

EXPORTS AND IMPORTS AND THEIR EFFECT ON THE NORTHWEST HORTICULTURE INDUSTRY

Remarks by A. CLINTON COOK, Chief, Foreign Marketing Branch, Fruit and Vegetable Division, Foreign Agricultural Service, U. S. Department of Agriculture, Washington, D. C. 20250, at the Northwest Horticultural Congress meeting January 28, 1971, Portland, Oregon.

There are three major problems facing the U. S. horticulture industry which are (1) inflation, (2) a deteriorating transportation system and (3) trade barriers.

Our first two charts show the total value of horticultural exports and imports excluding bananas. In the late 1950's we enjoyed a favorable trade balance of about \$200 million. By the end of the 1960's the trade was in balance with imports rising sharply.

Chart three for fruit and preparations shows a fairly good position, but a sharply rising trend in imports. A ratio of one means that imports and exports are equal or generally referred to as being in balance.

Chart four for vegetables and preparations shows a more sharply rising trend with imports being in excess of exports for the past four years.

Chart five shows horticulture in comparison with all agriculture. The solid lines are U. S. imports and the dotted lines are exports. Horticultural imports started moving up sharply in the early 1960's and the trend was continuing at the end of the decade. Exports of all agricultural products did not start moving up until about 1960 then leveled off and horticultural gains were much more modest.

The most important chart is the indices of efficiency. It fairly well explains why we are losing ground more in one group of commodities than for some others. Farm wage rates during the 10 years increased about 60 percent. Production per man hour in vegetables increased a little over 20 percent. Production per man hour in fruits increased a little over 20 percent. If you recall chart 4 showed vegetable imports increasing at a much faster rate than fruits and nuts as efficiency of the latter approached the farm wage increases. The efficiency of all agricultural crops throughout the period was higher than the wage increases. Poultry production efficiency increased twice as fast as farm wage rates. Cotton and feed grains are near the poultry records.

Our last chart shows the volume of frozen strawberry imports and the percentage of U. S. disappearance. For the first time imports exceeded 100 million pounds. In addition, some 25 to 30 million pounds are in bonded storage inside the United States. Thus, total imports were about equal to 50 percent of U. S. consumption.

These data are on a crop year beginning in May. Thus, the data for Mexico shows a portion of two production years.

Inflation

Inflation is relative. If most countries are inflating at about the same rate in absolute terms then there should be little effect on current trade patterns. However, most of the measure we now use are in percentage terms such as 5 to 10 percent. A 5 percent increase in average labor costs of \$2.00 an hour has a far greater effect on trade than a 10 percent increase on 15 cent an hour wages.

A few years ago we could boast of the world's most efficient horticultural industry when all factors such as dependable supply, uniformly high quality, good packaging and relatively low prices were considered. This pattern began to change in the early 1960's, accelerated in 1964 when the Bracero program ended, and gained more momentum in the late 1960's. There are no indications of a slow down in this trend.

Thus, the U. S. becomes less competitive as a leading world exporter of horticultural products and our high market prices become more attractive to imports. U. S. imports of vegetables now exceed exports. If we refer back to the chart on Indices of Efficiency in Production for Vegetables, it shows that there was an increase of 20 percent since 1957, while fruits increased 40 percent, but feed grains poultry and cotton increased their efficiency well over 100 percent. When production per man hour increases sharply, the inflated costs can be absorbed.

Two West Coast crops are excellent examples of changes in efficiency. Strawberry production, harvesting and handling has changed little over the years. Last year almost 50 percent of our consumption was imported. Almond production, harvesting and handling has been completely mechanized and just over 50 percent of last year's crop was exported.

High labor costs and/or shortages have a tendency to lower our quality; thus, price premiums in foreign markets are not as great. Also, many American grower-shippers and processors have set up producing and processing facilities in several foreign countries where labor is abundant and at much lower costs. U. S. horticultural imports from Mexico have increased from around \$15 million 12 years ago to \$200 million last year. Much of this production for export is at least partially financed and directed by American interests.

The end of the Bracero program not only increased costs in the U. S. but there was no corresponding increase in Mexico. A side effect was the uncertainty of harvest labor in the United States. This caused a rush to mechanical harvesting. Several years ago migrant laborers could expect 9 to 10 months employment. First cotton harvest was mechanized which eliminated 2 months and now labor can expect 2 to 6 months of harvest work divided into 2 or more time periods. In addition to wages, growers must furnish housing and other benefits, while the laborers in Mexico live under a mesquite bush which has neither hot and cold showers or running water.

