

OPPORTUNITIES AND CHALLENGES FOR AGRICULTURE TRADE WITH CUBA

HEARING BEFORE THE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

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CONTENTS

	Page
HEARING(S):	
Opportunities and Challenges for Agriculture Trade with Cuba	1

Tuesday April 21, 2015

STATEMENTS PRESENTED BY SENATORS

Roberts, Hon. Pat, U.S. Senator from the State of Kansas, Chairman, Committee on Agriculture, Nutrition, and Forestry	1
Stabenow, Hon. Debbie, U.S. Senator from the State of Michigan	2
Leahy, Hon. Patrick J., U.S. Senator from the State of Vermont	4

Panel I

Scuse, Hon. Michael T., Under Secretary, Farm and Foreign Agricultural Services, U.S. Department of Agriculture, Washington, DC	5
Borman, Matthew S., Deputy Assistant Secretary for Export Administration, U.S. Department of Commerce, Washington, DC	6
Smith, John, Acting Director, Office of Foreign Assets Control, U.S. Department of the Treasury, Washington, DC	8

Panel II

Beall, Michael V., President & CEO, National Cooperative Business Association, Washington, DC	25
Harris, Terry, Senior Vice President, Marketing and Risk Management, Riceland Foods, Stuttgart, AR	27
Kaehler, Ralph, Farmer and Owner, Kaehler Cattle Company, St. Charles, MN	30
Keesling, Doug, Fifth Generation Owner, Keesling Farms, Kansas Wheat, Chase, KS	32
Rosson, C. Parr, III, Ph.D., Professor & Department Head, Department of Agriculture Economics, Texas A&M University, College Station, TX	34

APPENDIX

PREPARED STATEMENTS:	
Beall, Michael V.	44
Borman, Matthew S.	49
Harris, Terry	52
Kaehler, Ralph	58
Keesling, Doug	60
Rosson, C. Parr, III	64
Scuse, Hon. Michael T.	73
Smith, John	77
DOCUMENT(S) SUBMITTED FOR THE RECORD:	
Hon. Pat Roberts:	
Bipartisan group of former Secretaries of Agriculture, prepared statement	86
U.S. Agriculture Coalition for Cuba, prepared statement	88
Florida Department of Agriculture and Consumer Service, prepared statement	89

IV

	Page
Hon. Pat Roberts—Continued	
U.S. Agriculture Coalition for Cuba, Charter part I, prepared statement ..	91
U.S. Agriculture Coalition for Cuba, Charter part II, prepared statement .	95
Beall, Michael V.:	
The National Cooperative Working Group	98
National Cooperative Business Association letter to Commerce Secretary .	101
U.S. Cuba Cooperative Working Group Report	103
National Cooperative Business Association letter to Treasury Secretary ...	120
QUESTION AND ANSWER:	
Beall, Michael V.:	
Written response to questions from Hon. Pat Roberts	124
Written response to questions from Hon. Debbie Stabenow	125
Borman, Matthew S.:	
Written response to questions from Hon. Pat Roberts	128
Written response to questions from Hon. Debbie Stabenow	129
Written response to questions from Hon. Kirsten Gillibrand	130
Harris, Terry:	
Written response to questions from Hon. Pat Roberts	131
Written response to questions from Hon. Debbie Stabenow	132
Kaehler, Ralph:	
Written response to questions from Hon. Pat Roberts	134
Written response to questions from Hon. Debbie Stabenow	135
Keesling, Doug:	
Written response to questions from Hon. Pat Roberts	137
Written response to questions from Hon. Debbie Stabenow	138
Rosson, C. Parr, III:	
Written response to questions from Hon. Pat Roberts	140
Written response to questions from Hon. Debbie Stabenow	142
Scuse, Hon. Michael T.:	
Written response to questions from Hon. Pat Roberts	145
Written response to questions from Hon. Debbie Stabenow	145
Written response to questions from Hon. Kirsten Gillibrand	147
Smith, John:	
Written response to questions from Hon. Pat Roberts	149
Written response to questions from Hon. Debbie Stabenow	151
Written response to questions from Hon. Kirsten Gillibrand	152

OPPORTUNITIES AND CHALLENGES FOR AGRICULTURE TRADE WITH CUBA

Tuesday, April 21, 2015

UNITED STATES SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC

The Committee met, pursuant to notice, at 10:25 a.m., in room 328A, Russell Senate Office Building, Hon. Pat Roberts, Chairman of the Committee, presiding.

Present: Senators Roberts, Boozman, Hoeven, Ernst, Sasse, Thune, Stabenow, Leahy, Brown, Klobuchar, Bennet, Gillibrand, Donnelly, and Heitkamp.

STATEMENT OF HON. PAT ROBERTS, U.S. SENATOR FROM THE STATE OF KANSAS, CHAIRMAN, U.S. COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

Chairman ROBERTS. Good morning. The Committee will come to order. I call this meeting of the Senate Committee on Agriculture, Nutrition, and Forestry to order.

At the beginning of this Congress, I was extremely hopeful that trade would be one area where we could work across the aisle to find agreement. I still maintain that hope. We certainly hope that is the case. We are working very hard on the Finance Committee to make that happen, as well as this Committee.

Tomorrow the Senate Finance Committee will mark up the Trade Promotion Authority bill. That allows our negotiators to garner the best deal possible for American exporters. TPA is good for agriculture, and I look forward to getting it passed.

International trade of American agriculture products is critical, absolutely critical to the Nation and to the Nation's economy and critical to our Kansas farmers and ranchers. We are talking about 71,000 jobs, about \$12 billion.

I have long fought to eliminate barriers to trade, and I believe that we should continue to work toward new market access opportunities for agriculture products, and that is what we are here to talk about today.

The United States and Cuba certainly have a long history full of contention and instability. There is no shortage of opinion from Members of Congress about the relationship between our two countries, both present and future.

Some are concerned about human rights, rightfully so, others about socioeconomic ideology. But those concerns are not what this Committee will focus on this morning. Today we are here to discuss the role of agriculture, opportunities and challenges in Cuba.

For over 50 years, agriculture exports to the island have seen many ups and downs, sometimes due to the politics and sometimes due to Mother Nature and the tropical storms that she brings. This is not an issue we are going to be able to fix overnight. It will take effort, hard work, in addition to bills in Congress to truly normalize trade with Cuba.

The decisions that are made regarding increased trade with Cuba must be made very carefully. Four months ago, the President announced a major shift in U.S. policy towards Cuba. It is my hope that in the future the President will work with the Congress to determine the best path forward. Foreign policy does not happen in a vacuum. We have to take a realistic approach and work out a step-by-step plan towards lifting the embargo. This is a goal that should include Congress, will include Congress.

Today we will hear from an impressive panel of experts, from the regulators responsible for writing our policies toward Cuba to the producers who seek to grow the market for their products. I understand that, like myself, many of our witnesses here have traveled to Cuba to see firsthand what challenges and opportunities do exist. I look forward to hearing about what we might be able to achieve with more trade with Cuba, but we also need to hear about the difficulties that lie ahead. If we want to be successful in creating a new system of engagement with Cuba, we are going to have to really put in the work.

Agriculture has long been used as a tool, not a weapon, a tool for peace and stability. It is my hope that Cuba will embrace the practices of free trade, enterprise, and commerce so that both countries will gain from increased relations.

Earlier this year, the U.S. Agriculture Coalition for Cuba was launched. They have shared a statement and additional information in support of our work today, and I ask unanimous consent that it be entered into the record at this point. Without objection.

[The following information can be found on page 88 in the appendix.]

Chairman ROBERTS. I look forward to hearing from our witnesses, and with that, I will recognize our distinguished Chairwoman Emeritus, Senator Stabenow, for any of her remarks.

**STATEMENT OF HON. DEBBIE STABENOW, U.S. SENATOR
FROM THE STATE OF MICHIGAN**

Senator STABENOW. Thank you very much, Mr. Chairman. It is great to have an opportunity to talk about this topic. I really appreciate the opportunity to work with you on trade opportunities between the United States and Cuba and to work with all the Committee. We thank those who are with us, the officials and industry representatives testifying today, for your part in the process. We look forward to hearing from you.

Improving trade with Cuba represents not only a great opportunity for American farmers and ranchers and manufacturers, but a meaningful way to help rebuild trust between our two countries. After more than 50 years of stalemate, it is time for a new policy in Cuba.

When I visited Cuba earlier this year with Senator Leahy, who is really one of the Senate's experts if not the expert, I think, on

various pieces of Cuban culture and economy and so on for so many years, we visited just days after the President eased trade restrictions. This is the second time I had the opportunity to be in Cuba with Senator Leahy and Senator Flake and others, and it was very different the second time with people—instead of being very reserved and cautious, Cubans were coming up to us and were very eager to develop a new relationship. It was just a very different tenor. But we can only do that with meaningful steps that will soften the barriers that exist between us and eventually eliminate them.

America's farmers and ranchers are uniquely positioned to lead the way, and I agree with Senator Roberts that agriculture is in a very key position.

Consider this: In 2014, the U.S. exported just over \$290 million in agricultural goods to Cuba. Good start, but this is a country only 90 miles off our shore. We can do a lot better than that. Cuba's own import agency, estimates it will receive approximately \$2.2 billion in U.S. dollars' worth of food and agriculture this year, and we can do even better than that. That type of economic potential deserves a chance to succeed and is one reason why many of the largest producer groups, trade associations, and companies from within agriculture have come together to increase engagement.

Many on the Committee, as Senator Roberts indicated, have taken the opportunity to go to Cuba in addition to Senator Leahy, again, who he and his staff have been real leaders in this effort in developing our relationship with Cuba, but Senator Klobuchar, Senator Boozman, and Senator Heitkamp I know are working in a bipartisan way as well, and we appreciate your leadership and your efforts.

The commitment to democratic ideas and human rights we share as Americans are best realized through engagement, and I believe our bedrock principles accompany every single product that our farmers and ranchers send to Cuba.

Last week's actions by the President are a step forward in normalizing a relationship and will test the commitment of the Cubans to this process. But even while we are making significant progress in rebuilding our relationship, the policies governing trade between our countries are not yet designed to allow a steady flow of goods and services.

So, Mr. Chairman, I look forward to working with you and others on the Committee to find a path for U.S. financial institutions to be able to safely and securely work with Cuban purchasers, including extending the lines of credit, to look for a broader range of goods and services and supplies that we can export to Cuba. These measures are not only good for business, but they will help Cuba's agricultural capacity and make the island a better trading partner in the long run. I know that, working together, we can write the next chapter in the U.S.-Cuban relationship.

Thank you.

Chairman ROBERTS. Thank you, Madam Chairwoman.

I now have the pleasure of introducing a friend and colleague of mine, Senator Leahy, the undeclared but yet accurate king of the dairy policy, and the dairy policy posse, who comes in at the 11th hour and 59th minute to help us write a farm bill from time to

time, for brief remarks, sir, so you may go manage a bill on the floor in your very snappy attire.

**STATEMENT OF HON. PATRICK J. LEAHY, U.S. SENATOR FROM
THE STATE OF VERMONT**

Senator LEAHY. Thank you, Mr. Chairman. I like being with a Chairman who knows how to comb his hair.

[Laughter.]

Chairman ROBERTS. I appreciate so much that you said that. Just let it go, okay?

Senator LEAHY. I cannot do as well as you do with the tones on your phone, but I commend you for holding this hearing in all seriousness. This is an important hearing. Here is Cuba 90 miles from our shores. We have the ability to help them gain control of their own lives, but we can also expand markets for American farmers selling their product. There will be some winners as part of the normalizing of trade with Cuba. I think we have to temper our hopes and remember that Cuba's economy is in shambles. Its people are suffering. But I would note what Senator Stabenow said, and she went and spent time with the agricultural community there on our last trip.

I have been going to Cuba numerous times in the last 20-some-odd years. This last trip you saw a huge difference. I started seeing American flags in the stores, American flags on the taxis. You know, a lot of these taxis are mid-1950s automobiles, and they have flags of different countries. I had never seen American flags on them before. Now we saw them.

Now, we are not going to have an immediate commercial windfall for American agriculture, but Cuba has used our embargo as a phony excuse for its own failed policies. Now we have a chance to create a more efficient and less burdensome opportunity for Cubans to buy U.S. products. Canada and the European Union are there already. The last time we were there, they were talking about things that we produce, that the Cubans were bringing in from New Zealand, and we are 90 miles away.

So I think that American agriculture has often been the bridge in normalizing with countries. This will allow us to do that, but also let the Cuban people see that it is their own government, not the United States, that is to blame for the poverty and dysfunction and repression in their country. Mr. Chairman, I say all that really to applaud you for doing this. I think we can all learn by this, and I look forward to my next trip down there.

Chairman ROBERTS. Well, thank you, sir. I thank you for your comments, and I know you have to manage a bill on the floor. That is something that we are doing differently this year. We are actually managing bills. Good luck in that respect.

Senator LEAHY. Having been here for 40 years, it is kind of nice to go back to the old way. Thank you.

Chairman ROBERTS. Welcome to our first panel of witnesses before the Committee this morning.

The Honorable Michael Scuse serves as Under Secretary for Farm and Foreign Agricultural Services. Under Secretary Scuse has previously served as the Deputy Under Secretary for Farm and Foreign Agricultural Services as well as Secretary of Agriculture

for the State of Delaware. Welcome, Mr. Under Secretary. I look forward to your testimony.

STATEMENT OF THE HONORABLE MICHAEL SCUSE, UNDER SECRETARY, FARM AND FOREIGN AGRICULTURAL SERVICES, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Mr. SCUSE. Chairman Roberts, Ranking Member Stabenow, and members of the Committee, I am pleased to come before you today to discuss agricultural trade with Cuba.

As you know, in December, President Obama announced policy and regulatory changes to chart a new course in U.S. relations with Cuba. The measures also seek to expand opportunities for America's farmers and ranchers to sell goods in Cuba.

In January, the Treasury Department published regulatory changes including a revised interpretation of the term "cash in advance" and authorization for U.S. banks to establish correspondent accounts at Cuban banks. These changes had been sought by members of the U.S. agricultural community.

Fifteen years ago, Congress lifted the decades-old ban on the export of agricultural products to Cuba. But despite this opening, U.S. Government agencies, including USDA, remain prohibited from providing export assistance and credit guarantees for exports to Cuba. As Secretary Vilsack has said, he cannot use a single dollar of trade promotion funding for trade with Cuba. These restrictions apply to USDA's very successful market development programs like the Market Access Program and the Foreign Market Development Program.

The policy changes announced by the President are significant, but legislative hurdles remain. Bills have been introduced to further open trade with Cuba, including legislation sponsored and co-sponsored by members of this very Committee. USDA stands ready to provide technical assistance to Congress as it considers further openings with Cuba.

If the embargo is removed, we could be poised to become a major agricultural trading partner with Cuba. Cuba depends on imports to feed its 11 million citizens. According to the World Food Program, Cuba imports about 80 percent of its food, which means the potential for our producers here is significant. The United States has potentially huge advantages in exporting to Cuba. Chief among them is location. We are less than 100 miles away, as has been pointed out, meaning lower shipping costs and transit times, especially compared to our current top competitors—Brazil and the members of the EU.

In fiscal year 2008, U.S. agricultural exports to Cuba reached \$658 million. However, by the end of last fiscal year, they had fallen to \$300 million. At the same time, global agricultural exports to Cuba have doubled over the past decade to approximately \$2 billion.

Right now, the largest U.S. agricultural export to Cuba is poultry, followed by soybean meal, soybeans, and corn. I am confident that U.S. agricultural exporters can capture the market in Cuba, but I do not want to minimize the obstacles. Cuba is a country with

limited foreign exchange. We are also behind our foreign competitors in market development.

Another impediment is Cuba's import policy requiring all U.S. imports to be channeled through one state corporation—Alimport.

The policy changes towards Cuba are just one example of opportunities to help our farmers and ranchers build on their record agricultural exports. In fiscal year 2014, agricultural exports reached a record \$152.5 billion and supported nearly 1 million American jobs. The potential for U.S. agricultural exports around the globe is, in fact, considerable. It is critically important that Congress quickly consider and pass bipartisan Trade Promotion Authority legislation introduced last week. TPA will help ensure that America's farmers, ranchers, and food processors receive the greatest benefit from trade agreements currently being negotiated.

In conclusion, there is potential for expanding agricultural exports to Cuba over time. Agriculture has served as a bridge to foster cooperation, understanding, and the exchange of ideas among people. I have no doubt that agriculture will play an important role as we expand our relationship with the Cuban people.

Thank you, Mr. Chairman and members of the Committee.

[The prepared statement of Mr. Scuse can be found on page 74 in the appendix.]

Chairman ROBERTS. We thank you, sir.

Mr. Matthew Borman currently serves as the Deputy Assistant Secretary of Commerce for Export Administration. In this position, Mr. Borman is responsible for implementing the Bureau of Industry and Security controls on the export of dual-use items for national security, foreign policy, non-proliferation, and short-supply reasons.

Welcome, Mr. Borman. I look forward to your testimony. I thank Under Secretary Scuse for being on time. Just to remind the witnesses that most Senators can read, all of their staff can read. Feel free to summarize your statement, sir.

STATEMENT OF MATTHEW S. BORMAN, DEPUTY ASSISTANT SECRETARY FOR EXPORT ADMINISTRATION, U.S. DEPARTMENT OF COMMERCE, WASHINGTON, DC

Mr. BORMAN. Thank you, Mr. Chairman, and thank you, Ranking Member Stabenow and the members of the Committee. It is a pleasure to be here.

Of course, I will address the role of the Department of Commerce with regard to agricultural trade with Cuba. As you know, in terms of the Cuba embargo, the Commerce Department is responsible for regulating the export of items to Cuba. The Treasury Department, of course, is responsible for financial transactions, including travel.

As you know, on December 17, 2014, the President announced the most significant changes in Cuba policy in more than 50 years. As the President noted, these changes are intended to create more opportunities for the American and Cuban people by increasing commerce, travel, and the free flow of information. To implement these changes, we at the Department of Commerce's Bureau of Industry and Security amended our Export Administration Regulations on January 16, 2015, to expand the authorization for exports and re-exports of certain categories of items to Cuba.

Principally, we expanded the License Exceptions available for consumer communication devices to facilitate the flow of information among Cubans and between Cubans and the outside world. We also expanded the ability for U.S. exporters to send gift parcels and consolidated packages to Cuba without a license. Then we created a new License Exception Support for Cuban People. So in our system, a License Exception means as long as the exporter complies with the conditions of the License Exception set out in the regulations, they do not have to come into Commerce, submit a license application, and wait for the Government to say yes or no and give them a license. So exporters always feel that License Exceptions facilitate trade in whatever transaction they cover.

The principal focus of the License Exception Support for Cuban People is getting items into the hands of the private sector in Cuba. So under that License Exception, U.S. persons are now able to export building materials for private sector building activity in Cuba. They are able to export items going to the private agricultural sector in Cuba, the agricultural co-ops, again without a license; and generally items that go to private sector entrepreneurs. So the focus of that License Exemption is to make it much easier for the export of items from the United States to the private sector in Cuba, including the private agricultural sector in Cuba.

The License Exception also authorizes the export of items to the Internet infrastructure in Cuba to, again, facilitate communication among the Cuban people and between the Cubans and the outside world.

You will notice in all that I have mentioned, there is just a small focus on agriculture. We did not change our primary regulatory process for agricultural exports to Cuba, and the reason we did not is that it is pretty well governed by the Trade Sanctions Reform Act. So under that Trade Sanctions Reform Act, we have an expedited process in place where a U.S. company that wants to make an agricultural export to Cuba comes into Commerce, we refer it to the State Department, we get a position from the State Department, and we give them an answer typically in 12 days. So it is an expedited process, but it still is a licensing process. Again, that is largely governed by the requirements of the Trade Sanctions Reform Act.

Under that process, exporters can get an online application. As I mentioned, we consult with the State Department. We also screen the end users of the agricultural exports to make sure that they are not involved in terrorist or proliferation activities.

Then the last requirement is that those exports that are licensed must be made within the year of the license.

Last year, we processed 56 notifications under this expedited process, valued at about \$2.4 billion. That is what we authorized. As you heard, the actual dollar value of exports is far less than that, roughly \$290 million. So you can see U.S. exporters see a tremendous market in Cuba by the authorizations they seek from us even though currently they only export a small fraction of that.

As you also heard, all of those exports go through Alimport, which is the Cuban agricultural import agency. So there are really no changes in our regulations specifically on agricultural exports to

Cuba because, again, that is limited by the Trade Sanctions Reform Act.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Borman can be found on page 49 in the appendix.]

Chairman ROBERTS. Thank you for your statement.

Our next witness is John E. Smith, Acting Director, Office of Foreign Assets Control, the Department of Treasury. Mr. Smith serves as the Acting Director of the Department of Treasury's Office of Foreign Assets Control, or OFAC—that is Mr. Smith's acronym for which he works—which is tasked with administering economic trade sanctions to advance U.S. national security and foreign policy goals. Prior to joining OFAC, Mr. Smith served as an expert to the United Nations' Al Qaeda and Taliban Sanctions Committee and as a trial attorney at the U.S. Department of Justice. Welcome to your new job.

Thank you for joining us, Mr. Smith. I look forward to hearing from you, sir. Please proceed.

STATEMENT OF JOHN E. SMITH, ACTING DIRECTOR, OFFICE OF FOREIGN ASSETS CONTROL, U.S. DEPARTMENT OF THE TREASURY, WASHINGTON, DC

Mr. SMITH. Good morning, Chairman Roberts, Ranking Member Stabenow, and distinguished members of the Committee. Thank you for the opportunity to appear before you today to discuss our recent amendments to the Cuban Assets Control Regulations and the implications for agricultural trade with Cuba.

On December 17, the President announced a number of significant policy changes regarding our relationship with Cuba. To implement the sanctions policy changes, Treasury's Office of Foreign Assets Control, or OFAC, amended the Cuban Assets Control Regulations, and our colleagues at the Department of Commerce amended the Export Administration Regulations on January 16. These amendments ease sanctions related to Cuba in a number of key areas, including trade, financial services, travel, and remittances. These changes are intended to enhance commerce and communications between the United States and Cuba and to help the Cuban people to freely determine their own future.

OFAC expects its recent rule changes will benefit American exporters in at least four key respects:

First, OFAC expanded the financing provisions of the regulations to allow America's agricultural exporters to be more competitive in selling their wares to Cuba.

Second, OFAC broadened the ability of U.S. financial institutions to provide services and effectuate payments for exporters and others authorized to engage in trade with Cuba.

Third, OFAC authorized trade delegations and exporters satisfying the conditions of its regulations to travel to Cuba—without needing to come into OFAC first to apply for and receive a license—and expanded the ability of airlines and other U.S. travel service companies to offer more reliable and potentially cheaper travel with far less paperwork to Cuba.

Finally, OFAC permitted certain humanitarian projects in Cuba, including those related to agricultural and rural development that promote independent activity.

With respect to the first change, OFAC modified the regulatory interpretation of the term “cash in advance,” which describes a financing requirement for agricultural trade between the United States and Cuba that is imposed by statute. Previously, OFAC had determined the statutory term to mean that the U.S. exporter had to receive payment from the Cuban importer prior to the goods leaving American shores—an interpretation that U.S. exporters said made their products less competitive than those from other countries. OFAC has now revised its interpretation of the term to mean that payment from the Cuban purchaser is required now prior to transfer of title to and control of the goods. This change should provide for a more efficient, less expensive means for Cuban importers to purchase American-produced agricultural, medical, and other authorized products.

U.S. exporters, however, continue to face barriers, including that all U.S. agricultural goods are imported via Alimport, a Cuban state-run monopoly. Also, U.S. exporters continue to be prevented by statute from offering financing inducements, such as loans, for authorized agricultural exports, a limitation that may prevent them from being as attractive to Cuban importers as third-country competitors.

With respect to the second key regulatory change, to improve the speed, efficiency, and oversight of authorized payments between the United States and Cuba, OFAC has authorized U.S. banks to establish correspondent accounts at financial institutions in Cuba. This change is intended to ease the flow of authorized payments and eliminate the need for third-country payment structures, which should benefit U.S. exporters to Cuba.

With respect to the third key regulatory change, it is important to note that OFAC’s Cuba sanctions program is the only such program that restricts travel to a country. The recent regulatory amendments eased travel restrictions by generally licensing certain additional travel within the 12 existing categories of travel in OFAC’s regulations, without the need for a specific license from OFAC. This means that exporters and other travelers who satisfy the criteria in our regulations may travel to Cuba and conduct travel-related transactions there without requesting or receiving individual authorization from OFAC.

With respect to the fourth key regulatory change, and to help strengthen Cuban civil society, OFAC eased certain restrictions on remittances to Cuba and authorized remittances to certain individuals and independent nongovernmental organizations in Cuba for humanitarian projects, including those related to agricultural and rural development. Increased remittances will afford individual Cubans with increased financial resources to purchase American-produced agricultural goods.

Thank you, and I look forward to answering any questions.

[The prepared statement of Mr. Smith can be found on page 78 in the appendix.]

Chairman ROBERTS. To the entire panel, thank you again for taking the time to share your professional experiences and perspec-

tives about the opportunities and the challenges we face in opening up trade with Cuba.

For the entire panel, what was the administration's process in preparing for this major policy shift in the United States' relationship with Cuba? What was the involvement of the stakeholders in determining what changes could be made? How have you worked with industry during the regulatory amendment process? A big question, hopefully a short answer. I apologize for that. Under Secretary Scuse?

Mr. SCUSE. Mr. Chairman, we have been working with the co-operators now for quite some time, not just at the national level but also at the State level. It has been evident now for a number of years that our stakeholders have wanted Cuba opened up for the markets that—for the products that our farmers and ranchers produce in this country, which are the best to be found anywhere in the world. We have been at a very big disadvantage because of the restrictions that have been in place.

But our stakeholders have made it known very clearly that this is a country that they want to do business in. When you look at—I will give an example, not because Betsy Ward is sitting behind me, but rice, half the rice consumed in that country is imported, and it is coming from Vietnam. It is not coming from the United States, and it should be.

So our stakeholders, again, this has been something they have been wanting for a great deal of time, and we look forward to the opportunity to eventually get products in there on a level playing field.

Chairman ROBERTS. Mr. Borman.

Mr. BORMAN. Thank you, Mr. Chairman. As far as the process goes, we work very closely with our colleagues in the executive branch to identify ways that we could facilitate trade to the private sector in Cuba within the bounds of the existing embargo, and that is how we can go from individual license requirements to license exceptions. Since the announcement of our regulations, we have probably done several dozen outreach events, both from Washington and across the country, where we explain the changes and answer questions. We estimate we have probably individually talked to, as part of these events, well over 3,000 people. So we continue to solicit feedback from those who want to understand what the regulations are.

Chairman ROBERTS. I appreciate that. Mr. Smith.

Mr. SMITH. I would echo the comments from my colleagues here. We work very closely within the executive branch to utilize some of the comments that we have received from industry and Members of Congress over the years about how we could better change our regulations, and we have worked with Commerce and other agencies since that time to actively promote our regulatory changes so people know what the new rules are.

Chairman ROBERTS. This is for Under Secretary Scuse. I have traveled to Cuba, as many others have done. Sometime back, Senator Max Baucus, now the Ambassador to China, and I went down—we did not tell anybody; we just went down—and for 18 hours discovered the world according to Fidel Castro, and then also

with an ag group trying to establish trade. I want to make sure that we go about this change in the right way.

After a very long history of little or no meaningful engagement with Cuba, many of these folks have come down, met with people, and then been informed, yes, you can trade, only to find out you could trade with hospitals, schools—and what was the other one? I will think of it in a minute. Three very limited situations. Then all of a sudden, you come up against the state-owned enterprise, and that is where it ended. So all of the talk and everything happened, and nothing really happened.

So do you envision the reestablishment of diplomatic relations to be helpful to agricultural trade? Are there any concerns you have regarding this renewed relationship, the process to establish these ties, and its interaction with exports to and agricultural development within Cuba, sir?

Mr. SCUSE. I think normalizing relations and opening up trade, Mr. Chairman, will have a tremendous impact on agriculture. The United States is the only country, to my knowledge, that has to go through the state-owned corporation of Alimport to get its products in there. So hopefully with the normalization of relations and opening of trade, that restriction would, in fact, be lifted.

Number two, there has been a study done by Texas A&M as well as the American Farm Bureau that said once relations are normalized and trade is opened up, there will be a significant increase in the purchase of products by Cuba. What the study showed was that U.S. sales of agricultural supplies to Cuba could exceed \$1 billion. So I think that is a tremendous increase over the \$300 million that we are selling today.

Chairman ROBERTS. This is for all of the panel, and I apologize to my colleagues for going just a tad over time. All of you made reference to Alimport, the state-run monopoly through which all U.S. agricultural imports are channeled.

By the way, it was churches, schools, and hospitals we were able to export product to, and then we hit a brick wall.

As the U.S. begins to implement changes removing restrictions on our side of the transaction, what commitments, if any, have been made by the Cuban Government to provide the same ability that our competitors receive to trade with other Cuban organizations? Any one on the panel. Mr. Smith, we will try you first.

Mr. SMITH. I would have to say that is a question I would largely defer to the State Department. I think that is something that we would expect as part of a normalization of relations, that would be discussed as part of the talks, and that would be something that we would expect to open up as part of that process. I do not know of any commitments that have been made, but, again, I would have to refer that to the State Department.

Chairman ROBERTS. Mr. Borman.

Mr. BORMAN. I agree with Mr. Smith and also note that we have an ongoing series of discussions with Cuban Government officials, and I expect that this certainly would be one of those topics that will come up in those sector-specific discussions.

Chairman ROBERTS. Under Secretary Scuse.

Mr. SCUSE. No, I would defer to the answer of my colleagues.

Chairman ROBERTS. Senator Stabenow.

Senator STABENOW. Well, thank you very much, Mr. Chairman. When I was last in Cuba, I had the same conversations with the Secretary of Agriculture about Alimport and the process for them. They were indicating about 80 percent of the farmland is still owned by the government, about 20 percent by the private sector. I said, "Well, can we sell to the 20 percent? Can we sell farm equipment to the 20 percent?" No. It has got to all at this point go through the same process. So there is a lot of change that needs to occur.

I do want to stress that—and I know we will hear from the second panel, but we have tremendous opportunities. When Senator Leahy was talking about products from New Zealand, they are getting milk from New Zealand in powdered milk form, and so I talked to our Michigan milk producers who would be happy to oblige, as I know others would as well. We are a whole lot closer. There are potatoes and beans and a whole range of things that are available, and apples seems to be a delicacy at Christmastime. I said, "We can give you Christmas every day." So we have a lot of opportunities.

Let me ask, Under Secretary Scuse, there is an expression that says the first step to achieving success is showing up, and I think that is really true on trade, showing up and also our ability to market. So you mentioned the Market Access Program and the other tools at the Department of Agriculture, and I wonder if you might speak more to what—while they are not currently authorized in Cuba, how would you envision the USDA's MAP programs going forward and creating opportunities and tools for American agriculture?

Mr. SCUSE. Well, again, if we were allowed to use our marketing programs such as our Market Access Program, it is an area where we work with our cooperators to go in, to do the trade missions, to look at ways to develop markets and what the actual needs are through the Market Assistance Program, help our producers, help the different commodity groups make inroads into establishing markets in that country. The Foreign Market Development Program was where we actually worked with the cooperators to do studies on what the demands are for different products.

So if we were allowed to use these products, as well as do a trade mission to Cuba, I think it would go a long way in getting back much of the market that we have lost in the past. But the lack of the ability to use these programs as well as our inability to extend credit is the main issue why we have lost our market share since 2008. The economists at the University of Florida did a study, and what their study showed was that the biggest loss or the reason for the most loss in our market share there was our inability to extend credit as our competitors, the EU and Brazil and others, are doing.

So the playing field right now is not level, Senator. A level playing field, they are going to buy the best products from the United States.

Senator STABENOW. Well, we heard that over and over again as well when I spoke to the minister of agriculture in Cuba. We heard over and over again the same thing with the foreign minister, foreign relations, talking about the lack of credit.

When we look at how we get through that—and you have all spoken to it, but I wonder if anyone wants to comment further on the specifics of what we need to do to make sure that process is open. The President has taken the first step, taking out the intermediary, being able to allow payment not before the shipment leaves but at a later point when it is in process and arrives. But we all know that the issue of credit, whether it is using USDA credit opportunities, other credit opportunities, is a serious issue for us.

What do we need to do to be able to make that happen? Is this all about lifting the embargo completely? Or are there other things that we should be doing?

Mr. SMITH. I could start out and answer. At least one provision that is at issue is the provision in the TSRA statute that prohibits any financing of goods, agricultural goods and others, to go to Cuba other than third-country financing or payment by cash in advance. So we are not allowed to offer any kind of payment deals, payment terms other than going through a third country to receive that financing or to pay the Cuba importer in advance of the goods being turned over. I think that is what my colleague has indicated is necessary to be able to extend credit. We would need to remove that statutory prohibition.

Mr. BORMAN. I would also add clarity on the provision of TSRA that appears to require an individual license for any ag export to Cuba, to change that, or make it clear that we could allow it by license exception would also really facilitate ag exports to Cuba. That is what we have heard from U.S. agricultural exporters.

Senator STABENOW. Right. Under Secretary Scuse, is it those two things specifically, or is there anything else from the USDA's standpoint that we need to be changing to create opportunities for you to fully provide assistance?

Mr. SCUSE. Well, again, I think those are the biggest changes that we need to have made so that we could use, again, our marketing money, as well as the commodity groups with their check-off funds, because they are not allowed to use their check-off funds for promotion in Cuba either. So those changes would allow us to do marketing in Cuba as well as give us the ability to extend credit, again, to put us on a level playing field with our competitors.

Senator STABENOW. Thank you.

Mr. Chairman, as you know, there is a hearing going on in Finance. I am going to step over there for a moment and then come back. So be on your best behavior while I am gone.

[Laughter.]

Chairman ROBERTS. I will try to do that and would urge you to do the same on behalf of a good trade bill. Thank you.

[Laughter.]

Senator STABENOW. Yes, that is right.

Chairman ROBERTS. Senator Boozman.

Senator BOOZMAN. Thank you, Mr. Chairman, and thank you all for holding this very, very important hearing. I believe that the way that you change the world is through personal relationships. If we are serious about really bringing real change to Cuba, we need to expose the Cuban people to America. We are not only trading our products, but we are trading our democratic ideals. Cuba

represents a remarkable opportunity for American farmers, but it is also an opportunity for Cubans to gain access to safe, affordable, and high-quality agricultural products from the United States.

I am encouraged by recent steps to reform the U.S.-Cuba relationship. Boosting our commercial ties would have significant benefits for both of our economies. In my State, it is estimated that easing finance and travel restrictions with Cuba will result in an increase of over \$35 million in agricultural exports from Arkansas annually.

