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U.S. Fruit and Vegetable Imports Outpace Exports

The U.S., traditionally a net exporter of fruits and vegetables, has become a large net importer, with imports more than doubling between 1994 and 2004 to reach $12.7 billion. U.S. exports of fruits and vegetables have also risen but less rapidly, reaching $9.7 billion in 2004. The surge in imports can be traced to a growing consumer demand for produce from tropical regions, produce that complements U.S. seasonal patterns of production, and produce that competes directly with U.S. production. Because of geographic proximity and low or zero tariffs, Canada and Mexico are among the largest sources and destinations of U.S. trade of fruits and vegetables.

U.S. produce exports are growing more slowly than imports partly because they are constrained by high tariffs and slow economic growth in importing countries. The global average tariff for the fruit and vegetable sector is over 50 percent, with tariffs varying substantially across products and countries. In general, the United States maintains lower tariffs than most of its trading partners. Nearly 60 percent of U.S. tariffs on produce are less than 5 percent, and over 90 percent are under 25 percent. Countries belonging to the Organisation for Economic Co-operation and Development (OECD), which together import about 85 percent of the value of world fruit and vegetable trade, are characterized by a relatively large number of low tariffs and a small number of very high tariffs. For example, most Japanese and European Union fruit and vegetable tariffs range from 5 to 25 percent. In contrast, over half of all official tariffs of non-OECD countries exceed 25 percent, although in practice, non-OECD developing countries tend to maintain lower tariffs.

Market forces and government policies also are key factors shaping U.S. fruit and vegetable trade. The recent decline in the dollar—down about 11.6 percent in real terms since 2002 against a basket of horticultural trading partners—has made American fruits and vegetables relatively less expensive than those of most U.S. competitors in importing countries. The main exception is China, which has maintained a fixed exchange rate with the dollar, and China's horticultural products have begun to compete head-on with U.S. products in important third-country markets such as Japan. Partly in response to growing international competition, in December 2004, Congress passed the Specialty Crops Competitiveness Act, which (although not currently funded) authorizes promotional campaigns and technical and financial assistance designed to enhance the competitiveness of U.S. fruits and vegetables. Additionally, ongoing World Trade Organization

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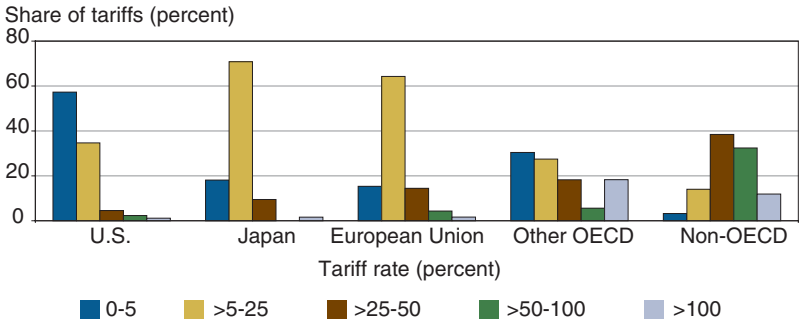

Note: Other OECD members include Australia, Canada, Iceland, South Korea, Mexico, New Zealand, Norway, Switzerland, and Turkey.

Future of Preferential Trade Programs Concerns Developing Countries

Both the United States and the European Union (EU) began providing trade preferences to developing countries in the early 1970s. These trade preferences, which reduce tariffs for designated products from eligible countries, are "nonreciprocal," meaning that they are granted unilaterally with beneficiaries not required to reciprocate with lower tariffs for donor country exports. The purpose of these programs is to foster economic development, particularly in the poorest countries, through increased trade. Ongoing trade negotiations, however, are creating uncertainty about the future of these programs.

Preferential trade programs have helped developing countries gain access to U.S. and EU markets. In 2002, 102 countries exported agricultural goods to the U.S. and 132 countries to the EU under these programs. The top beneficiaries from U.S. programs were Costa Rica, the Dominican Republic, Colombia, and Guatemala. The top beneficiaries from EU programs were the Ivory Coast, Argentina, China, and India. Both the U.S. and the EU import large quantities of fresh and processed fruits and vegetables, sugar, tobacco and tobacco products, and cut flowers under these programs. The EU also imports large amounts of fish, shellfish, fats, and oils under these preferences. Even with this access, the value of agricultural imports under these programs is a relatively small share of total U.S. and EU agricultural imports, at 6 percent ($3.1 billion) and 18 percent ($11.2 billion) in 2002, respectively.

Still, developing countries strongly support these programs and have expressed concern about their future in light of the ongoing Doha negotiations, begun in 2001 under the auspices of the World Trade Organization (WTO). The value of these programs for beneficiary countries is high: in 2003, 50 percent of their total dutiable exports to the U.S. and 44 percent of their dutiable exports to the EU were exported under nonreciprocal preferences.

negotiations, as well as regional and bilateral trade agreements, may lead to reductions in tariff and nontariff measures faced by U.S. fruit and vegetable growers in global markets.

