

Estimated Economic Impacts of the Travel Restriction Reform and Export Enhancement Act of 2010

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Introduction

The following report was prepared for presentation to the House Committee on Agriculture, United States House of Representatives, March 11, 2010 related to the public hearing on H.R. 4645, the Travel Restriction Reform and Export Enhancement Act.

The analyses and report were prepared by the Center for North American Studies (CNAS). Contributors were, Principal Author, C. Parr Rosson, III, Professor and Director; Co-author, Flynn J. Adcock, International Program Coordinator; and Research Assistant, Eric Manthei. All are located in the Center for North American Studies, Department of Agricultural Economics, Texas AgriLife Research/AgriLife Extension, Texas A&M University.

Key Findings, Assumptions and Limitations of the Analysis

In 2009, U.S. exports to Cuba were \$528 million, supported \$1.6 billion in total business activity, and provided 8,600 jobs throughout the U.S. economy. If U.S. travel and financial restrictions are removed, up to \$365 million/year in additional U.S. exports could result, requiring \$1.1 billion in business activity and 6,000 new jobs. 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.

The results of this analysis assume that any increase in U.S. exports to Cuba is a 'net' increase in the U.S. export position. Otherwise, the economic impacts presented here would overestimate the effects of U.S. exports to Cuba on the U.S. economy. A second assumption is that Cuba's tourist industry follows a similar developmental pattern to other Caribbean countries in terms of food and beverage consumption and imports. Third, the results of a report by the U.S. International Trade Commission (*U.S. Agricultural Sales to Cuba: Certain Economic Effects of U.S. Restrictions*, USITC 3932, July 2007) were used to estimate the value of U.S. exports to Cuba if travel and financial restrictions are modified. Finally, the results of the different analyses discussed below should not be combined, or added together, because they were estimated using separate economic impact analyses and double counting would result.

Importance of Legislation for Improving U.S. Competitive Position in Cuba

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.

It is also important to maintain the U.S. competitive position for wheat, corn, and soybean meal and oil. Through February 2010, U.S. exports of corn to Cuba were down 47 percent compared to 2009, while wheat exports are off 69 percent and soybean meal exports had fallen 55 percent. The majority of these declines in exports are attributed to increased costs associated with financial restrictions, demurrage on vessels, currency conversion costs, and higher costs associated with using letters of credit (ALIMPORT staff, 3/2/2010). Recently implemented cash in advance rules resulting from the FY 2010 Omnibus Appropriations Act will provide some temporary respite, but will not alleviate the problem entirely.

Consequently, Cuba appears to be diversifying its suppliers by shifting away from U.S. firms in favor of Brazil, Canada, China and Vietnam. Credit terms are often offered by these countries, allowing ALIMPORT (Importada de Alimentos-the Cuban Food Import Agency) to conserve its hard currency and use credit to make larger purchases over a longer period of time. The net result is a loss of U.S. competitiveness and market share, followed by declining exports. If conditions do not improve and if alternative markets are not developed, negative economic impacts will occur in terms of lost business activity and employment.

Background

The Trade Sanctions Reform and Export Enhancement Act of 2000, allows certain exceptions for the exportation of U.S. agricultural products and medicines to Cuba. Since passage of the TSREEA, U.S. exports to Cuba have expanded, reaching a record \$711 million in 2008. This was almost two-thirds higher than 2007. Last year (2009) was quite different however, as U.S. exports to Cuba declined 26 percent to \$528 million. This large drop-off was attributed to an 18 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 major set of factors was the relative high cost of U.S. products due to somewhat onerous U.S. financial requirements. Together, these factors severely limited the ability of ALIMPORT to purchase U.S. products on a cash basis. Despite this decline, Cuba remains the sixth largest U.S. agricultural market in the Latin American/Caribbean region.

U.S. exports to Cuba are highly concentrated in a few key sectors. For 2009, the major U.S. exports to Cuba included frozen broilers/turkeys and other poultry (\$144 million), soybeans and soybean products (\$133 million) corn (\$120 million), and wheat (\$73 million). These four product categories represented 89 percent of total U.S. agricultural exports to Cuba. Other important U.S. exports were animal feeds (\$26 million), pork (\$11 million), dry beans (\$4.3 million), and processed foods and phosphate fertilizers (\$3 million) each. Minor exports were apples, pears and grapes (\$2.6 million), margarine (\$2.2 million), and treated poles (\$1.7 million).