U. S. consumers make many social demands on U. S. growers, but turn their backs on such problems in the L. D. C. (L. D. C. means less developed countries). Once in the supermarket the consumer buys the lowest priced item that meets his quality standards, and never mind the labor situation in the country or origin.

Transportation

The horticultural industry is dependent on a fast and efficient transportation system for both domestic and export trade. Since our horticultural production is concentrated in locations some distance from the major domestic consumer markets it is probable that both fresh and processed fruits and vegetables travel on the average 1,000 to 1,500 miles and, except for Canada, our exports travel an average in excess of 5,000 miles.

All modes of transportation - motor truck, rail, ship and air are available. Each is capable of giving excellent service, but collectively the system is falling apart. This deterioration is caused by many factors and all of us are equally negligent in first allowing it to happen and, even worse, in allowing the situation to continue. There are many Federal government agencies trying to have some effect on the system. These agencies are completely uncoordinated and each going its separate way.

Often regulatory measures are continued that should have been abandoned 50 years ago. The cost of continuing unused passenger trains during the past 20 years has been included in your freight bill.

It seems logical that a well coordinated inter-modal system could give excellent fast service and at the same time reduce costs. But, the truckers and the railroaders have always been bitter enemies, connecting rail carriers won't speak to each other, and neither will the several government regulatory agencies.

Let us look at the present record. We can now deliver the "jet set" to their favored watering places at 600 miles an hour or in 2 to 12 hours to most any place in the world. Millions of dollars are being spent on research to step this up to 2,000 miles an hour, but a "red ball" freight train coast to coast cannot maintain an average speed of 15 m. p. h. About two years ago there was a big write-up in the trade papers that a reefer hopper car transported bulk oranges from central Florida to Boston, affording good protection. The article didn't stress that the elapsed travel time was 8 days. I could have pulled the car to Boston in less time with my 1948 farm tractor in second gear. Just imagine - if we speeded up the trains to an average of 25 m. p. h. the equipment needs could be cut in half and at 50 m. p. h. only one-fourth as many cars would be required.

We have the capability to move perishable freight from the West Coast to Europe in 10 to 12 days and, in a year or so, with new ships under construction, this can be cut to 7 or 8 days. But look at the record - it invariably takes 20 to 30 days for the container to reach Europe with no assurance of the number of days. In many instances the container must be unloaded at the port city, then reloaded in the ocean container at an extra cost of \$300 or more plus damage to the produce.

There could be great savings in both costs and time with a well coordinated service. Rental on equipment would be reduced, inventory costs would be lower, out-of-stock would be more easily controlled and the produce would arrive in better condition with a longer shelf life.

Generally, freight rates from U.S. ports to overseas markets are higher than those from competing countries even though in several instances, such as South Africa and Australia, the distances to Europe are much greater than from the U.S. West Coast. All duties and taxes in overseas markets are based on the c. i. f. value (c. i. f. means cost, insurance and freight). Thus when we quote c. i. f. it means all costs incurred to the port city in the importing country. This places U.S. products at an even greater disadvantage.

Everyone is sitting back, waiting for a miracle to cause the transportation system to operate smoothly and efficiently ever after.

Trade Barriers

The United States has been one of the world's leaders in promoting multilateral trading agreements under the General Agreement on Tariffs and Trade, commonly referred to as GATT. Over the years, it has been the policy of the U.S. government to abide by the rules of GATT, making it difficult to obtain relief from excessive imports. However, our trading partners have devised many insidious trade barriers. These trade barriers have made a shambles of the GATT principles as they apply to horticultural products.

The United States and Japan are the only countries that are not members of, or affiliated with a trading group or bloc. The Common Market now has 6 full members and is talking of enlarging it to 10. But the more important factor is that the common market has given special trading preferences to 54 countries. Also, there is the LAFTA (Latin American Free Trade Association), The British Commonwealth, EFTA (European Free Trade Association composed of 7 countries), etc.

Generally these trading clubs have not only afforded more favorable trade terms to their members and their associates, but many trade barriers have been used to restrict trade of third countries. The Common Market has been especially restrictive in agricultural trade. It has adopted an "all of this and heaven too" policy. High duties, reference price, time period embargoes, sugar levies in processed foods, failure to authorize post harvest chemicals, etc. have afforded unusual protection which tends to increase production, then it is a part of its CAP (Common Agricultural Policy) to subsidize exports to third countries.

