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CHALLENGES IN HORTICULTURAL TRADE

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The complexities of the horticultural sector often make trade in fruits, vegetables and other specialty crops challenging for both producers and marketers. Fresh fruits and vegetables, in particular, are highly perishable and seasonal in nature. Their markets tend to be sensitive to even the slightest changes in trade flows, which can upset the precarious balance many commodities face daily in the supply and demand marketplace. Other factors have a significant impact on fruit and vegetable trade, as well. Plant pests and disease, currency valuation, disparate regulatory environments, and, of course, the vagaries of weather regularly affect producers' ability to grow and sell their commodities profitably in domestic and international markets. These complexities are also challenging to federal regulators and policy officials, whose responsibility it is to design trade agreements and other policies that are responsive to the unique nature of the horticultural industry.

The Impact of Trade Agreements

No factor has impacted horticultural trade more in recent years than the implementation of the North American Free Trade Agreement (NAFTA) and the Uruguay Round Agricultural Agreement (URAA). Agriculture was a major component of both agreements, and was among the most contentious sectors during the negotiations. Today, nearly 10 years later after both agreements were implemented, the contentiousness has not subsided.

Tariff reductions under the NAFTA are in their ninth year. And, since duties on most articles in chapters 7 and 8 (fresh and processed vegetables and fruits) of the Harmonized Tariff Schedule were to be phased-out over a five or 10 year period, the lion's share of tariffs between the United States and Mexico have been significantly reduced or will be eliminated in January 2003. At the global level, the URAA reduced tariffs on developed countries' products on average by approximately 36 percent. More sensitive commodities received as low as 15 percent reductions over the six-year phase-in period, which concluded in 2000.

Clearly, there were winners and losers in the horticultural sector. In the case of NAFTA, Mexico has arguably emerged as the winner in terms of increased market access for fruits and vegetables across the category. The overall balance of trade in fresh and frozen fruits and vegetables between Mexico and the United States increased in Mexico's favor from about \$1 billion in 1993 to more than \$1.8 billion in 2000. Looking globally at the impact of the Uruguay Round agreements, U.S. producers have not fared as well as their competitors. U.S. fresh fruit and vegetable exports increased 16 percent worldwide from 1994 to 2000, while imports increased 95 percent during the same period. When the URAA was implemented in 1994, the United States had a worldwide trade surplus in the category of \$878 million. By 2000, the surplus had turned into a deficit of \$917 million.

Whether or not the NAFTA or Uruguay Round agreements helped or hurt individual horticultural producers depended entirely on what, when and where they grew it. The trade challenges

facing horticultural producers are no more evident than in the movement of two major commodities – tomatoes and apples – since the NAFTA and URAA were implemented. If they happened to be an apple grower from the Northwest, the agreements presented significant opportunities to open new markets, with little corresponding risk since U.S. apple tariffs were non-existent. However, if they happened to be a Florida tomato grower, the agreements provided improved access to the U.S. market for foreign competitors, but little corresponding opportunity to access new export markets.

Since 1993, growth in global exports of U.S. fresh apples outpaced increases in imports by approximately 17 percent, despite the Asian economic crisis, phytosanitary restrictions, and an on-going trade dispute with Mexico. Conversely, worldwide imports of fresh tomatoes during the same period nearly doubled, while exports increased a relatively modest 32 percent. Overall, the trade deficit in fresh tomatoes grew from just over \$200 million in 1993 to nearly \$500 million in 2000.

The changes in trade flows have not been without controversy. Unfortunately, the safeguard provisions contained in the NAFTA and URAA have failed to provide adequate remedies for domestic producers. There are two basic reasons for this. First, in the case of NAFTA, the tariff rate quotas were limited to a very few commodities, leaving many import-sensitive fruits and vegetables uncovered. Second, the volume ceiling that triggers the safeguard measure is met only at the very end of a production period, when the extra volume in the markets have already depressed prices and injured domestic growers. In the case of the URAA, the safeguard measure for fruits and vegetables didn't apply to U.S. producers since none of the commodities were subject to so-called "border measures" prior to the start of negotiations.

