

NAFTA At 11: Impact on the California Fresh Produce Industry

By

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Presentation Overview

- **Bottom line and some recent history**
- **Imports as share of domestic consumption**
- **US-Mexico trade patterns, and Mexican hort trade relative to total US hort trade**
- **Seasonality drives fresh produce trade**
- **Structure and location of horticultural production in Mexico**
- **Myths and Realities**
- **Relative competitiveness**
- **Tomato trade – changing dynamics**
- **Role of supermarket growth in Mexico and domestic demand**

Bottom Line and a Little History

- **Exchange rates and the WTO have influenced California ag much more than NAFTA.**
- **Mexico's decision to join the GATT in 1986 had a greater impact on reducing trade barriers in the Mexican market.**
- **Prior to joining GATT Mexico had high average tariff rates and major nontariff barriers in the form of licensing restrictions.**
- **Mexico made a decision to “unilaterally disarm” in '86, partly as an internal strategy for controlling food costs and inflation.**

Bottom Line and a Little History

- Mexican fruit and veg average tariffs were already reduced from around 50% to a max of 20% prior to NAFTA.
- Licensing restrictions were removed on most ag products, including fruit/vegs. This began to open Mexico to US exports prior to NAFTA. (ag licenses: 320 in '85, 57 in '90)
- The US trade-weighted average tariff rate for Mexican fresh vegetable imports was 7% prior to NAFTA. There were only a few fruits and vegetables facing high ad valorem tariff rates (like 25% on asparagus, 35% on melons.) Grapes were already duty free (big growth in Sonoran grape exports since NAFTA not due to improved market access).
- The US had the most to gain from improved market access.

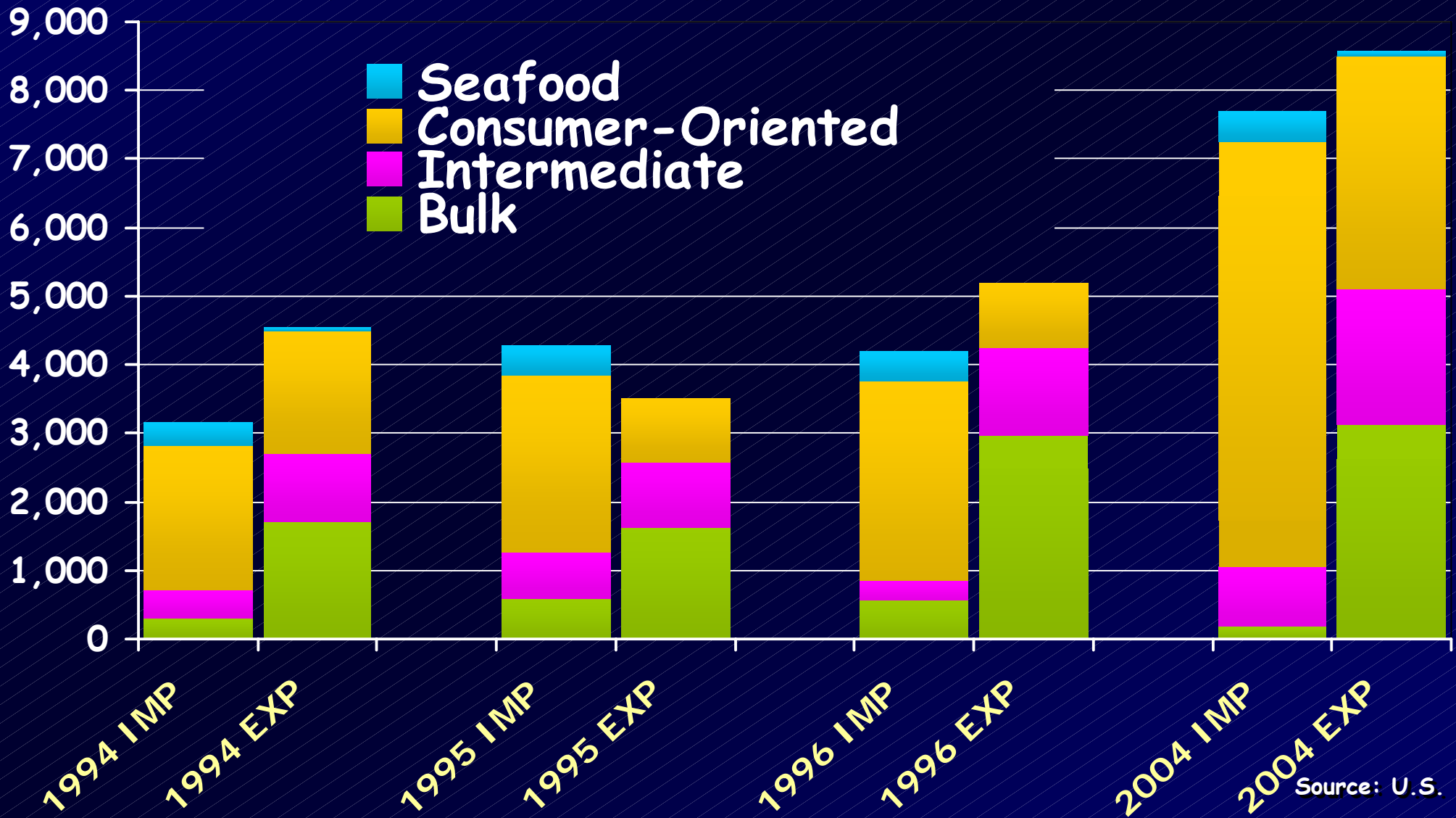
Fruit and vegetable imports as a percent of US consumption, 1990 vs 2003

<u>Item</u>	Imports-% of Consumption	Imports-% of Consumption
	1990	2003
All vegetables	7.2	13.9
Fresh veg/melons	9.4	15.9
Melons	14.2	22.4
All fruits & nuts	33.4	26.3
Fruits:		
Fresh, all	34.7	44.5
Excl'ing bananas	11.6	23.5
All fresh fruit/veg	17.4	23.2
All fruit/veg/nut	17.7	19.0

