

## AN AGRICULTURAL TRANSITION POLICY FOR CUBA: A MESSAGE FOR RAÚL

Antonio Gayoso

The Cuban agricultural sector has been in trouble for many years. Production levels of the main crops have decreased significantly, particularly sugar, beef and milk production, fruits, rice, and coffee. Cuba has been forced to import many food products for which it has the land and the climate to produce in sufficient quantities for the population. For more than a decade, the country has had to rely on large food donations from the UN World Food Program to feed several hundred thousand people in the five easternmost provinces.

Until recently, the government either ignored or denied these problems. Since December 2006, and most recently on the 26<sup>th</sup> of July, 2007, and subsequently, there has been explicit recognition by the head of government, that significant structural change in the economy, particularly the agricultural sector, must be undertaken to solve food shortages. The nature of these changes continues to be in process, despite the issuance in July 2008 of Decree-Law 259 outlining the government's intention to distribute idle land, in usufruct, to individual producers, coops, and government institutions. At the time of writing this paper, rules for implementation of this decree had not been published.

The organization of the Cuban agricultural sector is extremely centralized. Most producers are compelled to follow the directives of the Ministry of Agriculture (MINAG) or the Ministry of Sugar (MINAZ). With very few exceptions, they are directed to produce products considered necessary by the government. The government also determines individual producers' quotas that must be sold to the ACOPIO system, the state or-

ganization in charge of gathering products from the agricultural sector and making them available to consumers under the food rationing system that has been in place for the past 45 years. Only if such quotas are fulfilled can a producer sell in the open agricultural markets allowed since the early 1990s. Currently, rationed goods—sold at subsidized prices—fulfill only about one third of a family's monthly food needs.

ACOPIO has not been well managed. As recently publicized in the Cuban press, it has frequently set selling prices below cost of production and has incurred long delays in paying producers for goods delivered. It has also failed in delivering critical production inputs to producers, the quid pro quo of the quota system. In this task, as in others, both producers and political leaders have criticized the agency for inattention and/or mismanagement. Given the incoherence of Cuban central planning, ACOPIO may not have been allocated the funds or the inputs from other government agencies to be able to fulfill its tasks and had no political weight to challenge them.

Agricultural producers also have had no real political power to challenge the system or its structure. There is the National Association of Small Farmers (ANAP). However, this government-controlled organization has never challenged agricultural policy and has been, in fact, part of the political control system. Nonetheless, in 2007, after Raúl Castro's 26 of July speech, it complained about ACOPIO's late payments and low prices. This may have been a factor leading to a change in those aspects of policy execution.

Recently, as part of an effort to decentralize, the role of the central ACOPIO system has been devolved to the municipal delegations of MINAG, in consultation with local Communist Party cadres. Mechanisms to control producers' decisions concerning production mix and marketing have not been changed though.

There are several types of farmers:

- Farmers who own their small farms, usually smaller than 13.2 hectares. Their right to own land was guaranteed by the Cuban Agrarian Reform Law of 1959. These farmers are pretty much on their own, although they can sign delivery contracts with ACOPIO, similar to those signed by the state-controlled producers. The number is probably around 150,000. Some of them have joined the Credit and Services Cooperatives (CCS), where they retain their individual ownership and control of the land while sharing on services.
- Other rural producers are grouped in different types of quasi coops organizations. The largest one is the UBPCs. They were created in 1994, when state farms (Sovhoz-like) were dissolved because of their inefficiency. UBPC members do not own the land but use it under a usufruct arrangement. In theory, they are allowed to manage the land and to retain any surplus income they can earn. In practice, they are subject to ACOPIO system, which directs what to plant and must deliver close to 80 percent of their production to the state. Once their quota is fulfilled, they can sell the remainder in the supply-demand markets mentioned before. The government has recently publicly acknowledged that substantial deviation of production to the black market occurs, some of which should have been delivered to ACOPIO, as per contract. Many other UBPCs are dedicated to sugar production with parcels of land used to produce foodstuff for self-consumption. A majority of the UBPCs have proven unprofitable and have received budgetary subsidies. Partially because of the virtual demise of the sugar sector, these UBPCs count for a significant percentage of the 2 million hectares of idle lands in the country.
- Agricultural Production Cooperatives (CPAs), composed of former private farmers who joined

these government-organized cooperatives in exchange for the inputs they would get, is a form of quasi-cooperatives. The government considers them part of the "private" sector, but they are subject to ACOPIO contracts and directives. Different than coops worldwide, once the producer joined the CPAs, he/she "sold" the land to the group and lost individual ownership rights, i.e., they cannot leave the cooperative and recoup their land area.