Japan is highly protective of its agriculture. MITI (Ministry of Industry and Trade) practices "Administrative Guidance." This is used both to control and direct foreign trade. If trading companies are told to slow imports from a certain country and to step up imports from another it is done without question. Exports are handled similarly. As an example, American autos manufactured in the United States and sold retail at around \$3,000 will retail in Japan at \$11,000 to \$12,000, "Administrative Guidance" required an extremely high mark-up. Thus, American car manufacturers are trying to buy into auto factories in Japan. Similarly, leading food processors have established processing plants or joint ventures in Japan as well as in many other countries.

In addition to "Administrative Guidance" Japan indulges in many other protective devices such as failure to liberalize many items, failure to recognize and set tolerance for post harvest chemicals, but at the same time allowing Japanese food processors to use many of these chemicals. They form import clubs whose principal mission is to limit imports and thereby maintain high profit margins, while refusing to liberalize currency exchange.

Apple and pear exports are a victim of the world's restrictive trade measures. Western Europe has been the largest export market for U.S. apples and pears, taking over 20 million bushels during the pre-World War II period, but the restrictive measures, mostly time period embargoes, bans on chemical additives, and quotas have now virtually eliminated us from that market. France started exporting to Venezuela last season and, thus far this year, France has displaced the U.S. Most traders report that France subsidizes apple and pear exports.

Also, the Common Market restrictive measures are disrupting the flow of Southern Hemisphere apples and pears. If the several European countries join the Common Market, then there is likely to be an even greater disruption as Australia and South Africa will lose their Commonwealth preference and New Zealand may lose too. These countries are already looking to the duty free U.S. and Canadian markets. During the past 2 years exports to the U.S. have increased sharply.

Each of the Southern Hemisphere countries embargoes our off season apple and pear exports to them. New Zealand uses a plant quarantine embargo for a strain of brown rot which has now been identified as being present in that country. Australia uses a plant quarantine embargo based on fire blight. This bacteria does not attack the fruit, so washed and waxed fruit would not be a threat to the Australian fruit industry. Japan has liberalized fresh pears and is supposed to liberalize fresh apples by the end of 1971, but no country in the world can meet its plant quarantine regulation. Mexico embargoes imports to protect a relatively small apple industry. Argentina blocked our off season exports of fresh apples to Brazil because it might compete with the tail end of its exports to Brazil.

Relief Measures from Increasing Imports

President Nixon, in a letter dated July 21, 1970 requested the U.S. Tariff Commission to investigate the impact of imports on U.S. industries. The hearing, which lasted from Nov. 4 to 25, 1970, included four witnesses representing domestic strawberry interests, who presented testimony concerning the effect of the Mexican strawberry imports on domestic producers and processors. Additional written statements will be accepted until further notice. This investigation covers a broad spectrum of U.S. industries and probably will require about two years for submission of a report to the President.

It should be understood that most of the U.S. statutory provisions enabling relief from increasing imports are such that you cannot rely on independent action by the government to initiate action on your behalf. There is no automatic triggering device. Please note that Sec. 301 of the Trade Expansion Act of 1962 permits any interested party to apply to the Tariff Commission. It is up to the interested party to convince the Tariff Commission that he is seriously injured by increasing imports. The opponents will try equally hard to prove that imports are not injuring the domestic industry. Thus, each side usually engages a law firm experienced in this field.

Sec. 301 of the Trade Expansion Act of 1962--the often called "escape clause" -- permits any interested party to apply to the Tariff Commission for an investigation to determine whether, as a result in major part of a trade agreement concession, imports are entering the United States in such increased quantities as to cause, or threaten to cause, serious injury to the domestic industry producing an article which is like or directly competitive with the imported article. If the investigation findings are affirmative, action which may be taken includes (1) the imposition of a duty if none exists, (2) the increase of an existing duty, (3) the imposition of import quotas, (4) the imposition of an international orderly marketing agreement, (5) the provision of any other import restriction necessary to prevent or remedy the injury or (6) the provision of "adjustment assistance."

It is currently significant that the three criteria for a finding of serious injury are (1) "that the imports that are alleged to be causing or threatening the serious injury are entering in increased quantities," (2) "that the increased imports are due 'in major part' to trade-agreement concessions," and (3) "that such increased imports are 'the major factor' in causing or threatening the serious injury."