Source: ERS

U.S. - MEXICO AGRI-FOOD TRADE

U.S. Imports from/Exports to Mexico, Million \$US



Source: U.S. DO

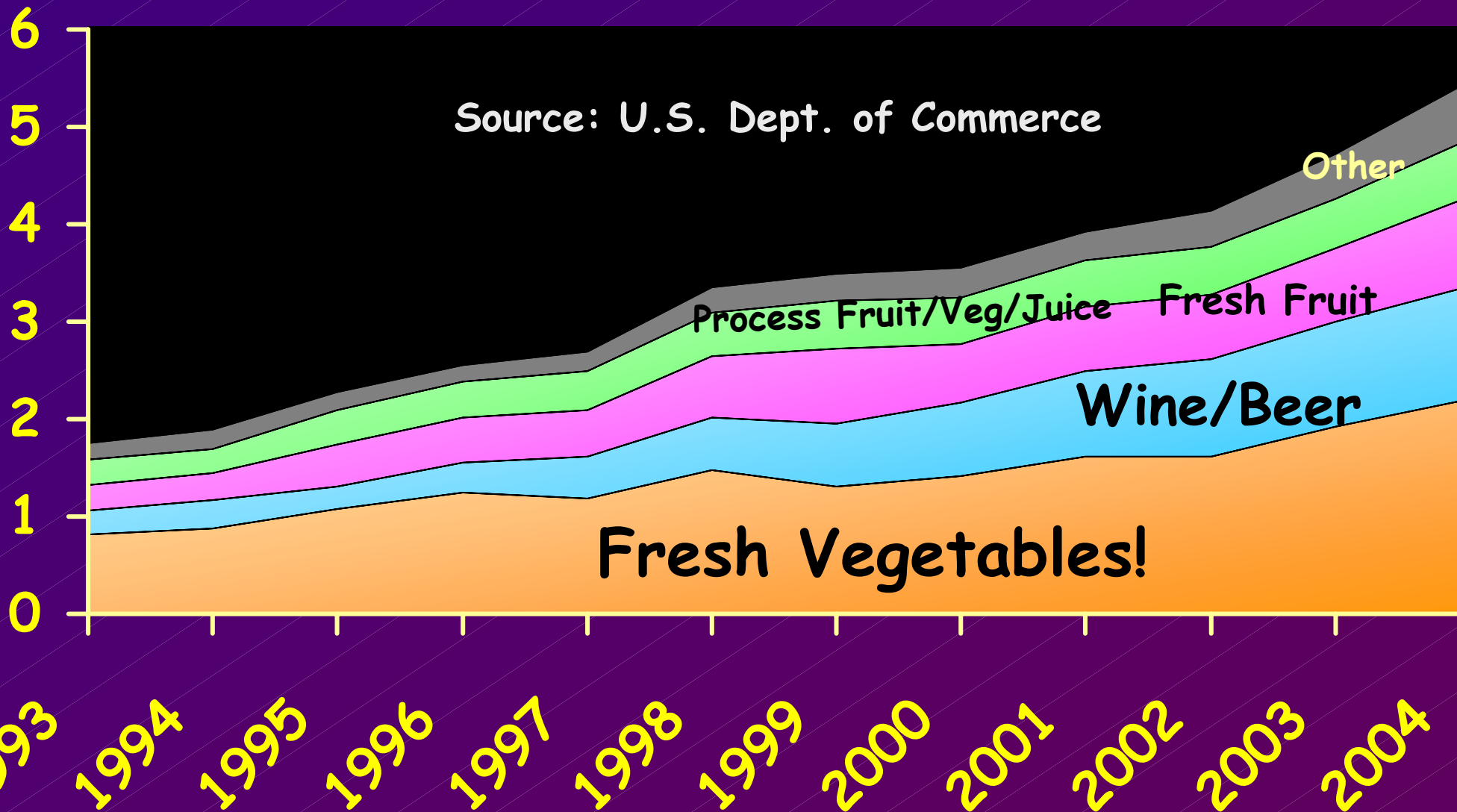
US/Mexico fresh fruit & vegetable trade: trend overwhelmingly favors Mexico