- Another form of quasi-cooperative is the Credit and Service Cooperatives, mentioned above. They were formed with the apparent objective of producers obtaining credit and services collectively from the state. CCS members are also part of the "privately owned" small farms, but they have maintained property rights over their plots of land.

In addition, the armed forces are engaged in food production through the Youth Work Army, in lands formerly part of the old state farms. They seem to be also involved in the direct marketing of their products, once the needs of the armed forces are met. We do not know their relationship to ACOPIO, if any.

Intermediation of agricultural products, like of most other products, is illegal. Intermediaries are generally classified as either exploiters or speculators. Thus, in principle, the producer must do, by him or herself, whatever marketing is necessary after ACOPIO quotas have been fulfilled.

Raúl Castro, the acting head of government has said that, overall, workers' salaries are insufficient to cover basic food and other basic human needs. Therefore, he added, individuals throughout the island must turn to the informal market (black market) for the necessities for a dignified daily life. In his view, as well as mine, significant and unusual structural changes are necessary in the agricultural sector if the crisis is to be solved.

What follows is a sketch of the key changes this author believes are condition *sine qua non* for achieving increased productivity and social justice in the Cuban rural sector, followed by an initial analysis of the new Land Tenancy, Decree-Law 259.

## IMPORTANCE OF THE AGRICULTURAL SECTOR AND CURRENT SITUATION

The agricultural sector is Cuba's largest source of domestic food supply. It is also a major producer of inputs for industrial sector and the largest source of employment. The agricultural sector can play a significant potential role in exports and also in the production of biofuels.

Agricultural sector productivity and production levels are low by world and pre-1959 Cuban standards. Low levels of nutrition throughout the nation are due to low food supply and lack of variety. Stock of livestock is close to one-half of that in 1959. Sugarcane yields (28 tons per hectare) are below one half of world averages. Industrial sugar extraction yields (10.5%) are also well below the world's average.

- The agricultural sector is under total direct or indirect government control regardless of organizational form, e.g., independent farms, UBPCs, CPAs, CCS, state farms. The two ministries that deal with agricultural production, namely the MINAG and the MINAZ seem now to have very similar portfolios, particularly since a large portion of former sugarcane lands, when that industry was downsized, were to be used for food production.
- The majority of producers have neither property nor decision-making rights.
- Private intermediation is illegal. Only the state can transport goods or market them. Violations of these rules are commonplace.
- Government determines most input/output prices. Access to both, including credit, is very difficult and governed by political and administrative criteria.
- Most producers must sell no less than 80% of production to ACOPIO, at artificially low prices, to support the rationing system. The current system has been highly ineffective in providing adequate access to food and, in fact, has discouraged production and encouraged deviations to the black market.
- The ration card currently supplies, at subsidized prices, less than one-third of monthly food needs. The balance must be obtained in the informal

market or in the dollar stores. More than 84 percent of food supply is currently imported.

- Incentives to produce are extremely low and counterproductive. Drastically declining sugar production has been mostly due to insufficient supplies of cane, caused by low incentives to producers and central controls that prevent local decision-making. Equipment failures are constant and spare parts are seldom available on time thus delaying harvest and decreasing industrial yields.
- Close to two million hectares of crop land, formerly planted with sugar cane and other products, lie fallow and are covered with *marabú*, a deep rooted weed difficult to eradicate. Compacting, water logging, and lack of nutrients have damaged soils.
- In general, management of "social property" has been dismal. There is hardly any maintenance of equipment. There have been no significant investments in modernization of equipment or production technologies.