Mr. SCUSE, let us talk again a little bit about what percentage of the food that Cuba consumes is actually grown in Cuba.

Mr. SCUSE. According to the World Food Program, 80 percent of their food is imported.

Senator BOOZMAN. What countries—you mentioned Vietnam, I believe, as—

Mr. SCUSE. Vietnam is supplying half the rice. If you look at corn, corn is coming from Brazil and Argentina. If you look at wheat, wheat is coming from the European Union and Canada.

Our sales from the United States to Cuba currently, 50 percent of our sales are poultry products; 25 percent of our sales are made up of soybean meal and soybeans. So that makes up three-quarters of the sales from the United States.

Senator BOOZMAN. What about the quality of Vietnam rice compared to American rice?

Mr. SCUSE. Well, Senator, I am real partial to U.S. products.

[Laughter.]

Mr. SCUSE. I said earlier, I think our farmers and ranchers produce the very best products to be found anywhere in the world, and I am going to stick to that.

Chairman ROBERTS. Said very well.

Senator BOOZMAN. Exactly. I do think that is important in the sense that it is not only an opportunity, but it is an opportunity for the Cuban people.

Mr. Smith, you have talked a lot about easing financing and things like that. Out of the things that we are doing, what is the most important thing that we need to be doing?

Mr. SMITH. Well, I think when you started out, you talked about travel between the American people and Cubans. I think that is right that, as the President said, and I think you have said, the best ambassadors for America can be ordinary Americans going to travel and embodying our ideals. We generally licensed or authorized travel within the 12 categories that we have. Congress has prohibited any further opening for tourist travel under the TSRA statute, so that is a statutory prohibition. We also have a statutory prohibition with respect to not only private assistance to Cuba for exports, for agricultural exports, but also for U.S. Government exports.

Senator BOOZMAN. Very good.

Do you agree with that, Mr. Borman? Or have you got any other—

Mr. BORMAN. No; I certainly do. One other thing that I would point out, in TSRA there is also a prohibition on U.S. Government export promotion for trade with Cuba. So that really limits the Commerce Department's ability to carry out the kind of trade pro-

motion and market analysis work that it does in virtually every other country of the world.

Senator BOOZMAN. Again, you guys can jump in, but even with the changes that we have made, is it fair to say that the majority of the restrictions regarding trade are still in place?

Mr. SMITH. It is correct that most trade, most imports, most exports, most other transactions remain prohibited.

Senator BOOZMAN. So we have got a good step in the right direction, but we have got a long way to go.

You know, we have talked about financing. Are you aware of any other countries that go through the financing scheme that Americans have to go through?

Mr. SCUSE. You mean to get products—

Senator BOOZMAN. The financing restrictions.

Mr. SCUSE. No, I am not aware of any other country that has those type of restrictions. Senator, we do trade in approximately 200 countries around the world.

Senator BOOZMAN. So America is unique in that regard. Very good.

In dealing with the Cubans, how does Cuba differ from other major export markets in terms of how normal commercial operations work?

Mr. SCUSE. Well, again, as I pointed out earlier, we are restricted to dealing with one state-owned corporation, Alimport, for access for our U.S. products. So that is unique, and it does present its own problems.

Senator BOOZMAN. Mr. Borman.

Mr. BORMAN. My understanding is that for virtually all imports into Cuba, regardless of the product category, they have to go through some Cuban Government import agency.

Senator BOOZMAN. Mr. Smith.

Mr. SMITH. The other differences, the financing terms, as we have talked about, in most other contexts the exporter could get financing of some kind, either from the U.S. or from the importer. That cannot occur here.

Senator BOOZMAN. Thank you, Mr. Chairman, and thank you all very much for being here.

Chairman ROBERTS. Senator Donnelly.

Senator DONNELLY. Thank you, Mr. Chairman, and I would like to thank all the witnesses.

I am a big supporter of increasing American exports to world markets, and I am intrigued by the possibility of opening the Cuban market, not only for Hoosiers but for all of our country to export the things we build and produce.

But the concern is I want to make sure that the Cuban people actually benefit from it. You know, what can we do from a policy perspective to better ensure that the benefits of trade reach the Cuban people as opposed to all the products going into one agency and then being divvied out? What do you see as the keys to making sure that the Cuban people actually benefit from this?

Mr. SCUSE. Senator, I think that by normalizing relations, by breaking down the restrictions that we currently have for trade, the Cuban people are going to benefit from that right away. If you look at just the cost in transportation, again, rice coming from Viet-

nam and you look at the cost of that, corn coming from Argentina, wheat coming from the European Union, we have a tremendous advantage in logistics and being able to supply them top-quality products at what I would believe would be a more reasonable price than what they are currently paying for products shipping from those countries all over the world. So I think that there would be an immediate benefit.

Could there be additional benefits? If, in fact, we are treated like other countries and do not have to go through one state-owned corporation for our products, which I believe and hope would happen, then I think there would be additional benefits.

Senator DONNELLY. One of my concerns is just what you referred to, which is having to go through Alimport, the state agency there. We talk about the higher quality. I have been to my friend Senator Boozman's home State, the extraordinary rice they produce there, the pork products produced in my home State, and all of us. We talk about the benefits of lower price, easier transportation, and all of those things. The question is: How do we make sure that lower price actually gets passed on so they are not paying—the Cuban people are not paying the same and that this group who will set it, in effect, if you know what I mean?

Mr. SCUSE. Yeah, I understand the concerns, but, again, hopefully once relations are normalized and trade is liberalized, again, I would hope that we would be treated like the other countries that are currently trading with Cuba so they do not have to go through one state-owned corporation for those products.

Senator DONNELLY. This would be for any of you. When Canadian products are sent to Cuba, how are they entered into the country? Who are they distributed through, do you know?

Mr. BORMAN. I do not know.

Senator DONNELLY. Do they have to go through Alimport?

Mr. SCUSE. To the best of my knowledge, no. The United States has to go through Alimport.

Senator DONNELLY. So that is one of the points I would like to make as you talk to State, as you move forward with this. One of my concerns and I know a lot of my colleagues' concerns is that we be treated the same as everybody else. That is the way the Cuban people benefit, that our products are able to go directly to the Cuban people, that we are treated the same, and I think that much of what we look at as we move forward will be dependent on that being incorporated into any agreement that comes through.

Thank you, Mr. Chairman.

Chairman ROBERTS. We thank you, Senator.

Senator Hoeven.

Senator HOEVEN. Thank you, Mr. Chairman. I actually want to pick up on a point that Senator Donnelly is making, and that is, I think there has to be a carrot and a stick to what we are doing here. We want to expand ag trade. That is good for our farmers. Hopefully that is good for the Cuban people. But at the same time, we want to put more pressure on the Cuban Government to change its policies on human rights.

So what can we do, as we work here on ag trade, to make sure that we are doing that? How do we get these products down to the small businesses and the entrepreneurs that are actually trying to

make something happen in terms of free enterprise in Cuba? How do we at the same time create some pressure on the Cuban Government, on the Castro regime, to change and to particularly change in regard to human rights? I would like to hear from each one of you on that.

Mr. SCUSE. Senator, as you well know, coming from the big ag State that you are from, agriculture throughout history has been a way to break down some of the barriers that we have faced. If we can open up trade with Cuba and—because they are only supplying 20 percent of what they currently consumer, but the demand is certainly there. There is a way to help build the agricultural sector in that country, which would create jobs, which would create income, which would create more demand. As that happens, I think you are going to see an awareness. Just opening up the country and normalizing relations, there will be an awareness of the people that I do not believe currently exists. So I think this is a really good first step to helping the Cuban people.

You know, our policies over the last 50 years have not been one that has provided that openness, that transparency, and the education about the United States that I think normalizing relations and opening up trade will.

Senator HOEVEN. Mr. Borman, you and I talked specifically before the meeting about how do we make sure that these restaurants and other small businesses that people in Cuba are trying to get going—I mean, how do we support that effort as we do this?

Mr. BORMAN. Several ways. One is, of course, the folks who make the exports from the United States know who they are intended for and they typically know those individuals, because they are often relatives who are running the bed and breakfast, the auto repair shop; and if the items do not get to them, they will hear about that. We have a very good working relationship with a lot of the exporters from our enforcement side to make sure that the items go to where they are supposed to go.

Senator HOEVEN. See, that is right on the mark. Now you are starting to talk about actually helping people, entrepreneurship, business enterprise, the kind of things that hopefully will create some pressure for change over there. So do you have a way to enforce that if we are going to have food products or other products going in there to make sure that they are actually getting to these small businesses that are trying to get going?

The other thing is payment. How are you going to make sure that people get paid for products that they ship into that market?

Mr. BORMAN. Right. Well, so far we have not heard any complaints of U.S. exporters not getting paid, and I am sure we would, and I think—

Senator HOEVEN. Well, that is because the old policy was cash in advance. You are changing that, aren't you?

Mr. BORMAN. Well, but remember, it is still cash on delivery, so—

Senator HOEVEN. Cash when you change title.

Mr. BORMAN. Right. But that is still—and, again—

Senator HOEVEN. Delivery, the product is delivered. It is there.

Mr. BORMAN. Right.

Senator HOEVEN. Which limits your ability to go get it, doesn't it?

Mr. BORMAN. Well, but, again, if that, in fact, happens, we will find out about that quickly, and then we will have to decide—

Senator HOEVEN. Again, go back to getting it to those small businesses, how you enforce that.

Mr. BORMAN. Well, again, the first part is we make sure that the folks who want to make the exports understand who the small businesses are and what the limits are. Two, remember, the Cuban people are very aware of these changes, and if over time they do not see any significant changes, that is going to create more pressure on the government internally. We have already seen exports made to the private sector agricultural co-ops in Cuba. We have seen that in the trade data.

Mr. SMITH. I think we can continue to focus on the Cuban people as we make our changes. I think the recent round of changes that we made were very much focused on the ability of the Cuban people, and to strengthen the Cuban people. We increased their ability for communications, for Internet, for other things so that they could better understand the changes that were being made. We also increased the limits that can be given on remittances, the financial amounts that U.S. citizens can give to Cubans, and we increased those amounts for support for the Cuban people, humanitarian projects, and other things that would help agricultural development as well, including microfinancing activities. So those are very much focused on the individual Cubans, the small Cuban development businesses that might want to grow, and it was the focus of our change.

Senator HOEVEN. I think it is very important that you are focused on that area, including putting information into that market every way you can, because as we provide people with more information, I think that also helps with their efforts to try to force change from the inside as we try to force change from the outside.

A final question for Mr. Scuse. What food products, farm products do you particularly see as opportunity areas? You said three-fourths of our exports now are poultry and soybeans. What else do you see as good opportunities?

Mr. SCUSE. Well, I think we have a great opportunity to increase our exports of corn. There is no reason why the European Union and Canada have the wheat market. That market should also be ours. I think there is a great opportunity for us to have the rice business in Cuba. I think it was pointed out earlier in this meeting, there is a great opportunity for dairy and dairy products.

Senator HOEVEN. Thank you.

Chairman ROBERTS. I thank the Senator for his most pertinent comments and thank the panel for responding.

Senator Heitkamp.

Senator HEITKAMP. Thank you, Mr. Chairman, and thank you for holding this meeting.

We have asked the witnesses probably three or four times now about Alimport, and you all said you hope that we will see this restriction lifted. I think I can remind you hope is not a strategy, and we are hopeful that you all—hopeful—will take the concern that is

being expressed today about Alimport back to your smaller groups as you discuss opportunities going forward.

We have long been concerned about the extension of credit for ag transactions and trade. Hopefully, I think tomorrow, we are going to try to take a move in the right direction. I think you guys have highlighted the number one thing that we think we can deal with, which is Section 908. I personally support lifting the embargo entirely. However, that may be a bridge too far for this Congress. So we have to take these baby steps.

With that, I have a couple specific questions for you, Under Secretary. To date, the Federal check-off dollars have not been used for promotion of trade for Cuba. The loose reasoning, I think almost an assumption, is that this is due to the language of TSRA, which precludes the use of any United States assistance, including United States export assistance. Of course, the check-off dollars are not taxpayer dollars. They are producer dollars. The Federal check-off program is set so that farmers elect a board of peers who decide how those check-off dollars are used.

It is not tax money, and as a result, does USDA recognize the difference between your Government assistance programs like MAP and FMD and producer-raised and controlled check-off funds? Can producers utilize their own check-off dollars for promotion for activities in Cuba? If not, why not?

Mr. SCUSE. My understanding, Senator, is that the Federal check-off funds cannot be used for trade promotion in Cuba. Now, if it is——

Senator HEITKAMP. I am asking you why.

Mr. SCUSE. My understanding is it is because of the current law that is in place.

Senator HEITKAMP. I am suggesting that maybe the current law is being broadly interpreted, and you might want to go back and take a look to see if we can make that change without legislative changes.

Mr. SCUSE. Okay. We will do that, but I also understand—it is my understanding that if there is State check-off money, that can be treated differently. But the Federal dollars, the Federal check-off money cannot be used. But, again, we will go back and take a look at just what the law says and if it can be used.

Senator HEITKAMP. Yes, I think just to reexamine that policy.

Mr. Smith, I am running out of time, but I want to go back to the cash in advance original definition and the other changes you are making to facilitate more efficient and affordable exports to Cuba. At this time, do you feel like the administration has gone as far as legally possible, in terms of the definition, to open up opportunities? Were there other things on the table as you discussed the changes that you did make, that maybe you said, well, maybe we should not do that? Are there other kinds of policy things that were abandoned that maybe we should reexamine?

Mr. SMITH. In terms of the restrictions on financing, I think the definition that we use is the definition that had been in appropriations bills from the Congress. That had been as far-reaching as I had heard in terms of transfer of title and control. So it is hard to imagine that you could interpret cash in advance far beyond trans-

fer of title, because it is largely the last step before you actually turn over the goods.

So there has been no other definition that I have heard that could meaningfully interpret that statutory term.

Senator HEITKAMP. So you mean cash in advance means cash in advance?

Mr. SMITH. That is what I mean.

Senator HEITKAMP. Okay. Finally, Mr. Scuse, I know that you do not have any boots on the ground in Cuba, but you do have folks in DC who follow exports and our competitors closely. We believe we grow the highest-quality products with the nearest market. Cuba obviously is a huge opportunity for my State and the States that are represented in the Ag Committee.

Given that export assistance funding is prohibited by TSRA, are you still allowed to place someone within the Havana embassy that could make those contacts and begin to do that groundwork without crossing the boundary? Are you intending to do that at USDA?

Mr. SCUSE. Well, correct me if I am wrong. I do not believe we have an embassy just yet.

Senator HEITKAMP. Well, we are hopeful.

Mr. SCUSE. Okay. So am I. We can put individuals in there on a short-time basis for whatever assistance may need to be needed to look at different projects or to help them with different regulations that we may need. But that is only short term.

Long term, I would hope that when the day comes that we have an embassy there, we would work with the State Department, and we would be able to put staff in that embassy to help us facilitate trade and to move American products into Cuba.

Senator HEITKAMP. How many staff do you have currently in Cuba?

Mr. SCUSE. To the best of my knowledge, we do not have any at USDA.

Senator HEITKAMP. Do you believe that you are prohibited from having staff in Cuba right now?

Mr. SCUSE. You know, I do not know, to be quite honest with you. Again, to have full-time staff in Cuba, I do not believe that we would have the need right now to have any full-time staff until trade is actually opened.

Senator HEITKAMP. I think you get my intention, which is we think that this is going to happen probably sooner rather than later. So we want to hit the ground running, and we would appreciate it if you guys would take a look at what kind of opportunities you could avail yourself of today that could, in fact—once we get things lined up—facilitate further trade.

Mr. SCUSE. Senator, I believe that when that day comes, we will be able to act very quickly.

Chairman ROBERTS. Senator Klobuchar.

Senator KLOBUCHAR. Well, thank you very much, Mr. Chairman. Thank you for holding this hearing. It is good to see you, Under Secretary Scuse. We love you in Minnesota because you were willing to come out to a forum I held on Cuba in February, and that means a lot to us in Minnesota.

Senator HEITKAMP. Everybody in North Dakota agrees. We claim you as our own.

Senator KLOBUCHAR. Exactly. As you know, we discussed at that forum—you did a great job, by the way—the potential for the U.S. to export products to a country that is just 90 miles off our shores, 11 million people. When I went there a few months ago with Senator Warner and Senator McCaskill, I was able to see the new port that is being built, which is a very big port, and it is going to replace the Port of Havana, which will be used for tourism. But when I saw that port, I thought, “If they are going to bring in goods here and sell things in Cuba, we want them to be American goods.” As you know, I am carrying the bill to lift the embargo, and I appreciate the support of Senators Enzi, Flake, Stabenow, Leahy, Durbin, and Paul. There are other Senators that are interested. We are adding to our numbers.

We know it is going to take a while to get it done, but that is truly the way, I think you would agree, Under Secretary Scuse, to have some trade with Cuba and actually sell our goods. Now they are being done on a humanitarian basis, but could you talk about the effect it could have if we were to actually lift the embargo?

Mr. SCUSE. It will have, I believe, a tremendous impact on our ability to sell products and greatly increase the amount of products that we are currently selling to Cuba. Again, right now you are looking at about \$300 million worth. Again, the study by Texas A&M and the American Farm Bureau believes that, with normalized relations and lifting of the trade restrictions, that number could be in excess of \$1 billion.

What this also, I believe, would mean to the Cuban people, with the ability to purchase agricultural inputs—fertilizer, seed, chemicals, and equipment—I think it would give them also the ability to have agricultural businesses, produce more of what their actual demands are in the country, and create revenue throughout the countryside, and, again, help the Cuban people, especially that live in the rural areas. So I think it is a win for both of us, in my opinion.

Senator KLOBUCHAR. Yes. Now, Mr. Under Secretary, some have argued that while Cuba is a small market and also clearly has a lot of poverty, why would this still be such a benefit? Are there other reasons outside of just selling to Cuba that this could be a benefit to American agriculture?

Mr. SCUSE. Again, I think it is not just selling commodities, but I think it is selling agricultural equipment. I think it is not just about the sales. It is about the jobs that will also be created here in the United States. You know, when you look at our exports currently at \$152.5 billion supporting almost 1 million American jobs, any increase that we are going to be having in sales, that is an increase in American jobs.

But, again, I think it is also a win for the Cuban people, supplying them with the very best products to be found anywhere that can be purchased, and an opportunity to also create jobs there as well.

Senator KLOBUCHAR. Well, and another argument, which you do not need to get into but that I have heard raised, is that it is often thrown in our country's face in other countries in Latin America, our situation with Cuba, and there is some belief it could help us to open up some markets for our agriculture and other products as well.

I want to ask about foreign competition. When I was there, we met with a number of the ambassadors from places like Brazil and Spain and other places. As you know, their investment—they do not have embargoes, but their investment has been slow. However, I detected that they might start picking up as they see the potential for the U.S. coming in. Do you think other countries are going to continue to expand their market share? I will never forget being at the port and saying, well, they said they got their computers from China because they were not able to use U.S. computer companies like most ports do across the world. But do you want to discuss that briefly?

Mr. SCUSE. Well again, there are opportunities there. But, yes, we are going to face competition from those countries that are currently doing business there. If you go back again and look at the business that we—the trade that we had in 2008, \$658 million down to \$300 million last year, look at the reason why. Other countries were able to extend credit, and we were not. So the main result of that was a substantial loss in the Cuban market for U.S. products.

Senator KLOBUCHAR. Right.

Mr. SCUSE. So I think we are going to face competition from—continued competition from countries like Brazil, Argentina, Canada, and the EU.

Senator KLOBUCHAR. Okay. Just one last question of you, Mr. Borman or Mr. Smith. What do you see as the biggest obstacles on the Cuban side to increasing American agricultural exports? We clearly have issues there with human rights, and it is our hope as the negotiations go forward, this will clearly be part of the negotiations. But when I was there, I saw the double currency issue and some of the other things. What do you see as some of the obstacles to trade?

Mr. BORMAN. Well, I think in addition to the Alimport issue, just more generally the Cuban bureaucracy's ability to freely let goods into the country, because I think that is historically not the way they have done things.

Senator KLOBUCHAR. That is putting it mildly, yes. All right. Mr. Smith.

Mr. SMITH. I would add to what Mr. Borman said that also the development of private business, and that is something that we are trying to encourage here, so to encourage that, there is more money for individuals and more money for private businesses to be able to import.

Senator KLOBUCHAR. Exactly. I think there is something like 600,000 entrepreneurs now. This has loosened up recently. They have their own currency. But there is still a long way to go. I will say, in ending, that I just saw such a spirit of entrepreneurship there with the people and that the people are a bit ahead of the government—again, putting it mildly.

So I want to thank the Chairman for holding this hearing and really being willing to hold such a hearing. As we know, this can be a controversial issue on both sides of the aisle, and I really appreciate you doing it. Thank you.

Chairman ROBERTS. Thank you, Senator.
Senator Brown.

Senator BROWN. Mr. Chairman, I echo the——

Chairman ROBERTS. Senator Brown, you might want to put your sign up. Everybody knows you, but that is Mr. Leahy's.

Senator BROWN. I did not know I was removed from the Committee.

Chairman ROBERTS. What on Earth happened to Mr. Brown?

Senator KLOBUCHAR. The Senator Brown sign is missing.

Senator BROWN. It is missing.

Chairman ROBERTS. Did you lose your——

Senator BROWN. I do not know, Mr. Chairman. It is okay.

Chairman ROBERTS. Senator Brown, we will pick——

Senator BROWN. I lost my train of thought, Mr. Chairman, but thank you, as Senator Klobuchar said, for holding this hearing. I have two questions.

One, Mr. Secretary, talk to me about what this means, as trade restrictions are eased, what it means to a State like Ohio in terms of agricultural exports.

Mr. SCUSE. For a State like Ohio, what our current restrictions mean, it means that it is difficult to get agricultural products from a State into Cuba. We are at a tremendous disadvantage—the playing field is not level—because we are not allowed to do marketing programs like other countries do. We are not allowed to extend credit like other countries do. So the playing field is not level, and it creates a great deal of difficulty for us to compete against those country.

Senator BROWN. So tell me what it will mean as we ease them.

Mr. SCUSE. Well, again, I think that as we ease the restrictions, it is going to be easier for us to get products in there. Again, I went through the list. Right now the corn is coming from Brazil and Argentina. I think that we should be the number one supplier for corn. If you look at wheat, wheat is coming from the European Union and Canada. Again, there is no reason why that should not come from the United States. Fifty percent of the rice is coming from Vietnam. We should be the one supplying the rice to Cuba. Again, I think there are opportunities for us to ship dairy and dairy products to Cuba.

So when these current restrictions are gone, I think there are a lot of opportunities for those products as well as a lot of others. Our fruits—apples would be another good example of a product that there is a demand for that we could ship down there.

So I think there is a lot of opportunity, but we need to get the current restrictions lifted. We need to be able to use our marketing programs, and we need to be able to extend credit.

Senator BROWN. Thank you, Mr. Secretary.

Mr. Smith, in light of Treasury's policy changes under TSRA, has there been much interest shown by U.S. banks willing to do this type of trade? Have there been issues or problems with establishing correspondent accounts with Cuban banks? If you could kind of give me your assessment about what is happening and what you think will happen.

Mr. SMITH. Sure. There has been tremendous interest from U.S. financial institutions in terms of the engagement that may be allowed in Cuba. As far as I am aware, no U.S. financial institutions have yet opened correspondent accounts there. A number of U.S. fi-

nancial institutions have decided to begin engagement on the credit card and debit card front that we have allowed. Many of the financial institutions have talked about concerns over the state sponsor of terrorism designation that still exists with respect to Cuba, which may be changed.

Senator BROWN. Would that be sort of the on switch for correspondent accounts, once that is lifted or once that is changed?

Mr. SMITH. It could be. We have authorized it, but it is up to an individual financial institution's risk appetite and whether they are concerned—whether their concerns will be ameliorated by the removal of the state sponsor of terrorism designation remains to be seen.

Senator BROWN. One of the things that has changed in today's banking system from particularly 10 years ago but that began to change 5 years ago with the financial crisis is banks increasingly, even smaller banks of \$20 and \$30 and \$40 billion, even some smaller than that, have sort of elevated in stature their risk officer to look at—to make sure that they sit at the table to be part of decisionmaking on is this too risky for our bank to engage in. In the past, that question was not asked often enough, and look what happened.

Is Treasury talking to risk officers about this issue of risk, sort of injecting that in the conversation in board rooms, at least in the largest banks in the country, to help them think through the issues of risk?

Mr. SMITH. Yes. Almost daily, we are talking to the financial institutions and particularly the risk officers, the compliance officers, to make sure that they understand the changes that we are making, what our policies are and what our requirements are, so that they have a chance to dialogue with us. We have had a number of open outreach events where we have had financial institutions present, but we have also had one-on-one conversations with many financial institutions.

Senator BROWN. Thank you.

Thanks, Mr. Chairman.

Chairman ROBERTS. I am going to ask one quick question before we ask the second panel to come up, with all due respect to my colleagues.

Director Smith, in view of the questions asked by Senator Brown—and I like that term “risk appetite.” Where did you come up with that? That is probably the first question. But, to date, have many U.S. financial institutions set up correspondent accounts with the financial institutions in Cuba? How many businesses do you expect utilize this type of account through their bank?

Mr. SMITH. So I am not sure where I came up with “risk appetite.” I am sure I heard it somewhere, and—

Chairman ROBERTS. Well, chew on that awhile.

[Laughter.]

Mr. SMITH. I will, indeed. As far as I am aware, no U.S. financial institutions yet have opened correspondent accounts. I think what we do is we authorize certain activities, but we do not require financial institutions to engage in any certain activities.

Chairman ROBERTS. Obviously. Well, if that were the case, how many U.S. businesses would you expect to utilize this type account through their bank? Do they have the risk appetite to do that?

Mr. SMITH. I think the more financial institutions—or the more U.S. industry wants to trade with Cuba, the higher the trade goes with Cuba, the more demand there will be on the banks from their clients to say, “We need you to be in there servicing us.” So I think the more the trade increases, the more we would expect the pressure on the banks to go in.

Chairman ROBERTS. I appreciate your answer. This will conclude the first portion of our hearing this morning. Thanks to each of our witnesses, especially for taking time out of your very busy schedule to share your perspectives and your insights about the opportunities and challenges we face in expanding agricultural trade with Cuba.

To my fellow members, I would ask that any additional questions you may have for the record be submitted to the Committee clerk 5 business days from today, or by 5:00 p.m. next Tuesday, April 28.

We now invite the second panel of witnesses to come to the table. Thank you very much, gentlemen.

Mr. SCUSE. Thank you, Mr. Chairman.

Mr. SMITH. Thank you.

[Pause.]

Chairman ROBERTS. I would like to welcome our second panel of witnesses before the Committee. First, Mr. Michael Beall, president and CEO of National Cooperative Business Association. Mr. Beall joins us today on behalf of the National Cooperative Business Association where he serves as the president and CEO. Before joining NCBA, he served as president and CEO of the Missouri Credit Union Association and president and CEO of the Maryland-District of Columbia Credit Union Association. He additionally held positions at the World Council of Credit Unions and the North Carolina Credit Union League. Anybody need any credit in the audience, you ought to see Mr. Beall.

[Laughter.]

Chairman ROBERTS. Welcome, Mr. Beall. I look forward to hearing from you. We will wait to introduce the second panelists after you conclude, sir. Please feel free to summarize your comments.

STATEMENT OF MICHAEL V. BEALL, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NATIONAL COOPERATIVE BUSINESS ASSOCIATION, WASHINGTON, DC

Mr. BEALL. Good morning, Chairman Roberts. You have introduced me.

NCBA works to provide educational, technical expertise, and advocacy that helps cooperatives thrive and survive in today's economy. My remarks today will focus on the new day in U.S.-Cuba relations and some ways forward to foster better, more productive, and positive relationships between the two countries, notably through agricultural trade.

As a preface, I want to convey two thoughts regarding U.S.-Cuban cooperative development.

First, the U.S. should view Cuban cooperatives as a fundamental to building a market-based economy in Cuba, one that incorporates

a proven business model in economic empowerment for member owners, for consumers. Cooperatives are functioning, successful businesses that provide tangible economic ownership and benefit consumers wherever they are found, and NCBA is optimistic that Cuban cooperatives will be no exception to this rule.

Second, U.S. cooperatives here are ready to assist right now. We have already begun to build ties with Cuban cooperatives, and we can hit the ground running whenever the laws discussed in the first panel permit. The message here is simple: Put U.S. cooperatives to work with Cuban cooperatives.

By way of background, there are 29,000 member-owned co-ops in the U.S., employing about 2 million folks. One in three American consumers does business with a cooperative. Consumers and producers benefit greatly from cooperatives in areas like agriculture in particular, but also in housing, rural electric and telecommunications, and credit unions. Co-ops work for consumers.

The cooperative form of business where the members own the enterprise is particularly well suited for the Cuban people and especially in this period of transition. Cooperative ownership combined with cooperative business practices that use the profits for the benefit of the members and the form of governance where each member gets one vote are all features that are going to have special appeal as they grow in Cuba.

Our understanding is that Cuba has begun to change its cooperative law, starting in 2011, making lots of businesses become co-operatives and changing the ownership structure. This is a welcome departure from the other types of government or state-owned enterprises. NCBA in our work, we have been told by Cuban cooperative officials there are about 5,200 agricultural cooperatives currently operating in Cuba that contribute 80 percent of all the fruits and vegetables consumed by consumers, and by all appearances this Cuban ag sector is the foundation for their economic stability and growth.

NCBA has taken preliminary steps to initiate stronger ties with Cuban co-ops. Last year, we established the U.S.-Cuba Cooperative Working Group to explore opportunities to engage with Cuba on cooperative development. We sponsored a trip last year of co-op leaders, establishing connections, and actually we are hosting a group of co-op ag leaders the first week of May.

In terms of some of what I have seen in travel to co-ops, there are challenges. There is lots of focus on the 1950s era cars, but on the co-op farms we visited, the ag equipment is from that era as well, and it would be considered vintage.

One of the other main concerns that I would say that I saw is that none of the cooperatives for us produced financial statements, and so we are not able to verify how profitable are these cooperatives. What are the expenses that they are taking on? More importantly, perhaps most importantly, what is the treatment of the state-owned equipment that is being delivered over to co-ops? What is the treatment on the balance sheet of the land that cooperatives are operating on?

So as NCBA, as cooperatives build relationship with Cuban cooperatives, this is really where we want to see progress. This is where we want to see proof, if you will, that the cooperatives are

independent and able to manage these assets and not with interference from the Cuban Government.

I did return very optimistic about the future of U.S., Cuban, and cooperative endeavors. Furthermore, the challenges facing the cooperatives there are technical, they are accounting, educational obstacles are the exact kinds of issues that can be addressed and addressed well by Americans and American co-ops. We stand with U.S. co-ops ready to provide this as soon as the legal and governmental issues between the two countries are resolved. U.S. co-ops are a compatible development tool that can make a difference in developing healthy and vibrant cooperatives in Cuba, and cooperatives that can over time become valuable to both the American and the Cuban consumer.

The legal and governmental issues we have talked about this morning are real and are something for us to look to policymakers like you to resolve. NCBA is a business group focused on consumer empowerment and economic results. We are leaving diplomacy to the diplomats.

As the new U.S.-Cuban relationship takes place, NCBA respectfully but forcefully wants to remind Congress that we are here, that cooperatives are ready to roll up their sleeves and get to work, and cooperatives are an ideal democratic structure and form of operation that can produce results on the ground.

Cooperatives are going to help the Cuban people develop financially viable, member-owned businesses that assist in the economic empowerment of Cuban entrepreneurs, and in doing so we provide Cuban consumers with marketplace choices and, perhaps most importantly, further U.S. interest by demonstrating the benefit of democracy and financial independence that ownership confers.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Beall can be found on page 44 in the appendix.]

Chairman ROBERTS. We thank you, Mr. Beall.

Senator Boozman wanted to introduce Mr. Harris.

Senator BOOZMAN. Thank you, Chairman Roberts, Ranking Member Stabenow. I am very pleased to welcome Terry Harris to testify before our Committee. Thank you for extending the invitation to this distinguished witness.

Mr. Harris has worked for Riceland Foods since 1975, and currently he is the senior vice president for marketing and risk management. Mr. Harris has traveled to Cuba more than 20 times, and he has a wealth of knowledge on the practical challenges that America's farmers and ranchers face with trading with Cuba. Mr. Harris lives and works in Stuttgart, Arkansas, which is the rice and duck capital of the world. I look forward to hearing Mr. Harris' testimony. Thank you for being here.

**STATEMENT OF TERRY L. HARRIS, SENIOR VICE PRESIDENT,
MARKETING AND RISK MANAGEMENT, RICELAND FOODS,
STUTTGART, ARKANSAS**

Mr. HARRIS. Thank you, Senator Boozman. Mr. Chairman, thank you for the opportunity to appear before this Committee today.

Riceland is a family farmer-owned cooperative that was formed in 1921 to market rice. Today Riceland serves approximately 6,000

farmer members in Arkansas and Missouri who grow rice, soybeans, and wheat. The cooperative markets about a third of the rice grown in the southern United States and about 25 percent of the national production.

Riceland is primarily a direct exporter, selling directly to buyers in importing countries. As a result of this direct approach, our staff is very well schooled in the details of everyday management of logistics and finance related to the export business.

Riceland Foods is also proud to be a member of the USA Rice Federation. USA Rice represents all segments of the U.S. rice industry. Rice is grown in seven States, including Arkansas, California, Louisiana, Texas, Mississippi, Missouri, and Florida. Nearly half of the U.S. crop is grown in eastern Arkansas. The industry markets rice in all 50 States and to 125 countries worldwide. USA Rice is a founding member of the U.S. Agricultural Coalition for Cuba, a broad-based group of U.S. ag and food organizations seeking to reestablish Cuba as a market for U.S. food and ag exports.

My objective today is to discuss the past and potential trade relationship between the U.S. and Cuba, a future that I believe holds great promise for U.S. rice farmers and U.S. agriculture.

The United States exports about half of the rice produced annually, so maintaining existing markets, as well as developing new markets, are key components to the industry's success. Therefore, the U.S. rice industry wholeheartedly supports the opportunity to move to normal commercial relations with Cuba.

Prior to the U.S. embargo on Cuba more than 50 years ago, the island was the number one export destination for U.S. rice. Annual rice shipments reached as much as a quarter of a million metric tons in the 1950s, and the U.S. accounted for more than half of Cuba's rice imports.

Prospects brightened with passage of the Trade Sanctions Reform and Enhancement Act of 2000, when U.S. agriculture and food exports to Cuba were granted, or what many of us believed at the time to be, a broad exemption from the embargo.

