Good afternoon Chairman Poe and Members of the Committee. I am Ray Stoesser, a rice farmer from Dayton, Texas. I am the current President of the Texas Rice Council, and serve on the Board of Directors of the US Rice Producers Association. As a first time witness before the Congress, I am especially honored and humbled to appear before you today.
Thank you for holding this timely hearing to review the state of U.S. trade with Cuba. It is unfortunate that this once-vibrant market for U.S. agricultural goods continues to be thwarted by U.S. policies.

Congress acted in 2000 to allow the sale of food and agricultural goods to Cuba. Within four short years the Cuban market had regained its place as one of our biggest rice export markets. It wasn’t long until our own government once again frustrated America’s farmers by implementing policies contrary to Congressional intent. The present Administration has moved to begin to rationalize U.S. exports to Cuba. Ironically, the policy enacted in 2000 to encourage the export of food and feed to Cuba is now more restrictive than the policy being applied to non-food exports. Rice producers and U.S. farmers are being left behind.

Rice producers strongly support Presidential and Congressional efforts to remove statutory and regulatory restrictions on trade with Cuba. After more than 50 years of the United States unilaterally choking off exports and travel to Cuba, one thing is clear: it is a policy that is not only ineffective, but one that punishes U.S. farmers, and costs U.S. jobs in related businesses.

Rice producers support ongoing efforts to end the U.S. embargo against Cuba. In the immediate term, there are two specific actions that we urge Congress to take to address inequities in U.S. policy and allow U.S. farmers to compete with foreign exporters to capitalize on the opportunities and growth in the Cuban market:

1. Allow U.S. food and agriculture exporters to conduct exports to Cuba on normal commercial terms, by repealing the financing restrictions on agricultural sales in the Trade Sanctions Reform and Export Enhancement Act of 2000.

2. Allow U.S. farmers through their trade associations, “cooperators”, and exporters to use funds from industry checkoff programs and the several Department of Agriculture market promotion, development, and credit guarantee programs to promote the sale of US agriculture products to Cuba.

Several bills addressing these issues have been introduced and referred to the Committee on Foreign Affairs. We applaud Chairman Poe for cosponsoring two of these bills that would begin to further rationalize agricultural sales to Cuba.
(H.R. 3238 and H.R. 3687). Rice producers urge the Committee to consider these bills at your earliest opportunity.

CUBA: AMERICA’S LARGEST NATURAL RICE MARKET

Before the Cuban Revolution, the United States and Cuba were major agricultural trading partners. Our rice exports to Cuba picked up sharply during World War II, when shipments from Cuba’s previous top suppliers—Burma and Thailand—were suspended due to the war. From the mid-1940s up until the imposition of the embargo, the United States supplied the bulk of Cuba’s rice imports.

In 1951, Cuba was the destination for 252,878 metric tons of U.S. rice, approximately $52 million in sales that represented 51% of U.S. rice exports at that time. Rice exports to Cuba during the period between 1951 and 1960 averaged approximately 169,000 metric tons, valued at $37 million annually and accounting for 25% of all rice exports for the decade. Following the overthrow of the Batista government in 1959, the unilateral U.S. embargo closed the Cuban market in 1960.

In addition to shutting off exports to Cuba, export embargoes imposed unilaterally by our government represent one of the greatest impediments to maintaining and enhancing exports of U.S. rice. For example, the largest market for U.S. rice in the 1950s was Cuba, in the 1970s it was Iran, and in the 1980s it was Iraq. Unfortunately for rice producers and the rice industry, unilateral embargoes imposed by our own government later negatively affected each of these important markets.

Rice farmers have known for decades what the U.S. Department of Agriculture concluded in 1997, that “Of all grains exported by the United States, rice has been particularly hard-hit by trade restrictions.” The Department went on to note that such unilateral trade restrictions excluded more than 13 percent of projected global rice import demand as off-limits to U.S. farmers and exporters.

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1 A total of 1.7 MMT, based on US Department of Commerce estimates (SEE Attachment A).

