

*Lift the Embargo:
US Agricultural Exports to Cuba*

Cassandra Copeland
Oglethorpe College

Curtis Jolly
Auburn University

Henry Thompson
Auburn University

Summary of economic history

Excess supply/demand model of US ag exports

Free Trade with Cuba: The effects of a lifted embargo in Alabama

Curtis Jolly, Henry Thompson

Southern Economics and Business Journal (2008)

The Cuban embargo and Southeastern agricultural exports

Cassandra Copeland, Henry Thompson

Southern Economics and Business Journal (2010)

The history and potential of trade between Cuba and the US

Cassandra Copeland, Curtis Jolly, Henry Thompson

Journal of Economics and Business (2011)

Trade history

1800s US expands south to FL & eyes Caribbean
Geography favors US trade, investment, expansion

Politics does not favor another slave state

Spanish colony but regular rebellions

Effective RTA between US & Spain

Cuba exports – sugar, tobacco, tropical products, copper, iron ore



US exports – grains, meats, manufactures, vegetable oils, fuels

1800s natural resource exports

terms of trade
stochastic trend

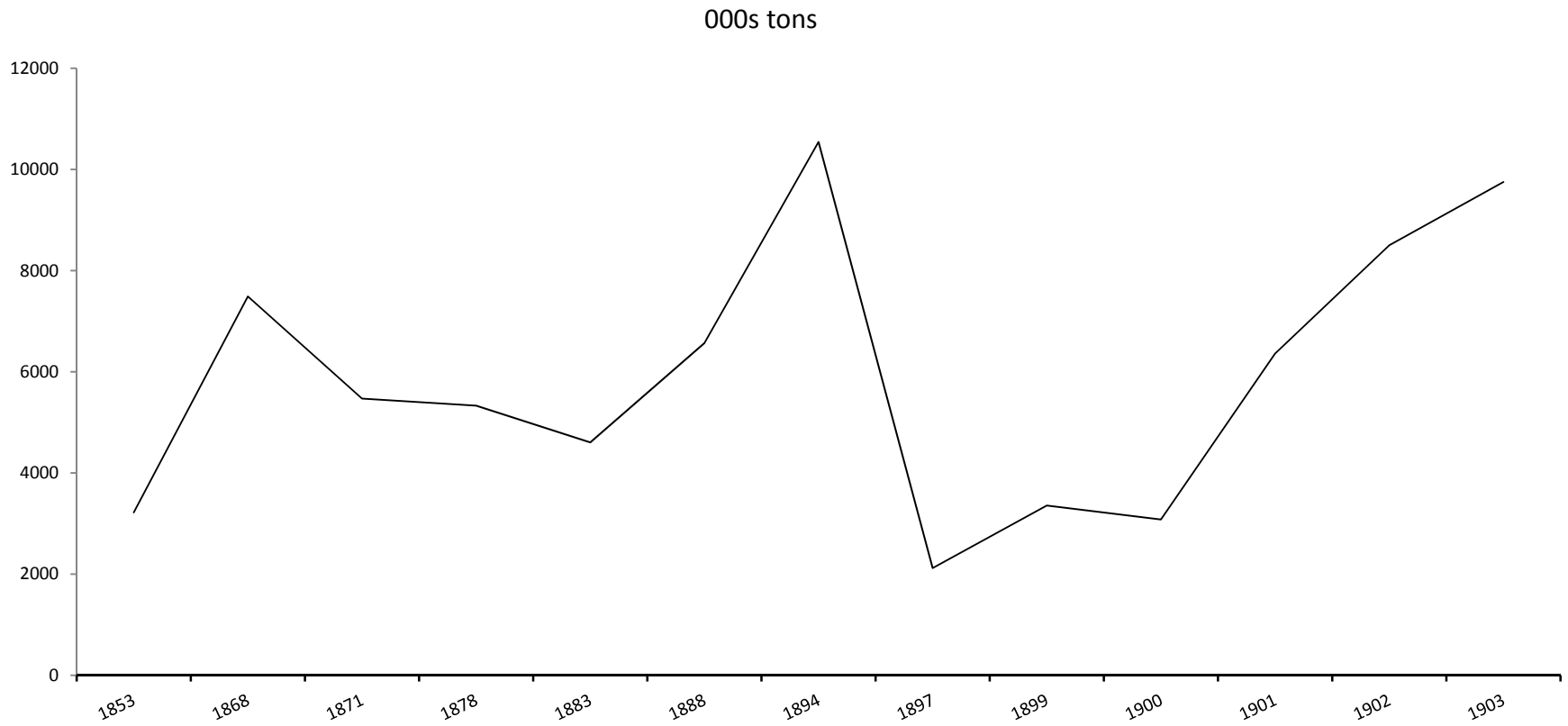


1800s

½ of land in sugar cane

US investment dominant – infrastructure, sugar refining

Sporadic sugar output due to weather, revolutions, competition



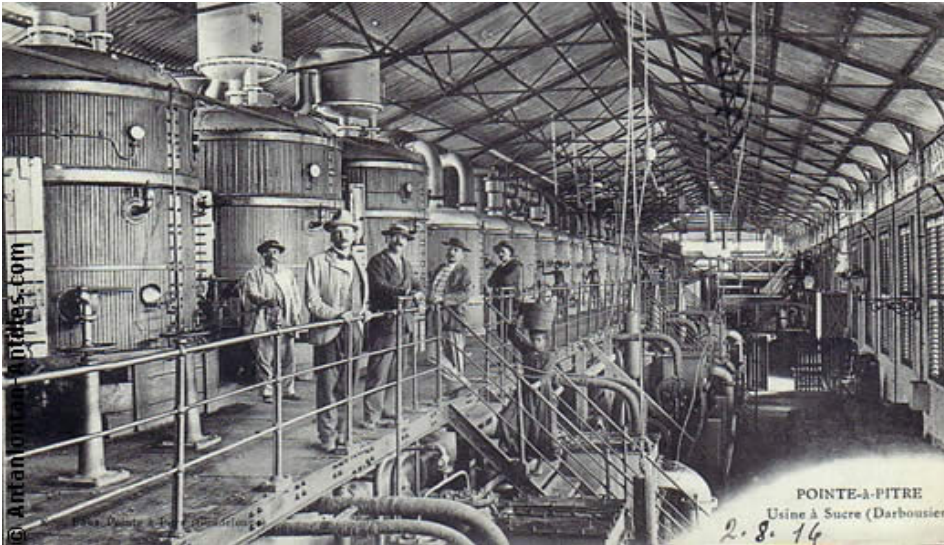
1898 US acquires Cuba in SpanAm War & Treaty of Paris

US occupation → land market, lower taxes, lower tariffs,
expanded railways, improved communications, no Europeans