In November 2001, I had the opportunity to make the first sale of U.S. rice to Cuba since the embargo was imposed. It was an incredibly intense and interesting negotiation as we developed contract terms and quality specifications for a country which, at that time, had not purchased goods from the U.S. in more than 40 years.

I found the leadership of the Cuban buying organization informed, shrewd, and very professional. I was also in Cuba to witness the first shipment of U.S. rice when it arrived in the Port of Havana. It was an unforgettable experience for me to see how excited they were with the quality of rice they had been able to purchase for the people of Cuba. I saw what can happen when barriers are removed and people are allowed to meet and find common ground for cooperation and trade.

The success of rice and other U.S. agriculture products in Cuba was seriously curtailed in large part following a change by the Office of Foreign Assets Control in the definition of "cash in advance" in 2005. U.S. rice exports to Cuba dropped to zero following this regulatory change.

Currently, most of Cuba's rice imports come from Vietnam. With the port of New Orleans located less than 700 miles from Havana, the U.S. is in a better position to serve the rice needs of the Cuban people in terms of transit time and cost of freight.

With the lifting of the embargo and the restoration of trade and travel with Cuba, we estimate that the U.S. could regain 20 to 30 percent of the Cuban rice business within 2 years, or an estimated 90,000 to 135,000 metric tons of new demand for U.S. rice farmers based on USDA's estimate of Cuba's annual import needs. We would anticipate the U.S. share of this market would exceed 50 percent within 5 years and could reach as high as 75 percent or more within 10 years.

On January 15, 2015, OFAC made changes to the regulations on trade with Cuba that allowed for the definition of "cash in advance" to revert to the pre-2005 wording. We applaud this measure, as well as other actions by the Obama administration to facilitate trade. However, there are still obstacles to conducting normal trade with Cuba.

I stated earlier that we are seeking normal commercial relations with Cuba. This means allowing U.S. citizens to travel and spend money in Cuba without restrictions as well as allowing Cuba to export their goods to the U.S. as they do to most countries around the world so they can gain the resources and increased demand to import U.S. food and ag products. It also means permitting the full range of commercial banking and financial relationships to facilitate trade based on individual exporter assessments of the risk of doing business.

The U.S. rice industry and Riceland Foods is committed to building the Cuba market for our product. Our company has made numerous trips to Cuba to meet with Cuba's national importer of rice and food. USA Rice has spent just under \$900,000 in rice industry promotion funds since 2003 to promote the high quality and efficiency of U.S. rice in the Cuba market. We intend to continue those activities.

To give U.S. rice the chance to compete in Cuba, the rice industry seeks the ultimate lifting of the embargo and the elimination of all restrictions on tourism and trade with Cuba. This, of course, requires congressional action.

Thank you.

[The prepared statement of Mr. Harris can be found on page 52 in the appendix.]

Chairman ROBERTS. Thank you, sir.

Senator KLOBUCHAR.

Senator KLOBUCHAR. Well, very good. Thank you, Mr. Chairman. I am very pleased today to introduce Mr. Ralph Kaehler. Ralph is a Minnesota native whose family has been farming in St. Charles for nearly 130 years. He has been on a number of different trade missions to Cuba, and he has a unique perspective of someone who both understands how modernizing our country's relationship with Cuba impacts farmers here at home, and also understands how it could impact Cuba's culture and people.

In February, he was one of the panelists at the Cuba forum I referred to that Under Secretary Scuse came out for, and it is good to see him here today. I look forward to hearing his testimony. We

are really excited to have a Minnesotan on the panel. Thank you, Mr. Kaehler.

**STATEMENT OF RALPH KAEHLER, FARMER AND OWNER,
KAEHLER CATTLE COMPANY, ST. CHARLES, MINNESOTA**

Mr. KAEHLER. Thank you. Chairman Roberts, Ranking Member Stabenow, Senator Klobuchar, and all members of the Committee, thank you for holding this panel on ag trade with Cuba.

Chairman ROBERTS. Mr. Kaehler, would you just take a moment here? I understand you have two boys, Chase and Colby; two girls, Opal Jo and Elsie. It is also my understanding—I would like to take a moment—no, this is not correct? Wrong witness. Sorry.

[Laughter.]

Mr. KAEHLER. I have got two boys and one daughter-in-law-to-be, so we started out right.

Chairman ROBERTS. I have two daughters and one—

Senator KLOBUCHAR. These were the trick questions we were telling you about, Mr. Kaehler, that we prepared for. Okay, good. You did well. You did well. You did not agree.

[Laughter.]

Chairman ROBERTS. I think the whole world knows I have grandchildren, and I want to “Let It Go.”

[Laughter.]

Chairman ROBERTS. All right. Please proceed, sir.

Mr. KAEHLER. Well, we are both fifth generation. You just got the two mixed up.

Chairman ROBERTS. Feel free to summarize your comments after my intemperate remarks.

Mr. KAEHLER. No problem. I guess we are on. Well, my two sons are the fifth generation to be operating our family farm in St. Charles, which sits in the southeastern part of the State. Our farm produces traditional crops, canning crops, and livestock. We are nationally recognized beef breeding livestock producers whose claims to fame include exporting the first livestock to Cuba in 2002 since the enactment of the trade embargo. Our youngest son, Seth, is going to be married in November. He is actively involved in the cattle operation and will be taking over the export activities. My oldest son, Cliff, recently returned home from Wall Street to start a solar energy company, and we are pretty excited to bring a kid back from Wall Street into rural Minnesota.

Our initial exposure to Cuba was as an exhibitor in the First U.S./Cuba Food and Agriculture Exposition in 2002 through an invitation from Governor Ventura. Of the over 180 exhibitors from 30 States, the Kaehler Farm display was the only one with live animals—affectionately known as the “Cuban Ark.” It consisted of two beef cow, two dairy cows, two pigs, two sheep, and two bison bottle calves that we took on behalf of the North Dakota Farmers Union. The display was intended to exhibit the diversity of U.S. livestock producers and introduce Cuba to what we considered was a typical farm family.

We returned home from that exposition motivated to do more. Since then, we have led over 10 trade delegations to Cuba. These missions have included producers from over seven States and a bipartisan mix of State lawmakers and officials. To date, some of the

most successful exports to Cuba that we have initiated include the shipments of the first livestock, the first dried distillers grains, a letter of intent for powdered milk, the first animal milk replacer, and the first texturized calf feed, which was made by a local farmer-owned co-op.

Given the opportunity, U.S. farmers do well in Cuba. We have a significant advantage of shorter shipping over Europe, South America, Asia, and other major exporters. In addition, Cuba can take advantage of our U.S. rail container service and sizing options, which brings significant benefits to smaller privately owned businesses like ours or the edible bean producers in the Midwest. On top of this, U.S. producers offer a wide variety of affordable and safe food products for the Cubans.

Unfortunately, some of the policies currently in place diminish the natural advantages American agriculture enjoys over its competitors. For instance, requirements for using third-country banks for financing adds a lot of paperwork, time, and personalities to every transaction. Coupled with a restrictive cash-in-advance policy—which I know the President helped to improve in recent months—there is a very small margin of error before a shipper faces demurrage fees. As a family operation trying to build our business through exports, this self-inflicted inefficiency can be really difficult to manage.

What do I hope to see for farmers in the national Cuba debate? First, I hope farmers can work with Congress to improve the trade financing rules for Cuba. The efficiencies gained by doing this would be immediately beneficial. It would make shipping cheaper for producers and food less expensive for Cubans, both of which can only be a good thing for our trade relationship.

Second, I have to mention the importance of the USDA to ag exporters. Large companies have plenty of resources without this promotion and technical assistance, but small firms like ours do not have the luxury of extra available cash or shareholder offsets. We need marketing support and assistance to help support our companies and figure out exactly what is going on in the markets abroad. I hope to see these resources available someday soon for our small and medium-sized producers to help us work on selling our products to Cuba.

Finally, I hope that Congress will expand the universe of people involved in U.S.-Cuba trade by allowing a greater variety of goods and services to be traded. I do not know much about politics, but I have spent a lot of time in Cuba and have built strong relationships with the farmers and their families. Our farm has weathered many ups and downs in doing business with Cuba, including a recession, high commodity prices, and difficult financing rules. But we have made progress over time and have never been short-changed by our customers. I can only imagine that having more interactions like these—farmer to farmer—will help build a better understanding between our two countries and build a better quality of life on both sides.

I look forward to answering any questions. Thank you for this opportunity.

[The prepared statement of Mr. Kaehler can be found on page 59 in the appendix.]

Chairman ROBERTS. Thank you, Mr. Kaehler. I apologize for the congressional oversight in regards to you adopting Mr. Keesling's family.

[Laughter.]

Mr. KAEHLER. Well, my folks could not get our name right half of the time neither. No problem.

Chairman ROBERTS. Doug Keesling has traveled from Chase, Kansas, America, to join us today. Mr. Keesling is representing the Kansas Wheat Commission, where he has served since 2005. Doug and his wife, TJ, grow wheat, corn, soybeans, milo, and alfalfa on their fifth-generation farm. Now, Doug and TJ do have two boys, Chase and Colby; two girls, Opal Jo and Elsie. The whole point is I would like to take a moment here to wish Elsie a very happy 1-week birthday. You better get back home as soon as you can.

[Laughter.]

Chairman ROBERTS. Mr. Keesling.

**STATEMENT OF DOUG KEESLING, FIFTH GENERATION
OWNER, KEESLING FARMS, KANSAS WHEAT, CHASE, KANSAS**

Mr. KEESLING. Good morning, Chairman Roberts, Ranking Member Stabenow, and members of the Committee. Thanks for the opportunity to testify today about the opportunities for agricultural trade with Cuba. In particular, I would like to thank Chairman Roberts for his kind invitation and his decades of service to Kansas and her farmers.

My name, again, is Doug Keesling. I am a fifth-generation farmer from Chase, Kansas, and I have been on the Wheat Commission for the last 10 years and have been able to travel several places because of that.

I recently returned from Cuba, where I was part of a delegation organized by the U.S. Agriculture Coalition for Cuba. The primary purpose of USACC is to reestablish Cuba as a market for U.S. food and agriculture exports, and the wheat industry fully endorses that goal.

There were nearly 100 participants on the trip representing a wide range of agricultural organizations and companies. From what I could see, there was a lot of potential in Cuba—potential in its own ag sector and potential as a market for U.S. ag exports. As a Kansas wheat farmer, that potential was obvious every time a meal included bread. Cubans eat a lot of it, and they are the largest wheat importer in the Caribbean, to the tune of nearly 30 million bushels per year. That would be over 10 percent of all the wheat grown in Kansas, going to this one island just a couple days' sail from the U.S. ports.

Cuba is the largest country in the Caribbean and the largest wheat importer. That is because Cubans are not only buying—sorry.

Today the wheat imports from the United States have an upward potential of the whole 30 million bushels. That is because Cubans are not buying any wheat from the United States. They buy almost all their wheat from Canada and Europe, as has been discussed before, even though Cuban ports are much closer to U.S. ports. That is a \$200 million opportunity that passes us by every year.

When Congress lifted some of the restrictions on U.S. ag exports early in the last decade, we were excited that there would be an

opportunity to reestablish Cuba as a consistent wheat market for American farmers. For a while, it looked like that might happen, as wheat exports slowly grew through the decade until they peaked at 18 million bushels in 2008.

But exports tanked over the next couple of years, eventually dropping to zero. But it has nothing to do with economics. It is particularly very difficult for Cubans to import wheat grown in Kansas and apparently much easier for wheat grown in Canada or France. I can put my wheat in an elevator in Kansas, send it by rail down to the gulf, put it on a ship that is a couple days away from the Havana harbor, but my wheat is still going to lose out to wheat that has to be on a boat for a week from Canada or even 2 weeks from France.

The problem is rules and laws that make it too expensive to compete in that market. The law requires that exporters receive cash before they are allowed to unload in a Cuban port. If a company wants to take the risk of providing a loan to a Cuban buyer, they are out of luck because selling on credit is not even an option for them. There are also shipping restrictions that generally prohibit docking in the United States if a ship has been in a Cuban port within the last 6 months.

As a farmer, I have to evaluate all the costs that go into planting wheat, including seed, fertilizer, fuel, maintenance, compliance, and financing. If it is too expensive, I will just have to give up on wheat and plant a competing crop. Well, that is what the Cubans face when they are trying to purchase my wheat. It is just too expensive. But they are not going hungry. They are just buying wheat from other countries that may be more expensive than mine in a free market, but is now a much better value because there are not massive compliance costs accompanying every purchase.

It does not make any sense to me that if someone wants to buy the wheat that I grow, they have to jump through the sorts of regulatory hoops that they do. If Cuba is to become a successful export market for U.S. farmers, these regulatory obstacles need to be repealed. But more than that, we need to see the trade sanctions in their entirety lifted. Cuba has enormous economic potential, and while it certainly remains a communist country, that hardly justifies the scale of the sanctions, especially when trade relations with other communist countries are growing deeper all the time.

U.S. agriculture is never going to realize its full potential in Cuba as long as the trade sanctions are in place. If they cannot sell us their tourism services, like cigars, rum, fruit, and other products where they have an advantage, we will always face an uphill battle in selling the products of American soil. It is time for us to eliminate these barriers and see how far this free trade relationship can go.

I would suggest that Congress carefully consider why there is a compelling reason to restrict the freedom of Americans to engage in commerce, especially for those who are just trying to sell wholesome, American-grown food. I sure do not see one.

In conclusion, I would like to reiterate the support of Kansas Wheat and a broader Kansas ag community for normalizing trade relations with Cuba. Agriculture and the subsidiary industries that

support it will stand to benefit if we can open unfettered trade with Cuba.

Thank you again for the invitation to testify this morning and for your attention.

[The prepared statement of Mr. Keesling can be found on page 61 in the appendix.]

Chairman ROBERTS. Thank you, Doug. Say hello to Elsie for me.

Mr. KEESLING. Thank you.

Chairman ROBERTS. We have now a welcome to Dr. C. Parr Rosson, who is joining us today from Texas A&M University. Dr. Rosson is professor and department head of the Agricultural Economics Department where his extension and research interests focus on international trade and international marketing. He, however, is not responsible for Texas A&M leaving the Big 12 and going to that other football conference.

[Laughter.]

Chairman ROBERTS. Dr. Rosson received his Ph.D. and Master's and Bachelor's all from Texas A&M, served as an officer in the United States Army, and was a captain in the U.S. Army Reserve. We thank you for your service, sir.

Dr. Rosson, I believe you are joined today by your wife, Helen. Is that correct?

Mr. ROSSON. No, sir. She is not here.

Chairman ROBERTS. I see. All right. We obviously will not have her stand.

Let me just get right to some questions real quick—oh, yes, you have your testimony. Pardon me.

STATEMENT OF C. PARR ROSSON, III, PH.D., PROFESSOR AND DEPARTMENT HEAD, DEPARTMENT OF AGRICULTURE ECONOMICS, TEXAS A&M UNIVERSITY, COLLEGE STATION, TEXAS

Mr. ROSSON. Thank you. Good afternoon, Mr. Chairman, Ranking Member Stabenow, and esteemed members of the Committee. It is my pleasure to be here today, and I want to thank you inviting me to testify on the challenges and opportunities associated with trade with Cuba. I have been studying the Cuban market for about 15 years. I have been there a number of times. We continue to monitor what happens in Cuba and how that impacts U.S. agricultural exporters.

In fact, our work at Texas A&M indicates that one U.S. job is created for about every \$76,000 in U.S. exports to Cuba, and we think that makes it worthwhile for us to continue to stay engaged on this important issue.

Just a little bit about background. Our exports have averaged about \$300 million annually since 2002, but they have fluctuated widely, from about \$140 million in 2002, up to \$709 million in 2008, and that uncertainty has been a problem for our businesses.

The product mix has also changed. During the first decade of our export experiences with Cuba, we exported a wide variety of products, such as corn, soybeans, rice, wheat, animal feeds, cotton, along with processed foods, such as frozen leg quarters, pork, beef, dairy products, dry beans, snack foods, canned fruit, vegetables, bottled water, and also grapes, pears, and treated telephone

poles—so a fairly broad array of products up until 2012, when things began to deteriorate.

The more recent export categories over the last couple of years have really been concentrated in three areas, and that is, frozen leg quarters, the soy complex, and corn. In fact, last year, those three accounted for 96 percent of our exports. In my mind, that is precariously risky. We just do not have the diversity of our marketing base to withstand the kind of declines we have seen over the last few years.

There are a number of things that have happened that have contributed to these declines, and I would like to briefly go over those.

One is that Cuba has moved away from U.S. exporters of products such as rice, wheat, and higher-value foods to more price-competitive competition. We have talked about Brazil, Canada, Argentina, Mexico, Spain, and Vietnam, and I have seen some of those products in the market—rice, for example, 25 percent cracked and broken. It has got to be sifted before it can be served in restaurants or hotels. So it may be cheap when it gets there, but by the time they get through handling it, the quality deteriorates further and it becomes a much lower-quality product when it is cooked and served.

No doubt the strong dollar over the last several years has put some downward pressure on our exports. It has made our products higher-priced. The Cubans also have diversified away from us to lower-priced competition. During the global recession, Cuba's earnings from tourism declined along with declines in the value and the volume of their all-important nickel and cobalt exports. Remittances from Cuban Americans also declined during that time and put a lot of pressure on the Government of Cuba and limited their ability to purchase products from the U.S.

Of course, the key thing to note about the Cuban market is that the term "market" today is a misnomer. As we have talked, Alimport controls all aspects of importing food products from the United States, and I am also of the opinion that from time to time the Cuban Government itself gets directly involved in some of these decisions. They influence what is purchased, how much, and from whom.

Despite these constraints, Cuba has some potential. We have been looking at this for a long time. It has become a much larger market for U.S. exports. We estimate about a \$1 billion market over the next 5 years. What is important is Cuba's demographics are favorable for growth. With a population of 11 million people, 99.8 percent of whom are literate, Cuba has a highly trainable workforce of more than 5 million people.

In addition, those aged 25 to 54 represent 47 percent of the population and are in their peak consumption years, and these characteristics are very similar to the Dominican Republic, to which we exported \$1.4 billion in food products last year.

For this potential to be realized, we must see gains in consumer incomes in Cuba. We need to see improvements in infrastructure and logistics, some of which have been discussed here today. We also need to see more stable policy regimes and policy environment that would stimulate interest on the part of U.S. businesses.

Concluding, the Cuban market for U.S. food and agriculture-related products has the potential to exceed \$1 billion annually, and this would create 6,000 new jobs in this country. To be realized, however, we need to see positive changes in income, infrastructure, and regulation.

Thank you very much.

[The prepared statement of Mr. Rosson can be found on page 65 in the appendix.]

Chairman ROBERTS. Well, Doctor, thank you very much for that most informative testimony.

Doug, you mentioned that the rest of the Caribbean region, the market share for United States wheat is over 80 percent. If Cuba resumes the purchases of U.S. wheat, what is your estimation of the market share of U.S. wheat in Cuba? Do you see this level of market share staying relatively stable given the economic volatility in Cuba?

Mr. KEESLING. Well, first of all, I see no reason for it not to go up from zero. Second of all, I see no reason that it should not be somewhere in that range of that 80 to 90 percent, likewise in the rest of the Caribbean.

Chairman ROBERTS. Dr. Rosson, you have worked on projects in Mexico, Canada, Brazil, Cuba, Guatemala, Nicaragua, Costa Rica, Argentina, Ecuador, Australia, Japan, Iraq, Indonesia, Singapore, Philippines, Malaysia, and Thailand. Did you sing that country western song, "I've Been Everywhere, Man"?

[Laughter.]

Chairman ROBERTS. You taught at Clemson University. You are a Tiger as well as an Aggie. Thank you for your testimony. You certainly have an impressive background.

We have got an opportunity to expand our competitive position of U.S. agriculture in the Cuban market. The distinguished Chairwoman Emeritus agrees with me, and I know that the Senator from Arkansas does as well. But when farmers and ranchers explore an expansion of their business opportunities, they not only explore the benefits but also the potential costs. What are some factors that could weaken our competitive position of the agricultural products in the Cuban market?

Mr. ROSSON. Well, from our standpoint in Texas, one of the things right now is a limiting factor in the movement of container cargo, which would apply to a lot of the higher-value food products. We do not really have service right now out of our local ports to move directly. We have to go to Florida, transload, then move into the Cuban market, usually by barge, and it takes several days to move that cargo. It raises the cost, and it endangers those products in terms of the quality, the reliability when they get there, and the condition in which they arrive. So I think improving our own logistical system is one thing that needs to happen.

A second thing is within the Cuban market itself, the times I have been there and been with companies that have exported products, particularly perishable products to be used in food shows, for example, we have had trouble with reliable electrical power both at customs as well as in hotels and restaurants, where we might go periods of several hours without electricity. If you have a frozen dessert that goes that long without power, when you get done, it

is not exactly what you had come in with. So those kind of logistical requirements are an issue.

The other thing is simply that the capacity of refrigerated warehouse space I think needs to be enhanced, which would allow us to move more products into the market on a more reliable basis and more steadily over time.

Chairman ROBERTS. I appreciate that very much. All of you have traveled to Cuba over the years. What are some of the supply chain challenges? I think, Dr. Rosson, you have already testified on some of that. Would any of you like to pitch in? Mr. Beall, do you have any commentary?

Mr. BEALL. Well, I think that in terms of some of the issues, I think you are going to see that cooperatives are going to have to figure out ways to create some of the relationships that we are talking about. Those relationships we think are the piece that is going to bridge some of these problems and gaps, and, frankly, I think we need the Government to be able to get out of that so that these sorts of solutions the cooperative cooperatives create can step in and fill those gaps.

Chairman ROBERTS. Mr. Harris.

Mr. HARRIS. Again, we made the first sale of rice to Cuba in 2001, and it was pretty seamless, quite frankly. We shipped bulk rice there, and taking advantage of their lower-cost labor, we actually had the rice bagged on the docks within Cuba for distribution from there. One of the benefits that we see, Mr. Chairman, is that when Cuba buys rice from Vietnam, they have to buy in extremely large vessels, 25,000-, 30,000-, 40,000-ton vessels. Because of the proximity to the U.S., we can actually load small vessels, go not only to the Port of Havana but go to other ports like Santiago de Cuba and other ports within Cuba. That really helps them on their storage, their warehousing, and their distribution within country.

Chairman ROBERTS. Mr. Kaehler.

Mr. KAEHLER. We have had a lot of interaction with the Cuban people. One thing they need is our technology. They have fallen behind us. They need access to more of our products, such as farm equipment. We have some limitations as to what we can ship to Cuba.

One thing we found, for example, we took gifts of fencing tools and a set of wrenches down to them. Now, some of the professionals that were in our trade delegation were not sure if that was a very good gift to take. When we took it to the farmers, they had tears in their eyes. They went in the subsequent trade mission. They showed us all the fences that were built with our tools that we took down because we understood what their needs are.

So as we get some efficiencies in our shipping and bring our farmer-to-farmer interaction, we will improve their productivity, which will increase the demand for our U.S. goods.

Chairman ROBERTS. Doug, do you have anything to add?

Mr. KEESLING. I will echo onto that. I think sometimes our biggest restriction to trade with Cuba may be us, not them. Of course, you guys have the power to work on that, and you are, and that is very good.

I think as far as what I saw in Cuba, their entrepreneurship, which several of you guys have touched upon, was outstanding. As

a business owner myself that was something that really stood out to me, and I think they are going to try to make anything we can do work.

Chairman ROBERTS. Senator Stabenow.

Senator STABENOW. Thank you very much, Mr. Chairman. I think this has been a really important discussion.

First, Mr. Beall, I just want to underscore, when you were talking about cooperatives, in the conversations that I have had with Cuban officials, first, they are very positive they have created cooperatives and the ability for more decisions to get made by farmers, although there is more to do, as you say, to get the Government out of that position so that the farmers are the ones really driving the train here.

It was interesting to me, as we were talking, Mr. Kaehler, you were talking about what they are interested in terms of equipment and tools and so on. We talked a lot about farm equipment and tractors and the fact that the new decision that the President made was to allow farm equipment, and the fact that they had cooperatives, most of them did not have one tractor, and they were making decisions as to who got a tractor and how many tractors. So there are a lot of opportunities for us to be able to expand, but I think cooperatives are very much a part of this structure going forward. So I am glad to hear your testimony.

I am wondering, Mr. Kaehler, because you have been to Cuba so many times and have had the opportunity to really navigate both from agriculture but looking also at Cuba's economy from a broader trading relationship, beyond exports, in terms of commodities, when you think about how to more fully develop the farm economy in Cuba and what we can do, what would you suggest? I am wondering what products or services or assistance we are leaving out of the conversation so far. What should we be focused on that we have not been talking about?

Mr. KAEHLER. Well, when we went down, for example, the first trip, when we were there in 2002, the nutrient compendium that the gentleman had was from 1989. So working with some of the magazines and universities, taking updated technical information to help with the livestock we exported and feeding them was our first step. Things had changed from their time of closeness with the Soviet Union. Their professionals are all willing to get U.S. technology and get access through the Internet.

We took in—when we took distillers grains down and showing them how to feed it—they are a grass-based economy. But when they went through the drought, we got reports from a Cuban paper of one farmer had a report he had lost two-thirds of his livestock, and the quote in the paper was he went to the bag and reached in and got a scoop of what we trademark Norgold in Minnesota as distillers grain, he said, "Without this product from the U.S., I would have lost all my cattle."

So we were providing technology that way, getting farm equipment, as you mentioned, the access to modern mixing equipment, modern milking equipment. It was only going to help our U.S. products as we improve production and improve efficiency for their farmers, and it will feed their people. There is a lot of poverty in

Cuba. We did not see a lot of hunger. But they are all looking to increase their supply of food for their families.

Senator STABENOW. Absolutely. I am wondering, Mr. Rosson, again, we have talked about the fact of a small group of products that we are exporting now, we want to do more. We want to do more rice; we want to do more of everything, and that we need more diversity in terms of our goods that we are exporting to Cuba. How do you see the President's new rules governing trade financing between the U.S. and Cuba as creating more opportunities for the underrepresented Cuban market? What more could we be doing? I know ultimately it is lifting the embargo, and we hope we are going to be able to get that done. But what more can we be doing right now?

Mr. ROSSON. Well, I think the encouraging thing in the new regulations is the allowance for remittances to quadruple, and if they could go further, that would be even better because the remittances end up, 80 percent of it, in the hands of the Cubans—either consumers or small businesses. Those remittances represent about—they go into about 60 percent of the households in Cuba. So they can be quite important in terms of stimulating consumption, and part of that consumption would, of course, be food products, and we would hope from this country. They can also be used for business development, for example, in cooperatives or private business ventures. The Cuban people are very entrepreneurial. You have been there; you have seen the entrepreneurial spirit and the capacity that exists, but it has been harnessed.

So I think remittances play a critically important role, and if those could be expanded, I think it would be a very positive impact on the people there.

Senator STABENOW. Thank you.

Thank you, Mr. Chairman. I appreciate your holding the hearing.

Chairman ROBERTS. Thank you.

Senator BOOZMAN.

Senator BOOZMAN. Thank you, Mr. Chairman.

Mr. Harris, there has been some concern expressed by some Members of Congress in the sense as to what would happen, who would be obligated if a Cuban buying organization failed to pay or whatever. Some have concerns that perhaps the United States Government would be on the hook. I guess the question for you is, and the others can chime in also: If a Cuban buying organization fails to pay for a shipment of rice or whatever, would you expect the U.S. Government to compensate, in your case, Riceland or whoever else for the shipment?

Mr. HARRIS. Senator, in my opinion, no. I mean, certainly we would welcome GSM financing. That would be a wonderful opportunity for the ag industry. But that is my job with the company, risk management, and we assess that every day. So we assume as we take that risk that risk is for Riceland Foods.

Senator BOOZMAN. Anybody else?

Mr. KAEHLER. I would expect that the rules change, it would be the same requirements as it is for any other company—any other country and any other business transaction. As a business owner it is a transaction between buyer and seller, and as we mentioned, that is risk we take, and we have to analyze our business as we

do it. As producers, we are asking for less Government interaction, not more.

Senator BOOZMAN. No, no, and I agree totally. Again, I think there has been a misconception, and I really wanted to clarify that.

You know, we have talked a lot about today—your testimony was excellent and very helpful, as was the other panel. I guess the bottom line is: Have the recent administrative changes regarding trade—are they going to help your business with what is going on right now? Mr. Harris.

Mr. HARRIS. I can respond on behalf of Riceland Foods. No. It is a very small step. I can tell you that the day after the President's announcement I contacted Alimport and told them certainly we had an interest in doing business there, and they thanked me very much for the call but had no interest in purchasing U.S. rice. So, Senator, I really think that they are looking for an eliminate of the embargo so that they can have the ability to create foreign exchange by selling their rum and their cigars and their citrus to the U.S. and the tourism that they need so badly. I really think that the small incremental moves that we are making are not swaying them to try to work closer with us.

Senator BOOZMAN. Would you all agree that is the major barrier? Or what is the major barrier?

Mr. KEESLING. I agree that I think the answer would be the repeal of the embargo. As a wheat farmer from Kansas I am looking at June to be harvesting my wheat crop. So I would be looking—it would be at the port in July. So if the embargo is lifted, we could be selling wheat to Cuba in July or sooner, and this is what is holding it up.

Senator BOOZMAN. Dr. Rosson.

Mr. ROSSON. My perception is—and I have visited with the people here at the Cuban Interest Section, both this group as well as the previous group, and there was a lot of optimism early on that we were going to change the rules, possibly lift the embargo. Of course, that has not happened. I think in about 2011, 2012, they came to the realization that the carrots they had been offering in terms of purchasing products from 38 different U.S. States had not worked, and that is when they began to diversify away from the United States to other countries.

I think they are waiting for—well, in our perception, this is a very strong signal. In their minds it may not be strong enough, and I believe they are still waiting to see what we are going to do.

Senator BOOZMAN. Very good. Mr. Kaehler? Okay. Very good. Well, thank you all again for being here. I do appreciate your testimony, and it really is very, very helpful. You all are on the ground floor of this, and nobody understands it better than you all. So thank you very much.

Chairman ROBERTS. I share the comments by the distinguished Senator from Arkansas. In my view, it is access to credit. In my view, it is whether or not the banks in question and obviously the customers of those banks have an appetite for risk, if we can use that term again. That is to be seen, and I just want to assure you all that this Committee stands firmly behind our efforts to see if we cannot clear up some of those obstacles that you have talked about.

Thank you so much for coming. This will conclude the second panel of our hearing. Thanks to each of our witnesses for being part of Government in action—that is two words.

[Laughter.]

Chairman ROBERTS. The testimony provided today is valuable for lawmakers to hear firsthand. To my fellow members who were not present earlier, we would ask that any additional questions you have for the record be submitted to the Committee clerk 5 business days from today, or by 5:00 p.m. next Tuesday, April 28th.

Thank you so much. The Committee is adjourned.

[Whereupon, at 12:35 p.m., the Committee was adjourned.]

A P P E N D I X

APRIL 21, 2015



**Testimony for the Senate Committee on Agriculture, Nutrition and Forestry
"Opportunities and Challenges for Agriculture Trade with Cuba"**

Michael V. Beall, President & CEO

NCBA CLUSA

Tuesday, April 21

Chairman Roberts, Ranking Member Stabenow, and Members of the Committee,

My name is Michael Beall, I am President and CEO of NCBA CLUSA. NCBA CLUSA is the apex trade association for cooperative business in the United States and an international development organization. Our work provides cross-sector education, support, and advocacy that helps cooperatives thrive. We also engage with cooperative sectors around the world, including Cuba.

It is an honor to be here to discuss new ways forward in U.S. Cuba relations; notably through trade. I think you will find my testimony today will take a slightly different track than other panels as our organization recently has already been highly focused on cooperative development inside Cuba as a result of changes to laws within that country.

Let me start today by thanking Chairman Roberts for holding today's hearing and the Committee for recognizing that the recent regulatory changes impacting U.S. Cuba relations have led to a great number of difficult questions and political challenges but also provide for great opportunities. If I am to leave you with two important thoughts today it is that first, the United States should view Cuban cooperatives as key actors in building economic ties to that country and providing the Cuban people with economic independence from the state through cooperative business (or member) ownership; and second, that U.S. cooperatives are well-positioned and eager to play a role in trade and private sector development in Cuba.

In the United States, member-owned cooperatives are a vibrant and viable alternative form of business and part of a strong U.S. economy, and have been since the early 19th century. Consumers, producers, and workers throughout America and other parts of the world continue to seek the economic freedoms and choices that cooperative businesses provide in virtually every sector of the economy. When consumers anywhere in the world choose cooperative businesses to provide for their needs, they are choosing a business model that not only provides high quality, low cost options, but also one that supports the cooperative values of self-help, democracy, and concern for community.

Cooperatives (or co-ops for short) are owned and controlled by their members; the people who use its services or buy its goods. Cooperatives use any profits earned by their business for the benefit of their members, either by reinvesting in their business, lowering prices or interest rates, or by returning dividends to members.

Most equity comes from the member-owners and not from outside investors, which makes cooperatives a distinct alternative business model. Cooperatives are characterized by the fact that they are formed to serve their members and not solely to earn a profit. Among key principles, cooperatives are democratically governed. Every member gets an equal vote in determining a cooperative's governance.

In many ways, cooperatives resemble other businesses. They have similar physical facilities, perform similar functions, and follow sound business practices. They are usually incorporated under state law and operate under the direction of a board of directors with bylaws.

Because of their unique structure and composition, cooperatives often are misunderstood and face hurdles when interacting in the marketplace and with governments. NCBA CLUSA's work provides cross-sector education, support, and advocacy that helps cooperatives thrive here and abroad.

American consumers come into contact with cooperative business every day in virtually every sector of the economy; from agriculture, childcare, credit unions, energy, insurance, food, healthcare, housing, retail, and the media and telecommunications. According to federally supported research on cooperative businesses by the University of Wisconsin Center on Cooperatives, we know that:

- Approximately 29,000 cooperatives are in operation today
- They sustain 2 million jobs annually
- Contribute \$652 billion in annual sales
- Generate \$150 billion in income
- Possess \$3 trillion in assets
- 1 in 3 Americans are members of a co-op and collectively hold 350 million memberships nationwide
- 92 million Americans turn to 7,500 credit unions for their financial services
- Most of the nation's 2 million farmers are farmer co-op members and provide 250,000 jobs and \$8 billion in annual wages
- 42 million Americans rely on electricity from 900 rural electric co-ops in 47 states – making up 42% of the nation's electric distribution and covering 75% of the nation
- 233 million people are served by co-op owned and affiliated insurance companies
- 1.2 million rural Americans are served by the 260 telephone cooperatives in 31 states
- 50,000 American families rely on cooperative daycare and preschools for the care of their children.

We know that the cooperative model is a powerful tool in developing countries as well. Worldwide, over a billion people belong to a cooperative.