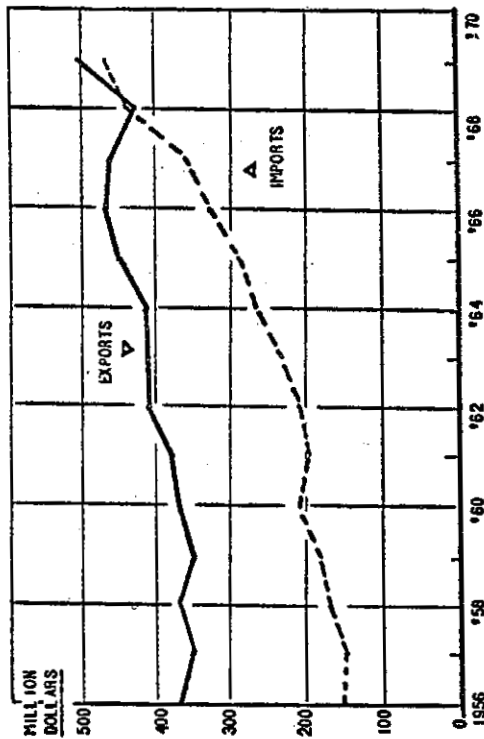
Sec. 204 of Agricultural Act of 1956 provides that the President may whenever he deems such action appropriate, negotiate with foreign governments in an effort to obtain agreements limiting the export to the United States of any agricultural product. Implementing regulations may be issued and, if a multilateral agreement is concluded covering a significant part of world trade, the regulations may be applied to non-participants. The key word here is "negotiate" in an effort to obtain. This clearly means that the "consent" of the foreign country is required. There is no reason to believe that such "consent" is obtainable for any commodity which otherwise can enter the United States freely.

There have been bilateral discussions with Mexico under authority of the above statute. The principal commodity was fresh winter tomatoes and discussions were started at the request of Florida tomato growers. Thus far, there has been no agreement to limit tomato exports to the United States. Also, regulations under the marketing order have been ineffective as U. S. imports in 1967-68 were 359 million pounds and increased to 461 and 627 million pounds in the two succeeding seasons.

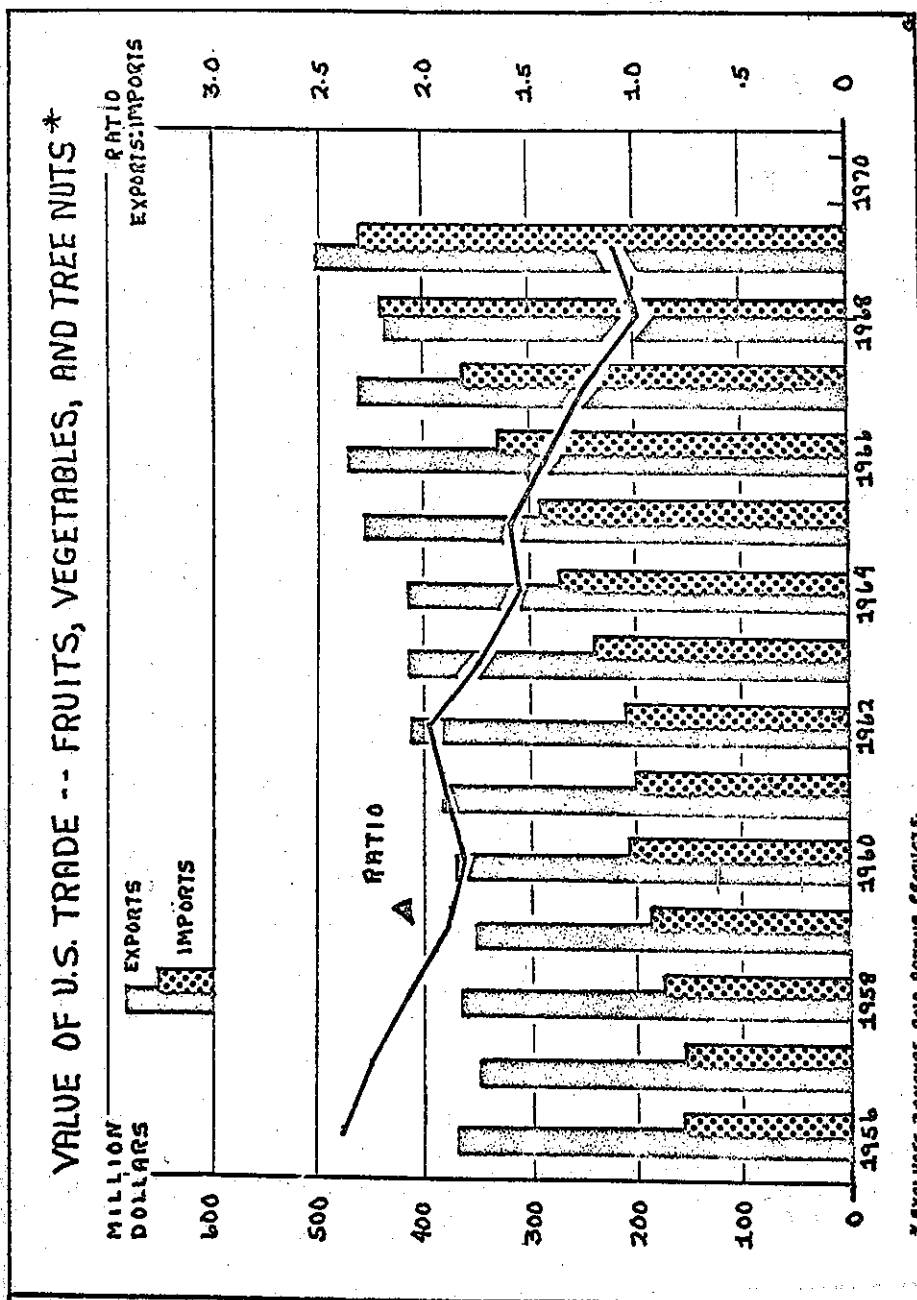
In conclusion, we can expect inflationary pressure to continue, the transportation system will not improve unless there is a coordinated push from many interested groups, and trade barriers will not be lessened unless there is strong pressure against their continuation. Thus, we can expect imports to continue increasing at a faster rate than exports.

