BEFORE THE UNITED STATES INTERNATIONAL TRADE COMMISSION

Investigation No. TPA-105-003

United States-Mexico-Canada Agreement Likely Impact on the US Economy and on Specific Industry Sectors

PRE-HEARING BRIEF OF GEORGIA FRUIT AND VEGETABLE GROWERS ASSOCIATION

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The Georgia Fruit and Vegetable Growers Association (GFVGA) hereby submits its pre-hearing brief and statement in connection with Investigation No. TPA-105-003 undertaken by the US International Trade Commission (Commission) pursuant to section 105(c) of the Bipartisan Congressional Trade Priorities and Accountability Act of 2015 (the TPA Act).

This pre-hearing submission will address the likely impact of the United States-Mexico-Canada Agreement (USMCA) on the Southeast fruit and vegetable sectors, with a particular focus on how USMCA will cause further harm to these sectors in the absence of measures that can provide effective, near-term relief against unfairly traded Mexican fruits and vegetables in Georgia.

GFVGA is a trade association representing growers to provide a united voice for the fruit and vegetable industry in Georgia. Its mission is to encourage efficient production, packing, handling, storing, and processing of fruit and vegetables; to develop marketing and promotional programs to increase public awareness of the health benefits of eating fruits and vegetables and to encourage consumption of more Georgia products; and support applied research that benefits the industry.

<u>Introduction</u>

As the state's number two agricultural cash crop, most Georgia fruits and vegetables are grown for the fresh market to be sold and consumed in other states around the nation. Fruit and vegetable production is a $1.4 billion dollar industry at the farm gate in Georgia with over 200,000 acres in production.

The specialty crop producers in the Southeast, who share a similar growing season with the Mexican produce industry (*i.e.*, primarily the winter/early spring months from November to March, before most other producers begin their harvests), have faced steadily escalating pressure from Mexican specialty crop shipments in virtually every year since the North American Free Trade Agreement (NAFTA) took effect. Most recently, the escalating pressure from Mexican specialty crop shipments have extended further into the Southeast growing and harvest season during April and May.

The original NAFTA did not provide specialty crop producers in the Southeast with adequate recourse against harmful trade practices. Subsequently, ***Mexico's produce industry practices have dramatically impacted these fruit and vegetable sectors for decades, which has become pronounced in Georgia and others areas in the Southeast in recent seasons, placing at risk generations of farm operations.***

Since 2000, most of the growth in Mexico's agricultural shipments to the United States has been in the fresh fruit and vegetable sectors. To a great extent, Mexican fruit and vegetable producers have been able to achieve this extraordinary growth because of unfair Mexican subsidies and prices that are significantly below costs of production.

As the Commissioner of Georgia's Department of Agriculture, Gary W. Black, noted in September of this year:

> *The Mexico-NAFTA trade proposal in route to Congress is unacceptable in my view. The action taken by the Administration to abandon seasonal protection for fresh fruit, vegetable and pecan producers is tantamount to distributing U.S. government printed "going out of business" signs across a substantial part of rural Georgia and the Southeast. Duty-free blueberries from Mexico have already altered the course of the nation's number one producing region. Squash, tomato and cucumber market windows continue to shrink for our producers while produce streams across our southern border arriving from a country known for an inconsistent regulatory environment.*

