Cuba.[56] As noted by North Dakota's Commissioner of Agriculture, having each State support its own agricultural sales delegations to Cuba causes overlapping and duplicate expenditures.[57] He stated that support of these efforts by USDA's Foreign Agricultural Service would be much more efficient.[58]

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[50] Industry officials, interviews with Commission staff, April 2007.

[51] National Association of Wheat Growers and U.S. Wheat Associates, written submission to the Commission, May 8, 2007.

[52] Ibid.

[53] Kavulich Commission, Hearing Transcript, 27. Industry officials, interviews with Commission staff, April and May 2007.

[54] Reportedly, Cuba defaulted on repayment of French wheat in late 1999 or 2000. The British government reportedly terminated its export guarantee program it had extended to Cuba after high rates of default by the Cuban government in 2002. William Messina, Commission Hearing Transcript, 97.

[55] Commodity check-off programs collect funds for the establishment and operation of promotion programs regarding an agricultural commodity that includes a combination of promotion, research, industry information, or consumer information activities. These programs are funded by mandatory assessments on producers or processors, and are designed to maintain or expand markets and uses for the commodity. Becker, "Federal Farm Promotion ("Check-Off") Programs." The Market Access Program (MAP), formerly the Market Promotion Program, uses funds from the USDA's Commodity Credit Corporation (CCC) to help U.S. producers, exporters, private companies, and other trade organizations finance promotional activities for U.S. agricultural products. The MAP encourages the development, maintenance, and expansion of commercial export markets for agricultural commodities. Activities financed include consumer promotions, market research, technical assistance, and trade servicing. USDA, "Market Access Program."

[56] Industry officials, interviews with Commission staff, April and May, 2007.

[57] Johnson, Commission Hearing Transcript, 180.

[58] Foreign Agricultural Service officials are posted to many U.S. embassies overseas. These officials are an important source of market intelligence for U.S. firms exporting to those countries.

Effects of Travel Restrictions on U.S. Travel to Cuba

Growth in Cuba's tourism sector will likely increase Cuban demand for food imports. An increasingly vibrant tourism industry in Cuba will not only require more and better quality food for foreign visitors, but will likely continue to increase demand for food by Cuban citizens that work in tourism and related services. The resulting overall growth in Cuban GDP would provide additional hard currency to the Cuban government permitting increased imports, including those from the United States. To assess the extent to which lifting U.S. tourist travel restrictions would affect U.S. travel to Cuba, the Commission examined current and likely future travel by U.S. citizens to Cuba absent restrictions.

Precise numbers of total U.S. citizens traveling to Cuba are not available from either Cuban or U.S. sources. The Cuban government requires Cuban emigres returning to Cuba to do so using a Cuban passport, and thus these visitors are recorded as returning Cuban citizens, rather than visitors from their current country of residence.[59] Consequently, Cuban-Americans, who represent the majority of ethnic Cubans living outside Cuba, are not reported as visitors from the United States.[60] Using the Cuban government's methodology, whereby only "non-Cuban born" U.S. residents are counted, arrivals to Cuba from the United States were 37,233 in 2005. In 2006, Cuba reported 34,000 non-Cuban-born visitors from the United States.[61] These numbers represented about half of the number in 2000, likely owing to the tightening of OFAC licensing restrictions on travel to Cuba in both 2004 and 2005.[62]

U.S. government data on travel licenses for Cuban-Americans to visit family in Cuba are only available from 2004 to 2006 (see table 3.1), and the short time series precludes analysis of trends. Moreover, such data cannot provide an accurate account of the actual number of licensed persons that chose to travel to Cuba because multiple individuals may travel on certain types of licenses. Furthermore, even with such data, estimating the precise number is complicated by the high level of illegal travel by U.S. residents to Cuba who travel to Cuba each year without OFAC licenses.[63] Estimates of such unauthorized visitors exceed 120,000 per year.[64] Such travelers transit through third countries en route to Cuba from the United States.[65]

Although no complete data exist on Cuban-American visits and total U.S. visitors to Cuba, several estimates have been made. In 2002, Robyn et al. estimated that 120,000 Cuban-Americans traveled to Cuba in 2000.[66] Sanders and Long estimated that about

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[59] Cuba does not recognize dual citizenship, and according to Cuban law, any citizen who left Cuba after 1970 is considered to be solely a Cuban citizen. Robyn, Dorothy, et al., *The Impact on the U.S. Economy of Lifting Restrictions on Travel to Cuba*, 264.

[60] According to the 2005 American Community Survey of the U.S. Census Bureau, there are 1.46 million Cuban-Americans. The second largest community of Cubans living outside of Cuba resides in Venezuela, and in the late 1990s numbered only approximately 50,000. Ackerman, Holly. "Different Diasporas: Cubans in Venezuela, 1959-98."

[61] Cuban Ministry of Tourism official, interview by Commission staff, Havana, Cuba, June 13, 2007.

[62] Cuban Ministry of External Relations official, interview by Commission staff, Havana, Cuba, June 13, 2007.

[63] Robyn, Dorothy, et al., *The Impact on the U.S. Economy of Lifting Restrictions on Travel to Cuba*, 264.

[64] Freedom to Travel Campaign, interview by Commission staff, Washington, DC, April 4, 2007.

[65] Robyn, Dorothy, et al., *The Impact on the U.S. Economy of Lifting Restrictions on Travel to Cuba*, 264.

[66] Robyn, Dorothy, et al., *The Impact on the U.S. Economy of Lifting Restrictions on Travel to Cuba*, 2002.

176,000 American citizens visited Cuba in 2001.[67] About 124,000 of these were Cuban-Americans visiting family, 30,000 were other categories of legal visitors and 22,000 were illegal visitors.[68] Spadoni provided a time series of such estimates from 1990 to 2003 and estimated 123,400 "non-Cuban born" Cuban-Americans visited Cuba in 2000, a number similar to that of Robyn et al.[69]

Commission estimates of U.S. travel to Cuba from 2000 through 2005 are provided in table 3.2. Visitors from the United States were estimated at 171,000 in 2005, accounting for about 7 percent of all tourists, a share similar to Spain, Venezuela, and Italy. This estimate is based on data reported by the Cuban Government to the United Nations World Tourism Organization (UNWTO), applying a method used by Spadoni. The UNWTO reports a significant share of annual non-resident visitor arrivals to Cuba as "other Caribbean arrivals."[70] Many of these arrivals represent visits to Cuba of Cubans living abroad. In fact, Spadoni estimates that approximately 90 percent of such "other Caribbean arrivals" represent Cuban born Cuban-Americans traveling to Cuba. Commission estimates track Spadoni's methodology, and also add visits by "non-Cuban born" U.S. residents as described above.

Table 3.2 Cuban tourist arrivals from the World and the United States, 2000–05

Country	2000	2001	2002	2003	2004	2005
	1,000 visitors					
World	1,774	1,775	1,686	1,906	2049	2,319
United States	200	204	219	236	163	171

Source: Commission estimate based on data from United Nations World Tourism Organization, *Yearbook of Tourism Statistics,* and Spadoni, *Effectiveness of Economic Sanctions in the Context of Globalization and Transnational Linkages.*

Note: Figures include total visitors, including both overnight visitors and day visitors that may arrive on cruise ships.

Effects on U.S. Travel of Lifting U.S. Travel Restrictions to Cuba

Commission Estimates

The Commission estimates that the number of overnight U.S. visitors to Cuba would increase from 171,000 in 2005 (the base year) to between 554,000 and 1.127 million visitors per year in the short run if restrictions on travel were abolished (table 3.3). Tourist expenditures by all tourists in Cuba would increase by between 13 and 33 percent. The increased number of visits by U.S. residents raises the price of tourism services in Cuba, and fewer non-U.S.

[67] Sanders, Ed, and Patrick Long, "Economic Benefits to the United States from Lifting the Ban on Travel to Cuba."

[68] Robyn et al. And Sanders and Long's estimates of travel by Cuban-Americans to Cuba in 2000 and 2001 of 120,000 and 124,000, respectively, are substantially higher than the number of OFAC licenses granted for Cuban-Americans to visit family during 2004-06 (19,766; 25,304; and 40,308). The decline is indicative of the tightening of travel restrictions for Cuban-Americans in 2004.

[69] Spadoni, Paolo, *Effectiveness of Economic Sanctions in the Context of Globalization and Transnational Linkages: The Case of Cuba*, 153.

[70] Such "other Caribbean arrivals" represented between 6 and 9 percent of total non-resident visitor arrivals to Cuba from 2000 through 2005.

foreigners would visit Cuba. In light of this potential displacement, the Commission's estimate of the net additional tourists that would visit Cuba in the first year of unrestricted travel ranges from 226,000 to 538,000 and is consistent with other empirical travel studies.

Table 3.3 Short term estimates of additional tourists with lifting of the travel restrictions

Tourists	Base	Additional U.S. tourist and displaced ROW tourist	Final
	1,000 tourists		
Dominican-Republic-like demand shift:[a]			
U.S. tourists	171	956	1,127
Non-U.S.-origin tourists	2,090	-418	1,672
Total	2,261	538	2,799
Ad valorem approach:[a]			
U.S. tourists	171	383	554
Non-U.S.-origin tourists	2,090	-158	1,932
Total	2,261	226	2,487

Source: Cuban Oficina Nacional de Estadistica, *Anuario Estadistico de Cuba*, 2005, chap. 13 and Commission estimates.

Note: Totals may not add due to rounding. Tourist figures include overnight visitors only and exclude day visitors.

[a]See appendix F for details of method.

These estimates were generated by a comparative static model that is similar to partial equilibrium trade models used in other Commission studies (see appendix F for a more detailed explanation). Market equilibrium is determined by the point where the sum of the U.S. demand and the non-U.S. demand for tourism services intersects the Cuban supply of tourism services. When the travel ban is eliminated, the demand by U.S. residents shifts outward, which generates the aforementioned changes. A demand shift based on U.S. citizens traveling to Cuba in proportions similar to Canadians led to a high, or long-run, estimate. Short-run demand shifts are based on similar numbers of U.S. citizens traveling to Cuba as currently travel to the Dominican Republic[71] or the removal of an *ad valorem* tariff that represents the travel restriction. The short-run estimates also incorporate capacity

[71] Although tourism in the Dominican Republic is more developed than in Cuba, the Dominican Republic has a range of Caribbean tourism services and offers somewhat similar vacation opportunities as Cuba.

constraints based on the availability of hotel space and the limited air transportation agreements between the United States and Cuba.[72] [73]

Published Studies and Statements

Forecasts of the number of additional U.S. residents that would travel to Cuba in the absence of sanctions vary; estimates range from 100,000 to over 3 million.[74] Cuba's deputy minister of tourism, Oscar Gonzalez, estimated that 1 million Americans would visit Cuba in the first year of unrestricted travel.[75] The U.S.-Cuba Trade Association has made a comparable estimate.[76] However, the U.S.-Cuba Trade and Economic Council has a far lower estimate, asserting that Cuban tourism infrastructure is incapable of accommodating large numbers of additional visitors.[77]

Empirical studies also provide a wide range of estimates. In 2001, the Commission, assuming the continuation of restrictive business and social policies, which had resulted in the underdevelopment of Cuba's tourism infrastructure, estimated that between 100,000 to 350,000 additional U.S. visitors would visit Cuba in the first year of unrestricted travel.[78] Sanders and Long, in a scenario assuming unrestricted travel to Cuba by U.S. residents on U.S. airlines and a continued prohibition of U.S. investment in Cuba, estimated 950,000 U.S.

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[72] Hotel capacity is the largest constraint on the potential increase in net foreign visitor arrivals to Cuba in the absence of U.S. sanctions. In 2005, hotel occupancy was approximately 64 percent, a level typical in the Caribbean where there is significant seasonal variation in tourist demand. However, even during Cuba's high tourist season, from December to April, additional capacity currently exists. In 2006, monthly arrivals in March were highest, totaling 260,446. If the same number of travelers were received in the other "high season" months, total arrivals would have risen by 114,491. In fact, if arrivals in each month of 2006 were equal to March levels, Cuba would have received an additional 904,785 arrivals in that year.

[73] The re-opening of air transportation between the United States and Cuba is likely to be a complex process. Although an air transportation agreement between the United States and Cuba, signed in 1953 and amended in 1957, is still in effect, this agreement limits the number of cities serviced and would likely have to be renegotiated. Air Transport Association, interview by Commission staff, Washington, DC, April 11, 2007. According to a U.S. Department of Transportation official, negotiation of a new air transportation agreement would likely take several months, with air travel limited to extra-bilateral charters during that time. U.S. Department of Transportation official, phone interview by Commission staff, April 20, 2007. A second barrier to the resumption of air transport between the United States and Cuba is Cuba's noncompliance with International Civil Aviation Organization (ICAO) safety standards. The U.S. Federal Aviation Administration (FAA) does not allow aircraft from nations that do not meet ICAO standards to fly to the United States. If Cuban airlines were prohibited from servicing the United States, Cuba would be unlikely to provide U.S. airlines unlimited access to its own airports. U.S. Department of Transportation official, phone interview by Commission staff, April 20, 2007.

[74] Estimates include both long and short-run projections. All estimates are stated in terms of expected gross U.S. overnight visitor arrivals.

[75] Reuters, "Cuba Not Ready, But Expecting U.S. Tourists." The Cuban Ministry of Tourism indicated in June 2007 that within two to three years after lifting the travel ban that about one million American tourists could visit Cuba annually, and that these additional tourists would not displace any of the 2.2 million foreign tourists visiting Cuba in 2006. Ministry officials indicated a Cuban hotel room occupancy rate of 60-61 percent in 2006, with considerable unused hotels. The Cuban government expects most American tourists to visit Cuba during May to August when most Canadian and European tourists do not travel there. American tourists are likely to stay on average four to five days, in contrast to the 12-14 day visit of most Europeans. Cuban Ministry of Tourism official, interview with Commission staff, Havana, Cuba, June 13, 2007.

[76] Jones, Commission Hearing Transcript.

[77] Kavulich, Commission Hearing Transcript, 17, 21-22.

[78] U.S. International Trade Commission, *The Economic Impact of U.S. Sanctions With Respect to Cuba*, 4-21.

visitors would arrive in Cuba during the first year and 2.7 million by the fifth year.[79] Robyn et al., modeling arrivals by Cuban-Americans and Americans of non-Cuban descent separately, estimated 3.2 million U.S. visitor arrivals after several years of market adjustment.[80] Finally, the American Society of Travel Agents (ASTA), adopting the methodology of Robyn et al., forecasted 1.3 million overnight visits by Americans during the third year of unrestricted travel.[81]

Because U.S. tourists would likely displace tourists in Cuba from other foreign countries, at least in the short-run, the tourist number of most interest to the Commission's current analysis is the net number of additional tourists that would visit Cuba absent the travel restrictions. Sanders and Long estimated the net increase in foreign resident arrivals to Cuba in the first year of unrestricted travel would be between 300,000 and 475,000 visitors.[82] The lower estimate assumes that there would be no direct air travel between the United States and Cuba, while the latter assumes that direct air travel would be possible.[83]

Several of the above studies also estimated the number of U.S. cruise and ferry passengers that would visit Cuba in the absence of sanctions. Such estimates range from 50,000 to 481,000. Sanders and Long estimated day visitors arriving by cruise ship and ferry would total 50,000 in the first year of unrestricted travel and 450,000 by the fifth year.[84] Robyn et al. forecasted 397,000 U.S. cruise passengers would visit Cuba per year after several years of market adjustment.[85] Finally, the ASTA forecasted that 481,000 U.S. cruise visitors would visit Cuba by the third year of unrestricted travel.[86]

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[79] Sanders and Long provide estimates of anticipated travel under three different scenarios, the estimate above is from one of these three scenarios. Sanders, Ed, and Patrick Long, *Economic Benefits to the United States from Lifting the Ban on Travel to Cuba*.

[80] Robyn, Dorothy, et al., "The Impact on the U.S. Economy of Lifting Restrictions on Travel to Cuba," 267.

[81] Paul Ruden, Senior Vice President, American Society of Travel Agents, written submission to the Commission.

[82] Sanders, Ed, and Patrick Long. *Economic Benefits to the United States from Lifting the Ban on Travel to Cuba*.

[83] Ibid.

[84] Sanders, Ed, and Patrick Long, *Economic Benefits to the United States from Lifting the Ban on Travel to Cuba*.

[85] Robyn, Dorothy, et al, "The Impact on the U.S. Economy of Lifting Restrictions on Travel to Cuba," 272.

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CHAPTER 4
Estimate of U.S. Sales of Agricultural, Fish, and Forestry Products to Cuba with Restrictions Affecting Agricultural Exports and Travel Removed

Introduction

Commission estimates of the effects of lifting financing and travel restrictions on U.S. sales of agricultural, fish, and forest products to Cuba are presented for 16 individual commodity sectors. As requested by the Committee, three scenarios are presented—lifting financing restrictions (scenario 1), lifting travel restrictions (scenario 2), and jointly lifting financing and travel restrictions (scenario 3). The results were derived from a partial equilibrium model of U.S.-Cuba trade developed for this study,[1] as well as extensive discussions with industry officials, including individuals who regularly conduct trade with Cuba. In addition to a quantitative assessment, background on Cuba's domestic industry, U.S. exports and competitiveness, and the importance of Cuba to the United States as an export market is provided for each sector.

There are many unknowns and real-world features of Cuba's food purchasing decisions that are not easily captured in any analytical framework. The Commission employed a comparative-static approach in which the results show what U.S.-Cuba trade might have looked like in 2006 if the financing or travel restrictions had not been in place. The results should be treated as being strongly indicative of the direction and likely magnitude of effects of lifting financing and travel restrictions, but should not be interpreted as forecasts of future trade absent the restrictions.

The quantitative assessments of likely effects of removing financing and travel restrictions are influenced by a set of key assumptions. First, Cuba's political and economic structure remains in place. Second, there is no expansion in Cuba's tourist infrastructure, including the number of hotel rooms available. Given these assumptions, the results should be interpreted as short-term, lower-bound effects for each of the scenarios. In the long term, the benefits to U.S. agricultural exporters of lifting the financing and travel restrictions likely would be significantly larger than the ones presented in this report.

Third, the framework the Commission used to estimate likely impacts is based on standard trade theory which makes certain assumptions about the behavior of decisionmakers (e.g., profit maximization by producers, welfare maximization by consumers). Outcomes in this framework are determined by economic factors alone. For example, it captures how Cuban agricultural imports are impacted by changes in purchase prices and direct tourists' food

[1] A discussion of the model and its assumptions is found in appendix G and review of the relevant economic literature is found in appendix H.

expenditures, all of which are important factors in Alimport's decision-making process. But there are other important economic factors influencing Cuba's food purchasing decisions that the framework does not capture, such as export credits offered by U.S. competitors and foreign exchange constraints that might limit the amount of expenditures on food imports. The framework also does not capture the effect that a lower price of one commodity might allow additional purchases of other products (including the same commodity but of higher quality). Non-economic factors, such as political considerations, affecting decisionmaking are not captured in this framework. Finally, the estimates for scenarios 2 and 3 do not capture the possible indirect effect of relaxed travel restrictions on the total level of family remittances, some of which would likely be spent on additional food purchases.

Fourth, certain key factors affecting the results cannot be known with certainty, so the estimated effects are provided in the form of ranges. Staff interviews and analysis suggest that the cost of financing restrictions ranges between 2.5 and 10.0 percent of the purchase price depending on the commodity sector. There is also uncertainty about how many additional tourists would visit Cuba if travel restrictions were lifted. So, in scenario 2 results are again provided as ranges, assuming additional tourists of 250,000 to 750,000. Results in scenario 3 range on the basis of combined lower and upper bound assumptions from scenarios 1 and 2.

As noted in chapter 3, the Commission initially estimated the number of net additional tourists traveling to Cuba if the U.S. travel restrictions were removed at 226,000 to 538,000. This analysis shows that increased numbers of U.S. tourists would displace tourists from third-countries and thereby limit the net increase in total tourist visits. Subsequent information, primarily as a result of Commission staff travel to Cuba, indicates that fewer third-country tourists may be displaced than initially presumed because Americans travel throughout the year and particularly during the summer when fewer Canadians and Europeans visit Cuba, which would lessen the competition for hotel space. Thus, for the economic analysis and sensitivity analysis presented in chapter 4, the Commission used a wider range, 250,000 to 750,000, for the number of net additional tourist visits. This range takes into account the uncertainty in how tourists may respond to elimination of the restrictions and encompasses the magnitude of the most likely response by tourists. It is important to note that the model results are not particularly sensitive to the number of tourists' visits to Cuba because Cuba's domestic market is much larger than its tourist market and its own citizens, not tourists, consume most U.S. agricultural exports. Thus, as noted, lifting the restrictions on U.S. tourist visits to Cuba has a limited impact on U.S. exports to Cuba.

Some general observations can be made about the results that apply to most of the individual sectors. First, removing all financing restrictions (scenario 1) leads to an increase in the quantity of Cuban imports from the world, but to a decline in the total value of those imports. In this case, import values should be thought of as the total cost to Alimport of acquiring agricultural products from overseas. When the financing restrictions are lifted, the unit cost of purchasing imports declines. In addition, because Cuba's demand for agricultural imports is inelastic with respect to price, the cost savings are greater than the additional expenditures of acquiring increased quantities. Thus lifting the financing restrictions results in an overall reduction in the amount spent on imports, but does not imply lower returns or prices to U.S. exporters. Furthermore, the U.S. share of Cuba's total imports of agricultural products would increase. Second, lifting the travel ban has a modest impact on Cuba's agricultural imports of most commodities, especially those imported heavily from the United States. This is because, as mentioned in chapter 2, the United States supplies a large proportion of Cuba's

bulk commodities (e.g., unmilled wheat and rice, animal feed, soybeans) and these products are mostly destined for consumption by the local population, not tourists. Third, the results for scenario 3 (joint removal of trade and travel restrictions) are not the sum of results from scenario 1 and 2. This is because in scenario 3 there is a drop in the unit cost of Cuban purchases at the same time that demand is increasing from additional tourists.

Agricultural, Fish, and Forest Products

In 2006, the United States exported about $337 million of agricultural products to Cuba, and accounted for about one-third of Cuban agricultural imports from all countries. Because of data limitations and the non-market aspects of Cuban purchasing decisions, the overall effect of removing restrictions on U.S. exports to Cuba is difficult to estimate. However, based on interviews with Cuban purchasing officials, sector modeling results, and discussions with U.S. industry officials, the Commission estimates that the U.S. share of Cuban agricultural, fish, and forest product imports would rise to between one-half and two-thirds.[2]

If financing restrictions on U.S. exports to Cuba were lifted (scenario 1), the total value of Cuban agricultural imports from the United States would increase significantly in fifteen of the sixteen commodity groups examined, the exception being soybeans (table 4.1).[3] The largest increase in value of U.S. exports to Cuba will likely occur for other food products, including fresh potatoes, fruits, and vegetables (a rise of $34 million to $65 million annually above the 2006 U.S. export level), followed by milk powder ($14 million to $41 million); rice ($14 million to $43 million); processed foods ($18 million to $34 million); wheat ($17 million to $33 million); dry beans ($ 9 million to $22 million); and poultry, beef, and pork (each category increasing by about $6 million to $12 million). In percentage terms, the greatest gains will occur for U.S. products exported to Cuba in very low volumes in 2006, particularly fish products (with virtually no exports to Cuba in 2006); processed food (more than an 18-fold increase); other food products including fresh potatoes (more than a 7-fold increase); beef (more than a 60-fold increase); and dairy products (more than a 3-fold increase). No significant change in U.S. soybean exports to Cuba is expected because the United States currently supplies nearly one hundred percent of Cuban imports.

[2] Summing the individual partial equilibrium results for each commodity to obtain the total effect of removing restrictions on all agriculture, fish, and forest products is not supported by economic theory. The individual partial equilibrium results assume that prices in other markets remain constant and do not consider cross-commodity substitution. For example, if the price of pork is lowered, consumers may increase their purchases of pork and reduce purchases of other products, for example, fish. If the prices of pork, fish, and other commodities are simultaneously reduced, the substitution of pork for fish will not occur to the same extent. Also, lower prices for a group of commodities will, in effect, increase the consumer's budget, which could be used to purchase any commodity.

[3] This includes lifting restrictions on the travel of Cubans to the United States. This change is a key factor in the estimated increases in U.S. exports for certain products, such as potatoes, fruits, vegetables, and beef. These restrictions limit the ability of Cuban buyers to inspect U.S. facilities which is a significant barrier to sales in these sectors. Information obtained by the Commission from USDA Animal and Plant Health Inspection Service officials indicates that Cuban SPS regimes are generally consistent with international norms and would not likely pose significant barriers to most U.S. exports.

Table 4.1 Estimated effects of removing U.S. financing restrictions on U.S. agricultural exports to Cuba

Commodity	Cuban imports from the United States With restrictions	U.S. share of Cuban imports With restrictions	Cuban imports from the United States Without restrictions	U.S. share of Cuban imports Without restrictions
	$ million	*Percent*	*$ million*	*Percent*
Wheat	51	38	68 - 84	51 - 65
Rice	40	24	54 - 83	33 - 53
Corn	43	71	46 - 48	78 - 85
Animal feed	42	76	43 - 45	79 - 85
Soybeans	32	99	30 - 31	99 - 100
Fats and oils	22	57	24 - 27	63 - 74
Dry beans	20	25	29 - 42	37 - 56
Poultry	45	65	51 - 56	77 - 85
Beef	0.1	0.2	6 - 10	13 - 25
Pork	14	42	20 - 24	60 - 74
Milk powder	13	10	27 - 54	22 - 45
Other dairy	0.1	0.3	5 - 10	27 - 53
Processed foods	1	2	19 - 35	29 - 55
Fish products	0	0	8 - 15	30 - 56
Forest products	10	17	16 - 27	28 - 49
Other food products	5	3	39 - 70	29 - 53

Source: Global Trade Atlas and Commission estimates.

Note: Summing the individual partial equilibrium results for each commodity to obtain the total effect of removing restrictions is not supported by economic theory. The individual partial equilibrium results assume that prices in other markets remain constant and do not consider cross-commodity substitution.

With regard to lifting U.S. restrictions on travel by U.S. citizens to Cuba (scenario 2), the gains to U.S. exports to Cuba are concentrated in processed foods (a gain of $3 million to $8 million above the level of 2006 U.S. exports); fish products ($1 million to $4 million); other food products ($1 million to $3 million); and poultry, beef, and pork (each about $1 million to $3 million) (table 4.2). These food imports are sold mainly to restaurants and tourist hotels in Cuba. U.S. agricultural exports of most bulk products, including wheat, rice, corn, animal feed, soybeans, dry beans, forest products, and milk powder will experience virtually no gains owing to increased visits to Cuba by U.S. tourists, since only a negligible fraction of these Cuban imports are consumed in the tourist sector.

If U.S. restrictions on both financing and travel were lifted (scenario 3), Cuban agricultural imports from the United States would increase significantly in fifteen of the sixteen commodity groups examined, the exception being soybeans which are supplied almost exclusively by U.S. sources (table 4.3). The largest increase in value of U.S. exports to Cuba will likely occur for other food products, including fresh potatoes, fruits, and vegetables (a rise of $37 million to $68 million annually); processed foods ($26 million to $41 million); wheat ($17 million to $34 million); milk powder ($15 million to $42 million); rice ($14 million to $44 million); dry beans ($9 million to $22 million); and poultry, beef, and pork (each category increasing by about $9 million to $13 million). In percentage terms, the greatest gains will occur for U.S. fish products exports (with virtually no exports to Cuba in 2006); processed food exports (more than a 26-fold increase); other food products including fresh potatoes (more than a 7-fold increase); beef (more than a 90-fold increase); and dairy products (more than a 3-fold increase).

Table 4.2 Estimated effects of removing U.S. travel restrictions on U.S. agricultural exports to Cuba

Commodity	Cuban imports from the United States	U.S. share of Cuban imports	Cuban imports from the United States	U.S. share of Cuban imports
	With restrictions	With restrictions	Without restrictions	Without restrictions
	$ million	*Percent*	*$ million*	*Percent*
Wheat	51	38	52 - 53	38
Rice	40	24	40	24
Corn	43	71	43 - 44	71
Animal feed	42	76	43	76
Soybeans	32	99	32 - 33	99 - 100
Fats and oils	22	57	23 - 24	57
Dry beans	20	25	20	25
Poultry	45	65	46-48	65
Beef	0.1	0.2	1- 3	3 - 7
Pork	14	42	15-16	42
Milk powder	13	10	13	10
Other dairy	0.1	0.3	0.3 - 1	2 - 4
Processed foods	1	2	4 - 9	5 - 11
Fish products	0	0	1 - 4	5 - 11
Forest products	10	17	10	17
Other food products	5	3	6 - 8	4 - 5

Source: Global Trade Atlas and Commission estimates.

Note: Summing the individual partial equilibrium results for each commodity to obtain the total effect of removing restrictions is not supported by economic theory. The individual partial equilibrium results assume that prices in other markets remain constant and do not consider cross-commodity substitution.

Table 4.3 Estimated effects of removing all U.S. financing and travel restrictions on U.S. agricultural exports to Cuba

Commodity	Cuban imports from the United States	U.S. share of Cuban imports	Cuban imports from the United States	U.S. share of Cuban imports
	With restrictions	With restrictions	Without restrictions	Without restrictions
	$ million	*Percent*	*$ million*	*Percent*
Wheat	51	38	68 - 85	51 - 65
Rice	40	24	54 - 84	33 - 52
Corn	43	71	47 - 49	78 - 85
Animal feed	42	76	44 - 46	79 - 85
Soybeans	32	99	31 - 32	99 - 100
Fats and oils	22	57	25 - 28	63 - 73
Dry beans	20	25	29 - 42	37 - 55
Poultry	45	65	54 - 58	76 - 84
Beef	0.1	0.2	9 - 13	19 - 29
Pork	14	42	22 - 25	58 - 70
Milk powder	13	10	28 - 55	22 - 44
Other dairy	0.1	0.3	6 - 11	29 - 52
Processed foods	1	2	27 - 42	33 - 53
Fish products	0	0	12 - 18	34 - 54
Forest products	10	17	16 - 27	28 - 48
Other food products	5	3	42 - 73	30 - 52

Source: Global Trade Atlas and Commission estimates.

Note: Summing the individual partial equilibrium results for each commodity to obtain the total effect of removing restrictions is not supported by economic theory. The individual partial equilibrium results assume that prices in other markets remain constant and do not consider cross-commodity substitution.

Wheat

Cuba does not grow wheat commercially and all domestic consumption is imported. Current per capita wheat consumption is about 100 kilograms per capita, down from 130 kilograms per capita in the late 1980s.[4] Wheat imports in the form of wheat flour have diminished over the past decade because Cuba is able to mill the majority of imported wheat into flour. Cuba has developed a large and relatively modern wheat milling industry, with state-of-the-art European milling equipment. Through a foreign joint venture, Cuba has doubled its milling capacity for bread wheat flour and added four new durum wheat mills (for pasta) in 2003–06.[5] The emergence of the Cuban milling industry favors U.S. wheat over third-country wheat flour, for use in peso-market bakeries that sell French-bread loaves of 200–400 grams that are considered a staple in the Cuban diet.[6]

The United States is the world's leading exporter of wheat.[7] In 2006, U.S. wheat exports amounted to $4.2 billion (53 percent of domestic production) with Japan, Nigeria, Mexico, and the Philippines being the top export markets.[8] U.S. competitiveness in world wheat markets is based on several factors, including low-cost production, highly efficient transportation and handling, and government export assistance programs. Cuba was the sixteenth largest market for U.S. wheat in 2006 with exports of $54 million (with $51.4 million of unmilled wheat and $2.6 million of flour). This accounted for 40 percent of Cuba's total wheat and flour imports of $136 million (table 4.4). Major U.S. competitors for the Cuban wheat and flour market in 2006 were the EU (42 percent) and Canada (13 percent) (tables E.1 and E.2).

Lifting the financing restrictions (scenario 1) would lower the cost to Cuba of purchasing wheat from the United States. This is estimated to increase U.S. wheat sales by $16.1 million to $32.3 million above the $51.4 million import level in 2006 (table 4.4). Increased imports from the United States would displace third country suppliers, particularly the EU and Canada, and the U.S. share of Cuban wheat imports is estimated to increase from 38 percent to between 51 percent and 65 percent. U.S. wheat has a lower freight cost than Canadian wheat shipped via the St. Lawrence seaway, and European wheat shipped from Mediterranean ports.[9] Removing travel restrictions (scenario 2) to Cuba would increase total U.S. wheat exports by between $400,000 and $1.1 million above the 2006 level. The impact is small because most imported wheat is consumed by the local population, not by tourists. Eliminating both financing and travel restrictions (scenario 3) is estimated to increase U.S. wheat exports by between $16.7 million and $33.3 million.

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[4] Mattson and Koo, *An Overview of Cuban Agriculture and Prospects for Future Trade with the United States*, 15.

[5] U.S. Wheat Associates and National Association of Wheat Growers, written statement to the Commission, May 8, 2007.

[6] Cuban government officials, interview by Commission staff, Havana, Cuba, June 13, 2007.

[7] U.S. Department of Agriculture, Office of the Chief Economist, *World Agricultural Supply and Demand Estimates*, March 9, 2007, 11and 19.

[8] U.S. Department of Agriculture, Economic Research Service, *U.S. Agricultural Trade Update*, February 15, 2007, 3.