On average, approximately 50 percent of the U.S. rice crop moves into export channels each year. Every level of the U.S. rice industry, from individual farmers, through handlers, dryers, millers, marketers, and exporters are dependent on our export markets for their livelihoods. So having our own government restrict our access to traditionally strong markets for U.S. rice directly affects the ability of U.S. rice farmers to earn a living.

Fortunately, as policymakers have recognized the ineffectiveness of trade embargoes, most of these embargoes have been lifted. Only the embargo against trade with and travel to Cuba remains. Industry, the public, and policy makers alike widely recognize the embargo as having been a failure. The embargo should be ended.

THE 2000 EXPORT ENHANCEMENT ACT REOPENED RICE TRADE WITH CUBA

Congress provided for the resumption of trade with Cuba when it passed the Trade Sanctions Reform and Export Enhancement Act of 2000. The Act sought to achieve its goal of enhancing U.S. agricultural export opportunities by explicitly exempting sales of food and medicine from the exercise of any economic embargo. In part this was in recognition of the longstanding U.S. policy not to use food as a weapon in foreign policy.

In deference to Congressional opponents of food sales to Cuba, the 2000 Act prevents the extension of credit in connection with agricultural sales to Cuba by any U.S. entity. Specifically, the Act limits the financing terms of agricultural sales to Cuba to either—

(A) Payment of cash in advance; or
(B) Financing by third country financial institutions (excluding United States persons or Government of Cuba entities), except that such financing may be confirmed or advised by a United States financial institution.

Cuba first made purchases of U.S. agricultural products under the new Export Enhancement Act authorities in December 2001. Between 2001 and early 2005, Cuba contracted to purchase approximately $1.25 billion worth of U.S. agricultural goods. These purchases included shipments of nearly 320,000 tons of U.S. rice, worth a reported $81 million. In 2004 the Cubans bought $64 million worth of U.S. rice – more than their purchases of any other commodity. This
established Cuba as our fastest growing market overall, and one of the top five customers for long grain rice.

The majority of this trade was conducted on a cash basis, pursuant to licenses issued by the Department of Commerce. Cuban purchasers generally paid promptly, and there was no extension of credit to Cuba by U.S. entities. Clearly, the bipartisan improvements made by Congress in the 2000 Act were working to enhance exports on a cash basis, as Congress had intended. Fears that Cuban purchasers would not pay in full and on time proved to be unfounded.

In 2004 alone, the U.S. exported 177,000 tons of rice to Cuba worth an estimated $64 million with a total economic impact on local U.S. economies of $220 million, and provided for up to 1,400 jobs.

Cuba has the potential to once again become a top export market for U.S. rice, representing a 400,000 to 600,000 metric ton export market under normal commercial trade.
OFAC’s 2005 CASH IN ADVANCE “REINTERPRETATION” IMPOSED UNWARRANTED TRADE RESTRICTIONS AND CRIPPLED U.S. EXPORTS

Beginning in November of 2004 the Treasury Department’s Office of Foreign Assets Control (OFAC) began holding up payments to U.S. sellers doing business with Cuba, and imposing new regulatory reviews and/or licensing requirements on U.S. sellers and their banks. On February 22, 2005, OFAC issued a Final Rule revising the regulations governing the payment terms permitted for the sale of licensed agricultural products to Cuba (70 Fed. Reg. 9225; the “2005 Rule”).

The new trade restrictions in the Final Rule were published without any prior notice to Congress or to the exporting community, nor was any opportunity afforded for comment by the agricultural or exporting communities. The newly restrictive reinterpretation rendered invalid $250 million worth of open agricultural export contracts, and imposed expensive new requirements to finance trades through banks in foreign countries.