Source: U.S. Department of Commerce, BICO aggregations

US Horticultural Imports from México by Key Product Form, 1993-2004

\$ Billions

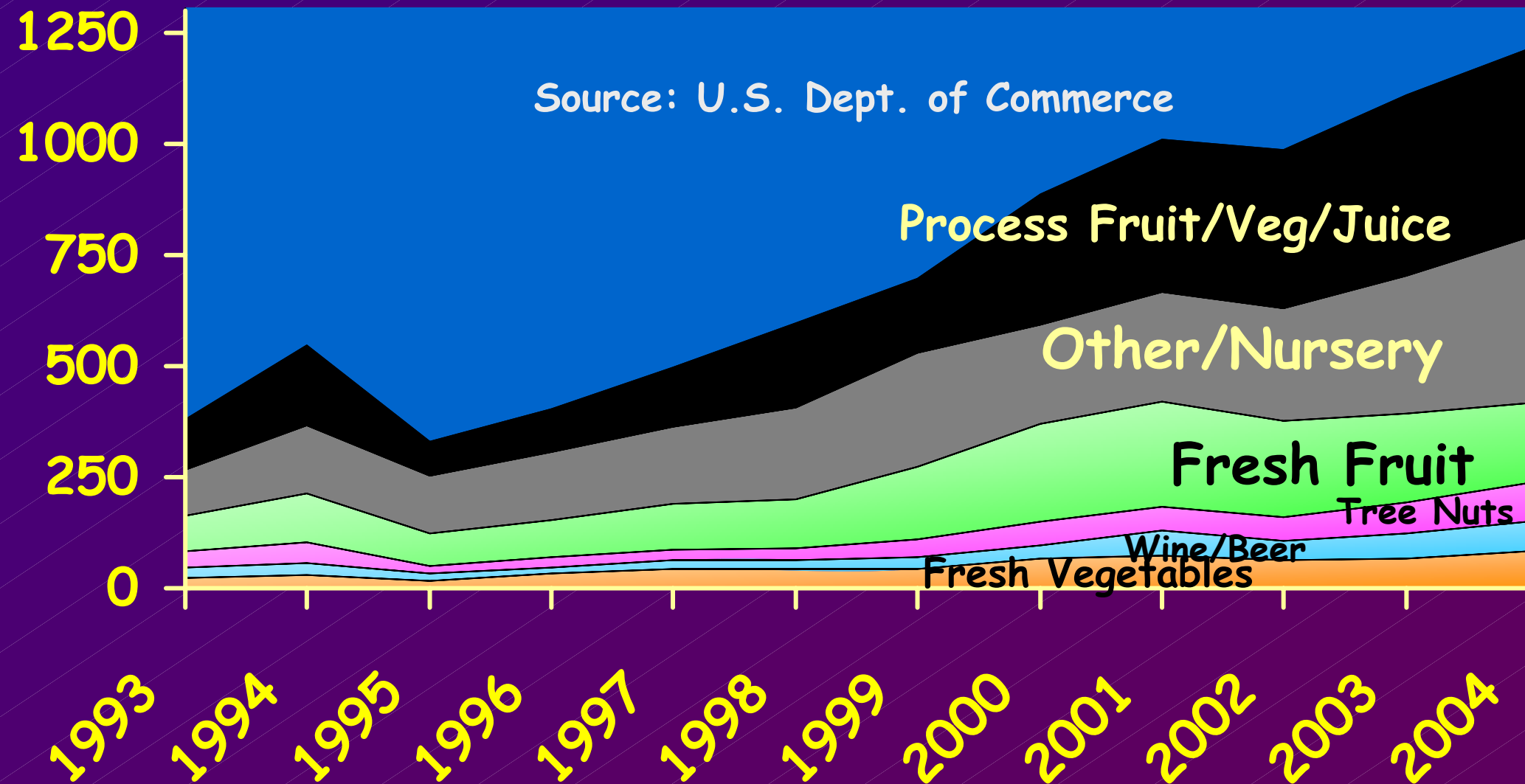


Fruits vs. Vegetables

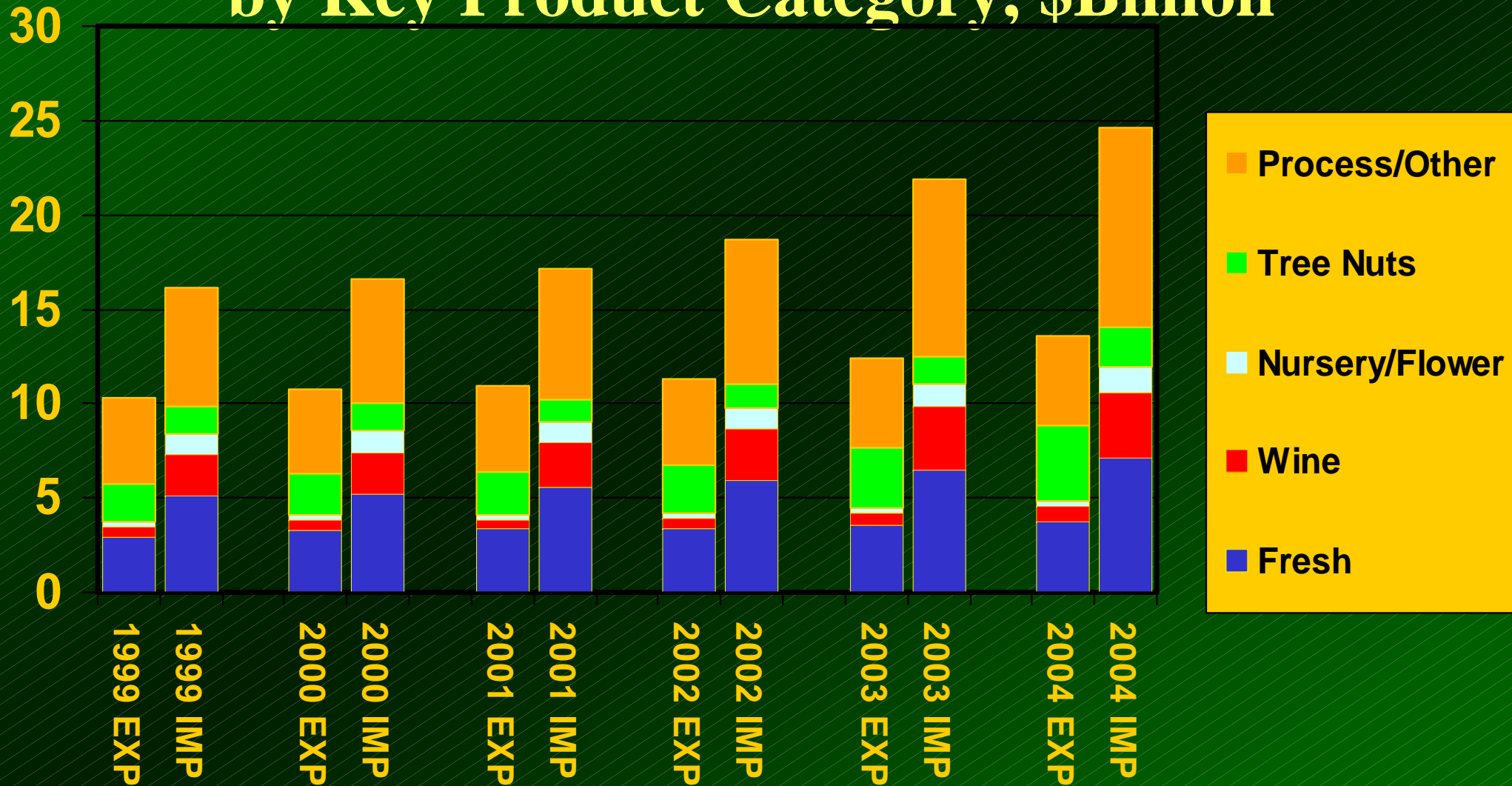
- Mexico is the principal US foreign supplier of *fresh vegetables* (65% of US fresh veg import value in 2004), exporting most product during the winter when US supply is inadequate.
- Mexico is a minority player in US *fresh fruit* imports since it is not an important banana exporter.
- Exceptions: Mexico's role in fruit trade is important for avocados, mangoes, limes, early season grapes, and some specialty tropicals.

