Economic Impacts of Relaxing Travel and Financial Restrictions on U.S. Exports to Cuba

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introduction

The *Trade Sanctions Reform and Export Enhancement Act of 2000* allows for the exportation of U.S. agricultural products and medicines to Cuba. Since passage of the TSREEA, U.S. agricultural and food exports to Cuba have expanded, reaching a record $709 million in 2008. During 2009, it was quite different however, as U.S. exports to Cuba declined 25 percent to $529 million. This large drop-off was attributed to a 15 percent decline in Cuba's per capita tourist earnings, a 30 percent drop in Cuban export earnings from nickel sales, and weak export sales of sugar and tobacco. Another factor is the relative high cost of U.S. products due to somewhat onerous U.S. financial requirements. U.S. exporters are not allowed to use U.S. banks to establish a letter-of-credit with ALIMPORT, the Cuban purchaser of agricultural and food products. This increases price by about 15-20 percent as a third-country bank and an extra currency conversion must be involved. Together, these factors severely limited the ability of ALIMPORT to purchase U.S. products on a cash basis.

Allowing U.S. citizens/permanent residents to travel to Cuba and U.S. firms to utilize modified financing methods will improve the U.S. competitive position in the Cuban market. New financing provisions would allow U.S. exporters to recover lost markets for rice and forest products, for example, creating new jobs and economic activity.

objectives

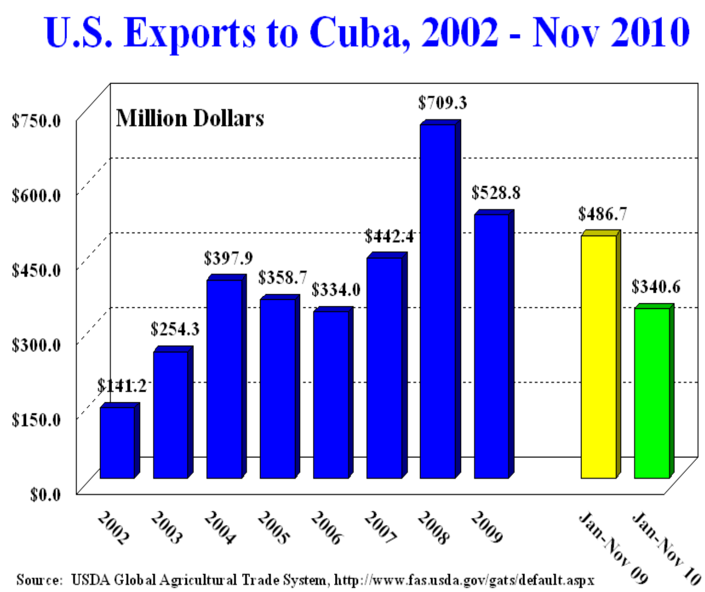
During the 111th Congress, H.R. 4645, the *Travel Restriction Reform and Export Enhancement Act*, was introduced and passed out of the House Agriculture committee. While ultimately failing to pass, the Center for North American Studies (CNAS), at the request of the Agriculture Committee, conducted analyses to estimate the growth in exports and related economic impacts throughout the U.S. economy and in selected states. This poster shares many of these results with special attention paid to the impacts of increased exports to Cuba on the South.

methodology&data

During 2007, the U.S. International Trade Commission performed a study and issued a report entitled *U.S. Agricultural Sales to Cuba: Certain Economic Effects of U.S. Restrictions*, USITC Publication 3932. In this report, the USITC estimated increases in U.S. exports to Cuba if export finance and U.S. citizen travel restrictions were eased. Their study used 2006 exports to Cuba as a baseline. CNAS updated the increase in exports to Cuba using a 2009 baseline. By applying 2008 share of production data, CNAS estimate each state's share of agricultural exports to Cuba. For both the United States and for selected states, the increased in agricultural exports were input into IMPLAN, the input/output model of the Minnesota IMPLAN Group which calculates the economic impacts on the exporting sectors and of supporting sectors. These results include direct, indirect, and induced impacts on output, valued added, and employment. The following definition apply to the IMPLAN results:

Output: Increase in Business Sales Required to Support $1 of Exports
Value Added: Additional Gross National/State Product due to $1 in Exports
Employment: Additional Employees Required for $1 Million in Exports
Direct: Sales of Output to Customers, in this case, Cuba
Indirect: Purchases of Inputs Required to Produce the Products for Sale
Induced: Expenditures by Employees and Households in the Input Industries

Figure 1 shows annual exports to Cuba from the U.S. since the implementation of TSREEA in 2000, reaching a high in 2008 before falling each of the past two years. Two reasons for this decrease include lower nickel prices and decreased tourism in Cuba.



estimated exports and economic impacts

If U.S. travel and financial restrictions are removed, up to $365 million/year in additional U.S. exports could result over the long run. The sector gaining most would be grains – rice, wheat and corn. This would represent a re-entry of U.S. rice into the Cuban market while wheat and particularly corn have maintained a strong presence in the Cuban market. Dry milk, poultry meat, a group of other agricultural products (mainly planting seeds, cotton, and fruits), and processed food products would also see a significant increase in exports. About one-third of these exports, or $122 million, are estimated to come from the South, led by Arkansas at $35.9 million and Texas at $18.3 million.

The United States will require $739 million in additional economic output and 6,000 jobs to support the increase in exports to Cuba. While U.S. agriculture is estimated to receive major economic gains from increased exports, non-agricultural sectors such as business and financial services, real estate, wholesale and retail trade, and health care are also important beneficiaries of increased exports to Cuba, receiving up to 45 percent of the gains in some cases.