Rice producers and the rice industry were particularly disappointed that in imposing this new restriction on exports to Cuba, OFAC ignored the requirement in section 903 of the 2000 Export Enhancement Act that prohibits the President
from imposing any new restriction or condition on commercial export sales of agricultural commodities unless the President submits a report to Congress regarding the restriction 60 days before its imposition, and the Congress enacts a joint resolution approving the report.\(^3\)

As we predicted at the time of the imposition of the 2005 Rule, it devastated the market for sales of U.S. rice to Cuba. As the following chart indicates, U.S. rice sales to Cuba plummeted from $64 million in 2004 to ZERO in 2009.

Why did this happen? The Rule and its heavy-handed imposition sent the clear message to Alimport, the Cuban food importing agency, that the United States

\(^3\) Section 903(a) of the Export Enhancement Act (22 U.S.C 2207(a)) reads as follows:

“Sec. 903. Restriction.

“(a) New sanctions. Except as provided in sections 7203 and 7204 of this title and notwithstanding any other provision of law, the President may not impose a unilateral agricultural sanction or unilateral medical sanction against a foreign country or foreign entity, unless –

“(1) not later than 60 days before the sanction is proposed to be imposed, the President submits a report to Congress that -

“(A) describes the activity proposed to be prohibited, restricted, or conditioned; and

“(B) describes the actions by the foreign country or foreign entity that justify the sanction; and

“(2) there is enacted into law a joint resolution stating the approval of Congress for the report submitted under paragraph (1).”

Section 902(6) and 902(2)(E) of the Act make clear that the prohibited unilateral agricultural sanctions under section 903(a) include “any prohibition, restriction, or condition on carrying out” “any commercial export sale of agricultural commodities”. 
could not be trusted as a reliable supplier of food and agriculture products to feed the Cuban people. At the time of the Final Rules’ imposition, the Cubans had purchased more than $1 billion in U.S. food and farm goods. Despite the dire warnings of those opposed to food exports to Cuba, the Cubans paid cash for all of these deliveries, and had done so in a timely manner. As a reward for building this excellent trade relationship, the U.S. government unilaterally imposed a new interpretation of the “cash in advance” requirement that made illegal the terms of the trade that had been contemplated by Congress and proven by commercial success.

No reasonable buyer can rely on an export seller for critical food supplies knowing that the exporting country’s government can (and will) change export policies at a whim. As a result, U.S. agriculture has been relegated to a position as a secondary, residual supplier for rice and many other agricultural goods to Cuba. It is difficult to overstate the importance for U.S. agriculture, its farmers and exporters of maintaining our reputation as a reliable supplier of our exports.

Another result of the 2005 Rule is that it drove most if not all payments for remaining U.S. agricultural sales to Cuba to be conducted via a letter of credit issued by a third country (non-Cuban) bank. This requirement unnecessarily drove up the transaction costs to U.S. sellers and Cuba alike, and reduced the competitiveness of U.S. agricultural products to Cuba. These increased costs and complexities fell disproportionately on small exporters, and were ultimately borne by U.S. farmers. Effectively the Rule enriched foreign banks at the expense of U.S. farmers, processors, and exporters and drove the jobs associated with these activities to overseas competitors.

**US POLICY RESTRICTING AGRICULTURAL SALES HAS COST U.S. FARMERS BILLIONS**

How much did OFAC’s unilateral changes in the terms of these sales cost U.S. agriculture? A precise amount is difficult to pinpoint. But several researchers and agricultural economists agree that the amount is in the billions of dollars. And this is only since OFAC’s 2005 Rule disrupted trade.

Cuba’s overall agricultural imports grew significantly beginning in 2000. Since 2000, the value of imports more than tripled, increasing from approximately $550 million in 2000 to more than $1.8 billion in 2008. Cuba’s imports continue at about $1.8 billion annually. Today Cuba imports close to 80 percent of its food.
The United States, only 90 miles away, is the natural supplier for much of this food.

Unfortunately, U.S. policies continue to discourage Cuba from purchasing agriculture goods from the United States. We continue to lose market share to competitors in other countries that are able to offer financing and do not have the cloud of government intervention overhanging their ability to reliably supply the Cuban market.