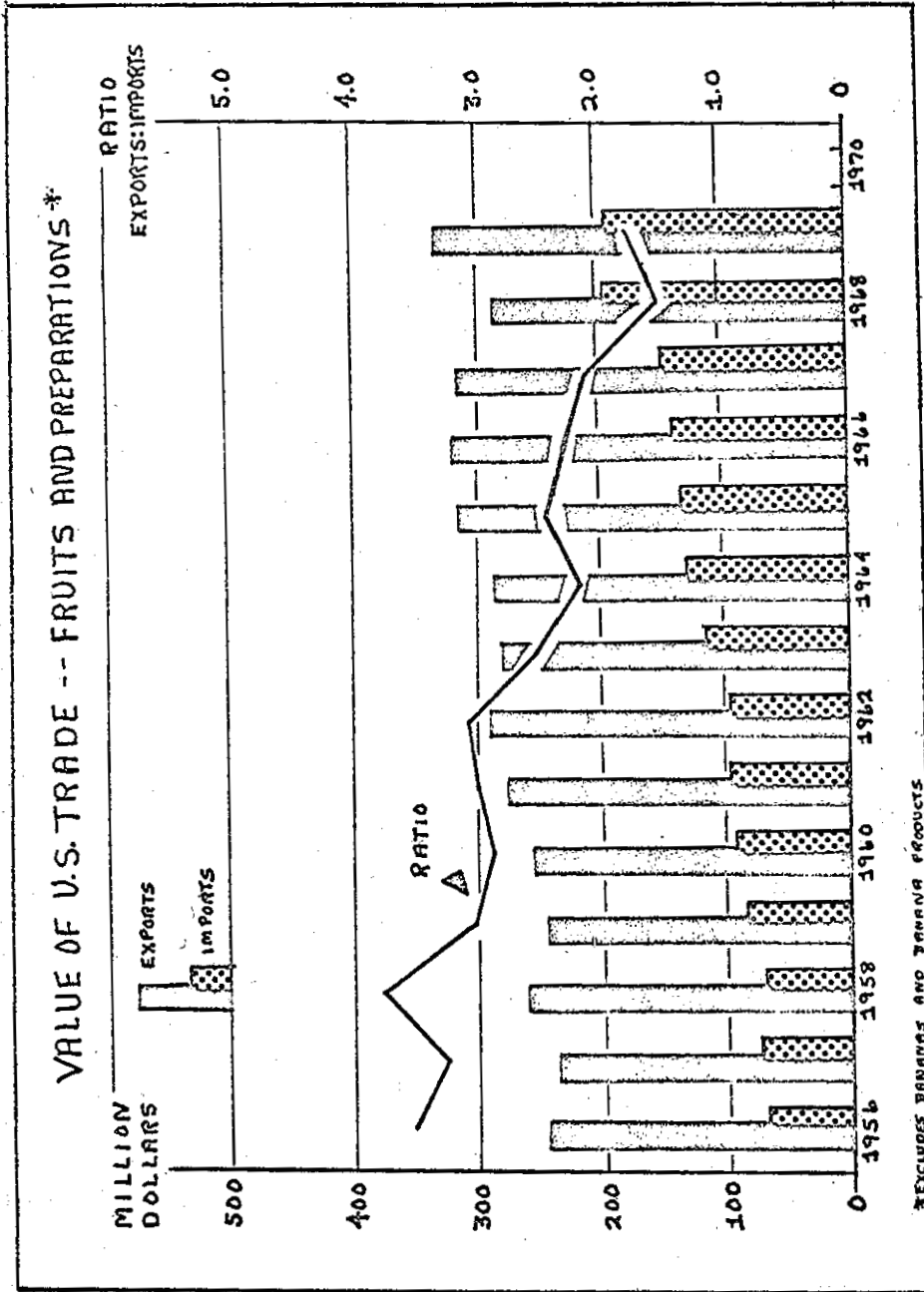
FRUITS, VEGETABLES, AND TREE NUTS

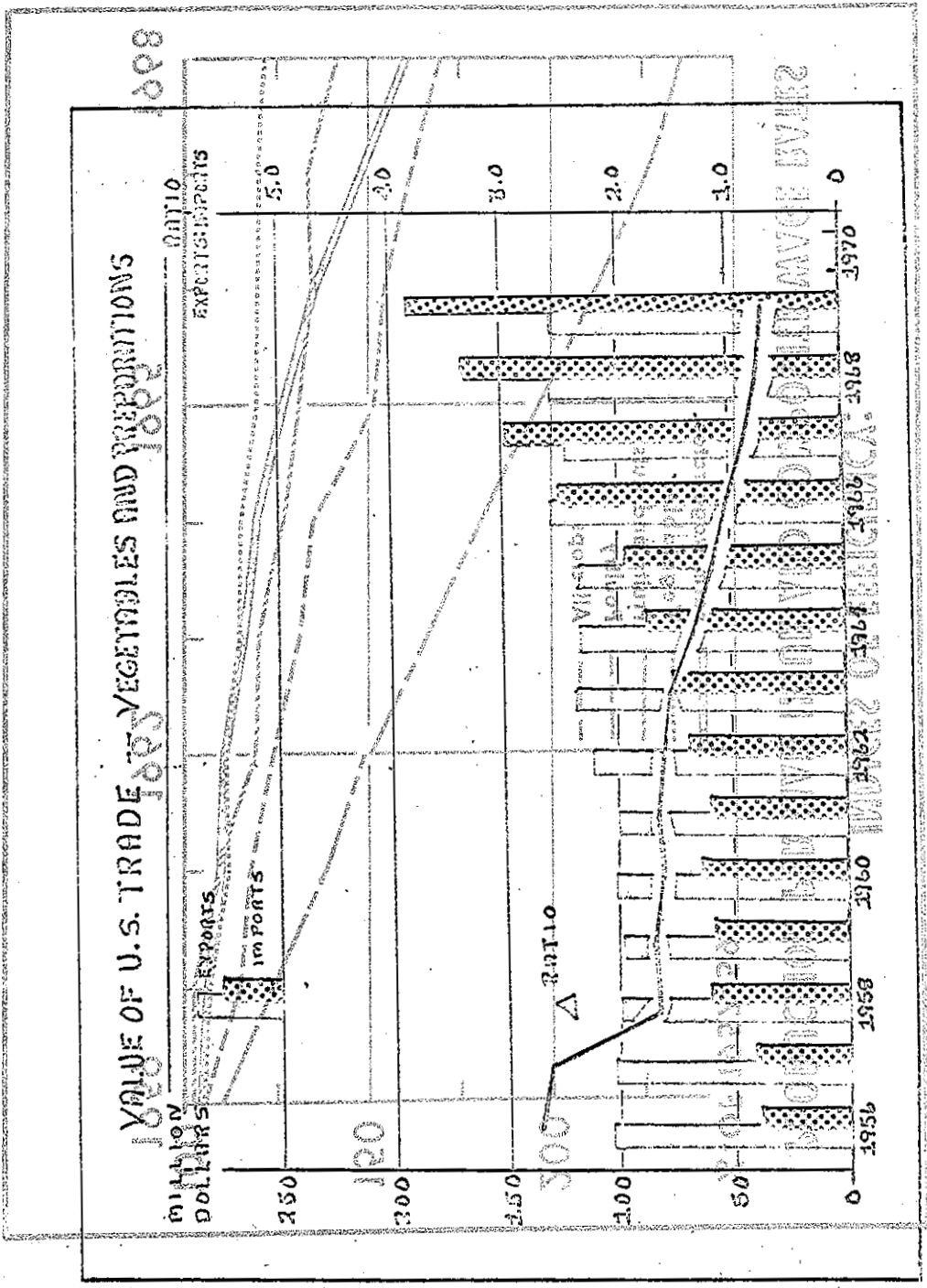
VALUE OF U.S. TRADE



Foreign Agricultural Service
Fruit and Vegetable Division
Commodity Analysis Branch
March 1970