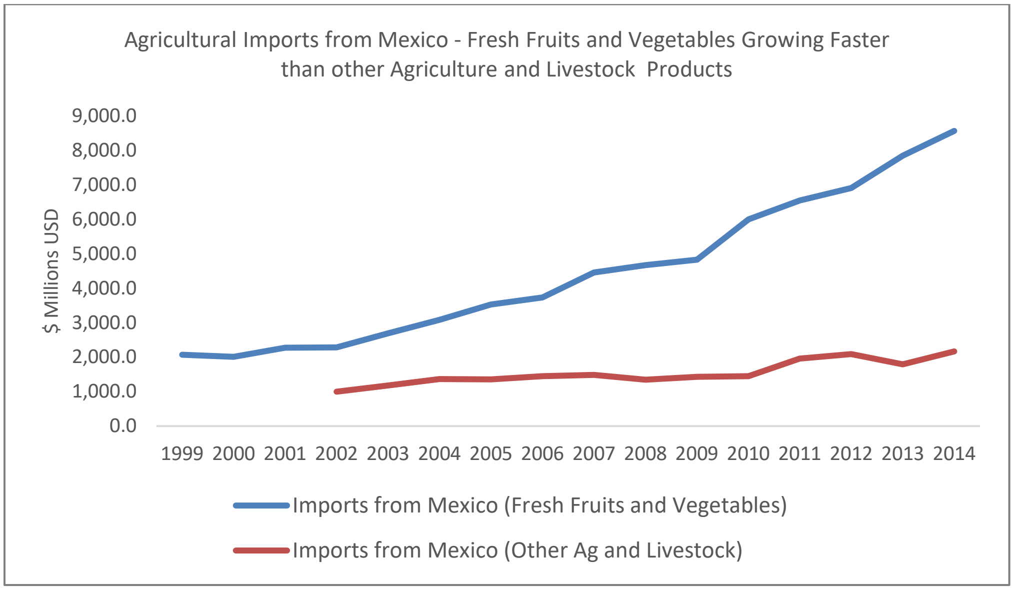
As such, we remain deeply concerned with Mexico's gains in the U.S. agriculture market, which have created a $5 billion trade deficit and driven large segments of our southeast produce community out of business. These gains have been largely achieved through unfair pricing and Mexican government subsidies. In 2017, agricultural imports from Mexico continued to grow at a rate of about $2 billion per year. US imports of agricultural products from Mexico in 2017 totaled $25 billion, of which $6 billion was in the fresh fruit sector and $5.5 billion in the fresh vegetable sector.[1]

The Bipartisan Congressional Trade Priority and Accountability Act of 2015 (TPAA) called for "*eliminating practices that adversely affect trade in perishable or cyclical products, while improving import relief mechanisms to recognize the unique characteristics of perishable and seasonal goods*". Furthermore, the Administration's "Summary of NAFTA Objectives" fully supported this TPAA instruction and called for the same reforms.

In the absence of effective, near-term relief measures to redress this issue for Georgia and Southeast producers, the harm being caused by Mexico's unfair practices will only intensify, putting at further risk the survival of this important industry, and generations of Georgia farm families.

[1] Zhengfei Guan, UF/IFAS Gulf Coast Research and Education Center, "What is Next after NAFTA Renegotiation?" (September 5, 2018)

Table 1: US Imports of Mexican Agriculture – Southeast Fruit and Vegetable Sector



Source: Florida Department of Agriculture and Consumer Services

Most of the growth in Mexican agricultural imports is in fresh fruits and vegetables. As mentioned earlier, because the Southeastern United States and Mexico produce a number of the same specialty crops and share a similar growing season and vegetable imports from Mexico have had a disproportionately negative impact on Southeast producers.

Today, as a result of unfair Mexican subsidy and pricing, Mexican producers have become a dominant supplier of fruits and vegetables in the US market, greatly diminishing production and profitability in the specialty crop sectors of Georgia and elsewhere in the Southeast.

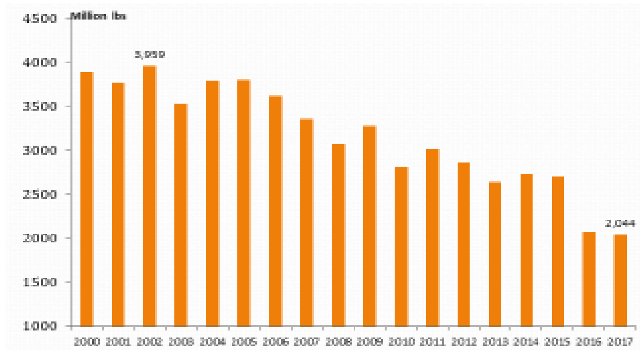
The surge in US imports of unfairly traded Mexican fruits and vegetables has adversely impacted a number of Georgia specialty crops, economically harming a great many of the State's fruit and vegetable producers, including growers of tomatoes, peppers, blueberries, broccoli and others, particularly during recent growing seasons.