1903 Teller Amendment prohibits annexation

Reciprocity Treaty recognizes Cuba

Protection for US sugar beet farmers, sugar cane, processing



US immigration

1903 37 colonies

1913 64 colonies

1913 Underwood-Simmons Tariff Act, low citrus tariffs

1914 Cuba accounted for 84% of US grapefruit imports, **1922** peak

1920-30s Depression, Protection

1922 Fordney-McCumber Act, US tariff 9% → 14%

1930 Smoot-Hawley doubled tariffs

1930s Military juntas, US intervenes to protect investment, immigrants leave

1940s Some political stability

1950s Batista US supported military dictator

US investment > 3 times rest of Latin Am

Most utilities, ½ of railways, ½ of sugar refining



1959 Castro



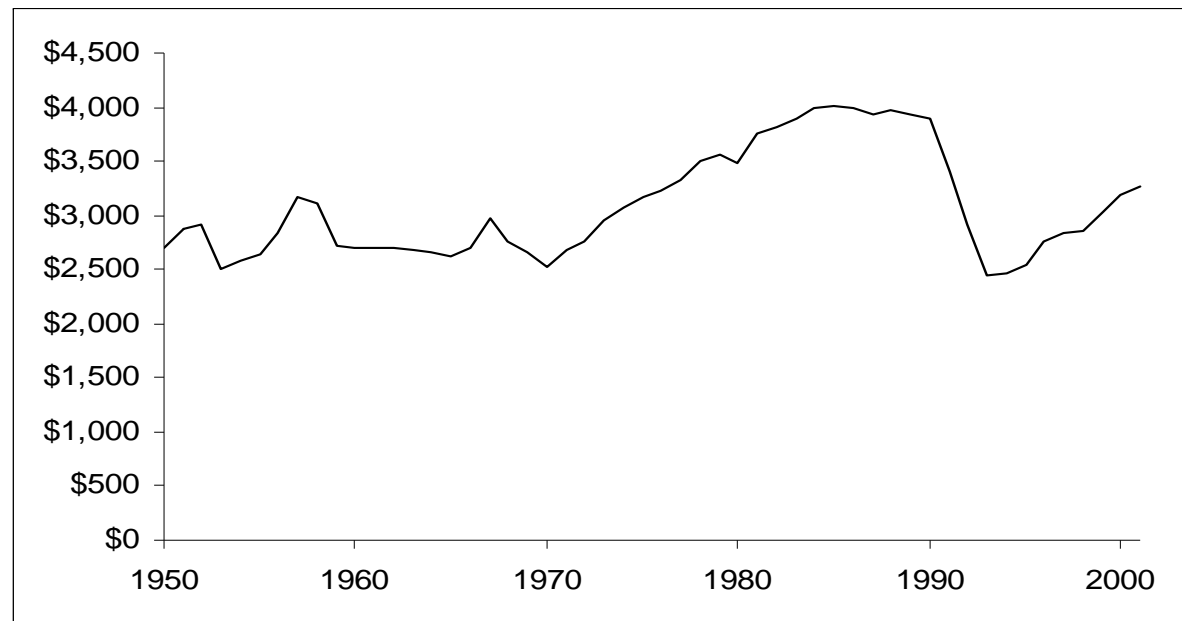
1959 Castro seizes plantations, nationalizes assets

Trade agreement with Soviet Union – sugar for oil



Eisenhower eliminates sugar trade agreement paying 11¢/lb > P_{world}

Income per capita (\$2000)