U.S. agricultural exports to Cuba of \$528 million in 2009 required 8,588 jobs and generated \$1.6 billion in total economic activity. CNAS estimates indicate that for every one dollar of U.S. agricultural exports to Cuba in 2009, an additional \$1.96 in business activity was required to support those exports.

These economic impacts of food and other agricultural exports to Cuba were estimated using IMPLAN, an input/output model. IMPLAN is maintained by Minnesota IMPLAN Group, Austin, Minnesota. Economic multipliers for each sector of the economy were used to estimate how a change in one sector affects business activity and employment in the other sectors of the economy.

Business activity refers to the total output of a sector, such as corn, and the value of all purchased inputs used to produce corn for export. Business activity also includes employee compensation, proprietor income, rents and royalties, and payment of indirect business taxes. Employment is reported as total jobs, with full-time and part-time jobs counting the same.

Economic Impacts of Removing U.S. Travel Restrictions to Cuba

Two scenarios were analyzed to estimate the economic impacts of removing U.S. travel restrictions to Cuba. Both scenarios focus only on the export of high value products, mainly processed foods, beverages, horticultural products and seafood. This analysis assumes that all travel restrictions are removed and that visitors remain in Cuba between 4.5 and seven days.

Scenario 1: Short Run (Years 1-2)

The short run analysis provides estimates of U.S. exports and economic activity before Cuba has time to adjust to the increased number of tourists/visitors from the United States by increasing hotel room capacity, and improving critical infrastructure such as power generation and transportation. It also assumes that visitors remain in Cuba for 4.5 days. Based on the USITC report, 538,000 additional visitors were estimated to arrive and spend \$50/day for food/drink. CNAS estimates that the U.S. share of tourist expenditures on food/drink would be 40 percent.

This results in additional U.S. food/drink exports to Cuba of \$48.4 million/year (table 1). Major exports would be frozen broilers/turkeys/eggs (\$8 million), beef, pork, edible offal (\$6.3 million), miscellaneous processed foods (\$5.5 million), flour/malt (\$3.3 million), dry milk/cheese (\$3 million), canned fruits/vegetables (\$2.9 million), soft drinks (\$2.5 million), distilled spirits/wines/beer (\$2.4 million), fruits (\$2.4 million), fats/oils (\$2 million). Other exports include condiments, vegetables/melons, snack foods, refined sugar, seafood, and frozen desserts.

The additional \$48.4 million in exports would be expected to require \$116.7 million in additional business activity, creating a total economic impact of \$165.1 million and 786 new jobs. About 38 percent of the economic impact would be attributable directly to new exports. The largest share of new economic activity (62 percent, or \$102 million), would result from input purchases and household spending in sectors that support exports, but do not actually export. About \$14 million of this new total business activity is agriculturally related activities such as grain and oilseed production, ranching, forestry, fishing, and corn milling. Together, these sectors require 153 new jobs to support new U.S. exports to Cuba.

Business services, such as legal, accounting and technical consulting require \$11 million in business activity and 84 new jobs. Additional food processing supports \$8 million in business activity, while real estate, wholesale trade and finance require \$7.3 million, \$7 million, and \$6.4 million in business activity, respectively. These sectors also require 89 new jobs. Other sectors required to support new exports include: petroleum (\$8.8 million), transportation (\$4.8 million), wood processing (\$3 million), and retail trade and food/drink establishments (\$4.7 million).

Scenario 2: Long Run (Minimum of 5 Years)

Two long run scenarios are reported. The first assumes that U.S. tourists to Cuba stay 4.5 days, while the second scenario assumes tourists stay 7.0 days and daily food expenditures rise to \$60 per day. Over the long run, it is also assumed that Cuba's tourist industry adjusts to the increased demand for services by renovating existing hotels and facilities, building new facilities and improving critical infrastructure. As these improvements occur, it is estimated that 2.0 million U.S. tourists would visit Cuba annually.

