

FLORIDA CITRUS MUTUAL

Statement of

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Before the

**United States House of Representatives
Committee on Agriculture
Subcommittee on Livestock and Horticulture**

DOMESTIC POLICIES AFFECTING THE SPECIALTY CROP INDUSTRY

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Mr. Chairman, members of the Subcommittee on Livestock and Horticulture, I am Squire Smith, President of Florida Citrus Mutual. I am a citrus grower and I also care for approximately 2,000 acres of citrus in the Central Florida area. I am accompanied today by Mutual's Executive Vice President and CEO Andy LaVigne. I am pleased to present testimony today on domestic policies affecting the citrus industry. FCM is a voluntary cooperative association whose active membership consists of more than 11,000 Florida growers of citrus for processing and fresh consumption. FCM's membership accounts for more than 90 percent of Florida's citrus growers and as much as 80 percent of all oranges grown in the United States for processing into juice and other citrus products.

Last Thursday, October 30th, the nearby futures price of frozen concentrated orange juice fell to 67.3¢ per pound of solids. This is the lowest price recorded in 3 years. The nearby futures price is regarded by the industry as the most reliable indicator of the U.S. wholesale price of orange juice, and the wholesale price is, in turn, the strongest determinant of the price of oranges for processing. Thus, this is an extraordinarily difficult time for orange growers in Florida, many of who are now operating at a loss and will be going out of business this season. For the committee's information, the break-even price for citrus producers is in the 70 – 75-cent range.

In contrast to many of the agricultural industries, which appear before this committee, U.S. orange growers do not receive any form of price support. In fact, the U.S. industry that grows oranges for processing is unique among U.S. agricultural industries in that it does not receive ANY production or trade distorting (WTO-designated "amber box") domestic subsidies. The U.S. orange juice tariff is the only "agricultural program" from which orange growers benefit. But that is not to say that domestic policies do not affect us.

The large amount of domestic support bestowed on other U.S. agricultural industries allows them to compete abroad with the support of taxpayer dollars, and makes foreign tariff elimination an important strategic objective for them. In order to enhance their access to foreign markets, they must often support the reciprocal elimination of both U.S. and foreign tariffs for all agricultural commodities. This has made the survival of the U.S. citrus industry an uphill battle.

While subsidies are used to help level the playing field for agricultural industries whose top markets are abroad, tariffs are used to level the field for industries like orange juice, whose top markets are in the United States. In this way, the U.S. orange juice tariff is, for our industry, just as important as domestic subsidies are for other industries.

Domestic Policy Issues

A number of issues are important to the U.S. citrus industry, assuming our continued viability through the integrity of the tariff. Because of increased trade over the past 10 – 15 years, pest and disease issues, such as citrus canker, Mediterranean Fruit Fly and other exotic pests and diseases brought to this country by our trading partners, will demand close attention and a strong, committed government-industry partnership. In this regard, we continue to support vigilant enforcement activities by USDA through APHIS and counterpart foreign plant health inspection services, to prevent the introduction of devastating citrus diseases from foreign sources.

USDA-APHIS, through this transition period with the Department of Homeland Security, must have the necessary resources to meet the rapidly growing workload placed on our ports and airports by the increase of imports. It is absolutely imperative that we do not lose the agriculture focus at these entry points when we move to a “one face at the border” philosophy. The Florida citrus industry is working very closely with Florida Commissioner of Agriculture Charles Bronson and the U.S. Department of Agriculture to eradicate citrus canker, a bacterial disease that could easily destroy the Florida citrus industry. This program has become extremely expensive – both financially and politically. A strong, pro-active effort for pest and disease interdiction is the only means by which we can protect vulnerable, sentinel states like Florida.

We are also concerned about policies that affect agricultural labor, our most critical resource. For many years American farmers have been forced to operate with a work force that is largely undocumented. Most agricultural workers, those who are primarily responsible for putting food on America’s tables, have been working in the shadows of illegality. The situation, as it exists today, is unacceptable. To date, the only solution for both employers and workers has been the H-2A program. This program is so complex, expensive and litigious that of the 1.6 million agricultural workers in the country, less than 50,000 (2% to 3%) legal guest workers will be placed in the H-2A program this year. This system is irrevocably broken and reform of the program is needed

now. The Agricultural Jobs, Opportunity, Benefits, and Security Act of 2003 (AgJOBS), seeks to address the shortcomings in current labor law. The legislation will provide a two-step approach to a stable, legal and safe agricultural work force by (1) Streamlining the H-2A guest worker program to make it more accessible to employers while maintaining worker protections and (2) Providing a one-time adjustment to legal status through an earned adjustment program for experienced farm workers already working here who lack legal documentation. Further, AgJOBS will provide a mechanism for covered workers to be better off, and it will improve border and homeland security and ensure the security and safety of our domestic food supply by expanding the *legally documented* workforce. We support this critical improvement of U.S. agricultural labor policy.

One program that has been beneficial to the U.S. fruit and vegetable industry, and the Florida citrus industry particularly is the use of specialty crop block grants in the 2002 disaster appropriations. While we realize there were nuances of this program that made implementation of the grants challenging, this was the first time that the horticultural industry was able to take advantage of a program that had the flexibility to address the wide range of challenges that face our industry. The Florida citrus industry took advantage of the program to deal with citrus canker issues, perform research on citrus products and analyze foreign market access opportunities. We would strongly encourage the Congress to continue funding these types of programs in the future.

