FLORIDA CITRUS MUTUAL

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Florida Citrus and International Trade

Position of

Florida Citrus Mutual

When you look at the current world market for orange juice there are only two main players: Florida and Brazil. Production of orange juice between the two players makes up roughly 84 percent of the world market. The major difference between them is that Brazil exports 99 percent of its production while 94 percent of Florida's production is consumed domestically and 6 percent is exported.

Importance of Citrus Industry to Florida's Economy

The unsubsidized Florida citrus industry has an economic impact of $9.1 billion to the state, employs 90,000 people and is typically the state's second largest industry after tourism.

Current Citrus Tariff

The current citrus tariff helps level the playing field for the two orange juice competitors and prevents Brazil from expanding the unprecedented degree of monopoly power it currently enjoys in overseas markets to that of the North American market. Eliminating or reducing the tariff, which is currently only $0.0785 per liter, would be a severe error from a cost benefit standpoint. First, it would severely cripple Florida's second-largest industry, as grower revenues and income in most years would decline by the equivalent of $500 per acre (that would have represented an approximate 136 percent reduction in average 2000-2001 per acre income). Second, it would increase the cartel-like control over both the world orange juice market and the market for processed oranges. U.S. consumers would be at the mercy of Brazilian processors, and may not realize any savings from a tariff reduction.

North American Orange Juice Market

The North American orange juice market is the leading orange juice market in the world. The development and growth of this market was to a large extent financed by Florida citrus growers, who have invested hundreds of millions of dollars through a self-imposed marketing and advertising tax. Any reduction in the current tariff would provide Brazil freer access to a market developed by Florida citrus growers for Florida citrus growers.

Approximately 90 percent of the North American orange juice market is from Florida and Brazil. The remaining 10 percent is either duty-free under the Caribbean Basin Initiative (CBI) or duty-reduced under NAFTA.

Production Differences

As depicted from the chart below, Florida out produces Brazil in terms of yield/acre and produces fruit in a more environmentally friendly manner. However, Brazil continues to enjoy production cost advantages, which are determined largely by differences in: environmental regulations, worker protection standards, food safety regulations and governmental macroeconomic policies that impact exchange rates and relative labor costs. The major difference is seen in labor costs caused by the aforementioned factors. Moreover, recent currency devaluations in the Brazilian Real have exacerbated Florida's cost disadvantage. According to a recent study, the 1999 Real devaluation resulted in a 31 percent decrease in Brazilian harvesting cost, placing the Florida citrus grower at an even greater cost disadvantage.

2000-01 Season	**Florida**	**Brazil**
Juice Production	1.335 billion SSE gallons	1.588 billion SSE gallons
Citrus (Orange) Acreage	665,529 acres	1.44 million acres
Export Percentage of Sales	10%	99%
Yields Per Acre	2,423 pounds/acre	1,578 pounds/acre
Avg. Production & Labor Costs	$0.72 per pounds solid	$0.33 per pounds solid

Advantages for Brazil

These cost advantages, combined with a cartel-like market structure, enable Brazilian producers to adjust prices in a predatory manner. During the 2001-2002 season, Brazilian exporters lowered prices of bulk frozen concentrate orange juice (FCOJ) to European markets to less than $700 per metric ton; far below what Florida exporters could meet. Such prices can be sustained by Brazilian exporters for extended periods, even when they are below Brazil's average costs of production. Without the benefit of offsetting tariffs, Florida growers would have virtually no income during these periods.

Brazilian Dumping

There is a history of Brazilian dumping in the U.S. – Brazilian processors have been willing to sell at prices below production costs to gain market share and stifle competition. An antidumping order remains in effect at this time, applying dumping duties ranging from 2 percent to 27 percent to some imports of Brazilian orange juice. Any reductions in the U.S. tariff would further exacerbate the inequalities that have been endemic in this market for the past 20 years.

Tariff Must Not Be Altered

If the Florida citrus industry is to remain a viable $9.1 billion economic engine to Florida, continue to employ nearly 90,000 people and provide 800,000 acres of green space throughout the state, the current citrus tariff must not be altered in future trade agreements.

Trade Definitions

World Trade Organization (WTO) — The WTO is the only global international organization dealing with the rules of trade between nations. The WTO's main focus is the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporter, and importers conduct their business.

To remain competitive, the citrus industry must prevent further reductions in the U.S. import tariff on citrus juices and maximize export market opportunities for both fresh and processed citrus products. Both international and national law must contain tighter protections for citrus growers from import injury caused by temporary surges and price-cutting. The citrus industry must also encourage negotiators to evaluate all proposals on overall agricultural support programs and safeguard mechanisms from the perspective of impact on Florida growers.

China Permanent Normalized Trade Relations (PNTR) and WTO Membership — The industry must continue to work with U.S. negotiators and regulators, as well as the Chinese authorities, to ensure the implementation of the WTO accession agreement signed between the countries. This agreement provides positive export opportunities for Florida's fresh grapefruit and citrus growers.

Free Trade Agreement of the Americas (FTAA) — In an effort to unite the economies of the Western Hemisphere into a single free trade agreement, 34 democracies agreed to construct a FTAA in which barriers to trade and investment will be progressively eliminated. This agreement is expected to be complete by 2005.

The citrus industry must work to assure that any free trade agreement for the Western Hemisphere avoids any erosion of the current tariff on citrus products imported into the U.S., particularly with respect to trade between the U.S.

Regional Free Trade Agreements — The citrus industry must work on current and future bilateral agreements to achieve market access and craft tight 'definitions of origin' that prevent the pass-through of third country citrus and citrus products to take unfair advantage of duty free treatment.

Unilateral Preferential Trade Programs – Programs such as the Caribbean Basin Economic Recovery Act provide unilateral free trade benefits to some citrus producing countries, such as Costa Rica and Belize. The industry must continue its efforts to assure that dutiable product is not transshipped through these duty free developing countries, and that third country subsidization does not distort the program to the detriment of U.S. growers.

Dumping and Antidumping Regulations — The industry must continue to work formally with the Department of Commerce annually to review pricing by Brazilian exporters, to assure that antidumping duties offset any margin of sales below cost or below third country prices. Potential dumping of other citrus products or by other countries must continually be evaluated on a regular basis to determine whether trade relief action is necessary.

Phytosanitary Measures and Non-Tariff Trade Issues — Phytosanitary measures set the basic rules on how governments can apply food safety and animal and plant health measures. Florida citrus growers must participate in assuring that foreign and domestic phytosanitary restrictions are justified in accordance with WTO Agreements, and avoid artificial distortions of trade, whether for imports or in connection with U.S. access to foreign markets.

Additional issues involve monitoring world trading patterns and developments, the effect of foreign national subsidies on world supplies and prices, and the extension of credits or loans to foreign citrus production by multilateral lending institutions. On all of these trade matters, the industry must be prepared to lobby for the most favorable long-term and short-term results for Florida growers.