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This finding is drawn from . . .

Trade Issues Facing U.S. Horticulture in the WTO Negotiations, by Jason Donovan and Barry Krissoff, VGS-285-01, USDA, Economic Research Service, August 2001, available at: www.ers.usda.gov/publications/vgs/aug01/vgs285-01/

Global Trade Patterns in Fruits and Vegetables, edited by Sophia Wu Huang, WRS-04-06, USDA, Economic Research Service, June 2004, available at: www.ers.usda.gov/publications/wrs0406/

FINDINGS

China's New Farm Policies Have Modest Impact

In a reversal of its longstanding practice of taxing farmers, the Chinese Government introduced direct subsidies to grain producers in 2004 and announced plans to eliminate its centuries-old agricultural tax. China also offered subsidies for seed and machinery purchases, boosted spending on rural infrastructure, extended more loans to farmers, and continued a program of domestic grain market liberalization. These policies are intended to address the country's widening urban-rural income gap and boost grain production. So far, the changes have had limited impact, but China may introduce policies with stronger incentives in coming years.

The new policies are symbolically important, but modest in size and impact. The grain subsidies of $1.4 billion were spread over 140 million farms and amount to less than 2 percent of the value of grain production. Elimination of the agricultural tax is worth $5 to $7 billion, spread over some 200 million households, and will take place over several years. The combined benefits of subsidies and tax relief in 2004 are estimated to be about $5 per rural household member.

Rural income and grain production in China did rise sharply during 2004, but the gains were due mostly to a combination of sharply higher farm prices and vigorous economic growth that boosted nonfarm earnings. The policies resulted in only modest increases in income for most rural families. The subsidies provided little incentive to plant more grain since they were in most cases based on historical grain plantings.

China's agricultural policy will evolve as policymakers try to balance multiple objectives and fine-tune policies. In early 2005, China announced that it will continue granting subsidies, speed up the elimination of the agricultural tax, limit increases in input prices, and set support prices for some grains. China also announced its intentions to place greater emphasis on raising grain yields by improving plant breeding and to raise investment in infrastructure. China may also adjust its subsidy methods. China has experimented with price- and production-linked subsidy policies in limited geographic areas, and such policies could be used more widely if policymakers believe that farmers need stronger incentives to produce grain.

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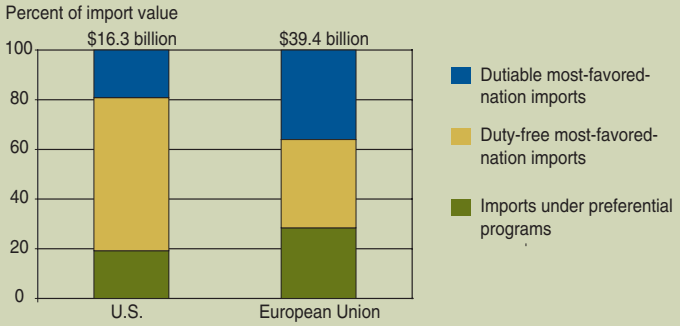
This finding is drawn from . . .

China's New Farm Subsidies, by Fred Gale, Bryan Lohmar, and Francis Tuan, WRS-05-01, USDA, Economic Research Service, February 2005, available at: www.ers.usda.gov/publications/wrs0501/

The European Union imports more from beneficiaries of preferential trade programs than the U.S., 2002



Note: Most-favored-nation (MFN) treatment refers to a World Trade Organization rule requiring that each member country grant every other member the same tariff treatment. Exceptions are allowed under nonreciprocal preferential trade programs or when countries are members of free trade agreements or customs unions. Nonreciprocal program beneficiaries face MFN tariffs on exports of products not included in these programs, or on exports of included products that do not meet program eligibility requirements.

Source: U.S. International Trade Commission DataWeb (http://dataweb.usitc.gov/) and Organisation for Economic Co-operation and Development, *Preferential Trading Arrangements in Agricultural and Food Markets—The Case of the European Union and the United States.*

Much of the negotiations will center on reductions in most-favored-nation (MFN) tariffs. With lower MFN tariffs, the margins of preference—the differences between preferential and MFN tariffs—decrease. Thus, the advantage that beneficiaries now enjoy for products receiving preferential treatment could be lost. However, many products of interest to developing country exporters are currently either excluded from trade preference programs or their access is constrained to limited quota amounts. In these cases, multilateral trade agreements may afford developing countries the opportunity to broaden their export mix to developed countries if they include deep cuts in MFN tariffs for goods that are not eligible for preferential treatment.

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This finding is drawn from . . .

Agricultural Trade Preferences and Developing Countries, by John Wainio, Shahla Shapouri, Michael Trueblood, and Paul Gibson, ERR-6, USDA, Economic Research Service, May 2005, available at: www.ers.usda.gov/publications/err6/