



Agriculture and
Agri-Food Canada

Agriculture et
Agroalimentaire Canada

Agri-Food Past, Present & Future Report

Cuba

July 2005



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Canada

Cuba

Past Present & Future Report - July 2005

Overview

Cuba represents an emerging market that offers strong potential for Canadian exporters. The number of consumers for western goods is high, as western tourists frequently visit the area. The Cuban economy is controlled by the state, as the government still adheres to socialist principles. The government owns and oversees most of the means of production in the country, and employs approximately 75% of the labour force. The government of Cuba has been making significant efforts to reintegrate into the global economy by developing strong relationships with the European Union, Canada and Latin America

The Republic of Cuba is the largest country in the Caribbean and represents nearly half of the Caribbean's total land mass. It is located just south of the tip of Florida, between the North Atlantic Ocean and the Caribbean Sea. Its neighboring countries include the Cayman Islands, Jamaica, Haiti and the Bahamas.

Canada - Cuba Relations

Canada's long-standing relationship with Cuba has grown significantly over the past ten years offering Canadians access to one of the few export markets not dominated by the United States. During the past decade Canadian companies have taken major positions in several of Cuba's key economic sectors while US competitors remain restricted by the economic blockade. For example there are dozens of joint ventures, in which foreign companies manage four-star and five-star hotels while ownership is retained by the Cuban state.

It is estimated that approximately 2 million tourists visit Cuba each year. In 2004, one quarter or 500,000 of those tourists were Canadian making Cuba one of the top three overseas vacation destinations for Canadians. Canadian tourism numbers are expected to reach 600,000 in 2005.

Canada is Cuba's 2nd largest trade partner and 5th largest import supplier, behind Venezuela, Spain, the US and China. Cuba looks to Canada as a strong trade partner and a leading contributor to the thriving tourist industry. Canada's exports to Cuba fluctuate yearly due to changing prices of individual products; however the top Canadian exports to Cuba have consistently been agricultural products.

Canada-Cuba Bilateral Trade	
Cuba Total Trade (2003)	
Exports	US\$1.2 billion
Imports	US\$3.2 billion
Trade balance	(US\$2 billion)
Canada- Cuba Trade (2004)	
Exports	\$322 million
Imports	\$590 million
Trade balance	(\$268 million)
Canada- Cuba Ag Trade (2004)	
Exports	\$66 million
Imports	\$7.2 million
Trade balance	\$58.8 million

- Cuba's top 10 imports are agri-food products.
- Besides agri-food products, Canada exports large amounts of machinery, motor vehicles and parts, communication equipment, tools, household goods and computer accessories to Cuba.
- Canada is heavily involved in Cuba's nickel industry. Nickel is generally Cuba's single largest export to Canada comprising roughly 80% of total trade.

Agricultural Trade

Although agri-food trade values fluctuate yearly, top Canadian exports to Cuba have consistently been agri-food products. Canada's imports from Cuba have dropped significantly over the past 3 years, from \$33.6 million in 2002 to \$7.2 million in 2004. Canadian exports to Cuba have been following a similar trend, dropping over 50% between 2002 and 2003, from \$81 million to \$40 million, but rebounded significantly in 2004 to \$66 million.

Canada's Top 5 Agricultural Exports to Cuba (2004)	
Peas, dried, shelled	\$25.7 million
Beans, dried, shelled	\$6.1 million
Skim milk powder	\$5.9 million
Swine cuts, frozen	\$4.1 million
Swine, frozen	\$3.3 million

- Cuba imports many agricultural products that are staples in the Cuban diet but cannot be produced locally, such as wheat and corn.
 - Canada's export of non durum wheat to Cuba dropped from \$4.8 million in 2002 to almost nothing in 2003, but increased again to \$2.2 million in 2004
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- Peas account for 39% of Canada's total agri-food exports to Cuba, at a value of \$25.7 million.
 - 66% of 2004 Canadian exports to Cuba were intermediate goods.
 - Cigars account for almost 70% of Canada's agri-food imports from Cuba.
 - Canada's import of Cuban cucumbers increased from \$5,540 in 2003 to \$355,530 in 2004
 - Agricultural exports for the general population do not consist of processed or luxury food stuff, these goods are restricted to the tourism sector.

Economy

Cuba's on-going economic development has revolved around efforts to restructure public entities and open the economy to foreign investment. The government currently employs 75% of the labour force and monitors the small private sector.

Economic recovery in Cuba has been fairly steady since the near decade-long recession of the 1990s, caused by the loss of Soviet aid and domestic inefficiencies. However the average Cuban's standard of living remains at a lower level than before the depression of the 1990's. Cuba experienced some economic momentum in 2003, but hurricane activity in 2004 took a significant toll on the economy.