Growth in US Imports of Mexican Tomatoes

Although the United States is one of the world's leaders in fresh tomato production, its production has steadily declined since 2000 due in large part to competition from Mexico. **Total US fresh tomato production dropped from 3.9 billion pounds in 2000 to 2.0 billion pounds in 2017. Production nearly halved over the period.**[2]

[2] Zhengfei Guan, UF/IFAS Gulf Coast Research and Education Center.

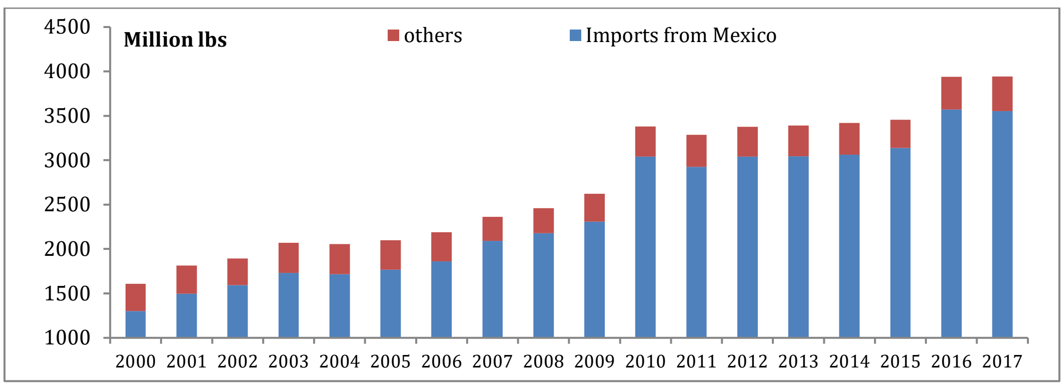
Table 2: US Fresh Tomato Production (2000-2017)



Source*:* Guan Study, UF, US Department of Agriculture/National Agricultural Statistics Service; assembled by the University of Florida

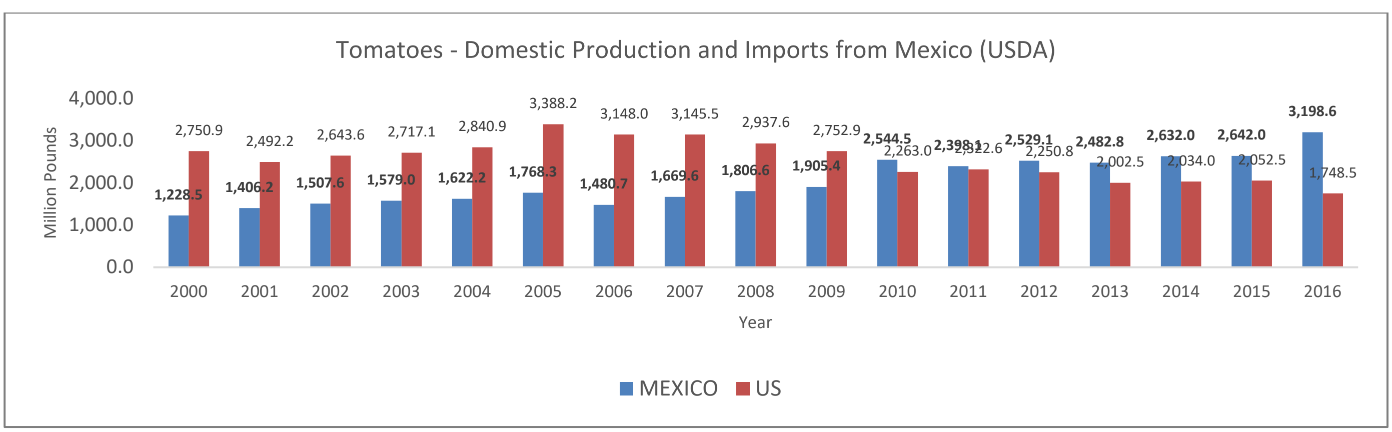
Unfairly traded US tomato imports from Mexico have been a driving factor behind the US' sharp decline in production. These growing Mexican tomato volumes in the US market, made possible by unfair trading practices, have progressively lowered the US market price, threatening the operations of many Georgia producers. Particularly the smaller operations have been pushed to insolvency.