In June 2009 the US International Trade Commission published a report estimating the effects of lifting the restrictions on agricultural export financing terms and travel to Cuba, based on 2008 trade statistics. The ITC reported that:

In 2008, Cuba imported roughly $1.8 billion in agricultural products, of which $708 million came from the United States. With restrictions lifted, U.S. exports would have been approximately $924 million to $1.2 billion, an increase of $216–478 million. In terms of share, the actual U.S. share was 38 percent. Absent the restrictions, the share would have been 49–64 percent.4

Based on the ITC’s conclusions when applied to Cuba’s actual imports, we estimate that the losses to U.S. agriculture of our current policies total between $3 billion and $5 billion since 2008. This does not include sales lost between 2005 and 2008.

As a result of U.S. policies, American agribusiness continues to lose ground to countries whose exporters are able to offer financing. Consequently, the U.S. fell from its position as the number on supplier of agricultural products from 2003 to 2012. The U.S. is now Cuba’s number four supplier after the European Union, Brazil, and Argentina. While U.S. exports to Cuba have fallen in absolute terms and as a share of the Cuban market over the past ten years, U.S. competitors’ share of the Cuban market has increased. The drastic nature of this declining market for U.S. agriculture is reflected starkly in the following graphs.

US Losing Market Share in Cuba

Source: USDA-FAS, Global Agricultural Trade System (GATS)
The story is even starker for U.S. rice exports. As the graph below illustrates, once rice sales began again in 2002, U.S. rice gained consistently in sales to the Cuban market as measured both by quantity and by share of the Cuban market. That progress was abruptly reversed when OFAC published its 2005 Rule, calling into question the ability of U.S. exporters to reliably supply the Cubans with basic food staples. By 2009 U.S. rice exports to Cuba had declined virtually to nothing, where they have remained ever since.

![Cuban Rice Imports: Lost U.S. Market Share](image)

Ironically, in light of the U.S. government’s intervention in the market, the Cubans turned to communist Vietnam to source much of their rice. The quality of Vietnam’s rice is widely viewed as being less desirable than that of the United States. Rice from Vietnam takes weeks or months to load and deliver to Cuba, versus only days from the United States. The actions of the U.S. government effectively negated the time, place, and quality advantages of the U.S. industry, particularly for long grain rice produced in the South and shipped from southern...
ports. Worsening the situation, the Vietnamese could offer their rice on credit as opposed to cash terms.

Since 2009 Cuba continues to import about 400,000 to 600,000 tons of rice annually. At recent prices of $375 to $400 per ton, this equates to $150 to $240 million in rice sales annually, or about $26,667 for each of the 9,000 rice farmers in the United States.

From the perspective of Texas, where production of rice in 2014 was about 500,000 tons, our producers could sell the state’s entire annual crop to Cuban buyers if only the restrictions imposed by our own government were removed. You have to believe that that kind of demand increase would make a difference to Texas rice farmers!

From the view of an individual rice producer it is important to remember several things. More than in any other industry, farmers are price-takers, not price-makers. The market for basic commodities like rice are among the few examples of “perfect competition”, a market where a single producer can do little or nothing to change the supply, demand, and pricing of his or her own crop, or of the market as a whole. In light of this, every significant market for U.S. rice is important in creating and growing opportunities for U.S. rice producers to sustain their livelihood.

In the case of Cuba U.S. rice farmers have a time, place, and quality advantage that historically has made Cuba a natural trading partner. In fact, investments made by U.S. farmers, millers and exporters all the way back into the 1950s can still bear dividends if Congress acts quickly. By this we mean that individual Cubans in and out of government with whom rice farmers have interacted in recent years have fond memories of enjoying specific brands of U.S. rice in their households long ago. The power of branding and marketing is long-lived. As long as this generation of Cubans lives on, investments that the U.S. rice industry made in Cuba decades ago can still pay dividends. But the clock is running and our policies need to change quickly if this marketing investment is to bear further fruit.