In 2004, the Cuban government decided to prohibit the use of the US dollar for domestic transactions, and it strengthened its controls over US dollars entering the economy from tourism, remittances, and trade. Although US currency is restricted for domestic transactions in the economy, trade of food and drugs with the US has been permitted since the signing of the Trade Sanctions reform and Export Enhancement Act in 2000. This Act lifted some of the strict trade restrictions made by the US trade embargo. Trade

between US and Cuba has since increased significantly reaching just under US\$260 million in 2003.

As part of their initiative to reintegrate into the global economy, Cuba is making significant efforts to increase domestic and international communications and computer networks. This includes replacing the current analogue telephone technology with digital services and the installation of optical fiber cables throughout the island to allow efficient data and voice transmission.

Current

Gross Domestic Product (2004)		
GDP	US\$33.92 billion	
GDP growth		3 %
GDP/capita	US\$ 3000	

- Cuba's GDP has been steadily increasing for the past decade, at a rate between 1% and 2%.
- Inflation has been steadily decreasing since 2000.

- In order to stabilize the Cuban peso, the government recently announced that the US dollar would no longer be permitted as a medium of exchange for domestic transactions.
- Foreign investment is a big part of Cuba's economy. It usually is in the form of a joint venture with the Cuban government holding half of the equity.

Forecast:

- If the tourism industry continues to grow as expected, it will result in a stronger Cuban economy.
- Inflation is expected to remain fairly stable in the short term supported by the use of price controls and a one-time build up of official US dollar resources.
- Increased foreign investment is expected as the Cuban government lessens the restrictions on their foreign investment policy.
- Strengthened economic relationships with western economies will enable Cuba to acquire knowledge and advanced technologies, aiding their overall economic position.
- Pressure continues to increase within the US to lift all restrictions on trade with Cuba. Should this occur an unprecedented boom in the Cuban economy is expected.

Consumer Market

The market for exporting food to Cuba is dependent upon the tourism industry. With the exception of basic foodstuffs and commodities for the local population, the government of Cuba imports food products to meet the demands of tourists. The demand for imported food is expected to increase as tourism continues to grow, creating an ever expanding market for familiar North American products. Tourists to Cuba are generally from Canada,

Italy, Spain, Germany, and France. Canadian agri-food producers could benefit from penetrating this growing market.

- Cuba's tourism industry generates more than US\$2 billion in revenues accounting for more than 40% of the country earnings.
- Tourism has averaged 15% annual growth since 1990, compared with the overall economy which has averaged between 2-3% growth annually.
- The restaurant and food services sector which serves the tourism industry requires high quality imported food. This is due in large part to the fact that almost 70% of Cuban hotels have a 4-5 star rating and most offer all-inclusive meal packages.
- The market for imported meat for tourists is growing. Cuba has a history of importing a substantial amount of poultry.
- The advertisement of imported goods in Cuba is prohibited when aimed at the local population. The government permits advertisements only when the intended target audience is tourists.
- Cubans are large consumers of soft drinks and beer.

Competitors

Cuba's main trading partners are Venezuela, Spain, Canada, the Netherlands, and China. A deal between Venezuela and Cuba in 2000 significantly increased the amount of Venezuelan petroleum exports into Cuba at preferential rates and elevated Venezuela into their prominent commercial partner position.

- Relations between the US and Cuba have shown signs of improvement. In 2001, the US softened their embargo on trade with Cuba to allow the export of agricultural products for the first time since 1963. This move has pushed the US to be Cuba's 3rd largest import supplier despite the fact that restrictions to trade remain. If these restrictions are lifted completely, Canada can expect to face increasingly fierce competition for the Cuban market from the US, due to the close proximity of the US and Cuba, as well as the large number of Cuban expatriots residing in the US.
- Since December 2001, Cuba has purchased more than \$1 billion worth of agricultural commodities from the U.S. pursuant to the U.S. Trade Sanctions Reform and Export Act of 2000, which effectively removed agricultural commodities from the 40 year trade embargo. As a result of this legislation, Canadian agriculture and food exports to Cuba went from \$171 million in 1999, to \$125 million in 2001, to \$40 million in 2003. Exports rebounded slightly 2004 to \$66 million.
- Cuba imports a large amount of wheat. Canada is Cuba's second largest supplier of wheat, but falls behind Cuba's main supplier France. In 2001 Cuba imported US\$110 million worth of wheat from France, while only importing US\$23 million from Canada.