1958

VALUE OF U.S. TRADE IN VEGETABLES AND PREPARATIONS

Million Dollars

Ratio

EXPORTS

IMPORTS

EXPORTS

IMPORTS

350

300

250

200

150

100

50

0

5.0

4.0

3.0

2.0

1.0

0

1956

1958

1960

1962

1964

1966

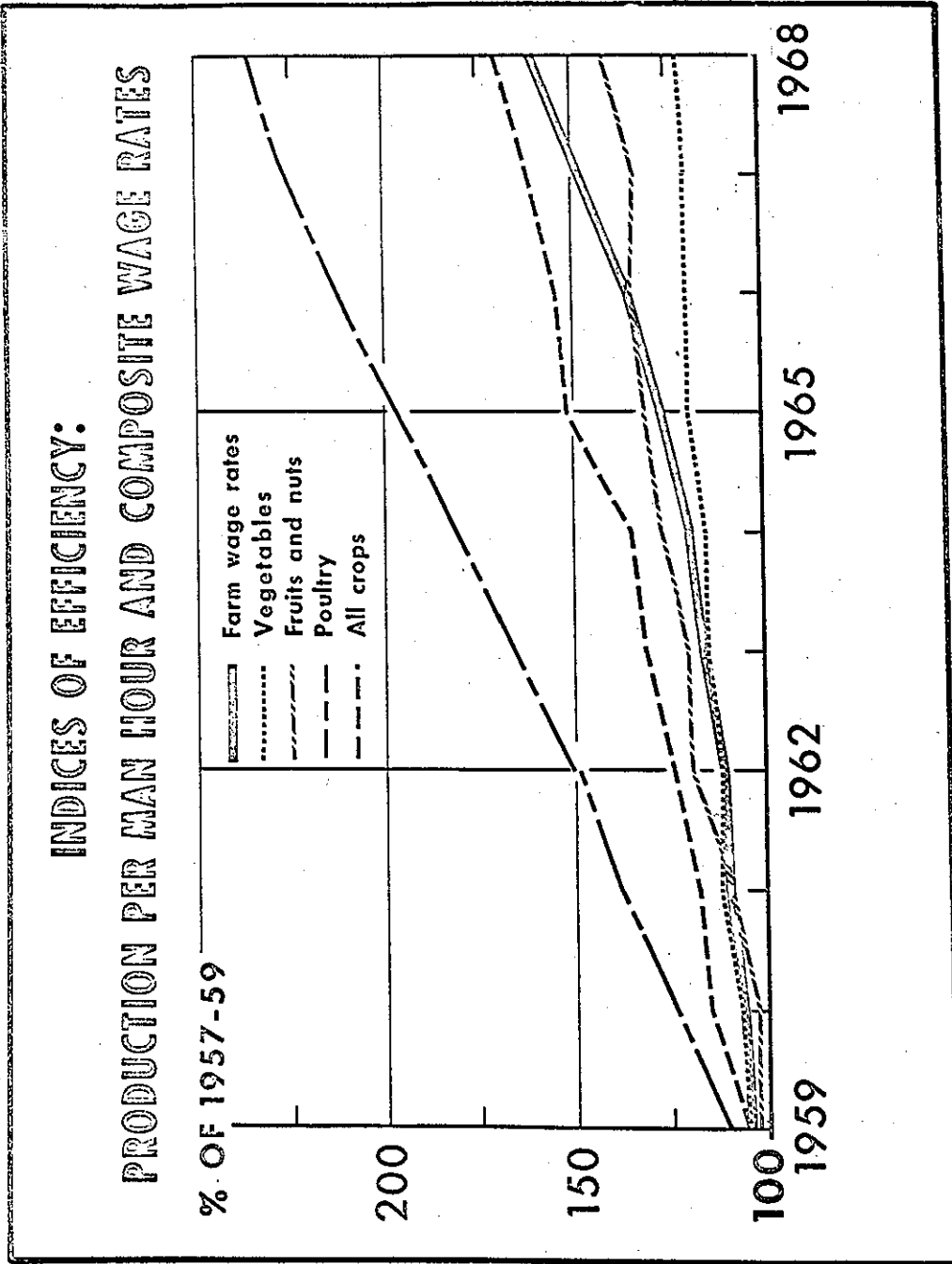