US Horticultural Exports to México by Key Product Form, 1993-2004

\$ Millions



U.S. Horticultural Imports and Exports by Key Product Category, \$Billion



Source: FAS/USDA

Seasonal Complementarity in Fresh Produce Production

- Mexico's main exports are a segment of winter vegetables only grown during the winter in Florida and Sinaloa – don't compete with California in the winter – and we dominate production of these items in the summer:
 - Tomatoes, cucumbers, peppers, eggplant, green beans, sweet corn
- Leafy greens, broccoli, cauliflower which Ca./Az. does produce in the winter are still mainly grown in the US, with minor production in the Mexicali-San Luis Valley

Key Mexican Horticultural Areas



Mexico Production and Harvested Area of Fruits and Vegetables, Million Metric Tons and Hectares

	2003	1993
Fruit Area	1.21	1.00
Fruit Production	15.73	11.36
Vegetable Area	.56	.49
Vegetable Production	9.65	5.96
Total Area	1.77	1.49
Total Production	25.38	17.32

Source: SIACON

California and US Production of Fruits, Nuts and Vegetables, Million Metric Tons and Hectares, 2002/03

<u>Item</u>	<u>California</u>	<u>US</u>
Fruit/nut area	1.16	1.64
Fruit/nut Production	13.06	30.00
Vegetable/melon area	.484	2.10
Vegetable/melon production	22.32	57.61
Total Area	1.644	3.74
Total Production	35.38	87.61

Sources: Ag Census,
ERS, CDFA

Myths and Realities

Myth:

- **It is an advantage to be underdeveloped.**

Reality:

- **US ag benefits from:**
 - enormous support in RD&D from govt. institutions such as USDA and from the land grant university system.
 - enormous public sector investments in transportation and infrastructure of many types, including water storage and distribution.
 - extensive private sector research targeting specific crop needs.
 - a transparent and relatively responsive govt.
 - unimpeded access to the largest consumer market in the world and usually a transportation cost advantage.

Myths and Realities

Myth:

- Because fruit and vegetable production is labor-intensive, countries with low wage rates naturally have the advantage.

Reality:

- Fruit and vegetable production is capital, technology, management, research, marketing, and infrastructure intensive.

- Mexico's advantage is generally seasonal (climatic advantage) rather than a cost advantage.

Exceptions: crops requiring bunching at harvest – green onions, radishes, asparagus, give Mexico a cost advantage; and avocados.

Myths and Realities

Myths:

- A given wage rate differential is equivalent to the same differential in labor costs.
- Ag labor is abundant everywhere in Mexico.
- Mexican growers provide few social services to workers.

Reality:

- Labor is generally less well trained and efficient, offsetting some of the wage rate advantage.
- Certain areas also experience labor shortages.
- Labor management can be challenging in Mexico due to social and policy issues.
- Common to provide housing and schools.

Myths and Realities

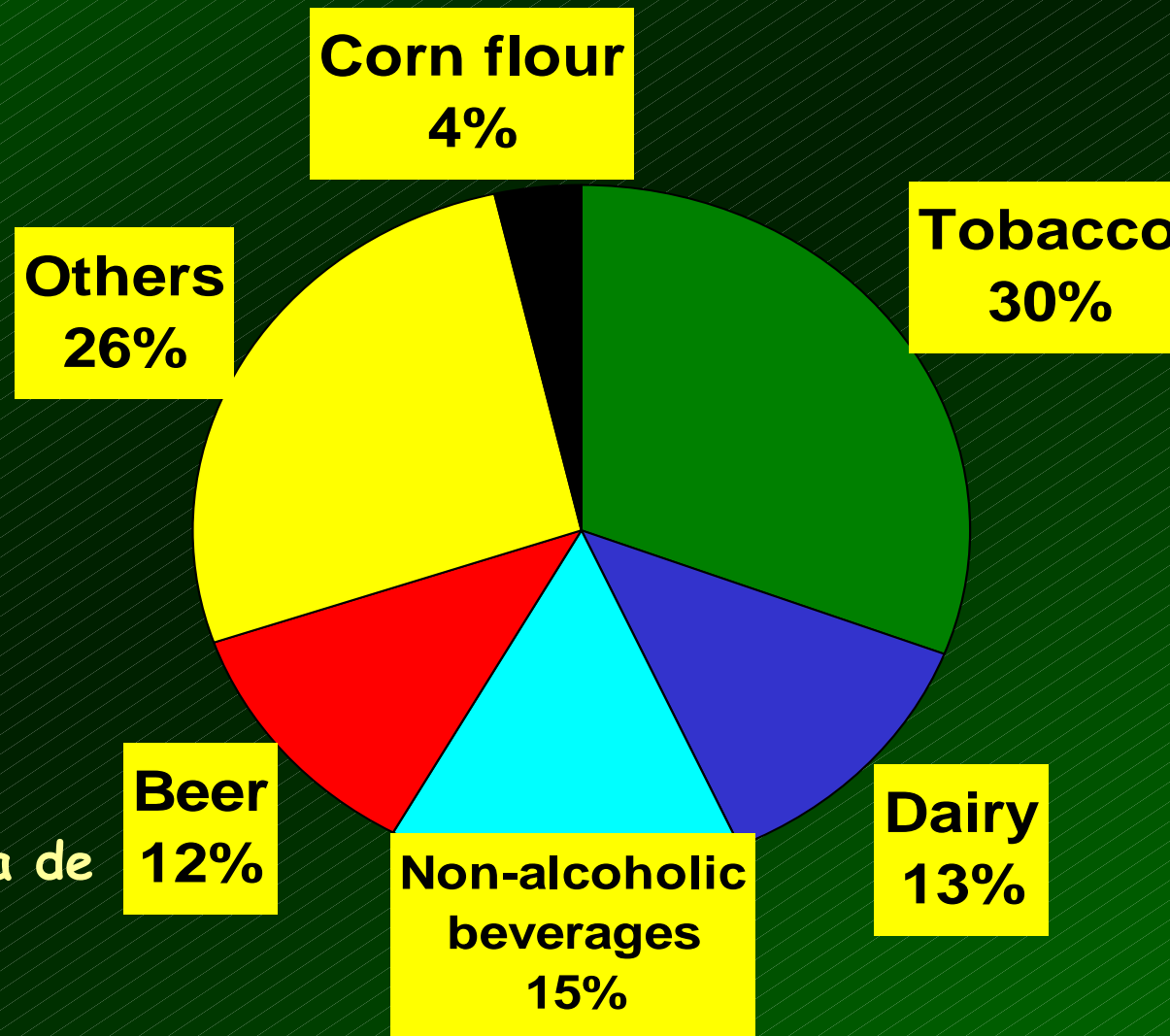
Myth:

- Food safety and pesticide practices are substandard in Mexico.

Reality:

- Important to distinguish between domestically-oriented growers and export growers.
- Although it depends on the grower/exporter, practices have improved markedly for exporters and the majority now have GAP'S in place and are third party certified.
- It is possible to find superior operations in Mexico now.

A small number of sectors receives most of the FDI investment in Mexican agribusiness



Cumulative share
1999-2003

Source: Secretaria de
Economía

FDI in Mexican Ag after NAFTA

- There were 252 foreign firms officially operating in Mexican ag as of around 2001, including 144 directly involved (FDI) in veg and cut flower production, and 19 in fruit production including 1 in grapes.
- Accumulated FDI in Mexican ag (1994-2001) was US\$126.6 million.
- Most US hort firms are not direct owner/investors, rather marketers, but this is changing (strawberries, tomatoes, avocados).
- However, restrictions on corporate farming, acreage limits and land investment restrictions in coastal and border issues remain a constraint. Source: Rabobank Mexico

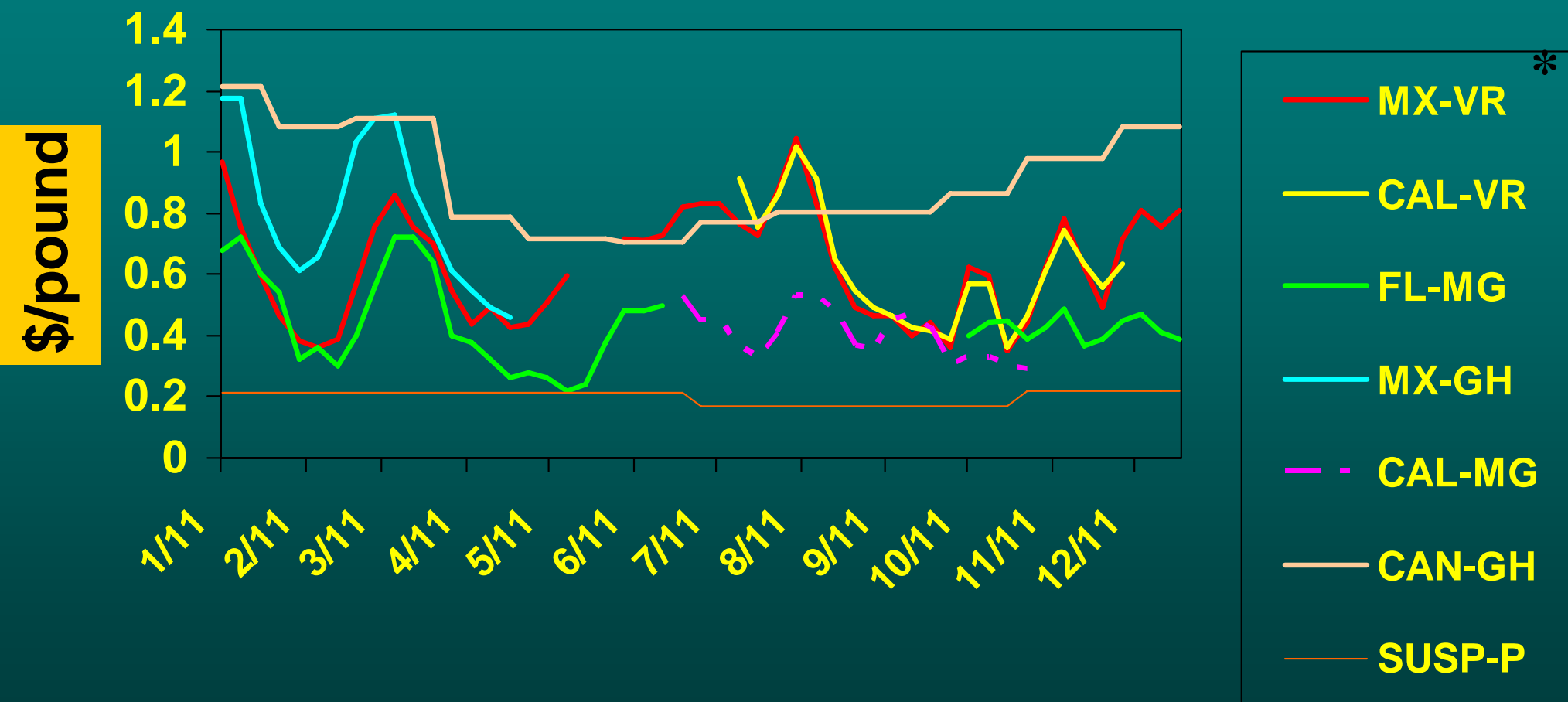
North American Fresh Tomato Industry, Greenhouse and Field, 2003

USA CANADA MEXICO TOTAL

GH Prodn MT	159,664	220,114	148,300	528,078
Field Prodn <u>1,000</u> Mt	1,594.2	26,882	1,804.0	3,425.1
GH Share of Prodn	9%	89%	8%	13%
Average Yield MT/HA	484	494	156	378

