



**Testimony of Jerry McReynolds
President of the National Association of Wheat Growers
before the House Committee on Agriculture
Hearing to Review U.S. Agricultural Sales to Cuba
March 11, 2010**

Chairman Peterson, Ranking Member Lucas and Members of the Committee, my name is Jerry McReynolds. I am a wheat and sorghum farmer from Woodston, Kansas, and currently serve as the president of the National Association of Wheat Growers. Thank you for holding this hearing and allowing me the privilege of coming here today to share some of my personal experiences, and the experience of the industry in which I operate, with respect to our ability to sell wheat to Cuba.

The wheat industry has long been engaged in the discussion surrounding U.S. trade policy toward Cuba. Though we do not profess to be foreign policy experts on most occasions, we do know enormous amounts about selling wheat around the world, and, in an average year, we export about half of our production.

I visited the island nation of Cuba with my daughter as part of a small group of U.S. wheat producers on a 2003 educational mission. Seeing the situation first-hand was a unique experience, and we found the Cuban people warm and very open to discussing "American life". We also saw that Cuban farmers lacked the tools, equipment and supplies that they needed to produce their own food. Planting and harvesting equipment was outdated and in ill-repair, and most farmers there cultivated small gardens by hand, leaving the oxen for use in larger fields. And we learned that Cuba has to import wheat for all of its consumption needs.

As a part of this mission, our group had the opportunity to meet with Pedro Alvarez, the head of Alimport, Cuba's food import company. Mr. Alvarez expressed to us a sincere eagerness to purchase Kansas wheat, recognizing both the quality of our product and the country's need for it. In fact, he held a pen in hand, ready to sign an agreement to buy U.S. wheat, but was simply unable due to our country's restrictive policies.

My take-home message from this trip was this: The Cubans want and need our wheat. However, current policy with respect to agricultural trade and travel with Cuba is unnecessarily impeding U.S. sales of wheat to the island nation.

Cuban Market Potential

With no domestic production of wheat, Cuba is the largest importer of wheat and wheat products in the Caribbean. Over the past three years, Cuba's population of 11.4 million consumed on average 800,000 metric tons (MT) of wheat per year, and the nation's grain consumption is increasing, driven by both population and income growth. Despite three hurricanes and a global economic crisis, Cuba's economy grew 4.3 percent last year. Five new pasta plants have been built, a flour mill doubled in capacity and a new milling facility has been built.

Despite this news of recent economic growth, the fact hasn't changed that Cuba remains reliant on agricultural imports. With no resources available to purchase fertilizer or pesticides, it's my understanding that the Cuban government is now relying on small organic farms for food production. While a respectable and novel approach to solve Cuba's food needs, these farms are simply too small and production techniques too limited to produce enough food on a large scale to sustainably feed Cuba's growing population. Bottom line: the Cubans need wheat and will continue to source it where it is most competitive.

Impact of Trade and Travel Restrictions on U.S. Wheat Sales to Cuba

The U.S. should be able to boast maintaining a lion's share of the growing Cuban wheat market just as we do elsewhere in the Caribbean. Instead, we have maintained roughly 38 percent of the market compared to an 85 percent share in other Caribbean nations. A 2007 report by the U.S. International Trade Commission (ITC) indicates that the U.S. could hold 65 percent of the Cuban market if the financial and travel restrictions were removed, contributing an additional \$34 million dollars of exports. We would argue our market share could, and should, reach closer to 85 percent, contributing closer to \$100 million in new market gains.