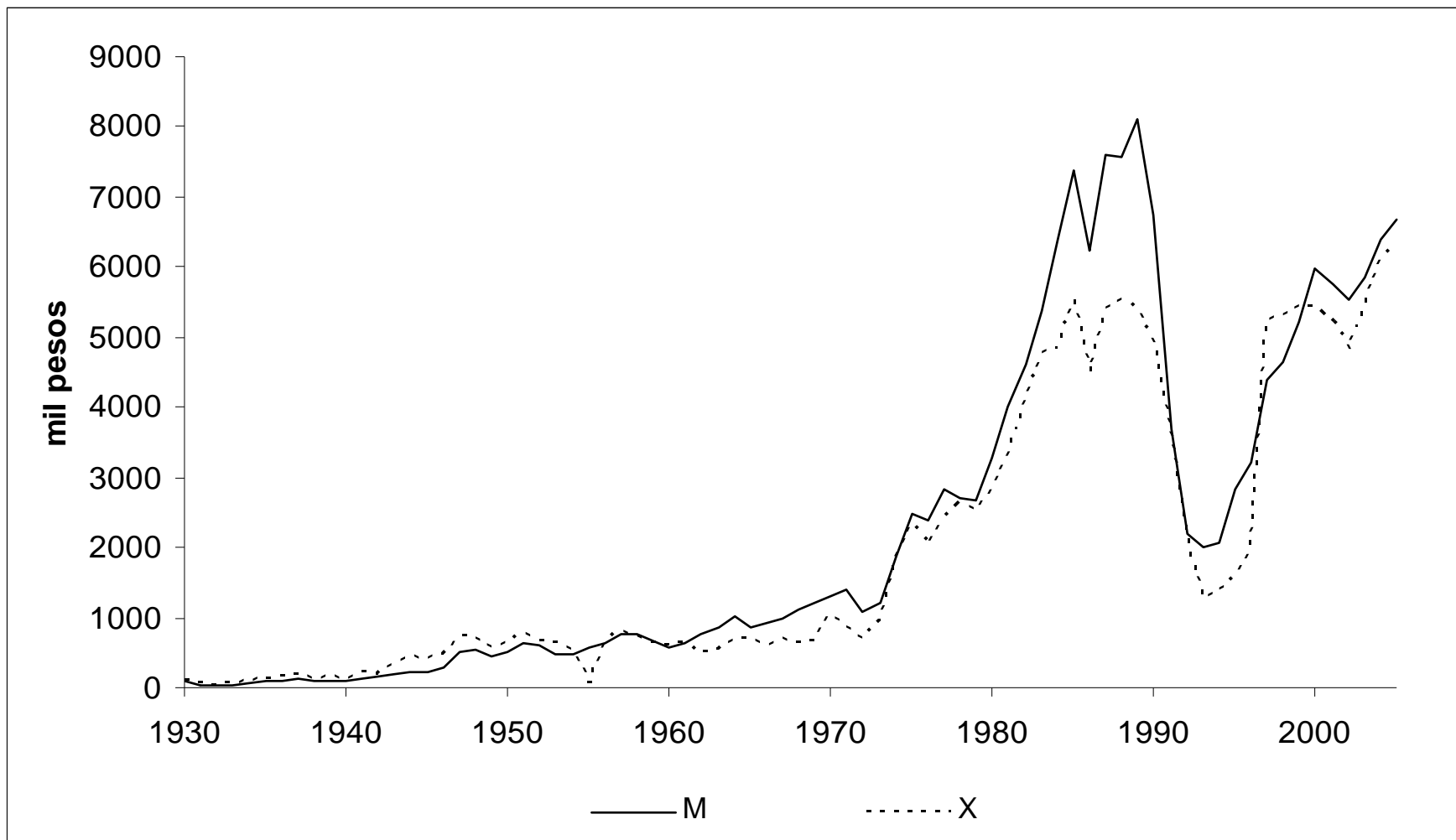


Trade balance (\$2000)

Castro trade deficit

1970-80s Growth in trade

1991 Lost Soviet subsidies, citrus not competitive



X Sugar – 2006

Brazil	17.7 mil tons	39% X _{world}
EU	8.1	18%
Australia	4.1	9%
Thailand	2.6	6%
South Africa	1.6	4%
Guatemala	1.5	3.3%
India	1.4	3.1%
Persian Gulf	1.3	2.9%
South Africa	1.3	2.9%
Cuba	1.2%	2.7%