Source: Roberta Cook and Linda Calvin

Weekly Fresh Tomato Prices: Florida Mature Green; Calif. Mature Green and Vine-Ripe; Mexican Vine-Ripe and GH; Canada GH Jan. 11, 2003 – Dec. 27, 2003



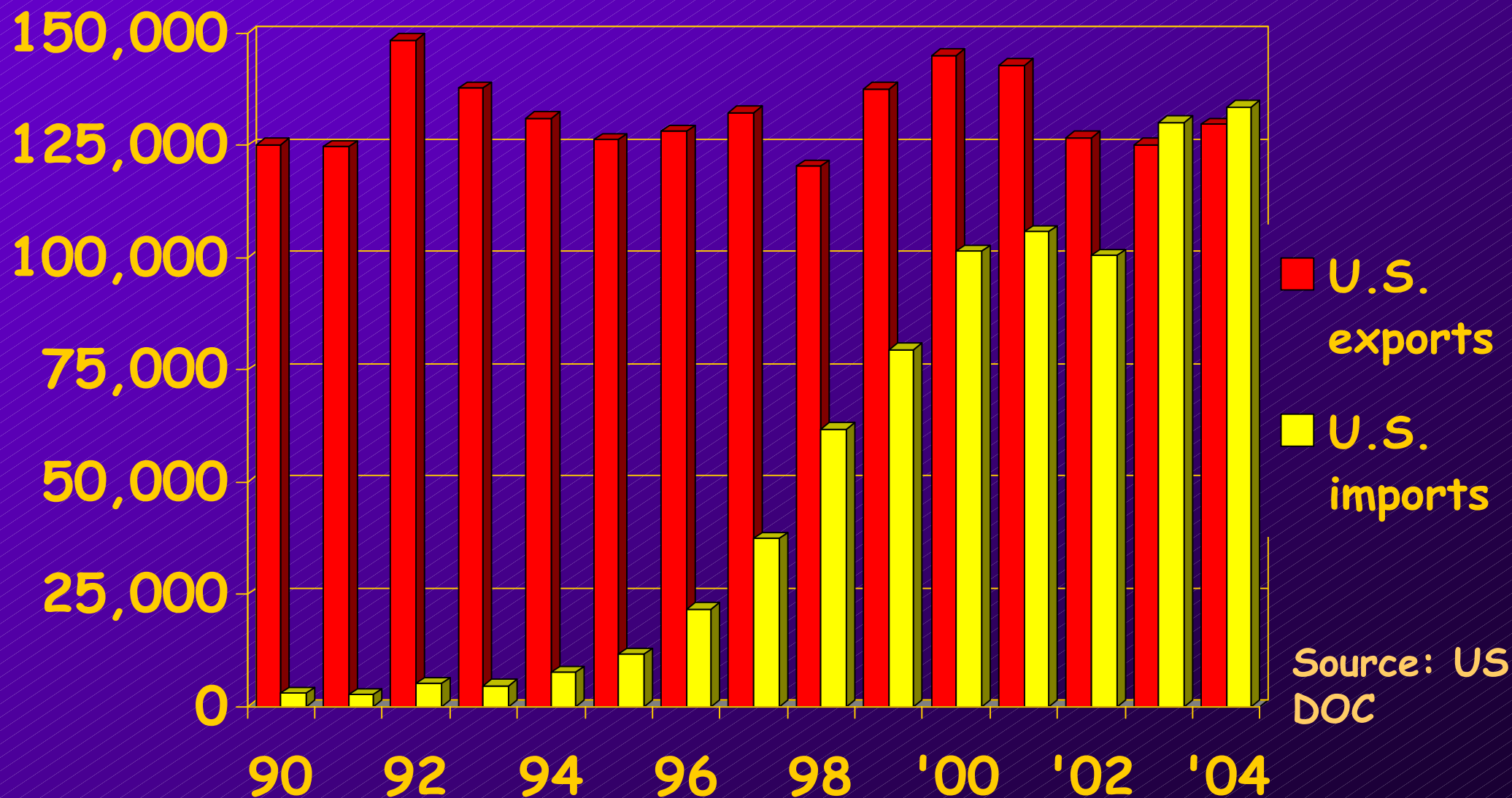
Source: AMS/USDA; US Customs *VRs, 4x5; Mx-GH 22's; MGs US 1s, extra large or 5x6.

National Fresh Tomato Retail Shares of Quantity and Value by Tomato Type, 2003 vs. 1999