## AN AGRICULTURAL TRANSITION POLICY

### Objectives

Enhancing land tenure rights and security, private ownership of land or legally-binding stable land rental contracts, and individual producers' autonomy to decide should be the norm. Other objectives include:

- Stimulate rapid increases in food production.
- Facilitate distribution to all markets.
- Stimulate foreign and domestic investments in food and agriculture, especially processing plants to supply domestic and export markets, including sugar mills and ethanol distilleries.
- Stimulate renaissance of a diversified sugar sector that produces sugar, molasses, newsprint, compressed boards, and ethanol.
- Take advantage of the proximity of the U.S. market for year-around and counter-seasonal food export opportunities.
- Protect rural workers rights.
- Use country's natural resources to enhance well-being of rural population.

### Immediate Priority Actions

- Transfer full property rights, through sales or grants, to members of all state-owned cooperatives

and farms. Standard valuation techniques would be used to determine sale price, payable to the state over a reasonable period. A property claims commission would undertake settlement of former owners' claims, i.e., owners confiscated after 1959.

- Develop a legally protected, stable land rental market that would offer similar long term guarantees to producers as outright private property does.
- Liberalize all agricultural prices including for all types of livestock products. This assumes adjustments of salaries to a living wage standard and adoption of social safety net policies initially to insure minimum adequate access to food, particularly by vulnerable groups.
- Legalize all agricultural intermediation and marketing. This should maximize number and diversity of suppliers and stimulate price/quality competition.
- Announce date certain for abolishing current food-rationing system. Abolish ACOPIO. Use food coupons to provide access to basic foods to the poorest of the poor and other highly vulnerable groups. In the very short run, food supplies can be supplement with a donors' financed food aid program, which would be marketed through the commercial market system.
- Organize, with the help of NGOs and churches (in the implementation phase), feeding programs to assist the very old and the infirm. These programs can also be supported by food aid.
- Facilitate producers' access to financial services, both state and private, at market prices. This assumes that both banks and financial cooperatives will be in place within two years. The role of state and external aid to help create an institutional framework and provide seed financing will be critical during the first two years.
- Liberalize the labor market so producers can hire, and pay directly, employees working in their production units. Stimulate the renaissance of a free union system.

### Longer-Term Priority Actions

- Facilitate the creation of supervised financial cooperatives and regional private banks to serve the rural sector.
- Facilitate access to technical inputs (factors) at market prices. Major initial support source could be potential agricultural buyers overseas (contract farming arrangements) or imports financed initially with foreign aid. Some donations of basic equipment might be necessary and can be supported by foreign aid.
- Help develop transportation services to serve rural producers. Ensure that access to market roads and existing market places are in adequate repair. Facilitate private access to transport vehicles (trucks) and fuel to maximize number of intermediaries, thus avoiding monopolies.
- Start supervised program to encourage business partnerships between new property holders and former owners overseas who can provide capital, technology, and marketing know how.
- Create, within the first two years, strong extension system in MINAG, linked with agricultural university faculties, to provide farm management and technical assistance to agricultural producers. Link Cuban agricultural schools with U.S. and/or EU agricultural schools to facilitate technology transfer.

Privatization or devolution of sugar mills and other large industrial users of agricultural products will follow rules approved for general privatization and claims settlement process.

### Achievements at End of Second Year

- Overall, nutritional level, based mostly on consumption of nationally produced food will have surpassed FAO standard levels for calories and proteins.
- All vulnerable groups, particularly the old and children will have had adequate access to food.
- Extension system will have reached a large share of producers.
- Rural property owners will be able to buy and sell land without onerous bureaucratic or legal impediments.

- Significant progress will have been achieved in making transportation services adequate in order to facilitate marketing and transport of agricultural production.
- Privatization of agricultural based industrial plants will be mostly completed.

#### AN INITIAL REVIEW OF DECREE-LAW 259

Decree-Law 259<sup>1</sup> authorizes the concession of idle lands, under long-term contracts of usufruct, to individual or cooperatives producers who are willing to use them for productive purposes. Most of this land is now covered by *marabú*, a difficult to eradicate deep root variety of acacia, not usable for any productive purpose. This decision seems to be directed at revitalizing the agricultural sector, particularly food production. Contracts would be for 10 years in the case of individuals and for 25 years in the case of cooperatives or government institutions. In both cases, contracts could be extended for a similar time period if recipients have been successful in operating the land, in the estimation of the government.

