

**IMPACT OF MEXICO'S TRADE DISTORTING POLICIES AND PRACTICES
THAT ARE ECONOMICALLY DEVASTATING AND RESTRICTING FAIR
COMMERCE TO GEORGIA'S SEASONAL AND PERISHABLE
FRUIT AND VEGETABLE INDUSTRY**

Submitted by the Georgia Fruit and Vegetable Growers Association

Charles T. Hall, Jr.
Executive Director
Georgia Fruit and Vegetable Growers Association
P.O. Box 2945
LaGrange, GA 30241
Phone: 706-845-9085
chall@asginfo.net

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Impact of Mexico's Trade Distorting Policies and Practices That Are Economically Devastating And Restricting Fair Commerce To Georgia's Seasonal and Perishable Fruit and Vegetable Industry

On behalf of the Georgia Fruit & Vegetable Growers Association (GFVGA), I am grateful for the opportunity to submit this statement concerning the crisis of rising Mexican imports that confronts our industry.

GFVGA serves as the united voice of more than 500 farmers and fresh produce distributors across Georgia and the southeast. Our growers raise over 30 different fruits and vegetables, serving the entire U.S. market, with a farmgate value of over \$1.1 billion, collectively making us Georgia's second-largest cash crop. Nationally, ranked by value of production, Georgia is among the top five states in the production of various seasonal and perishable products including blueberries, tomatoes, bell peppers, watermelon, peaches, sweet corn, greens, squash, and cucumbers.

Our growers appreciate the commitments outlined in Ambassador Lighthizer's January 9, 2020 letter to the Georgia and Florida congressional delegation ("Letter," Attachment A), including a promise to hold these field hearings. Perhaps most importantly, we appreciate his commitment to announce a plan within 60 days of the USMCA's entry into force to ***“implement effective and timely remedies under the Trade Act of 1974 and other trade laws to address any trade-distorting policies that may be contributing to unfair pricing in the U.S. market and harming U.S. producers of seasonal and perishable products.”***

We welcomed his remarks in June before the House Ways & Means and Senate Finance Committees in which he reiterated his intention to follow through on this promise. We look forward to Ambassador Lighthizer's plan and stand ready to work with him to defend the legal and economic interests of our industry.

Ambassador Lighthizer's plan is desperately needed. Over the past twenty years, imports of fresh produce from Mexico have grown tremendously, undercutting the financial and competitive health of the Georgia fresh fruit and vegetable industry. Over the past five years, these imports have reached critical levels, especially for several of the most financially important commodities we grow. These imports now threaten our survival. The situation is urgent and alarming.

A brief review of recent market history is clarifying (*“FDACS Report”* or *“Report,”* – March 2020, Attachment B).

Between 2000-2019, Mexican shipments of specialty crops to the United States grew by an astounding 551% (Att. B – page 10). Just over the past three years, the market value of Mexican produce sold to the U.S. market jumped 16%, from \$12.9 billion to more than \$15 billion (Att. B – page 17).

Five key commodities underscore this growth in Mexico’s share of the U.S. market.

For sweet corn, Mexico’s market share grew 39% (Att. B – page 16). For bell peppers, their market share jumped 179% (Att. B – page 12). Tomatoes increased 189% (Att. B – page 13). Watermelons, 219% (Att. B – page 14).

Over just the last ten years, Mexico’s share of the U.S. blueberry market shot up by **2,111%** (Att. B – page 15).

The findings of a study by Dr. Gopi Munisamy, University of Georgia, August 2020 – (Research Report – “*Seasonal Import Patterns of Bell Peppers and Cucumbers in South Georgia, 2015-2019*” – Attachment C) and presented at this USTR hearing confirm the market share decline of domestic produce and increase in Mexican imports

As you can imagine, the domestic grower is helpless against this scale of import pressure. When those imports are coming in at prices below his cost of production, he is doomed.

Looking back, it is easy to say we knew this was coming. The NAFTA included a provision that required the U.S. International Trade Commission (ITC) to monitor imports of select seasonal and perishable products. Presumably, the ITC’s monitoring would alert the U.S. government to rising imports and document the import patterns for our industry’s benefit. As well-intentioned as that provision might have been, it did not equip our industry to confront those imports once they started arriving.