With no other options available, producers have relied instead on existing trade remedy laws. Increases in imports across the United States and Mexican border, and the resulting impact on markets, have led producers in both countries to file antidumping petitions, and in some cases, escape clause (Sec. 201) petitions. In the case of apples, Mexico initiated an antidumping petition against U.S. apples in 1997 and assessed a 101 percent duty. Within 6 months, a suspension agreement was negotiated that established a minimum import price, which is in effect today. Tomato producers in the U.S. filed antidumping charges against Mexico in 1996 that, like the apple case, ultimately resulted in a suspension agreement with a minimum import price. The tomato suspension agreement is currently under sunset review with the U.S. International Trade Commission and Department of Commerce. U.S. tomato producers are asking U.S. officials to negotiate several changes both to the structure and enforcement of the agreement; otherwise, they have indicated that they prefer the dumping investigation to resume. Producers on both sides of the border believe effective enforcement of the suspension agreement is critical to achieving the statutory mandate of substantially eliminating dumping.

Trade frictions in two-way trade between the United States and Canada have erupted, as well. In 2001, the U.S. greenhouse tomato industry filed an antidumping petition against imported greenhouse tomatoes from Canada. Canada, in turn, launched an antidumping investigation on imported field-grown tomatoes from the United States. Both those cases are currently being reviewed.

Both the NAFTA and URAA were promoted to fresh fruit and vegetable producers as being essential to the economic viability of their industry. While the development of new international markets is unquestionably important, many producers are asking: At what price? The experience to date for many producers is that losses in domestic market share have far outstripped gains in the export sector. But, growers of import-sensitive crops, such as winter vegetables, are not the only ones questioning the value of recent trade deals. Producers of other commodities such as apples or citrus,

which are more export-oriented and less import-sensitive, have raised concerns that expectations of increased market access have not been realized. Given this experience, it should not come as a surprise that many fruit and vegetable growers throughout the country are skeptical, at best, about the prospects for future agreements.

The SPS Controversy: Sound Science v. Protectionism

The new reality of the post NAFTA and URAA trading environment is that, as tariffs have lowered or been eliminated altogether, sanitary and phytosanitary (SPS) restrictions have become the trade barrier of choice for many countries, particularly in the horticultural sector. Both the URAA and the NAFTA dictated that SPS measures must be based on sound science, and cannot be used as artificial devices to restrict trade. U.S. producers, by and large, strongly supported the SPS provisions in the agreements because they hoped they would help gain access to export markets that were closed to them as a result of indefensible plant quarantine regulations. They also felt confident that U.S. SPS regulations were, in fact, scientifically based, and would continue to provide protection against invasive pests and diseases.

There have been some successes in recent years. After lengthy negotiations, China opened its market to U.S. citrus in 2000. Japan now permits certain varieties of fresh tomatoes into its market. And, Mexico has granted access to citrus from certain states. Despite these successes, market access for many fruit and vegetable products, including several from Florida, continues to be limited by arbitrary SPS restrictions and regulations. Fresh Florida citrus, for example, is still denied access to Mexico, Chile, Australia and many other markets, despite the fact that there exists no legitimate scientific justification for the restrictions.

From a domestic standpoint, producers face increased threats from invasive pests and diseases as global trade has increased. In Florida, the state Department of Agriculture and Consumer Services has estimated that the cost of control, eradication, and research of invasive pests over the five-year period ended December 2000, was \$407 million. Sales losses to the industry caused by invasive pests during the same period were estimated at just under \$900 million. If the domestic fruit and vegetable industry is to remain viable, it is essential that the United States significantly increase its pest and disease exclusion activities. Failure to do so will result not only in lost foreign markets, but lost domestic production.

Trade in the horticultural sector will likely continue to be impacted by SPS controversies for the foreseeable future. In the current Free Trade Area of the Americas negotiations, the United States is proposing that countries collaborate in the WTO to strengthen international standards and to coordinate on data exchange, research and technical assistance. U.S. negotiators should also seek to include disciplines in the proposed agreement that will better ensure that participating countries do not use unjustified plant quarantine issues to prohibit or stall access for U.S. agricultural products.

The Currency Dilemma

Although not as visible a trade policy issue as trade agreements or SPS measures, fluctuations in currency valuations have a major impact on horticultural trade. In some cases, a significant depreciation of a nation's currency can have serious trade implications, and can negate the market access value of tariff reductions or SPS barrier removal.

Such was the case in late 1994, just months after the implementation of the NAFTA, when the Mexican peso's value began to fall precipitously against the U.S. dollar. Within weeks, the peso depreciated more than 40 percent. Its impact was felt almost immediately in two-way trade in tomatoes between the two countries. According to the USDA's Economic Research Service (ERS), from 1994 to 1995, the average input cost of Mexican fresh tomatoes increased 64 percent in terms of pesos, but fell 28 percent in terms of the dollar. With the U.S. market becoming much more economically attractive, Mexican tomato growers exported record volumes of their commodity to the United States. The result was a market disaster – particularly for domestic U.S. producers. The impact of the devaluation was also a disaster for U.S. producers who exported to Mexico. In 1994 – the first year of NAFTA – nearly 22,000 metric tons of tomatoes were exported from the United States to Mexico. The following year, with the peso falling in value, U.S. exports fell to just over 2,000 metric tons.