[9] U.S. wheat shipped from Gulf ports has a freight advantage of about $10 to $20 per metric ton over EU and Canadian wheat. The price in crop year 2006/07 for U.S. wheat (No. 2, Hard Red Winter, ordinary protein, f.o.b. Gulf ports) was about $204 per metric ton, according to data of the U.S. Department of Agriculture; this implies a 5-percent advantage over EU and Canadian wheat (assuming that the f.o.b. EU wheat price is roughly equivalent to the U.S. export price).

Table 4.4 Wheat: Effect of removing financing and travel restrictions on Cuban imports

Scenario	With restriction	Without restriction	Change[a]
Lifting financing restrictions (scenario 1):			
Cuban imports for Cubans ($ million)	134.3	127.0 - 131.9	-7.3 - -2.4
Cuban imports for Tourists ($ million)	1.4	1.3	-0.1 - 0
Total Cuban imports ($ million)	135.6	128.3 - 133.2	-2.4 - -7.3
Total Cuban imports (1,000 MT)	671.0	676.0 - 686.1	5.0 - 15.1
U.S. share of Cuban imports (%)	37.9	50.7 - 65.3	12.8 - 27.4
Cuban imports from the United States ($ million)	51.4	67.5 - 83.7	16.1 - 32.3
Lifting travel restrictions (scenario 2):			
Cuban imports for Cubans ($ million)	134.3	134.9 - 136.2	0.6 - 1.9
Cuban imports for Tourists ($ million)	1.4	1.7 - 2.4	0.3 - 1.0
Total Cuban imports ($ million)	135.6	136.6 - 138.5	1.0 - 2.9
Total Cuban imports (1,000 MT)	671.0	675.8 - 685.5	4.8 - 14.5
U.S. share of Cuban imports (%)	37.9	37.9	n/a
Cuban imports from the United States ($ million)	51.4	51.8 - 52.5	0.4 - 1.1
Lifting financing and travel restrictions (scenario 3):			
Cuban imports for Cubans ($ million)	134.3	128.8 - 132.5	-5.5 - -1.7
Cuban imports for Tourists ($ million)	1.4	2.2 - 2.4	0.9 - 1.1
Total Cuban imports ($ million)	135.6	131.0 - 134.9	-4.6 - -0.7
Total Cuban imports (1,000 MT)	671.0	684.8 - 700.6	13.8 - 29.6
U.S. share of Cuban imports (%)	37.9	50.5 - 64.7	12.6 - 26.8
Cuban imports from the United States ($ million)	51.4	68.2 - 84.8	16.7 - 33.3

Source: Commission estimates.

Note: Estimates of the effects of lifting financing restrictions are based on a price wedge (additional cost) of 2.5 - 7.5 percent. Estimates of the effects of lifting travel restrictions are based on tourist increases of 250,000 - 750,000.

[a]The changes in the value of imports reflect the total changes in the cost to Alimport. The removal of restrictions entails reductions in the costs of importing. When these cost reductions are greater than the increase in the value of additional imports the change is negative. This does not imply a decline in the returns or prices received by U.S. exporters.

Rice

Cuban rice production averaged 400,000 mt annually during crop years 2000/01 to 2005/06, accounting for about 40 percent of its domestic consumption.[10] The sector was devastated by recent hurricanes and by a severe drought in 2006 that reduced production to 200,000 mt.[11] In Cuba, rice production occurs on nine large state farms, and on many smaller producer cooperatives and small farms.[12] In 2002, Cuba's rice milling industry consisted of 27 rice mills and 5 parboiled rice plants, with a capacity of about 400,000 mt.[13] Because these mills are in poor condition, Cuba prefers to import milled rice for immediate consumption rather than paddy (unmilled) rice that requires domestic milling. The Cuban population is a significant consumer of rice, which is rationed at about 3 kilograms per month, and subsidized at a price of Cuban Pesos (CUP) 0.55 per kilogram in 2003.[14]

[10] U.S. Department of Agriculture, Foreign Agricultural Service, *PS&D*.

[11] *CubaNews*, "Cuba to triple rice production by 2015," and Bill J. Reed, United States Rice Federation, statement to the Commission, May 1, 2007.

[12] *CubaNews*, "Cuba to triple rice production by 2015," 13.

[13] United States Rice Federation, post-hearing statement to the Commission, May 8, 2007.

[14] U.S. Department of Agriculture, Foreign Agricultural Service, *Caribbean Basin Market Development Reports How Cubans Survive 2003*, 4.

During 2000–06, per capita consumption of milled rice averaged about 57 kilograms, four times the level in the United States.[15]

The United States is the world's fourth leading exporter of rice.[16] During crop years 2000/01 to 2005/06, U.S. rice exports—both paddy and fully milled rice—amounted to slightly over $1 billion annually, with Mexico, Japan, Iraq, and Haiti the four leading U.S. markets. In 2006, about 52 percent of U.S. rice production was exported.[17] Cuba was the eighth largest U.S. market for rice in 2006, when exports were $39.5 million, or 24 percent of Cuba's total imports of rice (table 4.5).[18] In 2006, about 80 percent of U.S. rice exports to Cuba were milled rice with the remainder mostly paddy rice.[19] In that year, Cuba also imported rice from Thailand (15 percent) and Brazil (most of the remainder).[20] These official import data for rice do not include the 500,000 mt of rice imported from Vietnam through preferential financing.[21] It is also likely that concessional Chinese rice exports are not reported in the trade data.[22]

The U.S. rice industry is located mainly in Arkansas and the Gulf States, has substantial available stocks and unutilized milling capacity, and enjoys low shipping cost to the nearby Cuban market. U.S. rice is of superior quality and can be shipped promptly (about 24-hour sailing time from New Orleans ports) in smaller ocean vessels.[23] These factors make U.S. exporters highly competitive with third-country suppliers (such as Thailand, China, Vietnam, and Brazil) in the Cuban market. However, these countries are able to offer lower prices than the United States. Reportedly, in 2003 poor quality rice imported from Vietnam was sold at one U.S. cent per pound in Cuba (versus 15 cents or more per pound for U.S. rice).[24] Vietnamese and Chinese rice exports are also provided under long-term credit and government-to-government purchasing arrangements.[25]

Lifting the financing restrictions (scenario 1) would have a significant positive effect on U.S. rice exports to Cuba—U.S. exports would increase by between $14 million and $43 million, and the U.S. share of Cuban rice imports would increase to between 33 percent and 53 percent (table 4.5).[26] Removal of travel restrictions to Cuba (scenario 2) would increase total U.S. rice exports by between $300,000 and $900,000 above the 2006 level of U.S. exports to Cuba. The effect is small reflecting the fact that most rice imports are consumed

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[15] Mattson and Koo, *An Overview of Cuban Agriculture and Prospects for Future Trade with the United States*, 15.

[16] U.S. Department of Agriculture, Economic Research Service, *Rice Situation and Outlook Yearbook*, 59 and U.S. Department of Agriculture, Economic Research Service, *Rice Outlook,* 11.

[17] U.S. Department of Agriculture, Economic Research Service, *Rice Outlook,* 9.

[18] Ibid., 13.

[19] According to official data of U.S. Department of Commerce.

[20] Global Trade Atlas database.

[21] *CubaNews*, "Cuba to triple rice production by 2015."

[22] During Commission staff visits to a ration store and a peso free agricultural market in Havana, only Vietnamese and Chinese rice were being sold. Commission field visit, Havana, Cuba, June 12-14, 2007.

[23] U.S. rice shipped from Houston has a significant ocean freight advantage over Brazilian, Thai or Vietnamese rice since it is shipped over shorter distances and in smaller vessels capable of docking in many Cuban ports. *CubaNews*. "U.S. rice producers see huge potential for sales to Cuba."

[24] *CubaNews*, "U.S. rice producers see huge potential for sales to Cuba."

[25] *CubaNews*, "Cuba to triple rice production by 2015," 13 and EIU, *Cuba Country Profile 2007*, 43-44.

[26] For the Commission's econometric model for rice, the estimated value of the 500,000 metric tons of Vietnamese rice ($115 million) was added to the $51.2 million reported to the Global Trade Atlas (GTA) by all other leading rice exporters to Cuba in 2006. Vietnam does not report its exports to the GTA. The fob price of the Vietnamese rice was estimated at $230 per metric ton. Source: *Cuba News*, December 2006, 13; and USDA, ERS, *Rice Outlook*, June 12, 2007, table 6.

Table 4.5 Rice: Effect of removing financing and travel restrictions on Cuban imports

Scenario	With restriction	Without restriction	Change[a]
Lifting financing restrictions (scenario 1):			
Cuban imports for Cubans ($ million)	163.0	154.1 - 160.1	-8.8 - -2.9
Cuban imports for Tourists ($ million)	3.3	31. - 3.3	-0.2 - -0.1
Total Cuban imports ($ million)[a]	166.3	157.3 - 163.4	-9.0 - -2.9
Total Cuban imports (1,000 MT)[a]	698.0	703.2 - 713.7	5.2 - 15.7
U.S. share of Cuban imports (%)	23.8	32.8 - 52.7	9.0 - 28.9
Cuban imports from the United States ($ million)	39.5	53.6 - 82.9	14.1 - 43.4
Lifting travel restrictions (scenario 2):			
Cuban imports for Cubans ($ million)	163.0	163.7 - 165.1	0.7 - 2.1
Cuban imports for Tourists ($ million)	3.3	3.8 - 4.8	0.5 - 1.5
Total Cuban imports ($ million)[b]	166.3	167.5 - 169.9	1.2 - 3.6
Total Cuban imports (1,000 MT)[b]	698.0	703.1 - 713.2	5.1 - 15.2
U.S. share of Cuban imports (%)	23.8	23.8	0.0
Cuban imports from the United States ($ million)	39.5	39.8 - 40.4	0.3 - 0.9
Lifting financing and travel restrictions (scenario 3):			
Cuban imports for Cubans ($ million)	163.0	156.1 - 160.8	-6.9 - -2.2
Cuban imports for Tourists ($ million)	3.3	4.6 - 4.9	1.2 - 1.6
Total Cuban imports ($ million)[b]	166.3	160.6 - 165.7	-5.7 - -0.6
Total Cuban imports (1,000 MT)[b]	698.0	713.2 - 728.9	15.2 - 30.9
U.S. share of Cuban imports (%)	23.8	32.7 - 52.1	8.9 - 28.3
Cuban imports from the United States ($ million)	39.5	54.2 - 83.7	14.6 - 44.2

Source: Commission estimates.

Note: Estimates of the effects of lifting financing restrictions are based on a price wedge (additional cost) of 2.5 - 7.5 percent. Estimates of the effects of lifting travel restrictions are based on tourist increases of 250,000 - 750,000.

[a]The changes in the value of imports reflect the total changes in the cost to Alimport. The removal of restrictions entails reductions in the costs of importing. When these cost reductions are greater than the increase in the value of additional imports the change is negative. This does not imply a decline in the returns or prices received by U.S. exporters.

[b]Import value and volume include 500,000 mt of Vietnamese rice valued at $115 million which is not reported in Global Trade Atlas data.

by Cubans as opposed to tourists. Eliminating both the trade and travel restrictions (scenario 3) would likely increase U.S. rice exports by $15 million to $44 million above the 2006 level.

Corn

Recent growth in Cuba's livestock industry (particularly eggs and pork) has spurred the demand for feedgrains, especially corn.[27] Between crop years 2001/02 and 2005/06, Cuba's corn consumption grew 12 percent annually from 590,000 metric tons (mt) to 877,000 mt. Domestic production only rose 5 percent annually from 300,000 mt to 362,000 mt;[28] growth was slowed by drought and other adverse weather conditions.[29] The share of domestic consumption supplied by imports has increased reaching 57 percent in 2006.

[27] Cuban egg production rose 36 percent from 67,000 metric tons in 2001 to 91,000 metric tons in 2005, and Cuban pork production rose 28 percent from 76,000 metric tons to 97,000 metric tons, respectively. United Nations, Food and Agriculture Organization, *FAOStat*.

[28] United Nations, Food and Agriculture Organization, *FAOStat*.

[29] U.S. Department of State official, U.S. Interests Section, Havana, e-mail message to Commission staff, May 31, 2007.

The United States is the world's leading producer and exporter of corn, with annual U.S. production averaging about $25 billion (at the farm level) during 2000/01 to 2006/07. U.S. exports of corn amounted to $7 billion in 2006, with Japan, Mexico, and Korea being the major destination markets.[30] U.S. international competitiveness is based on low production cost and a highly efficient marketing and distribution system. In 2006, Cuba imported $60 million of corn from all countries of which the United States supplied 71 percent, or $43 million (table 4.6), making Cuba the 23rd largest foreign market for U.S. corn. Argentina supplied nearly all of the remaining 29 percent of Cuban imports in 2006.[31] In early 2006, the U.S. Grains Council signed a commercial agreement with Cuba to supply 700,000 mt of U.S. corn, and 140,000 mt of distillers dried grain with solubles, a corn by-product used in animal feed.[32]

The overall effects of removing financing and travel restrictions on U.S. corn exports to Cuba are small. Removing financing restrictions (scenario 1) is likely to increase the value of Cuban purchases of U.S. corn by between $3.4 million and $5.3 million above the $43 million of U.S. exports to Cuba in 2006 (table 4.6). Removal of travel restrictions to Cuba (scenario 2) would increase total U.S. corn exports by $300,000 to $1.0 million above the 2006 level of U.S. exports to Cuba. Elimination of both the trade and travel restrictions (scenario 3) is likely to increase U.S. corn exports by $4.0 million to $6.2 million above the 2006 level of U.S. exports. The total increase in U.S. exports is limited by the fact that the United States already accounts for a significant share of Cuban imports.

Animal Feed[33]

The Cuban feed industry has been characterized by aging, inefficient feed mills and declining production. Cuba produces its own soybean meal by processing (crushing) imported soybeans. In crop year 2001/02, Cuba opened its first soybean processing plant, with a processing capacity of 160,000 mt of soybeans annually.[34] Cuban soybean meal production increased from 13,000 mt in 2000/01 to 74,000 mt 2005/06 (down from 124,000 mt in 2004/05). With the recent expansion of Cuba's poultry and hog industries, soybean meal consumption grew by 58 percent over this time period. In 2006, Cuba's domestic soybean meal consumption was 260,000 mt of which 71 percent was supplied from imports.[35]

Most U.S. animal feed exports to Cuba consist of soybean meal. Total U.S. shipments of soybean meal amounted to $11 billion in 2005,[36] while exports were $1.7 billion in 2006, with Mexico, Canada, the Philippines, and Japan being the four leading markets. The international competitiveness of the U.S. soybean meal industry is based on many factors, including abundant availability of soybeans and advanced processing technology that provides high-quality products at a low cost.[37] However, Argentina and Brazil have overtaken the United States as the world's leading soybean meal exporters owing to their rapidly rising production of soybeans and their expanding domestic crushing industries.

[30] U.S. Department of Agriculture, Economic Research Service, *U.S. Agricultural Trade Update*, 2-3.
[31] Global Trade Atlas database.
[32] *CubaNews*, "USCTEC: Food exports to Cuba fell 11 percent to $350 million in 2005."
[33] Mostly soybean meal under HS 23 and HS 1208.
[34] Ross, "Cuba: U.S. Agribusiness Export Prospects under Three Scenarios," 375.
[35] U.S. Department of Agriculture, Foreign Agricultural Service, *Production, Supply and Distribution Online*.
[36] U.S. Census Bureau, *Annual Survey of Manufactures.*
[37] Richard Ostlie, American Soybean Association, written statement to the Commission, April 27, 2007, 2.

Table 4.6 Corn: Effect of removing financing and travel restrictions on Cuban imports

Scenario	With restriction	Without restriction	Change[a]
Lifting financing restrictions (scenario 1):			
Cuban imports for Cubans ($ million)	59.2	56.0 - 58.1	-3.2 - -1.0
Cuban imports for Tourists ($ million)	0.6	0.6	0
Total Cuban imports ($ million)	59.8	56.6 - 58.7	-3.2 - -1.1
Total Cuban imports (1,000 MT)	507.0	510.8 - 518.4	3.8 - 11.4
U.S. share of Cuban imports (%)	71.3	78.4 - 84.8	7.1 - 13.5
Cuban imports from the United States ($ million)	42.6	46.1 - 48.0	3.4 - 5.3
Lifting travel restrictions (scenario 2):			
Cuban imports for Cubans ($ million)	59.2	59.5 - 60.0	0.3 - 0.8
Cuban imports for Tourists ($ million)	0.6	0.8 - 1.1	0.2 - 0.5
Total Cuban imports ($ million)	59.8	60.2 - 61.1	0.5 - 1.4
Total Cuban imports (1,000 MT)	507.0	510.8 - 518.5	3.8 - 11.5
U.S. share of Cuban imports (%)	71.3	71.3	0.0
Cuban imports from the United States ($ million)	42.6	42.9 - 43.6	0.3 - 1.0
Lifting financing and travel restrictions (scenario 3):			
Cuban imports for Cubans ($ million)	59.2	56.8 - 58.4	-2.4 - -0.8
Cuban imports for Tourists ($ million)	0.6	1.0 - 1.1	0.4 - 0.5
Total Cuban imports ($ million)	59.8	57.8 - 59.6	-2.0 - -0.2
Total Cuban imports (1,000 MT)	507.0	518.0 - 529.9	11.0 - 22.9
U.S. share of Cuban imports (%)	71.3	78.3 - 84.5	7.0 - 13.2
Cuban imports from the United States ($ million)	42.6	46.6 - 48.9	4.0 - 6.2

Source: Commission estimates.

Note: Estimates of the effects of lifting financing restrictions are based on a price wedge (additional cost) of 2.5 - 7.5 percent. Estimates of the effects of lifting travel restrictions are based on tourist increases of 250,000 - 750,000.

[a]The changes in the value of imports reflect the total changes in the cost to Alimport. The removal of restrictions entails reductions in the costs of importing. When these cost reductions are greater than the increase in the value of additional imports the change is negative. This does not imply a decline in the returns or prices received by U.S. exporters.

In 2006, Cuba imported $56 million of soybean meal of which the United States supplied $42 million (76 percent) (table 4.7), making Cuba the 11th largest foreign market for U.S. soybean meal. Cuba's other import suppliers were Mexico and Argentina, which together accounted for 20 percent.[38] Argentina was the world's leading soybean meal exporter in 2006/07, and Argentine soybean meal generally undersells U.S. soybean meal in world markets.[39] However, shipping meal to Cuba from U.S. Gulf ports is less expensive and more timely than from Argentina.

The effects of removing the financing and travel restrictions on U.S. soybean meal sales to Cuba are modest. This is because the United States already enjoys a large share of Cuban imports and because additional tourists would be expected to buy imported rather than domestically produced meat products. Lifting financing restrictions (scenario 1) is likely to increase the value of Cuban purchases of U.S. soybean meal by between $1 million and $2.7 million above the $42 million of U.S. exports to Cuba in 2006 (table 4.7). Removal of travel restrictions to Cuba (scenario 2) would increase total U.S. soybean meal exports by between $300,000 and $1.0 million above the 2006 level of U.S. exports to Cuba.

[38] Global Trade Atlas database.

[39] For example in 2005/06, Argentine soybean meal (fob Buenos Aires), priced at $158 per metric ton, undersold U.S. soybean meal by 18 percent (U.S. soybean meal, fob Decatur at, $192 per ton). U.S. Department of Agriculture, Foreign Agricultural Service, *Oilseeds: World Markets and Trade*, table 30.

Table 4.7 Animal feed: Effect of removing financing and travel restrictions on Cuban imports

Scenario	With restriction	Without restriction	Change[a]
Lifting financing restrictions (scenario 1):			
Cuban imports for Cubans ($ million)	55.4	52.4 - 54.4	-3.0 - -1.0
Cuban imports for Tourists ($ million)	0.6	0.5	0.0
Total Cuban imports ($ million)	56.0	52.9 - 55.0	-3.0 - -1.0
Total Cuban imports (1,000 MT)	291.5	293.7 - 298.1	2.2 - 6.6
U.S. share of Cuban imports (%)	75.6	78.8 - 85.1	3.2 - 9.5
Cuban imports from the United States ($ million)	42.3	43.3 - 45.0	1.0 - 2.7
Lifting travel restrictions (scenario 2):			
Cuban imports for Cubans ($ million)	55.4	55.7 - 56.2	0.3 - 0.8
Cuban imports for Tourists ($ million)	0.6	0.7 - 1.1	0.2 - 0.5
Total Cuban imports ($ million)	56.0	56.4 - 57.3	0.4 - 1.3
Total Cuban imports (1,000 MT)	291.5	293.8 - 298.3	2.3 - 6.8
U.S. share of Cuban imports (%)	75.6	75.6	0.0
Cuban imports from the United States ($ million)	42.3	42.6 - 43.3	0.3 - 1.0
Lifting financing and travel restrictions (scenario 3):			
Cuban imports for Cubans ($ million)	55.4	53.1 - 54.7	-2.3 - -0.7
Cuban imports for Tourists ($ million)	0.6	1.0 - 1.1	0.4 - 0.5
Total Cuban imports ($ million)	56.0	54.1 - 55.8	-1.8 - -0.2
Total Cuban imports (1,000 MT)	291.5	298.0 - 304.9	6.5 - 13.3
U.S. share of Cuban imports (%)	75.6	78.8 - 84.9	3.2 - 9.3
Cuban imports from the United States ($ million)	42.3	43.9 - 45.9	1.6 - 3.6

Source: Commission estimates.

Note: Estimates of the effects of lifting financing restrictions are based on a price wedge (additional cost) of 2.5 - 7.5 percent. Estimates of the effects of lifting travel restrictions are based on tourist increases of 250,000 - 750,000.

[a]The changes in the value of imports reflect the total changes in the cost to Alimport. The removal of restrictions entails reductions in the costs of importing. When these cost reductions are greater than the increase in the value of additional imports the change is negative. This does not imply a decline in the returns or prices received by U.S. exporters.

Elimination of both the trade and travel restrictions (scenario 3) is likely to increase U.S. soybean meal exports by between $1.6 million and $3.6 million above the 2006 level of U.S. exports. These estimates do not account for the possible impact on demand for animal feed resulting from increased imports of meat products. An increase in imports of pork and poultry could reduce Cuban production of these products, thereby reducing demand for animal feed.

Soybeans

Cuba does not grow soybeans, but processes imported soybeans into soybean oil and soybean meal. Cuba has one soybean processing plant that opened in 2001–02, with a processing capacity of 160,000 mt annually.[40] Cuban soybean consumption (crush) rose from 18,000 mt to 96,000 mt during 2000/01 to 2005/06.[41]

[40] Ross, "Cuba: U.S. Agribusiness Export Prospects under Three Scenarios," 375.

[41] U.S. Department of Agriculture, Foreign Agricultural Service, *Production, Supply and Distribution Online*.

U.S. production of soybeans averaged about $18 billion annually during crop year 2000/01 to 2005/06,[42] of which about $6.5 billion were exported, with China, Mexico, Japan, the EU, and Taiwan being the leading markets.[43] The United States is the world's leading soybean exporter (40 percent of world exports in 2005/06), followed by Brazil (also 40 percent) and Argentina (11 percent).[44] In 2006, Cuba imported $32 million of soybeans, of which the United States supplied all but about $100,000 (table 4.8).[45] In 2006, Cuba was the 18th largest foreign market for U.S. soybeans. U.S. soybean exporters compete mainly with Argentina and Brazil. Brazilian soybeans are slightly less expensive than U.S. soybeans in world markets,[46] but shipping from U.S. Gulf ports to Cuba is less expensive and more timely (about 24-hour sailing time from New Orleans ports) than from Brazilian or Argentine ports to Caribbean ports.

Lifting the financing restrictions on U.S. sales to Cuba (scenario 1) likely will reduce slightly the value of Cuban purchases of U.S. soybeans by $500,000 to $1.6 million below the $32 million of U.S. exports to Cuba in 2006 (table 4.8). Removal of travel restrictions to Cuba (scenario 2) would increase total U.S. soybean exports by between $300,000 and $1.0 million above the 2006 level of U.S. exports to Cuba. Because the United States supplied virtually all Cuban imports of soybeans in 2006, elimination of both the financing and travel restrictions (scenario 3) is not likely to change U.S.-Cuba trade significantly, increasing by $200,000 or decreasing by $700,000 from the 2006 import level. U.S. soybeans would likely continue to supply nearly all Cuban imports. Because the United States already supplies virtually all Cuban soybean imports, removal of the restrictions will have essentially no impact on U.S. exports. In the short term, the GDP growth resulting from increased tourism will not increase soybean demand significantly owing to limits on Cuban processing capacity.

Fats and Oils[47]

Fats and oils consumption in Cuba is heavily subsidized and provided as a basic foodstuff on the ration card at a quantity of 0.5 pounds per person per month.[48] Cuban vegetable oil production rose from 3,000 mt to 18,000 mt during crop year 2000/01 to 2005/06.[49] Soybean oil, the leading vegetable oil, is produced in Cuba from imported soybeans in a single processing plant with a capacity of 160,000 mt of soybeans annually.[50] Cuba refines or repackages imported fats and oils for consumer use as either cooking oils or frying fat (shortening) products.

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[42] U.S. Department of Agriculture, Office of the Chief Economist, *World Agricultural Supply and Demand Estimates*, 15.

[43] Compiled from official statistics of the U.S. Department of Commerce.

[44] U.S. Department of Agriculture, Foreign Agricultural Service, *Oilseeds and Products*, table 7.

[45] Global Trade Atlas database.

[46] For example in 2005/06, the price of Brazilian soybeans (fob Rio Grande) of $228 per metric ton was priced 4 percent below the U.S. soybean export price of $236 per ton (f.o.b. vessel, Gulf ports); U.S. Department of Agriculture, Foreign Agricultural Service, *Oilseeds,* table 29 and U.S. Department of Agriculture, Economic Research Service, *Statistical Indicators*.

[47] Products in this category are classified under HTS subheadings 1501 to 1506. Animal fats consist mainly of beef fat (tallow) and pork fat (lard). Vegetable oils consist mainly of soybean oil, sunflower oil, and cottonseed oil.

[48] U.S. Department of Agriculture, Foreign Agricultural Service, *Caribbean Basin Market Development Reports*, 4.

[49] Ibid., *Production, Supply and Distribution Online*.

[50] Ross, "Cuba: U.S. Agribusiness Export Prospects under Three Scenarios," 375.

Table 4.8 Soybeans: Effect of removing financing and travel restrictions on Cuban imports

Scenario	With restriction	Without restriction	Change[a]
Lifting financing restrictions (scenario 1):			
Cuban imports for Cubans ($ million)	31.6	29.8 - 31.0	-1.7 - -0.6
Cuban imports for Tourists ($ million)	0.3	0.3	0.0
Total Cuban imports ($ million)	31.9	30.1 - 31.3	-1.7 - -0.6
Total Cuban imports (1,000 MT)	130.7	131.6 - 133.6	1.0 - 2.9
U.S. share of Cuban imports (%)	99.6	99.9	0.3
Cuban imports from the United States ($ million)	31.7	30.1 - 31.3	-1.6 - -0.5
Lifting travel restrictions (scenario 2):			
Cuban imports for Cubans ($ million)	31.6	31.7 - 32.0	0.2 - 0.5
Cuban imports for Tourists ($ million)	0.3	0.5 - 0.8	0.2 - 0.5
Total Cuban imports ($ million)	31.9	32.2 - 32.8	0.3 - 1.0
Total Cuban imports (1,000 MT)	130.7	132.0 - 134.6	1.3 - 3.9
U.S. share of Cuban imports (%)	99.6	99.6	0.0
Cuban imports from the United States ($ million)	31.7	32.1 - 32.7	0.3 - 1.0
Lifting financing and travel restrictions (scenario 3):			
Cuban imports for Cubans ($ million)	31.6	30.3 - 31.1	-1.3 - -0.4
Cuban imports for Tourists ($ million)	0.3	0.8 - 0.9	0.5
Total Cuban imports ($ million)	31.9	31.0 - 32.0	-0.8 - 0.1
Total Cuban imports (1,000 MT)	130.7	134.6 - 137.5	3.9 - 6.9
U.S. share of Cuban imports (%)	99.6	99.9	0.3
Cuban imports from the United States ($ million)	31.7	31.0 - 32.0	-0.7 - 0.2

Source: Commission estimates.

Note: Estimates of the effects of lifting financing restrictions are based on a price wedge (additional cost) of 2.5 - 7.5 percent. Estimates of the effects of lifting travel restrictions are based on tourist increases of 250,000 - 750,000.

[a]The changes in the value of imports reflect the total changes in the cost to Alimport. The removal of restrictions entails reductions in the costs of importing. When these cost reductions are greater than the increase in the value of additional imports the change is negative. This does not imply a decline in the returns or prices received by U.S. exporters.

U.S. shipments of all fats and oils products averaged about $9 billion annually during 2001–05,[51] with soybean oil the leading product with shipments of about $5 billion. During crop years 2001/02 to 2005/06, U.S. exports of soybean oil amounted to $367 million annually with Canada, Mexico, China, and Korea the four leading markets.[52] In 2006, U.S. exports of soybean oil amounted to $360 million, placing the United States third among the world's leading soybean oil exporting countries, behind Argentina (57 percent) and Brazil (25 percent).[53] In 2006, Cuba's fats and oils imports were $39 million, with the United States supplying $22 million (57 percent), $21 million of which was soybean oil. That year Cuba was the fifth leading market for U.S. soybean oil. U.S. soybean oils exporters compete mainly with Argentina and Brazil in the Cuban market.[54] Cuba also imports small amounts of vegetable oils from Mexico, Canada, and the EU. Argentine soybean oil is generally lower priced than U.S. soybean oil in world markets,[55] but shipping from U.S. Gulf ports to Cuba is less expensive and more timely.

[51] U.S. Census Bureau, *Annual Survey of Manufactures.*

[52] Compiled from official statistics of the U.S. Department of Commerce.

[53] U.S. Department of Agriculture, Foreign Agricultural Service, *Oilseeds and Products*, table 9.

[54] Global Trade Atlas database.

[55] For example in 2005/06, Argentine soybean oil (fob Buenos Aires), priced at $467 per metric ton, undersold U.S. soybean oil by 9 percent (U.S. crude soybean oil, fob Decatur at, $516 per ton). U.S. Department of Agriculture, Foreign Agricultural Service, *Oilseeds,* table 31.

Removing the financing restrictions (scenario 1) would likely increase the value of Cuban purchases of U.S. fats and oils by between $1.8 million and $4.9 million above the $22 million of U.S. exports to Cuba in 2006 (table 4.9). Removal of travel restrictions to Cuba (scenario 2) would increase total U.S. fats and oils exports by between $400,000 and $1.2 million above the 2006 level of U.S. exports to Cuba. Elimination of both the trade and travel restrictions (scenario 3) is likely to increase U.S. fats and oils exports by between $2.8 million and $6.0 million above the 2006 level of U.S. exports. Under this scenario, U.S. soybean oil exports may supply between 63 and 73 percent of Cuban soybean oil imports.

Table 4.9 Fats and oils: Effect of removing financing and travel restrictions on Cuban imports

Scenario	With restriction	Without restriction	Change[a]
Lifting financing restrictions (scenario 1):			
Cuban imports for Cubans ($ million)	38.6	36.5 - 37.9	-2.1 - -0.7
Cuban imports for Tourists ($ million)	0.4	0.4	0.0
Total Cuban imports ($ million)	39.0	36.9 - 38.3	-2.1 - -0.7
U.S. share of Cuban imports (%)	57.3	62.9 - 73.9	5.6 - 16.6
Cuban imports from the United States ($ million)	22.3	24.1 - 27.2	1.8 - 4.9
Lifting travel restrictions (scenario 2):			
Cuban imports for Cubans ($ million)	38.6	38.8 - 39.1	0.2 - 0.6
Cuban imports for Tourists ($ million)	0.4	0.9 - 1.9	0.5 - 1.5
Total Cuban imports ($ million)	39.0	39.7 - 41.0	0.7 - 2.1
U.S. share of Cuban imports (%)	57.3	57.3	0.0
Cuban imports from the United States ($ million)	22.3	22.7 - 23.5	0.4 - 1.2
Lifting financing and travel restrictions (scenario 3):			
Cuban imports for Cubans ($ million)	38.6	37.0 - 38.1	-1.6 - -0.5
Cuban imports for Tourists ($ million)	0.4	1.8 - 2.0	1.4 - 1.6
Total Cuban imports ($ million)	39.0	38.8 - 40.1	-0.2 - 1.1
U.S. share of Cuban imports (%)	57.3	62.6 - 73.1	5.4 - 15.8
Cuban imports from the United States ($ million)	22.3	25.1 - 28.3	2.8 - 6.0

Source: Commission estimates.

Note: Estimates of the effects of lifting financing restrictions are based on a price wedge (additional cost) of 2.5 - 7.5 percent. Estimates of the effects of lifting travel restrictions are based on tourist increases of 250,000 - 750,000.

[a]The changes in the value of imports reflect the total changes in the cost to Alimport. The removal of restrictions entails reductions in the costs of importing. When these cost reductions are greater than the increase in the value of additional imports the change is negative. This does not imply a decline in the returns or prices received by U.S. exporters.

Dry Beans[56]

Cuba is a large consumer of dry beans as they are an important source of non-meat protein in the Cuban diet.[57] Dry bean consumption in Cuba is heavily subsidized and provided as a basic foodstuff on the ration card at a quantity of 20 ounces per person per month.[58] In addition, Cuba processes peas and beans into a bean protein paste used in school nutrition programs, along with bread and soy protein products. Cuban production consists of a variety

[56] Dry beans, also termed "pulses" or "legumes," include all dry edible beans, peas, and lentils (soybeans excluded), classified under HS0713.

[57] Johnson, Commission Hearing Transcript, 7.