THE REVERSAL OF THE 2005 OFAC RULE DOES NOT GO FAR ENOUGH

On January 26, 2015 OFAC once again amended its regulatory interpretation of “cash in advance” from “cash before shipment” to “cash before transfer of title
and control’’ to allow expanded financing options for authorized exports to Cuba. (80 Fed. Reg. 2292). Rice producers and most of American agriculture is of course supportive of this reversal of the 2005 Rule. Unfortunately, this reinterpretation does not undo the damage that has been done to U.S. agriculture’s reputation as a reliable supplier and our unattractive position in the Cuban market.

To add insult to injury, the January 26, 2015 Rule relaxed the current sanctions to allow U.S. financial institutions to finance authorized exports to Cuba of items other than agricultural items or commodities. This is because the statutory prohibition on the financing of agricultural exports in the 2000 Export Enhancement Act remains in effect.

In this regard the 2000 Act, as it addresses agricultural exports, has been stood on its head. What was intended by Congress as a method of providing an exception to the embargo for exports of food has become a greater restriction on food exports than for other goods.

In addition, U.S. financial institutions can finance the export of items to support agricultural production, food processing, wholesale and retail distribution in Cuba. But they cannot finance the export of food products produced in the United States.

U.S. exporters cannot compete with countries able to provide export credits to the Cuban import authorities. U.S. law creates a competitive disadvantage for U.S. exports, prohibiting use of credit facilities, export and technical assistance and market development assistance. Credit is a key component of boosting U.S. export opportunities in other countries.

Current law also prohibits U.S. farmers from using industry generated commodity checkoff funds to promote their products in Cuba, or from using the several Department of Agriculture market promotion, development, and credit guarantee programs to promote the sale of US agriculture products to Cuba.

This stands in stark contrast to our competitor nations exporting to Cuba who use a broad range of incentives to encourage Cuba to buy their goods. From 8,500 miles away, China has emerged as Cuba’s largest trading partner. Brazil financed $700 million of the $1 billion expansion project at the Port of Mariel in exchange for Cuba’s agreement to spend at least $800 million on Brazilian products and services. The EU Development Fund projects $1 billion of investments into the Caribbean region by 2020, including in Cuba. Venezuela’s strategic alliance with
Cuba has resulted in the exchange of Venezuelan oil for Cuban medical services. Argentina’s agriculture minister signed a bilateral agreement with Cuba for strategic cooperation over the next five years including technical cooperation on livestock, animal products, and vegetables.

So not only are U.S. farmers singled out among U.S. products in being able to sell only on cash terms, but U.S. policy accommodates the financing of competing Cuban food production. And while competing governments use a broad range of policy tools and financial incentives to build their presence in the Cuban market, U.S. law prohibits our producers from using the U.S. export programs that have proved effective in maintaining and growing markets around the world.

To be clear, we do not oppose the announced liberalizations in U.S. policies on trade with and travel to Cuba. But we do urge you to address these unintended and discriminatory effects on U.S. farmers by enacting legislation to allow the financing of food and agriculture exports, and to support those exports through existing export promotion and development programs.

THE PRESIDENT AND THE CONGRESS SHOULD REASSURE U.S. AGRICULTURE AND OUR CUBAN CUSTOMERS THAT THE UNITED STATES WILL NOT “GO BACKWARDS” ON AGRICULTURAL SALES TO CUBA

The damage done since 2005 to our reputation as a reliable supplier of agriculture and food products to Cuba can be repaired over time. But until the Cubans are convinced that our government will not unilaterally void contracts or otherwise restrict trade, we will continue to be relegated to a residual supplier to the Cuban market.

There is one thing that the Administration and Members of Congress can do immediately to repair U.S. agriculture’s reputation as a reliable supplier and to reassure Cuban and other buyers. This would not cost any money, nor does it involve changing the embargo in any way.

To accomplish this, the President and each of you can simply state publicly and repeatedly that the United States Government will not impose new restrictions on sales of food and agriculture products to Cuba. Reassure our own famers and our Cuban customers that progress made in opening and servicing the Cuban market will not be opposed or destroyed by government intervention. Such a statement, and its faithful implementation by the Administration, could go a long way to
reassuring U.S. producers and exporters, and our Cuban customers, that the United States government will not prevent U.S. agriculture from reliably supplying the Cuban market.