Assuming new tourists stay 4.5 days, U.S. exports are estimated to increase by \$180 million/year million to meet the increased demand for high value foods/drink products (table 1). This would lead to a total economic impact of \$614 million in business activity and 2,923 new jobs. As was the case in Scenario 1, slightly more than one-third of the economic impact would occur in sectors that are exporting products to Cuba. Slightly more than half (\$200 million) of the non-export related business activity is expected to occur in other agriculture activities, business services, food production, real estate, wholesale trade and finance. About 55 percent of the new jobs associated with increased exports, 2,252, would occur in the previously noted non-export sectors of the economy. The remainder of the new jobs, 671, would be in petroleum, transportation, health care, food/drink establishments, retail trade and other sectors.

**Table 1. Estimated Economic Impacts of Increased U.S. Tourism to Cuba
-Million Dollars-**

	<i>Short Run 4.5-Day Stay</i>		<i>Long Run 4.5-Day Stay</i>		<i>Long Run 7-Day Stay</i>	
	Exports	Total Business Activity	Exports	Total Business Activity	Exports	Total Business Activity
Top Exported Products						
Poultry Meat and Eggs	\$8.1	\$13.6	\$30.0	\$50.5	\$56.0	\$94.2
Pork, Beef and Products	\$6.3	\$8.8	\$23.4	\$31.9	\$43.6	\$59.6
Miscellaneous Food Products	\$5.5	\$5.8	\$20.9	\$22.0	\$39.2	\$41.3
Flour and Malts	\$3.3	\$4.1	\$12.4	\$15.4	\$23.2	\$28.8
Dry Milk and Cheese	\$3.0	\$4.0	\$11.3	\$15.1	\$21.1	\$28.3
Canned Fruits/Vegetables	\$2.9	\$3.4	\$10.7	\$12.5	\$19.9	\$23.3
Soft Drinks	\$2.5	\$2.8	\$9.3	\$10.3	\$17.4	\$19.2
Spirits/Wine/Beer	\$2.4	\$2.8	\$9.1	\$10.6	\$17.0	\$19.7
Fruits	\$2.4	\$2.9	\$8.9	\$10.7	\$16.6	\$20.1
Top Supporting Sectors						
Ag Related Activities	N/A	\$14.0	N/A	\$51.9	N/A	\$96.9
Business Services	N/A	\$11.1	N/A	\$41.2	N/A	\$76.8
Oil, Gas, and Petroleum Products	N/A	\$8.7	N/A	\$32.4	N/A	\$60.4
Other Food Production	N/A	\$8.0	N/A	\$29.9	N/A	\$55.8
Total Estimated Impacts						
Business Activity	\$48.4	165.1	\$180.0	\$614.2	\$336.0	\$1,146.5
Employment (# of Jobs)	181	786	671	2,923	1,252	5,456

Assumptions for 4.5-day stay scenarios are that \$50 per day per person spent by 538,000 visitors in the Short Run and 2.0 million visitors in the Long Run. These assumptions are taken from the U.S. International Trade Commission Report entitled *U.S. Agricultural Sales to Cuba: Certain Economic Effects of U.S. Restrictions*, USITC Publication 3932, July 2007. For the Long Run 7-day stay scenario, 2.0 million visitors spend \$60 per day each. For all scenarios, it is assumed that the U.S. achieves 40 percent of the market share for these food expenditures and the export pattern follows the U.S. export pattern to other Caribbean nations for consumer-oriented food products.

Note: for supporting sectors, there are no exports resulting in N/A for those export values.

Assuming U.S. visitors remain in Cuba for a 7.0 day stay and spend \$60/day on food results in additional U.S. exports of \$336 million/year (table 1). These additional exports would require \$810.5 million in business activity, for a total economic impact of \$1.15 billion, which would support 5,456 new jobs.

