



**Testimony for the Senate Committee on Agriculture, Nutrition and Forestry
“Opportunities and Challenges for Agriculture Trade with Cuba”**

Michael V. Beall, President & CEO

NCBA CLUSA

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Chairman Roberts, Ranking Member Stabenow, and Members of the Committee,

My name is Michael Beall, I am President and CEO of NCBA CLUSA. NCBA CLUSA is the apex trade association for cooperative business in the United States and an international development organization. Our work provides cross-sector education, support, and advocacy that helps cooperatives thrive. We also engage with cooperative sectors around the world, including Cuba.

It is an honor to be here to discuss new ways forward in U.S. Cuba relations; notably through trade. I think you will find my testimony today will take a slightly different track than other panels as our organization recently has already been highly focused on cooperative development inside Cuba as a result of changes to laws within that country.

Let me start today by thanking Chairman Roberts for holding today’s hearing and the Committee for recognizing that the recent regulatory changes impacting U.S. Cuba relations have led to a great number of difficult questions and political challenges but also provide for great opportunities. If I am to leave you with two important thoughts today it is that first, the United States should view Cuban cooperatives as key actors in building economic ties to that country and providing the Cuban people with economic independence from the state through cooperative business (or member) ownership; and second, that U.S. cooperatives are well-positioned and eager to play a role in trade and private sector development in Cuba.

In the United States, member-owned cooperatives are a vibrant and viable alternative form of business and part of a strong U.S. economy, and have been since the early 19th century. Consumers, producers, and workers throughout America and other parts of the world continue to seek the economic freedoms and choices that cooperative businesses provide in virtually every sector of the economy. When consumers anywhere in the world choose cooperative businesses to provide for their needs, they are choosing a business model that not only provides high quality, low cost options, but also one that supports the cooperative values of self-help, democracy, and concern for community.

Cooperatives (or co-ops for short) are owned and controlled by their members; the people who use its services or buy its goods. Cooperatives use any profits earned by their business for the benefit of their members, either by reinvesting in their business, lowering prices or interest rates, or by returning dividends to members.

Most equity comes from the member-owners and not from outside investors, which makes cooperatives a distinct alternative business model. Cooperatives are characterized by the fact that they are formed to serve their members and not solely to earn a profit. Among key principles, cooperatives are democratically governed. Every member gets an equal vote in determining a cooperative's governance.

In many ways, cooperatives resemble other businesses. They have similar physical facilities, perform similar functions, and follow sound business practices. They are usually incorporated under state law and operate under the direction of a board of directors with bylaws.

Because of their unique structure and composition, cooperatives often are misunderstood and face hurdles when interacting in the marketplace and with governments. NCBA CLUSA's work provides cross-sector education, support, and advocacy that helps cooperatives thrive here and abroad.

American consumers come into contact with cooperative business every day in virtually every sector of the economy; from agriculture, childcare, credit unions, energy, insurance, food, healthcare, housing, retail, and the media and telecommunications. According to federally supported research on cooperative businesses by the University of Wisconsin Center on Cooperatives, we know that:

- Approximately 29,000 cooperatives are in operation today
- They sustain 2 million jobs annually
- Contribute \$652 billion in annual sales
- Generate \$150 billion in income
- Possess \$3 trillion in assets
- 1 in 3 Americans are members of a co-op and collectively hold 350 million memberships nationwide
- 92 million Americans turn to 7,500 credit unions for their financial services
- Most of the nation's 2 million farmers are farmer co-op members and provide 250,000 jobs and \$8 billion in annual wages
- 42 million Americans rely on electricity from 900 rural electric co-ops in 47 states – making up 42% of the nation's electric distribution and covering 75% of the nation
- 233 million people are served by co-op owned and affiliated insurance companies
- 1.2 million rural Americans are served by the 260 telephone cooperatives in 31 states
- 50,000 American families rely on cooperative daycare and preschools for the care of their children.

We know that the cooperative model is a powerful tool in developing countries as well. Worldwide, over a billion people belong to a cooperative.