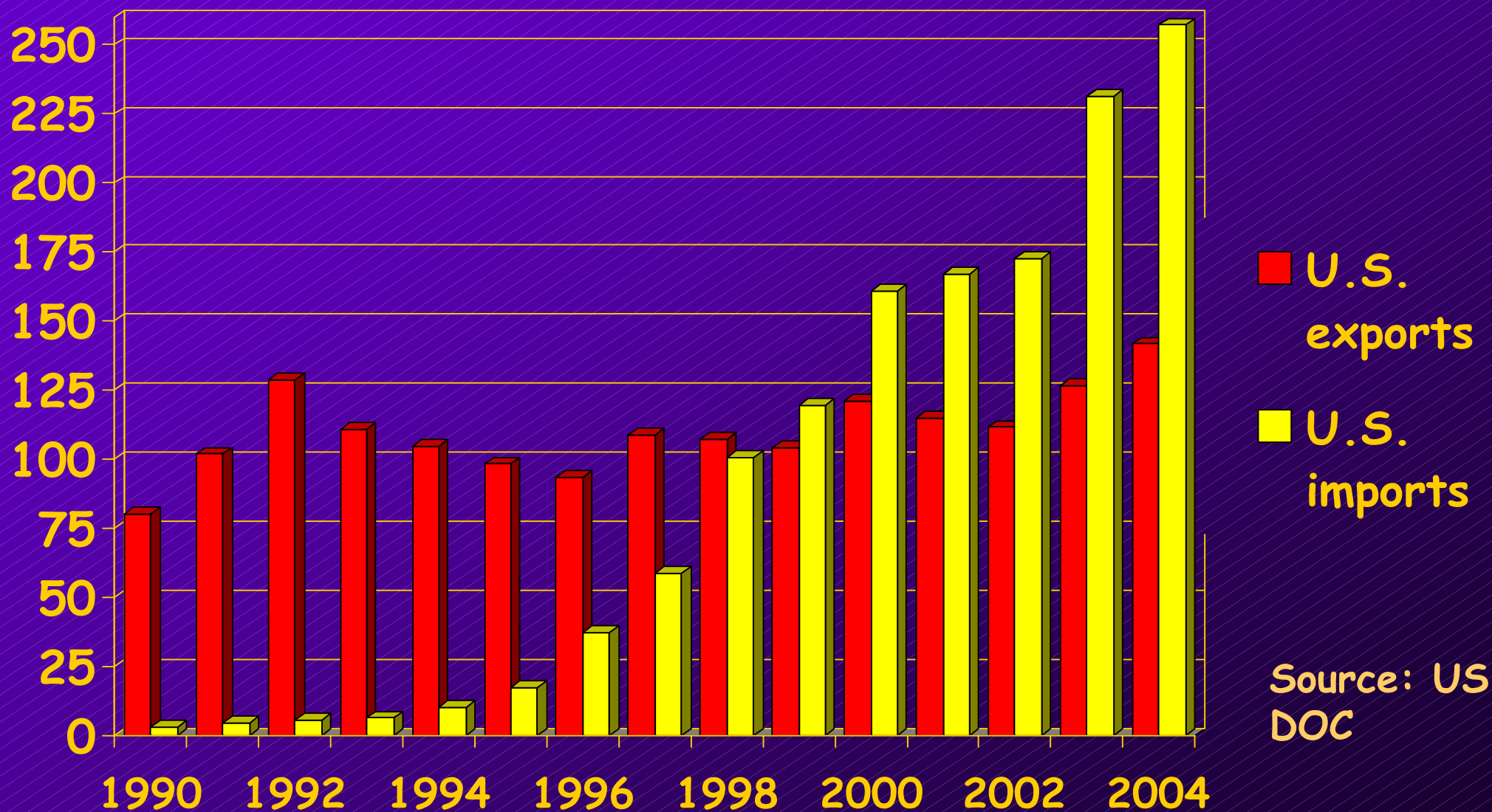
Type	Share of \$Value		Share of Pounds	
	2003	1999	2003	1999
Greenhouse	39%	42%	37%	31%
Round field	26	36	31	43
Roma (field)	12	16	19	23
Cherry/grape (field)	22	6	13	3

Sources: CTC, IRI, and The Perishables Group

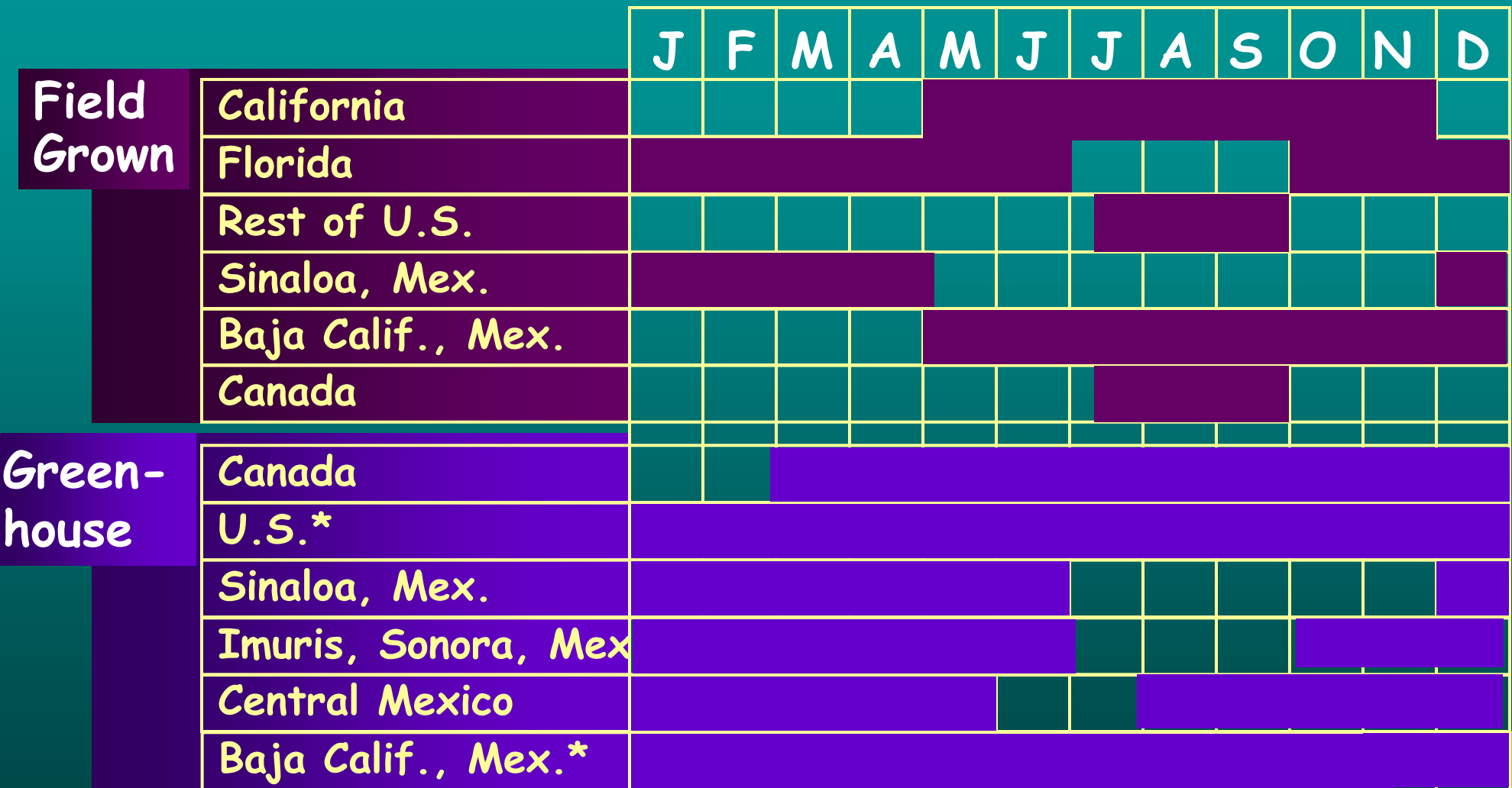
U.S.- Canadian fresh tomato trade, 1990-2004, Metric Tons