Along with the U.S., capitalistic countries around the world view cooperatives as a viable business model; in Cuba, cooperatives are now being prioritized in the development of the country's nascent private sector. Since early 2013, Cuba has been working to shift its economy from state-controlled enterprises to citizen-controlled and owned cooperatives; this shift is a key strategy to lessening state control and strengthening market-based approaches to the economy.

As in the U.S., cooperatives in Cuba perform vital business functions. Historically in Cuba, cooperatives were primarily found in the agricultural sector. There is a 50 year history of agricultural cooperatives in Cuba that date back prior to the revolution. There are nearly 5,200 agriculture cooperatives currently

operating in Cuba that contribute 80% of all fruits and vegetables consumed in Cuba. Given new guidelines for the economy established by the Cuban government in 2011, that situation is changing dramatically with the emergence of non-agricultural cooperatives (NAC) in numerous economic activities. Of the three types of agricultural cooperatives previously established, at least two of them should be considered “private enterprise” under the strictest of definitions. They, along with the NACs, are briefly described below.

In the Cuban legal conceptual framework, cooperatives are private entities jointly owned by a group of associates as defined and protected under their laws. This attribute distinguishes this sector from the other types of enterprise which are state-owned, private (individual ownership), or joint ventures (Cuban state and foreigners). In Cuba there is a fundamental demarcation between state and non-state businesses. Cooperatives of all forms are non-state entities, though they may have varying commercial and financial connections with the state.

Cuban cooperatives in general, but especially the newest ones emerging, face many technical and educational challenges with regard to how to operate most effectively as strong associations and businesses. International exchanges with cooperative groups like NCBA CLUSA and our member cooperatives will provide valuable learning tools, best practices, and exchanges that can help strengthen this sector and its role in privatizing the economy.

BRIEF DESCRIPTION OF CUBAN COOPERATIVE FORMS

AGRICULTURAL COOPERATIVES

Cooperativas de Créditos y Servicios (CCS)/ Credit and Service Cooperatives

Farmers with small amounts of land first formed them in the early 1960s. CCS cooperative members are private landowners who hold their land separately but join together to obtain and utilize agricultural credits and services. According to official statistics, as of 2010, CCS cooperatives have a total membership of 362,440 farmers that own 35.2% of cultivable land.

Cooperativas de Producción Agropecuaria (CPA)/ Agricultural Production Cooperatives

CPAs were formed in the mid-1970s by small private landowners joining together much like those in CCS cooperatives. However in the CPA structure, members contribute their land to participate in joint land ownership with the other members. The land remains totally private but mutually owned by members. According to official statistics, as of 2010, there were a total of 30,000 members owning 8.8% of cultivable land.

Unidad Básica de Producción Cooperativa (UBPC)/ Basic Units of Cooperative Production

UBPCs emerged in the early 1990s as a means for the state to break up large state farms. Workers own their production, make management decisions, and operate as cooperatives, but do not own their land. They have usufruct from the State, which retains ownership of the properties. According to official records, as of 2010, UBPCs have a total membership of 187,000, and work 30.9% of cultivable land.

NON-AGRICULTURAL COOPERATIVES (NAC)

Historically, Cuba has not had enabling laws for the formation of NAC cooperatives. Law No. 305 establishing their legal structure was enacted in November 2012. NACs are not state enterprises.

Article 2, Section 2 of their Law states, “A cooperative has its own juridical and patrimonial persona; it may use, enjoy, and dispose of the assets of its property; cover its own expenses with its income; and

meet its obligations from its own patrimony". Article 4 of the same law lists seven cooperative values that shall guide the behavior of the entities including their voluntary nature, internal democracy, and community responsibility among others. These aggregate values are strikingly similar to those voted on and promulgated by the worldwide membership of the International Cooperative Alliance.

Currently NACs represent a tiny fraction of the Cuban workforce, about 350 have formed, which is less than .4% of their economy. However, based on official government statements and policy priorities, that number could expand to 15% - 20% of employment in the coming years.

NACs originate in two ways. There is a legally defined process for the creation of "grassroots" or "bottoms up" cooperatives in which a minimum of 3 people agree to form a joint enterprise within the framework of the regulations. These cooperative members jointly are the owners of all aspects of their business. Most common to date, however, has been the practice of offering state enterprise employees the option of forming a cooperative or likely face the closure of the enterprise. In such a conversion from state enterprise to cooperative, all the norms and regulations guiding performance are in place regarding management, internal functioning, control of production, etc. However the land and buildings remain state property and are leased to the cooperative.

Based on these changes, in early 2014, NCBA CLUSA established the U.S. Cuba Cooperative Working Group (USCCWG) to explore opportunities to engage with Cuba on cooperative development and released a Cuba Research Trip report on its initial findings. I would like to include in my testimony today a copy of that report as well as an outline and scope of work of the USCCWG.

We remain optimistic that these internal changes in Cuba, coupled with the recent U.S. regulatory changes, will create enhanced opportunities to help Cuban workers improve their living standards, gain greater business ownership, and economic independence from the state. This is the mission and objective of the USCCWG.

Cubans have been able to form cooperatives in non-agricultural sectors only since July 2013, so most of the immediate opportunity for trade is in agriculture. The country's non-agricultural cooperatives are currently aimed at meeting local needs. The Cuban government is emphasizing this sector because of the need to increase food production. The mutual trade potential is enormous, but in the short run, especially from U.S. cooperatives to Cuban cooperatives. I think the need for inputs, for equipment, and for know-how are large. I think the cooperative sector here in the U.S. is very well positioned to do that.

The question about trade is important in that as markets start to open up, hopefully these cooperatives will have better access to raw materials — commodities such as seeds and fertilizers that will help them to continue to grow their businesses.

Cuban cooperatives eventually might be able to export certain crops to the U.S., particularly those that are more tropically oriented; such as fruits, coffee, or sugar. The Cuban government is currently analyzing how the cooperatives operate in order to develop a definitive law in 2016 that will improve the commercial environment for them.

What would NCBA CLUSA view as a positive outcome for expanded U.S./Cuban cooperative relations? A great deal depends on how the new regulatory changes take shape in addition to the existing embargo restrictions and how much the Cuban government will allow for change. Much is out of our control both politically here in the United States as well as in Cuba and challenges with capabilities by the Cuban

government. However, we would like to see positive enabling environments in which cooperatives can thrive and which protect the economic freedoms and choices of people in Cuba. We hold that United States government policy needs to continue to provide recognition of cooperatives as supporting the nascent Cuban private sector as well as parity for cooperatives equal to other forms of business interested in Cuba's economic transition.

We were pleased to see the Commerce Department recently update its Export Administration Regulations (15 CFR Parts 736, 740, 746, 748; <https://www.federalregister.gov/articles/2015/01/16/2015-00590/cuba-providing-support-for-the-cuban-people>) and add a new license exception to enable exports to empower the nascent Cuban private sector by supporting private economic activity. Exports providing building materials; goods for entrepreneurs such as mechanics, hairstylists, and restaurateurs; and tools and equipment for agriculture activity, many which are non-agricultural cooperatives, now have a license exemption. This is intended to facilitate lower-priced access to goods to improve living standards and gain greater economic independence from the state. Prior to this rule, these activities required a license to support the embargo.

I would like to include in my testimony today, copies of letters that NCBA CLUSA sent to Secretary Jack Lew at the U.S. Department of Treasury and to Secretary Penny Pritzker at the U.S. Department of Commerce, outlining our views on recent regulatory changes announced by their Departments.

Cooperative development and growth in Cuba can be a positive development toward advancing the needs of the Cuban people as well as meeting the objectives of the U.S. government to support the strengthening of the Cuban private sector and greater independence from the State. Much work remains to be done. We look forward to the continued work of our U.S. Cuba Cooperative Working Group, and to fostering expanded engagement with the Cuban cooperative sector. This will allow both cooperative sectors to exchange important information, deepen economic ties, and provide a platform for additional support and technical assistance. NCBA CLUSA stands ready as a resource and convener of the U.S. cooperative sector to work with all levels in the U.S. government in this pivotal moment for U.S. Cuba relations.

Thank you again for allowing me to testify before you today.

Statement of
Matthew S. Borman
Deputy Assistant Secretary of Commerce for Export Administration
before the
Committee on Agriculture, Nutrition and Forestry
United States Senate
April 21, 2015

Mr. Chairman, Ranking Member Stabenow, Members of the Committee:

Thank you for the opportunity to appear before the Committee today to address the role of the Department of Commerce with regard to regulating agricultural trade with Cuba. As you know, on December 17, 2014, the President announced the most significant changes in Cuba policy in more than fifty years. As he noted, these changes are intended to create more opportunities for the American and Cuban people by increasing commerce, travel, and the free flow of information. To implement these changes, the Department of Commerce's Bureau of Industry and Security (BIS) amended the Export Administration Regulations (EAR) on January 16, 2015, to expand the authorization for exports and re-exports of certain categories of items to Cuba.

The January 16, 2015 amendment of the EAR created License Exception Support for the Cuban People (SCP) and expands the scope of License Exception Gift Parcels and Humanitarian Donations (GFT). License Exceptions facilitate trade by authorizing specified exports without individual licenses as long as the terms of the exception are followed. License Exception SCP authorizes the export of certain categories of items including building materials such as lumber, plywood, and other wood products for use by the private sector for the construction or renovation

of privately-owned buildings, and tools and equipment for private sector agricultural activity. It also authorizes exports of tools, equipment, and supplies to private sector entrepreneurs, including restaurateurs and other food service providers. License Exception GFT now authorizes consolidated shipments of multiple gift parcels, which may contain an unlimited quantity/dollar value of food. Individuals who wish to send food in gift parcels no longer have to search for a party that has received a license from BIS authorizing consolidated shipments to Cuba.

Other provisions of the amendment to the EAR facilitate the export of certain telecommunications items intended to improve the free flow of information to, from, and among the Cuban people and items necessary for the environmental protection of U.S. and international air quality, waters and coastlines.

The changes announced by the President did not, however, result in amendment of the EAR with regard to BIS authorization of exports of agricultural commodities. The Trade Sanctions Reform and Export Enhancement Act (TSRA) of 2000 governs how BIS regulates exports of agricultural commodities. To implement TSRA, BIS created License Exception Agricultural Commodities (AGR) for exports of agricultural commodities from the United States to Cuba provided that they are designated as EAR99 (subject to the EAR but not on the Commerce Control List). To be eligible for License Exception AGR, exporters must provide prior notice to BIS through our online application system. BIS and the Department of State's Bureaus of Economic and Business Affairs and Western Hemisphere Affairs review notices on an expedited basis (generally within 12 business days). Consistent with TSRA, this expedited review process includes screening the ultimate consignee to ensure that the recipient does not promote international terrorism and that the transaction does not raise proliferation concerns. Provided that the transaction meets the terms and conditions of License Exception AGR,

exporters may proceed with the transaction once BIS confirms that neither reviewing agency has raised an objection. Exports of agricultural commodities must be made pursuant to a written contract and must take place within one year of the signing of a contract unless the export is a commercial sample or donation (in which case the contract requirement does not apply).

During 2014, BIS processed 56 AGR notifications, valued at \$2.4 billion, with an average turnaround of 10 days. Multiple shipments may be made pursuant to a single notification. The dollar value reflects proposed exports, not actual exports. During 2014, exporters made 600 shipments of agricultural products to Cuba. Commerce's Census Bureau reports the value of agriculture exports in calendar year 2014 at about \$287 million.

In Cuba, only state-run companies are authorized to engage in foreign trade transactions, and often a whole category of commodities imported from the United States is channeled through a specific company. Shipments of agricultural commodities (specifically food) made under License Exception AGR are generally consigned to ALIMPORT (Empresa Cubana Importadora de Alimentos), a state-run company with the Cuban Ministry of Foreign Trade as its largest shareholder.

The President's announcement did result in new regulatory guidance issued by the Department of the Treasury pursuant to the Cuban Assets Control Regulations regarding "cash in advance" as it pertains to the export of agricultural commodities. My colleague from Treasury's Office of Foreign Assets Control will discuss the regulatory reinterpretation of "cash in advance."

Thank you, once again, for the opportunity to appear before the Committee today. I would be pleased to answer any questions Members may have.

**Statement of
Terry L. Harris
Senior Vice President, Marketing & Risk Management
Riceland Foods, Inc.
to the
Senate Committee on
Agriculture, Nutrition and Forestry
April 21, 2015**

Thank you, Mr. Chairman. I am Terry Harris, senior vice president of marketing and risk management at Riceland Foods, headquartered in Stuttgart, Arkansas. I appreciate this opportunity to appear before the Committee on behalf of Riceland Foods and the USA Rice Federation.

Riceland is a family-farmer owned cooperative formed in 1921 to market rice. Today, Riceland serves approximately 6,000 farmer-members in Arkansas and Missouri who grow rice, soybeans and wheat. The cooperative markets about a third of the rice grown in the southern United States and about a fourth of the national production.

Riceland is primarily a direct exporter, selling directly to buyers in importing countries, although we sometimes sell rice through other U.S. export firms and international shippers for delivery to importing countries. As a result of this direct approach, our staff is well schooled in the details of everyday management of logistics and finance related to the export business.

Riceland Foods is proud to be a member of the USA Rice Federation. USA Rice represents all segments of the U.S. rice industry. Rice is grown in seven states including Arkansas, California, Louisiana, Texas, Mississippi, Missouri and Florida. Nearly half of the U.S. crop is grown in eastern Arkansas. The industry markets rice in all 50 states and to 125 countries worldwide. USA Rice is a founding member of the U.S. Agricultural Coalition for Cuba, a broad-based group of U.S. agricultural and food organizations seeking to re-establish Cuba as a market for U.S. food and agriculture exports.

My objective today is to discuss the past and potential trade relationship between the U.S. rice industry and Cuba, a future that I believe holds great promise for U.S. rice farmers and U.S. agriculture.

The United States exports half of the rice produced annually, so maintaining existing markets, as well as developing new markets, are key components to the industry's success.

Our largest export markets include Canada, Mexico and Central America. Securing additional export markets is important to the economies in rice growing states. Therefore, the U.S. rice industry wholeheartedly supports the opportunity to move to normal commercial relations with Cuba.

Prior to the U.S. embargo on Cuba more than 50 years ago, the island was the number one export destination for U.S. rice. Annual rice shipments reached as much as a quarter of a million metric tons in the 1950s, and the U.S. accounted for more than half of Cuba's rice imports.

Prospects brightened with passage of the Trade Sanctions Reform and Export Enhancement Act of 2000, when U.S. agriculture and food exports to Cuba were granted, or what many of us believed at the time to be, a broad exemption from the embargo.

In November 2001, I had the opportunity to make the first sale of U.S. rice to Cuba since the embargo was imposed. It was an incredibly intense and interesting negotiation as we developed contract terms and quality specifications for a country which, at that time, had not purchased goods from the U.S. in 40 years.

I found the leadership of the Cuban buying organization informed, shrewd, and very professional. I also was in Cuba to witness the first shipment of U.S. rice when it arrived in the Port of Havana. It was an incredible experience for me to see how excited they were with the quality of rice they had purchased for the

people of Cuba. I saw what can happen when barriers are removed and people are allowed to meet and find common ground for cooperation and trade.

As recently as 2004, sales of U.S. rice to Cuba were valued at \$64 million.

The success of rice and other U.S. agriculture products in Cuba was seriously curtailed in large part following a change by the Office of Foreign Assets Control in the definition of “payment of cash in advance” in 2005. U.S. rice exports to Cuba dropped to zero following this regulatory change.

Cuba is a significant market for rice, importing about \$300 million worth of rice annually, with a per capita consumption of 177 pounds per person. By contrast, per capita U.S. consumption is less than 30 pounds. Currently, most of Cuba’s rice imports come from Vietnam.

With the port of New Orleans located less than 700 miles from Havana, the U.S. is in a better position to serve the rice needs of the Cuban people in terms of required transit time and the cost of freight.

With the lifting of the embargo and the restoration of trade and travel with Cuba, we estimate that the U.S. could regain 20 to 30 percent of the Cuban rice business within two years, or an estimated 90,000 to 135,000 metric tons of new demand for U.S. rice farmers based on USDA’s current estimate of overall annual

Cuban import demand. We would anticipate the U.S. share of the market would exceed 50 percent within five years and could reach 75 percent or more within 10 years.

On January 15, 2015, OFAC made changes to the regulations on trade with Cuba that allowed for the definition of “payment of cash in advance” to revert to the pre-2005 wording. We applaud this measure, as well as other actions by the Obama administration to facilitate trade. However, there are still obstacles to conducting normal trade with Cuba.

I stated earlier that we are seeking normal commercial relations with Cuba. This means allowing U.S. citizens to travel and spend money in Cuba without restrictions as well as allowing Cuba to export their goods to the United States as they do to most countries around the world so they will gain the resources and increased demand to import U.S. food and agricultural products. It also means permitting the full range of commercial banking and financial relationships to facilitate trade based on individual exporter assessments of the risk of doing business in Cuba.

With the lifting of the embargo and the restoration of trade and travel, normal commercial relations would be restored. This would allow direct banking

and extending of credit under commercial terms which would position the U.S. to compete with Vietnam for the Cuban rice market.

The U.S. rice industry and Riceland Foods is committed to building the Cuba market for our product. Our company has made numerous trips to Cuba to meet with Cuba's national importer of rice and food products. USA Rice has spent just under \$900,000 in rice industry promotion funds since 2003 to promote the high quality and efficiency of U.S. rice in the Cuba market. We intend to continue these activities.

To give U.S. rice the chance to compete in Cuba, the rice industry seeks the ultimate lifting of the embargo and the elimination of all restrictions on tourism and trade with Cuba. This, of course, requires Congressional action.

Thank you for the opportunity to share our views with the Committee. I would be pleased to respond to any questions.

K-LER Cattle Company***Ralph & Filomena Kaehler Family***

23913 County Rd 39; St. Charles, MN 55972

Phone: 507-269-5721

Email: Kaehler@q.comwww.kaehlercattle.com

April 21, 2015

Chairman Roberts, Ranking Member Stabenow, U.S. Senator for Minnesota Klobuchar, and all members of the Committee:

Thank you for holding this panel on agricultural trade with Cuba. This is an important topic for our farmers and all Americans, and I am honored to be included as a small part of the decision making process.

My two sons are the fifth generation to be operating our family farm in St. Charles, which sits in the southeast part of Minnesota. The Kaehler Family farm produces traditional crops, canning crops, and livestock. We are nationally recognized beef breeding stock producers whose claims to fame include exporting the first livestock to Cuba in 2002 following the enactment of the trade embargo. Our youngest son Seth and his soon-to-be-wife Shelby (getting married on November 7!) are actively involved in the operation. My oldest son, Cliff, recently returned home from stint on Wall Street to open a solar energy company. We're excited to have him back.

Our initial exposure to Cuba was as an exhibitor in the First U.S./Cuba Food and Agriculture Exposition in 2002 through an invitation from then Minnesota Governor Ventura. Of the over 180 exhibitors from 30 states, the Kaehler Farm display was the only one with live animals—affectionately known as the "Cuban Ark". It consisted of two beef cows, two dairy cows, two pigs, two sheep, and two bison bottle calves. The display was intended to exhibit the diversity of U.S. livestock producers, and to introduce Cuba to the typical USA farm family.

We returned home from that exposition motivated to do more. Since then, the Kaehler Family has led over 10 trade delegations to Cuba. These missions have included producers from seven different states and a bipartisan mix of state lawmakers and officials. To date, some of the most successful exports to Cuba we have facilitated include shipments of livestock, dried distillers grains, powdered milk, animal milk replacer, and texturized calf feed.

Given the opportunity, U.S. farmers do well in Cuba. We have a significant advantage of shorter shipping over Europe, South America, Asia, and other major exporters. In addition, Cuba can take advantage of U.S. rail container service and sizing options, which also brings significant benefits to smaller privately owned businesses like ours. On top of all this, the U.S. produces a wide variety of affordable and safe food products that Cubans want to eat.

Unfortunately, some of the policies currently in place diminish the natural advantages American agriculture enjoys over its competitors. For instance, requirements for using third country banks for financing adds a lot of paperwork, time, and personalities to every transaction. Coupled with a restrictive cash-in advance shipping policy—which I know the President helped to improve in recent months—there is a very small margin for error before a shipper faces demurrage fees. As a family operation trying to build our business through exports, this self-inflicted inefficiency can be tough to manage.

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So what do I hope to see change for U.S. farmers in the national Cuba debate? First, I hope farmers can work with Congress to improve the trade financing rules for Cuba. The efficiencies gained by doing this would be immediately beneficial. It would make shipping cheaper for producers and food less expensive for Cubans, both of which can only be a good thing for our trade relationship.

Second, I have to mention the importance of the USDA to agriculture exporters. Some large companies may have plenty of resources without this promotion and technical assistance, but small firms like ours do not have the luxury of extra available cash or shareholder offsets. We need marketing support and assistance to help support our companies and figure out exactly what's going on in markets abroad. I hope to see these resources available someday soon for our small and medium-sized producers working on selling their products to Cuba.

Finally, I hope that Congress will expand the universe of people involved in U.S.-Cuba trade by allowing a greater variety of goods and services to be traded. I don't know much about politics, but I have spent a lot of time in Cuba and have built strong relationships with farmers and their families. The Kaehler farm has weathered many ups and downs in doing business with Cuba, including a recession, high commodity prices, and difficult financing rules. But we've made progress over time and have never been shortchanged by our customers. I can only imagine that having more interactions like these—farmer to farmer—will help build a better understanding between our two countries and improve quality of life on both sides.

I look forward to answering any questions you might have. Thank you for this opportunity.

Respectfully submitted,

Ralph Kaehler on behalf of the Kaehler Family.

**Written Testimony of Doug Keesling
Kansas Wheat
Before the Senate Committee on Agriculture, Nutrition, and Forestry
Opportunities and Challenges for Agriculture Trade with Cuba
April 21, 2015**

Good morning, Chairman Roberts, Ranking Member Stabenow, and Members of the Committee. Thank you for the opportunity to testify today regarding the opportunities for agricultural trade with Cuba. In particular, I would like to thank Chairman Roberts for his kind invitation and for his decades of service to Kansas and her farmers.

My name is Doug Keesling. I am a 5th generation farmer from Chase, Kansas, where I grow wheat, corn, soybeans, and a few other crops. I have also been a Kansas Wheat commissioner for the past ten years.

U.S. Agriculture Coalition for Cuba

I recently returned from Cuba, where I was part of a delegation organized by the U.S. Agriculture Coalition for Cuba (USACC). The primary purpose of USACC is to re-establish Cuba as a market for U.S. food and agriculture exports, and the wheat industry fully endorses that goal. USACC consists of over 90 agriculture organizations and companies located across the country. The coalition strongly supports a bipartisan bill introduced by Senator Klobuchar that would repeal trade sanctions on Cuba and will support all legislative efforts that move us closer towards that goal.

Cuba Learning Journey

There were nearly a hundred participants on the USACC-organized trip representing a range of agricultural organizations and companies dealing with wheat, rice, dairy, corn, soybeans, pork, poultry, and more. We had the opportunity to hear from Cuban government officials and speak with Cuban farmers. We are certainly interested in selling our products to Cuba, but we were also there to learn and to help break down the wall that has separated the people in our two countries for too long.

From what I could see, there is a lot of potential in Cuba: potential in its own agriculture sector and potential as a market for U.S. agricultural exports. As a Kansas wheat farmer, that potential was obvious every time a meal included bread. Cubans eat a lot of it, and they're the largest wheat importer in the Caribbean, to the tune of nearly 30 million bushels per year. That would be over 10 percent of all the wheat grown in Kansas, going to this one island just a couple days sail from U.S. ports.

Cuban Wheat Market

Cuba is the largest country in the Caribbean by area and population. Wheat and rice are both staples of the Cuban diet, though only rice is produced domestically. With a population of 11 million people, future opportunities for increased wheat consumption will accelerate as both the economy improves and the tourism sector boosts consumption.

Today, wheat imports from the United States have an upward potential of the whole 30 million bushels currently imported by Cuba. That's because presently Cubans buy no wheat from the United States. The state-owned grain buyer, Alimport, buys almost all their wheat from Canada and Europe, even though Cuban ports are much closer to U.S. ports. That's a \$200 million opportunity that passes us by every year. Based on USDA Economic Research Service models, those additional exports could support nearly 2,000 jobs. And that's just for wheat.

Now that Cuba is allowing increased investment by the private sector from every country but the US, we can expect the sophistication of the Cuban flour milling, processing and retail segments to improve, which could lead to even more import demand in the future. But if current policies continue, those imports will not be products raised by American farmers.

Hope & Disappointment

When some of the restrictions on U.S. agriculture exports were lifted early in the last decade, we were excited that there would be an opportunity to reestablish Cuba as a consistent wheat market for American farmers. For a while, it looked like that might happen, as wheat exports slowly grew through the decade until they peaked at 18 million bushels in 2008. During that time, almost all the imported wheat was Hard Red Winter, just like the wheat I grow on my farm in central Kansas. Forty percent of Hard Red Winter production is in Kansas, so Kansas farmers stand to benefit from trade with Cuba as much as anyone.

But it was not to be, exports tanked over the next couple years, and we haven't exported anything since 2010. There are a number of reasons for this but economics is not one of them. In the rest of the Caribbean region the market share for U.S. wheat is over 80 percent. Cuban ports are literally the closest non-Mexican ports to wheat export terminals in the Gulf. There is no domestic production of wheat in Cuba that could compete with ours, and there are no tariffs in place on imported wheat.

Challenges of Exporting

But it is practically very difficult for Cubans to import wheat grown in Kansas, and apparently much easier to import wheat grown in Canada or France. I can put my wheat in an elevator in Kansas, send it by rail down to the Gulf of Mexico, and put it on a ship that's just a couple days away from the Havana Harbor. But my wheat is still going to lose out to wheat that has to be on a boat for a week from Canada or two weeks from France.

The problem is rules and laws that just make it too expensive to compete in that market. The law requires that exporters receive cash before they're allowed to unload in a Cuban port. If a company wants to take the risk of providing a loan to a Cuban buyer they're out of luck because selling on credit isn't even an option for them. There are also shipping restrictions that prohibit docking in the United States without specific permission from Washington if a ship has been in a Cuban port within the last six months. Recent

regulatory changes don't seem to have made any impact on making U.S. products more competitive.

All of this adds up to make it very expensive to do business with Cuba. As a farmer, I have to evaluate all the costs that go into planting wheat, including seed, fertilizer, fuel, maintenance, compliance, and financing. If it's too expensive, I'll just have to give up on wheat and plant a competing crop. Well, that's what the Cubans face when they're trying to purchase my wheat. It's just too expensive. But they're not going hungry – they're just buying wheat from other countries that may be more expensive than mine in a free market, but is now a much better value because there aren't massive compliance costs accompanying every purchase.

It doesn't make any sense to me that if somebody wants to buy the wheat I grow, they have to jump through all sorts of regulatory hoops. No matter what kind of government a country has, everyone should have access to affordable food and we should do everything we can with our policies to facilitate access to American food products. Even the Soviet Union was generally allowed to import grain from the United States.

I would suggest that Congress carefully consider whether there is a compelling, practical reason to restrict the freedom of Americans to engage in commerce, especially for those who are just trying to sell wholesome, American-grown food. I sure don't see one.

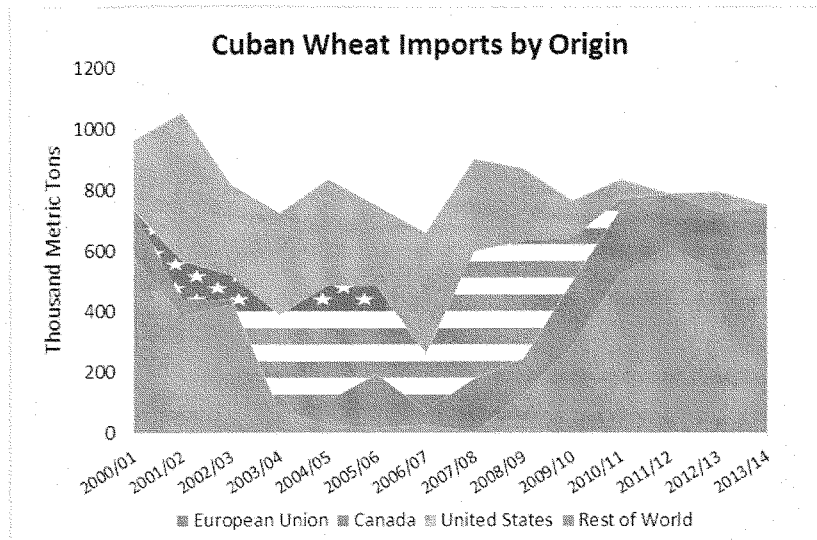
Normalizing Trade Relations

If Cuba is to become a successful export market for U.S. farmers, these regulatory obstacles need to be repealed. But more than that, we need to see the trade sanctions in their entirety lifted. Cuba has enormous economic potential, and while it certainly remains a communist country, that hardly justifies the scale of the sanctions, especially when trade relations with other communist countries are growing deeper all the time.

Cubans want to sell us their products, just like we want to sell them our products. Trade is a two-way street. U.S. agriculture is never going to realize its full potential in Cuba as long as the trade sanctions are in place – even if the legal and regulatory burdens on our agriculture exports were completely eliminated. If they can't sell us their tourism services, cigars, rum, fruit, and other products where they have a comparative advantage, we'll always face an uphill battle in selling the products of American soil. It's time for us to eliminate these trade barriers and see how far this trade relationship can go.

Conclusion

In conclusion, I would like to reiterate the support of Kansas Wheat for normalizing trade relations with Cuba. Beyond wheat, the Kansas agriculture community at large is united behind the effort to correct this long standing dispute. Agriculture and the subsidiary industries that support it will all stand to benefit if we can open unfettered trade with Cuba. Such a move is long past due, and will have major benefits for American farmers and businesses, and I believe for the Cuban people as well. Thank you again for the invitation to testify this morning and thank you for your attention.

Wheat Trade with Cuba (2001-2014)

Source: Global Trade Information System and USDA Production, Supply and Distribution (PSD) Online

Testimony of C. Parr Rosson, III, PhD¹
Before the

Senate of the United States
Committee on Agriculture, Nutrition and Forestry

Hearing on Opportunities and Challenges in Agriculture Trade with Cuba

April 21, 2015

Mr. Chairman and esteemed members of the Committee, thank you for the invitation to testify on the opportunities and challenges for agricultural trade with Cuba. I am Parr Rosson, Professor and Department Head in the Agricultural Economics Department at Texas A&M University. I have been at Texas A&M since 1989. From 1997 and until becoming Department Head in 2012, I was the Director of the Center for North American Studies (CNAS) at Texas A&M. I have been involved in research and extension education related to Cuba for 15 years. In that capacity, I conducted dozens of economic impact analyses examining how increasing U.S. food and agricultural exports to Cuba will impact the U.S. economy and the economies of the states that produce those products for export. During 2010 as the House Committee on Agriculture was considering HR 4645, we conducted 16 analyses at Committee staff request describing how the relaxation of travel restrictions and financing regulations would increase U.S. exports and stimulate business activity and job growth throughout the U.S. economy. Since then, I have continued to investigate changes in Cuba and how they affect U.S. agriculture. In general, we find that exports create jobs, and exports to Cuba are no exception. For every \$73,600 in U.S. food and agricultural exports to Cuba, one job is created in the United States, along with another \$170,000 in economic activity to support those additional exports.

Opportunities and Market Potential

Cuba has the potential to become a major market for U.S. agricultural exports and to develop into a market that is quite diverse, with bulk staple products, such as corn, wheat, soybeans and rice, being important in the near term. But, over time as the market grows, and the tastes and preferences of the average Cuban become more sophisticated, U.S. exports will be well positioned to capture a growing share of the high-value food market. So as to not overemphasize the present size of the Cuban market, U.S. exports to Cuba of \$286 million represented less than one percent of total U.S. agricultural exports of \$169 billion in 2014.

Our previous research indicates that U.S. export potential could exceed the record \$709 million set in 2008. With a more open economy, less regulation by both governments, strong tourism and remittances, U.S. food and agricultural exports have the potential to exceed \$1.2 billion annually within five years (Rosson, Adcock and Manthei). While much of this additional export volume may be consumed by international visitors, a

¹ Professor and Department Head, Department of Agricultural Economics, Texas A&M University.

growing share will also make its way into the Cuban populace, spurring additional demand for food and creating a larger potential market for U.S exports.

In 2014, U.S. exports to Cuba were \$286 million, supported \$867 million in total business activity and provided employment for 3,885 workers throughout the U.S. economy. U.S. agriculture receives economic gains from increased agricultural exports, with benefits accruing to non-agricultural sectors such as business and financial services, real estate, wholesale and retail trade and health care. Approximately 45 percent of the gains in business activity go to non-agricultural sectors, while the majority of gains, 55 percent, go to agricultural producers, agribusinesses and related firms.

These most recent exports have been concentrated in poultry, the soybean complex and corn. Major exports included frozen leg quarters and other poultry (\$148 million), soybeans and soybean meal (\$98 million) and corn (\$28 million). Together these three product categories represented 96 percent of U.S. agricultural exports to Cuba in 2014 (Figure 1). Other U.S. exports were feeds/fodders (\$9.4 million), dairy products (\$1.4 million), pork (\$1.3 million) and fresh fruit, prepared and snack foods (\$379,000). U.S. poultry claimed 73 percent of the poultry market in Cuba, while the soy complex represented 20 percent and corn one-half of the market. Cuba is now the seventh largest market for U.S. exports in the Caribbean/Central American region, but has potential to become more important.

Cuba is a centrally-planned economy located 90 miles south of Key West, Florida. The proximity to the United States makes Cuba economically, socially and politically important. Since the U.S. embargo was implemented in 1962, effectively severing diplomatic and economic relations, U.S. firms have been prohibited from doing business there.

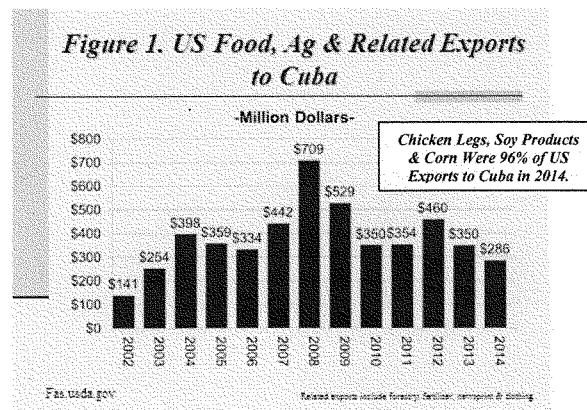
Nearly three-fourths of the labor force is employed by the government of Cuba (GOC) at a wage of approximately \$20/month. The literacy rate is estimated at 99.8 percent, the highest in the Western Hemisphere (CIA). The GOC, however, is involved in virtually every aspect of the business and personal lives of its citizens. Trade and investment are strictly limited and controlled by government regulation. Further, food and agricultural imports are required to enter the country through Empresa Comercializadora de Alimentos (ALIMPORT).