The total business activity due solely to new exports is \$433.6 million. In terms of the impacts by sector due to increased exports, \$94.2 million is attributed to frozen broilers/turkeys and eggs, \$59.6 million to pork, beef and edible offal, \$41.3 to processed foods, \$28.8 million to flour and malt products, \$28.3 dry milk and cheese, \$23.3 to canned/preserved fruits and vegetables, \$20.1 million to fruits, \$19.2 million to soft drinks, \$18.7 to wine/beer/distilled spirits, \$17.6 to fats/oils, \$14 million to bakery goods, and \$10.4 million to vegetables and melons. Other important impacts occur in snack foods, sugar, breakfast foods, confectionaries, seafood and frozen desserts.

The business activity attributed to important non-export sectors includes: other agriculture such as grain and oilseed production, ranching, forestry and fishing (\$96.9 million), business services (\$76.8 million), petroleum (\$60.4 million), other food processing (\$55.8 million), real estate (\$50.5 million), finance (\$48.4 million), transportation (\$33.5 million), food, drink and retail (\$30.6 million), health care (\$27.5 million), and forestry (\$21.3 million).

More than three-fourths of the jobs associated with these additional exports, 4,202, occur in the non-export sectors. Other agriculture accounts for 1,062 jobs, followed by business services (582 jobs), food and drink retail (507), health care (303), wholesale trade (247), transportation (194), finance (186), and real estate (181). All of the other sectors account for 785 jobs.

Economic Impacts of Modifying Payment Terms and Financial Requirements

Reducing the cost and time necessary to process payment for U.S. exports to Cuba would have major economic impacts in terms of increased exports and economic activity. U.S. exports to Cuba would be expected to rise by \$271.2 million/year, requiring an additional \$561.9 million in business activity for a total economic impact of \$833.1 million and supporting 4,478 new jobs (table 2).

Processed and other food products sectors are estimated to require \$246.6 million in business activity and 1,228 new jobs to support additional exports to Cuba. Grain sectors, mainly corn, rice and wheat, would require \$87 million in additional business activity and 767 new jobs. Dairy products would require \$40.3 million in additional business activity, followed by poultry products (\$30.9 million), forestry products (\$23.2 million), beef, pork and edible offal (\$20 million), seafood (\$12.1 million), soybean meal and oil (\$12.2 million), and animal feeds (\$9.9 million). There would be 1,138 new jobs required to produce and market these additional exports to Cuba. Most of these jobs would be concentrated in the grains sector (767), poultry (141) and forestry (97).

Important economic impacts would occur among the non-export sectors as well. In fact, about 42 percent of the business activity and 47 percent of the jobs are associated with non-export sector production. Other agriculture business activity is estimated to be \$72 million, followed by petroleum at \$34.6 million, business services (\$32.2 million), real estate (\$30 million), food, drink and retail (\$23.8 million), finance (\$22.9 million), wholesale trade (\$20.5 million), health care (\$13.2 million), and forestry (\$6.8 million).

There are 2,112 new jobs required in the non-export sectors to support additional exports to Cuba. The major sectors impacted are other agriculture (641), business services (250), health care (145), food, drink and retail (133), real estate (120), wholesale trade (105), finance (95) and transportation (85).

**Table 2. Estimated Economic Impacts of Elimination of U.S. Restrictions on Financing Exports and Restrictions on Travel to Cuba
-Million Dollars-**

	<i>Removal of Finance Restrictions</i>		<i>Removal of Finance and Travel Restrictions</i>	
	Exports	Total Business Activity	Exports	Total Business Activity
Top Exported Products				
Grains (Rice, Wheat, Corn)	\$78.7	\$87.2	\$122.7	\$134.7
Other Food and Ag Products	\$49.5	\$161.6	\$57.5	\$187.8
Dry Milk and Other Dairy	\$35.0	\$40.4	\$50.0	\$57.8
Poultry Meats	\$27.3	\$30.9	\$35.2	\$40.0
Processed Food Products	\$26.0	\$84.9	\$34.5	\$112.7
Wood Products (Lumber)	\$21.5	\$23.2	\$21.5	\$23.3
Pork, Beef and Products	\$14.5	\$20.0	\$18.8	\$25.9
Seafood Products	\$11.5	\$12.1	\$15.0	\$15.8
Soy Complex	\$5.9	\$12.2	\$8.1	\$16.7
Top Supporting Sectors				
Other Ag Related	N/A	\$72.0	N/A	\$92.1
Business Services	N/A	\$32.2	N/A	\$43.6
Real Estate	N/A	\$29.7	N/A	\$41.6
Financial Services	N/A	\$22.9	N/A	\$31.6
Wholesale Trade	N/A	\$20.5	N/A	\$27.9
Total Estimated Impacts				
Business Activity	\$271.2	\$833.1	\$365.2	\$1,104.1
Employment (# of Jobs)	2,366	4,478	3,104	6,004