U.S.- Canadian fresh tomato trade, 1990-2004, Million US\$



North American fresh tomato shipping seasons (dark bars) by region - greenhouse versus field grown

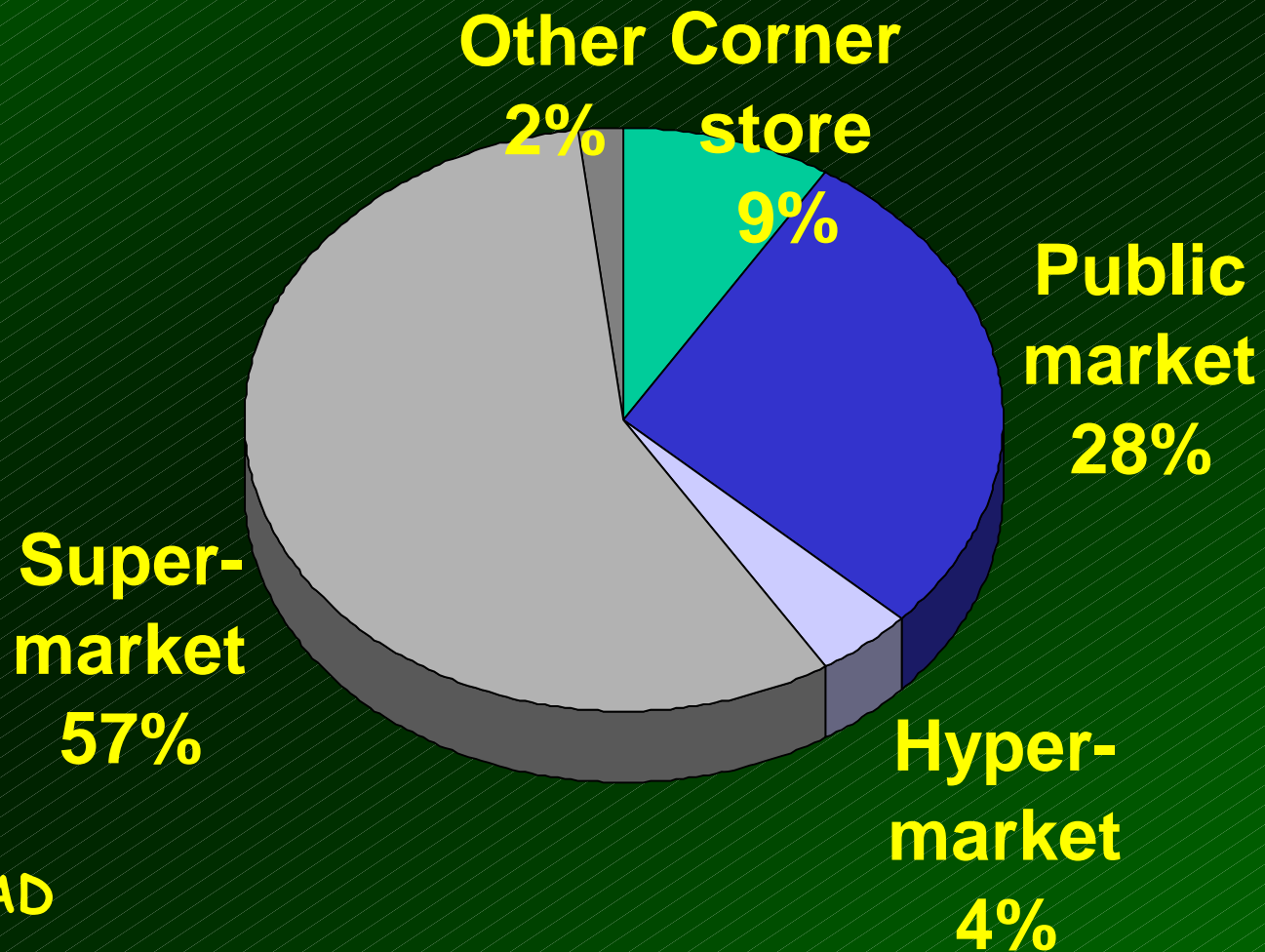


- Many U.S. and Baja greenhouse industry locations don't produce year-round, but there is year-round production in the aggregate.

Relative Competitiveness

- Ca. has an advantage in year-round fresh produce marketers (with diversified geographical sourcing) with organized marketing and extensive marketing services.
- Mexico has a climatic/seasonal advantage in numerous vegetable crops.
- Mexico has a disadvantage in marketing and in US perception of its products, as well as in infrastructure and RD&D.
- Much trade is complementary.
- Both countries are expected to experience expanding demand for fresh produce and greater trade, fueled by retail and foodservice demand for year-round availability.

The supermarket is the most widely shopped format in Mexico's major cities



Source: ANTAD

Mexican Domestic Market

- Domestic demand is expected to expand in Mexico as income and diets of its 100 million consumers improve, substitution of more fruits and vegetables and animal protein for starches.
- Currently around 80% of Mexican hort. production is consumed internally – domestic demand will remain a major factor.
- Growth in the Mexican supermarket sector is stimulating demand for imports and Ca. shippers have the ability to meet supermarket needs for consistency in quality, volumes and services.
- More Mexican shippers are also targeting supermarket chains, in some cases making them more formidable competitors.