International trade between the United States and Cuba is strictly regulated by both governments. U.S. firms may export foods, agricultural products and medicines to Cuba. Recent regulatory changes allow the importation of selected Cuban products, but these products must be purchased from private businesses, not the Cuban government. So, while some relaxation of regulation has occurred, there are significant regulatory impediments to trade in food and agricultural products.

However, a combination of factors led to the growth of U.S. food and agricultural exports to Cuba during the early 2000s. First, passage of the Trade Sanctions Reform and Export Enhancement Act of 2000 allowed U.S. firms to legally export their agricultural products

to Cuba and travel there for business purposes. Second, the rapid onset of hurricane Michelle in 2001 led to the destruction of most food crops in Cuba, and subsequently to acute food shortages. This prompted Cuba to begin the importation of U.S. food and agricultural products on a commercial basis for the first time since the embargo was imposed.

From modest beginnings of \$141 million in 2002, U.S. exports grew to \$398 million in 2004 and peaked at \$709 million in 2008. U.S. exports then fell to \$460 million in 2012, \$350 million in 2013 and \$286 million in 2014 (Figure 1). For January and February, 2015 U.S. exports to Cuba were down 56 percent from the same period last year to \$35 million (Foreign Agricultural Service, USDA).



This recent export performance is in sharp contrast to 2009, when a much larger and more diverse mix of U.S. products were exported to Cuba. In 2009, U.S. agricultural exports to Cuba of \$529 million required 8,588 jobs and generated \$1.6 billion in total economic activity. Major U.S. exports were frozen broilers/turkeys and other poultry (\$144 million), soybeans and soybean products (\$133 million) corn (\$120 million), and wheat (\$73 million). These four product categories represented 89 percent of total U.S. agricultural exports to Cuba. Other important U.S. exports were animal feeds (\$26 million), pork (\$11 million), dry beans (\$4.3 million), and processed foods and phosphate fertilizers (\$3 million) each. Minor exports were apples, pears and grapes (\$2.6 million), margarine (\$2.2 million), and treated poles (\$1.7 million).

There are several reasons for this sharp decline in U.S. exports. First, Cuba has diversified its food suppliers by shifting away from U.S. products in favor of those from Brazil, Canada, Argentina, Mexico, Spain, France, Ukraine, and Vietnam. Credit terms are offered by some of these countries, allowing ALIMPO to conserve hard currency and use credit to make larger purchases over periods of several months or longer. Sustained high prices for many agricultural commodities and a strong U.S. dollar also negatively impacted U.S. exports over the last several years. Lower earnings from tourism, and nickel exports also hampered the GOC from continuing large cash

expenditures on imported food. Perhaps another reason may have been the deliberate decision by the GOC to move away from the United States as a food supplier. After a decade of trying to influence U.S. policy and failing, persistence may have waned. The net result was a loss of U.S. competitiveness and market share, followed by a precipitous 59 percent decline in U.S. exports between 2008 and 2014.

Cuba, however, does have potential for growth as a market for U.S. food and agricultural exports. With a population of 11 million, Cuba is similar in demographic composition and structure to the Dominican Republic, the largest U.S. market in the Caribbean/Central American region. Cuba also mirrors Guatemala, a market that has grown 38 percent since over the past five years.

In 2014, the Dominican Republic had a population of 10 million, with a labor force of 4.9 million. The proportion of the population between the ages of 25-54 was 39 percent. Per capita gross domestic product (GDP) was estimated at \$9,200. GDP was composed of 15 percent agricultural production, 22 percent industrial production and 63 percent services (CIA). In 2014, the Dominican Republic imported \$1.4 billion from the United States, compared to \$1.1 billion in 2010, an average annual growth rate of nearly seven percent.

Cuba, by contrast, had a labor force of 5.2 million in 2010 (CIA). Per capita GDP was estimated to be \$10,200. This figure includes adjustment for government subsidized food, housing, transportation and medical care. Agriculture accounted for four percent of GDP, while industrial production was 22 percent and services was 74 percent. The proportion of the population between the ages of 25-54 was 47 percent, higher than the Dominican Republic and positive in terms of U.S. export growth potential since that age group tends to experience the highest levels of expenditure on food and other consumer products. These demographic comparisons give some idea of the potential the Cuban food market could have if it becomes more market oriented, less restricted by government regulation and experiences investment in business and infrastructure.

Currently and likely for the near future, three key factors will influence the volume and mix of U.S. food and agricultural exports to Cuba. First, remittances to Cuba, largely from Cuban-Americans in the United States, represent a major source of income and purchasing power for about 60 percent of Cuban households and an important source of foreign exchange for the GOC.

Cuba's exports are also important for sustaining the economy and the ability to import food. With imports representing as much as 80 percent of food consumption in some years, access to foreign exchange is crucial. Tourism (\$1.9 billion), nickel/cobalt (\$1.0 billion) and pharmaceuticals (\$547 million) were Cuba's three most important exports out of a total of \$5.3 billion in 2013. Other major exports included sugar (\$449 million), tobacco (\$245 million) and rum (\$154 million). Cuba's ability to purchase food fluctuates widely as global markets for these products influence prices and volumes traded.

Finally, U.S. export success is heavily influenced by decisions on the part of the GOC and ALIMPORT related to which products to purchase, at what price and in what volumes. As relations between the two countries improve, there is reason to be optimistic that U.S. exports will expand, leading to a more robust and competitive market.

The present product mix of frozen leg quarters, soybean meal and corn could certainly increase to include more processed foods and high value products such as pork, beef, prepared meats such as sausage and hot dogs, along with condiments such as sauces, seasonings, mayonnaise, mustard and other products. Dairy products, rice and wheat also have strong potential in the market. Snack foods, frozen desserts, soups, gelatins and canned fruit and vegetables all have potential. Raisins, nuts, fresh fruit and vegetables, along with gum, bottled water, wine, beer and spirits all have potential. These products were exported to Cuba to some degree until 2012 when the Cuban government began to make substantial food purchases from other suppliers.

Challenges Facing U.S. Exports to Cuba

There are several challenges that limit the performance of U.S. exports to Cuba. Consumer incomes, infrastructure/logistics, and policy and regulation are among the most important constraints. Consumer income growth is one of the critical factors affecting market potential in Cuba. With the large majority of the population on fixed, low incomes, consumer disposable incomes are limited. Remittances, largely from Cuban-Americans in the United States are an important component of household income. These funds are transferred directly to Cubans and represent a substantial boost to consumer purchasing power. Estimated to increase eight percent from \$2.77 billion in 2013 to \$3.0 billion in 2014, remittances are likely to have a substantial positive economic effect on the Cuban economy and U.S. exports, spurring expenditures by those who receive them and fostering additional investment in small business ventures (Cuba Standard). Should remittances decline, however, there would be direct negative impacts on Cuban consumers and followed by lower purchases of U.S. food products.

Tourism is also an important income source for those Cubans who work in restaurants, hotels and other tourist related businesses, such as transportation. With a record 3.0 million visitors in 2014, spending an average of \$629/trip, tourism represents a key component of the Cuban economy that generated \$1.9 billion last year (Carrillo). Approximately 40 percent of all visitors to Cuba are from Canada, followed by Germany, England, Italy, France and Mexico (ONE). Allowing U.S. visitors to use credit cards will also have a positive economic impact, but the exact amount is uncertain and more research is required.

Cuba also relies on exports of nickel and cobalt, pharmaceuticals, sugar and rum. International market volatility due to wide swings in commodity prices can limit the amount of currency available for food purchases, and certainly dampen U.S. export potential.

Infrastructure and logistics pose special problems for U.S. exporters. Internet access in Cuba is severely limited, with only an estimated five percent of the population having access. While some tourist hotels provide internet access in rooms and terminals in the lobby, many have limited access or none at all. This can hamper U.S. business operations and communications with ALIMPORT officials since some may not have consistent access to email or internet communications. Lack of internet and email can certainly have a negative effect on communications between Cuban officials and U.S. businesses after deals are made and the U.S. representative returns home.

Electrical power, while adequate most of the time, does have limitations. Intermittent outages and complete loss of power are common occurrences. When this occurs, perishable food products located in warehouses, at Cuban Customs, in grocery stores or restaurants may be subject to damage, partial spoilage or complete loss. Additional investment in power infrastructure will be an important factor in determining the amount of U.S. perishables that can be imported and retained in storage. Bulk cargoes, such as corn, soybeans, wheat and rice also face constraints due to antiquated unloading facilities at ports, limited vessel size constraints and slow loading capacities. The development of an efficient, reliable supply chain is crucial to future U.S. export success.

Many U.S. competitors in the Cuban market offer some type of credit terms to ALIMORT for food purchases. U.S. firms are precluded from doing so and also face an added constraint of being required to offer only cash-in-advance sales, or cash against documents. U.S. exporters cannot use letters of credit to facilitate sales and manage risk, raising the cost of U.S. products and making them less competitive relative to Spain, Canada, Brazil, China and Vietnam. Reducing the cost and time necessary to process payment for U.S. exports to Cuba would have positive economic impacts in terms of increased exports and economic activity. U.S. exports to Cuba would be expected to rise by \$271.2 million/year, requiring an additional \$561.9 million in business activity for a total economic impact of \$833.1 million and supporting 4,478 new jobs (Rosson, Adcock and Manthei). In summary, consistent, transparent and facilitative policies related to export finance for U.S. exports to Cuba would have positive economic impacts on U.S. exports and the U.S. economy.

Background on Agriculture in Cuba

Agriculture (including sugar) accounts for 4.2 percent of Cuba gross domestic product (GDP), compared to 18 percent for repairs, 17 percent for public health and manufacturing at 15 percent (ONE). Cuba has a moderate, subtropical climate with an average of 330 days of sunshine annually. The island's weather is characterized by a dry season (November-April) and a rainy season (May-October). The average temperature ranges from 75 degrees in the West to 80 degrees in the East. Humidity averages about 80 percent and average annual rainfall is 52 inches, with about 39 inches falling during the rainy season (Cuba Weather).

Roughly 50 percent of Cuba's land is classified as agricultural, with 75 percent of that land area in relatively flat to gently rolling terrain and suitable for tropical and subtropical

agricultural production (USDA). According to the Food and Agriculture Organization of the United Nations, however, about 70 percent of Cuba's arable land has low organic matter content, while 45 percent is characterized by low fertility, 42 percent is eroded and 40 is poorly drained. These soil conditions are attributed to poor land management, including continuous tillage, overgrazing, and inadequate or improper use of irrigation and drainage systems.

Agricultural land in Cuba is evenly distributed between cropland (46 percent) and pasture (54 percent) (USDA). Recently, a large, but so far undocumented, amount of Cuba's cropland was taken out of permanent crop production and placed in native, unimproved pasture. It is suspected that this was done in an attempt to increase milk production, which has declined about 10 percent since 2003. This occurred as milk output per cow actually increased 25 percent over the same period (ONE). Cereals (rice and corn), sugar cane, tropical fruits, and vegetables accounted for 84 percent of harvested area in 2013.

Cuba's field crop yields, harvested area and production have varied widely over the past decade. Corn yields averaged 47 bushels/acre in 2013, compared to 160 bushels/acre in the United States. These yields, however, were up 20 percent from 41 bushels/acre in the period from 2003-08. Harvested area for corn declined from 556,000 acres in 2010 to 440,000 acres in 2013. In 2013, Cuba rice yields averaged 3,000 pounds per acre, compared to 7,400 in the United States. Harvested area for rice was down five percent to 489,000 acres. Rice production was up in 2013 to 677,000 metric tons, however, nearly 20 percent more than 2010.

Because of poor soil conditions, high humidity, timing and amounts of rainfall, high insect infestation and lack of pesticide or biological controls, Cuba's ability to produce grain and oilseed crops is limited and likely to remain so over the long term. According to FAO, 42 percent of Cuba's agricultural land is affected by medium to highly erodible soils. Poor drainage and low fertility affect 40 to 44 percent of soils, while 70 percent experience low organic matter. As a result, Cuba will remain one of the top grain and oilseed product markets in the Caribbean region.

International Visitors in Cuba

A record 3.0 million international visitors traveled to Cuba in 2014, up from 2.0 million in 2004. Slightly more than 90,000 international visitors were U.S. business representatives and other approved categories. Revenue from international visitors is a major source of foreign exchange for the government of Cuba (GOC), ranked third behind technical services and remittances. It is also an important source of income for Cubans working in tourism such as wait staff, taxi drivers and tour operators. This revenue was equivalent to 57 percent of all merchandise exports in 2009 and 28 percent of the balance of all services trade for 2007. Further, as Cuban tourism earnings increased by six percent from 2006 to 2008, U.S. exports doubled. As earnings from tourism declined 11 percent in 2009, U.S. exports fell by 25 percent. The potential increases in U.S. food and agricultural exports to Cuba due to increased travel range from \$48 million to \$366 million/year, creating up to 5,500 new jobs, these estimates include

only the additional spending by new U.S. visitors to Cuba (Rosson, Adcock and Manthei).

Changes implemented by the GOC in April 2008 allow Cubans to stay at some tourist hotels and resorts (Dominican Today). Many of the 4 and 5 star facilities are out of the price range of most locals who earn the equivalent of about \$20/month. During the low season of 2009 (August), however, some of the 2 and 3 star hotels in Varadero, Cuba's major tourist beach resort area, were booking one-week stays to locals for around \$200/week (Global Post). With about 60 percent of Cubans having access to hard currency (Calgary Herald) either from remittances, factory and farm bonuses, or tips, these 'new' tourists, are creating some additional demand for U.S. food products.

While many other forces also influenced U.S. exports, and cause-effect may be debatable, there does appear to be a fairly strong linkage between the amount of money Cuba earns from visits to the island and the amount of food it can afford to import from the United States and other suppliers. USDA estimated in 2008 that the proportion of imported foods supplying the tourist trade in Cuba was between 25 and 33 percent. CNAS estimates indicate that the U.S. share of the Cuban food market for international visitors is about 40 percent, implying that each tourism dollar spent in Cuba generates an additional \$0.10 to \$0.13 in U.S. food exports needed to supply the Cuban tourist trade.

In conclusion, the Cuban market for U.S. food and agricultural exports has potential for growth. From modest beginnings, the market has shown strong growth at times, but also weakness. Our estimates indicate that U.S. food and agricultural exports to Cuba have the potential to exceed \$1.0 billion annually. These additional exports would support the creation of 6,000 new jobs throughout the U.S. economy. For this potential economic impact to be realized, however, several challenges lie ahead. First, sustained income growth and economic prosperity for Cubans is needed. Second, infrastructure improvement and investment will be necessary to improve the efficiency of existing supply chain and the creation of new cold chains to handle processed foods. Finally, policies and regulations that facilitate trade, and that are transparent and consistent are an absolute necessity. Open trade would certainly lead to more rapid growth, but absent free trade, less regulation of financing, the use of letters of credit and improvements in banking conditions in Cuba would stimulate U.S. export growth. Thank you again for allowing me to testify on the opportunities and challenges affecting U.S. agriculture trade in Cuba.

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Statement by Michael Scuse
Under Secretary
Farm and Foreign Agricultural Service
U.S. Department of Agriculture

Before the Committee on Agriculture, Nutrition and Forestry
April 21, 2015

Hearing: Opportunities and Challenges for Agriculture Trade with Cuba

Chairman Roberts, Ranking Member Stabenow, and Members of the Committee, I am pleased to come before you today to discuss agricultural trade with Cuba. The Administration's new approach to Cuba is significant for U.S. agricultural producers, processors, and exporters. There are major opportunities for U.S. agriculture in Cuba, but significant challenges remain to doing business there.

Charting a New Course on Cuba

As you know, on December 17, President Obama announced a set of policy and regulatory changes to chart a new course in U.S. relations with Cuba and to further engage and empower the Cuban people. As President Obama reiterated at the Summit of the Americas this month, the changes are aimed at giving Cuban citizens new opportunities to gain greater control over their own lives. The measures also seek to expand opportunities for America's farmers and ranchers to sell goods in Cuba.

Less than a month after the President's announcement, the Treasury Department's Office of Foreign Assets Control (OFAC) published amendments to the Cuban Assets Control Regulations (CACR) to implement the relevant policy changes. The regulatory changes removed certain technical barriers between the U.S. and Cuba and created a more efficient, less burdensome payment requirement and process for authorized sales of U.S. agricultural products to Cuba. These changes – which include a revised interpretation of the statutory term “cash-in-advance” as well as authorization for U.S. banks to establish correspondent accounts at Cuban banks – should improve the speed, efficiency, and oversight of authorized payments between the United States and Cuba. These changes had been sought by members of the U.S. agricultural community. Our belief is that, ultimately, they will help lead to expanded choices for Cuban consumers and an expanded customer base in Cuba for America's farmers and ranchers.

Permitted Agricultural Sales to Cuba

Under the Trade Sanctions Reform and Export Enhancement Act of 2000 (TSRA), Congress lifted the ban on the export of agricultural products that had been restricted under Cuba sanctions for decades. Despite this opening, U.S. government agencies – including USDA – remain prohibited from providing government assistance, U.S. export assistance, and any U.S. credit or guarantees for exports to Cuba. As Secretary Vilsack has said, he can't use a single dollar of trade promotion funding for our trade with Cuba. These restrictions apply to FAS' successful cooperative market development programs like the Market Access Program and the Foreign Market Development Program.

The policy changes announced by the President are significant, but we still have legislative hurdles to cross. Legislation has been introduced to further open agricultural trade with Cuba, including legislation sponsored and cosponsored by members of this committee. USDA stands ready to provide technical assistance to you and other Members as Congress considers further openings with Cuba.

Cuba as a Potential Export Market

If the embargo is removed, we could be poised to become a major trading partner with Cuba. Cuba depends heavily on imports to feed its 11 million citizens and growing numbers of foreign visitors. According to the World Food Program, Cuba imports about 80 percent of its food, which means that the economic potential for our producers is significant. Unfortunately, the country is plagued with an outdated infrastructure, a depleted resource base, a lack of agricultural inputs, and has been subjected to devastating hurricanes. The United States has potentially huge structural advantages in exporting to Cuba. Chief among them is location. We are less than 100 miles away, meaning lower shipping costs and transit times, especially when compared to our current top competitors – Brazil and Europe. Plus, there's the fact that 11 million Cuban consumers desire food products that the United States can supply, and American agriculture wants to sell to Cuba.

Under TSRA, agricultural products are among a few types of goods that may be exported to Cuba under the longstanding U.S. embargo, and our producers have taken advantage of that opportunity. Before passage of TSRA, U.S. law prevented the sale of agricultural commodities to Cuba and agricultural sales were zero. By fiscal year 2008, U.S. agricultural exports to Cuba had reached a peak of \$658 million. However, by the end of last fiscal year, they had fallen by

more than half, to \$300 million. Yet, at the same time, global agricultural exports to Cuba have doubled over the past decade to \$1.7 billion.

Right now, the largest U.S. export to Cuba is poultry products, with exports valued at \$148.1 million in FY 2014. This made Cuba the eighth-largest export market for U.S. poultry. Other top U.S. exports last fiscal year included soybean meal (valued at nearly \$75 million), bulk soybeans (valued at more than \$29 million), and bulk corn (valued at more than \$28 million).

I am confident U.S. agricultural exporters can capture the market in Cuba, but I don't want to minimize the obstacles. In addition to those I've already talked about, here are a few more worth considering. Cuba is a country with limited foreign exchange. U.S. companies are also behind our foreign competitors in market development.

Another impediment to trade is Cuba's tightly controlled import policy requiring that all U.S. agricultural imports must be channeled through one state corporation, called Alimport. Many of our competitors have additional options of trading with other Cuban agencies, but Alimport is the exclusive agent for the Cuban government on buying decisions and negotiating purchases from U.S. firms. Alimport not only negotiates contracts for purchase with U.S. firms, but it arranges for payment, takes control of the imports at the Cuban port, and manages the distribution process within Cuba.

Enhancing Export Opportunities around the Globe

The recent changes in U.S. policy toward Cuba are just one example of opportunities for USDA to support America's farmers and ranchers as they build on record agricultural exports. In FY2014, exports of U.S. food and agricultural products reached a record \$152.5 billion and supported nearly one million American jobs. The potential for U.S. agricultural exports around the globe is considerable and USDA is taking action to help producers secure and expand market access for American agricultural products. It is also critically important that we have Trade Promotion Authority (TPA) as we seek approval of trade agreements that support and create U.S. jobs while helping American agriculture to compete even more successfully. TPA will help ensure that America's farmers, ranchers, and food processors receive the greatest benefit from these trade agreements, and builds on efforts that have helped achieve record agricultural exports over the past six years.

Conclusion

I will say that in regards to agricultural trade with Cuba, that there is potential for expanding U.S. exports over time. It is important to keep in mind that re-establishment of diplomatic relations and opening Embassies is simply the first step of the longer process of normalization relations between the United States and Cuba. It's a complex process, involving bilateral discussions that will continue into the future. The Administration looks forward to engaging with Congress in an honest and serious debate about what we can do to promote positive change in Cuba. Throughout history, agriculture has served as a bridge to foster cooperation, understanding, and the exchange of ideas among people. I have no doubt that agriculture will have an important role to play as these conversations continue and we expand our relationship with the Cuban people in the coming years.

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**Written Testimony on OFAC's Cuba Regulatory Changes of John E. Smith
Acting Director of the Office of Foreign Assets Control
United States Department of the Treasury**

United States Senate Committee on Agriculture, Nutrition and Forestry

April 21, 2015

Good morning, Chairman Roberts, Ranking Member Stabenow, and distinguished members of the committee. Thank you for the invitation to appear before you today to discuss our recent amendments to the Cuban Assets Control Regulations and the implications for agricultural trade with Cuba. I will be addressing the key regulatory amendments made by Treasury's Office of Foreign Assets Control (OFAC) to implement the changes to U.S. policy toward Cuba announced by the President, as well as the restrictions that remain in place. The recent changes are intended to create opportunities for increased agricultural exports to Cuba, among other benefits to U.S. businesses. These regulatory changes ease Cuba sanctions within the continuing constraints of the embargo while advancing the Administration's policy to further engage and empower the Cuban people in their efforts to build a democratic, prosperous, and stable Cuba.

Context for Change

On December 17, the President announced a number of significant policy changes regarding our relationship with Cuba. To implement the sanctions policy changes, OFAC amended the Cuban Assets Control Regulations, and our colleagues at the Department of Commerce amended the Export Administration Regulations (EAR), on January 16. These amendments ease sanctions related to Cuba in a number of key areas, including trade, financial services, travel, and remittances. These changes are intended to have a direct and positive impact on the lives of the Cuban people. They are also aimed at enhancing both commerce and communications between the United States and Cuba, and helping the Cuban people to freely determine their own future.

Trade that Benefits Americans and Cubans

The President's policy announcement highlighted the need to advance political and economic freedom in Cuba through enhanced commerce and trade between the United States and Cuba. OFAC and the Commerce Department's Bureau of Industry and Security ("BIS") authorize agricultural exports to Cuba, consistent with the provisions of the Trade Sanctions Reform and Export Enhancement Act (TSRA) of 2000, and American farmers, particularly those in the southeastern United States, have been capitalizing on this authorization to export meat and poultry, soybeans, and canned goods, among other items, to Cuba. The recent regulatory changes should ease the export process, thereby facilitating increased U.S. agricultural and other authorized exports to Cuba, benefitting American farmers and approximately 11 million potential Cuban consumers.

OFAC expects the recent rule changes will benefit American exporters in at least four key respects. First, OFAC expanded the financing provisions of the regulations to allow America's agricultural exporters to be more competitive in selling their wares to Cuba. Second, OFAC broadened the ability of U.S. financial institutions to provide services and effectuate payments for exporters and others authorized to engage in trade with Cuba. Third, OFAC authorized trade delegations and exporters satisfying the conditions of its regulations to travel to Cuba – without needing to come to OFAC to apply for and receive a license – and expanded the ability of airlines and other U.S. travel service companies to offer more reliable and potentially cheaper travel services with far less paperwork. Finally, OFAC permitted certain humanitarian projects in Cuba, including those related to agricultural and rural development that promote independent activity. I will talk about each of these rule changes in more detail.

Facilitating Trade Through Regulatory Change

With respect to the first change, OFAC modified the regulatory interpretation of the term "cash in advance," which describes a financing requirement for agricultural trade between the United States and Cuba that is imposed by statute. This term dictates when authorized U.S. exporters to Cuba must receive payment for their goods. Previously, OFAC had interpreted that statutory term to mean that the U.S. exporter had to receive payment from the Cuban importer prior to the goods leaving U.S. shores – an interpretation that American exporters said made their products

less competitive than those from other countries. OFAC has now revised its interpretation of the term to mean that payment from the Cuban purchaser is required prior to transfer of title to and control of the goods. This change should provide a more efficient, less expensive means for Cuban importers to purchase American-produced agricultural, medical, and other authorized products. This, in turn, should increase authorized U.S. agricultural and food exports to Cuba, which totaled \$360 million last year. Since Cuba imports approximately 80 percent of its food, according to the World Food Program, there is a sizable market available for U.S. businesses to cultivate. U.S. exporters, however, continue to face barriers, including that all U.S. agricultural goods are imported via ALIMPORT (Empresa Cubana Importadora de Alimentos), a Cuban state-run monopoly. Also, U.S. exporters continue to be prevented by statute from offering financing inducements, such as loans, for authorized agricultural exports, a limitation that may prevent them from being as attractive to Cuban importers as third-country competitors.

Increasing Access to Financial Services

With respect to the second key regulatory change, to improve the speed, efficiency, and oversight of authorized payments between the United States and Cuba, OFAC has authorized U.S. banks to establish correspondent accounts at financial institutions in Cuba. This change is intended to ease the flow of authorized payments and eliminate the need for third-country payment structures, which should benefit U.S. exporters to Cuba. Also, travelers to Cuba are now authorized to use their credit and debit cards there, a change which is intended to ease the flow of authorized payments and facilitate authorized travel. These changes will support those individuals and businesses engaged in authorized agricultural and other trade with Cuba by facilitating authorized financial transactions.

Easing Travel Restrictions

With respect to the third key regulatory change, it is important to note that OFAC's Cuba sanctions program is the only such program that restricts travel to a country. The recent changes to the Cuba travel rules build on modifications previously made in 2009 and 2011. Those earlier changes, which were announced by the Administration and implemented by OFAC, eased travel

restrictions with respect to Americans' ability to visit family and engage in educational, cultural, journalistic, and religious activities, as well as to engage in certain travel to support licensed exports to Cuba.

The recent regulatory amendments ease travel restrictions further by generally licensing certain additional travel within the 12 existing categories of travel in OFAC's regulations, without the need for a specific license from OFAC. This means that travelers who satisfy the criteria of the general licenses set forth in OFAC's regulations may travel to Cuba and conduct travel-related transactions there without requesting individual authorization from OFAC. The 12 categories of travel are those referenced by Congress in TSRA. Travel to Cuba for tourist activities, which the TSRA statute defines as any activity outside of these 12 categories, remains prohibited.

These 12 categories of authorized travel are:

1. family visits;
2. official business of the U.S. government, foreign governments, and certain intergovernmental organizations;
3. journalistic activity;
4. professional research and professional meetings;
5. educational activities;
6. religious activities;
7. public performances, clinics, workshops, athletic and other competitions, and exhibitions;
8. support for the Cuban people;
9. humanitarian projects;
10. activities of private foundations or research or educational institutes;
11. exportation, importation, or transmission of information or information materials; and
12. certain authorized export transactions.

While certain previous general licenses authorized some travel within the 12 categories of travel, the additional and expanded general licenses that recently took effect are intended to lessen the burden on authorized travelers, making it easier for Americans to interact with the Cuban people,

and for trade delegations and authorized exporters to travel to Cuba to promote their products. Specifically, OFAC has issued new general licenses and expanded existing authorizations for travel-related transactions and other transactions incident to the exportation to Cuba of authorized goods, such as agricultural products, for the conduct of market research, commercial marketing, sales negotiation, accompanied delivery or servicing in Cuba of items consistent with the Commerce Department's licensing policy. OFAC's general license authorizing professionals in the agricultural and other sectors to engage in professional meetings in Cuba, provided certain conditions are satisfied, will also support U.S. exporters in coordinating with their Cuban counterparts.

The recent regulatory amendments also authorize U.S. airlines to provide air carrier services to, from, and within Cuba in connection with authorized travel. Air carriers wishing to provide these services still need to secure regulatory approvals from other concerned U.S. Government agencies, including the Departments of Transportation and Homeland Security. Persons subject to U.S. jurisdiction, such as travel agents and tour group operators, also may now provide travel services in connection with authorized travel. These changes are intended to make authorized travel easier and less expensive by reducing the paperwork burden for, and increasing competition among, those providing travel and air carrier services.

Increasing Access to Remittances

With respect to the fourth key regulatory change, and to help strengthen Cuban civil society, OFAC eased certain restrictions on remittances to Cuba, following similar actions taken in 2009 and 2011. In the recent amendments, OFAC increased that quarterly limitation on non-family remittances from \$500 to \$2,000 per person per quarter. OFAC also generally authorized remittances to certain individuals and independent non-governmental organizations in Cuba for humanitarian projects, including those related to agricultural and rural development, support for the Cuban people, and the development of private businesses in Cuba, with no limitation on the amount. These changes are intended to facilitate the flow of authorized funds directly to the Cuban people. This increased access to funds should significantly benefit the Cuban people, as remittances are one of the primary sources of income for many Cubans. Increased remittances

will afford individual Cubans with increased financial resources with which to purchase American-produced agricultural goods and develop more private economic activity.

Telecommunications and the Free Flow of Information

Another key area of regulatory change is telecommunications. Cuba has an Internet penetration of approximately five percent – one of the lowest in the world. Coupled with the exorbitant costs of both personal telecommunications devices and Internet access, this has severely limited the ability of Cubans to communicate with each other and the outside world. In order to better facilitate the free flow of information to, from, and among the Cuban people, in accordance with the President's announcement, OFAC eased restrictions to better provide efficient and adequate telecommunications services between the United States and Cuba and to increase access to telecommunications and Internet-based services for the Cuban people. Among other things, these changes should support Cubans in increasing their knowledge of the United States, its democratic traditions, and the quality and availability of U.S. exports, and help American exporters better connect with more potential Cuban consumers.

Observation

We expect that it will take some time for the impact of the recent regulatory changes to take effect, both among the private sector and the public more broadly, and the impact will be somewhat dependent on the Government of Cuba and its receptiveness to these changes. OFAC has made all of the regulatory changes necessary to implement the policy changes announced by the President in December, and we are now focusing our efforts on facilitating and clarifying the implementation of these regulatory changes. To assist with this, OFAC is actively engaged in regular outreach to help the public and private sector better understand the changes, and how best to avail themselves of the benefits of these changes. Specifically, OFAC has addressed queries from and provided briefings to trade groups as well as the Chamber of Commerce, and a number of Industry Trade Advisory Committees (ITAC) under the auspices of the Department of Commerce and the Office of the U.S. Trade Representative, among others. Also, OFAC has published a number of Frequently Asked Questions (FAQs) on its website to address questions

regarding the implications of the recent regulatory amendments. OFAC will be issuing additional FAQs to provide further clarification as needed.

Conclusion

In conclusion, I should make one point absolutely clear: Even with these changes I've described, most transactions between the United States and Cuba – including most export, import, and other activities – remain prohibited. As OFAC implements these recent changes, we will continue to enforce the Cuba sanctions program vigorously and take actions against violators, as appropriate.

The President's December 17 announcement laid out a new course for our relations with Cuba, driven by a hope for a more positive future for the Cuban people. OFAC's regulatory amendments to the Cuban Assets Control Regulations, in concert with the regulatory revisions my colleague at Commerce will highlight, mark significant changes to our Cuba sanctions that implement the new policy announced by the President. These changes are intended to directly benefit the Cuban people and help them to freely determine their own future, as well as to support U.S. businesses and American exporters to Cuba.

Thank you. I welcome your questions.

DOCUMENTS SUBMITTED FOR THE RECORD

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April 1, 2015

The Honorable Pat Roberts
Chairman, Senate Agriculture Committee and

The Honorable Michael Conaway
Chairman, House Agriculture Committee and

The Honorable Debbie Stabenow
Ranking Member

The Honorable Collin Peterson
Ranking Member

U.S. Senate
Washington, D.C. 20510

U.S. House of Representatives
Washington, D.C. 20515

Dear Chairmen Roberts and Conaway, and Ranking Members Stabenow and Peterson:

As a bipartisan group of former Secretaries of Agriculture we welcome President Obama's December 17 announcement regarding normalizing relations with Cuba, including lifting the embargo. We know, however, that the embargo can be conclusively altered only through action by you and your colleagues in Congress.

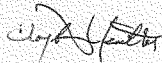
We are advocates of trade liberalization, not only with Cuba but with countries throughout the world. Where American farmers, ranchers, and businesses have a level playing field they have demonstrated they can compete with anyone in the world. But they have not had a level playing field in Cuba for many years, and our competitors – Brazil, the European Union, Canada and Argentina in particular – have taken advantage of that.

Our geographic proximity to Cuba is advantageous, and that makes it possible for American agriculture to compete in that market on price. But they are constrained in other areas such as financing. Those constraints have been a major factor in our loss of market share in Cuba, and they should be eliminated. Lifting the embargo would with finality do so.

Sanctions against Cuba have not accomplished their objectives; unilateral sanctions never do. They have simply put American business, and especially our agricultural exporters, at a competitive disadvantage. U.S. agriculture and, for that matter, the entire U.S. food industry, are well positioned to provide nutritious, safe, affordable food products to the Cuba people, and are eager to do so. We just need help in opening the Cuban door.

We deeply appreciate the leadership shown by all of you in fostering legislation that would remove constraints on our ability to export to Cuba, and put American agriculture on an equal footing with its competitors.

Many thanks.



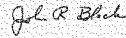
Clayton Yeutter



Dan Glickman



Ann Veneman


Mike Espy

John Block



USACC

April 20, 2015

The Honorable Pat Roberts
Chair
Senate Committee on Agriculture,
Nutrition and Forestry
U.S. Senate
Washington, D.C. 20510

The Honorable Debbie Stabenow
Ranking Member
Senate Committee on Agriculture,
Nutrition and Forestry
U.S. Senate
Washington, D.C. 20510

Dear Chairman Roberts and Ranking Member Stabenow:

On behalf of The U.S. Agriculture Coalition for Cuba, I am enclosing a statement prepared for tomorrow's hearing on "The Opportunities and Challenges for Agriculture Trade with Cuba."

Our coalition respectfully requests that the Chairman and Ranking Member consider entering this statement and the two accompanying attachments into the record on behalf of the coalition.