Along with the U.S., capitalistic countries around the world view cooperatives as a viable business model; in Cuba, cooperatives are now being prioritized in the development of the country's nascent private sector. Since early 2013, Cuba has been working to shift its economy from state-controlled enterprises to citizen-controlled and owned cooperatives; this shift is a key strategy to lessening state control and strengthening market-based approaches to the economy.

As in the U.S., cooperatives in Cuba perform vital business functions. Historically in Cuba, cooperatives were primarily found in the agricultural sector. There is a 50 year history of agricultural cooperatives in Cuba that date back prior to the revolution. There are nearly 5,200 agriculture cooperatives currently

operating in Cuba that contribute 80% of all fruits and vegetables consumed in Cuba. Given new guidelines for the economy established by the Cuban government in 2011, that situation is changing dramatically with the emergence of non-agricultural cooperatives (NAC) in numerous economic activities. Of the three types of agricultural cooperatives previously established, at least two of them should be considered “private enterprise” under the strictest of definitions. They, along with the NACs, are briefly described below.

In the Cuban legal conceptual framework, cooperatives are private entities jointly owned by a group of associates as defined and protected under their laws. This attribute distinguishes this sector from the other types of enterprise which are state-owned, private (individual ownership), or joint ventures (Cuban state and foreigners). In Cuba there is a fundamental demarcation between state and non-state businesses. Cooperatives of all forms are non-state entities, though they may have varying commercial and financial connections with the state.

Cuban cooperatives in general, but especially the newest ones emerging, face many technical and educational challenges with regard to how to operate most effectively as strong associations and businesses. International exchanges with cooperative groups like NCBA CLUSA and our member cooperatives will provide valuable learning tools, best practices, and exchanges that can help strengthen this sector and its role in privatizing the economy.

BRIEF DESCRIPTION OF CUBAN COOPERATIVE FORMS

AGRICULTURAL COOPERATIVES

Cooperativas de Créditos y Servicios (CCS)/ Credit and Service Cooperatives

Farmers with small amounts of land first formed them in the early 1960s. CCS cooperative members are private landowners who hold their land separately but join together to obtain and utilize agricultural credits and services. According to official statistics, as of 2010, CCS cooperatives have a total membership of 362,440 farmers that own 35.2% of cultivable land.

Cooperativas de Producción Agropecuaria (CPA)/ Agricultural Production Cooperatives

CPAs were formed in the mid-1970s by small private landowners joining together much like those in CCS cooperatives. However in the CPA structure, members contribute their land to participate in joint land ownership with the other members. The land remains totally private but mutually owned by members. According to official statistics, as of 2010, there were a total of 30,000 members owning 8.8% of cultivable land.

Unidad Básica de Producción Cooperativa (UBPC)/ Basic Units of Cooperative Production

UBPCs emerged in the early 1990s as a means for the state to break up large state farms. Workers own their production, make management decisions, and operate as cooperatives, but do not own their land. They have usufruct from the State, which retains ownership of the properties. According to official records, as of 2010, UBPCs have a total membership of 187,000, and work 30.9% of cultivable land.

NON-AGRICULTURAL COOPERATIVES (NAC)

Historically, Cuba has not had enabling laws for the formation of NAC cooperatives. Law No. 305 establishing their legal structure was enacted in November 2012. NACs are not state enterprises.

Article 2, Section 2 of their Law states, “A cooperative has its own juridical and patrimonial persona; it may use, enjoy, and dispose of the assets of its property; cover its own expenses with its income; and

meet its obligations from its own patrimony". Article 4 of the same law lists seven cooperative values that shall guide the behavior of the entities including their voluntary nature, internal democracy, and community responsibility among others. These aggregate values are strikingly similar to those voted on and promulgated by the worldwide membership of the International Cooperative Alliance.

Currently NACs represent a tiny fraction of the Cuban workforce, about 350 have formed, which is less than .4% of their economy. However, based on official government statements and policy priorities, that number could expand to 15% - 20% of employment in the coming years.