Tariff Reduction Would Undermine Any Benefits U.S. Citrus Growers Might Realize from U.S. Domestic Agricultural Policy Improvements

The U.S. citrus industry would like to enhance our export markets, just as the U.S. program crop industries seek greater foreign market access. However, the fact is that the cost of producing orange juice is such that only developed country markets can be expected to support significant new market demand, regardless of where that juice is produced. Without continued, strong consumption in the North American and European developed country markets, U.S. citrus growers cannot expect to see rapid increases in demand in any currently less developed countries until those countries experience increased GDP, personal income levels and higher consumption.

The Florida citrus industry does not object to the improvement of U.S. ties throughout the world via stronger trading relationships and, in fact, we have supported many such programs over the years, such as the Caribbean Basin Initiative. However, our industry and global market are highly unique and import sensitive –

not because we lack competitiveness, but because of the structure, dynamics and history of the Brazilian-dominated global orange juice industry. Florida orange growers are the most efficient in the world in terms of production yield per acre. Yet, for reasons well beyond Florida growers' control, our economic survival is contingent on the existence of the U.S. orange juice tariff on Brazilian juice. ANY reduction in the current tariff on orange juice under the FTAA, the WTO or any other agreement to which Brazil is a party would prove catastrophic for our industry and very damaging to the State of Florida.

The Administration's FTAA proposal on agriculture is lopsided to the extent that it puts all U.S. agricultural tariffs on the table, while leaving all domestic subsidies off the table. In so doing, the Administration's proposal effectively, if unwittingly, singles out agricultural industries for demise based exclusively on the location of their markets, without consideration of the effect on the U.S. economy. Not only is this an unsound approach to trade policy, it is also guaranteed not to meet any of the stated objectives of trade liberalization: foreign industrial growth, lower prices to consumers, and increased living standards. Furthermore, it completely undermines any domestic policy benefits, which might be targeted to such a non-subsidized sector through elimination of the trade policy equivalent of a domestic policy support program.

It is well established that any reduction in the U.S. orange juice tariff would devastate the U.S. industry that grows oranges for processing. Furthermore, any tariff reduction would critically damage the entire Florida citrus industry, the economic impact of which has recently been estimated at \$9.13 billion in industry output, \$4.18 billion in value-added activity, and 89,700 jobs.¹ Perhaps even most damaging to the U.S. economy is the fact that, since this Florida industry is Brazil's only competitor of global significance, its demise would not bring cheaper orange juice to the U.S. breakfast table, but would eventually unleash the Brazilian oligopoly to raise U.S. orange juice prices. For all of these reasons, FCM strongly opposes any reduction in U.S. orange juice tariffs under the FTAA or any trade agreement to which Brazil is a party.

¹ Alan Hodges, et al, "Economic Impact of Florida's Citrus Industry, 1999-2000," *Economic Information Report*, EIR 01-2, University of Florida, Institute of Food and Agricultural Sciences, Food and Resource Economics Department, July 2001, p. 3.

As noted above, the U.S. citrus tariff is the only form of “assistance” U.S. orange growers receive, and it costs U.S. taxpayers nothing. Furthermore, because most duties paid on U.S. orange juice imports from Brazil are subject to duty drawback, the Brazilian processors effectively pay only about \$1.5 million, or 2.3 percent ad valorem, in orange juice duties.² At the same time, non-citrus U.S. agriculture is now receiving over \$20 billion annually in direct government payments.³

It is by no means true that the United States has the highest agricultural tariffs in the hemisphere. According to the FTAA Hemispheric Database, the following figures represent the percentages of tariff lines in each country’s tariff schedule that have duties equivalent to 10 percent ad valorem or above:⁴

Brazil	68%
Argentina	67%
Venezuela	66%
Colombia	63%
United States	11%

CONCLUSION

The U.S. Government’s approach to domestic policy that impacts the fruit and vegetable industry, including the citrus industry, is to a large extent driven by the US trade policy as it affects the industry. Our ability to properly address issues of pest and disease interdiction and eradication, labor law reform, agricultural research and export market growth depend almost entirely upon the balancing impact of the tariff, which assures that the industry can continue to exist in an unsubsidized domestic environment alongside otherwise artificially manipulated global competition.

I appreciate the opportunity to address this subcommittee and will be pleased to answer any questions

² Estimated by FCM based on the assumption that duties are drawn back on an amount of FCOJ imports from Brazil equal to 90 percent of U.S. FCOJ exports. In 2002, U.S. domestic exports of bulk FCOJ (2009.11.0060) were 441,664,083 liters. If we assume that 90 percent of these exports resulted in drawback, then import duties were drawn back on 397,497,675 liters of imports. In 2002, the import duty was 7.85¢/liter. Since 99 percent of import duties are drawn back, the amount of duties drawn back on 397,497,675 liters of imports would have been \$30,891,532. In 2002, 411,577,471 liters (valued at \$61,658,753) of bulk FCOJ were imported from Brazil, and \$32,308,827 in duties were collected on these imports. So, post-drawback, U.S. Customs netted only about \$1,417,295 (\$32,308,827 - \$30,891,532) in duties on Brazilian bulk FCOJ during 2002. This means that the tariff really only cost U.S. importers .34¢/liter (\$1,417,295/411,577,471 liters), which equals only 2.3% ad valorem (\$1,417,295/\$61,658,753) in 2002.

³ “Farm Income and Costs, Direct Government Payments, ERS, USDA (http://www.ers.usda.gov/briefing/farmincome/data/GP_T7.htm).

⁴ FTAA Hemispheric Database online at <http://198.186.239.122/chooser.asp?Idioma=Ing>.