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**Before the International Trade Commission  
Investigation No. 332-489  
*U.S. Agricultural Sales to Cuba: Certain Economic Effects of U.S. Restrictions***

**Written testimony submitted by  
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and  
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In accordance with a federal register notice dated April 2, 2007, we submit this testimony on behalf of the previously named organizations and their members.

U.S. wheat growers export approximately 50 percent of their wheat crop every year. As a trade-dependent industry, growers rely on the ability to open and expand international markets. Cuba, with no domestic wheat production, represents substantial potential for U.S. wheat growers. Cuba's 11.4 million people consumed an average of 890,000 metric tons (MT) of wheat per year over the past ten years and an average of about 800,000 MT per year over the past three years<sup>1</sup>. In fact, according to USDA's Foreign Agriculture Service (FAS), Cuba is the largest importer of wheat and wheat products in the Caribbean.<sup>2</sup>

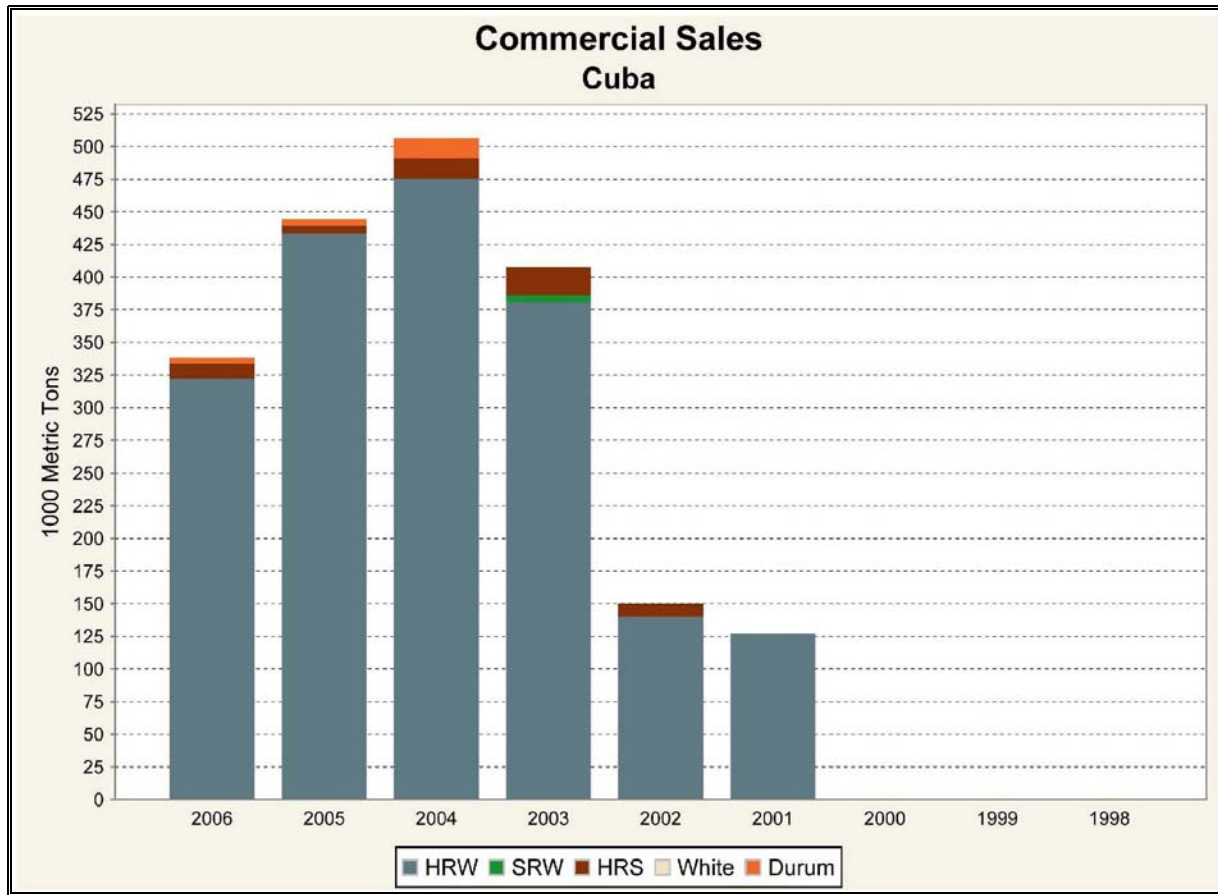
To allow U.S. growers to take advantage of this market opportunity, the U.S. wheat industry has repeatedly recommended both to Congress and the Administration that trade with Cuba should be normalized and travel restrictions to and from Cuba should be lifted. Progress began on this front in 2000 when Congress passed the Trade Sanctions Reform and Export Enhancement Act (TSRA). Under that legislation, U.S. producers were able to sell their wheat through effective and familiar cash payment terms. Alimport, Cuba's food import agency, paid cash for each wheat shipment as the vessel sailed from a U.S. port.