Still, sitting here today, I doubt that anyone truly anticipated the nature of Mexico’s production growth, how it would come about, and what it would do to our industry. Because in the decade that followed NAFTA’s implementation, we would see the beginning of a major commitment by the Government of Mexico to subsidize the development of a massive industry.

These trade-distorting subsidies, together with unfair pricing practices, have given Mexican producers a major advantage in our home market and tilted the playing field to the serious detriment of our own growers.

It started with a decision by the Government of Mexico in 2001 to recognize “protected” produce as an important growth sector for its economy and to direct support to it in order to promote its export competitiveness (“*Government Support in Mexican Agriculture*” – Attachment D).

By now, you have seen or heard this reference to “protected agriculture,” a term that may be unfamiliar to many people, even those with some experience in the broader agriculture sector. In short, “protected agriculture” is essentially the modification of the natural growing environment in order to maximize or optimize yield. It can involve the use of a variety of structures, equipment, and technologies – anything that helps the grower control factors such as light, moisture, temperature, air quality, soil, wind. All of these factors affect the plant’s growth and yield. The greater control – or protection – that a farmer can assert over the growing environment, the more easily the farmer can influence yield.

Examples include greenhouses, which are fully or mostly enclosed structures where virtually the entire growing environment can be controlled. “Shade houses” are similar, in that they are structures that can control the plant’s exposure to sunlight and other air elements. “Micro tunnels” and “macro tunnels” are used to shelter rows of produce, and they provide many of the same benefits of greenhouses.

Increased investment in these “protected agriculture” structures, equipment, and technologies will directly translate into much higher yield. This is true for farmers in Georgia just as it is for farmers in Mexico. A primary barrier to this production method is its cost. These investments are expensive, both to build and to maintain.

This is why we believe Mexico’s government subsidies have been so important to the growth in Mexico’s production and export potential. Subsidies were directed for the development of these various forms of protected agriculture tools, including greenhouses, shade houses, micro tunnels and macro tunnels. All of them received government funding and all of them were dedicated to expanding Mexico’s production and enhancing exports to the U.S. market.

We are now seeing the results of the Mexican government’s intervention (The Packer, “*Protected Agriculture Reaches 126,000 Acres in Mexico*” – September 2019 – Attachment E). In 2003, Mexico had roughly 300 acres of protected agriculture. By 2018, following more than a decade of direct subsidies, Mexico’s planted acreage to protected fruit and vegetables had soared to almost 130,000 acres. That’s more than a **43,000%** growth in protected agriculture acreage. Today, almost 80% of Mexico’s produce is grown under protected structures and is destined for the U.S. market. (UGA Study – G. Munisamy, August 2020 – Attachment C) Mexican government subsidies are the direct cause of this tremendous growth in productive capacity.

Looking even more closely at Mexico’s program, we can see how crucially important these subsidies have been to Mexico’s growers. Between 2009-2013, subsidies typically covered half – 50% – of the cost of every project. Payment limits for these projects were set at extraordinary levels – as high as \$10-30 million for some projects.

This level of support greatly incentivized the development of Mexico’s protected agriculture sector, and it was during this period that the growth in Mexico’s productive capacity took root. While the level of subsidies under this program were reduced over the ensuing five years, to

about half of the previous level, they rose again last year. Most importantly, the new administration of President Lopez Obrador is looking to expand the government outlays to fund the planting of nearly 2.5 million acres of new fruit and timber trees in the southeast region of the country (Ltr from Andres Manuel Lopez Obrador to President Trump July 2018 – Page 3 – Attachment F). The output of this new acreage will undoubtedly be destined for the U.S. market in the coming years.

We are seeing in Georgia the devastating effects of Mexico’s subsidy program. And, according to a 2019 University of Georgia study, the impact will only get worse (“*The Impact of the USMCA on Georgia’s Small Fruit and Vegetable Industries*” – UGA – Dorfman, Worley, Kane, April 2019 – Attachment G). That study focused on six commodities – blueberries, tomatoes, bell peppers, cucumbers, eggplant, and squash. The study’s conclusion was clear and dire. With the full impact of the USMCA, the Georgia economy is on track to lose nearly \$1 billion in annual economic output in our industry, alone. We will lose over 8,000 jobs. In the three counties where our industry is heavily concentrated, the economic damage will exceed anything we have seen since the Great Depression.

