Statement of the
American Farm Bureau Federation

To: House Committee on Agriculture

"U.S. Agricultural Sales to Cuba"

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Presented by Bob Stallman
President, American Farm Bureau Federation

600 Maryland Ave. SW | Suite 1000W | Washington, DC 20024 | p. 202.406.3600 | f. 202.406.3606 | www.fb.org

My name is Bob Stallman. I am President of the American Farm Bureau Federation and a rice and cattle producer from Columbus, Texas. I appreciate the invitation to share Farm Bureau's views on U.S. agricultural exports to Cuba. Farm Bureau is the nation's largest general farm organization, with more than 6 million member families, representing producers of every commodity from every state as well as Puerto Rico.

While the United States has only been exporting U.S. agricultural products to Cuba for just over 10 years, we have seen the promise the market holds. Unfortunately, because of restrictions on U.S exports to Cuba, U.S. farmers have not been able to benefit from the full potential of the market.

Because of the market potential, the American Farm Bureau Federation has been an advocate for easing restrictions on exports to Cuba and is a supporter of H.R. 4645, The *Travel Reform and Export Enhancement Act*. We appreciate the leadership of Chairman Collin Peterson and Rep. Jerry Moran for drafting this legislation, and the efforts of other House members who worked together to develop this bill. This legislation will eliminate costly obstacles for American farmers interested in exporting to Cuba and will expand the potential for increase food consumption providing an even greater opportunity to export U.S. products to the market.

H.R. 4645 will increase agricultural exports and supply food to the Cuban people. U.S. agricultural exports to Cuba do reach the Cuban people and are not solely placed in hard-currency supermarkets. Cuba's agricultural production does not meet the food demands of the nation so they must import agricultural goods, if not many Cuban citizens would go hungry.

The Cuban Market

U.S. agriculture has seen significant growth and experienced significant setbacks since being allowed to trade with Cuba in 2000. We have seen our sales increase and decline over the years, but on average the United States has exported roughly $320 million in U.S. product per year since 2000. The factors that have contributed to these fluctuations can be attributed to U.S. regulation changes, cost of doing business with the United States, commodity prices, transportation cost, etc., but the major factor is that the United States is not viewed by Cuba as a reliable supplier due to our sales restrictions and the ability of the U.S. government to alter those restrictions at a whim.

The United States has exported a variety of commodities to Cuba. Of those commodities grain and feed has consistently been the top export group with sales of $369 million making up more than half of our total exports in 2008. With an 81percent increase from 2007 to 2008, corn and wheat have been the largest beneficiaries of these sales. Rice on the other hand had seen major growth until 2006 when exports reached a high of $39 million; since then rice sales have been on a sharp decline resulting in no rice sales in 2009.

Oilseeds are the second largest group of exports to Cuba. The majority of what Cuba is importing from the United States in this group consists mainly of soybeans and soybean products. Of these products the United States exported $135 million in 2008 and has seen a growth of 119 percent since Cuba began purchasing these products in 2002.

Since 2001 Cuba has been an importer of U.S. meats and dairy products. A majority of these sales have come from poultry purchases by Cuba. U.S. poultry sales showed nearly 80 percent growth in 2008 from 2007, with sales reaching a high of $139 million. U.S. dairy sales have been less regular with dramatic sales increases and decreases. In 2008, the United States exported more than $15 million in dairy products but those sales were a little more than half of what we exported during our top year, 2005($30 million).

While the above mentioned products represent our largest exports, the United States also exports products like pork, live cattle, dried beans and peas, fresh and dry fruits including apples, grapes and pears. U.S. agriculture sales to Cuba exponentially increased until around 2005; however, after 2005 sales dropped as Cuba increasingly turned to our competitors to fill its needs. This shift in purchases was a result of the increasingly complex sale requirements, which caused Cuba to view the United States as an unreliable supplier. The Foreign Agriculture Service, United States Department of Agriculture, trade data comparing the export information for 2009 compared to the same period in 2008 shows our exports dropped by 23 percent.

According to the U.S. International Trade Commission (ITC) report, "U.S. Agricultural Sales to Cuba: Certain Economic Effects of U.S. Restrictions," Cuba's value of agricultural imports more than tripled from approximately $500 million in 2000 to more than $1.8 billion in 2008. There is much more opportunity to expand the U.S. market share. The United States should be the preferred supplier in Cuba given our competitive prices, high-quality products and lower delivery cost due to proximity of our countries. Instead, we have opened the door to countries like the European Union, Brazil, Canada and Vietnam while hindering ourselves. At this point our competitive disadvantage in the market is not a result of the usual trade reasons, tariffs, partner-imposed sanitary and phytosanitary measures or other non-tariff barriers, but rather our own government-imposed restrictions.

Making U.S. Agriculture Competitive in the Cuban Market

The American Farm Bureau is not currently advocating fully lifting the embargo, but we believe now is the time for Congress to take action to ease some of the current restrictions. President Obama early last year took action to eliminate the restrictions placed on Cuban American travel and remittances, as well as restrictions allowing U.S. telecommunication companies to do business in Cuba. Steps have also been taken by the administration and some within Congress to engage with Cuba. This Congress passed a one-year measure to ease restrictions on "cash payment in advance," and a measure to allow travel to Cuba for agricultural sales to be done on a general license, which is currently being implemented.

What we are asking for from Congress and the administration is to give U.S. farmers the competitive advantage in Cuba that they should rightly have and the opportunity to increase U.S. agricultural exports. We believe the way to make that happen is to return "payment of cash in advance" to the commercial terms as intended by Congress, eliminate the need to go through third country banks, issue visas for Cuban agriculture inspectors and eliminating all travel restrictions on U.S. citizen travel to Cuba.