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<sup>1</sup> Foreign Agricultural Service, United States Department of Agriculture

<sup>2</sup> Foreign Agricultural Service, United States Department of Agriculture,  
<http://www.fas.usda.gov/info/factsheets/cuba/wheat.html>

However, on February 22, 2005, the Treasury Department's Office of Foreign Assets Control (OFAC) amended the regulation to require Cuba to obtain and present letters of credit from a third-party, foreign bank, with the cash payment coming from the bank, not directly from Alimport. The change has slightly increased the cost of buying U.S. wheat, but added an excessive and unnecessary administrative burden for Alimport that has had the largest effect on U.S. export potential. After the payment rules were amended, the volume of U.S. wheat sales to Cuba dropped more than ten percent in Marketing Year (MY) 2006. Year-to-date volume sales indicate an even bigger drop in MY 2007. The chart below shows the impact on wheat exports since the 2005 OFAC ruling.



**Commercial Sales of U.S. Wheat to Cuba by Class and Crop Year.** Commercial sales include wheat inspected by the Federal Grain Inspection Service and outstanding sales.

Source: USDA - FAS - Weekly Export Sales Report

The U.S. wheat industry has a well-established interest in the Cuban market. The industry began organizing humanitarian donations of wheat flour to Cuba as early as 1998 and has established relationships with bakers and millers through that process. So, when a devastating hurricane hit Cuba in 2001, the U.S. wheat industry began exporting wheat to Cuba under TSRA and quickly began establishing market share. Over the period from 2001 to 2006, wheat was the third largest agricultural export to Cuba by value<sup>3</sup>; for MY 2006, it was the largest agricultural export by value, or about 15 percent of total U.S. exports to Cuba.<sup>4</sup>

Wheat is not a one-size-fits-all commodity. The six classes of wheat grown in the U.S. have unique characteristics that meet the dynamic needs of buyers, millers, wheat food processors and, ultimately, consumers. In addition, U.S. wheat quality and variety is superior for the types of end-products produced. While Cuba has purchased mainly hard red winter or “bread” wheat grown in the Plains, we have supplied four different wheat classes to fulfill the range of demand. No other supplier offers Cuba more choices. In addition, in recent years Cuba has doubled the capacity of a new flour mill near the port of Havana, built five new pasta plants and built a 20,000 MT capacity facility to mill durum wheat into semolina to supply its pasta manufacturing industry.<sup>5</sup>

Proximity alone should also provide a competitive logistical and price advantage for U.S. growers. For example, ocean freight rates for the three-day sail from the U.S. Gulf to Cuba are about 33 percent less than rates from Europe and significantly less than from Canada. In other Caribbean wheat markets, the U.S. holds an 85 percent market share. In Cuba – where the only additional market variable is our own trade restriction – the U.S. has a market share of less than 50 percent. Over the past ten years, Cuba has imported more wheat from the European Union (EU) than from any other country<sup>6</sup>. The U.S. is clearly losing sales to competitors in the less economical origins of the EU, Canada and Argentina.

Easing of the travel restrictions would help to put the wheat industry on a more level playing field. Our competitors continue to have an easier time traveling to Cuba and, while our growers do participate in trade missions when allowed by the federal government, the restrictions can make doing so very difficult. Having greater access to stakeholders in Cuba is an important part of U.S. wheat growers’ ability to increase market share.

Increasing access to USDA commercial loan programs would also be helpful, but we do not believe that alone will reverse the downward trend in agriculture exports to Cuba. Cuba has access to other sources of commercial credit and adding such a resource does not reduce the administrative burdens that exist for Alimport.

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<sup>3</sup> Foreign Agricultural Service, United States Department of Agriculture, <http://www.tcta.us/CubaExportsUpdate06.pdf>

<sup>4</sup> Economic Eye on Cuba: 2006 U.S. Export Statistics for Cuba, U.S.-Cuba Trade and Economic Council, Inc., <http://www.cubatrade.org/>

<sup>5</sup> 2007 U.S. Wheat Associates, Unified Export Strategy

<sup>6</sup> U.S. Wheat Associates, Unified Export Strategy, Foreign Agricultural Service, United States Department of Agriculture, <http://www.fas.usda.gov/info/factsheets/cuba/wheat.html>

We believe that the best way to help U.S. wheat growers reach its sales potential in Cuba is to overturn the February 2005 regulation change. U.S. Wheat Associates has estimated that the lost market share in Cuba due to the current restrictions on trade and travel are, very conservatively, more than \$40 million per year. U.S. wheat growers also assert that the entire U.S. agriculture industry and the Cuban people will benefit from easing these unilateral restrictions.

We appreciate and support the efforts by many in Congress to improve relations between the U.S. and Cuba, and we appreciate the opportunity to provide this testimony. We look forward to working with you as you continue to examine this issue.

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