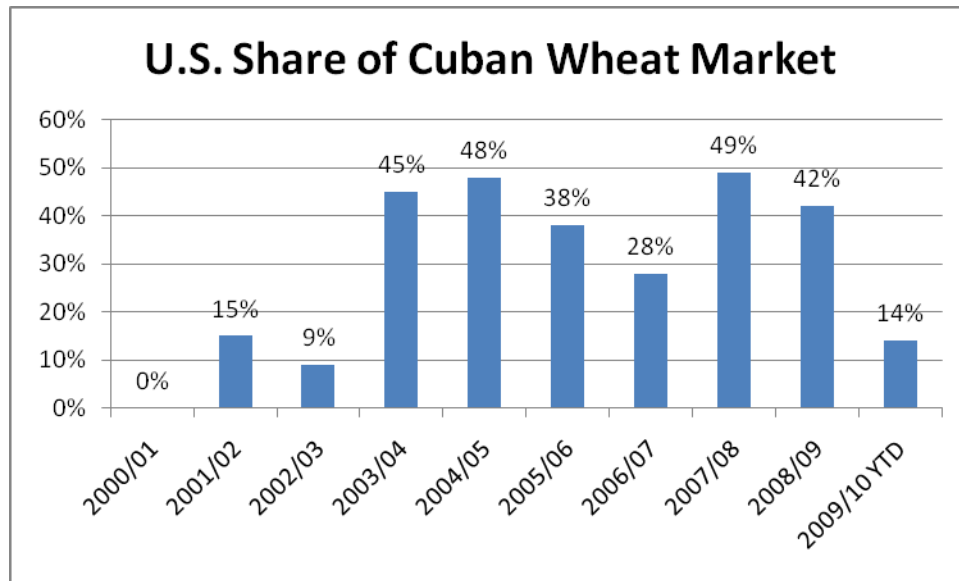
While Cuba's proximity to major U.S. export facilities gives the U.S. a clear competitive advantage on transportation and logistics, and we continue to boast a product of superior quality, our European Union, Canadian and Argentine competitors continue to hold a significant portion of the Cuban market due to their more favorable trade terms.

Despite our clear competitive advantage in the country, our unrealized market share can be attributed largely to the financing and travel restrictions in place that are not constraining the ability of our competitors to sell their product to Cuba.

As background, the wheat industry has been allowed to sell into the Cuban market since the Trade Sanctions Reform and Export Enhancement Act (TSRA) took effect in 2001. On Feb. 22, 2005, the Treasury Department's Office of Foreign Assets Control (OFAC) amended the regulations regarding payment to sellers. The change required cash payment in advance or letters of credit from a foreign third-party financial institution on all agricultural commodity sales to Cuba. This change meant that exporters would have to receive payment before the shipment even leaves port for Cuba. This put an end to the ability of Alimport, Cuba's food import agency,

to directly pay sellers upon arrival of the shipment, as is consistent with normal business practices, and quickly depressed our sales into the market.

After payment rules were amended, wheat sales to Cuba dropped more than 25 percent in marketing year 2006, to only 28 percent of the Cuban wheat market. Sales rebounded the following two years, driven largely by global economic concerns, but have again fallen sharply this past year.



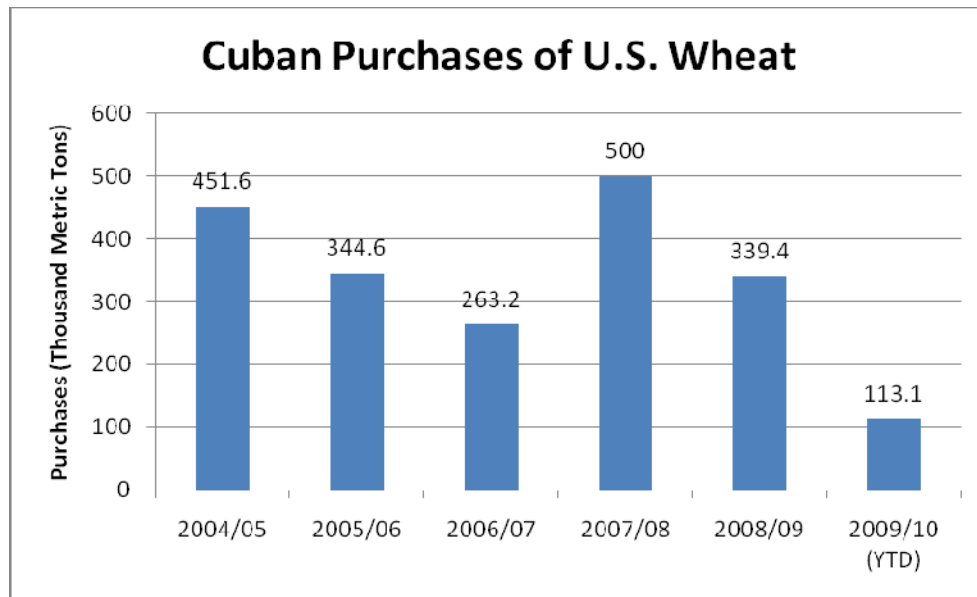
* USDA Production, Supply and Distribution database