CONCLUSION: A NO-COST, ONE-WAY TRADE OPPORTUNITY THAT BENEFITS U.S. FARMERS, WORKERS, AND THE PUBLIC

Rice producers and the rice industry have paid a high price for our government’s failed policy toward Cuba. First in 1960, and again in 2005, Democratic and Republican Administrations alike have driven exports to one of our largest rice markets from robust levels to literally nothing.

The U.S. rice industry in Texas, on the Mississippi Delta and along the Gulf Coast has a tremendous transportation advantage over our Asian and other competitors in reaching the Cuban rice market. From the 1930’s through the 1950’s and again between 2001 and 2005, U.S. rice farmers, millers, and exporters had built sales to the Cuban rice market with high-quality rice that Cuban consumers prefer.

Unfortunately, actions by our own government effectively suspended that market. The Cuban demand for food imports is largely being met by a number of U.S. agriculture’s key competitors in the global market such as Canada, Brazil, Venezuela, and Vietnam. And this is the result almost entirely of actions by our own government.

U.S. rice farmers have been told that export markets are our markets of the future. In 2010 President Obama in his State of the Union spoke about the need to increase our exports:

“We need to export more of our goods. Because the more products we make and sell to other countries, the more jobs we support right here in America. ... We have to seek new markets aggressively, just as our competitors are.”

Rice farmers and the entire rice industry support these goals to increase exports and support U.S. jobs. Unfortunately, with respect to Cuba, our government’s policy ignores all of the President’s wise advice. U.S. government policy reduces U.S. employment by choking off trade with Cuba. That policy continues to decrease U.S. exports, and cedes this important market to our global competitors.
Rather than aggressively contending for the Cuban market, our current policy keeps our government on the sidelines, while blocking our own team from taking the field.

When these markets are closed off, everyone in the industry is hurt, and farmers predictably pay the ultimate costs of lost markets from their own pockets. These are unnecessary costs that rice farmers should not be asked to pay.

Rice is the most widely consumed staple crop in the world. Rice farmers are proud that their crops have been used to feed our friends and neighbors around the world—that the food that has been the fruit of their labor has been used to build bridges and not as a weapon of foreign policy.

We are not asking for anything special for rice farmers or U.S. agriculture in the case of Cuba. All we are asking is that the law governing food sales to Cuba be amended to end what has become the discriminatory treatment of U.S. farmers and to allow agricultural export sales to Cuba to be conducted on the same normal commercial and financial terms under which sales are conducted with buyers in virtually every other country on earth.

In addition, we ask that you clarify that any prohibitions on “government assistance” to Cuba do not include the collective use by U.S. farmers through their trade associations, “cooperators”, and exporters of funds from industry checkoff programs and the several Department of Agriculture market promotion, development, and credit guarantee programs to promote the sale of US agriculture products to Cuba.

We strongly support the enactment of legislation such as H.R. 3238 and H.R. 3687 to accomplish these goals. In doing so we are in accord with the more than 100 agriculture organizations of the U.S. Agriculture Coalition for Cuba working together to re-establish Cuba as a market for U.S. food and agriculture exports.

Thank you again for your time and attention to this important issue. I look forward to addressing any questions that you may have.
### Attachment A

#### Cuba’s Share of Total U.S. Rice Exports, by volume and value, 1951-61

Table 9. Cuba’s share of total U.S. rice exports, by volume and value, 1951-61

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<th>Year</th>
<th>U.S. exports</th>
<th>Cuban imports from U.S.</th>
<th>Cuba’s share&lt;sup&gt;a&lt;/sup&gt;</th>
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<td>Quant.</td>
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<td>Quant.</td>
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<sup>a</sup> Calculated by the authors.

<sup>b</sup> Minimal amounts before the economic embargo was totally enforced.

Source: U.S. Department of Commerce (various issues).

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