Potential exports

Sugar, cigars, fish, citrus

2nd largest nickel reserves

Cobalt, iron, copper, chromite, manganese, zinc, tungsten

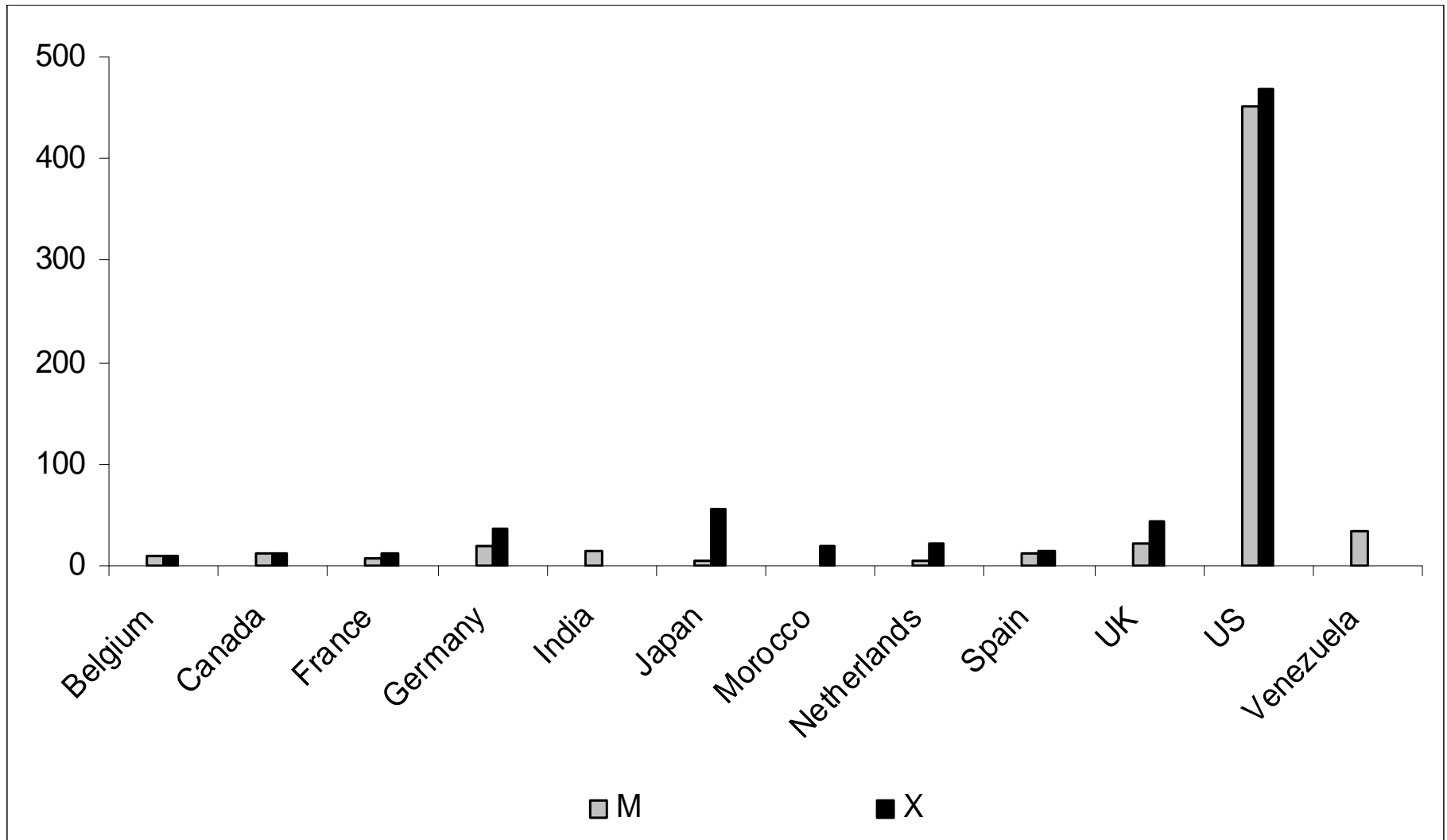
Petroleum potential



Some manufacturing, long term, maybe

1957 Pre-embargo trade

Back to the future?