The Decree gives priority to individuals or cooperatives already productively engaged in agricultural production. In the case of a private farmer, now limited to owning 13.4 hectares of land, usufruct contract would allow increasing his or her cultivation area to 40.26 hectares. Producers' resources, work force available, products to be cultivated, and land's productive capacity will determine final size of concession. Usufruct contract requires recipients to produce what is identified in the contract, and to undertake whatever work, improvement, or maintenance are necessary to keep land productive. Land will be subject to an annual tax, yet to be determined.

Decree-Law 259 does not provide any guidance or any provision for inputs, credit, or tools to undertake effort called for. It also does not address the question of marketing or the mechanism chosen for the determination of sale prices for production.

In Articles 13 and 14, the Decree extensively outlines a number of reasons that would allow termination of

usufruct contracts. MINAG has the authority to decide when these reasons exist. They include:

- Not fulfilling delivery volumes of production contracted, presumably to ACOPIO;
- Not delivering the type of products contracted for;
- Engaging in unsustainable practices in the use of the land that affect it and that do not follow government's environmental guidelines;
- Making decisions that are deemed (by MINAG) to run counter to the purpose of the usufruct contract;
- Not working the land for more than six months.

In addition, MINAG can also terminate a contract based on higher-order public and/or social interest, as determined by MINAG, or other high-level government decision.

Article 15 specifies that, when an usufruct contract is declared void or it ends, producers will be paid for improvements to the land, with the exception of any home they may have built for their own and their family's use. No valuation mechanism is offered.

In the light of the earlier discussion about minimal changes needed to reactivate Cuban agriculture and food production, what does passage of Decree-Law 259 mean? The Decree does provide for increased access to additional land to small private farmers and cooperatives, access that has been thus far usually very difficult. However, it maintains in place all of the control mechanisms that have plagued Cuban producers for decades.

- Producers would still be at the mercy of government decisions concerning what to produce, would be forced to sell the harvest to the government at prices determined by the government, and are limited in their ability to access labor other than the family.
- In addition, they can be evicted for a large number of reasons, all determined by government officials, and would lose any home they built on the land under usufruct.

1. The text of the Law-Decree 259 of July 10, 2008, is available at <http://www.granma.cu/espanol/2008/julio/vier18/leynu259.html>

- It is clear, also, that producers will have to make large investment of resources and work merely to prepare the abandoned land into production when the risk of eviction remains high and the product can only be sold to the government at historically low administered prices.

What, at first glance, seems to be an important step in the direction of loosening a major constraint to access to productive land, ends up being a rather tepid attempt at reform. The new proposed land tenancy system remains faithful, in all respects, to the policy preference for strict central control the government has practiced for almost five decades. In practice, all of the negative incentives to risk-taking in agriculture and entrepreneurship embodied in such policies remain unchanged. The only possible incentive to assume such a risky arrangement would be if a private or cooperative producer could foresee that they will be able to divert a higher volume of production to the true market system in the Island, the black market.

A quick comparison is revealing. The Socialist Republic of Vietnam issued a new Tenancy Law several years ago. All land in the hands of producers remains social property—state-owned. Farmers can use them in permanent usufruct as long as they keep land in production. The producer determines what s/he wants to plant. This decision, individually made, is made on the basis of land aptitude and market prices for different crops. Products can be sold freely in supply-demand markets or exported. Usufruct agreements can be inherited. They can also be used as collateral in accessing working or investment capital at banks or other financial institutions.

That is, Vietnam allows individual decision-making, security of tenure, many of the rights inherent in fee simple ownership, and the market as the guidance mechanism for financial decisions. Vietnam has become a major exporter of rice, coffee, and other crops, less than 30 years after a major war that destroyed most of the productive capacity of the country. There are also no shortages of any basic foods for the population and the country enjoys a high level of nutrition and diversity.