[58] U.S. Department of Agriculture, Foreign Agricultural Service, *Caribbean Basin Market Development Reports*, 4.

of dry edible beans, peas, and lentils and accounts for about half of its dry bean consumption.[59] Cuban imports make up the balance and averaged 192,000 mt annually during 2001–05.

U.S. dry bean production amounted to $649 million in 2005.[60] U.S. exports of dry beans, which include navy, pinto, black, and kidney beans; lentils; and chick and dried peas, amounted to $403 million in 2006, with the EU, Mexico, Canada, and India being the four leading U.S. markets.[61] Cuba was the fifth leading U.S. market for dry beans in 2006 with purchases of $20 million (table 4.10). The United States is the world's fifth leading exporter of dry beans (including peas and lentils), behind Burma, Canada, China, and Australia.[62] U.S. exports of dry beans have risen over the past several years and become more price competitive in world markets with other competitive global suppliers, such as Canada.[63]

In 2006, Cuba imported $79 million of dry beans of which the United States supplied $20 million (25 percent) (table 4.10). During 2004–06, the U.S. share of Cuban dry bean imports rose from 13 to 25 percent. In 2006, green peas and pinto beans each accounted for about 40 percent of U.S. dry bean exports to Cuba, with lentils (11 percent) and yellow peas the remainder.[64] U.S. dry bean exporters compete mainly with Canada and China in the Cuban market. For many years, Chinese dry black and pinto beans were priced lower than U.S. beans in the Cuban market,[65] possibly because of government assistance to Chinese producers.[66]

Currently, U.S. beans shipped to Cuba have a significant ocean freight advantage over Chinese beans, and have become more price competitive in Cuba since early 2006.[67] Ocean freight costs of U.S. products from New Orleans to Cuba are lower than ocean rates for the Canadian product from Thunder Bay to Cuba, but internal U.S. rail costs to transport Upper Midwestern beans and peas to the U.S. Gulf ports are higher than those faced by Canadian growers to Thunder Bay.[68] Nevertheless, U.S. peas and lentils have become more price competitive with Canadian products in recent years in third country markets, partly aided by the revalued Canadian dollar relative to the U.S. dollar.[69]

Lifting the financing regulations (scenario 1) likely would increase the value of Cuban purchases of U.S. dry beans by between $9 million and $21.9 million above the $20 million of U.S. exports to Cuba in 2006 (table 4.10). Removal of travel restrictions to Cuba (scenario

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[59] Cuban dry bean production rose from 106,000 metric tons in 2000 to 132,000 tons in 2004, but then dropped to 106,000 tons in 2005 and 80,000 tons in 2006. United Nations, Food and Agriculture Organization, *FAOStat*.

[60] U.S. Department of Agriculture, Economic Research Service, *Vegetables and Melons Situation and Outlook Yearbook*, 146, 153-155.

[61] According to data of the U.S. Department of Commerce.

[62] United Nations, Food and Agriculture Organization, *FAOStat*.

[63] U.S. exports of dry peas and lentils to all markets rose from 767 million to 1,275 million pounds, and exports of dry edible beans from 5.6 million hundred-weight (cwt) to 7.2 million cwt, during 2004–05. U.S. Department of Agriculture, Economic Research Service, *Vegetables and Melons*, 151, 157.

[64] Department of Commerce.

[65] Johnson, Commission Hearing Transcript, 123.

[66] Ibid.

[67] Ibid.

[68] U.S. rate costs are $26 per metric ton higher than for Canadian growers. Eric Bartsch, North Dakota Dry Pea and Lentil Council and *CubaNews,* "N. Dakota delegation scores pea sale to Alimport."

[69] U.S. Department of Agriculture, Foreign Agricultural Service. *Canada Grain and Feed Annual Report 2006*, 8-9.

Table 4.10 Dry beans: Effect of removing financing and travel restrictions on Cuban imports

Scenario	With restriction	Without restriction	Change[a]
Lifting financing restrictions (scenario 1):			
Cuban imports for Cubans ($ million)	78.3	74.1 - 76.9	-4.2 - -1.4
Cuban imports for Tourists ($ million)	0.8	0.7 - 0.8	0.0
Total Cuban imports ($ million)	79.1	74.8 - 77.7	-4.3 - -1.4
Total Cuban imports (1,000 MT)	245.0	246.8 - 250.5	1.8 - 5.5
U.S. share of Cuban imports (%)	25.2	37.3 - 55.8	12.1 - 30.7
Cuban imports from the United States ($ million)	19.9	28.9 - 41.8	9.0 - 21.9
Lifting travel restrictions (scenario 2):			
Cuban imports for Cubans ($ million)	78.3	78.7 - 79.4	0.4 - 1.1
Cuban imports for Tourists ($ million)	0.8	1.0 - 1.3	0.2 - 0.5
Total Cuban imports ($ million)	79.1	79.6 - 80.7	0.5 - 1.6
Total Cuban imports (1,000 MT)	245.0	246.7 - 250.0	1.7 - 5.0
U.S. share of Cuban imports (%)	25.2	25.2	0.0
Cuban imports from the United States ($ million)	19.9	20.0 - 20.3	0.1 - 0.4
Lifting financing and travel restrictions (scenario 3):			
Cuban imports for Cubans ($ million)	78.3	75.1 - 77.3	-3.2 - -1.0
Cuban imports for Tourists ($ million)	0.8	1.2 - 1.3	0.4 - 0.5
Total Cuban imports ($ million)	79.1	76.3 - 78.6	-2.8 - -0.5
Total Cuban imports (1,000 MT)	245.0	249.7 - 255.6	4.7 - 10.6
U.S. share of Cuban imports (%)	25.2	37.1 - 55.2	11.9 - 30.1
Cuban imports from the United States ($ million)	19.9	29.2 - 42.2	9.3 - 22.2

Source: Commission estimates.

Note: Estimates of the effects of lifting financing restrictions are based on a price wedge (additional cost) of 2.5 - 7.5 percent. Estimates of the effects of lifting travel restrictions are based on tourist increases of 250,000 - 750,000.

[a]The changes in the value of imports reflect the total changes in the cost to Alimport. The removal of restrictions entails reductions in the costs of importing. When these cost reductions are greater than the increase in the value of additional imports the change is negative. This does not imply a decline in the returns or prices received by U.S. exporters.

2) is likely to have a small impact on U.S. sales of dry beans to Cuba, as few dry beans are sold to the Cuban tourist sector, and would increase total U.S. dry bean exports by between $100,000 and $400,000 above the 2006 level. Elimination of both the trade and travel restrictions (scenario 3) is likely to increase U.S. dry bean exports by between $9.3 million and $22.2 million above the 2006 level of U.S. exports. Under this scenario, U.S. dry bean exporters may supply between 37 and 55 percent of Cuban dry bean imports.

Poultry[70]

Between 2000 and 2005, Cuba became increasingly more dependent on poultry imports to meet its domestic consumption needs.[71] In 2001–02, Cuban production fell by one half in the aftermath of Hurricane Michelle in November 2001. Between 2002 and 2005, the share poultry of imports in Cuba's domestic consumption averaged 85 percent and the Cuban

[70] This section covers fresh, chilled, and frozen meat and the edible offal of poultry classified under the heading 0207; and prepared and preserved poultry products classified under the subheadings 160231, 160232, and 160239.

[71] The latest available data for Cuban consumption and production of poultry is 2005. United Nations, Food & Agriculture Organization, *FAOStat*.

government has indicated that it is more efficient for them to import poultry than to produce it domestically.[72]

The United States is the second largest global poultry exporter, after Brazil, with exports valued at $2.5 billion in 2006, accounting for 26 percent of global poultry exports. In 2006, the largest export markets for U.S. poultry were Russia (19 percent), Mexico (17 percent), Canada (13 percent) and China (13 percent). Since 2002, Cuba has become an increasingly important market for U.S. poultry, accounting for 1.8 percent of exports in 2006. Abundant supplies of relatively low cost feed ingredients, as well as regional preferences for different poultry cuts help to make the United States one of the most competitive global poultry producers.[73]

The U.S. poultry and egg industry stated that the current U.S. restrictions on financing as well as travel to Cuba have negatively impacted the industry.[74] The added cost of financial restrictions and the use of letters of credit drawn on a foreign bank have directly affected the price competitiveness of U.S. sales of poultry to Cuba and halted the sale of U.S. eggs. Poultry industry officials also noted that U.S. regulations have dampened the attractiveness of Cuba as a destination for U.S. shippers and there is only one carrier that currently operates breakbulk vessels (the primary mode of transporting chilled and frozen poultry by sea) to Cuba.[75]

In 2006, Cuban poultry imports were valued at $68.6 million of which the United States accounted for $44.7 million, or 65 percent (table 4.11). Brazil is the major competitor in the Cuban market, accounting for $20.1 million (29 percent). The United States enjoys a natural competitive advantage over Brazil in shipping costs and transit time to the Cuban market; one day or less from ports along the Gulf of Mexico versus over 25 days from Brazil.[76] The U.S. poultry exports to Cuba have been mainly frozen chicken leg quarters, drums, and wings, and ground turkey which are imported both in containers and bulk freighter shipments. Frozen U.S. chicken and ground turkey are sold in convertible peso stores as well as provided in the ration stores.[77]

The removal of the current financial restrictions on U.S. agricultural exports to Cuba (scenario 1) is likely to increase Cuban purchases of U.S. poultry in the range of $6.7 million to $10.8 million (table 4.11). The elimination of transaction costs associated with the current financial restrictions will enable the United States to be more price competitive with Brazil. The vast majority of poultry imported by Cuba is destined for domestic consumption, and the removal of current travel restrictions (scenario 2) would increase U.S. sales of poultry by $1.1 million to $3.2 million. Elimination of both financial and travel restrictions (scenario 3) is likely to increase Cuban imports of U.S. poultry by $9.6 million to $13.7 million.

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[72] Walters, "Expanding trade with Cuba creates opportunities for U.S. farmers, says UF expert."

[73] U.S. consumers prefer "white" chicken meat (breasts) and the U.S. exports "dark" meat (leg quarters and wings) to regions where it is preferred.

[74] United States Poultry and Egg Export Council and the National Chicken Council, written statement to the Commission, May 11, 2007.

[75] There are also significant indirect costs associated with the amount of time needed to apply for and receive a license from OFAC to travel to Cuba for business purposes. United States Poultry & Egg Export Council and the National Chicken Council, written statement to the Commission, May 11, 2007. Industry officials, interview with Commission staff, April 2007.

[76] United States Poultry and Egg Export Council and the National Chicken Council, written statement to the Commission, May 11, 2007.

[77] Cuban government officials, interviews by Commission staff, Havana, Cuba, June 12-13, 2007.

Table 4.11 Poultry: Effect of removing financing and travel restrictions on Cuban imports

Scenario	With restriction	Without restriction	Change[a]
Lifting financing restrictions (scenario 1):			
Cuban imports for Cubans ($ million)	58.3	55.6 - 57.1	-2.7 - -1.3
Cuban imports for Tourists ($ million)	10.3	9.8 - 10.1	-0.5 - -0.2
Total Cuban imports ($ million)	68.6	65.4 - 67.1	-3.2 - -1.5
Total Cuban imports (1,000 MT)	116.7	120.2 - 123.7	3.5 - 7.0
U.S. share of Cuban imports (%)	65.2	76.6 - 84.8	11.4 - 19.6
Cuban imports from the United States ($ million)	44.7	51.4 - 55.5	6.7 - 10.8
Lifting travel restrictions (scenario 2):			
Cuban imports for Cubans ($ million)	58.3	58.6 - 59.2	0.3 - 0.8
Cuban imports for Tourists ($ million)	10.3	11.6 - 14.3	1.4 - 4.1
Total Cuban imports ($ million)	68.6	70.2 - 73.5	1.6 - 4.9
Total Cuban imports (1,000 MT)	116.7	119.5 - 125.0	2.8 - 8.3
U.S. share of Cuban imports (%)	65.2	65.2	0.0
Cuban imports from the United States ($ million)	44.7	45.8 - 47.9	1.1 - 3.2
Lifting financing and travel restrictions (scenario 3):			
Cuban imports for Cubans ($ million)	58.3	56.4 - 57.3	-1.9 - -1.0
Cuban imports for Tourists ($ million)	10.3	13.5 - 14.3	3.2 - 4.1
Total Cuban imports ($ million)	68.6	69.8 - 71.7	1.2 - 3.1
Total Cuban imports (1,000 MT)	116.7	128.3 - 132.0	11.6 - 15.3
U.S. share of Cuban imports (%)	65.2	75.8 - 83.6	10.6 - 18.4
Cuban imports from the United States ($ million)	44.7	54.4 - 58.4	9.6 - 13.7

Source: Commission estimates.

Note: Estimates of the effects of lifting financing restrictions are based on a price wedge (additional cost) of 5 - 10 percent. Estimates of the effects of lifting travel restrictions are based on tourist increases of 250,000 - 750,000.

[a]The changes in the value of imports reflect the total changes in the cost to Alimport. The removal of restrictions entails reductions in the costs of importing. When these cost reductions are greater than the increase in the value of additional imports the change is negative. This does not imply a decline in the returns or prices received by U.S. exporters.

Beef[78]

Cuba is neither a large beef producing nor a large beef consuming country. Between 2000 and 2005, per capita consumption averaged 6.6 kg, well below the 13.5 kg average for Central American and Caribbean nations.[79] Total consumption averaged 67,740 mt during 2000–05, but fell from 78,880 mt in 2000 to 58,450 mt in 2005.[80] Decreased consumption corresponded to production that fell from 75,770 mt in 2000 to 55,250 mt in 2004, although it recovered slightly in 2005 to 59,900 mt.[81] Domestic beef production supplies between 85 and 95 percent of domestic consumption.

[78] Beef as referred to in this section covers fresh, chilled, and frozen beef classified under headings 0201 and 0202; fresh and frozen edible bovine offal (variety meats) classified under subheadings 020610, 020621, 020622, and 020629; salted, dried, cured, or smoked beef products classified under subheading 021020; and prepared and preserved beef products classified under subheading 160250.

[79] United Nations, Food and Agriculture Organization, *2006 Meat Market Assessment and Meat Statistics*.

[80] Ibid., *FAOStat*.

[81] Ibid.

The United States is currently the third largest global exporter of beef, by value, after Australia and Brazil.[82] In 2006, total U.S. beef exports were valued at nearly $1.8 billion, accounting for 10.7 percent of global beef export value.[83] A substantial proportion of U.S. beef trade is with Canada and Mexico; other important markets include Taiwan, Egypt, Japan, the Bahamas, and Hong Kong. Major competing exporters include Australia, Brazil, Argentina, New Zealand, Canada, and Uruguay. Cuba accounts for a negligible share of U.S. beef exports. The United States is competitive on the world market for high-quality, grain-fed beef owing to high productivity coupled with abundant supplies of relatively low cost feed ingredients (i.e., pasture for cows; feed grains and protein supplements), economies of size in processing, and a highly efficient marketing and distribution system.

In 2006, Cuba imported $42.3 million of beef, 95 percent of which was supplied by Brazil, Uruguay, and Chile. Brazil supplies processed beef to the Cuban market while Uruguay supplies frozen boneless beef.[84] The United States supplied less than $100,000 of beef to Cuba in 2006 representing less than 1 percent of the total value of Cuban beef imports. The principal factor impeding U.S. beef exports to Cuba has been the inability of Cuban sanitary officials to visit U.S. slaughtering and processing facilities and to interact with USDA meat inspectors, particularly with respect to concerns over BSE.[85] Moreover, Brazil and Uruguay are very price competitive exporters of beef products to Cuba, including beef liver. Uruguay has a joint venture meat processing facility (jerked beef and other meats) specifically producing for export to Cuba.[86]

Lifting the financing restrictions is likely to increase U.S. beef exports to Cuba by between $5.4 million and $10 million (table 4.12). If travel restrictions were removed, it is likely that U.S. tourists would demand U.S. grain-fed beef rather than Brazilian or Uruguayan grass-fed beef. Therefore, assuming a shift in Cuba's purchase patterns to supply the type of beef U.S. tourists are likely to demand, the U.S. beef exporters could capture a significant portion (perhaps 80 percent or more) of imports resulting from increased U.S. tourism, likely an additional $1.1 million to $3.2 million. The removal of both sets of restrictions (scenario 3) would likely increase U.S. exports of beef to Cuba by $8.8 million to $12.9 million over their 2006 level.

Pork[87]

Pork is the preferred meat in Cuba. During 2000–06, per capita pork production in Cuba was among the highest in the Central American-Caribbean region, averaging almost 10 kilograms

[82] Before bovine spongiform encephalopathy (BSE) was discovered in December 2003, in a Canadian cow imported into the United States, the United States was the largest global exporter by value of beef and beef products covered under this section.

[83] Global Trade Atlas.

[84] Ibid.

[85] Alimport officials, interview with Commission staff, Havana, Cuba, June 12, 2007.

[86] U.S. Department of Agriculture, Foreign Agricultural Service, GAIN Report No. C13010, September 24, 2003, 8.

[87] This section covers fresh, chilled, and frozen pork products classified under heading 0203; fresh and frozen edible pork offal (variety meats) classified under subheadings 020630, 020641, and 020649; pork fat classified under subheading 020900; salted, dried, cured, or smoked pork products classified under subheadings 021011, 021012, and 021019; and prepared and preserved pork products classified under subheadings 160241, 160242, and 160249. Hereafter, references to pork will refer to this entire list of pork and pork products unless otherwise specified.

Table 4.12 Beef: Effect of removing financing and travel restrictions on Cuban imports

Scenario	With restriction	Without restriction	Change
Lifting financing restrictions (scenario 1):			
Cuban imports for Cubans ($ million)	38.1	36.3 - 37.3	-1.8 - -0.8
Cuban imports for Tourists ($ million)	4.2	4.0 - 4.1	-0.2 - -0.1
Total Cuban imports ($ million)	42.3	40.4 - 41.4	-1.9 - -0.9
Total Cuban imports (1,000 MT)	18.3	18.8 - 19.4	0.5 - 1.1
U.S. share of Cuban imports (%)	0.2	13.2 - 25.0	13.0 - 24.8
Cuban imports from the United States ($ million)	0.1	5.5 - 10.1	5.4 - 10.0
Lifting travel restrictions (scenario 2):			
Cuban imports for Cubans ($ million)	38.1	38.3 - 38.6	0.2 - 0.5
Cuban imports for Tourists ($ million)	4.2	5.6 - 8.3	1.4 - 4.1
Total Cuban imports ($ million)	42.3	43.8 - 46.9	1.5 - 4.6
Total Cuban imports (1,000 MT)	18.3	18.9 - 20.3	0.7 - 2.0
U.S. share of Cuban imports (%)	0.2	2.6 - 7.1	2.4 - 6.9
Cuban imports from the United States ($ million)	0.1	1.2 - 3.3	1.1 - 3.2
Lifting financing and travel restrictions (scenario 3):			
Cuban imports for Cubans ($ million)	38.1	36.8 - 37.4	-1.3 - -0.6
Cuban imports for Tourists ($ million)	4.2	7.7 - 8.4	3.5 - 4.2
Total Cuban imports ($ million)	42.3	44.5 - 45.9	2.2 - 3.5
Total Cuban imports (1,000 MT)	18.3	20.8 - 21.4	2.6 - 3.1
U.S. share of Cuban imports (%)	0.2	19.4 - 29.2	19.2 - 29.1
Cuban imports from the United States ($ million)	0.1	8.9 - 13.0	8.8 - 12.9

Source: Commission estimates.

Note: Estimates of the effects of lifting financing restrictions are based on a price wedge (additional cost) of 5 - 10 percent. Estimates of the effects of lifting travel restrictions are based on tourist increases of 250,000 - 750,000.

[a]The changes in the value of imports reflect the total changes in the cost to Alimport. The removal of restrictions entails reductions in the costs of importing. When these cost reductions are greater than the increase in the value of additional imports the change is negative. This does not imply a decline in the returns or prices received by U.S. exporters.

annually.[88] Cuban pork consumption averaged 115,000 mt annually during the same period, compared with domestic production of 92,000 mt.[89] On average, imports accounted for about 20 percent of domestic pork consumption between 2000 and 2006. Pork is sold fresh at peso agricultural markets as well as in fresh and frozen forms in convertible peso markets.[90]

The United States is the second largest global exporter of pork; the EU is the largest. In 2006, total U.S. pork exports were valued at nearly $2.7 billion, accounting for 24 percent of global pork exports.[91] Other major competing exporters include Canada, Brazil, China, Chile, and Mexico. The largest markets for U.S. pork are Japan, Mexico, Canada, South Korea, and Russia. Cuba is a very small market for the United States, accounting for one-half of one percent of total shipments. A highly productive breeding herd and abundant supplies of relatively low cost feed ingredients (corn and soybean meal) help make the United States one of the most competitive pork producers in the world. Economies of scale in processing

[88] United Nations, Food and Agriculture Organization, *2006 Meat Market Assessment and Meat Statistics.*

[89] Cuban pork consumption increased sporadically from 98,000 mt to 124,000 during 2001–03 and from 118,000 mt to 123,000 mt during 2004–06. Cuban pork production ranged between a low of 90,000 mt in 2002 and a high of 98,000 mt in 2004, with the exception of 2001 when production dropped to 76,000 mt. United Nations, Food and Agriculture Organization, *2006 Meat Market Assessment and Meat Statistics.*

[90] Commission staff field visit, Havana, Cuba, June 12-14, 2007.

[91] Global Trade Atlas.

and an efficient marketing and distribution system also contribute to the competitiveness of U.S. pork in world markets.

Staff interviews with U.S. pork industry officials indicated that U.S. regulations on exports to Cuba cause inefficiencies that increase the cost of exporting pork to Cuba compared with other export destinations.[92] Officials noted that a more significant impediment to increased pork exports is the Cuban requirement that all sales with U.S. companies be negotiated through Alimport.[93] Industry officials also stated that U.S. regulations limit the willingness and ability of various shipping companies and port facilities to handle exports to Cuba. Consequently, pork exporters cannot use the most logistically and economically efficient ports to ship pork to Cuba.[94] The U.S. pork industry estimated that U.S. restrictions related to financing and travel result in approximately a 5 percent cost disadvantage relative to competitors in the Cuban market.

In 2006, Cuba imported $33.6 million of pork, with the United States accounting for $14.1 million or 42 percent (table 4.13).[95] The major competitors in the Cuban market are Canada and Chile, both of which have highly competitive pork producing and processing industries. However, Canadian pork exports to Cuba have fallen from $14 million annually in 2001 to approximately $11 million in 2006, possibly because of the recent appreciation of the Canadian dollar. Chilean pork exports to Cuba have steadily increased from $1 million in 2001 to more than 6 million in 2006.

The removal of financing restrictions (scenario 1) is likely to increase the value of Cuban purchases of U.S. pork by between $5.5 million and $9.5 million (table 4.13). The lifting of travel restrictions (scenario 2) is likely to have a smaller impact on U.S. exports of pork, an increase of $600,000 to $1.9 million, as most of those are destined for the Cuban population. Elimination of both financial and travel restrictions is likely to increase U.S. pork exports by between $7.3 million and $11.2 million.

Dairy[96]

The dairy industry, like many agricultural sectors in Cuba, has fallen on hard times. In the mid-1980s, milk production topped out at approximately 250 million gallons.[97] By 2005,

[92] Industry representative, interview with Commission staff, April 27, 2007.

[93] U.S. pork exporters find that the bid process is inconsistent and not based on market demand. U.S. pork exporters also believe that the inability to negotiate directly with Cimex, Cubalse, ITH, and the foreign companies that manage Cuban resort hotels puts them at a severe disadvantage relative to their competitors in accessing distribution channels that supply the Cuban tourism industry. Industry representative, interview with Commission staff, April 27, 2007.

[94] For example, having to ship pork through Florida ports adds approximately 2 cents per pound to U.S. exporters internal shipping costs. Market development is hindered by the disparate cost for shipping smaller, sample-sized shipments, which limits the ability to develop demand for U.S. product relative to competitors. Industry representative, interview with Commission staff, April 27, 2007.

[95] Based on unit values, most imported pork is lower-value product that is likely to be distributed to local processors or directly to local consumers. The unit value of some pork product imports suggests that some processed products are distributed to the tourist trade.

[96] Trade data for this section are based on HTS headings 0401-0406 (milk, cream, milk powder, yogurt, sour cream, buttermilk, curds, whey and whey protein concentrates, butter, dairy spreads, milk fats, and cheeses), 1702 (lactose), 2105 (ice cream), 3501 (milk protein concentrates and other caseins, and caseinates and other casein derivatives), subheading 1901.10 (infant formula) and subheading 3502.20 (milk albumin).

[97] *CubaNews*, "When it comes to sheer size, Camagüey leads the way."

Table 4.13 Pork: Effect of removing financing and travel restrictions on Cuban imports

Scenario	With restriction	Without restriction	Change[a]
Lifting financing restrictions (scenario 1):			
Cuban imports for Cubans ($ million)	26.9	25.7 - 26.3	-1.2 - -0.6
Cuban imports for Tourists ($ million)	6.7	6.4 - 6.6	-0.3 - -0.1
Total Cuban imports ($ million)	33.6	32.1 - 32.9	-1.5 - -0.7
Total Cuban imports (1,000 MT)	17.1	17.6 - 18.1	0.5 - 1.0
U.S. share of Cuban imports (%)	42.1	59.7 - 73.9	17.6 - 31.8
Cuban imports from the United States ($ million)	14.2	19.6 - 23.7	5.5 - 9.5
Lifting travel restrictions (scenario 2):			
Cuban imports for Cubans ($ million)	26.9	27.0 - 27.3	0.1 - 0.4
Cuban imports for Tourists ($ million)	6.7	8.1 - 10.8	1.4 - 4.1
Total Cuban imports ($ million)	33.6	35.1 - 38.1	1.5 - 4.4
Total Cuban imports (1,000 MT)	17.1	17.8 - 19.3	0.8 - 2.3
U.S. share of Cuban imports (%)	42.1	42.1	0.0
Cuban imports from the United States ($ million)	14.2	14.8 - 16.0	0.6 - 1.9
Lifting financing and travel restrictions (scenario 3):			
Cuban imports for Cubans ($ million)	26.9	26.0 - 26.4	-0.9 - -0.5
Cuban imports for Tourists ($ million)	6.7	10.1 - 10.9	3.3 - 4.1
Total Cuban imports ($ million)	33.6	36.1 - 37.3	2.4 - 3.7
Total Cuban imports (1,000 MT)	17.1	19.9 - 20.4	2.9 - 3.3
U.S. share of Cuban imports (%)	42.1	57.7 - 70.4	15.5 - 28.3
Cuban imports from the United States ($ million)	14.2	21.5 - 25.4	7.3 - 11.2

Source: Commission estimates.

Note: Estimates of the effects of lifting financing restrictions are based on a price wedge (additional cost) of 5 - 10 percent. Estimates of the effects of lifting travel restrictions are based on tourist increases of 250,000 - 750,000.

[a]The changes in the value of imports reflect the total changes in the cost to Alimport. The removal of restrictions entails reductions in the costs of importing. When these cost reductions are greater than the increase in the value of additional imports the change is negative. This does not imply a decline in the returns or prices received by U.S. exporters.

milk production had fallen to 113 million gallons produced by 380,000 dairy cows.[98] When Soviet support ended in the early 1990s, the Cuban government was unable to import cattle feed in large quantities, and grazing became a primary source of feed. Degraded grazing lands have became a serious problem, so that Cuba's milk production in 2006 was 0.8-1.8 gallons per cow per day,[99] compared to approximately 6.3 gallons per milking cow in the United States.[100] Some dairy processing facilities, such as the yogurt plant in Nuevitas (Camagüey province), are producing products from soybeans, owing to an inadequate supply of milk.[101]

The U.S. dairy industry remains a significant global exporter, particularly in non-fat dry milk (NDM), whey proteins, and lactose.[102] In 2006, the United States exported $1.7 billion in dairy exports, up more than 16 percent from 2005. Other significant dairy-exporting

[98] National Milk Producers Federation, written submission to the Commission, May 10, 2007. Data converted from pounds to gallons at 1 gallon = 8.62 lbs.

[99] International Centre for Sustainable Cities. *Enhancing Sustainable Dairy Production Capacity in Cuba: Final report to CIDA*, 4.

[100] U.S. Department of Agriculture, National Agricultural Statistical Service, *Milk Production, Disposition and Income: 2006 Summary*, 2. USDA data is converted from pounds at a conversion rate of 1 gallon of milk = 8.62 pounds.

[101] *CubaNews*, "When it comes to sheer size, Camagüey leads the way."

[102] U.S. Dairy Export Council, 2005 Annual Report, 18.

countries include the EU, New Zealand, and Australia in all export categories, and Argentina and Ukraine for cheese and milk powders. The United States is the fourth largest exporter of milk powder,[103] behind New Zealand, the EU, and Australia. The top five export markets for the United States in 2006, by quantity, were Mexico, Indonesia, Philippines, Malaysia, and Vietnam. Cuba's share of U.S. milk powder exports was only 2 percent of total milk powder exports in 2006, declining from a 6 percent share in 2004 and a 5 percent share in 2005. Since 2004, nearly all Cuban imports of U.S. dairy products have been shipments of NDM, with very limited purchases of lactose, cheese, concentrated milk, whey, and other milk products. From 2001–03, Cuba purchased almost no U.S. dairy products.[104] U.S. competitiveness in dairy products is based on the recent depreciation in the dollar relative to other currencies and highly efficient transportation and handling services. With its close proximity to Cuba, the United States has a natural advantage over global competitors for dairy sales.

Cuban imports of milk powder (NDM and whole milk powder) from the world totaled $128.0 million in 2006, while those of U.S. NDM were $12.6 million, for a 10 percent market share for the United States. Other suppliers of milk powders to the Cuban market include New Zealand (34 percent share), Uruguay (17 percent), Argentina (14 percent share), EU (13 percent), and Brazil (9 percent). The share of Cuba's consumption supplied by imports is difficult to calculate. Much of Cuba's milk production is consumed as fluid rather than processed into cheese, ice cream, and other dairy products. A significant share of Cuba's consumption of processed products is satisfied by imports, and nearly all dairy goods consumed in the tourist market (except perhaps fluid milk) are imported. Under the current system of food rationing in Cuba, the government tries to provide every child under seven years of age one liter of milk per day. But reportedly such rations are not always available.[105]

U.S. dairy exporters find that current U.S. regulations hamper U.S. sales of dairy products to Cuba. After the imposition of more restrictive regulations by OFAC in 2005, Dairy America, an association of nine U.S. dairy cooperatives, experienced lower sales of NDM to Cuba. The new regulations reportedly added an additional $3,000 in costs to each shipment of 1,000 mt, which, in Dairy America's view, may cause Alimport to seek other suppliers.[106]

Removing the current financial restrictions on U.S. agricultural exports to Cuba (scenario 1) is likely to increase Cuban purchases of U.S. milk powders, including NDM and whole milk powder, at the expense of global competitors (table 4.14). Increases in Cuban imports of milk powders from the United States under scenario 1 would range from $14.7 million to $41.8 million. Removing travel restrictions is also likely to increase Cuban purchases of U.S. milk powders by approximately $200,000 to $700,000 (scenario 2). Most of the Cuban demand for milk powders is among the local population (especially young children), rather than in the tourist sector, and the impact of additional tourists on imports of milk powders is

[103] The United States exports little whole milk powder. In 2006, 98 percent of U.S. exports of milk powder was NDM.

[104] There were zero purchases in 2001; butter, buttermilk and cheese purchases totaled $57,462 in 2002; and purchases of ice cream, lactose, whey, cream and milk fats totaled $256,125 in 2003. Data from Global Trade Atlas.

[105] Jones, Commission Hearing Transcript, 126; Messina, Commission Hearing Transcript, 130; and National Milk Producers Federation, written submission to the Commission, May 10, 2007.

[106] Letter from United States Engage to Reps. Bill Delahunt, Jo Ann Emerson Jeff Flake, and Jerry Moran, June 20, 2005.

Table 4.14 Milk powders: Effect of removing financing and travel restrictions on Cuban imports

Scenario	With restriction	Without restriction	Change[a]
Lifting financing restrictions (scenario 1):			
Cuban imports for Cubans ($ million)	125.5	118.7 - 123.2	-6.8 - -2.2
Cuban imports for Tourists ($ million)	2.6	2.4 - 2.5	-0.1 - 0.0
Total Cuban imports ($ million)	128.0	121.1 - 125.8	-6.9 - -2.3
Total Cuban imports (1,000 MT)	57.9	58.3 - 59.2	0.4 - 1.3
U.S. share of Cuban imports (%)	9.8	21.7 - 44.9	11.9 - 35.1
Cuban imports from the United States ($ million)	12.6	27.3 - 54.3	14.7 - 41.8
Lifting travel restrictions (scenario 2):			
Cuban imports for Cubans ($ million)	125.5	126.1 - 127.3	0.6 - 1.8
Cuban imports for Tourists ($ million)	2.6	2.9 - 3.6	0.3 - 1.0
Total Cuban imports ($ million)	128.0	129.0 - 130.8	0.9 - 2.8
Total Cuban imports (1,000 MT)	57.9	58.3 - 59.2	0.4 - 1.3
U.S. share of Cuban imports (%)	9.8	9.9 - 10.1	0.1 - 0.3
Cuban imports from the United States ($ million)	12.6	12.8 - 13.2	0.2 - 0.7
Lifting financing and travel restrictions (scenario 3):			
Cuban imports for Cubans ($ million)	125.5	120.3 - 123.8	-5.1 - -1.6
Cuban imports for Tourists ($ million)	2.6	3.4 - 3.6	0.8 - 1.1
Total Cuban imports ($ million)	128.0	123.7 - 127.4	-4.3 - -0.6
Total Cuban imports (1,000 MT)	57.9	59.1 - 60.5	1.2 - 2.6
U.S. share of Cuban imports (%)	9.8	21.8 - 44.4	12.0 - 34.6
Cuban imports from the United States ($ million)	12.6	27.8 - 54.9	15.3 - 42.4

Source: Commission estimates.