1968

1970

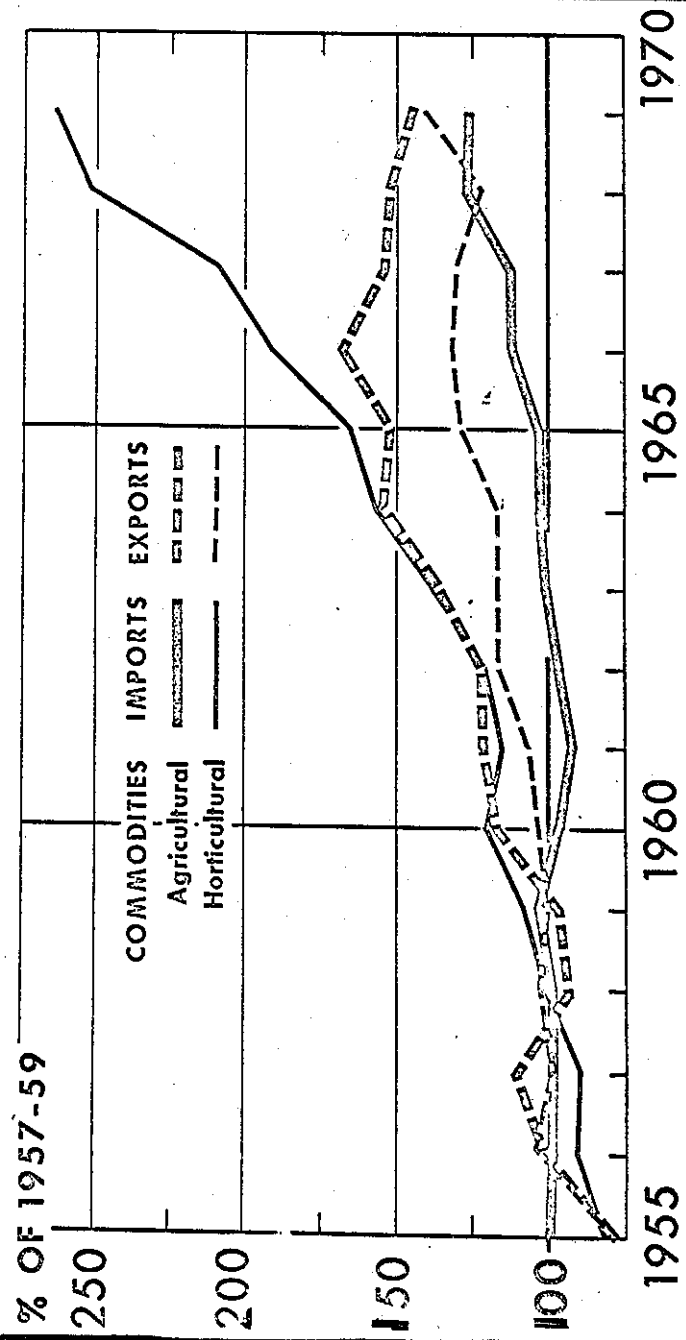
EXPORTS

IMPORTS

Ratio



INDICES OF U.S. EXPORTS AND IMPORTS OF AGRICULTURAL AND HORTICULTURAL COMMODITIES



FROZEN STRAWBERRIES:

U.S. IMPORTS AND PERCENT OF TOTAL U.S. DISAPPEARANCE