2001 Humanitarian trade - Lobbying by ag groups

2004 Alabama X = \$126 mil

2006 Cuba accounts for quarter of Alabama X_{ag}
Poultry, catfish, soybeans, eggs
Also utility poles, lumber, cotton

Exports continue through third countries & smuggling

Lifting the embargo

US gains from trade in linear XS/XD model

$$XD_{\text{Cuba}} + XD_{\text{ROW}} = XD_{\text{TOT}}$$

Price elasticities of supply and demand from literature

Calibrated to price, production, exports

Assume US dominates Cuban markets

International equilibrium, total surplus

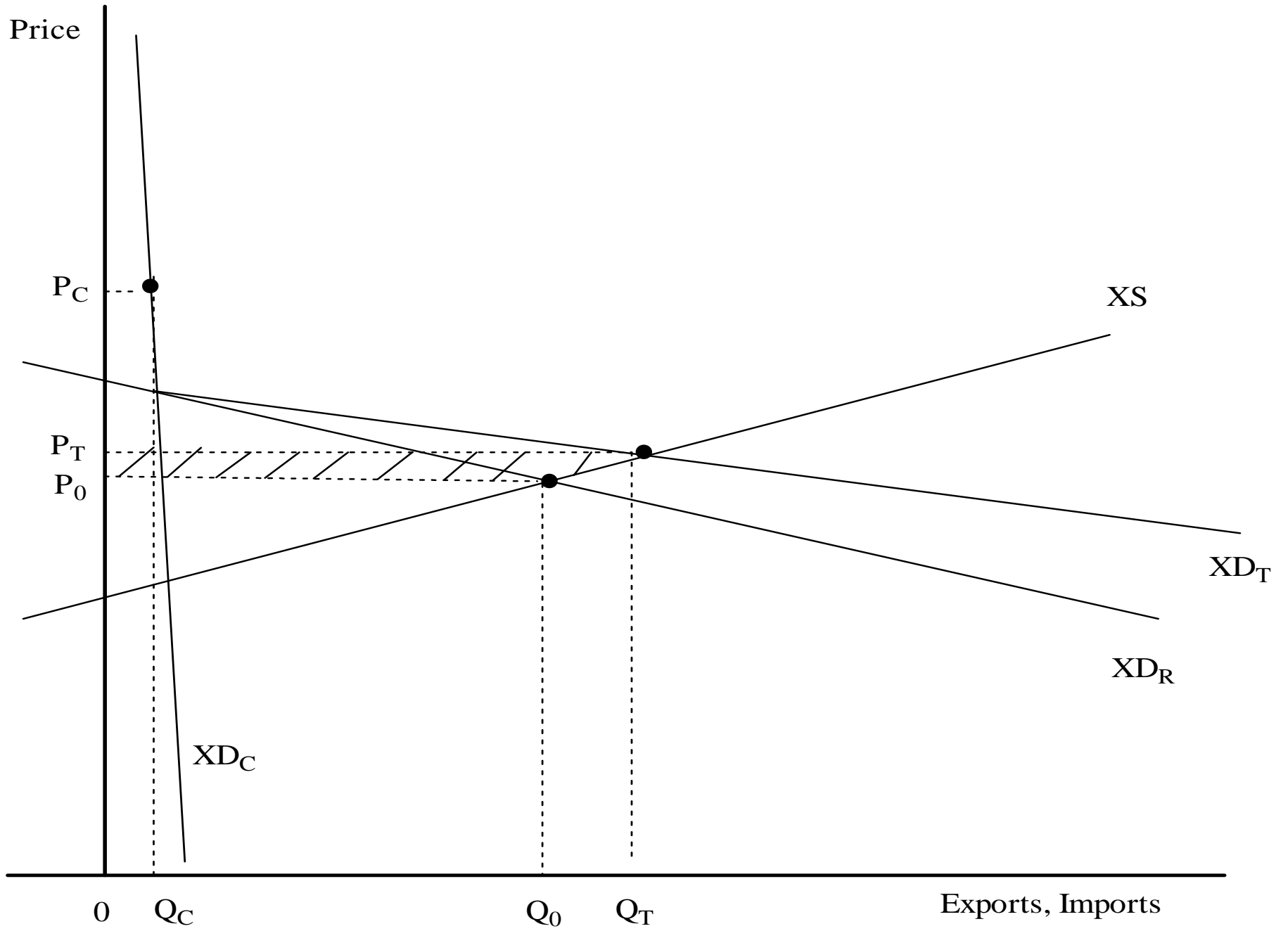


Figure 3. Southeast Export Market

Ps & Qs

	P_0	Q_0	P_C	Q_C	P_T	$\% \Delta P$	Q_T	$\% \Delta Q$
Rice	\$215	1420	\$300	600	\$231	7.6%	2,238	57.6%
Grains	\$151	6141	\$360	600	\$156	3.1%	8,778	43.0%
Soybeans	\$220	8244	\$259	1473	\$225	2.1%	9,963	20.8%
Poultry	\$961	2967	\$1800	100	\$971	1.0%	3,183	7.3%
Pork	\$1042	1359	\$1500	8	\$1043	0.1%	1,432	5.4%
Meat	\$1886	5832	\$3000	8	\$1887	0.1%	5,838	0.1%

Market Gains

	%XS _{US}	% revenue	% surplus
Rice	58%	70%	148%
Grains	43%	47%	104%
Soybeans	21%	23%	46%
Poultry	7%	8.4%	15%
Pork	5%	5.5%	11%
Meat	0.1%	0.2%	0.2%

Somewhat sensitive to Cuban imports
Insensitive to other model parameters

Protection & Competition

Sugar – US protection

Tobacco – US protection, health laws

Citrus – Some competition but big investment opportunity

Conclusion

Noticeable US gains from lifted embargo focused on Southeast

Projected gains 7.7% revenue 3.2% surplus

Largest ag gains for rice, grains, soybeans

Yearly \$1.4 billion embargo loss in ag export markets

Substantial potential for US manufactures & services exports

