



Cuban Caution

The buzz in the produce trade, indeed in the whole food industry, is all about Cuba. How could it be otherwise? Closed for four decades, all the sudden a market is available and it is a market right on our doorstep, a market likely to buy principally from the USA.

Think about how hard everyone works to boost sales — from commodity promotion boards to state departments of agriculture, from individual produce shippers to massive integrated food companies. It is an enormous battle. Fortunes are spent with tremendous effort exerted to boost consumption by the smallest of amounts, to win some tiny sliver of market share. The bottom line is that in long-established markets with mature distribution and consumption habits, it is very difficult to win new business.

Cuba is a special phenomenon because business with the United States was artificially restrained due to the U.S. embargo on trade with Cuba. Now, there has been a crack in that embargo, and Cuba is permitted to purchase food as long as U.S. firms do not provide credit. So all the sudden, it is like a tidal wave of new business as trade patterns begin to switch back to their natural state.

Now we get the chance to go where every business opportunity is new and potentially substantial. It is like a breath of fresh air for a seller. The air, however, is not completely clean.

Although anyone in Cuba now can request a purchase from a U.S. company, in the end, only the government can actually make the purchase. It is a system likely to lead to great corruption. And indeed, the pattern of Cuban purchases is not what one would expect of a rather poor Caribbean island. It is, instead, a pattern of purchases being made with an ulterior motive. It is consciously designed to “spread the wealth” to buy in as many different states and Congressional districts as possible. This is not a concern to most buyers, but it seems to be a concern to the Cuban government. Why?

Well, the law currently allows only the purchase of food and medicine and only for cash. Initially it wasn't thought that U.S. firms would get much business at all. After all, Europe, Canada and South America all provided credit terms to Cuba.

What wasn't fully recognized, however, is that Cuba is an international deadbeat. It had exhausted all its credit lines and, at best, was simply rotating the accounts. When the opportunity came to buy from the United States, Cuba simply abandoned all those suppliers who supported the country for 40 years and began buying from us.

Produce shippers need to be careful to not get used as pawns in a program crop game. Here is the plan. Cuba really needs mostly basic commodities like corn, soybeans, wheat and rice. But these alone won't provide the broad base of support Castro needs to get legislation more to his liking. So the key is to find other producers, including produce

growers all across the country. Then the plan is to use purchases to build an army of support. The first goal is to get access to more credit.

There is an argument that if private companies want to give Castro credit, we should let them. Many argue that since the collapse of the Soviet Union, Cuba is no threat to us, and normal commercial relations are likely to speed reform.

Yet it seems highly unlikely that many private vendors are chomping at the bit to extend credit to Cuba. Recently the Dutch seized a ship as a result of default by the Cuban government on various extended credit. Castro's regime also owes Europe about \$11 billion, Japan almost \$2 billion, Argentina over \$1½ billion — all this besides the \$25 billion that the former Soviet Union lent to the island nation.

This also gives no recognition to the billions of dollars Cuba owes to those it expropriated property from when Castro seized power.

But what the really big grain traders want is to sell to Cuba on credit — and get those credits provided or guaranteed by various federal loan programs. In effect, these agribusiness behemoths want to sell to Cuba and have the U.S. taxpayer pick up the tab.

And their bet is that once produce shippers have gotten a taste of the business, they will become a kind of Amen corner for the Cuban lobby, pushing Congress to approve whatever laws will be to the liking of the Cuban government. This really brings to the forefront why

trade with a communist country poses unique dangers to a democratic society.

In trading with a capitalist economy, the political desires of the state just don't matter very much. There is no way for the government to use the purchases of dozens or hundreds of private actors to influence the law. And if a private party tries to make trade conditional on supporting a political program, vendors can just go sell his competitors. But one buyer controlling the purse strings of a whole country can use the purchasing power to do a lot of mischief.

The great genius of the American Republic has been that it does not require all men to be angels. It is expected that people shall act in factions with varying interests. And it was the genius of the founding fathers to recognize that a great continental scale republic, in which factions would engage in many shifting alliances, would be most likely to produce a stable society. So we can expect that those who benefit from Cuban business will be especially supportive of Cuban needs.

Fortunately, Cuba is not Russia, and its small size will limit its ability to form a stable coalition to warp U.S. government policy in its favor. Even the biggest vendors to Cuba will have other more important interests. But we can expect Castro to try, and should be mindful that those of us in the produce industry don't become dupes in a plan to use our tax money so some soybean exporter can strike it rich. **pb**

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