NACs originate in two ways. There is a legally defined process for the creation of "grassroots" or "bottoms up" cooperatives in which a minimum of 3 people agree to form a joint enterprise within the framework of the regulations. These cooperative members jointly are the owners of all aspects of their business. Most common to date, however, has been the practice of offering state enterprise employees the option of forming a cooperative or likely face the closure of the enterprise. In such a conversion from state enterprise to cooperative, all the norms and regulations guiding performance are in place regarding management, internal functioning, control of production, etc. However the land and buildings remain state property and are leased to the cooperative.

Based on these changes, in early 2014, NCBA CLUSA established the U.S. Cuba Cooperative Working Group (USCCWG) to explore opportunities to engage with Cuba on cooperative development and released a Cuba Research Trip report on its initial findings. I would like to include in my testimony today a copy of that report as well as an outline and scope of work of the USCCWG.

We remain optimistic that these internal changes in Cuba, coupled with the recent U.S. regulatory changes, will create enhanced opportunities to help Cuban workers improve their living standards, gain greater business ownership, and economic independence from the state. This is the mission and objective of the USCCWG.

Cubans have been able to form cooperatives in non-agricultural sectors only since July 2013, so most of the immediate opportunity for trade is in agriculture. The country's non-agricultural cooperatives are currently aimed at meeting local needs. The Cuban government is emphasizing this sector because of the need to increase food production. The mutual trade potential is enormous, but in the short run, especially from U.S. cooperatives to Cuban cooperatives. I think the need for inputs, for equipment, and for know-how are large. I think the cooperative sector here in the U.S. is very well positioned to do that.

The question about trade is important in that as markets start to open up, hopefully these cooperatives will have better access to raw materials — commodities such as seeds and fertilizers that will help them to continue to grow their businesses.

Cuban cooperatives eventually might be able to export certain crops to the U.S., particularly those that are more tropically oriented; such as fruits, coffee, or sugar. The Cuban government is currently analyzing how the cooperatives operate in order to develop a definitive law in 2016 that will improve the commercial environment for them.

What would NCBA CLUSA view as a positive outcome for expanded U.S./Cuban cooperative relations? A great deal depends on how the new regulatory changes take shape in addition to the existing embargo restrictions and how much the Cuban government will allow for change. Much is out of our control both politically here in the United States as well as in Cuba and challenges with capabilities by the Cuban

government. However, we would like to see positive enabling environments in which cooperatives can thrive and which protect the economic freedoms and choices of people in Cuba. We hold that United States government policy needs to continue to provide recognition of cooperatives as supporting the nascent Cuban private sector as well as parity for cooperatives equal to other forms of business interested in Cuba's economic transition.

We were pleased to see the Commerce Department recently update its Export Administration Regulations (15 CFR Parts 736, 740, 746, 748; <https://www.federalregister.gov/articles/2015/01/16/2015-00590/cuba-providing-support-for-the-cuban-people>) and add a new license exception to enable exports to empower the nascent Cuban private sector by supporting private economic activity. Exports providing building materials; goods for entrepreneurs such as mechanics, hairstylists, and restaurateurs; and tools and equipment for agriculture activity, many which are non-agricultural cooperatives, now have a license exemption. This is intended to facilitate lower-priced access to goods to improve living standards and gain greater economic independence from the state. Prior to this rule, these activities required a license to support the embargo.

I would like to include in my testimony today, copies of letters that NCBA CLUSA sent to Secretary Jack Lew at the U.S. Department of Treasury and to Secretary Penny Pritzker at the U.S. Department of Commerce, outlining our views on recent regulatory changes announced by their Departments.

Cooperative development and growth in Cuba can be a positive development toward advancing the needs of the Cuban people as well as meeting the objectives of the U.S. government to support the strengthening of the Cuban private sector and greater independence from the State. Much work remains to be done. We look forward to the continued work of our U.S. Cuba Cooperative Working Group, and to fostering expanded engagement with the Cuban cooperative sector. This will allow both cooperative sectors to exchange important information, deepen economic ties, and provide a platform for additional support and technical assistance. NCBA CLUSA stands ready as a resource and convener of the U.S. cooperative sector to work with all levels in the U.S. government in this pivotal moment for U.S. Cuba relations.

Thank you again for allowing me to testify before you today.