This problem is simply too large for any single group of Georgia producers to confront and solve.

As you have now heard from many witnesses, the seasonal and perishable sector – especially in our region of the country – is somewhat unique. Our growers tend to be small, and their production varies from year to year, both in terms of the output and also in terms of the particular commodities they grow.

As an organization, we are still young, having been established in 1996, after NAFTA entered into force. We do not have the resources and the institutional expertise to mount the sort of data-gathering and analysis – on a commodity by commodity basis – that a larger commodity organization might be able to undertake in order to assert its legal rights.

Frankly, and respectfully, just getting you here – virtually, speaking—for a field hearing represents a major step forward for our growers. That this hearing is taking place a month after the USMCA went into effect, and not earlier in the spring when it was first scheduled, is the fault of COVID-19. But it also means that we are that much further behind schedule. This has been a difficult year for everyone, but especially for our growers who have lost further ground to Mexico’s growing market share.

We are very glad you are here with us, now. You are best positioned to help us figure out how to confront this crisis, as it is a crisis rooted in our most important free trade agreement. You serve as the U.S. point of contact with our trading partners.

More than that, the Office of the U.S. Trade Representative is best positioned to manage the “all-of-government” approach that will be needed – bringing together our domestic policy and

international trade expertise. Your support is necessary for us to secure what we need – just as your opposition would make it impossible for us to succeed.

So, what do we need?

We need an “All of the Above” strategy. We need to identify and utilize every import relief tool available to us under U.S. law. Mexico avoided us at the negotiating table, so we have no choice but to seek every legal and policy mechanism available to us. We also need to identify what precisely is happening in Mexico – what subsidy programs and other advantages have incentivized, and continue to incentivize, the tremendous growth in their production and exports.

Just as importantly, we need a commitment from the U.S. government to defend our interests in the short-term and the long-term. The short-term need is to slow the imports, now.

Our Florida brethren have asked you to institute a Section 301 investigation, which we fully support. An affirmative recommendation under Section 301 of the Trade Act of 1974 would give the President access to a full suite of negotiating and border enforcement powers. It would also afford the benefit of empowering the President to address problems that are prevalent and common to all of the perishable fruit and vegetable products, unlike other tools that would require U.S. legal authorities to be used to address problems individually.

For the long-term, we need from you the tools to be better prepared for future challenges. A 301 investigation will necessarily involve cataloguing exactly what is happening in Mexico; what policies and measures the Government of Mexico is taking (or failing to enforce), in addition to investigating how those programs and policies are benefitting Mexican exporters to the detriment and burden of U.S. commerce. You have an office in USTR whose focus is to identify potential cases the U.S. needs to pursue in order to defend U.S. interests – one that already uses the “all of government approach” needed here, known as the Interagency Center on Trade Implementation Monitoring and Enforcement (ICTIME, formerly ITEC).

We need a working group or task force – perhaps a permanent unit within this office, with funding, that is dedicated to seasonal and perishable produce. The work of this unit should be especially dedicated to the needs of farmers who are (1) too small to effectively monitor foreign government behavior themselves, and (2) especially import-sensitive.

By the way, as I suspect you already know, we are not the only industry that has this problem. Concerns over the availability of U.S. trade remedies for industries like ours is already well-known. It is time to do something about it. Problems will persist, and we will need to be better prepared to address new occurrences. As it happens, we should expect similar problems to arise from other regional sources – CAFTA, South America, et al. We need to be ready.

Whatever Ambassador Lighthizer decides, we still face the underlying challenge that prompted our sector’s efforts during the USMCA. We are a dispersed industry, fragmented by geography

and marketing seasons. We will continue to need your help confronting and resolving unfairly traded imports. Wherever you identify imports that are being dumped and hurting U.S. producers, or where subsidized imports are causing injury, the U.S. government should not hesitate to self-initiate a dumping or countervailing duty investigation. Those laws have been on the books for nearly a hundred years, and they provide relief to many deserving U.S. manufacturing industries and their employees. Our producers and employees have just as much a right to access these laws for import relief.

Thank you again for the opportunity to offer this statement on behalf of Georgia's fruit and vegetable growers. I look forward to your questions.