The 2007 ITC report stated that the new financial regulations have “had a substantial negative effect on the sale of agricultural products to Cuba.” Easing the payment restrictions will allow U.S. wheat growers to capitalize on several comparative advantages in regards to wheat exports. Proximity provides a logistical and price advantage for U.S. growers. Freight rates from U.S. ports to Cuba are about 33 percent less than rates from Europe and significantly less than from Canada. Domestic storage and internal infrastructure require Cuba to purchase smaller shipments that arrive exactly on schedule, so a limited transit time is particularly crucial in this market; a shipment from U.S. ports takes a matter of days as compared to 25 days when shipped from Brazil. Other competitive advantages that could be enjoyed by U.S. growers include world-class marketing capabilities and the handling capacity of U.S. ports.

Despite these clear competitive advantages, Cuba will look to other sources for their food needs while financial and travel restrictions are still in place. This threat of continued diminishing market share has hit home this year more powerfully than ever, as current year wheat sales to the country are less than a third of where they should be.

This year’s sales into the Cuban market are down 65 percent, totaling 113,100 metric tons versus 357,700 metric tons for the same time period in the 2008/09 marketing year. The entire

113,100 metric tons has already been shipped, and there are no outstanding sales on the books to load out. Moreover, the Cubans do not have the budgetary resources to make any more purchases from the U.S. this year, virtually handing the market to our Canadian and European Union competitors who will offer them credit.



*Data from USDA's Foreign Agricultural Service

The current year's dire sales situation highlights an often-overlooked reason for our declining sales levels. In addition to the cumbersome and cost-prohibitive environment created by our restrictive financing terms, another significant reason cited for these declining sales levels is Cuba's lack of cash, which U.S. law requires *in advance* for purchases of food and medicine. This only encourages Cubans to go to our competitors, such as Canada, where they can access lines of credit to purchase their wheat.

Though we recognize the challenges associated with offering lines of credit to the country and are, therefore, not advocating any movement in that direction, it is important to recognize that there is something more reasonable that can be done to infuse cash into the country to enable them to purchase our agricultural products – lift the ban on travel.

Removing the restrictions on agricultural trade alone will not be enough to maintain (or restore) our ability to sell wheat into the Cuban market. This is why we support coupling these changes with a lifting of the travel ban. Coupled with eased trade restrictions on agricultural exports, increased travel to Cuba will boost food demand in the country which U.S. growers will be able to fulfill. And, as cited above, it will also bring much needed funds to citizens of Cuba for purchase of U.S. commodities.

The Time is Right for Legislative Action

A number of bills have been introduced to clarify the payment rules and ease travel restrictions hamstringing our ability to sell wheat to Cuba. Countless attempts have been made in annual appropriations processes to include language to resolve some of these longstanding issues. Just recently we have begun to see some positive movement, signaling the time is right for some real, meaningful change.

The Omnibus Appropriations Act of 2009 amended the TSRA to permit travel related to commercial marketing, sales negotiation, accompanied delivery or servicing of agricultural commodities. The FY2010 Financial Services Appropriations bill clarified that “payment of cash in advance” should be interpreted to mean payment of cash when the buyer takes physical possession of the product rather than prior to it leaving U.S. ports. These both were positive steps, but we need more than temporary fixes; we need a permanent solution.

The Travel Restriction Reform and Export Enhancement Act (H.R. 4645) sponsored by House Agriculture Committee Chairman Collin Peterson and Rep. Jerry Moran would be a great catalyst to providing an opportunity for significant new sales of wheat to Cuba, boosting income in the U.S. heartland and adding critical resources to the U.S. economy.

This legislation will eliminate the need to go through third country banks to conduct a normal business transaction, thereby eliminating the added cost of doing business that is currently hindering sales and decreasing the competitiveness of U.S. wheat. It will also permanently clarify the “payment of cash in advance” provision and bring it in line with the requirements of exports to other countries. Thirdly, the legislation will allow all U.S. citizens freedom of travel to Cuba, reducing the red tape for us as farmers and agricultural trade associations to make sales to the country. This will also allow us to conduct the technical and trade servicing activities that we conduct as part of our export development business around the world resulting in an increased demand for our exports to feed the growing number of visitors to Cuba.

As important as it is to recognize what this legislation would accomplish, it is equally beneficial to clarify what it does NOT do. The legislation does not lift the embargo on the country. It does not allow Cuba to export their products to the U.S., nor does it change the travel restrictions for Cubans to visit the U.S. It does not even allow us to extend credit to the country.