Note: Estimates of the effects of lifting financing restrictions are based on a price wedge (additional cost) of 2.5 - 7.5 percent. Estimates of the effects of lifting travel restrictions are based on tourist increases of 250,000 - 750,000.

[a]The changes in the value of imports reflect the total changes in the cost to Alimport. The removal of restrictions entails reductions in the costs of importing. When these cost reductions are greater than the increase in the value of additional imports the change is negative. This does not imply a decline in the returns or prices received by U.S. exporters.

relatively limited. Removing both sets of restrictions (scenario 3) would likely cause a significant increase in Cuban purchases of U.S. milk powders, ranging from $15.3 million to $42.4 million.

Removing the current financial restrictions on U.S. agricultural exports to Cuba (scenario 1) is also likely to increase Cuban purchases of other dairy products (excluding milk powders) from the United States at the expense of global competitors (table 4.15). Increases in Cuban imports of other dairy products from the United States under scenario 1 would range from $5.1 million to $9.7 million. Removing travel restrictions is also likely to increase Cuban purchases of other dairy products from the United States by approximately $200,000 to $700,000 (scenario 2). Removing both sets of restrictions (scenario 3) would likely cause a significant increase in Cuban purchases of other dairy products from the United States, ranging from $5.9 million to $10.4 million.

Table 4.15 Other dairy products: Effect of removing financing and travel restrictions on Cuban imports

Scenario	With restriction	Without restriction	Change[a]
Lifting financing restrictions (scenario 1):			
Cuban imports for Cubans ($ million)	14.5	13.9 - 14.2	-0.7 - -0.3
Cuban imports for Tourists ($ million)	4.8	4.6 - 4.7	-0.2 - -0.1
Total Cuban imports ($ million)	19.4	18.5 - 19.0	-0.9 - -0.4
Total Cuban imports (1,000 MT)	8.5	8.7 - 9.0	0.3 - 0.5
U.S. share of Cuban imports (%)	0.3	27.4 - 53.0	27.1 - 52.7
Cuban imports from the United States ($ million)	0.1	5.2 - 9.8	5.1 - 9.7
Lifting travel restrictions (scenario 2):			
Cuban imports for Cubans ($ million)	14.5	14.6 - 14.7	0.1 - 0.2
Cuban imports for Tourists ($ million)	4.8	5.3 - 6.4	0.5 - 1.5
Total Cuban imports ($ million)	19.4	19.9 - 21.1	0.6 - 1.7
Total Cuban imports (1,000 MT)	8.5	8.7 - 9.2	0.3 - 0.8
U.S. share of Cuban imports (%)	0.3	1.5 - 3.8	1.3 - 3.6
Cuban imports from the United States ($ million)	0.1	0.3 - 0.8	0.3 - 0.8
Lifting financing and travel restrictions (scenario 3):			
Cuban imports for Cubans ($ million)	14.5	14.0 - 14.3	-0.5 - -0.2
Cuban imports for Tourists ($ million)	4.8	6.0 - 6.3	1.1 - 1.5
Total Cuban imports ($ million)	19.4	20.0 - 20.6	0.7 - 1.3
Total Cuban imports (1,000 MT)	8.5	9.5 - 9.7	1.0 - 1.3
U.S. share of Cuban imports (%)	0.3	29.0 - 52.3	28.8 - 52.0
Cuban imports from the United States ($ million)	0.1	6.0 - 10.5	5.9 - 10.4

Source: Commission estimates.

Note: Estimates of the effects of lifting financing restrictions are based on a price wedge (additional cost) of 5 - 10 percent. Estimates of the effects of lifting travel restrictions are based on tourist increases of 250,000 - 750,000.

[a]The changes in the value of imports reflect the total changes in the cost to Alimport. The removal of restrictions entails reductions in the costs of importing. When these cost reductions are greater than the increase in the value of additional imports the change is negative. This does not imply a decline in the returns or prices received by U.S. exporters.

High-value Processed Foods and Beverages[107]

Domestic production of processed foods in Cuba consists of a wide variety of foods and beverages, including milk and meat products, confections, grain-based products, fruit and vegetable products, alcoholic beverages, water, tropical and citrus juice, soft drinks, and beer.[108] In recent years, the Cuban government has begun to close down inefficient sugar mills and replace them with food processing plants such as those for pastas, chocolate, candy, and soybean and corn processing.[109] Foreign joint ventures, particularly Canadian, Israeli, Spanish, and Swiss, are also important drivers of certain food and beverage processing in Cuba. Despite this presence, the poor state of Cuba's transportation infrastructure and, in some cases, quality issues currently constrain domestic processors. The tourism sector demands high quality products that are familiar to foreign tourists. In 1999,

[107] For purposes of this section, the term 'processed foods' refers to those that are found in chapters 19-22 of the HTS, including grain-based products such as cookies, crackers, bakery products, breakfast cereals, pasta and flour-based preparations; processed fruits, vegetables, and nuts; soups, sauces, and condiments; miscellaneous food preparations; and alcoholic and non-alcoholic beverages.

[108] Ross and Fernandez Mayo, "Cuba's 'New' Peso Food Chain: Linkages and Implications for U.S. Exporters."

[109] *CubaNews*, "Cuba plans further downsizing of sugar industry."

the latest data available, only 20 percent of Cuba's domestic production of processed foods was sold in dollar stores and tourist outlets.[110] It has also been estimated that Cuba's domestic food production accounts for only five to 10 percent of the tourism industry's food needs.[111] As a result, Cuba depends on imported processed foods and food preparations for its growing tourist industry.[112]

The United States is a leading producer and exporter of processed products. Although U.S. exports of processed foods and beverages typically represent a small portion of total U.S. production, exports have become an increasingly important component of sales. Most international trade in processed foods is among developed nations with high per-capita incomes such as Japan, the EU, and Canada. However, export growth is mainly in developing markets with rising middle class incomes and a growing awareness and taste for U.S. products.[113] Many exports of certain processed foods, particularly sauces, mayonnaise, condiments, and many beverages, generally consist of branded products aimed at the high end of the retail market. In 2006, Cuba imported $1.1 million in processed food from the United States, an increase of 21 percent over such imports in 2002.[114]

In 2006, Cuba imported $66 million in processed food from the world, an increase of 77 percent over such imports in 2001, and showed steady growth during 2001–06 in virtually all categories. These imports were of a wide variety of bulk food preparations as well as specialty items, such as prepared baby food, bakery items, and olives. The bulk of Cuban imported processed foods during 2001–06 was for miscellaneous food preparations,[115] wine, tomato paste, cookies, pasta, sauces and condiments, jams, breads, beer and nonalcoholic beverages, and was mainly supplied by the EU throughout the period. Many EU products are presumably for use in the hotel and restaurant industry in which European firms, primarily Spanish, have investments. Brazil, Guatemala, and Chile were also important suppliers to the Cuban market. The governments of many of these countries offer trade promotion programs, such as financing programs, export subsidies, or barter arrangements, to encourage trade with Cuba.[116] In contrast, the U.S. share of total Cuban imports of processed foods and beverages was very small, or 1.7 percent in 2006. U.S. exports of processed food products to Cuba fluctuated widely during this period,[117] and consisted

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[110] Ross and Fernandez Mayo, "Cuba's dollar food market and U.S. Exports," 380.

[111] U.S. Department of Agriculture, Foreign Agricultural Service, *Cuba: HRI Food Service Sector Report 2002*, 11.

[112] *CubaNews*, "Reality Check: Not all companies want to sell to Cuba."

[113] U.S. International Trade Commission, *Processed Foods and Beverages: A Description of Tariff and Non-tariff Barriers for Major Products and Their Impact on Trade*, 9-1-9-3.

[114] No imports of processed foods from the United States were recorded in 2001.

[115] These imports were entered under HTS 2106.90, under which various food preparations are classified, including dairy mixtures, alcoholic preparations, butter substitutes, syrups, gelatins, artificial sweeteners, and coffee whiteners.

[116] U.S. Department of Agriculture, Foreign Agricultural Service, *Cuba: HRI Food Service Sector Report 2002*, 1.

[117] Cuban imports of processed foods from the United States generally remained in the $1-2 million range, with the exception of 2003 and 2004 when $11.6 million and $10.0 million were imported, respectively. The jump in those years can be attributed to imports in one category, food preparations of cereals or dairy, entered under HTS 1901.90, under which various items are classified, including malt extracts, prepared puddings, dry mixtures, cajeta not made from cow's milk, and margarine cheese. These imports were valued at $9.0 million and $6.6 million in 2003 and 2004, respectively, while no exports in this category were shipped in any other year.

mainly of food preparations of cereals or dairy, tomato paste, protein concentrates, sauces and condiments, other food preparations,[118] and pasta.

The impact of U.S. restrictions on U.S. processed food companies has been mixed. One U.S. producer of alcoholic drink mixes reported success in exporting and growing its business to Cuba since 2002.[119] However, other food processing companies cited the complicated nature of U.S. law surrounding U.S. exports as a disincentive to doing business there.[120] Some other processed food companies' food exports have been hampered by restrictions on selling related food service dispensers and other equipment necessary for use with their products.[121] Others reported not being aware of the possibility of exporting their products to Cuba.[122] For some branded companies, the reluctance to export to Cuba stems from fear of alienating their customer base with strong views on Castro and his regime.

The removal of financing restrictions on U.S. agricultural exports to Cuba (scenario 1) is likely to increase Cuban purchases of U.S. processed food and beverages at the expense of global competitors. Increases in Cuban imports of processed foods from the United States under scenario 1 would range from $17.9 million to $33.8 million (table 4.16). This increase is likely because lower transportation costs, shorter shipping times, and the ability to fulfill quick turnaround orders would give U.S. processed food exporters a significant advantage over those from other countries.[123] Moreover, the high quality of U.S. food preparations is well known by buyers in the Cuban hotel and restaurant industry and Cuban citizens have historically favored U.S. branded food items.[124]

With the removal of travel restrictions to Cuba (scenario 2), U.S. processed food exports are likely to increase by $2.5 million to $7.6 million. This estimates that U.S. exports would garner 50 percent of Cuba's additional imports of high-valued processed foods. The removal of both sets of restrictions (scenario 3) would significantly increase U.S. exports of high-value processed foods to Cuba, by $25.9 million to $40.7 million.

Fish Products[125]

Cuba, despite being an island with a significant coastline, is a small producer of fish products, with annual production of about 9,000 mt, or well below one percent of the world's total.[126] Cuba has limited commercial fish-farm aquaculture, but does have an

[118] These imports were entered under HTS 2106.90, under which various food preparations are classified, including dairy mixtures, alcoholic preparations, butter substitutes, syrups, gelatins, artificial sweeteners, and coffee whiteners.

[119] *CubaNews*, "From strawberry daquiri mix to soymilk, Florida firm sees huge potential in Cuba."

[120] Ibid., "U.S. foodservice sector slow to export products to Cuba."

[121] Specific examples are pastry flour for making donuts and the equipment to form the donuts and concentrated juice mix and the dispenser to reconstitute it. *CubaNews*, "U.S. foodservice sector slow to export products to Cuba," and Commission staff interview with industry representatives, March 28, 2007.

[122] *CubaNews*, "U.S. foodservice sector slow to export products to Cuba."

[123] U.S. Department of Agriculture, Foreign Agricultural Service, *Cuba: HRI Food Service Sector Report 2002*, 4.

[124] Ross and Fernandez Mayo, "Cuba's dollar food market and U.S. Exports," 374.

[125] This section covers fish and fish products classified in chapter 3 and headings 1604 and 1605.

[126] United Nations, Food and Agriculture Organization, *FISHSTAT*.

Table 4.16 Processed foods and beverages: Effect of removing financing and travel restrictions on Cuban imports

Scenario	With restriction	Without restriction	Change[a]
Lifting financing restrictions (scenario 1):			
Cuban imports for Cubans ($ million)	49.5	48.1 - 48.9	-1.4 - -0.6
Cuban imports for Tourists ($ million)	16.5	16.0 - 16.3	-0.2 - -0.5
Total Cuban imports ($ million)	66.0	64.1 - 65.2	-1.8 - -0.8
U.S. share of Cuban imports (%)	1.7	29.1 - 54.5	27.4 - 52.8
Cuban imports from the United States ($ million)	1.1	19.0 - 35.0	17.9 - 33.8
Lifting travel restrictions (scenario 2):			
Cuban imports for Cubans ($ million)	49.5	49.7 - 50.2	0.2 - 0.7
Cuban imports for Tourists ($ million)	16.5	21.6 - 31.7	5.1 - 15.2
Total Cuban imports ($ million)	66.0	71.3 - 81.9	5.3 - 15.9
U.S. share of Cuban imports (%)	1.7	5.1 - 10.7	3.4 - 9.0
Cuban imports from the United States ($ million)	1.1	3.7 - 8.7	2.5 - 7.6
Lifting financing and travel restrictions (scenario 3):			
Cuban imports for Cubans ($ million)	49.5	48.8 - 49.1	-0.7 - -0.4
Cuban imports for Tourists ($ million)	16.5	29.7 - 32.3	13.2 - 15.8
Total Cuban imports ($ million)	66.0	78.5 - 81.5	12.5 - 15.5
U.S. share of Cuban imports (%)	1.7	33.1 - 53.3	31.4 - 51.6
Cuban imports from the United States ($ million)	1.1	27.0 - 41.8	25.9 - 40.7

Source: Commission estimates.

Note: Estimates of the effects of lifting financing restrictions are based on a price wedge (additional cost) of 5 - 10 percent. Estimates of the effects of lifting travel restrictions are based on tourist increases of 250,000 - 750,000.

[a]The changes in the value of imports reflect the total changes in the cost to Alimport. The removal of restrictions entails reductions in the costs of importing. When these cost reductions are greater than the increase in the value of additional imports the change is negative. This does not imply a decline in the returns or prices received by U.S. exporters.

abundant catch of wild shrimp and spiny lobster.[127] It has a limited processing infrastructure (e.g., for canning) and much fish harvested for local consumption is dried or otherwise cured for preservation, or consumed fresh locally.[128] It is a somewhat larger importer of fish products, with estimated 2006 imports of $25.8 million, also less than 1 percent of the world's total.[129] Cuba exports most of its domestic harvest, consisting largely of shrimp and other high-value crustaceans, mainly to the EU and Japan.[130] Imports supplied over 95 percent of apparent consumption of fish products in Cuba in 2004.[131]

The United States is the 6th largest producer of fish (aquaculture plus commercial catches), supplying 5.5 million mt (4 percent) of the world's production of 140.5 million mt in 2004, the latest available year.[132] It is also the 4th largest exporter, accounting for $3.6 billion (5 percent) of global exports of $71.5 billion in 2004. The EU is the largest market for U.S. exports, with 26 percent by value of total U.S. exports in 2006, followed by Japan

[127] Cuban government officials, interview by Commission staff, Havana, Cuba, June 13, 2007.

[128] Adams, "An Overview of the Cuban Commercial Fishing Industry and Implications to the Florida Seafood Industry of Renewed Trade," and Adams, "Recent Changes in Management Structure ans Strategies of the Cuban Fishing Industry."

[129] Global Trade Atlas.

[130] Global Trade Atlas and United Nations, Food and Agriculture Organization, *FISHSTAT*. See also, *DTCNews*, "Cuban Fishing Industry Reports Millions in Revenue," which reports high levels of lobster production and that "(Cuban spiny) lobsters are highly demanded in the European and Japanese markets."

[131] United Nations, Food and Agriculture Organization, *FISHSTAT*.

[132] Ibid.

(23 percent), Canada (18 percent), Korea (11 percent), and China (10 percent). Cuba is not currently an important market for U.S. exports, with less than one-tenth of one percent of the total. Important international competitive advantages held by the U.S. industry include a vast supply of fish resources along three coasts, and a reputation for high quality.

Cuban imports from the world in 2006 reached $25.8 million, of which the United States accounted for a negligible amount ($3,000), mainly frozen shrimp and frozen fish fillets. Chile has been Cuba's main source of imports in recent years, supplying the Cuban market with fish fillets (e.g., salmon and Jack mackerel) and other products, nearly all of which go to the tourist sector.[133] Spain and Argentina are smaller but still important suppliers of Cuba's seafood imports.

With the financing-related restrictions removed (scenario 1), U.S. exports of fish products to Cuba would likely rise by $7.7 million to $14.6 million (table 4.17). With the removal of travel restrictions to Cuba (scenario 2), U.S. fish products exports are likely to increase by $1.3 million to $3.8 million. Much of any increase in fish products exports to Cuba would likely be for the tourist trade, and could include high-value items such as shellfish (for example, shrimp and American lobster), canned fish and shellfish, and fresh fish fillets (exports of which are currently limited owing to the risk of shipment delays for highly perishable food products). This estimates that U.S. exports would garner 50 percent of Cuba's additional imports of fish products. The removal of both sets of restrictions (scenario 3) would significantly increase U.S. exports of fish products to Cuba, by $11.7 million to $18.1 million.

Forest Products

Like many developing countries, Cuban consumption of paper is very low, while its production is even smaller, such that imports account for about two-thirds of Cuban consumption.[134] Cuban wood products consumption is also very low.[135] Cuban lumber production is constrained by inadequate raw materials and obsolete infrastructure[136] and is mostly consumed in the production of shipping pallets.[137] There was no production of plywood or other wood panels in Cuba during the period.

[133] Cuban government officials, interview by Commission staff, Havana, Cuba, June 12, 2007.

[134] United Nations, Food and Agriculture Organization, *FAOSTAT*.

[135] Before cessation of Soviet subsidies and trade preferences, Cuban accounted for about half of all Caribbean of imports of wood products. Consumption collapsed in 1992 (with lumber and wood panels dropping 79 percent and almost 100 percent, respectively) and remains less than 40 percent of consumption prior to the collapse. Ross, "Factors Affecting the Potential Market in Cuba for Selected U.S. Forest Products," 104 and United Nations, Food and Agriculture Organization, *FAOSTAT*.

[136] Cuba has 94 relatively small sawmills with a total capacity of 230,000 cubic meters, roughly the same as one good size mill in the United States. Spelter and Alderman, *Profile 2005: Softwood Sawmills in the United States and Canada,* 1; "Institutional Strengthening of the Cuban Forest Service Project," CFAN, and Ross, "Factors Affecting the Potential Market in Cuba for Selected U.S. Forest Products," 107.

[137] In 2001, lumber production totaled 190,000 cubic meters. Production declined 23 percent in 2002 but recovered to 220,000 cubic meters in 2005, close to the Cuban industry's reported capacity. United Nations, Food and Agriculture Organization, *FAOSTAT*, and Luxner, "Florida Firm is First to Ship U.S. Lumber to Cuba Since 1958," 3.

Table 4.17 Fish products: Effect of removing financing and travel restrictions on Cuban imports

Scenario	With restriction	Without restriction	Change[a]
Lifting financing restrictions (scenario 1):			
Cuban imports for Cubans ($ million)	20.7	20.9 - 21.0	0.2 - 0.4
Cuban imports for Tourists ($ million)	5.2	5.2 - 5.3	0.1
Total Cuban imports ($ million)	25.8	26.1 - 26.3	0.3 - 0.4
U.S. share of Cuban imports (%)	0	29.6 - 55.8	29.6 - 55.7
Cuban imports from the United States ($ million)	0	7.7 - 14.6	7.7 - 14.6
Lifting travel restrictions (scenario 2):			
Cuban imports for Cubans ($ million)	20.7	20.8 - 20.9	0.1 - 0.3
Cuban imports for Tourists ($ million)	5.2	7.7 - 12.8	2.5 - 7.6
Total Cuban imports ($ million)	25.8	28.4 - 33.7	2.6 - 7.9
U.S. share of Cuban imports (%)	0	4.5 - 11.3	4.5 - 11.3
Cuban imports from the United States ($ million)	0	1.3 - 3.8	1.3 - 3.8
Lifting financing and travel restrictions (scenario 3):			
Cuban imports for Cubans ($ million)	20.7	21.0 - 21.3	0.3 - 0.6
Cuban imports for Tourists ($ million)	5.2	12.1 - 13.2	6.9 - 8.1
Total Cuban imports ($ million)	25.8	33.4 - 34.2	7.5 - 8.4
U.S. share of Cuban imports (%)	0	34.3 - 54.1	34.3 - 54.1
Cuban imports from the United States ($ million)	0	11.7 - 18.1	11.7 - 18.1

Source: Commission estimates.

Note: Estimates of the effects of lifting financing restrictions are based on a price wedge (additional cost) of 5 - 10 percent. Estimates of the effects of lifting travel restrictions are based on tourist increases of 250,000 - 750,000.

[a]The changes in the value of imports reflect the total changes in the cost to Alimport. The removal of restrictions entails reductions in the costs of importing. When these cost reductions are greater than the increase in the value of additional imports the change is negative. This does not imply a decline in the returns or prices received by U.S. exporters.

With abundant forest resources and a large forest products industry, the United States ranks among the top global exporters of both wood and paper products. Major markets include Canada, Japan, Mexico, and China, which collectively accounted for over 60 percent of U.S. wood products exports in 2006. In contrast, Cuba accounted for one tenth of one percent of U.S. wood products exports and ranked 47th among all markets in 2006.[138] Benefitting from low ocean freight rates and efficient service through Gulf Coast ports, U.S. mills (particularly those in the Southeast) are competitive in Cuba and other Caribbean markets.[139]

According to U.S. industry officials, travel restrictions and the costs and delays of obtaining a letter of credit are impediments to expanded wood products trade.[140] Travel (usually multiple trips) is necessary to sell treated wood products in Cuba, as producers often need to see specific end-use applications.[141] However, the size of the market and expected returns do not justify the administrative burden necessary to seek permission to travel.[142] For wood products, another restrictive aspect of export restrictions is that certain complementary products (e.g., roofing) are not on the list of eligible export items.[143] The 2005 OFAC rule

[138] In 2006, the United States was the fifth largest exporter of wood products behind Canada, the EU, China, and Russia. Global Trade Atlas.

[139] Industry official, e-mail to Commission staff, April 12, 2007. Industry official, interview with Commission staff, June 21, 2007.

[140] Ibid.

[141] Industry officials, e-mails to Commission staff, April 12, 2007 and May 3, 2007.

[142] Industry official, e-mail to Commission staff, April 12, 2007.

[143] Ibid., May 3, 2007.

change reportedly eliminated small- to medium-sized wood products firms from the Cuban market as only larger firms were able to offset the additional costs.[144] Delays of U.S. exports at the U.S. port occur because of the need to obtain a letter of credit, costing at least one U.S. wood products exporter $40,000 to $50,000 per export shipment for a delay of 10-15 days.[145]

In 2006, Cuban imports of forest products totaled $57.5 million, of which $33.6 million consisted of printing and writing paper, newsprint, and packaging papers, and $23.9 million of wood products.[146] In 2006, Cuba imported $9.7 million in forest products from the United States, accounting for 17 percent of Cuba's total forest product imports. Major competitors in the Cuban market were Canada (24 percent), the EU (22 percent), Brazil (14 percent), and China (8 percent). Among forest products, the United States supplied approximately 95 percent of Cuban imports of treated or untreated utility poles, which are not readily available from other countries.[147] Utility poles that Cuba had imported from Canada tended to degrade rapidly in the Caribbean climate unlike U.S. utility poles made of Southern Pine.[148] Reportedly, the extension of U.S. commercial credit for U.S. utility pole exports would allow a doubling of these exports.[149]

Based on the Commission's most likely estimates of direct and indirect costs of regulations and competitor response, the removal of financial restrictions (scenario 1) is likely to increase Cuban purchases of U.S. forest products at the expense of other suppliers. The increase in Cuban imports of U.S. forest products would range from $6 million to $17 million (table 4.18). The value of Cuba's total forest products imports would decrease slightly owing to price decreases resulting from unrestricted access by U.S. producers. Because Cuban demand for forest products is relatively price inelastic, increased demand is not expected to offset the impact of lower prices in the Cuban market. The impact of the removal of travel restrictions (scenario 2) would be much smaller because increased tourist travel is not expected to increase Cuban consumption of forest products very much in the near term. U.S. forest products exports to Cuba would increase by $100,000 to $300,000. Elimination of all restrictions (scenario 3) is likely to increase U.S. forest products from $6.2 million to $17.3 million.

[144] Ibid.

[145] U.S. industry official, interview with Commission staff, June 21, 2007.

[146] Global Trade Atlas.

[147] Shipments in this sector came principally from producers in Alabama. Cuban consumption of utility poles is being driven by replacement of aging or hurricane-damaged poles and the upgrade of Cuba's electricity grid. Luxner, "Ron Sparks: Cuba is Key Market for Alabama Farmers," 8, and industry official, telephone interview with Commission staff, May 3, 2007. Cuban government officials, interview with Commission staff, Havana, Cuba, June 13, 2007.

[148] Industry officials, interview with Commission staff, June 21, 2007.

[149] Ibid.

Table 4.18 Forest products: Effect of removing financing and travel restrictions on Cuban imports

Scenario	With restriction	Without restriction	Change[a]
Lifting financing restrictions (scenario 1):			
Cuban imports for Cubans ($ million)	56.9	53.8 - 55.9	-3.1 - -1.0
Cuban imports for Tourists ($ million)	0.6	0.5 - 0.6	0.0
Total Cuban imports ($ million)	57.5	54.4 - 56.4	-3.1 - -1.0
U.S. share of Cuban imports (%)	17.0	27.9 - 49.2	10.9 - 32.3
Cuban imports from the United States ($ million)	9.7	15.7 - 26.8	6.0 - 17.0
Lifting travel restrictions (scenario 2):			
Cuban imports for Cubans ($ million)	56.9	57.2 - 57.7	0.3 - 0.8
Cuban imports for Tourists ($ million)	0.6	0.9 - 1.6	0.3 - 1.0
Total Cuban imports ($ million)	57.5	58.1 - 59.3	0.6 - 1.8
U.S. share of Cuban imports (%)	17.0	17.0	0.0
Cuban imports from the United States ($ million)	9.7	9.8 - 10.1	0.1 - 0.3
Lifting financing and travel restrictions (scenario 3):			
Cuban imports for Cubans ($ million)	56.9	54.6 - 56.1	-2.3 - -0.7
Cuban imports for Tourists ($ million)	0.6	1.5 - 1.7	0.9 - 1.1
Total Cuban imports ($ million)	57.5	56.0 - 57.8	-1.4 - 0.3
U.S. share of Cuban imports (%)	17.0	27.6 - 48.3	10.7 - 31.3
Cuban imports from the United States ($ million)	9.7	16.0 - 27.0	6.2 - 17.3

Source: Commission estimates.

Note: Estimates of the effects of lifting financing restrictions are based on a price wedge (additional cost) of 2.5 - 7.5 percent. Estimates of the effects of lifting travel restrictions are based on tourist increases of 250,000 - 750,000.

[a]The changes in the value of imports reflect the total changes in the cost to Alimport. The removal of restrictions entails reductions in the costs of importing. When these cost reductions are greater than the increase in the value of additional imports the change is negative. This does not imply a decline in the returns or prices received by U.S. exporters.

Other Food Products[150]

This sector contains is a diverse group of agricultural and food products not elsewhere included in the other commodity sectors. The majority of Cuban imports of these products are tropical products that the United States does not generally export: coffee and tea; cocoa beans and cocoa products; spices; and sugar. However, this sector does include products of importance to U.S. exporters, particularly fresh fruits and vegetables (potatoes, apples, and fresh vegetables), cotton, seeds for planting, live animals, and animal genetics.

Cuban fruit and vegetable production has grown significantly over time. In particular, the Cuban citrus industry has been bolstered by the presence of an Israeli foreign joint venture that markets Cuban exports to Europe.[151] Cuba is the second leading grapefruit juice producer in the world (following the United States) and an important exporter of fresh Valencia oranges.[152] In 2005, citrus exports of $100 million were Cuba's second leading

[150] This sector includes all other food and agricultural products not elsewhere covered within HS chapters 01, 04, 05, 06, 07 (except dry beans and peas (HS 0713), 08, 09, 12 (except soybeans), 13-14, 17-18, 24, 33, 35, 40-41, and 51-53. Three-quarters of Cuban imports in this category, valued at $57 million in 2006, consisted of coffee, fresh potatoes, sugar, chocolate and cocoa, and spices.

[151] BM Group of Israel has a 50 percent stake in one citrus processing plant, and provides financing for the domestic Cuban crop. *CubaNews*, "Citrus Crop Recovers from Last Year's Distasters."

[152] U.S. Department of Agriculture, Foreign Agricultural Service, *Caribbean Basin Hurricane Dennis' Impact on Cuba Agriculture 2005,* 4-5.

agricultural export behind tobacco.[153] In crop year 2005/06, Cuba grew 156,000 tons of grapefruit and 342,000 tons of Valencia oranges: about 80 percent was processed into citrus juice in five plants in Cuba; 5 percent exported fresh and/or sold to the tourism/convertible peso market; and the remaining 15 percent sold fresh to Cubans. Cuba has a large organic gardening and small farmer fresh vegetable and fruit sector, some products of which are sold in hard currency tourist hotels and restaurants through a marketing entity operated by the Ministry of Agriculture.[154] Cuban production of tropical yams, plantain, and sweet and white potatoes is abundant.[155]

Joint venture hotels and restaurants can experience problems with delivery of Cuban fresh produce as trucking and refrigeration are often lacking within Cuba.[156] Fresh fruits and vegetables are an important item in Cuban tourist restaurants: about 9 percent of a leading Cuban restaurant chain's purchases of imported food consisted of fresh fruits and vegetable imports.[157]

In 2006, Cuba imported $57 million of these other products; three-quarters of the total consisted of coffee, fresh potatoes, sugar, chocolate and cocoa, and spices. In 2006, the United States exported $2 million (4 percent) of these products. Cuban imports of fresh fruits and vegetables amounted to $16 million in 2006, $1.3 million supplied by the United States. The leading Cuban imports of fruit and vegetables from all countries were potatoes (64 percent) and apples (7); the United States supplied chiefly apples, almonds, and table grapes.

Cuba has imported 30,000 to 36,000 mt of seed potatoes annually for planting.[158] The EU exported about two-thirds of Cuba seed potato imports, with the remainder coming from Canada.[159] In addition to the seed potato needs, Cuba imports small amounts of fresh table potatoes when its domestic potato crop is low, according to the Maine Potato Growers. Cuba has imported seed potatoes to upgrade and improve its domestic potato production which has been declining over the past six years. In the case of fresh table potatoes, Cuban phytosanitary officials have been unable to inspect Maine potato fields and cultural practices, which has prohibited the fulfillment of a $6–$9 million fresh potato contract with Alimport.[160]

The United States is both an importer and exporter of fresh fruits and vegetables as well as one of the world's leading producers. The United States tends to import winter vegetables, and tropical fruit (such as bananas), and export temperate products like apples, pears, and edible nuts (almonds). U.S. exports of fresh fruits and vegetables amounted to $9 billion in 2006, with Canada, the EU, Japan, Mexico, China, and Korea being the largest markets. Cuba was an insignificant market for U.S. fresh fruits and vegetables with purchases of $1 million in 2006. In 2003, in the Eastern Caribbean market (not including Cuba), the United States supplied 38 percent of Eastern Caribbean imports of fresh vegetables of

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[153] About 90 percent as juice and the remainder as fresh fruit. *CubaNews*, "Citrus Crop Recovers from Last Year's Distasters."

[154] Ross and Fernandez Mayo, "Cuba's dollar food market and U.S. Exports," 14. In 2007 there were about 200,000 Cubans with urban gardens. Clausen, "Worms, Cows, and Sugarcane Cuba Heals its Soil," 49.

[155] United Nations, Food and Agriculture Organization, *FAOStat*.

[156] Industry representative, interview with Commission staff, May 4, 2007.

[157] Ross and Fernandez Mayo, "Cuba's dollar food market and U.S. Exports," 23.

[158] Joseph Lallande, Maine Potato Growers, Inc., written submission to the Commission, May 7, 2007.

[159] United Nations, Food and Agriculture Organization, *FAOStat*.

[160] Maine Potato Growers, Inc., written submission to the Commission, May 4, 2007.

$44 million, and 58 percent of the region's imports of fresh fruits and nuts of $25 million, according to USDA.[161]

There were no U.S. exports to Cuba of potatoes, tomatoes, lettuce, peppers or onions during 2001–06. U.S. exports to Cuba included apples and table grapes, which can be refrigerated for months without spoilage. U.S. exporters of more perishable fresh vegetables will not assume the risk posed by port delays owing to OFAC regulations. The States of Maine, Idaho, and North Dakota have been unable to export fresh potatoes to Cuba because of the travel restriction on Cuban phytosanitary officials traveling to those States.[162]

Removing the financing restrictions (scenario 1)[163] is likely to increase the value of Cuban purchases of other U.S. products by $34.3 million to $65 million above the $5 million of U.S. exports to Cuba in 2006 (table 4.19). Removal of travel restrictions to Cuba (scenario 2) would increase U.S. fresh produce exports by $1 million to $3.1 million above their 2006 level. Elimination of both the trade and travel restrictions (scenario 3) is likely to increase U.S. fresh produce exports by $37.6 million to $67.8 million.

[161] These fresh produce exports go to feed the 2 million tourists visiting the Eastern Caribbean, and to supply cruise ships docking at these countries. U.S. Department of Agriculture, Foreign Agricultural Service, *Caribbean Basin HRI Food Service Sector: Eastern Caribbean Region Report 2007*, 13.