Kind regards,

A handwritten signature in black ink, which appears to read "Devry Boughner Vorwerk". The signature is fluid and cursive.

Devry Boughner Vorwerk
Chair, U.S. Agriculture Coalition for Cuba

Enclosures:
Statement of U.S. Agriculture Coalition for Cuba
USACC Charter
Former Secretaries of Agriculture letter



FLORIDA DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES
 COMMISSIONER ADAM H. PUTNAM
 THE CAPITOL

April 22, 2015

The Honorable Marco Rubio
 284 Russell Senate Office Building
 Washington, DC 20510

Dear Senator Rubio:

I write today to express my concerns over the Administration's recent move to normalize relations with Cuba. The regulatory amendments, which became effective on January 16th, easing the sanctions against Cuba will serve to prop up a government that was on the verge of collapse because it has brutally oppressed its people for over half a century. These actions will have a detrimental effect on United States' national security interests.

Additionally, any relaxation in trade and commerce restrictions between the United States and this island nation will have a disproportionately negative effect on the state of Florida generally and Florida's \$120 billion agriculture industry specifically. While the current changes in policy with respect to Cuba do not fully restore U.S. trade with Cuba, it will certainly facilitate greater commerce between the two nations, and given Florida's proximity to Cuba it is not hard to envision our state being the point of origination and termination of much of this commerce. With a similar climate and much of the same crop diversity as Florida, but lacking the sanitary and phytosanitary programs and resources necessary to suppress plant pest and disease, Cuba is a fertile breeding ground for any number of harmful exotic pests and disease that would pose a threat to Florida's natural resources, environment and agriculture industry.

As a high-risk sentinel state for the introduction and establishment of exotic invasive agricultural pests, Florida is continually on the front lines of costly and resource intensive battles against pest and disease incursions as they arrive into the United States via our many ports of entry. Recent pest and disease introductions that are having a devastating impact on our state include citrus canker, citrus black spot and citrus greening. This trio of citrus diseases has the potential to eliminate Florida's signature crop, a \$10.8 billion industry that employs 62,000 people. In Miami Dade County alone, arguably ground zero for exotic pest introductions into the United States, laurel wilt is posing a serious threat to Florida's avocado production, a \$13 million, 7,000-acre industry. Further, we are locked in a battle to eradicate the giant African land snail, another exotic, invasive pest, where more than 140,000 snails have been collected during the last three years.



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The Honorable Marco Rubio
April 22, 2015
Page Two

While many segments of the U.S. economy seem to be swept up in the tide of commercial interests and the lure of visiting this forbidden island nation, the stark realities of any potential gain for the United States, and Florida particularly, is significantly outweighed by the negative effects likely from the liberalization of longstanding policy toward Cuba. In fact, in a recent article Terry Stewart, a recognized expert in international trade matters, wrote "Economically, any change in the bilateral relationship that phases out or eliminates the trade restraints the United States imposes on Cuba will have relatively tiny effects on U.S. trade flows and on jobs in the United States,... until there is significant expansion of investment flows and economic reforms within Cuba, even a large increase in the share of the Cuban market that goes to U.S. products would not generate a significant economic effect in the giant U.S. economy."

As Congress continues to debate the future of U.S. policy toward Cuba, I hope that Florida's delegation will continue to advocate for policies that safeguard the prosperity of our state and uphold the values of freedom and human rights that are conferred on all of mankind.

Sincerely,



Adam H. Putnam
Commissioner of Agriculture

<http://www.stewartlaw.com/Article/ViewArticle/1030>



U.S. Agriculture Coalition for Cuba

Charter

Coalition Background: Prominent members of the U.S. food and agriculture community agreed to officially form a national coalition to address liberalizing trade between the United States and Cuba. The coalition's primary focus is on ending the embargo and allowing open trade and investment to occur.

Under current sanctions, U.S. food and agriculture companies can legally export to Cuba. However, financing restrictions limit the ability of the U.S. industry to competitively serve the market. Foreign competitors such as Canada, Brazil, the European Union and Argentina are increasingly taking market share from U.S. industry because those countries do not face the same restrictions on financing.

Cuba is a logical market for U.S. food and agriculture exports with 11 million consuming citizens only 90 miles off the coast of the United States. Normalizing trade relations between the United States and Cuba will enhance Cuban citizens' access to affordable food while providing the U.S. farm and business community with new market access opportunities. Liberalized trade will drive growth in both countries and allow the U.S. farmers, ranchers and food companies to efficiently address Cuban citizens' food security needs.

Coalition Purpose: The purpose of the coalition is to re-establish Cuba as a market for U.S. food and agriculture exports.

Coalition Approach: We will achieve our purpose by advancing a constructive dialogue in the United States on U.S.-Cuba relations. We will actively engage to end the long-standing embargo. We will work with key stakeholders to build momentum that drives historical change. We will take public platforms and explain the moral imperative of liberalizing trade between the two countries.

Coalition Membership

Agriculture Organizations National

American Farm Bureau Federation
 American Soybean Association
 American Seed Trade Association
 American Feed Industry Association

Corn Refiners Association
 Council of State Governments
 CNFA: Cultivating New Frontiers in Agriculture
 Dairy Farmers of America
 International Dairy Foods Association
 National Association of Wheat Growers
 National Association of Egg Farmers
 National Barley Growers Association
 National Black Growers Council
 National Chicken Council
 National Corn Growers Association
 National Council of Farmer Cooperatives
 National Farmers Union
 National Foreign Trade Council
 National Grain and Feed Association
 National Milk Producers Federation
 National Oilseed Processors Association
 National Sorghum Producers
 National Turkey Federation
 North American Export Grain Association
 North American Meat Institute
 Rural & Agricultural Council of America
 Soyfoods Association of North America
 US Canola Association
 US Cattlemen's Association
 US Dairy Export Council
 US Dry Bean Council
 US Grains Council
 US Soybean Export Council
 US Wheat Associates
 US Rice Producers Association
 USA Dry Pea & Lentil Council
 USA Rice Federation

Agriculture Organizations State

Agribusiness Council of Indiana
 Arkansas Rice Growers Association
 Illinois Cuba Working Group
 Illinois Soybean Growers
 Illinois Farm Bureau
 Indiana Farm Bureau
 Indiana Corn Growers Association
 Indiana Soybean Alliance
 Indiana Corn Marketing Council
 Iowa Farm Bureau
 Food Export Association of the Midwest USA

Food Export – USA Northeast
 Cherry Marketing Institute
 Michigan Agri-Business Association
 Michigan Apple Association
 Michigan Bean Shippers
 Michigan Bean Commission
 Michigan Milk Producers Association
 Michigan Corn Growers Association
 Michigan Soybean Association
 Michigan Potato Industry Commission
 Missouri Corn Growers Association
 Missouri Department of Economic Development
 Missouri Department of Agriculture
 Missouri Rice Council
 Missouri Forest Products Association
 Missouri Farm Bureau
 Texas Farm Bureau
 University of Missouri-Fisher Delta Research Center
 Virginia Department of Agriculture and Consumer Services

Agriculture Corporations

ADM
 Bunge
 Butterball
 Cargill, Incorporated
 Chicago Foods International
 Campbell Farms
 Clark AG Company
 CoBank
 GreenStone Farm Credit Services
 Hampton Alternative Energy & Feedlot
 Hover Farms
 Intertek Agriculture Services
 Kerley Nutritional Consulting
 Louis Dreyfus Commodities
 Missouri BioZyme, Inc
 Missouri Burnett Farms
 Martin Rice Company
 Michigan Allied Poultry Industries, Inc
 Net Worth Feeds & Feeding
 Orrick Farm Services
 Sandy Ridge Cotton Company
 Smithfield Foods
 Sun-Maid Growers of California
 St. James Winery
 Synergy Resource Solutions, Inc.

Thomas E. Jennings and Associates, Inc.
US Wellness Meats



Statement of the U.S. Agricultural Coalition for Cuba
Prepared for the U.S. Senate Committee on Agricultural, Nutrition and Forestry
 April 20, 2015

Mr. Chairman, Ranking Member Stabenow, and members of the Committee, The U.S. Agriculture Coalition for Cuba (USACC) is pleased to submit comments in support of the Committee's effort to explore the opportunities for agriculture trade with Cuba.

USACC commends Chairman Roberts and Ranking Member Stabenow for scheduling such an important hearing for the U.S. agriculture industry, and our coalition appreciates the opportunity for two of our members to serve as witnesses during the hearing. Both Doug Keesling and Terry Harris represent industries that would benefit greatly from enhancing access to the Cuban market, and both individuals were participants in the Learning Journey that USACC led to Cuba at the beginning of March this year.

USACC represents a broad cross-section of American food and agriculture interests. USACC was established in May 2014 and officially launched in January 2015. Since our beginnings, our membership has grown from a handful of organizations and companies to nearly 100 members, and we continue to add organizations and companies nearly every week. Attached is the USACC Charter that provides background on our organization and that clearly defines USACC's *purpose* for existence and our *approach* to addressing the issue of U.S.-Cuba relations.

Our coalition was formed as a response to what we believe is a need to highlight the importance of reestablishing Cuba as a market for U.S. food and agriculture exports. We know that even with the current humanitarian exemptions that exist in the sanctions law today our industry is losing out on valuable opportunities to market U.S. food and agriculture products in Cuba. Since 2008, U.S. agricultural exports to Cuba have declined over 130%, from about \$700 million to about \$300 million. Cuba is still importing food, but is choosing our competitors as suppliers more often than not. Exporters from Brazil, the European Union, and Vietnam are taking market share from U.S. farmers in the Cuban market. USACC believes the decline in U.S. exports is preventable, and we know that the current opportunity could range from \$1.5 to nearly \$2 billion in U.S. sales to start, based on figures reported by University of Florida Professor William Messina in a presentation to the Association of the Study of the Cuban Economy in 2014. Messina's analysis is drawn from the USDA/FAS Global Trade System and the GTIS database.

Our competitors do not encounter the same restrictions that U.S. entities do in the Cuban market. Aside from the embargo itself, lack of competitive financing is a primary reason for the current state of play. Because of the strict requirements placed on U.S. exporters to secure a third country letter of credit or to receive cash up front (or as the new regulations state, cash on transfer of title), our industry simply cannot compete. Our competitors are able to offer much more attractive terms and are able to move much more swiftly to finance individual transactions.

Financing is not the only competitive disadvantage. In general, because normal commercial relations do not exist between the United States and Cuba, our industry is not able to maximize its potential across the supply chain. Our industry cannot invest in Cuba, which limits our ability to create important linkages. The Bureau of Economic Analysis estimates that 45 percent of U.S. exports are linked to U.S. investment overseas, highlighting that U.S. investment is a magnet for U.S. exports. Cuba is no exception. The more our businesses are able to trade and invest with one another, the more growth we will experience in our own agriculture and food sector at home.

Our coalition had the chance to visit Cuba in March as part of our USACC Learning Journey, and we saw first-hand the potential that exists for growth and development in the Cuban agriculture and food sector. Our USACC delegation included farmers, food industry executives, academics, state government officials, and two former Secretaries of Agriculture. We met with Cuban government agencies and traveled to visit with Cuban farmers. We covered much ground on the island and split into five different groups to view everything from aquaculture to rice and sugar production and processing, to tobacco farming and dried bean production. The contrasts we saw on our journey—the use of oxen dragging old, overused, wooden plows to draw rows in the fields for planting, juxtaposed with modern sugar harvesters built in Brazil—show clearly the opportunities that exist for exports to and investments in Cuba that will benefit U.S. farmers, ranchers, and agribusinesses along with the Cuban people.

Overall, we came away from the Learning Journey understanding that ag development is lacking and inconsistent in Cuba, and that the Cuban farmers need access to inputs, capital, technology, equipment, and knowledge, all of which U.S. agriculture companies can supply. We just need to be given a chance to do what we do best. USACC does not view Cuba's agriculture development as a threat, but rather as a commercial opportunity.

We well understand that trade with Cuba will not be a one-way relationship. We know that in the long run, the best outcome is open markets for goods, services, and capital between the two countries, because as Cuba's economy is able to develop through more tourism, trade and investment, and as income increases for Cuban citizens, there will be an even greater need to U.S. food and agriculture products. Our industry is poised to capture the current and future growth potential in the Cuban market, but unless the policies change to provide us a chance to compete, U.S. farmers, ranchers, and companies will continue to sit on the sidelines while our competitors gain first-mover advantage.

Our coalition is encouraged that a bipartisan group of five former U.S. Secretaries of Agriculture agree with USACC's overall assessment in a letter (attached) sent to this Committee on April 1, 2015 where

they state that “U.S. agriculture and, for that matter, the entire U.S. food industry, are well positioned to provide nutritious, safe, affordable food products to the Cuban people...”

USACC appreciates the chance to submit comments for the hearing on opportunities we see for agriculture trade with Cuba. USACC encourages Congress to move legislation that liberalizes trade and investment between the United States and Cuba.

Thank you again for holding this hearing, and we look forward to working with the committee to move legislation on this important issue.



U.S. Cuba Cooperative Working Group outline and scope of work:

The U.S.–Cuba Cooperative Working Group (USCCWG) is a national-level, multi-sectoral U.S. cooperative leadership group representing consumer, purchasing, worker, and producer cooperatives from a broad range of sectors, such as agriculture, energy, finance, grocery and consumer goods, transportation, insurance, and housing, among others. The USCCWG is led by the National Cooperative Business Association, CLUSA (NCBA CLUSA).

Mission

The U.S.–Cuba Cooperative Working Group (USCCWG) promotes mutually beneficial engagement between the U.S. and Cuba's cooperative sectors in an effort to support US cooperative growth and Cuban economic progress that will result from the ongoing success of strong and vibrant cooperatives in both countries.

Objectives

- Serve as the leading, unified voice for U.S. cooperatives engaging Cuba's cooperative sector.
- Strengthen Cuban cooperatives through understanding and application of the seven internationally accepted cooperative principles as a vehicle for economic and social development.
- Promote Cuban cooperatives' equitable access to markets, technologies, finance, and information.
- Improve Cuba's food security and nutrition initiatives through the development and strengthening of Cuba's agricultural cooperatives, improving access to markets, technologies, and sustainable farming practices that increase farmers' production, productivity, and incomes.
- Provide mutually beneficial platforms for sharing best practices and technologies.
- Support other economic and social activities through a cooperative business approach.
- Develop relationships with Cuban cooperative and social enterprise sector for sharing and learning perspectives, tools, and innovations.

Approach

The USCCWG uses a peer-to-peer approach that engages Cuban cooperators as partners and equals in developing cooperative solutions to meet the economic and social needs of the Cuban people. Since 2011, the Cuban government has set in motion a set of economic reforms to support the development of the cooperative and private sectors of the economy, in an attempt to promote more autonomous agricultural cooperatives, the conversion of state-run enterprises into cooperatives, and the creation of new cooperatives in non-agricultural sectors, such as food services, retail trade, transportation, housing construction, consumer goods, and business services. As U.S. cooperative leaders from across economic sectors, the USCCWG is well-positioned to engage in programs and initiatives aimed at strengthening and learning from Cuban cooperative development that is based on that country's unique needs and grounded in the international cooperative movement, which boasts over 1 billion members worldwide.

Agenda

- Facilitate dialogue through presentations, workshops, learning sessions, and forums on a wide range of cooperative development and sustainable growth topics tailored to the Cuban



experience, including governance, business administration, management, membership, market development, access to finance, and social and community engagement, among others.

- Coordinate multi-sectoral exchange visits between U.S. and Cuban cooperative leaders and practitioners.
- Support international cooperative principles and values in Cuba through training, technical assistance, sharing of best practices, and other learning opportunities.
- Engage with Cuban farmers and cooperatives on improving agricultural productivity, sustainable agriculture practices, production, market linkages, and other topics relevant to the sector.
- Promote the strengthening of national level cooperative entities and service providers in the private and public sectors, including the creation of second and third-tier cooperatives.
- Contribute NCBA CLUSA's experience in any future efforts to create a national cooperative institute and a federation of cooperatives in Cuba.

Share experiences with other U.S. public and private sector groups interested in supporting Cuba's development.

- Capture unique perspectives and experiences of the Cuban cooperative sector for use by global cooperative sector.

Membership

The USCCWG is a broad coalition intended to engage a number of U.S. cooperative leaders through a multi-sectoral approach. Membership in the USCCWG is open to national level and regional cooperative entities and associations with a particular interest in Cuba, and an ability to support the activities of the group. If you are interested in joining the U.S.-Cuba Cooperative Working Group, please contact Virginia Bunker at vbunker@ncba.coop for more information.

About Us

The USCCWG was formed by the National Cooperative Business Association, CLUSA International (NCBA CLUSA) in collaboration with SOL² Economics in early 2014 to explore opportunities for engaging with Cuba on cooperative development in various sectors of its economy. In forming the USCCWG, NCBA CLUSA reached out to a network of U.S. cooperative leaders from multiple sectors and types interested in establishing linkages with Cuban cooperatives, cooperative researchers, and policymakers.

The USCCWG's first project was a one-week exploratory trip to Cuba in July 2014 to better understand the Cuban cooperative movement, the overall economic situation in Cuba today, U.S.-Cuban relations, the history of Cuban cooperatives, and the increasingly important role that cooperatives are playing in the process of economic reform. The group also wanted to gain a better understanding of ways in which the U.S. and international cooperative movements could engage their Cuban counterparts in an effort to collaborate and strengthen this emerging sector in Cuba.

NCBA CLUSA is the oldest not-for-profit cooperative development and trade association in the United States and an international development organization working in 16 countries in Africa, Latin America, and SE Asia. For nearly 100 years, NCBA CLUSA has sought to advance and protect cooperative enterprises, highlighting the impact that cooperatives have in bettering the lives of individuals, families, and communities. NCBA CLUSA provides cross-sector advocacy, education,



and technical assistance that helps cooperative businesses thrive.

NCBA CLUSA's international program has a 60-year history of supporting cooperative development in over 100 countries around the world, and is actively expanding its work in Latin America and the Caribbean, both as an implementer of development projects and as a leader in the cooperative movement in the Americas through membership in the International Cooperative Alliance. NCBA CLUSA works in the areas of food security, agricultural development, strengthening of communities and farmer organizations, community-based health, natural resources management, and empowerment of smallholder farmers, women, and youth.

SOL² Economics has been engaging with cooperative leaders in Cuba, Canada, and Latin America around the topic of socially responsible enterprise in Cuba over the past five years.



March 10, 2015

The Honorable Penny Pritzker
 Secretary
 United States Department of Commerce
 1401 Constitution Avenue, NW
 Washington, D.C. 20230

Dear Secretary Pritzker,

We commend the Department's work through its Bureau of Industry and Security in making amendments to the Export Administration Regulations on January 16, 2015 relating to License Exception Support for the Cuban People. While we were not able to make public comment on the rules, we wanted to make a clarifying public statement relating to parity for cooperatives alongside other businesses throughout the rule and offer our assistance to your Department in helping to grow the nascent Cuban private sector through cooperative development.

As in the U.S., cooperatives in Cuba perform vital business functions. Historically in Cuba, cooperatives were found exclusively in the agricultural sector. Given new guidelines for the economy established by the Cuban government in 2011, that situation is changing dramatically with the emergence of non-agricultural cooperatives in numerous economic activities. We remain optimistic that these internal changes in Cuba, coupled with the recent U.S. regulatory changes, create enhanced opportunities to help Cuban workers improve their living standards, gain greater business ownership, and economic independence from the state.

Cuban cooperatives should be considered a part of their nascent private sector and eligible for the same treatment and rights as other businesses are afforded in these recent regulations. Three types of agricultural cooperatives are long established in Cuba and are considered "private enterprise" under generally accepted conventions. In Cuba's conceptual framework, cooperatives are private entities jointly owned by a group of associates as defined and protected under law. This attribute distinguishes this sector from the other types of enterprise which are State owned; private (individual ownership); or joint ventures (Cuban State and foreigners). In Cuba there is a fundamental demarcation between state and non-state businesses. Cooperatives of all forms are non-state entities that are not controlled by the State.

Today, at the National Press Club in Washington, D.C., the National Cooperative Business Association formally announces the formation of its U.S. Cuba Cooperative Working Group and release of its report on its Cuba Research Trip last July, http://www.ncba.coop/images/Cuba-Trip-Report-compressed_87c6c.pdf. Cuban cooperatives in general, but especially the newest ones emerging, face many technical and educational challenges in regard to how cooperatives can operate most effectively as strong associations and businesses. International exchanges with experienced cooperative groups will provide valuable learning tools that can help strengthen this sector. This is the scope of this Working Group.

National Cooperative Business Association
 1401 New York Avenue, N.W. • Suite 1100 • Washington, DC 20005-2160
 Phone: (202) 638-6222 • Fax: (202) 638-1374 • E-mail: ncba@ncba.coop • Web site: <http://www.ncba.coop>



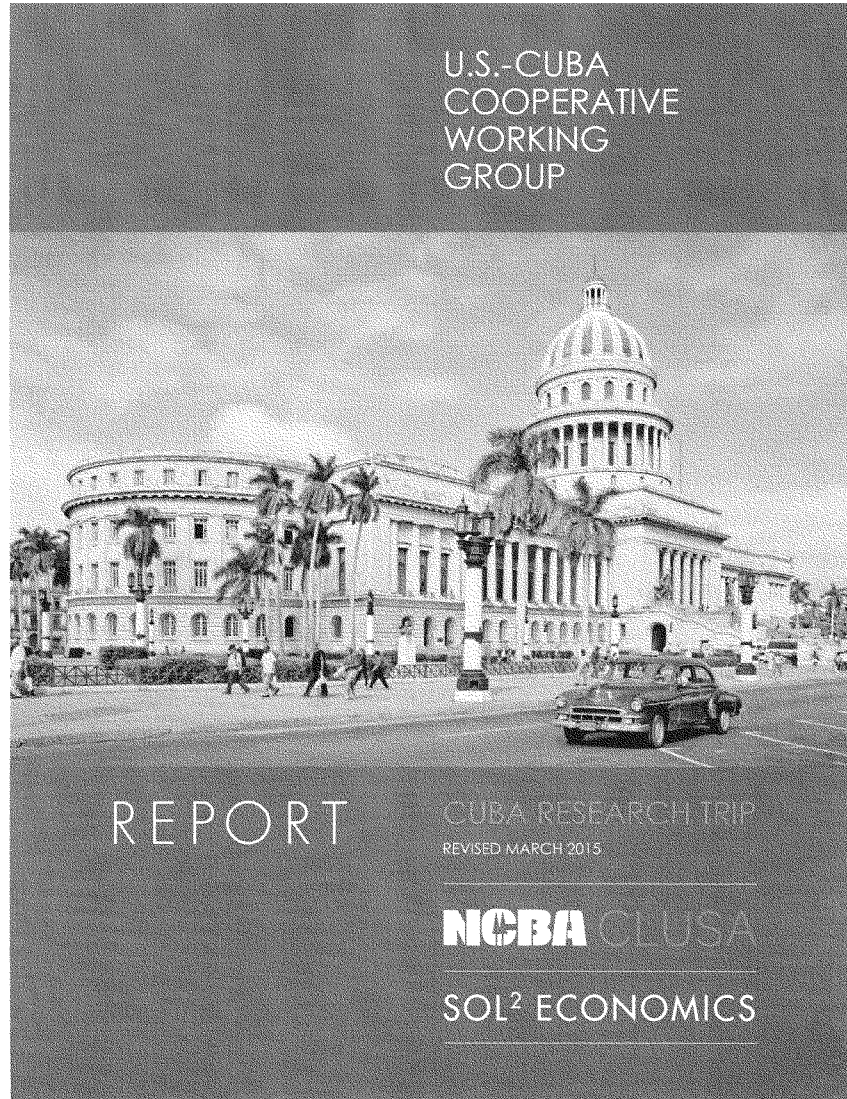
While agricultural cooperatives are long established in Cuba, Cuba had not had enabling laws for the formation of non-agricultural cooperatives until 2012. Like U.S. cooperatives and those posited by the International Cooperative Alliance, Cuban law lists seven Cooperative Values that guide the behavior of the entities; including their voluntary nature; internal democracy, and community responsibility among others. Currently, non-agricultural cooperatives represent a tiny fraction of the Cuban workforce, less than .4%. However, based on official government statements and policy priorities, that number could expand to 15-20% of employment in coming years.

These non-agricultural cooperatives originate in two ways. First, a "grassroots" or "bottoms up" approach in which a minimum of three people agree to form and own a joint enterprise within the framework of the cooperative regulations. Second, and more common to date, has been the practice of offering state enterprise employees the option of forming a cooperative that takes on full management control with corresponding responsibilities and benefits. In such a conversion from state to cooperative enterprise, all the norms and regulations guiding cooperative functioning must be fully implemented. While the land and buildings utilized by the cooperative may remain in state ownership, these assets are leased contractually to the cooperative as a private entity.

Cooperative development and growth in Cuba can be a positive development toward advancing the needs of the Cuban people as well as meeting the desires of the U.S. government to support the nascent Cuban private sector to have them gain greater independence from the State. We look forward to the continued work of the U.S. Cuba Cooperative Working Group and making more trips and engagement with Cuban cooperatives. We stand ready as a resource and convener of the U.S. cooperative sector to work with the Commerce Department in this pivotal moment for U.S. Cuba relations.

Sincerely,

Michael V. Beall
President & CEO



U.S.-CUBA
COOPERATIVE
WORKING
GROUP

REPORT

CUBA RESEARCH TRIP
REVISED MARCH 2015

NCBA CLUSA

SOL² ECONOMICS

U.S.-CUBA
COOPERATIVE
WORKING
GROUP

CUBA RESEARCH TRIP

REVISED MARCH 2015

NCBA CLUSA

SOL² ECONOMICS

REPORT

Table of Contents

2	Introduction
4	Context of USCCWG Trip
5	Cooperatives in Cuba
7	Meetings
10	Common Themes
12	Conclusions
13	Areas for Exploration and Next Steps
15	Appendices:
	Trip Participants
	Original Questions Guiding the Trip

INTRODUCTION

On December 17, 2014, Presidents Barack Obama and Raul Castro announced plans to normalize diplomatic ties between the United States and Cuba, marking the most significant shift in U.S.-Cuban relations in over five decades. This historic opening has set the stage for a re-making of our countries' relationship and of future interactions with the Cuban government, civil society, and people.

In this context, the National Cooperative Business Association, CLUSA International (NCBA CLUSA) is affirming its vision of leading a new chapter of engagement with the Cuban cooperative sector. To that end, NCBA CLUSA has launched the U.S.-Cuba Cooperative Working Group whose mission is to promote mutually beneficial engagement between the U.S. and Cuba's cooperative sectors in an effort to support U.S. cooperative growth and Cuban economic progress that will result from the ongoing

success of strong and vibrant cooperatives in both countries.

The NCBA CLUSA U.S.-Cuba Cooperative Working Group (USCCWG) is a national-level, multi-sectoral U.S. cooperative leadership group representing consumer, purchasing, worker, and producer cooperatives from a broad range of sectors, such as agriculture, energy, finance, grocery and consumer goods, transportation, insurance, and housing, among others. It was formed in early 2014 to explore opportunities for engaging with Cuba on cooperative development in various sectors of Cuba's economy.

NCBA CLUSA has a 60-year history of supporting cooperative and international development in more than 100 countries around the world, and is actively expanding its work in Latin America and the Caribbean, both as an implementer of development



projects and as a leader in the cooperative movement in the Americas.

The USCCWG was formed in collaboration with Eric Leenson of SOL² Economics, which has been engaging with cooperative leaders in Cuba, Canada, and Latin America around the topic of socially responsible enterprise in Cuba over the past five years. In forming the USCCWG, NCBA CLUSA reached out to a network of U.S. cooperative leaders from multiple sectors and types interested in establishing linkages with Cuban cooperatives, cooperative researchers, and policymakers.

The USCCWG's first project was a one-week exploratory trip to Cuba in mid-2014 to better understand the Cuban cooperative movement, the overall economic situation in Cuba today, U.S.-Cuban relations, the history of Cuban cooperatives, and the increasingly important role that cooperatives are playing in the process of economic reform. The group also wanted to gain a better understanding of ways in which the U.S. and international cooperative movements could engage their Cuban counterparts in an effort to collaborate with and strengthen this emerging sector in Cuba. (See Appendix A for trip participant list and Appendix B for list of guiding questions for the trip).

Since the December 2014 announcement, there has been a flurry of activity to further define the new operating context and continue with negotiations on a number of issues. The U.S. Department of the Treasury and the U.S. Department of Commerce amended the Cuban Assets Control Regulations and Export Administration Regulations starting on January 16, 2015, easing some travel restrictions to and from Cuba and reducing some U.S. restrictions on various types of activities and transactions between the two countries in areas such as telecommunications, financial services, trade, and shipping.

A first round of negotiations occurred in Havana on January 22, 2015, followed by a second round of negotiations at the end of February to discuss the re-opening of embassies, issues such as Cuba's Internet access and connectivity, banking, human rights, and Cuba's removal from the list of states sponsoring terrorism. However, the lifting of the U.S. embargo will require U.S. congressional action. Despite the fact that it will take time to resolve some of the more politically entrenched topics, there is a general feeling that the move toward normalization is advancing, with many hoping that some definitive announcements can be made in conjunction with the upcoming Summit of the Americas in early April in Panama.

The original release of this report was based on a trip that took place in July 2014, prior to the events that are now quickly unfolding and will continue to evolve in the coming months and years. There is a new energy and commitment around the vision of the cooperative movements in both countries connecting in new and exciting ways for the advancement of the social and economic well-being of Cubans, Americans, and cooperators around the world.

CONTEXT OF USCCWG TRIP

Cuba is a country in transition that has been evolving on many fronts over the last two decades. One of the key challenges for Cuba has been its efforts to reform its centralized economy in a way that allows for growth but does not dismantle certain social benefits such as education, health and social programs. However, once the Soviet Union collapsed in 1991, the enormous subsidies and trading preferences for Cuba disappeared and the economy nearly collapsed. A decade of deep decline, deprivation and struggle for basic survival (known as the "Special Period") ensued.

As Cuba began to emerge from this period, a number of economic reforms or "updates" have been sanctioned by the State in recent years to allow for more market-based approaches, such as small family restaurants or local entrepreneurs. These changes have been slow and fraught with inefficiencies, lack of access to capital and investment, and continued significant state control over these "non-state" enterprises. However, openings for private enterprise development continue, albeit slowly, and cooperatives are emerging as important players in this context.

In April 2011, the Cuban Sixth Communist Party Congress approved a set of economic

reform goals called the "Guidelines on Economic and Social Policy for the Party and the Revolution." Among these 313 measures, actions were proposed to dramatically increase non-state sector employment of the labor force; encourage large-scale private sector business opportunities; allow for the creation of non-agricultural worker cooperatives for the first time; provide for the use of idle lands in usufruct; and decentralize the operation of state enterprises.

This renewed effort is converting state-controlled enterprises into worker-owned cooperatives—measures that were also taken in the 1990s through the expansion of agricultural cooperatives. Again, the vast majority of cooperatives being formed are former state-run enterprises. However, about one-fifth of approved, non-agricultural co-ops have arisen from interested individuals, not state enterprises. This shift is significant and has some profound implications for the future of the Cuban economy.

The recent policy changes in U.S.–Cuba relations may also have profound implications for Cuba's economy as the new U.S. Treasury and Commerce regulations have opened a window for new business opportunities between the two nations, including with

cooperatives. Although cooperatives are not specifically mentioned in the amended regulations, the Department of Commerce verified in a teleconference held on February 18, 2015 that cooperatives are considered part of the nascent Cuban private sector.



To better understand the role cooperatives have played throughout the various periods of economic experimentation in Cuba, the USCCWG met with a number of co-ops and experts on the history and role of cooperatives in Cuba.

Cuba's first cooperatives were formed in the 1930s. There have been various phases and types of cooperatives developed in the more than 50 years since the Cuban revolution; and, interestingly, a significant private farming sector has persisted throughout this period. Most recently, Cuba has supported the development of non-agricultural co-ops.

Cuba currently spends about \$1 billion annually subsidizing basic food stuffs. Agriculture since the revolution had been part of the tightly controlled food production and marketing system that ensured all Cubans had access to basic food stuffs. Until recent years, as much as 82% of arable land was owned by the State. The percentage of land farmed by co-ops has increased significantly since 2010—now co-ops manage almost 70% of farmed land. In recent years, tight state marketing control has loosened somewhat, providing an opening for the formation of more co-ops and private enterprises, and allowing co-ops and private farmers to market some foodstuffs at non-regulated prices in private markets without state control.

Although the revolution has sought to provide enough food for all Cubans, productivity in the farming sector has been poor, with much land unused or underused. The cooperatives and the state-run farms that make up the majority of the agricultural economy have not been able to produce enough food to meet modest self-sufficiency goals, despite Cuba having large amounts of arable land and a generally favorable climate. Currently, Cuba is only producing about 30% of food

consumed and importing about \$2 billion worth of food annually to meet basic dietary needs. With better agriculture policy and production, it is estimated that Cuba has the capacity to reduce food imports by 70%.

With the goals of increasing production, reducing the size and complexity of state enterprises, and reducing imports, the government has continued to focus on legislation to expand cooperatives in both the agricultural and non-agricultural sectors.

Types of Agricultural Cooperatives

Agricultural cooperatives were first formed voluntarily after the revolution as part of land reform. These were cooperatives of private farmers, known as *Cooperativas Creditos y Servicios (CCS)*, and were focused on credit and services provided to farmer-members, each of whom owned and operated individual parcels of land.

A second type of agricultural cooperative was first formed in the 1970s, *Cooperativas de Producción Agropecuaria (CPA)*, allowing for a non-reversible sale of land and equipment by farmers to the cooperative in exchange for one member/one vote member-ownership.

Beginning in 1993, a third type of cooperative was created through legislation, called *Unidades Básicas de Producción Cooperativa (UPBC)*. Formed from state farms, the land continues to be owned by the state, with the co-op leasing the land. While some UBPCs have thrived, many others are failing. Today, the mix of agricultural production is 35% CCS, 25% UBPC, 8% CPA, with 2% being independent small farmers and 30% directly state-owned. A total of 84% of vegetable-origin food output is from the cooperative sector. In addition, 66% of milk, 61% of pork and 61% of sheep are produced by CCS and private farmers.