The legislation simply would make incremental changes that would allow the U.S. farmer the ability to conduct more normal business functions with a country that needs our agricultural goods to feed its people.

Existing policies that impede travel and sales of agricultural products to the nation seem to serve no function other than to decrease our sector’s competitiveness. Canada, Argentina and even the European Union all have access to the Cuban market and are taking market share that should be ours.

At a time when our economy needs every possible boost, and when President Obama has made a popular pledge to double U.S. exports, I would contend there is no better time than to re-examine just why exactly we are being outcompeted in a market just 90 miles off our shore.

The time is right for the U.S. to consider incremental, common-sense policy changes that would enable our industry to realize the full potential of the Cuban market.

Conclusion

I, a Kansas farmer, recognize that many are tied to maintaining our current policy toward Cuba at all costs. My question to them is this: to what end? If the goal in maintaining our policy is to affect change in the nation, perhaps it is time to re-evaluate the means to achieving that end. Let's start on a small, incremental scale by re-evaluating the restrictions placed on agricultural trade and travel.

I would like to thank Chairman Collin Peterson and Congressman Moran, as well as other Committee Members here today who have long been champions of making these incremental improvements and common-sense changes to our policy. I would respectfully urge the rest of the committee and others in Congress to help us achieve this long-awaited change by supporting H.R. 4645, the Travel Restriction Reform and Export Enhancement Act.

Thank you for the opportunity to testify today on behalf of our nation's wheat growers.

Jerry McReynolds

President

National Association of Wheat Growers



Jerry McReynolds lives south of Woodston, Kan., where he produces wheat, sorghum for grain and forage, corn and soybeans. He also operates a commercial cow herd, including backgrounding and finishing.

Before becoming a NAWG officer, Jerry served as chairman of the NAWG Environmental Policy Committee and as a member of NAWG's Domestic Policy, Nominating and Budget Committees and the NAWG/U.S. Wheat Associates Joint Biotechnology Committee.

Additionally, Jerry has held several leadership positions in the Kansas Association of Wheat Growers, including all of the officer chairs. As KAWG president, he helped start the Kansas Farm Bill Coalition, the first of its kind. He was also involved in the process that culminated in Kansas Wheat, the cooperative agreement between KAWG and the Kansas Wheat Commission.

Outside of the wheat industry, Jerry was elected to the Kansas Farm Bureau Board of Directors in 1998, representing the sixth district. Jerry has served for more than two decades on the Rooks County Conservation District Board, including as president, and has acted as district supervisor. He has also chaired the research committee of the Kansas Association of Conservation Districts and served for 12 years on the board of his local cooperative.

Jerry has also served several years on the Rooks County and Kansas Extension Boards, including time as president of both organizations. He has held the presidency of the Kansas Extension Advisory Council and Kansas Citizens for Extension Education (KCEE), and he is an appointed member of the Kansas Rural Life Task Force. He also serves as a director of an ag community bank, Farmers Bank of Osborne, and is active in his church and choir.

Jerry holds a bachelor's degree in agricultural economics from Kansas State University. He has participated in the Kansas Agricultural and Rural Leadership Program and in NAWG's Wheat Industry Leadership of Tomorrow (WILOT) program.

He and his wife, Diane, have three grown children that Jerry describes as "their best crops". In 2003, Jerry and Diane were the recipients of the Kansas Master Farmer and Master Farm Homemaker Award, given by the Kansas Cooperative Extension Service and *Kansas Farmer* magazine.

Committee on Agriculture
U.S. House of Representatives
Required Witness Disclosure Form

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2007.

Name: Jerry McReynolds
Address: 1757 Bird Woodston Ky 67075
Telephone: 785-994-6261
Organization you represent (if any): National Association of Wheat Growers

1. Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2007, as well as the source and the amount of each grant or contract. House Rules do NOT require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:

Source: NA Amount: _____

Source: _____ Amount: _____

2. If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 2007, as well as the source and the amount of each grant or contract:

Source: NA Amount: _____

Source: _____ Amount: _____

Please check here if this form is NOT applicable to you: _____

Signature: Jerry McReynolds

* Rule XI, clause 2(g)(4) of the U.S. House of Representatives provides: Each committee shall to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by any entity represented by the witness.

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.