[162] Joseph Lallande, Maine Potato Growers, Inc., statement to the Commission, May 7, 2007; Will Weissert, "North Dakota pushes potatoes in Cuba."

[163] For scenarios 1 and 3, it is assumed that Cuban officials would not be denied visas for travel to the United States to meet with U.S. phytosanitary officials, which has been a significant barrier to trade for this category of products. In addition, port delays owing to OFAC regulations, which are currently an important impediment to exports of perishable produce, are assumed to be removed in scenarios 1 and 3.

Table 4.19 Other products: Effect of removing financing and travel restrictions on Cuban imports

Scenario	With restriction	Without restriction	Change[a]
Lifting financing restrictions (scenario 1):			
Cuban imports for Cubans ($ million)	134.8	125.0 - 130.0	-9.8 - -4.8
Cuban imports for Tourists ($ million)	7.1	6.6 - 6.8	-0.5 - -0.3
Total Cuban imports ($ million)	141.9	131.5 - 136.8	-10.4 - -5.1
U.S. share of Cuban imports (%)	3.4	28.6 - 53.1	25.2 - 49.7
Cuban imports from the United States ($ million)	4.9	39.2 - 69.9	34.3 - 65.0
Lifting travel restrictions (scenario 2):			
Cuban imports for Cubans ($ million)	134.8	135.4 - 136.7	0.6 - 1.9
Cuban imports for Tourists ($ million)	7.1	9.1 - 13.2	2.0 - 6.1
Total Cuban imports ($ million)	141.9	144.6 - 149.9	2.7 - 8.0
U.S. share of Cuban imports (%)	3.4	4.1 - 5.3	0.7 - 1.9
Cuban imports from the United States ($ million)	4.9	5.9 - 8.0	1.0 - 3.1
Lifting financing and travel restrictions (scenario 3):			
Cuban imports for Cubans ($ million)	134.8	126.7 - 130.6	-8.1 - -4.2
Cuban imports for Tourists ($ million)	7.1	12.0 - 13.3	4.9 - 6.2
Total Cuban imports ($ million)	141.9	138.7 - 143.8	-3.2 - 2.0
U.S. share of Cuban imports (%)	3.4	29.5 - 52.4	26.1 - 49.0
Cuban imports from the United States ($ million)	4.9	42.4 - 72.7	37.6 - 67.8

Source: Commission estimates.

Note: Estimates of the effects of lifting financing restrictions are based on a price wedge (additional cost) of 5 - 10 percent. Estimates of the effects of lifting travel restrictions are based on tourist increases of 250,000 - 750,000.

[a]The changes in the value of imports reflect the total changes in the cost to Alimport. The removal of restrictions entails reductions in the costs of importing. When these cost reductions are greater than the increase in the value of additional imports the change is negative. This does not imply a decline in the returns or prices received by U.S. exporters.

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APPENDIX A
Request Letters

United States Senate

COMMITTEE ON FINANCE
WASHINGTON, DC 20510–6200

#009
Rec'd ER on 3/16/07

March 16, 2007

DOCKET NUMBER 2533
Office of the Secretary
Int'l Trade Commission

The Honorable Daniel Pearson
Chairman
U.S. International Trade Commission
500 E Street, S.W.
Washington, DC 20436

Dear Chairman Pearson:

In order to gain a better understanding of the economic effects on U.S. agricultural sales to Cuba of statutory and administrative restrictions related to trade with and travel to Cuba by American citizens, I request, pursuant to section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)), that the Commission institute an investigation and provide a report that provides an overview of recent and current trends in Cuban purchases of agricultural, fish and forestry products, including from the United States, and an analysis of U.S. restrictions affecting such purchases, including restrictions on U.S. citizen travel to Cuba.

To the extent possible, the report should include the following:

- an overview of Cuba's purchases of agricultural, fish and forestry products, from, to the extent possible, 2000 to the present, including identification of major supplying countries, products, and market segments;
- an analysis of the effects that U.S. restrictions, including those relating to export financing terms and travel to Cuba by U.S. citizens, may have had or currently have on Cuban purchases of U.S. agricultural, fish, and forestry products, and,
- a qualitative and, to the extent possible, quantitative estimate of U.S. sales of agricultural, fish and forestry products to Cuba, in the event that: (i) statutory, regulatory, or other restrictions affecting agricultural exports are removed, (ii) statutory, regulatory, or other restrictions on travel to Cuba by U.S. citizens are lifted, and, (iii) statutory, regulatory, or other restrictions affecting agricultural exports are removed and statutory, regulatory or other restrictions on travel to Cuba by U.S. citizens are lifted.

The Commission should provide its completed report no later than June 29, 2007. As we intend to make the report available to the public, we request that it not contain confidential business information.

Sincerely,

Max Baucus

Max Baucus

United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510–6200

June 18, 2007

The Honorable Daniel Pearson
Chairman
U.S. International Trade Commission
500 E Street, S.W.
Washington, DC 20436

Dear Chairman Pearson,

In order to gain a better understanding of the economic effects on U.S. agricultural sales to Cuba of statutory and administrative restrictions related to trade with and travel to Cuba by American citizens, I requested, pursuant to section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)), that the Commission institute an investigation and provide a report that provides an analysis of the effect of U.S. restrictions on U.S. agricultural exports to Cuba. I also asked that the Commission provide its report to the Committee no later than June 29, 2007.

It has come to my attention that the visas necessary for Commission staff to travel to Cuba to conduct research have only just been issued by the Cuban government and that additional time is necessary to incorporate the findings of the travel into the report. Therefore, I request that the Commission provide its completed report no later than July 12, 2007.

Sincerely,

Max Baucus

APPENDIX B
Federal Register Notices

INTERNATIONAL TRADE COMMISSION

[Investigation No. 332-489]

U.S. Agricultural Sales to Cuba: Certain Economic Effects of U.S. Restrictions

AGENCY: United States International Trade Commission.

ACTION: Institution of investigation and scheduling of public hearing.

SUMMARY: Following receipt of a request on March 16, 2007, from the Committee on Finance of the United States Senate (Committee), the Commission instituted investigation No. 332-489, U.S. Agricultural Sales to Cuba: Certain Economic Effects of U.S. Restrictions, under section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)).

DATES:
March 30, 2007: Date of institution.
April 24, 2007: Deadline for filing requests to appear at the public hearing.
April 26, 2007: Deadline for filing prehearing briefs and statements.
May 1, 2007, 9:30 a.m.: Public hearing.
May 8, 2007: Deadline for written statements, including any post-hearing briefs.
June 29, 2007: Transmittal of report to the Committee on Finance.

ADDRESSES: All Commission offices, including the Commission's hearing rooms, are located in the United States International Trade Commission Building, 500 E Street, SW., Washington, DC. All written submissions, including requests to appear at the hearing, statements, and briefs, should be addressed to the Secretary, United States International Trade Commission, 500 E Street, SW., Washington, DC 20436. The public record for this investigation may be viewed on the Commission's electronic docket (EDIS) at http://edis.usitc.gov.

FOR FURTHER INFORMATION CONTACT:
Industry-specific information may be obtained from John Reeder, Project Leaders (202-205-3319; john.reeder@usitc.gov), or Joanna Bonarriva, Project Leaders (202-205-3312; joanna.bonarriva@usitc.gov), Office of Industries, United States International Trade Commission, Washington, DC 20436. For information on the legal aspects of this investigation, contact William Gearhart of the Office of the General Counsel (202-205-3091; william.gearhart@usitc.gov). The media should contact Margaret O'Laughlin, Public Affairs Office (202-205-1819; margaret.olaughlin@usitc.gov). Hearing impaired individuals are advised that information on this matter can be obtained by contacting the TDD terminal on (202-205-1810). General information concerning the Commission may also be obtained by accessing its Internet server (http://www.usitc.gov). Persons with mobility impairments who will need special assistance in gaining access to the Commission should contact the Office of the Secretary at 202-205-2000.

SUPPLEMENTARY INFORMATION: As requested by the Committee, the Commission will conduct an investigation and provide a report that contains, to the extent possible, the following information::

- An overview of Cuba's purchases of agricultural, fish and forestry products from, to the extend possible, 2000 to the present, including identification of major supplying countries, products, and market segments;
- An analysis of the effects that U.S. restrictions, including those relating to export financing terms and travel to Cuba by U.S. citizens, may have had or currently have on Cuban purchases of U.S. agricultural, fish, and forestry products; and,
- A qualitative and, to the extent possible, quantitative estimate of U.S. sales of agricultural, fish and forestry products to Cuba, in the event that: (i) Statutory, regulatory, or other restrictions affecting agricultural exports are removed, (ii) statutory, regulatory, or other restrictions on travel to Cuba by U.S. citizens are lifted, and, (iii) statutory, regulatory, or other restrictions affecting agricultural exports are removed and statutory, regulatory or other restrictions on travel to Cuba by U.S. citizens are lifted.

As requested, the Commission will transmit its report to the Committee by June 29, 2007.

Public Hearing: A public hearing in connection with the investigation is scheduled to be held at the U.S. International Trade Commission Building, 500 E Street, SW., Washington, DC beginning at 9:30 a.m. on May 1, 2007. All persons shall have the right to appear, by counsel or in person, to present information and to be heard. Requests to appear at the public hearing should be filed with the Secretary, United States International Trade Commission, 500 E Street, SW., Washington, DC 20436, no later than 5:15 p.m., April 24, 2007. Any prehearing briefs (original and 14 copies) should be filed not later than 5:15 p.m., April 26, 2007. The deadlines for filing post-hearing briefs or statements is 5:15 p.m., May 9, 2007. In the event that, as of the close of business on April 24, 2007, no witnesses are scheduled to appear at the hearing, the hearing will be canceled. Any persons interested in attending the hearing as an observer or non-participant may call the Secretary (202–205–2000) after April 24, 2007, to determine whether the hearing will be held.

Written Statements: In lieu of or in addition to participating in the hearing, interested persons are invited to submit written statements concerning the investigation. All submissions should be addressed to Secretary, United States International Trade Commission, 500 E Street, SW., Washington, DC 20436, and should be received no later than the close of business on May 8, 2007. All written submissions must conform with the provisions of section 201.8 of the Commission's Rules of Practice and Procedure (19 CFR 201.8). Section 201.8 of the rules requires that a signed original (or a copy designated as an original) and fourteen (14) copies of each document be filed. In the event that confidential treatment of the document is requested, at least four (4) additional copies must be filed, in which the confidential information must be deleted (see the following paragraph for further information regarding confidential business information). The Commission's rules do not authorize filing submissions with the Secretary by facsimile or electronic means, except as permitted by section 201.8 of the Commission's Rules (19 CFR 201.8) (see Handbook for Electronic Filing Procedures, *http://www.usitc.gov/secretary/fed_reg_notices/rules/documents/handbook_on_electronic_filing.pdf*.

Any submissions that contain confidential business information must also conform with the requirements of section 201.6 of the Commission's Rules of Practice and Procedure (19 CFR 201.6). Section 201.6 of the rules requires that the cover of the document and the individual pages be clearly marked as to whether they are the "confidential" or "non-confidential" version, and that the confidential business information

be clearly identified by means of brackets. All written submissions, except for confidential business information, will be made available in the Office of the Secretary to the Commission for inspection by interested parties. The Committee has asked that the report that the Commission transmits not contain any confidential business information. Any confidential business information received by the Commission in this investigation and used in preparing the report will not be published in a manner that would reveal the operations of the firm supplying the information.

By order of the Commission.
Issued: April 2, 2007.

Marilyn R. Abbott,
Secretary to the Commission.

[FR Doc. E7–6409 Filed 4–4–07; 8:45 am]

BILLING CODE 7020-02-P

INTERNATIONAL TRADE COMMISSION

[Investigation No. 332-489]

U.S. Agricultural Sales to Cuba: Certain Economic Effects of U.S. Restrictions

AGENCY: United States International Trade Commission.

ACTION: Extension of date for transmitting report.

SUMMARY: Following receipt of a letter on June 18, 2007, from the Committee on Finance of the United States Senate (Committee), the Commission has extended to July 12, 2007, the date for transmitting its report to the Committee in investigation No. 332-489, *U.S. Agricultural Sales to Cuba: Certain Economic Effects of U.S. Restrictions*.

DATES: June 18, 2007: Receipt of letter from the Committee. July 12, 2007: New date for transmitting the Commission's report to the Committee.

Background: The Committee's letter dated June 18, 2007 and received on June 18, 2007, notes that Commission staff recently received visas to travel to Cuba and notes that the Commission will need additional time to incorporate any new information obtained during the travel into its report. To facilitate the incorporation of new information, the Committee has extended the transmittal date for the report to July 12, 2007.

The Commission published notice of institution of the investigation in the **Federal Register on** April 15, 2007 (72 FR 16817). The notice is also available on the Commission Web site at http://www.usitc.gov. All other information about the investigation, including a description of the subject matter to be addressed, contact information, and Commission addresses, remains the same as in the original notice. The public record for this investigation may be viewed on the Commission's electronic docket (EDIS) at http://www.usitc.gov/secretary/edis.htm.

Issued: June 25, 2007.

By order of the Commission.

Marilyn R. Abbott,
Secretary to the Commission.

[FR Doc. E7–12657 Filed 6–28–07; 8:45 am]

BILLING CODE 7020-02-P

APPENDIX C
Hearing Witnesses

As of April 30, 2007 @ 3:00 p.m.

TENTATIVE CALENDAR OF PUBLIC HEARING

Those listed below are scheduled to appear as witnesses at the United States International Trade Commission's hearing:

Subject: U.S. Agricultural Sales to Cuba: Certain Economic Effects of U.S. Restrictions

Inv. No.: 332-489

Date and Time: May 1, 2007 - 9:30 a.m.

Sessions will be held in connection with this investigation in the Main Hearing Room (room 101), 500 E Street, S.W., Washington, D.C.

STATE GOVERNMENT WITNESSES:

The Honorable Roger Johnson, North Dakota Agriculture Commissioner

ORGANIZATION AND WITNESS:	**TIME ALLOCATION:**
U.S.-Cuba Trade and Economic Council, Inc. New York, NY	10 minutes
John S. Kavulich, Senior Policy Advisor	
Port Authority of Corpus Christi Corpus Christi, TX	10 minutes
Ruben Bonilla, Jr., Chairman, The Port Commission	
University of Florida Institute of Food and Agricultural Sciences ("IFAS") Gainesville, FL	10 minutes
William A. Messina, Jr., Professor	

ORGANIZATION AND WITNESS:	TIME ALLOCATION:
American Society of Travel Agents Alexandra, VA **Paul Ruden**, Senior Vice President of Legal and Industry Affairs **Melissa Teates**, Director of Research	10 minutes
North American Export Grain Association Washington, D.C. **Gary C. Martin**, President and CEO	10 minutes
U.S.-Cuba Trade Association Washington, D.C. **Kirby Jones**, President	10 minutes
USA Rice Federation Arlington, VA **Bill J. Reed**, Vice President, Public Affairs, Riceland Foods, Inc.	10 minutes

-END-

APPENDIX D
Summary of Views of Interested Parties

Roger Johnson, North Dakota Agriculture Commissioner
North Dakota Department of Agriculture[1]

In his testimony, Commissioner Roger Johnson stated that North Dakota has exported $32 million in agricultural products to Cuba since 2002, including dry edible beans, green and yellow peas, lentils, wheat, semolina flour, and pasta.[2] To facilitate Cuban trade, in November 2005 the Commissioner signed a memorandum with Alimport resulting in $11 million in sales and an expected additional $9 million by the end of 2007.

The Commissioner indicated North Dakota agriculture will not be fully competitive in the Cuban market, despite natural logistical competitive advantages, without normalized trade relations. Commissioner Johnson cited licensing, documentation, and "cash only" sales as issues that have affected North Dakota producers negatively. All shipments destined for Cuba without all embargo-required documents are stopped in Florida, often the result of government delays. Further, if a product misses the weekly ship to Cuba from Florida, the product must wait until the following week, jeopardizing product quality. According to the Commissioner, the "cash in advance" requirement has created a number of inefficiencies, characterized by sales of small volumes, the absence of long-term contracts, unnecessarily high transportation costs due to the lack of back hauling, and exchange rate losses.

The Commissioner suggested that establishing normalized trade relations with Cuba would benefit North Dakota and U.S. agriculture by a conservative estimate of a 30 percent increase in U.S. trade. In addition to streamlined documentation requirements and elimination of "cash in advance" sales, the Commissioner indicates that he supports direct banking transfers, a lifting of travel restrictions, the extension of trade beyond food and medicine, a biotech research exchange, and holding Cuba to the same sanitary and phytosanitary standards as the rest of the world trading community. According to the Commissioner, these changes in policy would lead to expansion of higher-value, higher-quality exports to Cuba and the ability to compete with foreign countries for the Cuban market.

John S. Kavulich, Senior Policy Advisor
U.S.-Cuba Trade and Economic Council[3]

Mr. Kavulich of the U.S.-Cuba Trade and Economic Council referenced several issues with respect to the Cuban government that impair U.S. exports.[4] He said that the Ministry of Foreign Trade initiated a policy in 2003 in which Alimport decreased or suspended purchases from U.S. companies, depending on how actively members of Congress, state officials, and organizations were perceived to be lobbying the U.S. government for changes

[1] Roger Johnson, commissioner, North Dakota Department of Agriculture, written submission and hearing transcript, 6-13.

[2] Agriculture is the largest sector in the North Dakota economy, generating $4.7 billion in cash receipts in 2006, $3.9 billion in exports, and leading the Nation in production of 14 commodity categories.

[3] John S. Kavulich, senior policy advisor, U.S.-Cuba Trade and Economic Council, hearing transcript, 13-22.

[4] The Council provides the United States business community with information and analysis on matters and issues of interest regarding commercial, economic, and political relations between the United States and Cuba.

in laws and regulations. According to Mr. Kavulich, the Cuban government also repeatedly defaults on payment for foreign imports. He also stated that Cuban government price controls purposefully limit the purchasing ability of consumers.

Mr. Kavulich said that policy changes needed to improve trade between the two countries would require Cuban reform, and not reform in the United States. Mr. Kavulich testified that limited investment in tourism infrastructure under the Cuban government has left Havana and the country incapable of handling the influx of tourists. Given minimum-standard hotel accommodations and the fact that most cruise ship tourists are being accommodated onboard their vessels, he testified that a significant increase in demand for high value, high-quality U.S. products is unlikely. The "cash only" sales provision in U.S. law is warranted, in his opinion, due to concerns of U.S. firms that a Cuban default would likely erode support for improved trade normalization. Further, according to Mr. Kavulich, regulations limiting exports to agricultural food products and health care products have not been substantially limiting.

Mr. Kavulich said that the Commission's analysis in this investigation should include three scenarios regarding the Cuban Government regime. The first scenario should be based on the existing Cuban commercial, economic, and political institutions. The second should involve a Cuban government transitioning towards freer institutions. The third scenario should be a completely transitioned Cuban Government. Mr. Kavulich stated that the regime under which Cuban consumers are subject has direct and important impacts on the effect of the lifting of sanctions.

Ruben Bonilla, Jr., Chairman of the Port Commission Port Authority of Corpus Christi, Texas[5]

In his statement, Mr. Bonilla, Jr. said that the Port Authority of Corpus Christi has exported 100,000 metric tons of food products to Cuba since June 2003 as part of an agreement with Alimport to expand trade relations between the two entities for these and other commodities.[6] The Port Authority is actively pursuing similar export contracts for additional agricultural commodities and is involved in the signing of contracts between multiple States and Alimport.[7]

He cited concerns regarding U.S. restrictions on travel and direct banking, and the limitations on exportable products. He said Alimport pledged a doubling of exports through Corpus Christi, but that U.S. restrictions have prevented that from happening. He also said that current travel regulations prevent U.S. ports from effectively conducting business with Cuba most of the year, and that regulations on direct financial transfers to U.S. exporters can prevent shipment loading prior to receiving the cash transfer. He also indicated that if a cash

[5] Ruben Bonilla, Jr., chairman of the Port Commission, Port Authority of Corpus Christi, Texas, written submission and hearing transcript, 46-54.

[6] The Port of Corpus Christi is the sixth-largest port in the United States by tonnage.

[7] These contract cover or tentatively cover wheat, beans, dairy products, pork, rice, processed foods, lumber and fresh fruit

transfer is delayed and the vessel is at port, the costs to the importer can be $15,000 per day per vessel.

Mr. Bonilla reported that the president of Alimport stated that a lifting of restrictions on U.S. food and agricultural exports to Cuba could equate to $5 billion in sales over the next five years. As such, Mr. Bonilla recommended five reforms to U.S. restrictions: (1) general business travel license provisions, (2) unrestricted travel for port authorities, (3) direct financial transfers to U.S. banks by Alimport, (4) the reduction of restrictions on rail cars and energy, and (5) the extension of visas to Alimport officials. He also indicted that U.S. travel restrictions for port officials should at a minimum mirror those restrictions in place for U.S. export shippers, and the license should be valid for 12 months with authorization to travel as frequently as necessary to conduct business.

William A. Messina, Jr., Agricultural Economist University of Florida Institute of Food and Agricultural Sciences[8]

Mr. Messina cited Cuban credit risk and the U.S. "cash only" sales provision, travel restrictions, and general distrust as potential factors limiting trade. He said the Cuban market is widely recognized as a very risky market in which to conduct credit sales and other financial transactions. According to Mr. Messina, some large firms may be willing to take on this credit risk, which is currently minimized through the "cash only" sales provision, to increase exports. Conversely, he could also envision a situation where exports would decrease without "cash only" sales as firms would be unwilling to assume such a high risk.

Mr. Messina suggested that the lifting of U.S. travel restrictions could increase tourism and family visitations and remittances. An influx of tourists could increase demand for new hotels and restaurants, driving demand for high-quality, high-value U.S. agricultural products. Mr. Messina added that the lifting of travel restrictions will increase the frequency of family visits and remittances. Much of the remittance would likely be used for food consumption, increasing demand for U.S. agricultural products. In addition, Mr. Messina testified that simple distrust between the United States and Cuba is a powerful disincentive to engage in commercial trading. He noted that he and his University of Florida colleagues found that open U.S.-Cuba trade and commercial relations could create an additional $1 billion in U.S. agricultural exports and $700 million in agricultural inputs.[9]

[8] William A. Messina, Jr., agricultural economist, University of Florida Institute for Food and Agricultural Sciences, Texas, written submission and hearing transcript, 54-64.

[9] University of Florida faculty have conducted 15 years of collaborative work with faculty at the University of Havana on U.S.- Cuban trade relations. This collaboration has permitted unprecedented access to writings and expertise of Cuban economists and scientists, Cuban data, and first hand observation of farms and markets as Cuban agriculture has been transformed.

Bill J. Reed, Vice President, Public Affairs
USA Rice Federation[10]

Mr. Reed testified that the U.S. rice industry is export dependent, shipping approximately one-half of its production of 6.4 million metric tons abroad annually.[11] He indicated that since the United States lifted its ban on agricultural exports to Cuba in 2000, U.S. rice exports to Cuba have totaled 630,000 tons. Prior to the embargo in 1962, Cuba was the largest export market for U.S. rice and is predicted to reach that status again if U.S.-Cuban trade relations are normalized, according to Mr. Reed.

In his testimony, Mr. Reed indicated that without normalized trade relations, the U.S. rice industry will not reach its potential in competing with other countries in the Cuban market despite competitive advantages and higher quality. Mr. Reed referenced the "cash only" sales provision and the restriction on direct wire transfers as key hindrances to U.S. agricultural exports to Cuba. These restrictions have prevented the United States from being a "reliable" supplier to the Cuban market.

Mr. Reed suggested that all economic sanctions and restrictions regarding Cuba should be removed. He testified that the TSRA legislation passed in 2000 to improve trade has been "impeded by unnecessary and unjustified regulatory action" by the current Administration with the purpose of restricting trade and travel with Cuba. He estimated that the United States would supply nearly all Cuban rice imports, currently averaging 550,000-600,000 tons annually, and make Cuba the second-largest rice export market if the U.S. government were to remove all restrictions.

Gary C. Martin, President and CEO
North American Export Grain Association[12]

Mr. Martin cited licensing procedures for agricultural exports and the"cash only" payment provision as NAEGA's primary concerns under the Trade Sanctions Reform and Export Enhancement Act of 2000.[13] Mr. Martin indicated that the U.S. government approval process for licenses is inconsistent and appears to take longer for agricultural exports to Cuba. Concerning "cash only" payment provision, Mr. Martin testified that U.S. government actions have created a climate of commercial uncertainty. In 2005, the Department of Treasury froze Cuban payments to U.S. exporters to review the terms of those payments. Mr. Martin noted the freeze included contracts from prior to the change in interpretation of the "cash only" provision, damaging certain U.S. interests. Mr. Martin added that the

[10] Bill J. Reed, vice president of public affairs, USA Rice Federation, written submission and hearing transcript, 83-89.

[11] The USA Rice Federation is a national organization of rice producers, millers, merchants, exporters, and related industries that promote the U.S. rice industry.

[12] Gary C. Martin, president and CEO, North American Export Grain Association, written submission and hearing transcript, 67-74.

[13] The North American Export Grain Association (NAEGA) promotes and sustains the development of commercial grain and oilseed exports and represents a majority of U.S. exports of grains, oilseeds, and related products. With regard to Cuba, NAEGA is primarily interested in maintaining contract integrity and providing for optimal terms of trade under U.S. regulations.

Department of Treasury's 2005 definition of "financing" under the "cash only" provision is unreasonable.

Mr. Martin recommended that the U.S. government improve licensing procedures and clarify "payment of cash in advance" in order to better participate in market opportunities available to U.S. industries in Cuba. He suggested that the Commerce Department provide greater consistency in the length of the approval process for licenses and improve the overall time it takes for approvals to occur. Mr. Martin also noted clarification is needed for definition of "payment of cash in advance" in addition to approval for direct financial transfers from Cuban to U.S. banks. He also expressed the need for expanded and more predictable business travel for industry representatives to Cuba.

James Summer, President USA Poultry and Egg Export Council[14]

In his submission, Mr. Summer stated that U.S. poultry is one of the largest U.S. export commodities to Cuba.[15] However, exports of U.S. poultry have had small or negative growth and eggs are no longer exported to Cuba in recent years due to U.S. restrictions and regulations on trade.

Mr. Summer identified restrictions on sales, transactional financing, and travel as having a significant detrimental effect on U.S. poultry and egg exports to Cuba. He stated that special licenses, needed for doing business in Cuba, require going through a cumbersome, time-consuming, and opaque application system that can take months to gain approval. The industry perceives the approval process as discouraging and designed to deny approval whenever possible. The prohibition on direct financial transactions leads to unnecessary transactional costs that could accrue to as much as $7,300 for a standard shipment of chicken. He also indicated that travel restrictions have limited the number of tourists visiting Cuba and resulted in limited demand for high value products in the Cuban services industry. Additionally, the travel restrictions have limited the ability of Cuban health officials and technicians to visit the United States to participate in meaningful dialogue with U.S. counterparts to minimize misunderstandings that can cause unnecessary delays and disruptions in trade. Mr. Summer noted that the lack of both air and ocean transportation, the prohibition on currency exchange, and other requirements for doing business that would normally be taken for granted are either limited or extremely costly in Cuba.

Mr. Summer strongly recommended that restrictions on engaging in trade with Cuba, including restrictions on business and tourist travel, and financial transactions, be removed. The removal of these restrictions, according to Mr. Summer, would allow the U.S. poultry and egg industry to take advantage of its proximity to Cuba and competitively compete with foreign countries in the Cuban market.

[14] James Summer, president, USA Poultry and Egg Export Council, written submission.

[15] The USA Poultry and Egg Export Council (USAPEEC) is a nonprofit organization dedicated to increasing exports of U.S. poultry and egg food products. The Council accounts for more than 90 percent of U.S. poultry and egg exports and includes most domestic production and processing companies.

Richard Ostlie, President
American Soybean Association[16]

Mr. Ostlie of the American Soybean Association indicated that the Cuban market for soybeans, soybean meal and soybean oil imports totaled $91 million of U.S. product in 2006, up from $40 million in 2002.[17] He listed four hindrances to soy exports into Cuba: (1) payment of cash in advance, (2) third party banking, (3) licensing rules, and (4) the lack of government assistance. The requirement of "cash in advance," according to Mr. Ostlie, caused delays and complications to U.S. export shipments, forcing Cuba to look elsewhere for alternative suppliers. The prohibition on direct financial transfers causes unnecessary delays and added costs, he said. There is no guarantee that licenses–which are necessary for selling goods to Cuba–would be granted, and the time and resources needed to apply have been burdensome, especially on small businesses and farmers. He also mentioned that U.S. agricultural cooperators and affiliates are unable to use government assistance for their exports to Cuba. Programs such as the USDA Market Access Program, Foreign Market Development and industry checkoff funds, used regularly for market development abroad, are not available for marketing to the Cuban market.

Mr. Ostlie recommended the lifting of restrictions on "cash in advance," third party banking, licensing rules, and government payments. He noted these restrictions impede the economic growth of both Cuba and U.S. soybean producers, and cited a U.S. Soybean Export Council report that found lifting all U.S. restrictions on Cuba could result in approximately $1 billion in U.S. sales of agricultural and food products to Cuba annually.

Joseph G. Lallande, President and CEO
Maine Potato Growers[18]

Mr. Lallande of the Maine Potato Growers (MPG) wrote that Cuba offers a large and untapped potential export market for seed potatoes and tablestock potatoes.[19] He indicated that Alimport signed a letter of intent to purchase both seed and table potatoes from MPG, but the parties have been unable to successfully complete the transaction due to U.S. restrictions.

Mr. Lallande cited concerns regarding travel restrictions for both U.S. businesses and Cuban government officials, the revised "payment in cash" provision, and the prohibition on direct financial transfers. Mr. Lallande said that the cumbersome travel restrictions make business travel, which is essential for doing business, extremely difficult. These travel restrictions prevent Cuban plant health inspectors from visiting U.S. sites to determine if U.S. agricultural practices pose any threat to the Cuban potato industry. Additionally, Mr. Lallande noted that the "cash only" sales provision and restriction on direct transfer of funds

[16] Richard Ostlie, president, American Soybean Association, written submission.

[17] The American Soybean Association is primarily focused on policy development and implementation and represents 27,000 soybean producers in the United States.

[18] Joseph Lallande, president and CEO, Maine Potato Growers, Inc., written submission.

[19] Maine Potato Growers, Inc. (MPG) is an agricultural marketing and supply cooperative serving the needs of northern Maine potato growers with 400 active member growers and 125 full-time associates.

from Cuban to U.S. banks places the United States at a competitive disadvantage with other foreign suppliers of the Cuban market.

Mr. Lallande stated that he hoped the U.S. government would begin more liberal commercial relations with Cuba. He said further that the lifting of travel restrictions, the "cash only" sales provision, and the direct financial transfers restriction would help MPG to sell its products to Alimport. He projected the potential export opportunity for his organization in Cuba at between $6.6 million and $9.0 million.

Kirby Jones, President U.S.-Cuba Trade Association[20]

In his submission, Mr. Jones of the U.S.-Cuba Trade Association (USCTA) said that the current Administration has taken action to stifle agricultural exports to Cuba despite Congress' attempt to open agricultural trade in the Trade Sanctions Reform and Export Enhancement Act of 2000.[21] He described these actions as including: (1) redefining "payment in advance," (2) freezing Cuban payments for U.S. products for investigations without any given reason, (3) threatening to investigate U.S. operations of foreign banks unless the banks terminate Cuban operations, (4) prohibiting U.S. firms from using the Netherlands-Caribbean Bank, a bank used by many U.S. firms exporting to Cuba, (5) permitting only one Cuban visit to each U.S. port annually, and (6) intimidating U.S. firms by not granting permission to travel to Cuba. Mr. Jones added that these and other actions taken by the Administration have led Cuban government officials to conclude that they are not willing to take the risk of further increasing purchases from the United States. Mr. Jones disagreed with claims made that Alimport purchases products based on political reasons. He said that Alimport's purchasing decisions are based primarily on price and other normal business criteria.

Mr. Jones said that Congress should enact HR 1026, which would allow direct banking for agricultural sales, allow a general license for travel, and redefine payment in advance to mean payment before goods change title. He also said that Congress should ensure that the Administration seek congressional approval for any action which would impact Congressional legislation. Mr. Jones added that Congress should remove all restrictions on U.S. citizens traveling to Cuba by passing HR 654 and S 721. According to Mr. Jones, Alimport officials have said that if the current restrictions were removed Cuba would purchase $850 million of U.S. agricultural products annually, giving U.S. exporters a 50 percent share of total Cuban agricultural product imports.

[20] Kirby Jones, president, U.S.-Cuba Trade Association, written submission and hearing transcript, 74-82.

[21] The USCTA is comprised of 55 member companies and organizations which support full commercial relations between Cuba and the United States. Mr. Jones, president of USCTA, has been involved in U.S.-Cuba relations for 33 years and many of the agricultural sales contract negotiations with Cuba over the past five years.

Ron Sparks, Alabama Agricultural Commissioner State of Alabama Department of Agriculture and Industries[22]

Commissioner Sparks wrote that Alabama agricultural exports to Cuba totaled $140 million in 2006 and had a $400 million economic impact on the State. He said that Alabama agriculture, the State's largest industry, is a major exporter of poultry, utility poles, lumber, grains, and soybeans to Cuba. In his testimony, he expressed concern with restrictions on U.S. businesses that hinder the United States from effectively competing in the Cuban marketplace. He also expressed concern that Alabama agriculture will not be able to export products competitively into the Cuban market under current conditions. The Commissioner stated that both houses of the Alabama legislature overwhelmingly passed a resolution urging Alabama's congressional delegation as well as other U.S. government leaders to end the embargo and remove all travel restrictions against Cuba.