The Office of Foreign Assets Control (OFAC) re-defining “payment of cash in advance” negated what was the original intent of Congress, ignored the commercial definition to create a special definition that only applies to Cuba, increased the cost of purchasing our products and negatively impact our sales. The current definition does nothing to protect U.S. exporters but was put in place in an attempt to hinder U.S. exports. “Payment of cash in advance” was the method of doing business with Cuba prior to the change, and those who used this method previously are supportive of returning to what Congress had intended.

The opposition has tried to argue against this bill based on Cuba’s credit worthiness and the risk to U.S. suppliers. This bill does not allow credit nor are we asking for credit. This bill would still require Cuba to pay for U.S. purchases in cash. The issue of credit and Cuba’s ability to pay does not apply to what is proposed.

U.S. citizen travel to Cuba will create a new demand for food in the market, increasing the opportunity to sell U.S. agricultural product. To meet the demand Cuba will have to import more food. Cuba does not have sufficient agricultural production to meet its own consumption. Travel will also have a positive impact on the Cuban people and their food consumption habits. U.S. citizens traveling to Cuba will use dollars and many of those dollars will flow back to the Cuban people. This will increase the income of the Cuban people allowing them to purchase higher valued food products they previously could not afford.

Payment of Cash in Advance

On Feb. 22, 2005, the OFAC issued a regulation narrowing the application of the term “payment of cash in advance” for sales to Cuba. Under the new OFAC definition, cash payments for U.S. agricultural goods sold to Cuba are restricted to payments received prior to shipment of the goods from U.S. ports. This restriction is contrary to the *Trade Sanctions Reform and Export Enhancement Act of 2000* (*Export Enhancement Act*), which allows for the shipment of agricultural goods under a broader interpretation of “payment of cash in advance” terms, consistent with practices successfully used by U.S. exporters.

Most contracts made with the Cuban government for the purchase of U.S. agricultural products have used “payment of cash in advance” as the method of payment. Under its original interpretation, U.S. agricultural products could be shipped to Cuba but all certificates, title and ownership of the goods would only be transferred once payment was received from Cuba. Contracts now being made with Cuba are done under letters of credit from third party banks. These letters of credit have increased the cost of doing business with the United States which translates into a higher price for our commodities. The additional dollars Cuba spends for these transactions do not go to the U.S. farmer but rather the foreign bank carrying out the transaction.

Third Country Banks

Currently, Cuba must wire payments for U.S. goods through a third country bank in order for U.S. banks to receive the cash for the U.S. product to be delivered. This process comes with a high fee for handling the transaction, increasing the cost of purchasing agricultural goods from the United States. Having to go through a third country bank puts U.S. products at a disadvantage to those of our competitors. While U.S. telecommunications companies are authorized to receive payments directly from their Cuban counterparts, U.S. agriculture is singled out by law for the expensive, unnecessary and discriminatory requirement that payments must flow through foreign banks.

Removal of the Travel Ban

Lifting the travel restrictions on U.S. citizens will have a direct impact on U.S. agricultural sales. Increased travel to Cuba by U.S. citizens will boost food demand in the country and, coupled with other reforms, U.S. industry would expect to meet the increased food needs. The ITC study mentioned previously in this statement concurs that visitors would boost the demand for imported agricultural products. U.S. farmers have the capability to fulfill the demands of the Cuban citizen and the added demand of the country's visitors. This new demand also brings with it the opportunity to sell Cuba higher-valued products, increasing the overall value of our exports to the country.

Increased travel will also bring much needed funds to purchase U.S. commodities. Given that the United States would not extend credit to Cuba, Cuba would still be required to purchase product from the U.S. with cash. Those dollars received from U.S. visitors would be spent to meet those food needs.

Denial of U.S. Visas

Cuban travel has been denied by the United States for important meetings for Cuban officials, like veterinary officials, to confer with U.S. suppliers, inspect facilities, discuss sanitary and phytosanitary issues and verify U.S. procedures and standards associated with the sale of U.S. food and agricultural exports to Cuba. Visits of this type are routinely conducted by U.S. officials and U.S. importers in markets that sell to the United States. It is also customary practice for foreign purchasing agents and government technical teams to travel to the U.S. to meet with U.S. suppliers and tour facilities. The denial of the visas associated with these commercial visits from Cuban officials has drastically limited the export of some U.S. products, hindering our trade growth and is contrary to the spirit of the *Export Enhancement Act*.

Conclusion

U.S. agriculture's goal is to make the United States the number one supplier of food and agricultural product to Cuba. In order to achieve this goal, Cuba must also view the United States as its preferred supplier. Our competitors do not have the same obstacles in trading with Cuba we face. Eliminating these restrictions will decrease the advantages the United States has given our competitors and restore the advantage to U.S. farmers. These actions will make it easier for Cuba to purchase U.S. commodities and most importantly will reduce the cost of purchasing our commodities. U.S. agriculture is not requesting the embargo be lifted but rather for Congress to take the small step of lifting key restrictions that will increase U.S. agriculture's competitiveness in the market.

We hope that members of this committee, and the House, will support Chairman Peterson's and Rep. Moran's *Travel Reform and Export Enhancement Act*, *H.R. 4645*. The bill will reverse the restrictions on “payment of cash in advance,” eliminate the third country bank requirement and lift the ban on travel. Passage of this bill will make agriculture a strong player in the Cuban market and will increase U.S. agricultural exports.