

Despite hassles, trade with Cuba goes on

Exporting agricultural goods to Cuba is an arduous chore under tight U.S. restrictions, but deals continue to be made with Havana.

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Fidel Castro used to fete visiting American business delegations with mojitos at receptions in Havana. His brother Raúl has shunned that role since assuming power from the ailing Cuban dictator last summer, instead letting officials such as National Assembly President Ricardo Alarcón do the mingling.

Initial exuberance that Raúl Castro's transition to power would spur warmer political and economic relations with the United States has waned as the Bush administration has held its hard line. But despite the headaches that come with exporting agricultural and food products to Cuba, a steady parade of hopeful U.S. salespeople keeps slogging away.

In March, a Nebraska entourage led by Gov. Dave Heineman went to tout corn and soybeans, and Delaware -- on its first trade visit -- offered up poultry and winter wheat. In April, Idaho's Gov. C.L. Butch Otter led a 35-member delegation there to hawk peas, lentils and pork.

Raúl Castro's ascent to power "hasn't changed things at all either way" with respect to U.S. trade, says Kirby Jones, president of the U.S.-Cuba Trade Association. "It's totally seamless."

Last year, U.S. exports to Cuba dipped to \$340.4 million from \$350.2 million in 2005. By most accounts, exports of agricultural goods to Cuba will remain a fraction of what they could be as long as U.S. restrictions remain and Cuba has friends such as China that can help fill in its most severe food gaps.

"As long as Venezuela and China prop up Cuba economically, the island will make few reforms to reach out to the U.S., because it doesn't have to," said John S. Kavulich II, senior policy advisor to the U.S.-Cuba Trade and Economic Council. "Cuba wants more than anything else to be relevant in U.S. political discourse. Everything about the relationship between the two countries is political."

LEGAL REFORMS

The narrow trade now permitted stems from the U.S. Trade Sanctions Reform and Export Enhancement Act of 2000, which -- despite the U.S. trade embargo against Cuba -- allows sales of food and agricultural products to the island. A separate measure permits medical shipments.

But in February 2005 the Bush administration tightened its interpretation of the law, requiring that Cuba pay cash for purchases before they can leave U.S. ports -- an expensive hurdle. In addition, Cuba can't wire funds directly to U.S. banks; instead, it must get a letter of credit from -- or wire funds to -- a bank in a third country, typically France or elsewhere in Europe.

"Cuba would buy more if it didn't have to pay through a costly and time-consuming process," said Phil Peters, a vice president at the Lexington Institute, a policy research group in Arlington, Va. "It's kind of a crazy system. The trade is perfectly legal, but we treat the payments as if it's money laundering."

Another hurdle: U.S. businessmen must obtain a license to travel to Cuba to negotiate sales. The U.S. Treasury's Office of Foreign Assets Control sometimes denies licenses without explanation, says Jones. "No reasons are given, and it is common for letters and telephone calls to go unanswered -- sometimes for months."

Such barriers are drawing heightened scrutiny in Washington.

The International Trade Commission, at the behest of the Senate Finance Committee, is investigating the effects of U.S. trade and travel restrictions on U.S. exports of fish, forest and agriculture products to Cuba. The ITC will issue a report June 29.

The study comes as several bills are afoot in Congress to lift or ease the embargo, although the specter of President Bush's expected veto has stymied past legislative efforts.

"The current policies hinder further economic growth via trade with Cuba," Roger Johnson, North Dakota's agriculture commissioner, who has led five trade missions to Cuba since 2002, told an ITC hearing on May 1.

U.S. sales of soybean products to Cuba rose to \$91 million during fiscal 2006, from \$40 million in fiscal 2002. But the American Soybean Association says the United States is at risk of losing business.

"While countries like Venezuela, Brazil and Canada can trade freely with Cuba, the U.S. industry must work through third-party banks, apply for travel licenses and obtain cash in advance -- all of which are impediments to economic growth in Cuba and for the U.S. soybean producers," Richard Ostlie, president of the soybean trade group, said in a letter to the ITC.

RICE POTENTIAL

U.S. rice exports to Cuba rose to 157,744 metric tons during 2006, up 2.5 percent from 153,855 metric tons a year earlier. But American rice producers say that's a fraction of the business they could do with Cuba if the restrictions were lifted.

Cuba, with 11.4 million people, is a natural market, a stone's throw away from the United States. The USA Rice Federation, a trade group based in Arlington, Va., said that proximity allows cheaper transportation and the nimbleness of shipping smaller quantities, cutting storage costs. And many Cubans prefer the quality of U.S. rice.

Still, Cuba buys rice from countries like Vietnam, in part because current restrictions make the United States an "unreliable" supplier, said David Coia, a spokesman for the rice group, "and we can't offer credit like China or Vietnam or almost any other country."

FOOD CONTRACTS

Kavulich said Cuba uses food contracts to pressure U.S. firms to support an easing of trade sanctions. "It started in '03. Cubans started tying political activism with the amount of money companies may see from Cuba," he said.

"Cuba's purchases from the U.S. are driven at least as much by politics as economics," said William A. Messina, Jr. an agricultural economist at the University of Florida.

Currently Cuba seems to be making an effort to reach out to U.S. exporters: Alimport, its food import agency, will host a big trade expo with U.S. exporters in Havana May 28-31.

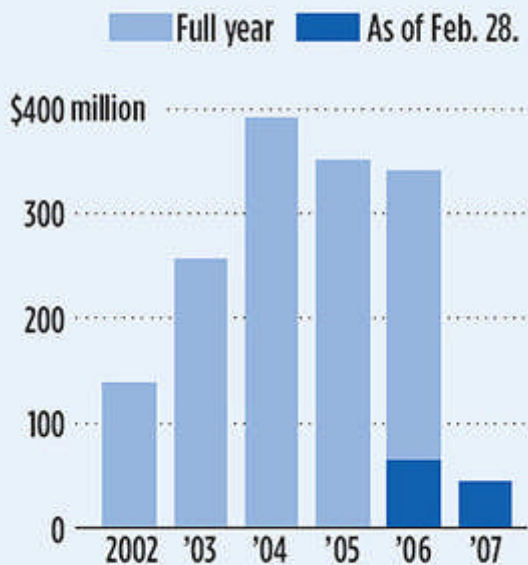
It will be the first big event targeting U.S. firms since the United States tightened restrictions two years ago. Some experts speculate Cuba may feel a bit encouraged by the Democratic Congress in the United States.

Neither Alimport's president Pedro Alvarez Borrego nor the Cuban Interests Section in Washington returned phone calls seeking comment.

But in an invitation letter to the American agricultural community, Alvarez Borrego said the agency expects to nail down "\$100 million to \$150 million" in contracts, including freight, to help meet demand for the second half of 2007. And the letter said: "The U.S. providers represented in person at the event with competitive bids will stand the highest chance to be awarded supply contracts."

SELLING TO CUBA

U.S. food and agricultural exports to Cuba permitted under the Trade Sanctions Reform and Export Enhancement Act dipped slightly in 2006.



SOURCE: U.S.-Cuba Trade and Economic Council

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