Larry Sitzman, Executive Director Nebraska Pork Producers[23]

Mr. Sitzman said that the Nebraska pork industry has benefitted from exports to Cuba over the past two years. Nebraska exported pork, along with wheat, dry edible beans, poultry, soybeans, corn, and beef to Cuba, totaling $60 million. Mr. Sitzman expressed concern that the restriction on direct financing has disadvantaged Nebraska pork producers and processors in the Cuban market. He said that the requirement to handle financial transactions through a foreign, third-country bank adds additional fees to the final cost of pork. This, in turn, lowers the competitiveness of U.S. pork compared to other foreign pork suppliers in the Cuban market and decreases the profitability of U.S. pork processors and producers. He said that the restriction on direct financing should be altered in order to level the playing field for Nebraska pork producers with foreign counterparts.

Ignacio E. Sanchez, DLA Piper U.S. LLP Partner General Cigar Company, Inc.[24]

Mr. Sanchez, a representative for General Cigar Company, Inc., said that the company's Cuban operations, including assets and intellectual property, were confiscated by the Cuban government under the Castro regime.[25] He indicated that the Cuban state-owned companies, Cubatabaco and Corporacion Habanos, possess in Cuba and other foreign countries title to trademark registrations for long-established Cuban cigar brands, including ones owned by General Cigar in the United States.

He said that General Cigar is concerned with the unfair trade scenario that would result if

[22] Ron Sparks, commissioner, Alabama Department of Agriculture and Industries, written submission.

[23] Larry Sitzman, executive director, Nebraska Pork Producers, written submission.

[24] Ignacio E. Sanchez, General Cigar Company, Inc., written submission.

[25] General Cigar is a 100-year old company that distributes its product primarily throughout the United States from tobacco grown in Dominican Republic and Honduras and manufactured in Dominican Republic.

any trade liberalization with Cuba, achieved in advance of fully normalized trade relations, permits the importation of Cuban products. Specifically, General Cigar is concerned that a joint venture between a Spanish company, Altadis S.A., and Corporacion Habanos, will create a monopoly in the U.S. market for distribution of Cuban cigars and result in the illegal use and derivation of profits from the confiscated trademarks, factories, and other production assets confiscated by the Cuban government and belonging to General Cigar in the United States.

Mr. Sanchez recommended that the Commission undertake a review of U.S. trade laws to determine the Commission's relevance to and potential effectiveness in addressing these anti-competitive conditions. Further, he suggested that Congress should grant the Commission the appropriate powers needed to address the future challenges that may arise from a change in U.S.-Cuba relations to prevent irreparable injury to the U.S. cigar market.

Shawna Morris, Director of Government Affairs and Trade U.S. Dairy Export Council and National Milk Producers Federation[26]

Ms. Morris said that the Cuban market is beneficial to the U.S. dairy industry (accounting for $30 million of U.S. exports in 2005), but U.S. restrictions have caused a substantial decrease in 2006 exports. She said the National Milk Producers Federation (NMPF) and U.S. Dairy Export Council (USDEC) was concerned about the reinterpretation of the permissible payment terms by the Department of Treasury in 2005.[27] According to Ms. Morris, this reinterpretation has increased both the time and costs involved in exporting agricultural products to Cuba and has had a significant effect on the attractiveness of U.S. dairy exports to Cuban buyers.

Ms. Morris said that NMPF and USDEC are hopeful for completely normalized trade relations with Cuba. She said that it was the belief of both MMPF and USDEC that the reinterpretation of the payment provision by the Department of Treasury violates the intent of Congress in facilitating agricultural export opportunities in Cuba. As such, she recommended that the interpretation in place prior to late 2004 be restored.

[26] Shawna Morris, director of government relations and trade, U.S. Dairy Export Council and the National Milk Producers Federation, written submission.

[27] The USDEC and NMPF combined represent the interests of dairy farmers, dairy cooperative marketing associations, propriety processors, and export traders.

Royce Schaneman, Executive Director
Nebraska Wheat Board[28]

Mr. Schaneman said that Nebraska wheat producers have benefitted from the recent trade relationship with Cuba, and that Nebraska wheat producers have secured 175,000 metric tons of hard red winter wheat sales to Cuba.

He stated that suppliers have expressed frustration regarding the restrictions on direct financial transfers and the "cash only" provisions that have limited the ability of the wheat industry to export. Prohibiting direct financial transfers to U.S. banks increases the total cost of delivered commodities to Cuba, and this can result in either reduced profits for the U.S. industry or lost sales contracts to foreign competitors. In addition, Mr. Schaneman said that the requirement to perform all transactions on a "cash only" basis has caused contract completion delays and opportunities for processing errors which negatively impact the profitability of exporting companies.

Mr. Schaneman said changes to these U.S. financial provisions are necessary to provide a level playing field for U.S. wheat exporters by granting U.S. exporters the same access to the Cuban market as their foreign competitors.

John Thaemert, President of the National Association of Wheat Growers
Leonard Schock, Chairman of U.S. Wheat Associates[29]

Mr. Thaemert and Mr. Schock wrote that U.S. wheat growers export approximately 50 percent of their annual wheat crop to all countries. They said that Cuba is the largest import market for wheat and wheat products in the Caribbean, and provides a significant export potential for U.S. wheat growers. They said that U.S. wheat exports are the third largest agricultural export to Cuba by value for the 2001 to 2006 period and the largest in marketing year 2006.

They expressed concern over the prohibition on direct financial transfers, travel restrictions, and lack of access to USDA commercial loan programs in Cuba. They stated that the prohibition on direct financial transfers has increased the cost of buying U.S. wheat and added an excessive and unnecessary administrative burden on Alimport. Travel restrictions, according to Mr. Thaemert and Mr. Schock, have made doing business in Cuba very difficult, while most of the U.S. wheat industry's competition is easily able to travel to Cuba, as needed to conduct business. They also mentioned that access to the USDA commercial loan programs would help in exporting to Cuba, but would be insufficient due to the administrative burdens that exist for the previous reasons.

[28] Royce Schaneman, executive director, Nebraska Wheat Board, written submission.

[29] John Thaemert and Leonard Schock, National Association of Wheat Growers and U.S. Wheat Associates, written submission.

Mr. Thaemert and Mr. Schock repeated the position of the U.S. wheat industry, calling for normalized trade relations with Cuba and the lifting of travel restrictions to and from Cuba. Specifically, they recommended overturning the February 2005 regulation changes regarding the transfer of funds between Alimport and U.S. exporters, which have had a substantial effect on the ability of U.S. wheat producers to export. They cited a U.S. Wheat Associates estimate that the current restrictions on trade and travel have cost the U.S. wheat industry at a minimum $40 million annually in lost sales to the Cuban market.

Paul Ruden, Senior Vice President of Legal and Industry Affairs
American Society of Travel Agents[30]

Mr. Ruden said that his testimony was for the limited purpose of expressing the results of an American Society of Travel Agents (ASTA) estimation of the impact of lifting the current U.S. travel restrictions to Cuba.[31] Mr. Ruden indicated that the ASTA estimates an increase of 1.8 million visits by U.S. citizens to Cuba by 2010 if the United States lifted its travel restrictions in 2008. Specifically, there would be an increase of 835,000 recreational visits by air, 481,000 cruise ship visitors, and 482,000 family visitors. He said that this estimate assumed a three-year build-up as flights are added and U.S. citizens become familiarized with Cuban travel options. Mr. Ruden also said that estimates are based on the travel patterns of Canadians to Cuba and the Dominican Republic and Americans to the Dominican Republic, along with the expected growth rates in tourism for Cuba and the Dominican Republic.

[30] Paul Ruden, Senior Vice President of Legal and Industry Affairs, written submission and hearing transcript, 64-67.

[31] The American Society of Travel Agents (ASTA) is a worldwide professional travel trade organization with 26,000 members in 170 countries. The ASTA promotes and represents the views and interests of travel agents and its core principle is that travel restrictions should not be used as an instrument of government policy.

APPENDIX E
Statistical Tables

Table E.1 Cuban imports of wheat and meslin and flour, 2000–06

Reporting country	2000	2001	2002	2003	2004	2005	2006
	US Dollars (1,000)						
EU	116,433	129,740	104,681	106,537	37,938	42,163	57,363
United States	0	0	22,789	36,736	58,038	52,019	54,059
Canada	16,250	14,909	3,350	16	1,948	28,068	17,259
Argentina	4	0	([a])	([a])	9,720	12,155	6,834
Mexico	119	575	672	2,892	3,095	7,313	73
Brazil	3	11	4	0	0	0	13
China	0	0	0		9	0	8
Other	25	1,391	2,214	51	31	12	3
Reporting total	132,834	146,627	133,709	146,233	110,779	141,731	135,612
	Quantity (1,000 metric tons)						
EU	910	859	596	582	140	180	264
United States	0	0	176	245	353	328	301
Canada	128	109	17	([a])	11	174	99
Argentina	([a])	0	0	0	61	99	38
Mexico	([a])	([a])	([a])	13	10	29	([a])
Brazil	([a])	([a])	([a])	0	0	0	0
China	0	0	0	0	0	0	0
Other	([a])	13	23	([a])	([a])	([a])	([a])
Reporting total	1,038	983	814	840	575	809	703

Source: Compiled from Global Trade Atlas. Accessed May 15, 2007.

Note: Due to rounding, numbers may not add to total.

Table E.2 Cuban imports of corn, 2000–06

Reporting country	2000	2001	2002	2003	2004	2005	2006
	US Dollars (1,000)						
United States	0	2,327	22,739	35,571	57,501	54,914	42,624
Argentina	0	9,495	27	7	3,148	9,182	17,069
Mexico	43	26	21	18	([a])	92	98
Brazil	0	1,339	0	0	0	0	0
Canada	5,409	0	1,805	0	0	0	0
China	2,500	0	4,999	0	0	0	0
EU	0	0	6	0	0	0	0
Reporting total	7,951	13,187	29,598	35,596	610,649	64,188	59,790
	Quantity (1,000 metric tons)						
United States	0	25	225	330	484	509	381
Argentina	0	111	([a])	([a])	26	103	126
Mexico	([a])	([a])	([a])	([a])	0	([a])	([a])
Brazil	0	16	0	0	0	0	0
Canada	39	0	2	0	0	0	0
China	26	0	50	0	0	0	0
EU	0	0	([a])	0	0	0	0
Reporting total	65	152	277	330	510	612	507

Source: Compiled from Global Trade Atlas. Accessed May 15, 2007.

Note: Due to rounding, numbers may not add to total.

[a]Less than 500.

Table E.3 Cuban imports of rice, 2000–06

Reporting country	2000	2001	2002	2003	2004	2005	2006
	US Dollars (1,000)						
United States	26	0	6,266	10,778	64,048	39,204	39,542
Thailand	23	0	0	0	2,832	0	7,495
Brazil	0	0	0	0	0	0	3,632
EU	60	36	289	45	104	1,435	577
Mexico	([a])	12	19	23	7	55	4
Canada	0	12	([a])	1	1	([a])	([a])
China	38,809	29,649	39,975	0	0	0	0
Argentina	9	0	39	0	16	([a])	0
Belize	0	111	0	0	0	0	0
Russia	0	3	0	0	0	([a])	0
St. Vincent & the Grenadines	0	6	0	0	0	0	0
Guyana	0	0	0	0	0	97	0
Turkey	0	0	0	0	0	([a])	0
Uruguay	0	0	0	0	0	228	0
Reporting total	38,926	29,827	46,589	10,847	67,007	41,019	51,250[b]
	Quantity (*1,000 metric tons*)						
United States	([a])	0	55	88	177	154	158
Thailand	([a])	0	0	0	14	0	26
Brazil	0	0	0	0	0	0	13
EU	([a])	([a])	1	([a])	([a])	4	1
Mexico	0	([a])	([a])	([a])	([a])	([a])	0
Canada	0	([a])	0	([a])	([a])	([a])	0
China	226	196	217	0	0	0	0
Argentina	([a])	0	([a])	0	([a])	0	0
Belize	0	([a])	0	0	0	0	0
Russia	0	([a])	0	0	0	0	0
St. Vincent & the Grenadines	0	([a])	0	0	0	0	0
Guyana	0	0	0	0	0	([a])	0
Turkey	0	0	0	0	0	0	0
Uruguay	0	0	0	0	0	1	0
Reporting total	226	196	273	88	191	159	199[b]

Source: Compiled from Global Trade Atlas. Accessed May 15, 2007.

Note: Due to rounding, numbers may not add to total.

[a]Less than 500.

[b]The reported total does not include rice from Vietnam. In 2005/06, there were a reported 500,000 metric tons of rice imported from Vietnam which the Commission estimates had a value of about $115 million. The fob price of the Vietnamese rice was estimated at $230 per metric ton, based on $15 per ton above the lowest priced Thai export rice during 2005/06. Source: *Cuba News*, December 2006, 13; and USDA, ERS, *Rice Outlook*, June 12, 2007, table 6.

Table E.4 Cuban imports of animal feed, 2000–06

Reporting country	2000	2001	2002	2003	2004	2005	2006
	US dollars (1,000)						
United States	0	0	19,281	25,884	36,094	23,857	42,308
Mexico	2,819	5,234	2,227	2,411	1,287	7,725	7,115
Argentina	28,248	19,243	2,387	0	13,284	0	4,230
Canada	309	54	274	30	333	732	1,090
Ecuador	0	0	0	0	381	158	479
Guatemala	0	0	0	0	0	45	386
EU	744	1,171	1,209	890	426	136	342
China	1,296	2,186	2,450	1,688	0	0	23
Costa Rica	([a])	6	13	0	0	0	0
Brazil	64	42	0	0	0	17,375	0
Jamaica	0	0	1,425	557	549	0	0
Reporting total	33,480	27,938	29,267	31,459	52,353	50,029	55,972

Source: Compiled from Global Trade Atlas. Accessed May 15, 2007.

Note: Due to rounding, numbers may not add to total.

[a]Less than 500.

Table E.5 Cuban imports of soybeans, 2000–06

Reporting country	2000	2001	2002	2003	2004	2005	2006
	US dollars (1,000)						
United States	0	0	20,922	34,475	27,933	32,723	31,742
Brazil	2,788	6,006	800	46	0	7,756	105
Canada	659	575	2,789	0	0	0	24
Mexico	([a])	([a])	([a])	0	0	0	1
Argentina	0	0	0	0	12,502	0	0
Reporting total	3,448	6,581	24,511	34,521	40,435	40,479	31,871
	Quantity (1,000 metric tons)						
United States	0	0	110	134	85	121	130
Brazil	8	29	2	([a])	0	31	([a])
Canada	2	2	15	0	0	0	([a])
Mexico	0	0	([a])	0	0	0	0
Argentina	0	0	0	0	44	0	0
Reporting total	10	31	127	134	129	151	131

Source: Compiled from Global Trade Atlas. Accessed May 15, 2007.

Note: Due to rounding, numbers may not add to total.

[a]Less than 500.

Table E.6 Cuban imports of fats and oils, 2000–06

Reporting country	2000	2001	2002	2003	2004	2005	2006
	US dollars (1,000)						
United States	0	0	22,022	51,519	23,765	27,732	22,312
Brazil	8,614	17,760	4,186	3,167	12,295	21,168	8,119
Mexico	5,494	1,760	2,685	716	2,692	6,683	3,210
Canada	649	2,398	1,165	528	606	856	1,887
EU	7,962	3,866	5,147	5,205	1,677	1,694	1,572
Argentina	10,151	4,380	3,468	6,148	13,640	24,766	1,094
Malaysia	0	132	152	139	700	543	279
Guatemala	0	0	205	378	260	150	217
Ecuador	0	0	0	0	69	266	141
China	0	55	0	12	33	108	17
All other	67	443	1	100	38	72	116
Reporting total	32,937	30,794	39,029	67,924	55,791	84,037	38,964

Source: Compiled from Global Trade Atlas. Accessed May 15, 2007.

Note: Due to rounding, numbers may not add to total.

Table E.7 Cuban imports of dry beans, 2000–06

Reporting country	2000	2001	2002	2003	2004	2005	2006
	US dollars (1,000)						
China	26,495	24,271	33,890	41,456	23,759	42,505	35,933
United States	0	0	58	1,184	8,395	11,669	19,910
Argentina	288	80	160	143	4,240	611	13,124
Canada	7,827	14,313	17,297	6,510	27,553	6,868	9,603
Mexico	271	71	39	([a])	171	1,137	347
Brazil	0	0	0	0	0	0	148
EU	378	586	643	5,425	208	65	37
Belize	0	6	0	0	0	0	0
Russia	0	0	0	0	0	([a])	0
Singapore	0	0	0	([a])	0	0	0
Turkey	0	0	0	0	0	([a])	0
Reporting total	35,259	39,327	52,087	54,718	64,327	62,854	79,103
	Quantity (1,000 metric tons)						
China	68	80	106	129	75	129	92
United States	0	0	1	3	30	52	68
Argentina	1	([a])	([a])	([a])	10	1	28
Canada	47	71	79	22	107	24	56
Mexico	([a])	([a])	([a])	0	([a])	2	([a])
Brazil	0	0	0	0	0	0	([a])
EU	([a])	1	1	21	([a])	([a])	([a])
Belize	0	([a])	0	0	0	0	0
Russia	0	0	0	0	0	0	0
Singapore	0	0	0	0	0	0	0
Turkey	0	0	0	0	0	0	0
Reporting total	118	151	186	175	222	207	245

Source: Compiled from Global Trade Atlas. Accessed May 15, 2007.

Note: Due to rounding, numbers may not add to total.

[a]Less than 500.

Table E.8 Cuban imports of poultry, 2000–06

Reporting country	2000	2001	2002	2003	2004	2005	2006
	US dollars (1,000)						
United States	0	1,959	23,097	37,003	61,209	58,276	44,730
Brazil	5,872	16,121	15,171	7,305	32,086	23,635	20,123
EU	14,528	10,084	5,330	6,234	8,246	3,310	2,704
Canada	12,387	12,509	4,820	1,905	767	551	881
Argentina	0	([a])	0	0	749	91	108
China	0	0	0	0	0	0	31
Chile	0	6	18	2	1	6	29
Mexico	106	12	([a])	([a])	37	0	0
Trinidad & Tobago	0	1	0	0	0	0	0
Reporting total	32,893	40,692	48,435	52,450	103,095	85,869	68,605
	Quantity (1,000 metric tons)						
United States	0	3	53	70	67	76	79
Brazil	9	25	26	12	43	32	32
EU	25	16	10	13	19	7	4
Canada	20	18	8	4	1	1	1
Argentina	0	0	0	0	1	([a])	([a])
China	0	([a])	([a])	([a])	0	([a])	([a])
Chile	0	0	0	0	0	0	([a])
Mexico	([a])	([a])	0	0	([a])	0	0
Trinidad & Tobago	0	([a])	0	0	0	0	0
Reporting total	54	63	97	99	130	116	117

Source: Compiled from Global Trade Atlas. Accessed May 15, 2007.

Note: Due to rounding, numbers may not add to total.

[a]Less than 500.

Table E.9 Cuban imports of beef and beef products, 2000–06

Reporting country	2000	2001	2002	2003	2004	2005	2006
	US dollars (1,000)						
Brazil	0	153	1,044	1,167	1,230	1,984	22,615
Uruguay	0	0	0	0	6,930	8,217	13,073
Chile	0	12	1,242	4,435	5,898	5,370	4,696
Canada	1,656	4,334	2,122	960	60	979	1,851
United States	0	0	162	0	209	0	71
EU	2,000	29	2	16	8,621	403	6
Russia	0	44	0	0	0	([a])	1
Argentina	6	([a])	0	1	1,209	2,180	([a])
Australia	0	0	0	938	255	0	0
China	105	0	0	([a])	0	0	0
Mexico	53	([a])	([a])	([a])	836	35	0
New Zealand	0	0	0	128	0	0	0
Panama	0	0	1,242	304	100	0	0
Trinidad & Tobago	0	1	0	0	0	0	0
Reporting total	4,020	4,573	5,815	7,946	25,348	19,168	42,313
	Quantity (1,000 metric tons)						
Brazil	0	a	1	1	1	1	10
Uruguay	0	0	0	0	3	4	5
Chile	0	a	1	2	3	3	2
Canada	2	3	2	1	([a])	2	1
United States	0	0	([a])	0	([a])	0	([a])
EU	2	a	0	([a])	6	([a])	0
Russia	0	a	0	0	0	0	0
Argentina	([a])	0	0	0	([a])	1	0
Australia	0	0	0	1	([a])	0	0
China	([a])	0	0	0	0	0	0
Mexico	([a])	0	0	0	([a])	([a])	0
New Zealand	0	0	0	([a])	0	0	0
Panama	0	0	([a])	([a])	([a])	0	0
Trinidad & Tobago	0	a	0	0	0	0	0
Reporting total	4	3	4	5	14	11	18

Source: Compiled from Global Trade Atlas. Accessed May 15, 2007.

Note: Due to rounding, numbers may not add to total.

[a]Less than 500.

Table E.10 Cuban imports of pork and pork products, 2000–06

Reporting country	2000	2001	2002	2003	2004	2005	2006
	US dollars (1,000)						
United States	0	0	91	0	1,639	7,630	14,163
Canada	9,018	14,092	9,693	7,819	9,696	9,736	10,719
Chile	0	1,184	1,746	1,598	1,756	3,193	6,240
China	279	0	0	(a)	(a)	0	1,473
EU	3,645	2,456	1,848	1,729	1,758	1,456	986
Mexico	161	134	147	102	222	137	33
Argentina	0	0	0	(a)	(a)	(a)	0
Brazil	0	2	19	56	720	3,962	0
Dominican Republic	0	1	0	0	0	0	0
Russia	0	0	0	23	0	(a)	0
Reporting total	13,102	17,869	13,544	11,328	15,792	26,115	33,617
	Quantity (1,000 metric tons)						
United States	0	0	(a)	0	2	4	8
Canada	6	8	8	5	5	5	5
Chile	0	1	1	1	1	2	3
China	(a)	0	0	0	0	0	1
EU	3	2	1	(a)	(a)	(a)	(a)
Mexico	(a)	(a)	(a)	(a)	(a)	(a)	(a)
Argentina	0	0	0	0	(a)	0	0
Brazil	0	(a)	(a)	(a)	(a)	2	0
Dominican Republic	0	0	0	0	0	0	0
Russia	0	0	0	(a)	0	0	0
Reporting total	9	11	11	7	10	13	17

Source: Compiled from Global Trade Atlas. Accessed May 15, 2007.

Note: Due to rounding, numbers may not add to total.

[a]Less than 500.

Table E.11 Cuban imports of other dairy, 2000–06

Reporting country	2000	2001	2002	2003	2004	2005	2006
	US dollars (1,000)						
EU	10,603	6,308	7,315	9,164	11,245	12,396	11,000
Argentina	0	0	a	a	1,374	3,175	3,152
Uruguay	0	0	0	162	539	311	1,189
Canada	1,564	2,119	1,678	206	811	772	1,188
Brazil	0	0	140	358	380	571	1,125
Mexico	823	955	715	683	808	673	752
New Zealand	0	1,046	831	339	726	243	221
Chile	40	61	100	561	622	314	200
All Others	921	2,664	189	261	693	208	381
Reporting total	13,973	13,153	10,969	11,734	17,197	18,662	19,208

Source: Compiled from Global Trade Atlas. Accessed May 15, 2007.

Note: Due to rounding, numbers may not add to total.

[a]Less than 500.

Table E.12 Cuban imports of milk power, 2000–06

Reporting country	2000	2001	2002	2003	2004	2005	2006
	US dollars (1,000)						
New Zealand	6,343	43,246	29,282	38,465	53,059	39,477	43,057
Uruguay	0	0	0	133	0	22,429	21,791
Argentina	882	0	0	78	673	10,064	18,400
EU	59,981	18,672	18,671	34,165	22,451	33,779	16,660
United States	0	0	0	0	26,653	29,691	12,561
Brazil	0	0	0	0	0	7,860	10,858
Canada	6,661	10,234	3,370	6,128	4,713	7,218	2,267
Australia	0	7,851	8,653	1,028	0	1,757	1,505
Chile	21	2,161	7,627	10,109	9,505	2,605	950
Switzerland	0	0	0	0	0	2,317	484
All Others	46	11	11	9	14	a	a
Reporting total	73,934	82,176	67,614	90,116	117,069	157,196	128,534
	Quantity (1,000 metric tons)						
New Zealand	3	21	22	24	26	18	19
Uruguay	0	0	0	a	0	10	10
Argentina	a	0	0	a	a	5	8
EU	35	9	13	21	10	16	7
United States	0	0	0	0	13	13	6
Brazil	0	0	0	0	0	4	5
Canada	4	5	2	3	2	3	1
Australia	0	4	5	1	0	1	1
Chile	a	1	4	7	5	1	a
Switzerland	0	0	0	0	0	a	a
Reporting total	43	39	46	56	57	71	58

Source: Compiled from Global Trade Atlas. Accessed May 15, 2007.

Note: Due to rounding, numbers may not add to total.

[a]Less than 500.

Table E.13 Cuban imports of processed food products, 2000–06

Reporting country	2000	2001	2002	2003	2004	2005	2006
	US dollars (1,000)						
EU	21,324	22,295	26,015	31,787	31,659	31,622	33,614
United States	0	0	933	11,629	10,047	2,317	1,126
Mexico	6,738	5,018	4,792	4,777	3,128	4,343	4,004
Chile	2,476	3,453	3,874	4,536	5,649	4,510	6,561
Guatemala	0	0	1,717	4,019	2,627	2,335	3,466
Canada	2,148	1,974	1,861	2,428	2,486	2,480	2,303
Brazil	2,444	2,037	1,010	1,574	2,446	3,508	4,124
Colombia	163	219	491	1,339	1,227	1,928	1,774
Argentina	176	275	1,122	983	1,814	1,573	1,950
Costa Rica	124	85	86	388	409	147	238
Venezuela	239	246	130	320	496	981	624
Ecuador	0	33	64	138	155	73	98
Peru	8	21	20	116	83	18	([a])
China	28	39	47	104	1,112	1,897	5,531
All other	358	1,016	492	529	894	26,860	1,252
Reporting total	36,227	37,711	42,652	64,668	64,233	58,831	66,665

Source: Compiled from Global Trade Atlas. Accessed May 15, 2007.

Note: Due to rounding, numbers may not add to total.

[a]Less than 500.

Table E.14 Cuban imports of fish and seafood, 2000–06

Reporting country	2000	2001	2002	2003	2004	2005	2006
	US dollars (1,000)						
Chile	23,182	13,477	10,878	6,676	15,576	15,277	14,373
EU	3,366	10,343	3,145	2,775	2,683	4,130	4,300
China	0	0	0	85	651	1,888	3,642
Ecuador	0	1,726	451	845	901	1,096	967
Thailand	116	0	96	259	383	359	619
Peru	432	435	60	82	252	316	443
Argentina	1,047	1,731	1,169	851	1,448	1,377	420
Canada	395	525	224	17	238	210	344
Taiwan	0	0	0	40	0	54	336
Panama	0	0	0	0	0	0	232
Mexico	369	1,863	133	211	126	10	121
Russia	42	37	17	23	5	5	16
United States	0	0	0	38	196	74	3
All other	256	1,023	518	1,886	805	2,123	([a])
Reporting total	29,205	31,160	16,691	13,788	23,265	26,918	25,815

Source: Compiled from Global Trade Atlas. Accessed May 15, 2007.

Note: Due to rounding, numbers may not add to total.

[a]Less than 500.

Table E.15 Cuban imports of paper and wood products, 2000–06

Reporting country	2000	2001	2002	2003	2004	2005	2006
	US dollars (1,000)						
Canada	5,293	2,952	7,704	9,604	8,456	8,554	13,690
EU	8,757	11,571	12,360	11,483	12,098	12,916	12,649
United States	0	0	15	5,242	9,816	6,425	9,742
Brazil	745	2,178	3,783	4,471	4,465	6,836	8,159
China	0	2,111	5,477	2,969	6,202	2,150	4,769
Argentina	21	49	1,399	2,727	3,302	5,178	3,800
Mexico	5,916	9,849	918	661	613	1,546	1,678
Russia	192	5	13	949	1,523	1,048	1,061
Ecuador	0	2,552	1,324	1,720	1,308	1,786	981
Nicaragua	0	0	0	0	98	197	348
Chile	0	14	43	70	95	193	171
Honduras	0	0	0	939	160	437	155
Guatemala	0	0	6	712	724	356	145
Peru	0	0	51	104	62	16	72
Colombia	528	462	607	176	12	115	39
All Other	968	1,507	1,461	1,908	1,126	2,636	2,583
Reporting total	22,420	33,252	35,161	43,734	50,058	50,389	57,463

Source: Compiled from Global Trade Atlas. Accessed May 15, 2007.

Note: Due to rounding, numbers may not add to total.

APPENDIX F
Tourism Modeling

Introduction

Several different approaches are taken to estimate the effects of removing the restrictions on U.S. travel to Cuba. The first approach, which is considered to be a long-run estimate, is based on U.S. demand for tourism services in Cuba being proportionally similar to Canadian demand for tourism in Cuba; it results in a total of approximately 4 million tourists from the world, 2.8 million of which are U.S. citizens, visiting Cuba each year. A second approach considers Cuba's short-run capacity limits and the U.S. demand shift is based on the number of U.S. visits to the Dominican Republic. Here the total number of visits to Cuba is slightly over 2.8 million, of which 1.1 million are U.S. citizens, per year. A third approach estimates the travel restriction as an equivalent ad valorem tariff. Removing the equivalent tariff eventuates in a smaller response, with less than 2.5 million total visits (554,000 U.S. citizens) by tourists to Cuba. The wide range of estimates in the different approaches results from the lack of a close correspondence between the legally defined restrictions and the economic concepts to model the removal of restrictions. The responses of U.S. tourists and Cuban suppliers to removal of the restrictions are also unknown. The lower range of these estimates is deemed more likely, at least in the short run. In the long run, the number of tourists could approach the higher estimate.

This appendix presents the model that was used to estimate the effects on Cuban tourism of eliminating the U.S. restriction on travel to Cuba. Only overnight stays are examined; cruise travel is not addressed. This model is similar to partial equilibrium trade models that are frequently used in studies estimating the effects of trade liberalization. In those studies, known tariffs in the affected industries are removed to estimate the effects of trade liberalization. The U.S. restrictions on travel to Cuba, which is a type of non-tariff barrier, cannot be modeled with an equivalent tariff that is known with certainty. Issues related to the uncertain nature of the travel restriction are discussed below. These types of models also depend upon elasticities that give information about the demand and supply relationships. Ideally these are estimated empirically, but only limited information about the elasticities is available in this case. This analysis focuses on the interrelated effects in the Cuban and associated tourist markets that would likely occur given particular representations of the U.S. travel restriction and model elasticities.

The U.S. Travel Restriction

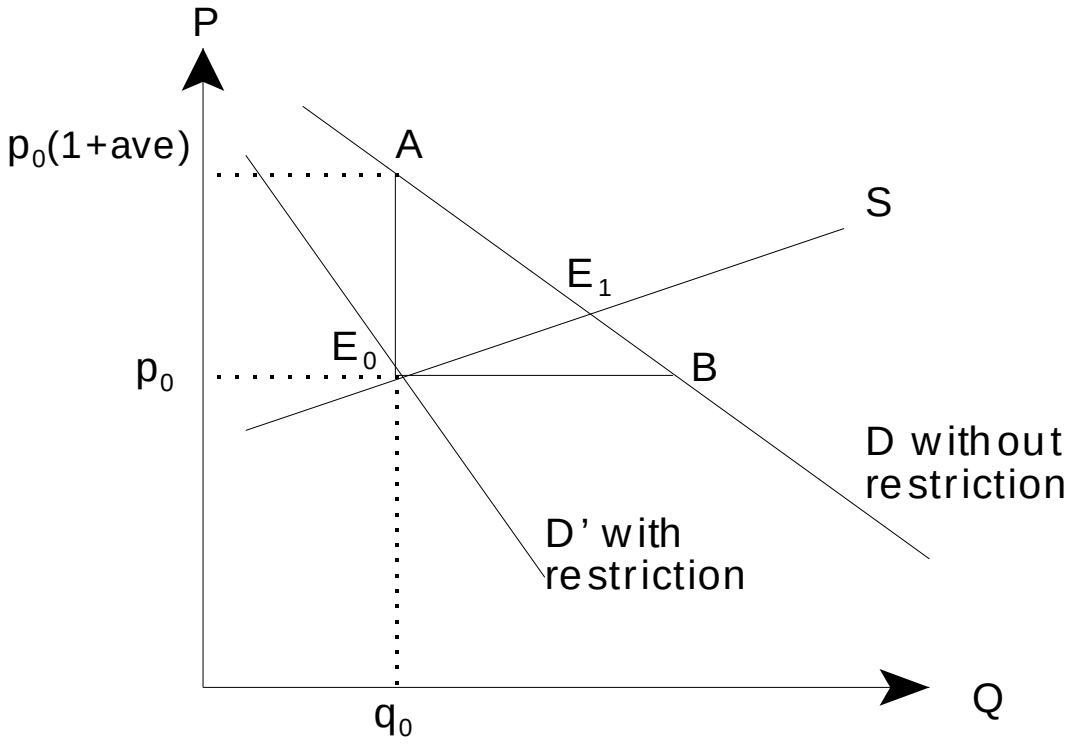
The travel restriction prohibits U.S. citizens from spending money in Cuba on hotels and other tourism services unless they obtain a license from OFAC. Expenditures abroad by U.S. citizens are classified as U.S. imports of services. Thus, the travel restriction acts to limit imports of tourism services from Cuba, and such trade restrictions are often represented by a gap between the demand price and the supply price, such as the distance E_0A in figure F.1, where E_0 represents the initial equilibrium and q_0 represents the number of U.S. residents who go to Cuba while the restriction is in place.[1] Because the distance E_0A is unknown, we take two approaches to estimate the response if the travel restriction were lifted. The first approach, which is similar to that of Robyn and others,[2] focuses on estimating the distance E_0B. It is assumed that U.S. citizens in the absence of restrictions will travel to Cuba in a

[1] The initial price, p_0, is a composite price for all tourism services.