COOPERATIVES IN CUBA

Non-agricultural Cooperatives

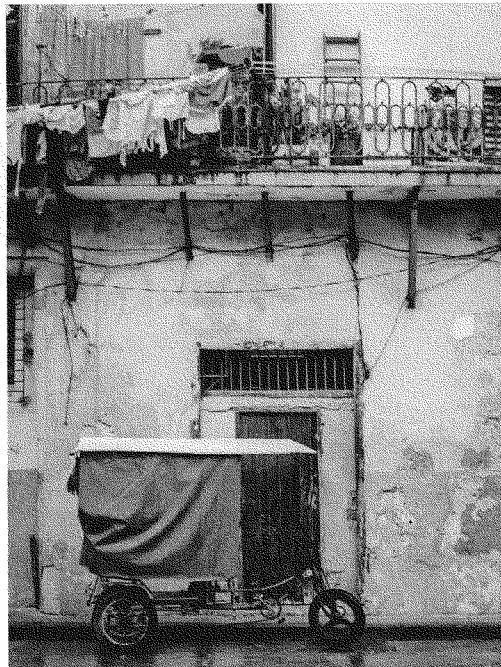
July 1, 2013 marked the launch of the first non-agricultural cooperatives in Cuba, or *Cooperativas No Agropecuarias (CNA)*. Initial approvals were given to agricultural markets (e.g. farmers' markets), construction, transport, and personal and technical services (e.g. everything from auto shops to beauty salons). Property is being leased to cooperatives by the State for those cooperatives born out of the state sector. Non-state sector cooperatives are taking advantage of low-interest leasing from the State.

The newest cooperatives are repopulating some rural areas, increasing incomes of

agricultural and non-agricultural co-ops and creating 500,000 new non-state workers.

Almost 500 non-agricultural co-ops have been formed, though one-half of these are not yet operational. These new co-ops get preferential treatment in contracts and in leasing state property and benefit from tax breaks, limited technical assistance, and access to finance. They do not own their property, but do often own other assets, such as equipment. In the agricultural sector, more than 5 million acres have been distributed to producers. Cooperatives pay less in taxes than private businesses and have some access to the State's wholesale system. Still, it is the government that makes the decisions about whether a state business is converted into a cooperative, and the existing employees are given little say.

It is anticipated that a new General Law of Cooperatives will be passed in 2016. The law's objectives will be to transfer a greater share of "non-essential" economic activity to cooperatives, allowing the State to focus on core activities, to increase and diversify production of consumer goods and services, and to promote more stable employment. Marino Murillo, who heads the State's economic commission to revamp the economy, told the National Assembly in December that cooperatives have priority over small private businesses because they are a more social form of production and distribution.



USCCWG MEETINGS WITH CUBAN COOPERATIVES

7

The USCCWG delegation met with many cooperators, allied advisors, and academics to understand the context of the Cuban cooperative sector and some of their current challenges and opportunities. Many in the group were surprised by the lively and open discussions and the consistency with which all of the groups were committed to integrating commercially viable cooperative businesses with social objectives.

The following is an annotated list of our meetings:

Dr. Armando Nova, Center for the Study of the Cuban Economy, University of Havana: History of Agricultural Cooperativism in Cuba

Dr. Nova gave a comprehensive overview of the history of cooperatives in Cuba from their origin in the 1930s up to the recent creation of many new agricultural and non-agricultural co-ops throughout Cuba and of the shift from state ownership of most land and a growing percentage of economic activity to private and cooperative control. Among the challenges cited by Dr. Nova: insufficient autonomy due to over-regulation and fixed-price required delivery to the State, lack of a market for inputs due to centralized resource allocation, and a lack of recognition for the role of the market in a planned economy.

Isis Maria Salcines Milla and Miguel Salcines Lopez, Organopónico Vivero Alamar: Cuban Urban Agriculture Site Visit
Ms. Salcines Milla (manager) and Mr. Salcines Lopez (founding President), key leaders in this urban agriculture cooperative (UBPC), gave a quick tour and overview of the transformation of the formerly destitute urban area into a thriving farm and economic and social enterprise amidst the many challenges and constraints of managing within the tight regulations of the Cuban economy. The organic farm sells to restaurants and to the

local community, growing dozens of crops and focusing on five in particular: oak leaf lettuce, sugar cane, mint, moringa and noni. Based on their successful growth, their ambitious goal is to transform the traditional Cuban diet of rice, beans, pork and chicken into a more balanced and healthy diet with more vegetables and fruits.

Evelio Gonzalez Sanchez, Asociación Cubana de Técnicos Agrícolas y Forestales, (ACTAF)

Mr. Sanchez gave an overview of sustainable agriculture and forestry in Cuba and the role of the ACTAF consultant-technicians in promoting gender equity, sustainable agriculture values and techniques, and in connecting Cuban agriculture and forestry to the international movements working for similar goals. He emphasized the challenges of trying to separate the role of the State and the role of business activity.

Roberto Cazuzo, Presidente, Cooperativa Novedades, Auto Repair Cooperative

This former state enterprise was formed as a cooperative one year ago. The results have been positive so far. The cooperative has doubled the value of services and has more money to buy inputs. All ten workers are members. None of the cooperative's auto repair services are supplied to the State, but only to private customers.

Camila Piñero Harnecker, Center for Studies on the Cuban Economy at University of Havana: The New Non-Agricultural Worker Cooperatives

Dr. Piñero, a thought leader in developing the new Cuban economy, gave an overview of the new cooperative laws and the recent formation of non-agricultural cooperatives. She discussed some of the challenges and opportunities for the cooperative sector, along with a very open critique of the legislative process and an insightful diagnosis

USCCWG MEETINGS WITH CUBAN COOPERATIVES

of current state of the new co-ops. Among the issues cited by Dr. Piñeiro are the slow state approval processes, insufficient or non-existent training, lack of associations to represent cooperatives within sectors or nationally, and the lack of any social impact or social responsibility requirement.

Heriberto Dita Pestano, President, Servicios de Transporte de Pasajeros (SERVIPAS)

This newly formed cooperative with 57 members has operated for one year. Prior to that time it was a state-run enterprise. The cooperative provides transportation services for schools, nursing homes, senior centers and healthcare centers. Initially suspicious of the proposal from the State to convert to a co-op, their research indicated that the conversion would be done in a professional and acceptable manner. According to the president, the cooperative is working well, the worker-owners are earning much better salaries, and are more motivated. The cooperative continues to provide needed services, keeping most of their 44 vehicles on the road.

Exiquio Ramírez, President, Confecciones Textiles Marianao

This sewing cooperative was a state factory until nine months before the USCCWG visit, when they were told by the State that they would be converted to a worker-owned cooperative. The first thing they had to do was change their mindset. The new worker-owners accepted the task, got support to teach themselves what a cooperative is, and began to learn about co-op management. Financial management and accountability is considered by the cooperative's leadership to be the foundation of the businesses' success. They have 46 members. All output (tablecloths, blouses, shirts, etc.) is under contract—about 50% of the contracts are with the State and 50% are private. The biggest problem the cooperative has today

is procuring raw materials. Another challenge is the outdated equipment and dilapidated facility. The co-op has empowered women in leadership roles and has a strong embrace of cooperativism.

Nardo Bobadilla Labrador, President, Cooperative El Mango

Dr. Labrador is a founder of the co-op and a veterinarian. The co-op (UBPC) started with 16 members on 10 hectares; they now have 103 members farming 101 hectares. They respect the principles of spontaneity, voluntary membership and cooperativism. They own everything but the land. They share profits collectively. They started with pigs and now, by investing half the profits, they have been able to expand to include cattle, goats, horses, rabbits, vegetables, social projects, community transformation, woodworking, recreation centers for families, and facility rentals for weddings and quinceañeras. They market 70% of their product to state institutions and 30% to the private sector.

Ambassador Carlos Alzugaray: U.S.-Cuba relations

Ambassador Alzugaray gave a highly informative overview of the political, economic, spiritual, and emotional history of U.S.-Cuban relations, including the memorable quotations, "For the grass, it doesn't matter whether the elephant is making love or making war" and "Big countries do what they want. Small countries suffer what they must." He pointed out that the U.S. and Cuba cooperate on a number of fronts, such as hurricane tracking, marine biology, disaster response (e.g. Haiti), and an oil spill recovery agreement that includes Mexico and the Bahamas. He pointed out the future importance to Caribbean trade of the Mariel deep-water port and its associated industrial park (*Zona Especial de Desarrollo Mariel*). The Mariel Port development and expanded oil drilling (and domestic

consumption) could be significant drivers of economic growth. This will put pressure on businesses and banks, but should be good for attracting foreign investment.

Produce Market Cooperative 30 y 33

This former state market is a cooperative with 12 members that has been a state-run market for 15 years and a co-op for a little more than a year. They have expanded their product lines, expanded their hours, and improved product quality since becoming a co-op. Like several of the cooperatives the USCCWG visited, they shared that they have increased their salaries two- and sometimes three-fold since becoming a co-op. It is currently impossible to know if this is sustainable for this or any of the co-ops visited.

Adriana, Ernesto, and José Carlos, three students responsible for start-ups, Cooperativa de Metales and Cooperativa de Vidria

These co-ops were formed by the State from what appeared to be the top students in their technical school. The two cooperatives, one focused on metalwork and one on stained glass, have been waiting for a year to get workshop space. In the interim, they are taking odd jobs in the private sector and hoping to get assigned space soon.

Rafael Betancourt, Economist and Professor at San Geronimo College, President, Havanada Consulting

Havanada, a Canadian social enterprise consulting firm, developed the program for the USCCWG visit with guidance from Mr. Betancourt. He accompanied the group for its entire visit, lecturing on different aspects of the Cuban economy and providing appropriate background and context to help participants better understand the unique Cuban experience.

COMMON THEMES

SUCCESSSES

- The Cuban agricultural economy has a majority of production in the hands of cooperatives. The non-agricultural sector is now opening up to this ownership model, setting the stage for Cuba to make great strides in creating a cooperative economy.
- Significant repopulation of rural areas is taking place as large families take advantage of farming state land available in usufruct. All these new farmers are affiliated with agricultural cooperatives, either CCS or CPA.
- The new cooperatives are energized, have increased their incomes, improved the condition of their physical assets, created better and more productive working situations, reduced theft and waste, and improved customer satisfaction. The workers themselves seemed enthusiastic and hopeful about their futures.
- There is an understanding among the cooperative leaders and workers that they are part of a major economic shift, and there is acknowledgement that they have a lot to learn; this opens the door for future collaboration.
- Production levels, accompanied by more favorable pricing and innovation, are increasing dramatically.
- Mechanisms, albeit bureaucratic, are in place and functioning for the development of bottom-up cooperatives comprised of groups of individuals coming together to better their economic and labor situations.
- To date it appears that some lessons have been learned from major mistakes of the UBPC conversion process of the 1990s. For example, state property is being leased to

cooperatives at reasonable rates, so that even privately formed co-ops are interested in participating in these programs.

CHALLENGES

- Almost all cooperative leaders in Cuba have been directly inherited from the management of state-run enterprises at the time of co-op start-up. Management and leadership are generally elected in an open forum that does not allow for new leadership to easily arise. "Mandatory" conversion to a cooperative is not in keeping with the principle of voluntary, democratic participation of members. Governance will be a key issue for future success.
- There is little access to cooperative education for members. Although there is some access to technical business assistance and training for managers, this too is limited. Most new co-ops do not receive cooperative education, nor is there explicit training on the cooperative principles. While cooperative principles and ideas are in part integrated into the guiding documents of the new cooperatives, rudimentary understanding does not appear to go much beyond the values of democratic participation and elections, and general equality in sharing economic risks and returns.
- There is no cooperative ministry; each sector's ministry has the responsibility of converting certain enterprises into cooperatives and providing guidance and support. This allows for uneven or inconsistent levels of support. In addition, the state enterprises have received no training on how to deal with the new cooperatives, leading to a lack of compliance with regulations and difficult commercial relationships.

- There is insufficient connection to the international cooperative movement. There are limited openings for the engagement of NGOs and other types of international support.
- There is little cultural context for creating an ownership culture. Many people are used to relying on the State for their livelihoods. Similarly, while there is some entrepreneurial tradition, it is quite limited. Social responsibility is integral to the "revolutionary spirit," yet has largely not filtered down to the individual or even organizational level of the cooperatives. There is little social enterprise presence or support within the cooperatives visited.
- The inability of cooperatives—in all sectors—to secure inputs from national or international markets, due to economic and political constraints, is a major impediment to growth and sustainability.
- Non-agricultural cooperatives lack secondary or tertiary level cooperatives and there is no national cooperative association. Consumer cooperatives are still not permitted.
- The implementation of new laws or regulations often lags after their passage. There are long delays and difficult procedures for getting government approval for new initiatives. The general political environment for co-ops is seen as unstable.

CONCLUSIONS

Depending on the evolution of the emerging cooperative sector, and its ability to grow and sustain itself, Cuba is laying a foundation for cooperatives to play an important role in building a sustainable Cuban economy. Cuba sees this as an opportunity to embrace a balanced economy benefiting from both state and non-state enterprises. Whether or not this can happen will depend on a number of things, not the least of which is the State's willingness to allow this sector to flourish and become more market-driven as it evolves. The Cuban government is concerned about too much autonomy and inequality from the loosening of state control in this emerging sector. In addition, if the State burdens new cooperatives with excessive debt, this experiment will not last long.

It is important to note the tensions inherent in the economic "updates," where on the one hand, Cuba is trying to move away from a state economy, and on the other, it is responding to a growing private sector that is dependent on foreign currency and seen as undermining the social values of the revolution. It appears that the hope of the Cuban government, and many supporters of the cooperative model, is to develop a cooperative sector that achieves market success while avoiding the excesses of the market-driven economy and promoting social values and ownership.

There is a rare opportunity for the international cooperative community to support the emergence of a new cooperative sector in Cuba. There are numerous possibilities for engagement of the international cooperative sector in Cuba. For the United States, the opportunities will need to be carefully designed to embrace the new business opportunities that have emerged with the recent lifting of some restrictions and eventually, a more open trade and banking environment, while understanding the constraints inherent in the bilateral policies on both sides that will be slower to change. Any projects or plans will need to respond to the

evolving needs of Cuban cooperatives, which are unique in some respects and similar to other countries in others.

In Cuba's rapidly expanding cooperative sector, there is a need for cooperative education, governance and management training, and access to finance. Educational support and technical assistance is critical to both governance and management effectiveness of the new cooperatives. This includes everything from understanding the cooperative principles to technical training to market development.

In addition, there are almost no secondary or tertiary cooperatives, nor a national level cooperative association or movement that could serve as a counterpart to international cooperators or a coordinating body for the sector. The opportunity for developing these important building blocks of a healthy cooperative movement is significant and worthy of continued engagement with Cuban cooperators at all levels and across sectors.

One area raised by many of the USCCWG participants was access to capital and financial sustainability given the various constraints in the system. Consideration needs to be given to the creation of a financial institution which can provide capital following the initial capital injections from the state or an agency designated and committed to assisting in the financial development of co-ops. In general, more focus on financial issues is needed, including but not limited to asset valuation, cost of inputs, balance sheets, financial management and long-term planning. These will ultimately determine the success and ability to survive of these new businesses.

The unique social dynamic in Cuba is also a fertile learning laboratory for U.S. cooperative groups to gain new insights into how this emerging sector can potentially deliver improved sustainability through socially responsible enterprises that prioritize social well-being.

AREAS FOR EXPLORATION AND NEXT STEPS

13

The USCCWG trip established initial contact between major U.S. cooperative leaders and activists, many of whom work with cooperatives internationally, and the emerging network of cooperative and social economy leaders and academics in Cuba. A number of seeds have been planted to further the goals of strengthening the cooperative sector in Cuba for the good of the Cuban people.

There is a strong desire among the USCCWG members to strengthen and expand connections between the Cuban cooperatives, academics and social economy leaders and their international counterparts, with the intention of finding concrete ways to engage each other. The new U.S. policy changes on engagement with Cuba have provided a refreshed platform to achieve this desire and placed the USCCWG in a unique position to support the advancement of Cuba's cooperatives.

Below are the recommendations for next steps:

1. Engage in technical exchanges and assistance from U.S. and international cooperative businesses to strengthen Cuban cooperatives and the business sectors in which they work.
 - Support international cooperative principles and values in Cuba through training, technical assistance, sharing of best practices, and other learning opportunities.
 - Facilitate dialogue through presentations, workshops, learning sessions, and forums on a wide range of cooperative development and sustainable growth topics tailored to the Cuban experience, including governance, business administration, management, membership, market development, access to finance, and social and community engagement, among others.
 - Capture unique perspectives and experiences of the Cuban cooperative sector for use by global cooperative sector.
- NCBA CLUSA exchange with Cubans: technical assistance and training in agriculture, food security and nutrition, natural resources management, and cooperative principles, government, and development, among other areas.
- Engage with Cuban farmers and cooperatives on improving agricultural productivity, sustainable agriculture practices, production, market linkages, and other topics relevant to the sector.
- Coordinate multi-sectoral exchange visits between U.S. and Cuban cooperative leaders and practitioners.
- Share international best practices in strong legislative-enabling environments, governance and principles for cooperative business growth and development.
2. Partner with other U.S. constituencies, businesses and organizations interested in improved relations through engagement with the Cuban cooperative business sector.
 - Explore the role and specific projects for USCCWG including the possibility of coop-to-coop import and export activities
 - Engage other interested sectors within NCBA CLUSA membership
 - Meet with U.S. Chamber of Commerce, Cuba Special Interest Section, and other groups engaging with Cuba
3. Engage international cooperative networks and partners working in Cuba and other organizations promoting cooperative solutions to economic development, trade and job creation.
 - CICOPA (Workers cooperative group of the International Cooperative Alliance)
 - Cooperatives of the Americas (Regional Office of the International Cooperative Alliance)
 - International Cooperative Alliance
 - SOL² Economics network on socially responsible business
 - Cuban-American cooperatives

AREAS FOR EXPLORATION AND NEXT STEPS

4. Share the work of the USCCWG more broadly, and at upcoming meetings:

- USCCWG launch event in Washington, D.C. to share information about Cuban cooperative sector and distribute USCCWG's trip report
- May 2015—NCBA CLUSA Annual Meeting
- November 2015—International Cooperative Alliance General Assembly in Antalya, Turkey
- Other U.S. and international sector-specific cooperative meetings (worker, finance, energy, agriculture, etc.)

5. Share international best practices to support strong Cuban cooperative legislation

- CICOPA legal working group to provide access to international best practices
- Support direct citation of the co-op principles in the legislation
- Support incubators in sectors where it makes sense (e.g., artists)
- Support creation of consumer co-ops and secondary co-ops (including finance)
- Support the creation of a national cooperative association

USCCWG Trip Participants**NCBA CLUSA**

- Michael Beall, President and CEO
- Amy Coughenour Betancourt, Chief Operating Officer for International Development
- Stanley Kuehn, Regional Director, Latin America and the Caribbean

NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION (NRECA)

- Martin Lowery, Executive Vice President, Member and Association Relations (also Board Member of the International Cooperative Alliance)

NATIONAL COOPERATIVE BANK

- Barry Silver, Executive Vice President (also Board Member of Cooperatives of the Americas—A Region of the International Cooperative Alliance)

U.S. FEDERATION OF WORKER CO-OPS

- Rebecca Kemble, President and Vice President (also President of CICOPA Americas)

COOP COFFEES

- Jonathan Rosenthal, Executive Director

CDS CONSULTING CO-OP

- Adam Schwartz, Member-Owner (also representing The Cooperative Way)

DEMOCRACY COLLABORATIVE

- Steven Dubb, Research Director

FOOD CO-OP INITIATIVE

- Stuart Reid, Executive Director

PACHAMAMA COFFEE

- Thaleon Tremain, CEO
- Therese Tuttle, Legal and Organizational Counsel

SOL² ECONOMICS

- Eric Leenson, President

APPENDIX B

The Original Questions Guiding the CCWG Trip

1. What is the make-up of the Cuban cooperatives?
2. What are the constraints that the cooperatives in Cuba face?
3. What are the strengths of the cooperatives in Cuba?
4. What laws exist for cooperatives in Cuba?
5. What opportunities exist for the international cooperatives to support the Cuban cooperatives?
6. What would the Cuban co-op members like to see in a partnership with a US co-op?
7. What training/capacity-building do the Cuban cooperatives have in place, if any?
8. What are the incentives for creating a cooperative in Cuba?
9. What potential exchanges have we identified?
10. What can we learn from the Cuban cooperative experience?
11. How do Cubans view the opportunity of a restructured economy given the reforms being implemented by the State?
12. What is the participation of co-ops in any sector?
13. What resources are available for cooperative governance, education and capital?
14. What changes have taken place with the creation of the new foreign investment law?
15. What conclusions or recommendations on next steps and areas of further study does the U.S. delegation propose?



March 10, 2015

The Honorable Jacob J. Lew
Secretary
United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Dear Secretary Lew,

We commend the Department's work through its Office of Foreign Assets Control in making amendments to the Cuban Assets Control Regulations on January 16, 2015. While we were not able to make public comment on the rules, we wanted to make a clarifying public statement relating to parity for cooperatives alongside other businesses throughout the rule and offer our assistance to your Department in helping to grow the nascent Cuban private sector through cooperative development.

As in the U.S., cooperatives in Cuba perform vital business functions. Historically in Cuba, cooperatives were found exclusively in the agricultural sector. Given new guidelines for the economy established by the Cuban government in 2011, that situation is changing dramatically with the emergence of non-agricultural cooperatives in numerous economic activities. We remain optimistic that these internal changes in Cuba, coupled with the recent U.S. regulatory changes, create enhanced opportunities to help Cuban workers improve their living standards, gain greater business ownership, and economic independence from the state.

Cuban cooperatives should be considered a part of their nascent private sector and eligible for the same treatment and rights as other businesses are afforded in these recent regulations. Three types of agricultural cooperatives are long established in Cuba and are considered "private enterprise" under generally accepted conventions. In Cuba's conceptual framework, cooperatives are private entities jointly owned by a group of associates as defined and protected under law. This attribute distinguishes this sector from the other types of enterprise which are State owned; private (individual ownership); or joint ventures (Cuban State and foreigners). In Cuba there is a fundamental demarcation between state and non-state businesses. Cooperatives of all forms are non- state entities that are not controlled by the State.

Today, at the National Press Club in Washington, D.C., the National Cooperative Business Association formally announces the formation of its U.S. Cuba Cooperative Working Group and release of its report on its Cuba Research Trip last July, http://www.ncba.coop/images/Cuba-Trip-Report-compressed_87c6c.pdf. Cuban cooperatives in general, but especially the newest ones emerging, face many technical and educational challenges in regard to how cooperatives can operate most effectively as strong associations and businesses. International exchanges with experienced cooperative groups will provide valuable learning tools that can help strengthen this sector. This is the scope of this Working Group.

While agricultural cooperatives are long established in Cuba, Cuba had not had enabling laws for the

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formation of non-agricultural cooperatives until 2012. Like U.S. cooperatives and those posited by the International Cooperative Alliance, Cuban law lists seven Cooperative Values that guide the behavior of the entities; including their voluntary nature; internal democracy, and community responsibility among others. Currently, non-agricultural cooperatives represent a tiny fraction of the Cuban workforce, less than .4%. However, based on official government statements and policy priorities, that number could expand to 15-20% of employment in coming years.

These non-agricultural cooperatives originate in two ways. First, a "grassroots" or "bottoms up" approach in which a minimum of three people agree to form and own a joint enterprise within the framework of the cooperative regulations. Second, and more common to date, has been the practice of offering state enterprise employees the option of forming a cooperative that takes on full management control with corresponding responsibilities and benefits. In such a conversion from state to cooperative enterprise, all the norms and regulations guiding cooperative functioning must be fully implemented. While the land and buildings utilized by the cooperative may remain in state ownership, these assets are leased contractually to the cooperative as a private entity.

Cooperative development and growth in Cuba can be a positive development toward advancing the needs of the Cuban people as well as meeting the desires of the U.S. government to support the nascent Cuban private sector to have them gain greater independence from the State. We look forward to the continued work of the U.S. Cuba Cooperative Working Group and making more trips and engagement with Cuban cooperatives. We stand ready as a resource and convener of the U.S. cooperative sector to work with the Treasury Department in this pivotal moment for U.S. Cuba relations.

Sincerely,

A handwritten signature in dark ink, appearing to read "Michael V. Beall".

Michael V. Beall
President & CEO

QUESTIONS AND ANSWERS

APRIL 21, 2015

Senate Committee on Agriculture, Nutrition & Forestry
Opportunities and Challenges for Agriculture Trade with Cuba
 4/21/2015
 Questions for the record
Mr. Michael Beall

Chairman Pat Roberts

1. During the hearing we heard that Cuba has been allowing increased investment by the private sector. Based on your interactions with Cuban farmers and government officials, what types of things are Cubans doing to support entrepreneurship and development of their own economy?

Response: Mr. Chairman. Historically in Cuba, cooperatives were found exclusively in the agricultural sector. Given new guidelines for the economy established by the Cuban government in 2011, that situation is changing dramatically. Since 2011, the Cuban government has set in motion a set of economic reforms to support the development of the cooperative and private sectors of the economy, in an attempt to promote more autonomous agricultural cooperatives, the conversion of state-run enterprises into cooperatives, and the creation of new cooperatives in non-agricultural sectors, such as food services, retail trade, transportation, housing construction, consumer goods, and business services. Specifically, in April 2011, the Cuban Sixth Communist Party Congress approved a set of economic reform goals called the “Guidelines on Economic and Social Policy for the Party and the Revolution.” Among these 313 measures, actions were proposed to dramatically increase non-state sector employment of the labor force; encourage large-scale private sector business opportunities; allow for the creation of non-agricultural worker cooperatives for the first time; provide for the use of idle lands in usufruct; and decentralize the operation of state enterprises. We remain optimistic that these internal changes in Cuba, coupled with the recent U.S. regulatory changes and our involvement in helping these cooperatives flourish better, create enhanced opportunities to help Cuban workers improve their living standards, gain greater business ownership, and economic independence from the state.

Law No. 305 enacted their non-agriculture cooperatives’ legal structure in November 2012. Article 2, Section 2 of the Law states, “ A cooperative has its own juridical and patrimonial persona; it may use, enjoy, and dispose of the assets of its property; cover its own expenses with its income and meet its obligations from its own patrimony.” Article 4 of the same law lists seven cooperative values that guide the behavior of the entities including their voluntary nature, internal democracy, and community responsibility among others. These aggregate values are strikingly similar to those found in cooperatives in the U.S. and posited by the International Cooperative Alliance.

In Cuba there is a fundamental demarcation between state and non-state businesses. Cooperatives of all forms are non-state entities that are not controlled by the State. The cooperatives are run as private businesses in all respects.

2. Under Raul Castro, a significant reform effort has focused on the agricultural sector. In an effort to boost food production, the government has turned over idle land to farmers and given farmers more control over how to use their land and what supplies to buy. In your interactions with Cuban farmers, what challenges do they face in order to improve their productivity gains as well as improve their business climate?

Response: Mr. Chairman. Cuba currently spends about \$1 billion annually subsidizing basic food stuffs. Agriculture since the revolution had been part of the tightly controlled food production and marketing system that ensured all Cubans had access to basic food stuffs. Until recent years, as much as 82% of arable land was owned by the State. The percentage of land farmed by co-ops has increased significantly since 2010—now co-ops manage almost 70% of farmed land. In recent years, tight state marketing control has loosened somewhat, providing an opening for the formation of more co-ops and private enterprises, and allowing co-ops and private farmers to market some foodstuffs at non-regulated prices in private markets without state control. Although the revolution has sought to provide enough food for all Cubans, productivity in the farming sector has been poor, with much land unused or underused. The cooperatives and the state-run farms that make up the majority of the agricultural economy have not been able to produce enough food to meet modest self-sufficiency goals, despite Cuba having large amounts of arable land and a generally favorable climate. Currently, Cuba is only producing about 30% of food consumed and importing about \$2 billion worth of food annually to meet basic dietary needs. The lack of inputs (seeds, tools, etc.) is a severe problem. There is undercapitalization – a tremendous shortfall in machinery and equipment. Many enterprises operate with 1940's or 1950's or older technology.

Almost all cooperative leaders in Cuba have been directly inherited from the management of state-run enterprises at the time of co-op start-up. Management and leadership are generally elected in an open forum that does not allow for new leadership to easily arise. Governance will be a key issue for future success.

There is little access to cooperative education for members. Although there is some access to technical business assistance and training for managers, this too is limited. Most new co-ops do not receive cooperative education, nor is there explicit training on the cooperative principles. While cooperative principles and ideas are in part integrated into the guiding documents of the new cooperatives, rudimentary understanding does not appear to go much beyond the values of democratic participation and elections, and general equality in sharing economic risks and returns.

The inability of cooperatives—in all sectors—to secure inputs from national or international markets, due to economic and political constraints, is a major impediment to growth and sustainability.

With the goals of increasing production, reducing the size and complexity of state enterprises, and reducing imports, the government has continued to focus on legislation to expand cooperatives in both the agricultural and non-agricultural sectors.

Senator Debbie Stabenow

1. How would you like to see the U.S.-Cuba agricultural trade relationship develop over the next 10 years? What do you think Americans outside of agriculture should know about the importance of this evolving trade relationship to your industry and work?

Response: Ranking Member Stabenow. There is a rare opportunity for the international cooperative community to support the emergence of a new cooperative sector in Cuba. There are numerous possibilities for engagement of the international cooperative sector in Cuba. For the United States, the opportunities will need to be carefully designed to embrace the new business opportunities that have emerged with the recent lifting of some restrictions and eventually, a more open trade and banking environment, while understanding the constraints inherent in the bilateral policies on both sides that will be slower to change. Any projects or plans will need to respond to the evolving needs of Cuban cooperatives, which are unique in some respects and similar to other countries in others.

Trade needs to be mutually beneficial to Cubans and Americans. In the future, we would like to see Cuban cooperatives able to buy and sell on open markets for the benefit of their members and communities. We would like trade relationships that promote local production and strong economic and social benefits for both countries and parity for cooperatives alongside large corporations. Cooperatives are the main engine for private sector growth and development in Cuba and need to be supported to ensure a smoother transition to a more market-based economy. We cannot underestimate the importance of the cooperative model for Cuba's future.

In Cuba's rapidly expanding cooperative sector, there is a need for cooperative education, governance and management training, and access to finance. Educational support and technical assistance is critical to both governance and management effectiveness of the new cooperatives. This includes everything from understanding the cooperative principles to technical training to market development. Through our recently created U.S. Cuba Cooperative Working Group (USCCWG), we wish to engage in technical exchanges and facilitate dialogue through presentations, workshops, learning sessions, and forums on a wide range of cooperative development and sustainable growth topics tailored to the Cuban experience, including governance, business administration, management, membership, market development, access to finance, and social and community engagement, among others.

We wish to engage with Cuban farmers and cooperatives on improving agricultural productivity, sustainable agriculture practices, production, market linkages, and other topics relevant to the sector.

One area raised by many of the USCCWG participants was access to capital and financial sustainability given the various constraints in the system. Consideration needs to be given to the creation of a financial institution which can provide capital following the initial capital injections from the state or an agency designated and committed to assisting in the financial development of co-ops. In general, more focus on financial issues is needed, including but not limited to asset valuation, cost of inputs, balance sheets, financial management and long-term planning. These will ultimately determine the success and ability to survive of these new businesses. We are currently working with interested U.S.-

based credit union institutions to help address these challenges and find solutions to this work going forward.

Senate Committee on Agriculture, Nutrition & Forestry
Opportunities and Challenges for Agriculture Trade with
Cuba 4/21/2015
Questions for the
record
Mr. Matthew Borman

Chairman Pat
Roberts

1. In Acting Director Smith's testimony, he states that, "OFAC has issued new general licenses and expanded existing authorizations for travel-related transactions and other transactions incident to the exportation to Cuba of authorized goods...consistent with the Commerce Department's licensing policy." Are OFAC's recent actions limited by the Commerce Department's licensing policies? Would future action by OFAC regarding licenses and transactions be dependent upon the statutory authorization of change regarding Commerce licensing?

We understand OFAC will address these questions.

2. How are enforcement mechanisms different now than prior to the President's orders? How are you working with U.S. stakeholders to educate how these regulatory changes are being implemented?

The Department of Commerce's enforcement mechanisms have not changed since the President's December 17 announcement. Commerce will continue to focus on compliance with, and enforcement of the Export Administration Regulations (EAR), including the provisions relating to exports and reexports to Cuba. Criminal and administrative sanctions can be imposed for violations of the EAR.

Commerce, on its own and together with the Departments of the Treasury and State, has conducted extensive outreach on its revised Cuba rules, with stakeholders in the U.S. government and the private sector. Commerce has conducted or participated in more than 40 outreach events on the revised rules that have been attended by more than 2,400 people. In addition, Commerce has posted two sets of frequently asked questions and answers on its website concerning the revised Cuba rules published on January 16, 2015.

Senator Debbie Stabenow

1. Based on conversations I've had with producers from Michigan and nationwide, I feel comfortable saying that farmers and ranchers overwhelmingly stand behind the President's effort to expand trade relations with Cuba. They welcome the new rules from Treasury and Commerce because they see a compelling market opportunity just 90 miles from our shore. At the same time, I also recognize that some of my colleagues in the Senate and House are skeptical of deeper engagement with Cuba at this time, including on agricultural issues.

So I'll ask two questions: How do the rules released by the departments of Treasury and Commerce, especially as they pertain to agriculture, help advance our national goals for Cuba? How is agriculture a smart vehicle for advancing relations with Cuba?

Commerce's revised Cuba rules help implement the President's policy of supporting the Cuban people by authorizing a range of exports by license exception. This means specified items can be exported to Cuba for private sector economic and other activity without the need for individual licenses from Commerce. License exceptions facilitate trade because exporters do not have to submit license applications to Commerce and wait for approval. While the Commerce rules reflect the constraints of the Trade Sanctions Reform and Export Enhancement Act (TSRA), they do allow the export of tools and equipment for private sector agricultural activity in Cuba (such as private agricultural cooperatives), the export of tools, equipment, supplies, and instruments for private sector entrepreneurs (such as restaurateurs), and building materials, equipment and tools for private sector construction or renovation of privately-owned buildings (such as private agricultural cooperatives) under license exception Support for the Cuban People (SCP). In addition, members of agricultural trade missions and persons traveling to Cuba to pursue agricultural business opportunities no longer need individual licenses for items to be used on such a business trip, such as laptop computers and cell phones, but can take such items under the conditions of license exception SCP.

Cuba's economic crisis in the 1990s had an enduring impact on food security and nutrition. Subsequent events, including the global financial crisis, natural disasters, high global food prices, limited access to credit, and low productivity, have had further negative effects on food security. Improving Cuban citizens' access to food contributes to the U.S. goal of a peaceful, democratic, and stable Cuba.

Senator Gillibrand

1. In its 2007 report, the US International Trade Commission showed significant opportunities for agricultural exports that could result from improved trade with Cuba, particularly through the easing of travel and financial restrictions. Some of the most in demand products would be fresh fruits and vegetables, dairy, beans, and processed foods. In this, and subsequent reports, the need for improved financing terms is identified as central to growing US agriculture exports.

Do you think the recent changes made by the Administration will enable our exporter to achieve this potential without additional modifications to policy requiring Congressional action?