Table 3: Mexico Tomato Imports as a Percentage of Total US Imports (2000-2017)



Source: US Department of Commerce; assembled by the University of Florida

Table 4: Domestic Production and Imports of Tomatoes from Mexico

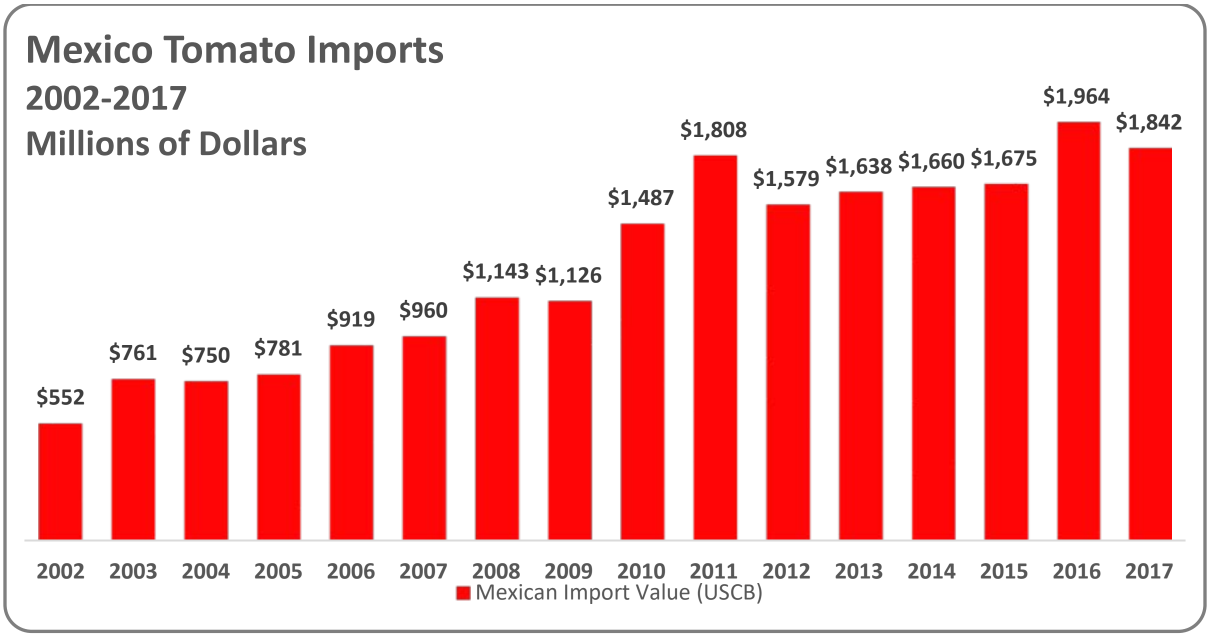


Source: Florida Department of Agriculture and Consumer Services

Historical value Mexican tomato imports to the U.S.

Expansion of the value of Mexican product from 2002 to 2017 grew by 233% [3]

Table 5: US Fresh Tomato Trade



Source: Florida Department of Agriculture and Consumer Services

US fresh tomato growers have struggled as prices, depressed by escalating import competition, have failed to keep up with rising farming costs. Low market prices have forced farmers to leave tomato fields unharvested in bad years, and numerous producers, especially smaller farms, have been forced into bankruptcy. USDA figures show that US fresh tomato production is in serious decline, having lost almost [25%] of total acreage since 1996.[4]

Growth in US Imports of Bell Peppers

Imports of bell peppers from Mexico have grown dramatically since 2000, going from 339 million pounds in 2000 to 909 million pounds in 2017 (168% increase). Over the same period, domestic production of bell peppers experienced some growth followed by a marked decline beginning around 2007. Overall, domestic production has shrunk from 745.19 million pounds in 2000, to 667.34 million pounds in 2016. [5]