[2] Robyn, Dorothy, et al, "The Impact on the U.S. Economy of Lifting Restrictions on Travel to Cuba."

proportion similar to Canadians.[3] Cuba is the fifth largest tourist destination for Canadians, and this approach generates a long-run estimate. Almost 518,000 Canadians traveled to Cuba in 2005; if the same proportion of U.S. citizens were to go to Cuba, almost 4.8 million U.S. citizens would go to Cuba annually. Thus point B is established, and removing the restriction shifts the demand curve to D in figure F.1. Although this approach moves out the demand curve to match proportionally the number of Canadians visiting Cuba at current prices, supply is upward sloping; thus price rises, and the resulting number of tourists is less than if price had remained the same. The effect on the numbers of tourists is the same as if the price wedge E_0A were removed.

Figure F.1 U.S. travel restriction



[3] Robyn et al. argue that this is plausible because Canada and the United States are similar from socioeconomic and demographic viewpoints and have roughly similar percentages of their populations visiting the Caribbean region. Robyn, Dorothy, et al, "The Impact on the U.S. Economy of Lifting Restrictions on Travel to Cuba," 7.

Canadians have a history of visiting Cuba and may have developed an affinity for certain Cuban vacation sites that increases their propensity to return. Because these relationships have developed over a long period, U.S. citizens may not immediately respond in a similar fashion. Although tourism in the Dominican Republic is more developed than in Cuba, the Dominican Republic has a range of Caribbean tourism services and offers somewhat similar vacation opportunities as Cuba. For example, the Dominican Republic, which is also Spanish speaking, offers several all-inclusive beach-centered tourism options similar to Cuba. To represent a short-run demand shift, it is assumed that an equal number of U.S. citizens would travel to Cuba as currently travel to the Dominican Republic. In 2005, 1.4 million U.S. citizens visited the Dominican Republic. Because U.S. citizens may have become partial toward particular aspects of the Dominican tourism experience, this may be considered as a fairly large short-run response.[4] This approach is similar to the previous one in that an estimate of point B in figure F.1 has been made.

The final approach focuses on estimating the ad valorem equivalent tariff (E_0A in figure F.1, where D' is effective demand with the restriction); the effects of removing the restriction are then calculated by removing the estimated equivalent tariff. Some U.S. travelers circumvent the restriction by going through a third country. An ad valorem equivalent tax is estimated as the extra cost that such a traveler has to pay. Under these circumstances, the full price of a trip for a U.S. citizen (p_f) includes regular air (or boat) fare (p_A); the additional fare for traveling through a third country (p_{Axl}); an ad valorem risk premium (r) related to the possible negative consequences associated with circumventing the travel restriction;[5] and spending in Cuba on lodging, food, and other items (p_c).

$$p_f = p_A + p_{Axl} + (1+r)\,p_c$$

The extra cost of making the trip with the restriction in place includes the additional expenses for traveling through a third country (p_{Axl}) and the risk premium ($r\,p_c$). The unit price (p_0 in figure F.1) of a trip without the travel restriction does not include these extra costs and is simply $p_A + p_c = p_0$. The ad valorem equivalent tariff (ave in figure F.1) is thus estimated as the extra costs over the unit price without the restriction $(p_{Axl} + r\,p_c)/p_0$.

The Commission estimates these expenditures as follows. Regular U.S. airfare to Cuba is estimated at $600 based on round trip airfare between St. Louis (which is near the population center of the United States) and the Dominican Republic. Under the restrictions the traveler first goes to Cancun (also about $600 round trip) and pays an additional $450 for round trip airfare between Cancun and Cuba.[6] We assume the risk premium is half of the in-country price of tourism services. If a tourist spends $1000 per visit in-country, the unit price without the restriction would be $600+$1000 = $1,600. The extra costs under the restriction are $450+0.5×($1000) = $950. The ad valorem equivalent tariff is thus estimated as (100×($950/$1600)) = 59 percent.

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[4] A similar response would be obtained by selecting another destination with similar numbers of visits by U.S. citizens. For example, approximately the same number of U.S. tourists visited Jamaica as the Dominican Republic in 2005.

[5] Tourism travel to Cuba is not licensed, and the restriction applies to travel through third countries. Such travelers may face civil penalties and criminal prosecution when they return to the United States. See http://travel.state.gov/travel/cis_pa_tw/cis/cis_1097.html.

[6] Other popular third-country sites include Canada, Cayman Islands, Jamaica, Nassau, and the Dominican Republic. Although fares vary somewhat, fares through Cancun are competitive with these other sites.

Model

Despite little U.S. travel, tourism in Cuba is well developed, with over two million foreign visitors per year in recent years. International visitors account for all of the more developed types of tourism in Cuba, as Cuban nationals cannot afford most accommodations for international visitors and are also prohibited from doing so. The demand for tourism services in Cuba is represented as the horizontal or quantity sum of the demand by U.S. residents and the demand by non-U.S. visitors. International visitors, as well as Cuban suppliers of tourism services,[7] respond to price signals; thus the equilibrium number of tourists in the Cuban market is represented by setting the supply of tourism services in Cuba, as a function of price, equal to the sum of the U.S. and non-U.S. demands. In figure F.2, D^1 represents non-U.S. demand, and effective U.S. demand is the difference between total market demand D^0 and D^1. Initial equilibrium is at the point (q^0,p^0); q^1 is the number of non-U.S. visitors, and q^0-q^1 are the U.S. visitors. When the restriction on U.S. travel is removed, total market demand shifts out to D*, and the resulting equilibrium is (p*,q*). Because $p^*>p^0$, fewer non-U.S. visitors demand tourism services in Cuba; examination of the non-U.S. demand curve D^1 at price p* shows that the resulting number of non-U.S. visitors is q^2, and the number of U.S. visitors is q^*-q^2. Implicitly a price wedge has been removed for U.S. residents as their quantity expands. While the market price increases for non-U.S. tourists, the implicit price for U.S. tourists decreases. Thus, U.S. residents will substitute away from similar markets for tourism services into Cuba, but non-U.S. residents will find the relatively lower prices in alternative markets more attractive and substitute towards those markets.

Demand

Demand for international tourism depends upon the preferences and income of the tourist and relative prices in the destination countries. U.S. tourists because of their high income are believed to spend more than tourists from many other countries. Europeans are also believed to stay longer and spend more than many other tourists.[8] As incomes rise, consumers tend to spend a greater portion of income on tourism.[9] In this model, income is assumed to remain constant and is not discussed further.

It is assumed that both the representative U.S. and non-U.S. tourists have a category of demand that can be called Caribbean tourism services.[10] It is assumed that these consumers

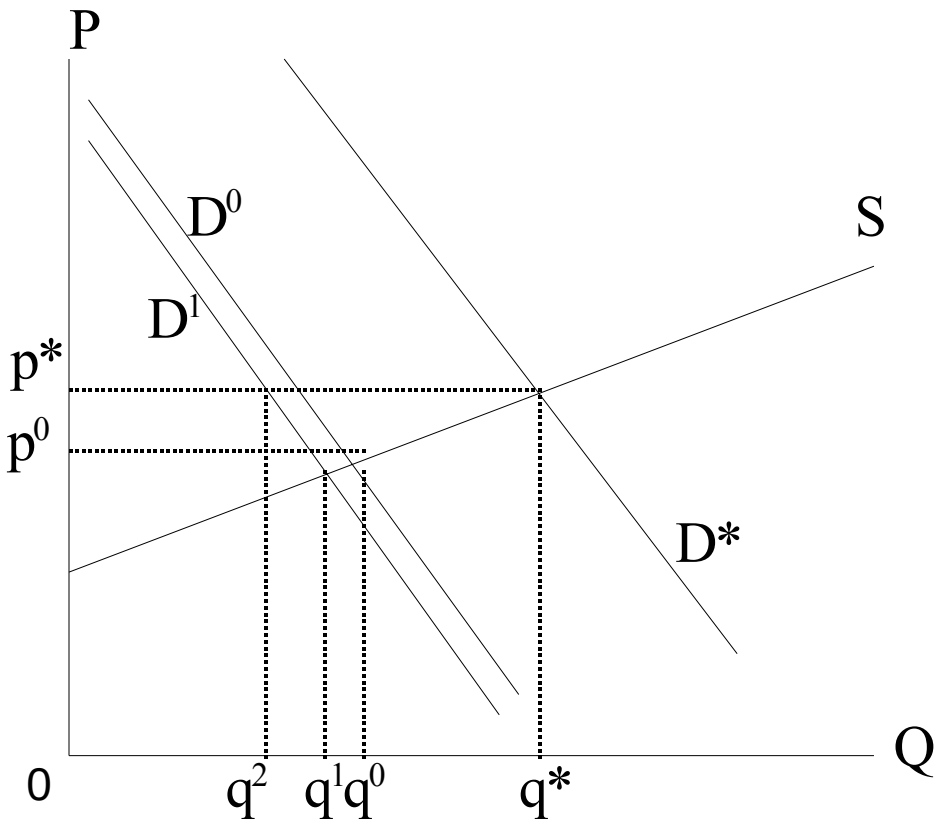
[7] Various parts of the Cuban government and multinational firms provide tourism services and hold equity positions in hotels in Cuba. Private Cuban residents supply only a very small part of these services through room and board arrangements *(casas particulares*) and local eateries (*paladares*). Because tourism is a global market, monopolistic concerns are not considered here.

[8] ARA Consulting Group, Systems Caribbean, and KPMG Peat Marwick. "A Study to Assess the Economic Impact of Tourism on Selected CDB Borrowing Member Countries," 42.

[9] For example, Rosensweig finds an income elasticity of international tourism of 1.5. Rosensweig, "Elasticities of Substitution in Caribbean Tourism," 89-100.

[10] To some degree, a tourist may substitute any destination with any other somewhat similar destination, but Rosensweig finds greater substitution within Caribbean destinations than between Caribbean and European or North American destinations. Rosensweig, "Elasticities of Substitution in Caribbean Tourism," 89-100.

Figure F.2 Removal of restriction on U.S. travel



have similar but not identical preferences[11] for tourism services in (1) Cuba, (2) South Florida, (3) Puerto Rico and the U.S. Virgin Islands, and (4) other Caribbean destinations.[12]

Generally, the demand for tourism is thought to be elastic because of the discretionary nature of tourism compared to food, for example, and empirical studies in Europe have found own-price demand elasticities in the range of -1.8.[13] However, studies in the Caribbean have found the demand for tourism to be inelastic, allegedly because of the different characteristics of each island. Crouch and Shaw found the price elasticity of tourism spending to be -0.39; Hiemstra and Ismail found the demand elasticity of hotel rooms to be -0.44.[14] This study uses

[11] This is the "Armington assumption." The technical details can be seen in Armington, "A Theory of Demand for Products Distinguished by Place of Origin," 159-178, and Francois and Hall, "Partial Equilibrium Modeling," 135-139.

[12] Included are Anguilla, Antigua and Barbuda, Aruba, Barbados, Bonaire, Cancun, Cayman Islands, Curacao, Dominica, Dominican Republic, Grenada, Jamaica, Montserrat, St. Lucia, St. Maarten, St. Vincent and the Grenadines, and Trinidad and Tobago.

[13] Durbarry, "Long-Term Structural Tourism Demand Modeling: An Application to France."

[14] These studies were summarized in Dixon, et al, "Tourism and the Environment in the Caribbean: An Economic Framework," 45-46. Papers in this series are not formal publications of the World Bank, but are circulated to encourage thought and discussion.

an aggregate demand elasticity for Caribbean tourism services of -1.2.[15] Similar aggregate demand elasticities for the category of Caribbean tourism were used for U.S. and non-U.S. consumers.

The degree that one tourist destination can be substituted for another is measured by the elasticities of substitution, which theoretically ranges between 0, indicating no substitution, and infinity, indicating perfect substitution. There is little empirical work on substitution elasticities for this region.[16] The elasticities of substitution used for this study are shown in table F.1; they indicate a relatively small degree of substitution between these markets.[17] U.S. tourists are believed to be less likely to substitute between Cuba and markets such as South Florida, Puerto Rico, and the U.S. Virgin Islands that do not require visas. Non-U.S. tourists are believed to substitute more between Cuba and other Caribbean destinations than destinations associated with the United States.

Table F.1 Elasticities of substitution for U.S. and non-U.S. travelers

	South Florida	Puerto Rico & U.S. Virgin	Other Caribbean
		For the U.S. tourist	
Cuba	2	2	4
South Florida		4	2
Puerto Rico & U.S. Virgin Islands			3
		For the non-U.S. tourist	
Cuba	2	2	3
South Florida		3	2
Puerto Rico & U.S. Virgin Islands			3

Source: Commission estimate.

Representative U.S. and non-U.S. consumers or travelers currently purchase tourism services from all Caribbean market segments. The representative U.S. traveler currently purchases most of these services in South Florida and other Caribbean destinations and very little from Cuba (first column of table F.2), and the representative non-U.S. traveler purchases most Caribbean tourism services from other Caribbean destinations and relatively little from South Florida (second column of table F.2). Theory requires that these should be shares of expenditures of each representative traveler in the different market segments. Comprehensive data on expenditures are unavailable, and these estimates are based on the numbers of tourists in the different market segments. This approach implicitly assumes that expenditures are the same in different destinations. The relative importance of U.S. and non-U.S. travelers, again based on the number of tourists, are also shown for each destination in the last two columns of table F.2.

[15] An aggregate demand elasticity of -0.7 was tried but did not greatly affect the results, and runs with that elasticity are not reported.

[16] Rosensweig reported intra-Caribbean elasticities in the range of 2 to 3. Rosensweig, J.A., "Elasticities of Substitution in Caribbean Tourism," *Journal of Development Economics* 29 (1988): 89-100.

[17] Simple demand functions that are linear in logs were used, which, unlike demand functions using the CES functional form, permit different elasticities of substitution for different destinations.

Table F.2 Market shares by representative U.S. and non-U.S. travelers and the shares of foreign tourist expenditures attributed to U.S. and non-U.S. tourists in each destination

	Representative U.S. traveler's share of purchases in each market	Representative Non-U.S. traveler's share of purchases in each market	U.S. market share	Non-U.S. market share
	Percent			
Cuba	3.4	13.7	7.5	92.5
Other Caribbean destinations	36.7	58.5	47.5	52.5
Puerto Rico & Virgin Islands	12.9	16.2	83.5	16.5
South Florida	47.0	11.6	90.8	9.2

Source: Staff calculations based on data in Caribbean Tourism Organization, *Statistical Report 2002-2003* and "Latest Statistics 2005," (September 2006) and "Tourist Arrivals by Main Market - 2005"; Rochell Broder-Singer, "Tourism Statistics South Florida," (June 2004); Office of Travel and Tourism Industries, U.S. Dept. of Commerce, "U.S. Citizen Air Traffic to Overseas Regions," 2005.

Supply

Cuba offers a number of beaches both on the main island and on keys and the number of hotel rooms has been increasing, as shown in table F.3. It is believed that within the present framework (no major policy changes in Cuba) supply will likely continue to increase in the intermediate run. Cuba's cost of supplying tourism services is believed to be similar to that of other islands in the Caribbean.[18] Hiemstra and Ismail estimated a supply elasticity for hotel rooms in the Caribbean of 2.86.[19] An elasticity of supply of 3 was used for each country.

Table F.3 Cuban travel data

	International arrivals of overnight tourists (1,000)	Number of rooms in hotels & other establishments	Mean annual occupancy rate (percent)
2000	1,741	38,072	74.2
2001	1,736	40,158	64.7
2002	1,656	41,323	59.7
2003	1,847	43,696	61.8
2004	2,017	45,270	63.5
2005	2,261	45,644	63.6

Source: Cuban Oficina Nacional de Estadistica, *Anuario Estadisco de Cuba, 2005*, chap. 13.

In the short run the lack of hotel rooms and other tourist amenities hinder Cuba's ability to respond to large increases in the number of tourists. To represent this situation, a short-run upper bound was calculated by assuming that the trend rate of increases in the number of rooms between 2000 and 2005 would continue for the next three years and that the mean annual occupancy rate would increase from a mean of 65 percent to 80 percent, which is a practical upper limit given the seasonal peaks during the winter months but allow for the fact

[18] The extensive requirements and approvals necessary for infrastructure development raise Cuba's capital costs somewhat in comparison to competing suppliers, but its labor costs are thought to be less. Cuba has a well-educated population and over 20 hospitality schools to train tourism professionals. Cerviño and Cubillo, "Hotel and Tourism Development in Cuba: Opportunities, Management Challenges, and Future Trends," 223-246.

[19] Hiemstra and Ismail, "Incidence of the Impacts of Room Taxes on the Lodging Industry," 22-26.

that some Americans typically travel during the summer.[20] This approach results in a short-run capacity limit of 2.8 million tourists per year. When the capacity constraint is reached, the supply curve becomes vertical; thus price can still rise, but quantity cannot increase beyond this point. Sustained high prices signal investors that profits can be made by investing in tourism infrastructure, so the lack of hotel rooms is not expected to constrain the number of overnight tourists in the long run.

Market Equilibrium

Equilibrium in each market occurs where supply equals the sum of the demands of the representative U.S. and non-U.S. consumers. The following group of equations constitute the model where the left-hand side is supply, the first term on the right-hand side is demand by U.S. residents and the second term is demand by non-U.S. residents.

where

- the p's are prices;
- the k's, the K's, and J's are constants related to initial conditions;
- the c's, F's, V's, and O's are subscripts representing, respectively, Cuba, South Florida, Puerto-Rico and the U.S. Virgin Islands, and the rest of the Caribbean; c-US indicates the special implicit price for U.S. tourists in the Cuban market;
- b shifts U.S. demand in the Cuban market in the quantity shock version; otherwise it equals 1; t is the ad valorem equivalent tariff that is removed in the price wedge version; otherwise it equals 0;
- the ε's are supply elasticities;

$$k_C\, p_c^{\varepsilon_c} = K_C b\left(p_{c-US} \Big/ 1+t\right)^{\eta} p_F^{\psi_{cF}}\, p_V^{\psi_{cV}}\, p_O^{\psi_{cO}} + J_C\, p_c^{\phi}\, p_F^{\chi_{cF}}\, p_V^{\chi_{cV}}\, p_O^{\chi_{cO}}$$

$$k_F\, p_F^{\varepsilon_F} = K_F\, p_{c-US}^{\psi_{FC}}\, p_F^{\eta_F}\, p_V^{\psi_{FV}}\, p_O^{\psi_{FO}} + J_F\, p_c^{\chi_{FC}}\, p_F^{\phi_F}\, p_V^{\chi_{FV}}\, p_O^{\chi_{FO}}$$

$$k_V\, p_V^{\varepsilon_V} = K_V\, p_{c-US}^{\psi_{VC}}\, p_F^{\psi_{VF}}\, p_V^{\eta_V}\, p_O^{\psi_{VO}} + J_V\, p_c^{\chi_{VC}}\, p_F^{\chi_{VF}}\, p_V^{\phi_V}\, p_O^{\chi_{VO}}$$

$$k_O\, p_O^{\varepsilon_O} = K_O\, p_{c-US}^{\psi_{OC}}\, p_F^{\psi_{OF}}\, p_V^{\psi_{OV}}\, p_O^{\eta_O} + J_O\, p_c^{\chi_{OC}}\, p_F^{\chi_{OF}}\, p_V^{\chi_{OV}}\, p_O^{\phi_O}$$

- the φ's and η's are own-price elasticities, respectively, for non-U.S. and U.S. demand; and
- the χ's and ψ's are cross price elasticities, respectively, for non-U.S. and U.S. demand.

The own-price and cross-price demand elasticities are calculated from the aggregate demand elasticities, the substitution elasticities, and the market shares using the approach of Francois and Hall.[21] The simulations based on this model are reported below.

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[20] Cerviño and Cubillo point out that related infrastructure, such as airports, and tourist attractions must be developed at the same time as hotels and that these related investments may be less developed than hotels in Cuba. Cerviño and Cubillo, "Hotel and Tourism Development in Cuba: Opportunities, Management Challenges, and Future Trends," 223-246.

[21] Formulas 5.43 and 5.44 in Francois and Hall, 138 were used.

Results

In this model, the initial equilibrium in the Cuban market has 2.261 million total tourists of which 171,000 are U.S. citizens, and the market clearing price for purchases in Cuba is $1000 per tourist. These figures are based on Cuban government and World Tourist Organization data and adjusted for the numbers of Cuban Americans traveling to Cuba as reported in Chapter 3.

First, the demand for tourism services in Cuba by U.S. citizens is shifted out in similar proportion to that of Canadian demand. The results are large, and the total of over 4 million tourists must be viewed as a long-run response because it exceeds Cuba's current capacity to absorb tourists (table F.4).

Table F.4 Long-run results from removing travel ban under the Canadian-like demand shift

Market	Price	Quantity	Value
	Percent change		
Cuba	21.8	80.6	102.3
South Florida	-2.8	-8.5	-11.3
Puerto Rico & U.S. Virgin Islands	-2.0	-6.1	-8.1
Other Caribbean destinations	-4.6	-13.8	-18.4
Number of tourists in Cuba	U.S. origin (*1,000*)	Non-U.S. origin (*1,000*)	Total (*1,000*)
Resulting total by source	2,799	1,283	4,083
Net change by source	2,628	-807	1,822

Source: Staff estimation.

Note: Totals may not add due to rounding.

In this scenario, large numbers of U.S. citizens shift purchases of tourism services toward the Cuban market, which negatively affects the other markets. However, non-U.S. tourists shift into those other markets, which mitigates the negative effects somewhat. The effect is largest in the other Caribbean destination which is thought to be most substitutable with the Cuban market.

Next, the short-run response is examined in which demand shifts out as if the same number of U.S. citizens visit Cuba as currently visit the Dominican Republic and limits on Cuba's ability to furnish tourism services is taken into account. Applying the estimated capacity constraint of 2.8 million tourists per year increases the price of tourism services in the Cuban market (table F.5). Shifting out the U.S. demand crowds some non-U.S. visitors out of the market, but changes in the numbers of tourists by source are smaller than in the long-run scenario.[22] Effects in the other markets are also less than in the long-run scenario.

[22] The capacity constraint, as previously discussed, is based on limits to hotel occupancy. Other short-run constraints likely apply specifically to U.S. travel. For example, a new air transport agreement between Cuba and the United States would have to be negotiated, and Cuba is not currently in compliance with FAA safety regulations and would not be permitted to fly into the United States. Although these barriers could be overcome in the long run, they would be additional constraints that limit the number of U.S. travelers to Cuba in the short run.

Table F.5 Results with the short-run supply restriction from removing travel ban under the Dominican-Republic-like demand shift

Market	Price	Quantity	Value
	Percent change		
Cuba	9.4	23.8	33.3
South Florida	-1.0	-3.1	-4.1
Puerto Rico & U.S. Virgin Islands	-0.7	-2.2	-2.9
Other Caribbean destinations	-1.6	-4.9	-6.5
Number of tourists in Cuba	U.S. origin (*1,000*)	Non-U.S. origin (*1,000*)	Total (*1,000*)
Resulting total by source	1,127	1,672	2,799
Net change by source	956	-418	538

Source: Staff estimation.

Finally, the approach of removing an ad valorem equivalent tariff of 59.4 percent was taken. The effects under this scenario are much smaller (table F.6) than under the other approaches. The estimated equilibrium total number of tourists is less than the short-run quantity constraint. Effects in the other markets are also modest.

Table F.6 Short-run results from removing travel ban under the ad valorem tariff approach

Market	Price	Quantity	Value
	Percent Change		
Cuba	3.2	10.0	13.2
South Florida	-0.4	-1.2	-1.6
Puerto Rico & U.S. Virgin Islands	-0.3	-0.9	-1.2
Other Caribbean destinations	-0.7	-2.0	-2.7
Number of tourists in Cuba	U.S. origin *(1,000)*	Non-U.S. origin (*1,000*)	Total (*1,000*)
Resulting total by source	554	1,932	2,487
Net change by source	383	-158	226

Source: Staff estimation.

Note: Totals may not add due to rounding.

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APPENDIX G
Analytical Framework and Assumptions

Analytical Framework and Assumptions in Estimating U.S. Sales of Agricultural Products to Cuba with Financing and Travel Restrictions Removed

Analytical Framework

Scenario 1: Lifting Financing Restrictions on U.S. Agricultural Exports to Cuba

The analytical framework used to assess the effects of financing restrictions on U.S. exports of agricultural products to Cuba can be illustrated in two ways—from a simple pie chart and from a supply-demand diagram—as shown in figure G.1. In the pie chart, initial Cuban imports of an agricultural product from all country sources are represented by the entire pie (areas A+B+C), with the U.S. share of imports represented by the pie slice, A, and the rest-of-the-world share represented by the slices B and C (figure G.1, panel a). Lifting financing restrictions makes U.S. exporters more competitive vis-à-vis the rest-of-the-world in the Cuban market. The U.S. slice of the pie grows from A to A+B as U.S. exporters displace other Cuban import suppliers (although they keep the slice C). Also, lifting the financing restrictions causes the entire pie to grow slightly (so the U.S. share grows to include D) because the lower U.S. price generates additional purchases by Cuban importers. The U.S. share of imports is represented initially by A/(A+B+C), and after the restrictions are lifted by (A+B+D)/(A+B+C+D).[1]

Alternatively, the framework can be illustrated with Cuban import supply and demand curves (figure G.1, panel b). Initially, the total supply of imports is given by S^0_{ROW+US} which is the horizontal sum of the supply schedules of the rest-of-the-world (S^0_{ROW}) and the United States.[2] Note that the supply curves are drawn relatively flat, capturing the assumption that both U.S. and rest-of-the-world supplies are highly elastic with respect to price. This is because Cuba, a small buyer of agricultural products compared with the overall world market, is not expected to significantly alter the world price as a result of changing its level of purchases. Cuba's demand is represented by D_{Cuba}. With financing restrictions in place, an initial equilibrium is Q_T^0, of which the rest-of-the-world supplies Q_{ROW}^0 (represented by the areas B+C) and the United States supplies, Q_{US}^0 (area A). The initial equilibrium price is P^0.

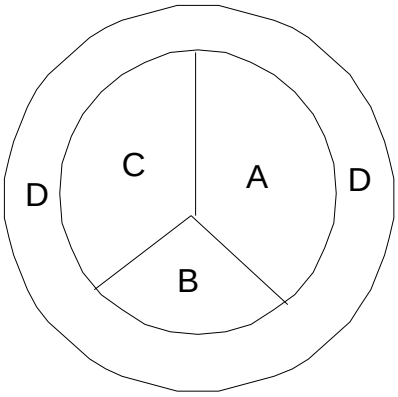
It is assumed that the payment and financial restrictions placed on U.S. exports to Cuba cause the U.S. supply curve to be higher than it would otherwise be. Lifting those restrictions shifts the U.S. supply curve down because a price gap applied to U.S. commodities is removed. The result is that the overall supply schedule faced by Cuban importers moves from S^0_{ROW+US} to S^1_{ROW+US}. A new equilibrium is reached at price, P^1, and imports, Q_T^1, made up of supplies from the rest-of-the-world, Q_{ROW}^1, and from the United States, Q_{US}^1. Total

[1] Although lower prices of U.S. imports may cause Cubans to import more from any import source including from the U.S., U.S. imports are shown to be respresnted by A+B+C+D for simplicity of presentation.

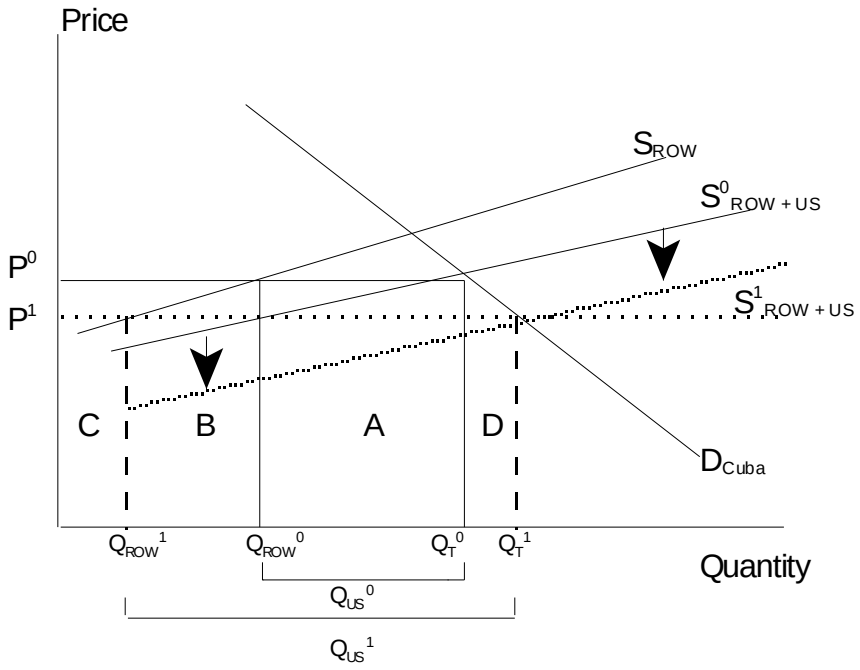
[2] For ease of presentation, the U.S. supply schedule is not drawn. It can be traced as the horizontal distance between S^0_{ROW+US} and S^0_{ROW}.

Figure G.1 Illustrative effect of lifting financing restrictions on U.S. agricultural exports to Cuba

Panel a



Panel b



Cuban imports are made up of A+B+C+D, with area B representing U.S. imports formerly supplied by the rest-of-the-world, and area D representing the additional Cuban demand associated with a lower price supplied by the United States.

Scenario 2: Restrictions on Travel are Lifted

In the second scenario, restrictions on travel by U.S. citizens to Cuba are lifted. This has two effects on the size of the pie (but not the slice because the financing restrictions are assumed to remain in place). First, the pie grows reflecting the macroeconomic impacts on the Cuban economy. With increased U.S. tourist expenditures, Cuba's GDP grows, thereby creating additional purchasing power with which Cubans can buy more imported food. Second, the pie grows because of greater numbers of tourists consuming food in Cuba, a large portion of which is imported food. In figure G.2, panel a, the growth in import demand is represented by the increase in the pie by the areas C and D, and Cuban imports from the United States change from A/(A+B) with the travel restrictions in place, to (A+C)/(A+B+C+D) without the restrictions.

The supply-demand representation of lifting the travel restrictions is shown in figure G.2, panel b. The initial equilibrium Cuban import level is Q_T^0, of which the United States supplies Q_{US}^0 and the rest-of-the-world supplies Q_{ROW}^0. The equilibrium price is P^0. Lifting travel restrictions, as noted above, increases the demand for imports by Cuba, represented in figure G.2b as an upward shift in the demand curve from D^0_{Cuba} to D^1_{Cuba}. A new equilibrium is reached at a greater import level, Q_T^1, and higher price, P^1. Note the increase in imports is sourced from both the United States and rest-of-the-world, Q_{US}^1 and Q_{ROW}^1, respectively.

Framework Assumptions

The analytical framework described above provides the basis on which the quantitative effects of lifting restrictions are estimated. The scenarios depicted in figures G.1 and G.2 were captured in a spreadsheet model using a set of base trade data, elasticities and multipliers, assumptions about the market segments (i.e., for consumption by locals and tourists) into which imported products are sold, and food expenditure patterns by tourists. Sources and assumptions made in selecting these model inputs are provided below.

Commodity Sectors

Base data and assumptions concerning the commodity sectors are shown in table G.1. Each column of this table is discussed below.