## CONCLUSIONS

The set of ideas and proposals in this paper are offered in the spirit of helping those who will be making decisions on restructuring the Cuban agricultural sector and food marketing system. It is important to acknowledge that these reform measures of reform will not work properly if other critical changes at the macroeconomic level are not undertaken in parallel fashion. An essential one would be the development, by the government, of a transparent, comprehensive, and integrated reform program as well as a strategy for change to deal with all of the structural problems facing the Cuban economy. These include:

- Solving the dual nature of the monetary system;
- Abolishing inoperable administered central price controls that do not provide adequate economic signals and create disincentives to economic activity and entrepreneurship;
- Allowing, instead, a free market that will provide signals for best allocation of resources in response to changing supply and demand conditions;
- Creating an efficient and fair tax system that will yield the state sufficient resources to maintain social services in health and education as well as to invest in other public goods usually offered by the state, such as roads and potable water and sewers; and
- Developing a commercial code and a legal system to regulate, protect, and guide all facets of commercial activity.

It is important to recognize the enormous difficulty of effecting so many necessary changes in the short to medium term, particularly working under the volatile nature of a transition process from central controls to a market-oriented system. One alternative could be to identify key binding constraints to increase food production and address those first, particularly when their solution may, indirectly or sequentially, soften the impact of secondary constraints.

The experiences with partial reforms in 1984 and 1993, when very limited and uncertain openings led to rapid increase in food production and marketing, suggests a very high supply response even to small policy changes. From that experience, one can infer that market determined prices that show where demand exists

for specific products, autonomy to physically deliver products to market, and lack of interference from government entities can produce fast, even if partial, results. If one adds security of tenancy, ability freely to contract labor needed for harvesting and marketing, and legalizing the creation of micro, small and medium firms, all of which can also be done by decree, would be, initially, more than sufficient to start a rapid modernization process in agriculture.

These changes, nonetheless, will not be easy to implement and they will require absolute transparency so that the population understands the sacrifices in-

involved and the objectives sought. They will also require the understanding and support of the international community and the international financial institutions.

Appendix 1, composed by the author, reflects the thought process regarding the agricultural sector that seems apparent in Cuba's economic leadership. This perspective, resulting from fear of losing power, has led to timid decisions, not consistent with Raúl Castro's 26<sup>th</sup> of July 2007 speech in which he called for structural changes of importance in the economic system.

## Appendix 1

Ministry of Agriculture  
Cuban Revolutionary Government  
Year of the 50th Anniversary  
La Habana  
August 6, 2008

Decision Memorandum

To: General Raúl Castro  
President of the Council of State

From: Minister of Agriculture and Minister of Sugar Industry

Mr. President. We are addressing you with great respect and with the main objective of making recommendations to overcome the great crisis that afflicts us. As you have said now several times, the situation in the agricultural sector is dire and in need of urgent action to improve its performance. Drastic improvements in food production are particularly critical in view of the large dependence on imports of food that we could produce in our fertile island.

We all know that close to one-half of the country's arable land is idle and most of it is covered with *marabú* and other weeds. Large areas have been damaged by salt intrusion and compacting. Soil nutrients have been depleted by lack of fertilizer and by planting crops unsuitable for the land. The bureaucratic structure that should have led agriculture to greater heights has instead contributed to inefficiency, low productivity, and exploitation of the rural worker. Farmers do not receive inputs in a timely manner and tools necessary for them to work are not available. Transportation to markets is unpredictable, which has led to high crop losses. Rural youth prefer to migrate to the cities rather than work the land.

Institutionally, the situation remains precarious in most of the land directly controlled by the state. The UBPCs, created to give incentives for farmers to increase production, have not worked as expected. We suspect that a significant portion of their production is illegally diverted to the informal market, in order to avoid the ACOPIO mechanism. ACOPIO's obligations to the producer are seldom fulfilled on time and it has set its buying prices at unrealistically low levels. In addition, its payments to farmers are perennially late. Yet, it remains important to our nation as the main support of the rationing system.

Performance in other social property production units is also very low, with the possible exception of those lands worked by the Youth Work Army, but this group is under military discipline, a different type of incentive. In contrast, small private farmers, grandfathered by the Law of Agrarian Reform of 1959, remain very productive and, in fact, deliver most of the food the island produces. These farmers are allowed to market their goods in open markets where the balance of supply and demand sets prices. These prices are usually much higher than those set by the ACOPIO. Private farmers can sign delivery contracts with ACOPIO, but are not required to do so. Very few do.