Assumptions for increased exports are based upon the U.S. International Trade Commission Report entitled *U.S. Agricultural Sales to Cuba: Certain Economic Effects of U.S. Restrictions*, USITC Publication 3932, July 2007. USITC estimated percentage changes to 2006 baseline exports were applied to 2009 exports except for rice, dairy products, beef, seafood, and wood products. For the latter set of products, the USITC estimated exports were used. Other Food and Ag Products include fresh horticultural products, cotton, livestock, and seeds for planting.

Note: for supporting sectors, there are no exports resulting in N/A for those export values.

Economic Impacts of Removing Financial Constraints and Allowing Travel to Cuba

There are some additional economic benefits of allowing increased travel, while simultaneously removing financial constraints on U.S. exports to Cuba. U.S. exports are estimated to rise by \$365.2 million/year, while the total economic impact would be \$1.1 billion, requiring 6,004 new jobs (table 2).

As in the previous analyses, most of the major gains in business activity would occur for food products and processed foods (\$300.5 million), grains (\$134.7 million), dairy (\$57.8 million), poultry (\$40 million), beef/pork (\$25.9 million), forestry (\$23.3 million), seafood (\$15.8 million), the soy complex (\$16.9 million), and animal feeds (\$13.3 million).

Major gains in business activity would also occur for non-export sectors as well. Other agriculture would require \$92 million, followed by petroleum (\$48.3 million), business services (\$43.6 million), real estate (\$41.6 million), finance (\$31.6 million), wholesale trade (\$27.9 million), food, drink and retail (\$32.4 million), transportation (\$18.4 million), health care (\$17.8 million), food processing (\$11.3 million) and forestry (\$9.2 million).

Employment occurring in non-export sectors would be expected to increase by 2,864 jobs. Major gains in employment would occur for other agriculture (857), business services (339), food, drink and retail (326), health care (196), real estate (172), finance (131), wholesale trade (143), and transportation (114). All other sectors would require 536 jobs to support additional exports to Cuba.

Summary and Conclusions

If H.R. 4645, the Travel Restriction Reform and Export Enhancement Act, is implemented as proposed, it is estimated that it would have substantial positive economic impacts on the U.S. economy. Exports to Cuba would increase by \$365 million/year and would support \$739 million in additional business activity for a total economic impact of \$1.1 billion, requiring 6,000 new jobs. While there are major economic gains for U.S. agriculture, there are also important economic gains for non-agricultural sectors such as business services, financial institutions, real estate, wholesale and retail trade, petroleum and health care services.

If only the travel restrictions are removed, it is estimated that U.S. exports would increase by \$48.4 million/year in the short run and by \$336 million/year over the long run, requiring 5,456 new jobs. Alternatively, if only the payment and financial restrictions are modified, U.S. exports are estimated to increase by \$271.2 million/year, requiring an additional \$561.9 million in business activity for a total economic impact of \$833.1 million and supporting 4,478 new jobs.

The results of these analyses indicate that U.S. agricultural producers, input suppliers, agribusiness firms, food processors, business services suppliers, the financial sector, real estate, health care, oil, gas and petroleum suppliers, transportation companies, trade facilitators, and port authorities in many parts of the United States can expect additional economic gains if H.R. 4645 is implemented and U.S. exports to Cuba expand. Improved access to the Cuban market is more important now that new competition has emerged and the U.S. market share is threatened, especially for dominant U.S. products such as soybean meal, corn, wheat, rice, poultry and dry milk. Increased access for U.S. travelers is also important for stimulating demand for U.S. foods in Cuba over the next few years as economic recovery occurs and U.S. firms become better positioned to respond to global market opportunities.

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