Cuba has market potential for Minnesota

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The island nation needs what Minnesota is selling.

Fairmont farmer Lawrence Sukalski remembers standing in Havana harbor in 2002 only a few months after Hurricane Michelle had devastated much of Cuba.

“I was one of three farmers that was with Cargill to witness the first U.S. grain in 40 years to come to the shores,” he said.

Sukalski, who grows corn and soybeans in southern Minnesota’s Martin County, said he was pleased at the time to help people in desperate need of food, and he’s equally happy that the U.S. is now moving toward normalizing relations with Cuba.

“Without question, this is going to be an opportunity for us to move our grains and our oils and probably some pork and beef,” he said.

The easing of economic and travel restrictions with Cuba could mean a significant bump in export sales for Minnesota farmers and agribusinesses. Food is one of the few products that has been exported to Cuba during the past decade, and the window will likely open wider during the next few years.

“Our top crops are corn and soybeans, and those are the top import items for Cuba,” said Su Ye, chief economist with the Minnesota Department of Agriculture. Ye said that Minnesota exported about $26 million in agricultural products to Cuba in 2012, and projected about $20 million for 2013.

Exports to Cuba have varied year to year, sometimes considerably, since federal law in 2001 allowed U.S. agricultural products to be exported there on a limited basis.

Cargill was one of the first companies that began selling food to Cuba, but a cumbersome payment system has been an obstacle, said Devry Boughner Vorwerk, Cargill's director of international business relations.

Cuban importers must prepay in full or use a letter of credit from a third country, since U.S. banks are not allowed to finance agriculture sales to Cuba. President Obama's executive order signed in mid-December will remove some of those barriers, she said, but not all of them.

"We don't believe we can get on an equal footing with our competitors with the executive order," Vorwerk said. "It can only take the industry so far."

Additional changes in financing rules and lifting the trade embargo will also be needed, she said.

A $20 million boost

Cargill and more than 25 other companies and associations will publicly launch the U.S. Agriculture Coalition for Cuba this week. It's been in the works for much of the past year, Vorwerk said, with the goal of creating a sustained and viable market for ag products in Cuba.

U.S. Agriculture Secretary Tom Vilsack said last month that re-establishing relations with Cuba will streamline ways for Cuba to buy more American agricultural products, and that should benefit several states.

"Predictions are all over the place, but I think a conservative estimate is that [easier financing] would add $20 million in sales from Minnesota," said Ye. "It will not happen right away, but gradually it will reach that level."

Dave Torgerson, executive director of the Minnesota Association of Wheat Growers, said Cuba is one of the largest wheat markets in the Caribbean, much of it once purchased from the U.S.

"It's a big deal," Torgerson said of further opening the Cuba market, especially since the U.S. has a huge transportation advantage. "Out of the Gulf, you can load ships and it wouldn't be too long of a haul," he said.

However, retaking some of that market from competitors in South America and Asia may not be easy, said William Messina, agricultural economist at the University of Florida. In 2014, Cuba will import about $300 million worth of U.S. food products, he said, the lowest level in a decade. The main reason for the decline, Messina said, is more aggressive trading from other countries that offer easier credit and financing.

Argentina and Brazil have become strong competitors, he said, and Brazil is investing about $680 million to finance a major redevelopment in the Cuban port of Mariel.

"They ponied up some very serious money," Messina said, in addition to recent investments in Cuba's sugar industry.

Farmers have edge

Until 2009, Cuba was importing a lot of rice from the U.S., he said, but that trade has mostly dried up as Cuba found cheaper rice and more favorable credit terms from Thailand and Vietnam.

Doug Peterson, President of the Minnesota Farmers Union, does not downplay the difficulty of changing financial, legal and bureaucratic rules in both the U.S. and Cuba to facilitate more trade. But Peterson noted that agriculture has something of a head start compared to other sectors.

"There's been a lot of trade missions to Cuba in the past," he said. "The ground rules or the contacts for a lot of agricultural businesses have already been established."

Former Gov. Jesse Ventura led one of those trade missions in 2002. It was the year after trade rules between the U.S. and Cuba were partly liberalized, and Cuba began increasing its food purchases from the U.S., mostly in corn, soybeans, wheat and rice.

Those exports peaked at nearly $700 million in 2008, but have dropped to less than half of that in recent years, much of it corn, soybeans and frozen chicken.

Vorwerk said easier financing and an end to the embargo will not only be good for ag exports in the short term, but should lead to Cuban economic development in the longer term that will increase many forms of trade with the U.S.

She is optimistic that Congress will take action to lift the trade embargo, despite the emotional debate that surrounds the issue.

“I know Congress has a lot on its plate,” she said. “But we believe the [Cuba] story will start telling itself.”

Ye said that for all the excitement about future trade, Cuba is a small country of 11.3 million people, about twice the population of Minnesota. And it’s a poor country, with limited purchasing power, she said.

“There is market potential, yes,” she said. “But the size is still small.”

To illustrate, Ye noted that in 2008, the peak year for Minnesota agricultural exports to Cuba, the trade was valued at slightly more than $30 million, compared to $700 million in state ag exports that year to Mexico.

“It’s a modest market,” said Vorwerk, referring to Cuba’s population. “But it’s important and it’s close, so it’s a natural market.”