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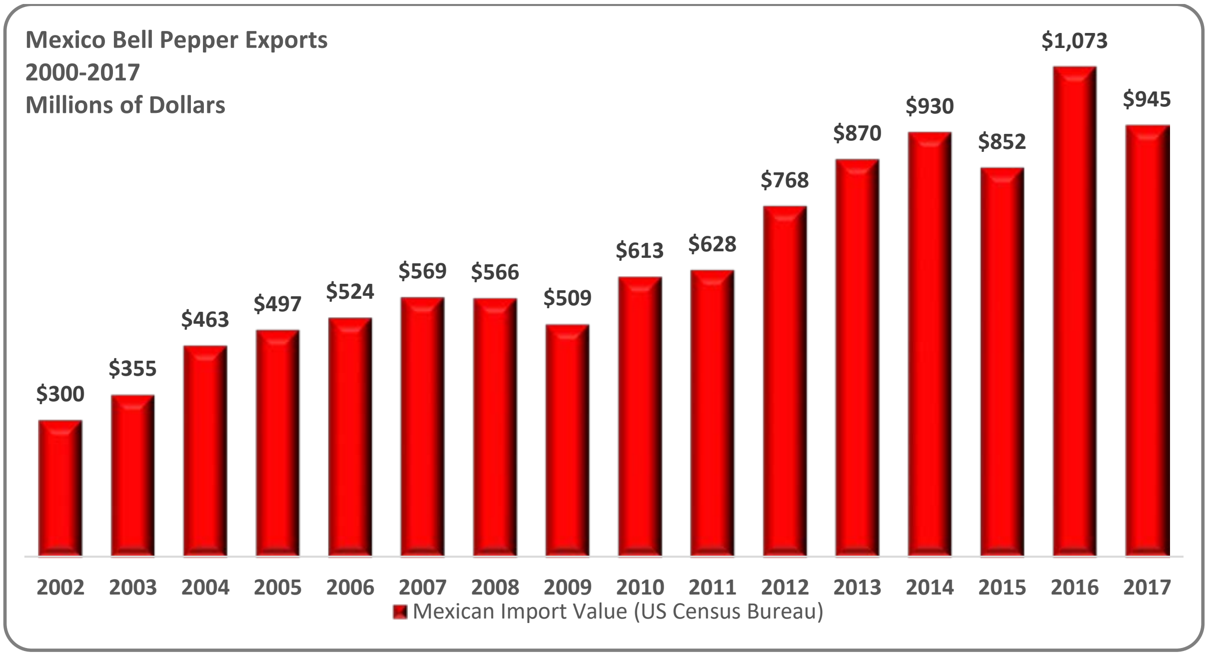
[3] Florida Department of Agriculture and Consumer Services, "An Examination of International Competitive Impacts on Florida Agriculture (October 25, 2018) at 31.

[4] *See* USDA National Statistics Service, Annual Survey Data, available at *https://quickstats.nass.usda.gov/*

[5] Florida Department of Agriculture and Consumer Services, "An Examination of International Competitive Impacts on Florida Agriculture,(October 25, 2018) at 25.

The value of imports on Mexican peppers was even more pronounced, tripling from 2000 to 2017.