What follows are brief policy prescriptions listed under two different scenarios, each with different implications for the stability of the state and the government. The chosen policy package must be implemented rapidly. They are followed by our recommendations.



### SCENARIO ONE

- A. Guarantee permanent, secured land tenancy (leasehold), one that can be inherited and/or used as collateral for production loans. This would cover all types of farms now controlled by the state. This is what the Socialist Republic of Vietnam has done.
- B. Allow all producers to choose, on their own, what products to produce and to sell them in open markets of their choosing through private intermediaries. This could be done gradually but rapidly to give us time to limit subsidized rations to those who actually need the subsidies we now grant everyone. Thus, the need for an ACOPIO system would diminish.
- C. Facilitate access to basic inputs and tools in regular pesos. We could grant self-employment licenses in types of work that would lead to increase production and supply of these, mostly technically simple products.
- D. Legalize direct hiring of agricultural workers, other than family members, by producers. The state would initially set an appropriate level of minimum wages.
- E. Establish a transparent and fair tax system for producers and salaried employees.

#### Pros

- These measures would provide sufficient incentives to increased agriculture and food production and increased efficiency and productivity of production and marketing.
- They would allow minimum support for needed ACOPIO supplies to feed a reduced rationing system, reducing the scope but not the control mechanisms in place.
- They would facilitate incorporation of idle youth into income producing productive activities.
- They would provide increased tax revenue, from legal activities, to the state.

#### Cons

- The measures would increase economic autonomy of producers thus making them less dependent on the government.
- They could lead to the creation of pressure groups independent of the government.
- They could severely harm the ACOPIO system.
- They could further weaken the role of the state in guiding agricultural production and product mix.

### SCENARIO TWO

- A. Transfer full property rights, through sales or grants, to members of all state-owned cooperatives and farms.
- B. Develop a legally-protected, stable land rental market that would offer similar long-term guarantees to producers as outright private property does.
- C. Liberalize all agricultural prices, including for all types of livestock products.
- D. Legalize all agricultural intermediation and marketing.
- E. Announce date certain for abolishing current food-rationing system. Abolish ACOPIO. Use food coupons to provide access to basic foods to the poorest of the poor and other highly vulnerable groups.
- F. Organize, with the help of NGOs and churches in the implementation phase, food distribution programs to assist the very old and the infirm. These programs can also be supported by external food aid similar to that we now receive from the World Food Program.
- G. Facilitate producers' access to financial services and transportation, both state and private, at market prices.
- H. Liberalize labor market so producers can hire, and pay directly, for employees for their production units. Vastly expand legal self-employment.

**Pros**

- Will increase agricultural production and productivity substantially for both national consumption and exports.
- Will stimulate large investments by producers in their own properties.
- Will increase employment.
- Will eliminate illegal markets in agricultural products and its inefficiencies.
- Will help our efforts to substantially reduced and simplify existing bureaucracies

**Cons**

- The measures will radically diminish central control of agricultural sector, rural producers, and social property.
- They may/will create a new rural bourgeoisie that may/could oppose the revolution.
- They may/will lead to demands for more open politics, and a role in national policy decision-making.

**RECOMMENDATION**

It is our judgment that Scenario Two would be a radical change, not only with respect to the agricultural sector, but also with respect to our whole society and polity. It would likely lead to dismantling of many of the important pillars of our socialist society and our government. This may be too high a price to pay in order to obtain results that might be attainable with less radical measures. If we commit to more discipline, better organization, and a higher commitment to work, we will easily achieve the production levels we need without endangering the revolutionary process.

Therefore, we recommend that you approve the implementation of those policy measures listed under Option One. Such process must be followed with intense vigilance so our enemies cannot identify them as a sign of weakness in our resolve to maintain socialism in our fatherland. !Patria o Muerte!

Recommendation approved.

---

General Raúl Castro  
President, Council of State  
La Habana, August 7, 2008