Commerce's revisions to its Cuba rules may help achieve some of this potential, but certain provisions in the Trade Sanctions Reform and Export Enhancement Act (TSRA) will continue to significantly limit U.S. agricultural exports to Cuba.

Does the Administration have additional opportunities to increase levels of engagement without violating the Trade Sanctions Reform and Export Enhancement Act (TSRA) or other components of the embargo?

Given the provisions of TSRA related to agriculture and export assistance, Commerce's opportunities to increase levels of engagement are limited.

2. So much of the commerce between States relies on access to the internet and the ability of individuals to communicate and share documents directly.

You mentioned that in order for the actions taken by the Administration to have a significant impact on US-Cuba agricultural trade, the Cuban government must be receptive to such actions. How are you working with the Cuban government to permit access to more adequate and efficient telecommunications technologies that permit enhanced trade opportunities?

The U.S. government, led by the Department of State, has already begun discussions with Cuban government officials on telecommunications services between our countries and the opportunities for expanding telecommunications services and Internet access for Cubans.

Senate Committee on Agriculture, Nutrition & Forestry
Opportunities and Challenges for Agriculture Trade with Cuba
4/21/2015
Questions for the record
Mr. Terry Harris

Chairman Pat Roberts

1. During the hearing we heard that Cuba has been allowing increased investment by the private sector. Based on your interactions with Cuban farmers and government officials, what types of things are Cubans doing to support entrepreneurship and development of their own economy?

Answer:

According to several Cuban nationals with whom I met as well as some expatriates living in Cuba, the Government of Cuba (GOC) has made several fundamental changes in the farming sector. The GOC are leasing more state-owned land to private farmers and allowing more decision making by farmers on what they will grow. This allows farmers opportunities to grow and sell more specialty crops to the restaurant industry. The GOC is also giving more freedom to farmers in determining the quantity of their crop they sell to the state as opposed to the open market.

In addition, the GOC has increased to approximately 200, the types of businesses Cubans may operate as private enterprises. There is a proliferation of larger, better private restaurants in Havana as the GOC eases restrictions on the size and scope of their activities. There is also a significant growth in more upscale art galleries which create significant income for the artist/owners of these galleries.

2. Under Raul Castro, a significant reform effort has focused on the agricultural sector. In an effort to boost food production, the government has turned over idle land to farmers and given farmers more control over how to use their land and what supplies to buy. In your interactions with Cuban farmers, what challenges do they face in order to improve their productivity gains as well as improve their business climate?

Answer:

There are still significant issues that prevent improvements and sustainable increases in productivity. The two major issues are the lack of equipment and spare parts and crop inputs

such as pesticides, fertilizer, and herbicides. All equipment and inputs necessary to be successful in agricultural production are imported by the GOC, private enterprises are not allowed to make direct imports. Inputs at times are not available or are not available at the critical point in the growing season, which negatively affects yield and quality. Sufficient equipment is not always available or in working order to allow planting and/or chemical applications, and harvesting at critical times. The lack of foreign exchange and the GOC's inability to timely source these necessary components continue to create challenges for the agricultural sector in Cuba.

Senator Debbie Stabenow

1. How would you like to see the U.S.-Cuba agricultural trade relationship develop over the next 10 years? What do you think Americans outside of agriculture should know about the importance of this evolving trade relationship to your industry and work?

Answer:

I think all Americans should be made aware of the following points to truly understand the Cuban debate. To truly create fundamental change in the trade relationship between the United States and Cuba, there must be an elimination of the embargo. It is not realistic to suppose a country will gladly buy from a proposed trade partner when it is only allowed to buy certain items, it must pay cash in advance and it is not allowed to earn foreign exchange by hosting tourists from that country, selling their goods to that country, or freely traveling to that country.

This is not a partnership. We must remember that Cuba continues to be able to source its needs from other origins. It is the United States farm and industry sectors that are being deprived of the opportunity of normal trade with this export market 90 miles from our shore. With the importance of export trade to the ag sector as well as for job creation in this sector and related industries maintaining existing markets and developing new ones is the life blood of this industry.

I also firmly believe agriculture is and should be only the first step in improved trade with Cuba. There is a need for all types of durable and consumer goods in the Cuban market and as increased

tourism and trade improves the economy of Cuba and the earning potential of its people, the market and the ability to buy these goods will increase.

Senate Committee on Agriculture, Nutrition & Forestry
Opportunities and Challenges for Agriculture Trade with Cuba
4/21/2015
Questions for the record
Mr. Ralph Kaehler

Chairman Pat Roberts

1. During the hearing we heard that Cuba has been allowing increased investment by the private sector. Based on your interactions with Cuban farmers and government officials, what types of things are Cubans doing to support entrepreneurship and development of their own economy?

First off, thank you for the invitation to share my thoughts and experiences about agriculture trade and opportunities in Cuba.

The Cuban nutritionists and farmers we met were very interested in the nutrition updates and how to feed the improved American feed products, particularly Distillers Grains, when we exported them. Prior to any large shipment, they had their experts develop feeding trails to see what improvements they got by following our recommendations, and they also experimented with their own usage ideas. Following the success in their trials, we got orders from them. On the subsequent trips, they set up meetings with various farmers and area experts to exchange information as to how to implement the products with the local produce.

With the livestock and sheep, they held larger meetings with animal breeders and some large farmers so we could outline how we would suggest incorporating the USA genetics with the Cuban animals. They asked about how to care for them and what health regimes that we suggested.

When we presented the idea for the animal milk replacer, the value to the calves was not the major concern, it was how much more milk would it make available, and the milk

replacer had to be able to be ready to be calf fed at a cost lower than producing the milk from the cows.

The Cubans looked at what it cost to buy the milk replacer, and compared it to what it cost to buy powdered milk for the Cuban children – we had to show and be confident that if they bought the milk replacer, that the cow's milk made available for human consumption (vs. feeding the calves) would provide an economic savings — which it did. The additional health benefits from the milk replacer calves, and extra growth was totally a bonus for them.

2. Under Raul Castro, a significant reform effort has focused on the agricultural sector. In an effort to boost food production, the government has turned over idle land to farmers and given farmers more control over how to use their land and what supplies to buy. In your interactions with Cuban farmers, what challenges do they face in order to improve their productivity gains as well as improve their business climate?

As one Cuban official told us "Prior to the special period, money was not an issue; we were keeping up to American productivity – because we had plenty of dollars. Now we have fallen behind... we don't have enough money for inputs such as fertilizer and don't have enough money for research, so we have fallen behind. They were hungry for USA management, equipment and technology to improve production.

As with every other country, the Cubans want USA advice for management, business efficiency, and mostly cash influx to help provide the basics for production improvements.

Senator Debbie Stabenow

1. How would you like to see the U.S-Cuba agricultural trade relationship develop over the next 10 years? What do you think Americans outside of agriculture should know about the importance of this evolving trade relationship to your industry and work?

Thank you to you for the invite to be a small part of this process.

I would like to see the country of Cuba treated like the other normal countries the USA interacts and trades with on a regular basis.

"It doesn't matter if you are a farmer or a government, you get more done when you are a good neighbor and communicate with each other. You don't have to like everything your neighbor does, but you need to try to be nice."

The Cubans love Americans and as they say "We speak English, watch American TV , keep track of American news, and all have family in America. Why does your government treat us this way? Sure we got money from the Soviet Union, but your government was trying to kill our President – we had no choice.

But look around you, everywhere there are signs of the impact the USA has had on our Cuban society; the only remaining impact of the Soviets – is that big ugly reminder of the USSR (the Russian embassy tower).

Senate Committee on Agriculture, Nutrition & Forestry
Opportunities and Challenges for Agriculture Trade with Cuba
 4/21/2015
 Questions for the record
Mr. Doug Keesling

Chairman Pat Roberts

1. During the hearing we heard that Cuba has been allowing increased investment by the private sector. Based on your interactions with Cuban farmers and government officials, what types of things are Cubans doing to support entrepreneurship and development of their own economy?

For a country that has been under communist rule for six decades, Cubans are remarkably entrepreneurial. As a businessman myself, I saw that in the Cuban farmers I met and the pride they took in their operations. These farmers and government officials all touted recent reforms to allow more of a private sector to develop (including passing a new foreign investment law in March of 2014), but it's obvious that there's still a lot more work that needs to be done.

There have been significant land reforms in recent decades. Eighty percent of agricultural land was once managed by the state, but private operators now farm over 70 percent. Almost 100% of tobacco farming is now done by private operators and cooperatives. In the past, there was very little ability for farmers to make their own production and marketing decisions, and private cooperatives are a relatively new opportunity for Cubans. They're state-sanctioned, and most sales must go to the government, but there is increased opportunity to sell to the private sector, including hotels and restaurants.

There is also more dialogue and input at the Municipal and Provincial level in Cuba than in the past. The farmers, through organizations like the Small Farmers Association, are able to voice their opinions and needs to the State. As the ag co-ops further develop, their needs and voice will become increasingly important and heard at the national level where policy decisions are determined. Even though most of what I saw related to the farming sector, these reforms are not limited to that sector. I think the Cubans see the writing on the wall that the old socialist system doesn't work and policies need to change. While progress is probably not fast enough for most, including most Cubans, there is no doubt that Cuba is moving in a more open market direction.

2. Under Raul Castro, a significant reform effort has focused on the agricultural sector. In an effort to boost food production, the government has turned over idle land to farmers and given farmers more control over how to use their land and what supplies to buy. In your interactions with Cuban farmers, what challenges do they face in order to improve their productivity gains as well as improve their business climate?

Cuban farmers still face a number of disadvantages, including low access to inputs and supplies in some cases, a poorly functioning internal market, and a lack of access to external markets, but the farmers themselves are resilient and resourceful, and the increasing productivity of the new cooperative structure shows that there's a lot of potential for Cubans to embrace market reforms as they happen.

The government is still fixing prices on many commodities grown in Cuba. Independent farmers and agricultural co-ops prefer to avoid this and allow the market to determine both supply and demand of their goods. This internal debate is on-going but a shift to a more open market economy is happening, albeit not as quickly as some farmers would prefer. The government is concerned about rising food costs and are trying to temper this by controlling prices, but eventually this centralized approach will diminish as the economy of Cubans improves. Farmers are increasingly demanding that they are able to both purchase goods and inputs directly from outside suppliers. They are also looking to sell their goods directly to the tourism industry without having a government intermediary. By ending the embargo, the real needs of the farming community will be realized as both the Cuban economy improves and the need for improved efficiency to meet the rising demand of the tourism industry becomes more palpable.

Ending the embargo would also be an opportunity for U.S. input suppliers as the U.S. is most natural supplier by proximity for many agricultural inputs. Within Cuba, there is little competition to provide inputs. Farmland is not being used for the most productive purposes because of trade sanctions that inhibit access to markets and internal controls that prevent a well-functioning market that can signal consumer preferences to farmers. Many of the problems are internal, but the U.S. embargo exacerbates those problems.

Senator Debbie Stabenow

1. How would you like to see the U.S.-Cuba agricultural trade relationship develop over the next 10 years? What do you think Americans outside of agriculture should know about the importance of this evolving trade relationship to your industry and work?

Over the next decade, we are likely to see significant changes in Cuban leadership as the generation steeped in the ideologies of the Cuban Revolution gives way to a younger, more pragmatic group of leaders. American farmers are eager to supply that market and develop trade ties with the Cuban people, whether via state-run retailers or in the small but growing private sector. Kansas agriculture groups have and will continue to pursue openings in that market, but the U.S. embargo hurts our ability to be effective. If that is not lifted soon, our competitors will more permanently displace us in the market and our ambition for the trade relationship will be much more limited.

Americans outside agriculture should know that U.S. farmers aren't just interested in selling wheat and other commodities. We want to see Cuba develop into a thriving market economy. A balanced, healthy Cuban economy is in the best interests of the United States and U.S. agriculture. As Cuba's economy grows, so do the opportunities for U.S. exports. We should work

to build a dynamic Cuban economy that is not dependent on one single export, but rather vibrant where the comparative advantages of both its tourism sector and educated workforce are able to prosper in the global economy. That result in an evolving trade relationship would be much better for U.S. agriculture than simply being able to export to a relatively poor population and that should be the goal of both Cubans and Americans.

Senate Committee on Agriculture, Nutrition & Forestry
Opportunities and Challenges for Agriculture Trade with
Cuba 4/21/2015
Questions for the record
Dr. Parr Rossom

Chairman Pat Roberts

1. During the hearing we heard that Cuba has been allowing increased investment by the private sector. Based on your interactions with Cuban farmers and government officials, what types of things are Cubans doing to support entrepreneurship and development of their own economy?

Both public and private financial resources in Cuba are limited. Recent changes have allowed farmers in rural and urban areas to form cooperatives to pool their fresh produce and sell directly to consumers, while retaining a share of the proceeds from these sales for themselves. Urban gardens are growing in importance in Havana and surrounding cities. There were plans to reduce government employment by up to 1,000,000 workers, but the transition to this quasi-privatization of the economy has been slowed by lack of capital for business start-ups, supplies of inputs and a concern that private capital may not be available in quantities needed or may not reach those who need financing. The food ration system has also been modified to eliminate some products from the subsidized system, making them available on the private market at much higher prices, thereby reducing the disposable incomes of most Cubans. How effective, widespread and impactful these changes have been is unclear.

2. Under Raul Castro, a significant reform effort has focused on the agricultural sector. In an effort to boost food production, the government has turned over idle land to farmers and given farmers more control over how to use their land and what supplies to buy. In your interactions with Cuban farmers, what challenges do they face in order to improve their productivity gains as well as improve their business climate?

Important needs of Cuban farmers include education and technical assistance, micro-financing and improvements in infrastructure. According to the Food and Agriculture Organization of the United Nations about 70 percent of Cuba's arable land

has low organic matter content, while 45 percent is characterized by low fertility, 42 percent has eroded and 40 is poorly drained. These soil conditions are attributed to poor land management practices, including continuous tillage, overgrazing, and inadequate or improper use of irrigation and lack of adequate drainage systems. Educational programs need to focus on basic farm management principles, along with finance and accounting, cash flow analysis, optimal input applications and marketing.

Transition from a centrally-planned economy to a more market oriented economic system makes these concepts imperative for producers to understand and apply in order to ensure that the likelihood of profitability increases and is sustained for crop and livestock operations. Technical assistance for farmers needs to include soil testing and nutrient analysis, benefits of crop rotations, rotational grazing systems, and proper use of irrigation and drainage to ensure that optimal input applications are utilized and soil structure and tilth are improved and maintained. Together, these practices will ensure near-term soil improvement and long-term maintenance of fertility to sustain higher plant yields.

Although difficult to document and precisely quantify, many farms still are tilled with oxen or antiquated tractors and other farm machinery. Micro-financing is needed to assist farmers and ranchers to make investments in implements such as tractors, cultivators and harvest equipment. Financing is also important for operational purposes to cover the cost of planting seed, inputs such as fuel, fertilizer, insect and disease control, and fungicides.

Infrastructure improvements are needed to ensure consistent, reliable electrical power, not only in rural areas, but in urban centers. Processing and handling facilities are needed for storage and the manufacture of additional processed foods. Refrigeration and cold storage are needed to maintain the quality of fresh produce, meats and dairy products. Again, both rural and urban improvements are important. Improvements in the capacities and efficiency of Cuba's port facilities will enhance imports and exports, leading to lower delivery costs, passing on price gains to Cuban farmers and cost savings to Cuban consumers. Finally, improvements in telecommunications infrastructure are needed to improve telephone service and internet connectivity, and are crucial to facilitate efficient production, storage, delivery and conditioning of raw agricultural products and processed foods as well.

While the United States was heavily engaged with the rest of the Caribbean and Latin America throughout the 1950s, 1960s and much of the 1970s through economic, military and educational support, little of this aid, or more importantly, democratic philosophy, reached Cuba in any substantive way. The exchange of scholars, students and officials can play a crucial, formative role in shaping democracy during transitional periods. When the time is right, there will be opportunities for U.S. universities to have a role in educating Cuba's next generation of farmers, agricultural leaders and scholars. Developing agriculture in Cuba that is technologically efficient and highly productive will be important to ensure the nation can sustain some of its own food needs, while developing an agricultural system that will flourish in the future. The Land Grant System of the United States is well prepared and positioned to assist in this crucial task.

Senator Debbie Stabenow

1. How would you like to see the U.S-Cuba agricultural trade relationship develop over the next 10 years? What do you think Americans outside of agriculture should know about the importance of this evolving trade relationship to your industry and work?

The U.S. – Cuba agricultural trade relationship will be crucial if trade growth between the two countries is to increase. The consistent development and implementation of policies, and effective, but facilitative regulations are likely two of the most important components of trade policy. Businesses rely on a consistent set of policies and regulations in order to make sound decisions about direction, composition and frequency of trade.

Having the reputation of a reliable supplier is very important if U.S. firms are to succeed internationally over the long run. Another important aspect of trade policy is transparency, for both the importer and the exporter. Unexpected changes or unevenly applied customs rules and regulations create uncertainty, increasing transactions costs between the two parties. As a result, both may become discouraged and seek other trading partners.

Trade policies that are facilitative and not restrictive are also important in stimulating trade. If businesses understand rules related to the shipment of fresh produce or processed foods in advance, the process is much less costly for them and the

products arrive to the final consumer in acceptable condition. Policies that are designed to move cargo through customs and inspection facilities subject to well designed and implemented regulations are much more effective at ensuring food safety and fostering trade growth.

Specific U.S. policy tools that stimulate trade are already used in many markets worldwide. The GSM (GSM) – 102 Export Credit Guarantee Program has been widely used and is highly effective at allowing U.S. exporters to operate in markets where risks are known to exist, but manageable. GSM would allow U.S. firms to export products of all types to the Cuban market. U.S. banks would be assured that if default occurs, their exposure would be limited to 98% of the value of the cargo. This will likely be an important risk management tool as the Cuban market opens and becomes more accessible to U.S. exporters. The use of letters of credit would also facilitate trade, allowing U.S. firms to have a commercial mechanism for managing credit risk. The use of a letter of credit is required with GSM, so these risk management tools are designed to complement each other.

The use of the Foreign Market Development Program would allow U.S. agricultural trade associations to promote their products directly to Cuban consumers, while simultaneously working with hotels, restaurants and grocery stores to emphasize the desirable characters of these products. Cuban consumers are knowledgeable of nutritional aspects of many foods, but will likely need education about new products that have not been in the market before. U.S. product displays in grocery stores are highly effective at stimulating sales and introducing special cuts of meats, new packaging and nutritional information to consumers.

Hotels and restaurants will require technical assistance and education about the proper care, conditioning and preparation of some U.S. food products. While colloquial cuisine is quite popular with locals and some tourists, most foreign visitors have different tastes and preferences, and often seek establishments that offer high quality meals and a wide variety of drink products. To be effective at increasing market share, U.S. foods need to be presented to both local consumers and international visitors in highly professional, well-designed promotional campaigns. The use of U.S. agricultural and food promotion programs would help ensure success in the Cuban market.

Since the early days of the United States, the strategic importance of Cuba has been recognized and debated. Whether as a gateway to the Atlantic, an economic engine in the Caribbean, a springboard to the U.S. mainland or a thoroughfare for illegal smuggling of narcotics, contraband, weapons or people, Cuba's importance cannot be overlooked and should not be underestimated. Cuba's potential as a market has been addressed, but it also has a role to play as a supplier of high quality products and materials to the United States such as tobacco, spirits, nickel and cobalt. The United States has no cobalt production and is entirely dependent on imports for supplies of this strategically crucial product. With a literacy rate of 99.8%, Cuba's workforce is the most highly educated in the Caribbean and Latin America. As a result, this highly trainable workforce will be important in shaping the future of Cuba and the entire region. Cuba, therefore, has strategic, cultural and practical importance to the United States. Whether or not we maximize the benefits of Cuba's importance to the best interests of the United States remains to be seen.

Senate Committee on Agriculture, Nutrition & Forestry
Opportunities and Challenges for Agriculture Trade with Cuba
4/21/2015
Questions for the record
The Honorable Michael T. Scuse

Chairman Pat Roberts

1. As the U.S. takes steps to re-establish diplomatic relations, what concerns do you have regarding the process to establish these ties, and its interaction with exports to and agricultural development within Cuba?

A: As part of the Administration's new approach, the President instructed the Secretary of State to undertake discussions with Cuba on the re-establishment of diplomatic relations with Cuba. Led by Assistant Secretary of State for Western Hemisphere Affairs, Roberta S. Jacobson, these discussions are ongoing. USDA looks forward to the re-opening of the U.S. Embassy in Havana.

Separately, the Treasury Department revised its Cuban Assets Control Regulations in January to implement other parts of the President's December 17 announcement. While exports of U.S. agricultural commodities to Cuba had already been authorized for some time, Treasury's amended regulations modify the regulatory definition of the term "cash-in-advance." It is now "cash before transfer of title to, and control of, the exported items to the Cuban purchaser," rather than "cash before shipment." This will reduce the time between payment for and delivery of agricultural commodities to Cuba. Agricultural exporters sought this change to improve the efficiency of such transactions.

Additionally, the Commerce Department's amended Export Administration Regulations, expand the number of items eligible for export to Cuba. These items, under license exception, including tools and equipment for private sector agricultural activity, can assist agricultural development within Cuba.

Despite these measures, statutory prohibitions remain on providing certain assistance and credit guarantees for exports to Cuba. I would echo the President's call for Congress to begin the work of ending the embargo. Doing so will help a greater number of American farmers export their products to Cuban consumers.

Senator Debbie Stabenow

1. Based on conversations I've had with producers from Michigan and nationwide, I feel comfortable saying that farmers and ranchers overwhelmingly stand behind the President's effort to expand trade relations with Cuba. They welcome the new rules from Treasury and Commerce because they see a compelling market opportunity just 90 miles from our shore. At

the same time, I also recognize that some of my colleagues in the Senate and House are skeptical of deeper engagement with Cuba at this time, including on agricultural issues.

So I'll ask two questions: How do the rules released by the departments of Treasury and Commerce, especially as they pertain to agriculture, help advance our national goals for Cuba? How is agriculture a smart vehicle for advancing relations with Cuba?

A: With regard to the Treasury Department rules, its Office of Foreign Assets Control published amended regulations to implement policy changes to ease agricultural exports to Cuba. The regulatory changes resulted in a more efficient, less burdensome payment requirement and process for sales of U.S. agricultural products to Cuba. These changes – which revised the regulatory interpretation of the statutory term “cash-in-advance” and authorized U.S. banks to establish correspondent accounts at Cuban banks to facilitate authorized transactions – should improve the speed, efficiency, and oversight of authorized payments between the United States and Cuba. These changes had been sought by members of the U.S. agricultural community and have the potential to expand U.S. agricultural sales to Cuba.

In addition, the Department of Commerce made changes authorizing expanded exports under license exception to empower the nascent Cuban private sector. Items authorized for export under license exception include certain building materials for private sector construction of privately-owned buildings, items for use by private sector Cuban entrepreneurs, and equipment for private sector agricultural activity. These changes will facilitate for Cuban citizens' to access certain items to improve their living standards and help Cubans obtain greater economic independence from the state. Ultimately, these regulatory changes will help expand choices for Cuban consumers and build a larger customer base in Cuba for American business, which also benefits America's farmers and ranchers.

While these steps have been taken, statutory prohibitions remain on providing United States government assistance, U.S. export assistance, and any U.S. government credit or guarantees for agricultural exports to Cuba. I would echo the President's call for Congress to begin the work of ending the embargo. Doing so will help a greater number of American farmers export their products to Cuban consumers.

2. One of the less talked about but very important things USDA does on behalf of U.S. producers is providing technical assistance to our trading partners. This direct engagement with governments and international organizations helps to solve trade problems as they arise and helps build the accountability necessary to foster strong trade relations. USDA personnel are not currently authorized to engage in these technical assistance conversations with Cuba.

If such technical assistance were authorized, could you please describe for the committee how

these activities would make Cuba a stronger trading partner for the United States? How would this engagement benefit U.S. producers?

A: USDA assists developing countries in strengthening their capacity to participate in the global trading system through trade capacity building and agricultural productivity programs. By helping countries to develop and implement transparent, science-based regulations and increase understanding of the U.S. regulatory system, USDA agencies, led by the Foreign Agricultural Service, expand global access to U.S. agriculture. USDA programs assist countries to increase agricultural productivity; improve natural resource management; build institutional capacities to better regulate animal and plant health and food safety issues and provide other government services; and strengthen institutional research capabilities and scientific collaboration. Expanding U.S. agricultural exports is a top priority, particularly through programs that connect U.S. agricultural exporters to potential customers participating in trade and scientific exchanges, such as the Cochran and Borlaug Fellowship Programs, and USDA overseas trade missions.

USDA has successfully implemented mutually beneficial trade capacity building and technical assistance programs in a number of Caribbean countries. For example, in the Dominican Republic (DR), USDA has been actively engaged with strengthening that country's agricultural sector. We have established relationships with regulators who adopt U.S. best practices and science-based approaches to permitting entry of agricultural products, which ensures a level playing field for U.S. producers attempting to access the DR market. For example, USDA has worked to enhance the DR's capacity to trade under the Dominican Republic-Central America Free Trade Agreement (CAFTA-DR). Over 700 Dominican officials have been trained on subjects such as improving customs procedures, protecting intellectual property rights, and standardizing sanitary and phytosanitary (SPS) requirements for animal and plant health and food safety systems.

I would echo the President's call for Congress to begin the work of ending the embargo. Doing so will help a greater number of American farmers export their products to Cuban consumers.

Senator Gillibrand

1. The US has been a significant exporter of agricultural products to Cuba since 2001 but most of these products have been poultry, corn, and soy products. There are a number of fruit, vegetable, and food manufacturers in New York, and I imagine many other states, that are keenly interested in the opportunity to export their products to Cuba. As a matter of fact, one of the earliest trade delegations to Cuba included New York apple growers and the first shipment of New York apples was sent to Cuba in 2002.

Given that there can be no direct government support for US exporters to Cuba, can you describe what tools, if any, are available to you for Specialty Crop growers that are interested in

pursuing export opportunities to this new market? What tools would you require to be most effective in advocating for our growers and producers?

A: As you suggest, U.S. government agencies – including USDA – remain prohibited by statute from providing certain assistance and credit/ guarantees for agricultural exports to Cuba. These restrictions apply to USDA's cooperative market development programs, such as the Market Access Program (MAP) and the Foreign Market Development (FMD) program. Under these market development programs, organizations, including those representing specialty crops producers, partner with USDA to increase exports throughout the world. USDA's MAP and FMD programs have both proven highly effective. An independent study released in 2010 found that trade promotion programs like MAP and FMD provide \$35 in economic benefits for every dollar spent by government and industry on market development. Moreover, grants under USDA's Technical Assistance for Specialty Crops program are also unavailable. This Farm Bill program for addressing foreign phytosanitary and technical barriers to specialty crops exports cannot be used to address Cuban market issues. I would echo the President's call for Congress to begin the work of ending the embargo.

Senate Committee on Agriculture, Nutrition & Forestry
Opportunities and Challenges for Agriculture Trade with Cuba
 4/21/2015
 Questions for the record
Mr. John Smith

Chairman Pat Roberts

- 1. In Acting Director Smith's testimony, he states that, "OFAC has issued new general licenses and expanded existing authorizations for travel-related transactions and other transactions incident to the exportation to Cuba of authorized goods...consistent with the Commerce Department's licensing policy." Are OFAC's recent actions limited by the Commerce Department's licensing policies? Would future action by OFAC regarding licenses and transactions be dependent upon the statutory authorization of change regarding Commerce licensing?**

Answer:

OFAC does not act under Commerce legal authorities. However, in light of Commerce's important role in authorizing the exportation of items to Cuba, OFAC policies related to licensing activities associated with the exportation of items are generally coordinated with Commerce.

Additionally, certain transactions that OFAC has authorized complement authorizations made by Commerce. For example, an OFAC general license authorizes transactions ordinarily incident to the exportation of items from the United States or reexportation of 100% U.S.-origin items from a third country to Cuba, provided the Commerce Department has licensed or otherwise authorized the export transaction. (See 31 C.F.R. 515.533). Another OFAC general license authorizes the exportation or reexportations of services, including to install, repair, or replace items exported or reexported to Cuba pursuant to a Commerce authorization, for consumer communication devices. (See 31 C.F.R. 515.578).

- 2. How are enforcement mechanisms different now than prior to the President's orders? How are you working with U.S. stakeholders to educate how these regulatory changes are being implemented?**

Answer:

OFAC's enforcement mechanisms have not altered since the President's announcement. We continue to diligently advocate compliance with, and enforcement of the Cuba sanctions program, and take actions against violators as appropriate. As with other general licenses OFAC has issued in the past – including those that previously existed and continue to exist in the Cuba sanctions program – the regulations continue to require individuals and entities relying on those authorizations to ensure their own compliance with the requirements of the applicable general license. Violations of the regulations or any license requirements are subject to civil and criminal penalties. OFAC gathers information regarding potential violations from a variety of sources, including for example, blocking reports received from financial institutions; information from other law enforcement agencies, including Customs and Border Protection; tips from the public; and voluntary self-disclosures. We have a full

Senate Committee on Agriculture, Nutrition & Forestry
Opportunities and Challenges for Agriculture Trade with Cuba
4/21/2015
Questions for the record
Mr. John Smith

range of tools to enforce sanctions regulations and, where appropriate, OFAC may make referrals to criminal law enforcement authorities.

A key component of our enforcement posture is ensuring our regulations are clearly understood. OFAC is actively engaged in outreach efforts to educate key U.S. stakeholders and the general public on how our recent regulatory changes are being implemented. Specifically, OFAC has addressed queries from and provided briefings to trade groups as well as the Chamber of Commerce, and a number of Industry Trade Advisory Committees (ITAC) under the auspices of the Department of Commerce and the Office of the U.S. Trade Representative, among others. We also convened our annual symposium on May 11, 2015 during which a dedicated panel highlighted the recent regulatory changes to our Cuba sanctions program and fielded inquiries from the nearly 700 private sector participants. Also, OFAC has published a number of Frequently Asked Questions (FAQs) on its website to address questions regarding the implications of the recent regulatory amendments. OFAC intends to issue additional FAQs to provide further clarification as needed. As is common when OFAC issues substantial regulatory amendments, there has been significant interest in the regulatory changes. To address that interest, our staff has also fielded hundreds of inquiries from the public, private industry, and trade groups through our Compliance hotline, our Licensing hotline, and applications for specific licenses and guidance. We continue to devote the necessary resources to outreach regarding the changes, and we will continue our enforcement as appropriate.

Senate Committee on Agriculture, Nutrition & Forestry
 Opportunities and Challenges for Agriculture Trade with Cuba
 4/21/2015
 Questions for the record
Mr. John Smith

Senator Debbie Stabenow

1. **Based on conversations I've had with producers from Michigan and nationwide, I feel comfortable saying that farmers and ranchers overwhelmingly stand behind the President's effort to expand trade relations with Cuba. They welcome the new rules from Treasury and Commerce because they see a compelling market opportunity just 90 miles from our shore. At the same time, I also recognize that some of my colleagues in the Senate and House are skeptical of deeper engagement with Cuba at this time, including on agricultural issues.**

So I'll ask two questions: How do the rules released by the departments of Treasury and Commerce, especially as they pertain to agriculture, help advance our national goals for Cuba? How is agriculture a smart vehicle for advancing relations with Cuba?

Answer:

The recent regulatory changes implement the Administration's new direction with Cuba. The changes are also intended to directly benefit both American exporters and the Cuban people. The regulatory change to the interpretation of the statutorily-mandated financing requirement "cash in advance" should ease a limitation that American exporters had viewed as curbing their opportunities to export American agricultural and other products to Cuba. Increased American exports of agricultural products should afford the Cuban people greater product choice while concurrently increasing American exporters' interactions with the Cuban people. As the President has said, nobody represents America's values better than the American people, so this increased interaction serves as a mechanism for advancing the President's policy goals, including advancing relations with the Cuban people.

OFAC also generally authorized remittances to certain individuals and independent non-governmental organizations in Cuba for humanitarian projects, including those related to agricultural and rural development, support for the Cuban people, and the development of private businesses in Cuba, with no limitation on the amount. These changes are intended to facilitate the flow of authorized funds directly to the Cuban people. This increased access to funds should significantly benefit the Cuban people, as remittances are one of the primary sources of income for many Cubans. Increased remittances will afford individual Cubans increased financial resources with which to purchase American-produced agricultural goods and develop more private economic activity.

Senate Committee on Agriculture, Nutrition & Forestry
Opportunities and Challenges for Agriculture Trade with Cuba
4/21/2015
Questions for the record
Mr. John Smith

Senator Gillibrand

1. In its 2007 report, the US International Trade Commission showed significant opportunities for agricultural exports that could result from improved trade with Cuba, particularly through the easing of travel and financial restrictions. Some of the most in demand products would be fresh fruits and vegetables, dairy, beans, and processed foods. In this, and subsequent reports, the need for improved financing terms is identified as central to growing US agriculture exports.

Do you think the recent changes made by the Administration will enable our exporter to achieve this potential without additional modifications to policy requiring Congressional action?

Does the Administration have additional opportunities to increase levels of engagement without violating the Trade Sanctions Reform and Export Enhancement Act (TSRA) or other components of the embargo?

Answer:

The recent regulatory changes expand the financing provisions of the Cuban Assets Control Regulations, and, based on feedback OFAC has received from U.S. exporters, it should allow America's agricultural exporters to be more competitive in selling their products to Cuba. The modification to the regulatory interpretation of the statutory term "cash in advance," to mean that payment from the Cuban purchaser is required prior to transfer of title to and control of the goods, reflects OFAC's effort to provide exporters with additional flexibility consistent with the statutory financing restriction on agricultural exports to Cuba. TSRA continues to impose restrictions on U.S. exporters from offering financing inducements, such as loans, for authorized agricultural exports. This limitation that may prevent them from being as attractive to Cuban importers as third-country competitors.

OFAC has made the regulatory changes necessary to implement the sanctions policy changes announced by the President in December. We are not in a position to speculate on future policy changes.

2. So much of the commerce between States relies on access to the internet and the ability of individuals to communicate and share documents directly.

You mentioned that in order for the actions taken by the Administration to have a significant impact on US-Cuba agricultural trade, the Cuban government must be receptive to such actions. How are you working with the Cuban government to permit access to more adequate and efficient telecommunications technologies that permit enhanced trade opportunities?

Senate Committee on Agriculture, Nutrition & Forestry
Opportunities and Challenges for Agriculture Trade with Cuba
4/21/2015
Questions for the record
Mr. John Smith

Answer:

OFAC defers to the State Department with regard to interactions with the Government of Cuba. OFAC has provided, and intends to continue to provide, support to the State Department to ensure the recent regulatory changes can be successfully implemented on the Cuban side to the fullest extent possible.