Table 6: Imports of Bell Peppers from Mexico



Source: Florida Department of Agriculture and Consumer Services

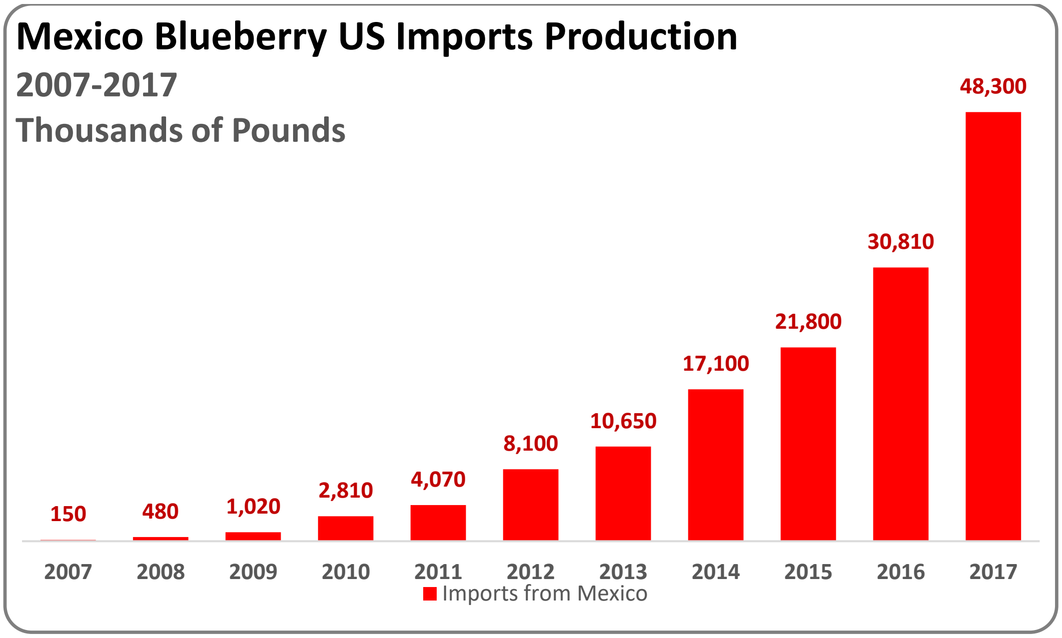
Growth in US Imports of Blueberries

Georgia, Michigan and Washington compete annually to be recognized as the top blueberry producing state in the nation. In 2014 and 2015, Georgia led the nation producing over 96 million pounds of blueberries. For the last two production years, (2017 and 2018) Georgia growers have experienced significant reduction in production due to an early bloom from a warm winter and then a late freeze. Normally this reduction in product supply would result in higher prices at the market place, but imports from Mexico flooded the US market and significantly depressed market prices.

Imports of blueberries from Mexico have grown dramatically since 2007, going from 1 million pounds in 2007 to 32 million pounds in 2016, and most recently in 2017 to over 48 million pounds. This represents over a thousand percent increase (1,619%) increase from 2010 to 2017. [6]

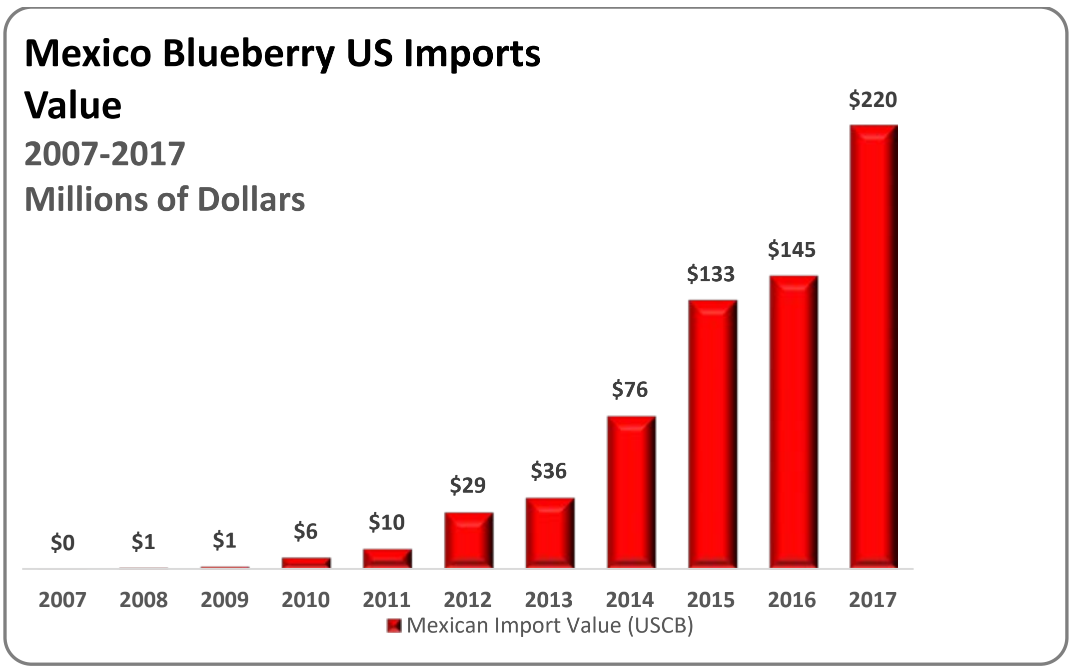
[6] *Id*, at p. 42.