As an example in Southern gains from increased exports to Cuba, the $18.3 million in additional exports to Cuba, more than half of which are grains and cotton, will require an additional $16.0 million in economic output to support for a total impact of $34.3 million. Further, a total of 320 jobs will be needed to support the economic activity related to increased exports to Cuba.

Economic Impacts of Relaxing Travel and Financial Restrictions on U.S. Exports to Cuba *(continued)*

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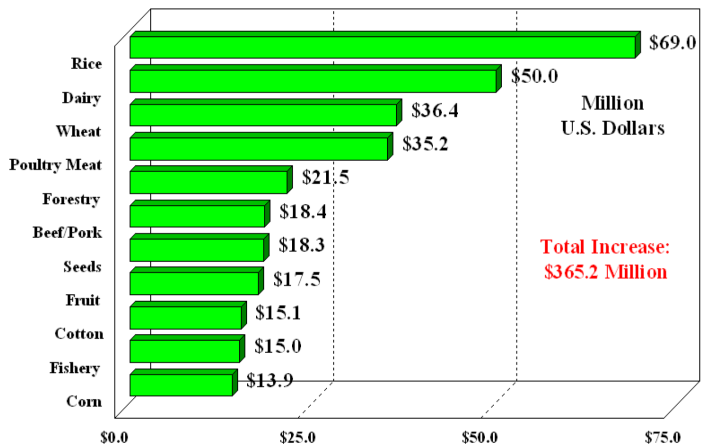
Figure 2 shows estimated increases in annual U.S. exports to Cuba if finance and travel restrictions removed

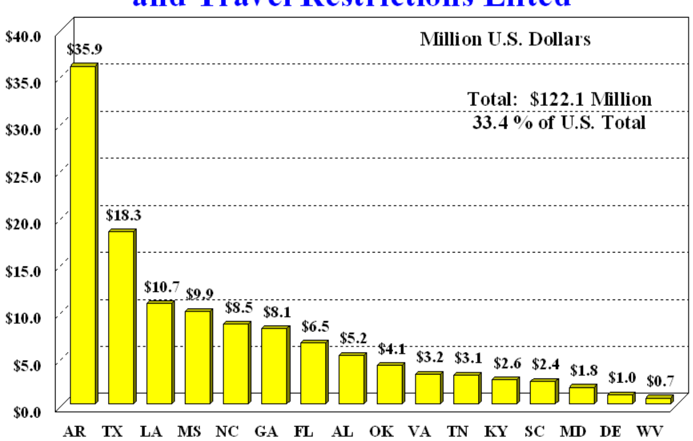
Increase in Annual U.S. Ag Exports to Cuba if Finance and Travel Restrictions Removed



Source: Foreign Agricultural Service, USDA

Figure 3 shows estimated increases in Southern exports to Cuba if finance and travel restrictions removed.

Annual Southern U.S. Ag Exports if Finance and Travel Restrictions Lifted



Source: Foreign Agricultural Service, USDA

conclusions

U.S. agricultural exports to Cuba have fallen from all-time highs in 2008 due to a variety of reasons. This poster illustrates the potential economic gains from easing finance restrictions affecting agricultural U.S. exports to Cuba and on the travel of U.S. citizens to Cuba. Not only would this most likely lead to a significant increases in U.S. and Southern exports to Cuba, there also would be numerous gains in supporting economic activity. H.R. 4645 ultimately failed during the 111th Congress, and the likelihood is very low that the 112th Congress will spend much time on this issue given the shift in control of the House and the number of tremendously difficult fiscal and political issues currently facing policy makers. Nonetheless, U.S. agricultural exports to Cuba remain legal on a cash-in-advance basis and the potential benefits to U.S. and Southern agriculture and supporting sectors are clear. As a result, Land Grant economists may wish stay informed on this issue to have the ability to share these exporting opportunities with their varied constituencies.

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Table 1 shows estimated economic impacts on Out put and Employment of increased U.S. and Texas exports to Cuba if finance and travel restrictions removed.

United States	Direct	Indirect/Induced	Total
Additional U.S. Exports *(Million $)*	$365.2	$738.9	$1,104.1
Grains	$122.7	$12.0	$134.7
Other Food and Ag	$57.5	$130.3	$187.8
Dairy Products	$50.0	$7.8	$57.8
Poultry Meats	$35.2	$4.8	$40.0
Processed Foods	$34.5	$78.2	$112.7
Top Supporting Sectors			
Other Ag Related Sectors	N/A	$92.1	$92.1
Business Services	N/A	$43.6	$43.6
Real Estate	N/A	$41.6	$41.6
Related U.S. Employment *(Jobs)*	3,104	2,900	6,004

Texas	Direct	Indirect/Induced	Total
Additional Texas Exports *(Million $)*	$18,349.0	$15,996.7	$34,345.7
Grains	$5,343.8	$79.9	$5,423.7
Cotton	$5,190.2	$183.1	$5,373.3
Beef , Pork and Products	$2,346.2	$267.5	$2,613.7
Poultry Meats	$1,859.0	$150.7	$2,009.7
Wood Products	$1,070.6	$12.0	$1,109.5
Top Supporting Sectors			
Oil, Gas & Petroleum Products	N/A	$2,051.9	$2,051.9
Real Estate	N/A	$1,946.2	$1,946.2
Other Ag Related Sectors	N/A	$1,521.2	$1,521.2
Related Texas Employment *(Jobs)*	206	114	320