Figure G.2 Illustrative effect of lifting travel restrictions on U.S. agricultural exports to Cuba

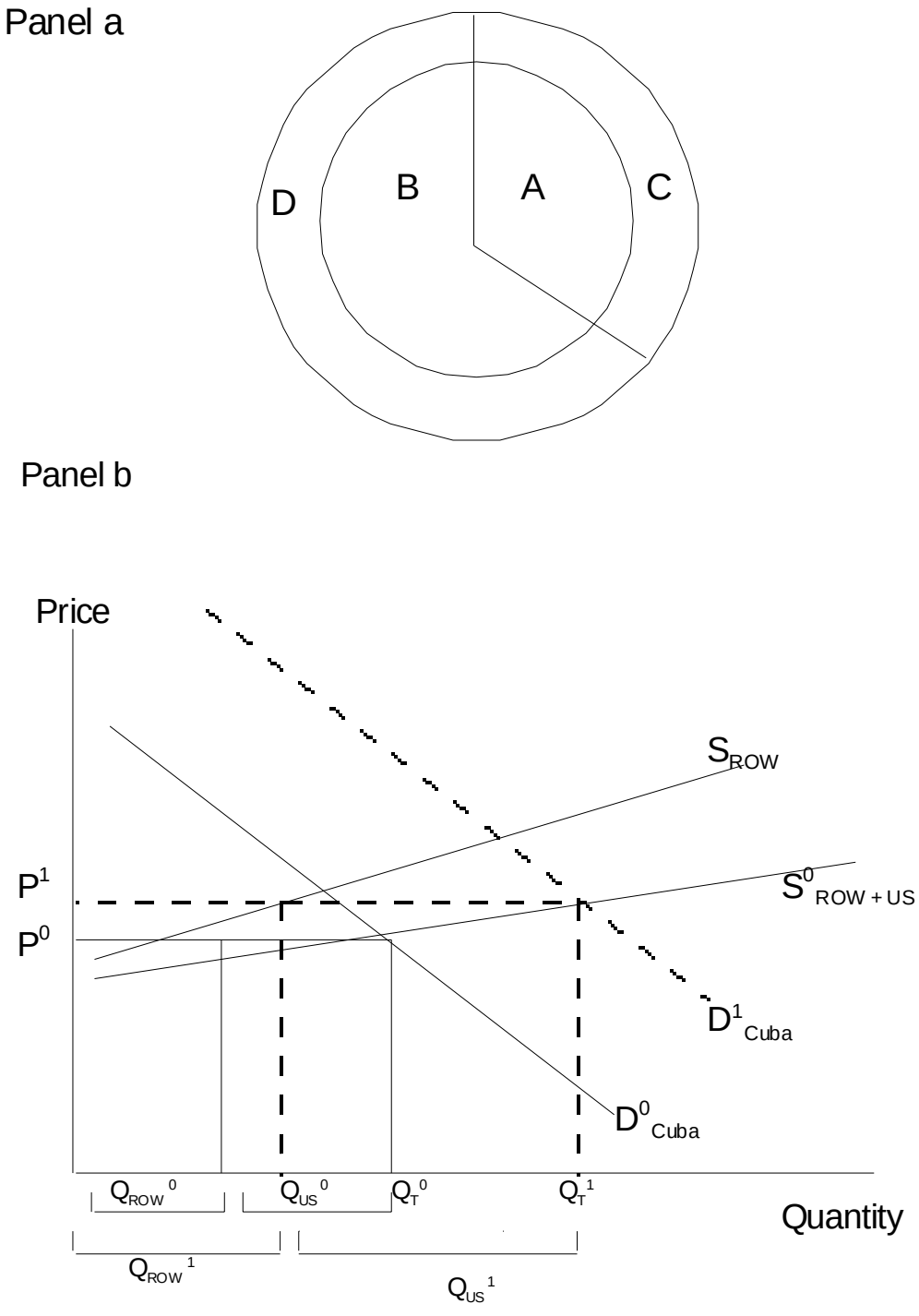


Table G.1 Assumptions concerning individual commodity sectors

Commodity	Share of tourist food expenditure	Share of imports for tourist sector	Imports from World	Imports from U.S.	Price wedge	Import elasticity of demand	U.S. & ROW elasticity of supply
	Percent	*Percent*	*$ mil.*	*$ mil.*	*Percent*		
Wheat	2	1	135.6	51.4	2.5 - 7.5	-0.3	5.0
Rice	3	2	166.3	39.5	2.5 - 7.5	-0.3	5.0
Corn	1	1	59.8	42.6	2.5 - 7.5	-0.3	5.0
Animal feed	1	1	56.0	42.3	2.5 - 7.5	-0.3	5.0
Soybeans	1	1	31.9	31.7	2.5 - 7.5	-0.3	5.0
Fats & oils	3	1	39.0	22.3	2.5 - 7.5	-0.3	5.0
Dry beans	1	1	79.1	19.9	2.5 - 7.5	-0.3	5.0
Beef	8	10	42.3	0.1	5.0 - 10.0	-0.6	5.0
Pork	8	20	33.6	14.2	5.0 - 10.0	-0.6	5.0
Poultry	8	15	68.6	44.7	5.0 - 10.0	-0.6	5.0
Milk powders	2	2	128.0	12.6	2.5 - 7.5	-0.3	5.0
Other dairy	3	25	19.4	0.1	5.0 - 10.0	-0.6	5.0
Processed foods	30	25	66.0	1.1	5.0 - 10.0	-0.8	5.0
Fish	15	20	25.8	0.0	5.0 - 10.0	-1.3	5.0
Forest	2	1	57.5	9.7	2.5 - 7.5	-0.3	5.0
Other products	12	5	141.9	4.9	5.0 - 10.0	-0.3	5.0

Sources: Global Trade Atlas and Commission estimates.

Share of Tourist Food Expenditure

In scenario 2 (lifting the travel restrictions), an estimate of the additional tourist expenditure on food (in millions of dollars) is derived from estimates of the additional number of tourists, the number of days stayed, and the expenditure on food per tourist per day. How this additional expenditure impacts the demand for individual commodities requires an assumption about how tourists allocate their food expenditures among different products (e.g., for every dollar of tourist food expenditure, how many cents go to wheat, rice, beef, and pork). In the Commission's analysis, these assumptions were based on an extensive survey of Caribbean tourist spending patterns that provided estimates of food expenditures by product.[3] Because Cuba's tourism industry is well established, such Caribbean-wide patterns likely reflect spending patterns among tourists in Cuba itself. In cases where the commodity grouping in the cited study did not exactly match those in our analysis, information from industry and other sources was gathered by Commission staff and used to make appropriate adjustments.

Share of Imports for Tourist Sector

In analyzing scenario 2, the framework splits Cuban imports among the two major market segments—the local population and tourists. This is because demand by Cubans is expected to respond to GDP growth, while demand by tourists is expected to reflect the number of tourists. Further, some imported products are more likely sold to Cubans (e.g., rice), while others are more likely for tourists (e.g., meat, fish, processed food, deciduous fruit). The

[3] Tourism Global Inc., *The Caribbean Accommodation Sector as a Consumer of Locally Produced Goods and Services and Contributor to Government Revenues*.

Cuban/tourist shares used in our estimates were based the Tourism Global, Inc., study,[4] analysis by the U.S. Department of Agriculture,[5] and discussions with Cuban officials.[6] In general, the tourist sector is assumed to account for a small share of bulk commodity imports (1-2 percent), and a higher share (10–25 percent) for higher-valued products.[7]

Imports from the World and the United States

Statistics on Cuban trade with the world and United States were obtained from the Global Trade Atlas.[8] Cuban import data were based on the export data of supplying countries, owing to the fact that exporter data included 2005 and 2006, whereas Cuban import data only are reported through 2004.

Price Wedge

To estimate the effect of Cuban Assets Control Regulations (CACR) on the sale of U.S. agricultural products to Cuba, it was necessary to first estimate the size of the cost wedge created by these regulations. The price wedge is the added cost per unit of U.S. exports of each commodity created by the restrictions that are the subject of this study. Without these restrictions, the price paid by Alimport would be lower; the difference in price is the price wedge.

The price wedge created by the regulations consists of two types of costs—direct costs and indirect costs. Direct costs are measurable and attributable to a specific product shipment, such as costs associated with procuring letters of credit, currency exchange, transportation, demurrage, and spoilage. Indirect costs are not measurable and not directly attributable to a specific shipment, such as costs associated with additional time needed to process transactions, administrative costs incurred in order to comply with the regulations, increased travel costs, and travel restrictions on some U.S. and most Cuban officials. Commission staff obtained information on these costs from interviews with industry officials.

Letters of credit

The costs associated with obtaining a letter of credit can range from less than 1 percent up to nearly 4 percent of the value of the shipment.[9] One industry source indicated that letter of credit fees ranged from 0.125 percent to 0.25 percent of the value of the letter of credit. Additional sources estimated the cost of obtaining a letter of credit at $8,000 to $10,000 per fully loaded bulk vessel.[10] During 2001–06, bulk shipments to Cuba averaged about 9,000 mt, valued at $2.5 million.[11] Based on these values, the cost of obtaining a letter of credit for bulk shipments ranged from 0.3 percent to 0.4 percent of the value of the

[4] Tourism Global Inc., *The Caribbean Accommodation Sector as a Consumer of Locally Produced Goods and Services and Contributor to Government Revenues*.

[5] U.S. Department of Agriculture. Foreign Agricultural Service, "Cuba HRI Food Service Sector."

[6] Alimport officials, interview by Commission staff, Havana, Cuba, June 12, 2007; ITH officials, interview by Commission staff, Havana, Cuba, June 13, 2007.

[7] The share of imports for tourists covers products consumed in hotels and restaurants. It does not cover sales in convertible peso stores.

[8] Global Trade Atlas.

[9] Industry official, interview by Commission staff, April 2007.

[10] Ibid., March 28, 2007, April 12, 2007, and April 17, 2007.

[11] *CubaNews*, "Despite the Obstacles, Cuba's Alimport is Spending More than Ever on U.S. Food."

shipment.[12] Additional information suggests that obtaining a letter of credit for smaller, container-based shipments is proportionally greater. For example, in March 2005, the charges on a 160 metric ton shipment of whey powder valued at about $80,000 were stated to be between $2,000 and $3,000, representing 2.5 to 3.8 percent of the shipments value.[13] Other industry sources indicated that letter of credit fees could be as little as $250.[14]

Demurrage costs

Demurrage costs depend on whether the vessel is bulk or container. Demurrage for a bulk vessel in a U.S. port typically costs $15,000 per day, and a bulk vessel can spend as many as 10 days at anchor owing to delays related to clearing letters of credit through third-country banks and other license requirements.[15] Container ship demurrage charges have been estimated at $20,000 to $30,000 per container ship per day (each vessel holding about 160 to 240 containers or about $125 per container per day).[16] Container shipments typically consist of shipments based on several independent transactions with Alimport. Therefore, delays in the paperwork for any one transaction can delay all of the shipments, and in some cases vessels are forced to leave with only a partial load.[17] In April 2004, Cuban government officials indicated that Alimport had paid approximately $18 million in extra charges because of shipping delays and currency exchange.[18] This represents 4.5 percent of the approximately $400 million in U.S. agricultural exports to Cuba during 2001–03.[19]

High transport charges, foreign exchange transactions, and phytosanitary barriers

Testimony before the Commission suggests that U.S. exporters of high-valued products (HVP) in non-bulk shipments face high transportation charges to Cuba because these shipments must frequently be shipped in half-empty vessels, or because the exporter must transport the merchandise to a more distant port where shipping services to Cuba exist.[20] Because of the restrictions, there is currently only one carrier operating container vessels that deliver HVPs to Cuba.[21] In 2007, this carrier shipped only once per week to Cuba, causing delays of merchandise at the U.S. port.[22] There are many other container lines originating from U.S. Gulf ports or U.S. ports along the Eastern Seaboard that could offer efficient delivery of U.S. agricultural products sold to Cuba.

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[12] Representatives of the U.S. poultry industry stated that the cost of a letter of credit was $7,300 for a shipment of chicken parts valued at $1.9 million or 0.38 percent. United States Poultry and Egg Export Council, written statement to the Commission, May 8, 2007.

[13] *CubaNews*, "In Wake of Tough New OFAC Regulations Food Exporters Turn to Letters of Credit."

[14] United States Poultry and Egg Export Council, written statement to the Commission, May 8, 2007.

[15] Bonilla, Commission Hearing Transcript.

[16] Roger Johnson, North Dakota Commissioner of Agriculture, post-hearing written statement to the Commission, May 7, 2007.

[17] Ibid.

[18] Luxner, "Pedro Alvarez: Cuba Hungry for American Food Imports."

[19] Industry sources have also told staff that Cuban importers were incurring large demurrage costs even before the U.S. rules were changed, and that demurrage costs are as much related to inefficiencies in the Cuban system as they are U.S. regulations. The information collected suggests that demurrage costs could be decreased, though not completely eliminated, if U.S. regulations were changed.

[20] Roger Johnson, North Dakota Commissioner of Agriculture, post-hearing written statement to the Commission, May 7, 2007; United States Poultry and Egg Export Council, written statement to the Commission, May 8, 2007; and industry officials, interview with Commission staff, April 27, 2007.

[21] United States Poultry and Egg Export Council, written statement to the Commission, May 8, 2007.

[22] Commission staff interview with Cuban officials, Havana, June 12-14, 2007.

Current U.S. restrictions prohibit foreign vessels that dock in Cuba from using U.S. ports for a six month period, and therefore many foreign flag shippers are precluded from competing to transport U.S. merchandise to Cuba. The Cuban-flag vessels of the Melfi Marine Container Company cannot enter U.S. ports to pick up U.S. merchandise.[23] As a result, maritime charges for U.S. containers exported to Cuba are much higher than for U.S. containers moving to other close Caribbean ports, such as to Haiti (which is about 60 miles from Cuba).[24] In addition, the cost of moving bulk cargo from U.S. ports to Havana in 2007 was double that to the Dominican Republic. Industry officials attributed this to U.S. restrictions and the lack of unloading capability at Cuban ports, which can only handle vessels of less than 25,000 mt, and because it takes much longer to unload the bulk cargo inthe Cuban port.[25]

Regardless of whether demurrage is incurred or not, U.S. financing regulations increase processing time and the probability that shipping delays will occur. Therefore, the inherent risk of a 3-5 day delay in shipping perishable products that are refrigerated but not frozen (such as fresh fruits and vegetables), to Cuba is too great since such a delay could cause significant and unacceptable product loss. With only a once weekly container ship to Cuba, U.S. products can be delayed 10-13 days if a ship is missed.[26] As a result, very little produce (other than some U.S. apples) are reported to be exported to Cuba. According to Cuban officials, the cost of requiring payments in funds other than U.S. dollars and the involvement of third-country banks is significant.[27] It is reported that such costs amounted to $30 million in 2006.[28]

Travel restrictions placed on Cuban officials limit the ability of U.S. exporters to make product sales. For example, the inability of Cuban phytosanitary officials to travel in the United States precluded the sale of North Dakota seed potatoes to Cuban buyers.[29] In addition, no U.S. beef has been purchased because of Cuban sanitary and phytosanitary officials' inability to visit the United States.[30] In the case of fresh table potatoes, Cuban phytosanitary officials have been unable to inspect Maine potato fields and cultural practices, which has prohibited the fulfillment of a $6–$9 million fresh potato contract with Alimport.[31] U.S. beef exports to Cuba have been negligible largely because Cuban inspectors have not been granted visas to travel to the United States.[32] Similarly, although Cuba has indicated interest in purchasing U.S. live dairy cattle, the inability of Cuban officials to inspect the animals has stymied most sales.[33]

Demand and Supply Elasticities

The price elasticities of export supply to Cuba for both U.S. and non-U.S. suppliers are assumed to be highly elastic (the U.S. supply curve in a supply-demand graph of the Cuban import market is close to horizontal) and in all cases an elasticity of +5 was used. This is

[23] Commission staff interview with Cuban officials, Havana, June 13, 2007.
[24] Ibid., June 12, 2007.
[25] U.S. industry officials, interview with Commission staff, June 21, 2007.
[26] Commission staff interview with Cuban officials, Havana, June 12-14, 2007.
[27] Alimport officials, interview by Commission staff, Havana, Cuba, June 12, 2007.
[28] *CubaNews*, "Alimport contracts for $118 million in U.S. food purchases," June 2007.
[29] Johnson, Commission Hearing Transcript, 171.
[30] Commission staff interview with Cuban officials, Havana, June 12-14 2007.
[31] Maine Potato Growers, Inc., written submission to the Commission, May 4, 2007.
[32] Alimport officials, interview by Commission staff, Havana, Cuba, June 12, 2007.
[33] Industry officials, interview with Commission staff, May 2007.

because Cuba is a very small market compared with U.S. and global exports for all the commodities covered. The Cuban import demand elasticities were based on the assumption that import demand for food and agricultural products is inelastic with respect to price.[34] For bulk commodities, an elasticity of -0.3 was assumed on the basis of a review of several published sources of food demand elasticities covering a broad range of commodities and estimated for countries with similar economic characteristics to Cuba.[35] Elasticities for higher-valued products ranged from -0.6 to -1.3, again on assumptions drawn from the economic literature.

Assumptions on Tourism

The number of net additional tourists (i.e., additional U.S. travelers to Cuba less non-U.S. tourists that would be displaced by U.S. tourists) in the short-term is assumed to range from 250,000 to 750,000 (see the tabulation below). This estimate is based on previous studies, and the Commission's own empirical estimates.[36] For a full discussion of this issue, see chapter 3. Data are required for expenditures on food per tourist per day, as well as the average length (in days) of a typical tourist's visit to Cuba. A number of published sources provide a ranges of estimates. Approximate mid-points for these ranges are daily tourist food expenditures of $50 per day and 4.5 days per visit.[37]

Assumptions concerning tourism sector	
No. of net additional tourists	250,000 - 750,000
No. days per visit	4.5
Expenditure on food/tourist/day ($)	50
Tourist expenditure-GDP multiplier	1.45
Import-GDP multiplier	0.38
Share of imports accounted for by food (%)	15

Lifting the travel restrictions affects U.S. exports of agricultural products in two ways: (1) an increase in tourism directly increases Cuban demand for food imports to supply those added tourists, and (2) an increase in tourist spending expands the Cuban economy, which increases Cuban demand for food imports by its own citizens as well as foreign tourists. The first is measured by a GDP/tourist expenditure multiplier (the increase in GDP caused by an

[34] Tomek and Robinson, *Agricultural Product Prices.*

[35] There are several sources of useful estimates of food demand (price and income) elasticities (some for Cuba, some for Caribbean or Latin American countries that can be used as proxies for Cuba), including databases maintained by USDA such as *Datasets: International Food Consumption Patterns* (excluding Cuba but including most other Caribbean countries) and SWOPSIM (Static World Policy Simulation Modeling Framework); Wu, "Growth, Expansion of Markets and Income Elasticities in World Trade;" Hong, "Import Elasticities Revisited;" and Pacheco-Lopez and Thirlwall, "Trade Liberalization, the Income Elasticity of Demand for Imports, and Growth in Latin America." In addition, the Food and Agricultural Policy Research Institute maintains the FAPRI Searchable Elasticity Database (including Cuba).

[36] Commission estimates of net additional tourists are 226,000 to 538,000. For its estimate of U.S. agriculture exports absent restrictions, the Commission used the wider range of 250,000 to 750,000 which takes into account the uncertainty of how tourists may respond to the elimination of restrictions and encompasses the magnitude of the most likely response by tourists.

[37] Ministry of Tourism officials, interview by Commission staff, Havana, Cuba, June 13, 2007; Peters, "International Tourism: The New Engine of the Cuban Economy;" Robyn, Dorothy, et al., "The Impact on the U.S. Economy of Lifting Restrictions on Travel to Cuba;" Rosson, "Estimated Agricultural Economic Impacts of Expanded U.S. Tourism to Cuba."

increase in tourism spending), and the second by an import/GDP multiplier (the increase in import demand caused by an increase in GDP). Combined, the two enable an estimate of the overall impact on Cuban demand for food imports caused by an increase in tourism. The multipliers selected were 1.45 for the tourist expenditure-GDP multiplier and 0.38 for the GDP-import multiplier. The sources for these parameters included a number of published academic studies of tourism and import demand in Caribbean economies.[38] In its May 2007 report for Cuba, the Economist Intelligence Unit reported trade statistics for 2005. These data indicated that about 15 percent of all Cuban imports were accounted for by food (other major non-food imports were machinery and equipment, fuel, and chemicals).

[38] Studies with estimates (or ranges of estimates for these multipliers include Perry, et al, "Cuban Tourism, Economic Growth, and the Welfare of the Cuban Worker;" Wu, "Growth, Expansion of Markets and Income Elasticities in World Trade;" Hong, "Import Elasticities Revisited;" and Pacheco-Lopez and Thirlwall, "Trade Liberalization, the Income Elasticity of Demand for Imports, and Growth in Latin America." In addition, researchers at Michigan State maintain a model to predict the effects of tourism for the U.S. Park Service; their research provides a range for a generic tourism multiplier (1.3 to 1.6). Stynes and Propst, "Money Generation Model version 2." Many tourism multipliers are estimated from input-output matrixes.

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APPENDIX H
Economic Literature Review

Literature Review

No one, to our knowledge, has examined the particular modifications of the financial restrictions on agricultural exports to Cuba addressed in this report. Other studies have explored the benefits to U.S. consumers of adding Cuba as a travel option and the gains to U.S. producers from opening the Cuban market to U.S. agricultural exports. These studies indicate that liberalization of restrictions also benefits Cuban exporters of travel services and Cuban consumers of agricultural imports. However, uncertainty over the responses of both private consumers and producers and the Cuban and U.S. governments has resulted in a wide range estimated effects.

This literature review focuses on the relatively small set of studies that have examined the effects of U.S. restrictions on agricultural exports and travel to Cuba. Generally, only studies that make quantitative estimates of the effects were selected for review. These studies are organized into three subsections: multipurpose and general studies, agricultural exports, and travel and tourism.

Multipurpose and General Studies

This section looks at the previous Commission study, which examined the effects on a number of sectors of removing the restrictions on U.S. trade with Cuba. These estimates of increased exports to Cuba are relatively small. A critique of the Commission study by a professor from the University of West Virginia follows, and a Ph.D. dissertation asserting that globablization has dampened the effectiveness of the U.S. sanctions on trade with Cuba is very briefly discussed.

The Commission evaluated the effects of removing U.S. sanctions on U.S.-Cuban bilateral trade in 2001.[1] The Commission used econometric procedures and analysts' judgments predicated on studies and testimony by industry groups to formulate its estimates of increased exports for the 2001 study (commodity estimates are reproduced in table H.1). The Commission also estimated that from 100,000 to 350,000 more U.S. residents might travel to Cuba if the travel ban were lifted.[2] Although some estimates at the time were higher, they were believed to be improbable because of the lack of hotel space.

A key component of the econometric procedures was a gravity model that assumes trade between two countries is a function of their GDPs and the economic distance between them. Here, economic distance is measured by physical distance, a country's score on the Heritage Foundation's economic freedom index, the count of the number of foreign born citizens from each country in the United States, and indicator variables for current and former communist countries and for NAFTA membership. The gravity equation was first estimated for a sample of countries including Cuba but not the United States. Next, potential shares of U.S. exports in Cuba's imports were estimated using actual U.S. trade data with third-country trading partners. These estimates were combined with the parameter estimates and particular values of variables for Cuba from the initial regression to generate potential U.S.-Cuba trade.

[1] U.S. International Trade Commission, *The Economic Impact of U.S. Sanctions with Respect to Cuba*.
[2] Ibid., 4-21.

Table H.1 Estimated U.S. agricultural exports to Cuba in the absence of U.S. sanctions

Sector	Cuban imports from the world, 1996-98 average	Estimate of U.S. share of Cuban imports	Estimate of U.S. exports to Cuba	Estimate of Cuban share of total U.S. exports
	Million dollars	*Percent*	*Million dollars*	*Percent*
Selected agricultural products:				
Meat	95	65-80	62-76	1
Dairy	82	5-15	4-12	1-3
Wheat	86	40-60	34-52	1
Rice	99	40-60	40-59	4-6
Feedgrains	10	90-100	9-10	([a])
Animal feed	53	80-90	42-48	1
Fats and oils	37	80-90	29-33	1
Dried beans	64	20-40	13-26	4-8
Cotton	12	50-70	6-8	([a])
Winter vegetables	([b])	([b])	([c])	([a])
Tropical fruit	([b])	([b])	([c])	([a])
Seafood	21	5-10	1-2	([a])
Total[d]	559	43-58	241-327	1

Source: Reproduction of table ES-1, USITC, 2001, xxv. Estimated U.S. share of Cuban trade and estimated U.S.–Cuban trade data are derived from Commission staff estimates and the Commission gravity model.

[a]Less than half of 1 percent.
[b]Not available.
[c]Less than $500,000.
[d]Represents over 90 percent of total Cuban imports of agricultural products.

The model implicitly assumes that Cuba will not grow significantly, so it is unable to afford to increase its imports significantly.

Trumbull critiqued this Commission gravity model.[3] He believes that the distance measure based on the distance between the largest city of each country does not adequately capture geographic characteristics. He suspects that U.S. trading partners are heterogenous in ways not accounted for by the model and that key variables are omitted from the model, which could bias the results. He argues that Cuban GDP would likely grow as the sanctions are lifted and that trade and Cuban GDP are thus endogenous. He also states that inferring the U.S. share of Cuban imports based on data from third countries is suspect because Cuba is unique. He argues that more sensitivity analysis should have been done, but that the results are believable despite the problems.

Spandoni argues that globalization has reduced the effectiveness of U.S. sanctions against Cuba. Non-U.S. transnational companies have invested in many sectors of the Cuban economy, and Cuba trades in a variety of goods with a number of foreign companies. For example, the Spanish firm Sol Melia manages and has equity interests in a number of Cuban hotels.[4] Despite the sanctions, Cubans have also benefitted from remittances from the Cuban

[3] Trumbull, "Imperfect Methodology but the Right Results? The USITC Report on the Economic Impact of U.S. Sanctions with Respect to Cuba," 105-109.
[4] Spandoni, "Effectiveness of Economic Sanctions in the Context of Globalization and Transnational Linkages: The Case of Cuba," 125.

diaspora, the majority of whom reside in the United States. Spandoni relies on a variety of case studies, Cuban government data, interviews, and secondary sources to examine U.S. financial flows in the Cuban economy and the effectiveness of sanctions, but he does not forecast what would happen if the sanctions were lifted.

Agricultural Exports

Two studies related to U.S. agricultural exports are reviewed in this subsection. Academics associated with Texas A&M prepared the first study that takes different projections of the increase in agricultural exports to Cuba and apportions the benefits to U.S. states. Their results vary based on the initial projections. Academics associated with North Dakota State University wrote the second study which shows that U.S. agricultural exports to Cuba are expected to increase as Cuban GDP rises.

Rosson and Adcock investigate the impact of increased agricultural exports to Cuba on the U.S. economy under three different alternatives.[5] These three alternatives assume, respectively, that the United States exports $37.5 million, $411 million, and $1.24 billion of agricultural products annually to Cuba. The second alternative is based on the 2001 USITC study, although it assumes that additional commodities are exported.[6] The third alternative assumes a total absence of sanctions, high GDP growth in Cuba, and large U.S. market shares of imports. Compared to current conditions, in which Cuba's total agricultural imports amounted to $1.04 billion in 2006, the third alternative is extremely optimistic.

Rosson and Adcock take the estimates of increased exports and apportion them to U.S. states based on each state's share of total domestic production of the particular commodity. They then use a detailed input-output model to estimate the related production that would be needed to meet the increases in demand for U.S. exports.[7] The method used in this study is fairly standard and is generally acceptable, but it has some limitations. If Cuban demand for U.S. exports increases, U.S. exporters will meet this demand in part by diverting shipments from other foreign destinations and possibly from the United States, as well. Thus, the net increase in final demand for U.S. products will be less than the increase in exports to Cuba. Also input-output analysis assumes that prices and technology are fixed. As export demand increases, prices for domestic goods may change, and substitution may occur among different inputs in the production process. For example, increased exports could raise the domestic price of the exported commodity. Thus, it is likely that this input-output study overestimates the economy-wide benefits from increased exports to Cuba.

Mattson and Koo examine Cuban agricultural production and estimate the Cuba-U.S. bilateral agricultural trade that would occur if restrictions were completely eliminated.[8] They observe that U.S. exports of wheat, corn, poultry, and rice to the Caribbean region excluding Cuba account for, respectively, 99 percent, 99 percent, 92 percent and 33 percent of total exports to the region. They then calculate potential U.S. exports to Cuba based on those market shares. While this approach may provide a theoretical upper bound for U.S. exports,

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[5] Parr and Adcock, "Economic Impacts of U.S. Agricultural Exports to Cuba."

[6] Ibid., 3-6. The Center for North American Studies estimated exports for sectors not included in the 2001 ITC study.

[7] Specifically they use the IMPLAN model which captures disaggregated inter-industry flows plus final demand; IMPLAN then generates the total effects for each U.S. state.

[8] Mattson and Koo, "An Overview of Cuban Agriculture and Prospects for Future Trade with the United States."

attaining such high U.S. market shares appears improbable in the current policy setting in which Cuba has made its intention known not to become overly reliant on any one country.

Mattson and Koo also estimate relationships between Cuban imports of wheat, rice, corn, soybeans, and poultry and Cuban real per capita GDP.[9] They find a significant positive relationship between per capita GDP and imports of wheat, corn, and poultry; the relationship was insignificant for the other commodities. They use these relationships to calculate how much Cuban food imports would increase as its GDP increases by different amounts. Many economists have studied the relationship between income and food consumption with fairly consistent results: poor people in developing countries often spend very high proportions of their income on food, but the share of total expenditures devoted to food purchases decreases as income increases.[10] Despite Cuba's issuance of ration cards for basic food needs and its good health indicators, indications are that it will increase food purchases as its GDP improves,[11] and imports will continue to be a major source of food. Although Mattson and Koo's work is not without some problems, it stresses an important relationship between income and consumption. As Cuba's GDP improves, food imports are likely to increase as well, but at declining rate.

Travel and Tourism

This subsection looks at two studies of the economic benefits of removing the restrictions on U.S. travel to Cuba. The first study (Sanders and Long), which was prepared for the Cuban Policy Foundation, estimates an intermediate to large response according to the time allowed for Cuban infrastructure to adjust. The second study, which was prepared for the Center for International Policy, looks at the long run and estimates a very large response. Neither of these studies considers the effect that increased numbers of U.S. tourists might have on other tourists visiting Cuba. It is likely that large increases in the numbers of U.S. tourists would raise prices in the Cuban market and push non-U.S. tourists toward other markets; thus, the net increase in the total number of tourists visiting Cuba would be less than the increased number of tourists from the United States. The net change in the number of tourists is also the appropriate number to use in calculations of the effects on U.S. exports to Cuba from increased travel.

Sanders and Long estimate the effect of removing the travel ban under three scenarios that (1) keep other restrictions in place, (2) allow U.S. companies to carry passengers to Cuba but restrict U.S. investment in Cuba, and (3) entirely eliminate the trade embargo.[12] They note that, although tourism has expanded significantly in Cuba, its numbers of arrivals per square kilometer and per kilometer of coastline remain low compared with other Caribbean destinations. Their method could be characterized as a thought experiment for each scenario informed by data and opinions of some travel industry experts. They assume that half the U.S. travelers to Cuba will be diverted from other international destinations and that the

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[9] They estimate separate single equation models for each commodity and include a constant, Cuban production of the commodity, and a time trend. These are not demand equations as no price variables are included; the specification may omit key variables as substitution among different commodities may be possible. Annual time series data from 1985 to 2000 is used, which is a very short series for statistical estimation. They do not report any tests for stationary or autocorrelation, and whether the time trend may be successful at removing any autocorrelation.

[10] A good summary of this literature appears in Angus Deaton, *The Analysis of Household Surveys: A Microenometric Approach to Development Policy*, chapter 4.

[11] Commission Hearing Transcript, 125-130.

[12] Sanders and Long, "Economic Benefits to the United States from Lifting the Ban on Travel to Cuba," 5.

other half will be induced to travel internationally instead of staying home. Although lifting the ban will likely spur some new additional travel, it is arbitrary to assume that this number is one-half. Their estimates of net increases of overnight visitors in the first year are, respectively for the three scenarios, 300,000; 475,000; and 500,000 and similar figures for the fifth year are 840,000; 1,330,000; and 1,400,000.[13] Given the many uncertainties, such as the degree to which Cuba opens up its market for investment, their method for estimating the number of tourists is generally valid.

Next, Sanders and Long project the increases in national income and jobs that would result from the increased travel to Cuba. The Commission does not find that this analysis is supported by evidence. Expenditures by U.S. citizens in Cuba are counted as imports of tourism services,[14] and imports enter the national accounting identity with a negative sign. Although it is likely that both Cuba and the United States would gain from full trade liberalization, it is unlikely that increases in imports of tourism services alone will lead to net increases in national income and jobs. To the extent that tour operators and others in the U.S. travel industry gain from liberalization of the travel sector, these gains would be transfers from other parts of the economy.

Robyn et al. examine the impact of removing the travel ban to Cuba.[15] They look at the long run and do not consider Cuba's supply of hotel rooms and related tourism services as a constraint. They make a separate estimate for Cuban Americans visiting their families in Cuba by assuming that these visits will occur at the same frequency as visits by Dominican Americans to the Dominican Republic. They base their estimate of tourist visits by assuming that U.S. citizens will visit Cuba in similar proportion to Canadians. This approach leads to estimates of an additional 289,000 annual personal trips by Cuban Americans and an additional 2.72 million annual trips by tourists; their total estimate (current plus additional) is that 3.2 million U.S. citizens will visit Cuba annually. They apportion the increase into diversions from other destinations and new demand based on two methods. First, they assume that all additional trips by Cuban Americans are new demand and that 20 percent of the tourist trips are new demand. Their second approach, which classifies 1.09 million annual trips as new demand, assumes that U.S. travel to Cuba will be proportional to Canadian travel to Cuba. By not considering any constraints on the Cuban side, Robyn and others' results represent an upper bound on the tourism response.

Robyn et al. forecast the increase in demand for U.S. carriers as a result of removing the travel restriction and the additional economic output and employment that this would generate. This part of their work is subject to the same concern as Sanders and Long's work. Increased tourism expenditures in Cuba represent an increase in imports, and nothing has occurred on the income side to suggest that aggregate employment will increase. The consumer's budget constraint has not shifted out, so the likely increases in the travel sector are transfers from other segments of the economy and not net additions.

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[13] Sanders and Long, "Economic Benefits to the United States from Lifting the Ban on Travel to Cuba," 11.

[14] These tourists will convert dollars to Cuban pesos to purchase goods and services in Cuba. Similarly expenditures by foreigners in the United States are counted as U.S. exports.

[15] Robyn, et al, "The Impact on the U.S. Economy of Lifting Restrictions on Travel to Cuba."

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