Tables 7: Imports of blueberries from Mexico



Source: FL Department of Agriculture and Consumer Services

The historical value on Blueberry imports the United States demonstrates a 659% increase in expansion in the value of Mexican blueberries from 2012 to 2017.



Source: FL Department of Agriculture and Consumer Services

Mexico's Unfair Trade Practices in the Fruit and Vegetable Sector

Mexico's extraordinary growth in fruit and vegetable shipments to the United States over the last two decades has been driven not by ordinary market forces, but by unfair subsidies, sales prices significantly below costs of production, and extremely low labor costs.

Mexican producers of fresh fruit and vegetables benefit from government support programs aimed at increasing productivity in Mexican greenhouses and shade houses, not only during the winter months (November-March), but throughout the year.

These support programs, which provide as much as 45%-60% of the cost of improvements for certain specialty crops,[7] have helped Mexican producers become the dominant US supplier of specialty crops and are progressively pushing Florida, Georgia and other southeastern producers out of business.

A September 2018 study regarding Mexican government subsidies, based on the Mexican Secretariat of Agriculture, Livestock, Rural Development, Fishery, and Food [SAGARPA]), found **Mexico's total agricultural support budget for 2013–2016 was 263.7 billion pesos, ($13 billion) an average of 65.9 billion pesos ($3.4 billion) per year.**

Since 2001, the Government of Mexico has steadily expanded its fruit and vegetable support payments. From 2001 to 2008, Mexico's main agricultural ministry, SAGARPA, spent $50 million subsidizing 1,220 hectares (ha) of greenhouses and other forms of protected agriculture.[8]

Those aid programs supported 859 ha of tomatoes (41%), 428 ha of cucumbers (20%), 347 ha of bell peppers (16%), 274 ha of berries (13%), and additional plantings of zucchini, grapes, brussels sprouts, habanero and green peppers, and ornamental plants, among other specialty products. Not surprisingly, Mexico's productivity improved markedly during this period, even as overall planted areas decreased.[9]

These extravagant production subsidies have enabled Mexico's protected fruit and vegetable production to expand at exponential rates in recent years. According to SAGARPA, Mexico's protected agriculture increased nearly 52 times between 2000 and 2016, jumping from 790 hectares in 2000 to 40,900 hectares in 2016, with tomatoes, peppers, strawberries, and cucumbers being the primary beneficiaries.[10]

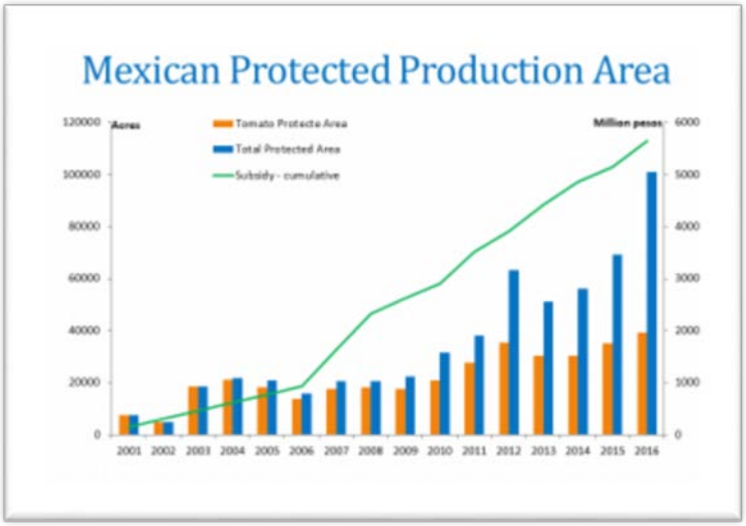
Table 8: Mexican Protected Production Area

[7] See Wageningen University and Research, "Mexican Protected Horticulture: Production and Market of Mexican Protected Horticulture Described and Analyzed,"(Report GTB-1126, 2011); USDA Foreign Agricultural Service, 2012 Tomato Annual, GAIN Report No. MX2036 (June 4, 2012), at 6.