Access Issues

The government closely controls which products enter Cuba, but market access is gradually becoming easier. Restrictions are in place to govern which products may be imported by specific enterprises. Government ministries have traditionally been the main buyers, but reforms to the system have helped open and diversify the market to joint ventures between the government and international investors.

Cuba is a member of the World Trade Organization (WTO). The average tariff applied to most favoured nation (MFN) countries is 10.7%, although the MFN tariff can be as high as 30%. These tariffs apply to countries which Cuba shares a bilateral trade agreement, including Canada. Duty free status may be granted to imported entities from foreign partners included in MFN agreements. Cuba follows tariff classifications based on the harmonized system at the 8 digit level.

- Imports of food products, food additives, and other items for personal use must be registered with the National Food Health and Nutrition Institute. Documentation from the exporting country must be included in the application to prove it is an officially registered and legal commodity.
- Food products and their corresponding label samples must register with the Ministry of Agriculture, before the products can enter the country.
- Labeling in Cuba is in accordance with international standards, and Spanish must be used unless the product is clearly identifiable.
- Requirements for pre-packaged food include: name of product country of origin, commercial brand, name and address of producer, weight, ingredients, additives, production and expiry dates, and instructions for use.
- Cuba is currently reorganizing its Free Trade Zones into "Logistic Areas" and most licenses granted to companies to operate in the former Free Trade Zones have been cancelled. Traditionally, these areas provided an excellent entry point for the Cuban market, whether or not they will continue to provide opportunities once they are reorganized is as yet unknown.
- New radiological equipment was recently installed at the port of Havana to inspect containers reducing inspection time significantly, from 4 hours to approximately 20 minutes.
- Current restrictions: No credit cards associated with any bank in the United States (e.g., Diner's Club, American Express or VISA) will be accepted. If associated with a Canadian bank VISA will be accepted.

Currency Developments

A lingering problem of the Cuban economy has been the use of the US dollar for domestic transactions over shadowing the country's actual currency, the Cuban peso. The US dollar entered Cuba mainly through the tourism industry and remittances from abroad. This created a dual currency economy, and a separate market where only the US dollar would be accepted. Items of high demand and necessity such as soap and cooking oil tended to only be readily available at "dollar stores" while they were hard to come by in the Cuban peso market, which increased the demand and value of the US dollar in Cuba.

In an effort to strengthen the Cuban peso, the Cuban government banned the use of the US dollar for domestic transactions in November of 2004. Prior to the ban, the US dollar had been the primary currency of exchange in Cuba. The Cuban government strengthened their position on the US dollar even more by instating a 10% surcharge to

exchange US dollars for pesos. This move is enticing people who remit money to Cuba to convert US dollars into other currencies prior to sending. Tourists are urged not to travel with US dollars to avoid the additional surcharge.

Agriculture Sector & Policies

The agriculture sector in Cuba is large, but requires modernization in order to fully maximize agri-food potential. Long term estimates project that Cuba may eventually produce enough food to satisfy most of its own needs, but until new programs generate consistent results, the importation of goods will remain necessary. Reforms to the agriculture sector have already begun. In the mid-nineties, to encourage economic activity large state farms were broken up into co-operatives with the option of selling surplus production in the peso market after meeting their quota for the state.

- Cuba is a net importer of food, averaging US\$600 million annually. Main imports include grains, meat, soybeans, vegetable oil and dairy products.
- Cuba's main domestically produced agricultural products are sugar, tobacco and tropical fruits. Approximately 60% of the total land mass of Cuba is devoted to agriculture, of which 70% is tilled and 20% is irrigated.
- Cuba produces a substantial amount of vegetables and tropical fruits. Cuba is the world's third largest producer of grapefruits, which represents 50% of Cuba's processed food and together with oranges, comprises almost all of the country's citrus production. Most of the tropical fruits and vegetables are consumed in the domestic market.
- The government privatized the pork industry in the early 1990's and the country has since seen a steady growth in pork production. This has led to increased demand for protein meal, acquired through imports of oilseed.
- Tobacco is a valuable agricultural commodity contributing to the export sector, and Cuban tobacco is renowned around the world. Unfortunately, inadequate infrastructure decreases production, making the industry incapable of meeting world demand.
- The sugar industry is a mainstay of the Cuban economy despite problems with production and management. Approximately 40% of tilled land is devoted to the cultivation of sugar cane. The sugar industry employs almost one-sixth of the population and consumes one third of Cuba's resources.

Additional Information

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For more information on Cuba please visit:

Latin Business Chronicle - Cuba
(<http://www.latinbusinesschronicle.com>)

Economic Commission for Latin America and the Caribbean - Preliminary Overview of the Economies of Latin America and the Caribbean 2001
(<http://www.eclac.org>)