Currency valuation is like the old saying about the weather: Everyone likes to talk about it, but no one seems to be able to do anything about it. However, its affect on exports and imports of agricultural products can be highly significant. The recent weakening value of Japanese yen seriously threatens U.S. vegetable and citrus exports. In 2001, U.S. fruit shipments were down 10 percent from the prior year, and vegetable shipments were off 18 percent. And, the outlook is not a good one.

U.S. exporters have long struggled with the impact of a strong dollar in foreign markets. As we've learned with recent trade agreements, market access wins can be lost quickly when consumer purchasing power for U.S. goods dissipates. And, domestic producers feel the effects, too, when surging imports undercut the marketplace and lower or eliminate returns to the farm.

Differing Regulatory Environments

The differences in how horticultural industries are regulated can have a significant impact on the competitive relationship between U.S. and international producers. From a competitive standpoint, U.S. producers have strong concerns about their ability to compete in the global marketplace given the expensive regulatory environment in which they operate. For example, U.S. fresh fruit and vegetable growers, whose crops are often highly labor intensive, find it difficult to compete against producers in lesser-developed countries who pay a small fraction of their labor costs.

Regulatory differences often have spillover effects on the movement of goods, as well. The international debate over biotechnology is one example. For the fruit and vegetable sector, differences in the regulation of agricultural chemicals are a variable that can present serious obstacles. Due to the tremendous diversity of the U.S. horticultural sector, agricultural chemical companies have registered many products for use in the United States that have not been registered in other countries, such as Canada. And, although Canada maintains a default tolerance for non-registered materials, products occasionally arrive in Canadian markets with residues that exceed the default standard, but are well within the tolerance established under the U.S. registration. While U.S. and Canadian industry and government officials work hard to avoid market disruptions as a result of these differences, problems do occur at the border or in the marketplace. Efforts to harmonize regulations or share registration data have been ongoing, but have not yielded significant progress.

For U.S. producers, future regulatory developments are likely to present additional challenges, particularly in the environmental area. The implementation of the Food Quality Protection Act, for example, will impact the availability of critical crop protection tools for U.S. producers. It also may

affect the importation of fruits and vegetables into the United States from countries that continue to use a product after its registration is cancelled.

Solving Commercial Disputes

Because of the extreme perishability of most fresh fruits and vegetables, products are grown, harvested, sold, and consumed long before the producer gets any return from the marketplace. Despite the technological revolution that has provided the industry with instantaneous communication capabilities, transactions are still largely based on faith that the purchaser will pay the agreed price for the shipment.

Getting paid becomes an even greater challenge when product is shipped internationally. In the United States, producers rely on the Perishable Agricultural Commodities Act (PACA) to mandate fair trading practices in the industry, including payment terms. However, the PACA does not extend beyond U.S. borders, and therefore is little help to U.S. exporters. In an effort to address the problems of payment and to establish a code of fair trading practices in North America, the fruit and vegetable industry recently formed the Dispute Resolution Corporation (DRC). As a voluntary organization, the DRC's mission is to provide the industry with policies and tools necessary to resolve commercial disputes among its members. While still in its infancy, the DRC could be used as a model to resolve disputes on a broader international scale.

Looking Forward

Trade agreements are about much more than just tariffs, domestic supports, and export subsidies. Many other variables, including currency valuation, regulations, payment issues, and more have a significant impact on trade in horticultural products. Meaningful safeguards designed specifically for perishable and seasonal products must be created that react swiftly to situations that can cause injury to producers.

With the experience of both the NAFTA and URAA fresh in their minds, fruit and vegetable growers in Florida and elsewhere around the country are understandably wary about the prospects of the Free Trade Area of the America (FTAA) and the new round of WTO agriculture negotiations. With the experience of both the NAFTA and URAA fresh in their minds, fruit and vegetable growers in Florida and elsewhere around the country are understandably wary about the prospects of the Free Trade Area of the America (FTAA) and the new round of WTO agriculture negotiations.

While producers want and need access to new international markets, they fear the cost in terms of lost domestic markets will be too costly. They are not interested in paying the price for other commodities' or products' access.