[8] *Id* at p. 55.

[9] *Id*. at p. 2.

[10] *Id.,* assembled by the University of Florida.



Source: US Census Bureau DOC

Based on communications from Mexico President-elect López Obrador Mexico's fruit and vegetable subsidy schemes are expected to increase. President-elect Obrador has already informed President Trump in writing of Mexico's new 'Rural Development' plans,

> more public investment which will be used to allocate significant resources to reactivate the agricultural sector. . . . *So, for example, we are going to plant a million hectares of fruit and timber. . . .*[11]

A million hectares is equivalent to 2.5 million acres. As a comparison Georgia has 28,000 acres in blueberries and 11,000 acres in peaches. These substantial new Mexican fruit plantings will only continue to ensure upward production and shipment trends in Mexico, and downward production and shipment trends in the US Southeast.

With Mexico's significant investment in funding fruits and vegetables, aimed at promoting the year-round production of Mexican specialty crops, has already had a significant effect on Georgia and the Southeastern fruit and vegetable industry. As the Mexican subsidy programs continue to expand its production season, all US producers of fruits and vegetables may find themselves similarly harmed.

<u>Mexico's Unfairly Low Labor Costs</u>

Mexico's estimated annual wage advantage in the agricultural sector is $1 billion.[12] Its farm laborers are paid about 10% of what Georgia farm laborers are paid for similar work. That labor cost-gap advantage compounds at each stage of production.[13] USMCA is not expected to rectify this unfair advantage in the fruit and vegetable sectors.

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[11] July 12, 2018, letter from president-elect López Obrador to President Trump (emphasis added).

[12] Florida Department of Agriculture and Consumer Services, "*An Examination of International Competitive Impacts on Florida Agriculture*" (October 25, 2018), at 11.

[13] Farmworkers in Mexico typically earn approximately the equivalent of $8 per day, while US farmworkers earn approximately $10-12 per hour. Thus, assuming an eight-hour day, a farmworker in the United States would earn at a minimum $80, while a Mexican farmworker would earn $8, *i.e.*, 10%.

Summary

U.S. Department of Agriculture Secretary Sonny Perdue has publicly confirmed that specialty crops have not fared well under NAFTA and has advocated finding effective solutions to the problem, including in the NAFTA renegotiation process:

> *Certainly, I think our vegetables, and our produce sectors of agriculture …have maybe been the ones that have not benefited as much under NAFTA. . . . Regarding NAFTA negotiations, it is my hope . . . [that] one area we can improve our position vis a vis Mexico is in regards to vegetables.*[14]

The original NAFTA negotiators anticipated this result, forecasting that producers of winter fruits and vegetables and vegetables would be negatively affected once NAFTA was implemented. True to that forecast, Southeast specialty-crop farmers have faced mounting pressure from growing Mexican imports in virtually every year since NAFTA took effect.

US antidumping and countervailing duty laws are not currently well structured to prevent injury during the Southeast industry's limited marketing period. As a consequence, Southeast producers have been far more exposed to import injury than most other US industries under NAFTA.

Congress has recognized that the Southeast produce industry needs relief tools to address these special trade circumstances. The TPA Act expressly calls on all new US trade deals to "*eliminate practices that adversely affect trade in perishable or cyclical products, while improving import relief mechanisms to recognize the unique characteristics of perishable and cyclical agriculture*."[15]

For produce farmers throughout the Southeast, effective, near-term relief against unfair Mexican imports has become a matter of survival. Georgia fruit and vegetable growers will continue to work with Congress and the Administration on measures to accomplish this urgently needed relief.

On behalf of the Georgia and southeastern growers struggling to save their operations from these unfair trade practices, GFVGA respectfully requests the ITC reflect in its report to Congress an assessment supportive to remedy this in the USMCA, as GFVGA continues to work with Congress and the Administration on measures to accomplish this urgently needed relief.

[14] May 17, 2017, testimony before the House Committee on Agriculture.

[15] The TPA Act, Pub. L. No. 114-26, § 102(b)(3), 129 Stat. 320, 322-23 (2015).