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The North American Free Trade Agreement
and Horticultural Products

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International trade is vitally important to U.S. horticulture. U.S. exports of horticultural products have doubled since 1990 and are expected to reach a record $10.8 billion in 1998. U.S. horticulture producers now export 27 percent of their product compared to 20 percent in 1990. However, the United States is still a net importer of horticultural products, as imports increased from $8.2 billion in 1990 to $12.8 billion in 1998. About 15 percent of U.S. fruit and vegetable consumption is composed of imports. Fresh fruits and vegetables account for about 80 percent of all U.S. horticultural imports.

Several factors determine the level and composition of horticulture trade. Income levels and trade liberalization are keys to long term growth for U.S. products. Global supplies and exchange rate fluctuations are important short term determinants of market growth and foreign competition. It is well documented that consumers in developing countries, such as Mexico, spend large shares of increases in their incomes on food. As incomes in these countries grow, it is expected that U.S. horticultural products exports will increase in order to meet growing market demand. Increased market access through trade liberalization also will lead to greater export potential for U.S. products over the long term. More competition for the U.S. market also can be anticipated.

Due to trade liberalization through the North American Free Trade Agreement (NAFTA) and the Canada-U.S. Trade Agreement (CUSTA), some U.S. producers have experienced more market

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access and rising exports for their products, while others have faced more import competition and
lower prices. This is particularly the case in horticultural products as these trade agreements have led to
both greater U.S. exports of fruits and vegetables, and more intense competition from both Mexico and
Canada.

Along with new trade opportunities, some producers have experienced more risk associated
with greater dependence on international markets, such as the 1995 Mexican peso devaluation and the
subsequent economic recession which reduced the demand for U.S. exports. Further, weather
anomalies such as el niño and la niña have impacted horticultural yields in North America. This paper
focuses on trends in horticultural trade since the implementation of NAFTA and CUSTA.

**Vegetable Products**

NAFTA has had mixed impacts on the U.S. vegetable industry. Mexico is the number one
supplier of fresh vegetables to the United States, accounting for 59 percent of the total. U.S. imports of
Mexican products such as broccoli, cucumbers, and onions, which were protected by high duties (17
to 35 percent *ad valorem*), have increased. U.S. fresh and frozen vegetable imports from Mexico
increased 92 percent, from 1.2 million metric tons (mmt) in 1990-91 to 2.3 mmt in 1998 (figure 1).

During this same period, U.S. tomato imports from Mexico more than doubled to 734,000
metric tons (mt), while cucumbers increased 88 percent to 307,000 mt, cauliflower was down to
184,000 mt after a high of 203,000 mt in 1997. Lettuce imports from Mexico increased five-fold to
13,331 mt, squash was up more than 30 percent to 164,000 mt, pepper imports more than doubled to
285,000 mt, and onion imports expanded one-third to 211,000 mt.
Fresh vegetables and fruits imported from Mexico must comply with U.S. marketing order provisions unless such produce is destined for processing in which case it is exempt. However, U.S. producers are concerned that as more Mexican produce is allowed into the market, the potential will increase for low quality products to enter U.S. fresh marketing channels, driving down prices.

Canada is the number one market for U.S. fresh vegetable exports, accounting for three-fourths of the total. U.S. vegetable exports to Canada have doubled since 1987-88, surpassing 1.3 mmt for the second consecutive time in 1998. U.S. exports of canned and frozen vegetables have expanded seven-fold, exceeding 194,000 mt in 1998 (figure 2).
Figure 2. U.S. Vegetable and Products Exports to Canada, Pre- and Post-CUSTA

Potatoes, lettuce, and onions account for one-half of total U.S. fresh vegetable exports to Canada. Tomatoes, carrots, celery, and broccoli represent about one-quarter of U.S. exports, while other fresh vegetables account for the balance. With the exception of celery and broccoli, other U.S. fresh vegetable exports to Canada have increased since 1987-88.

Canada is the second largest supplier of vegetables to the U.S. market, behind Mexico. U.S. imports of Canadian vegetables reached 1.2 mmt in 1997 and accounted for 32 percent of total U.S. vegetable imports. Potatoes were the number one import, representing 72 percent of the total from Canada (figure 3). Carrots, other vegetables, and vegetable products accounted for the balance of vegetable imports from Canada. All vegetable imports from Canada have increased under CUSTA.
Vegetable Trade Issues

As U.S. trade barriers have been phased out, more imports have caused lower prices and declining returns to some U.S. vegetable producers. Therefore, the major issue relates to growing import competition and the ability of U.S. producers to compete. Further, additional fresh vegetable imports have raised concern about food safety and the presence of excessive levels of chemical residues on produce, even though imports must meet U.S. food safety standards. Higher import volumes have also led to increased concerns about imported plant diseases and pests. Taxpayer costs to increasingly monitor and inspect imported foods are anticipated to increase due to greater vigilance, especially at inland border crossing locations.

Tomatoes

In response to sharply lower prices and rising imports during the 1994-95 season, the Florida tomato industry filed three petitions with the U.S. International Trade Commission (ITC) requesting protection from imported Mexican tomatoes. Although the third petition was suspended without action
by the U.S. ITC and the U.S. Department of Commerce, it did result in the establishment of a minimum import price of $.2068/pound for Mexican tomatoes, which is reviewed annually and may be adjusted as required.

Potatoes

U.S. duties on fresh potatoes and frozen french fries from Canada were eliminated under CUSTA, but U.S. snapback tariffs are retained until 2008. Canada eliminated all tariffs on potatoes and potato products. Since 1987-88, U.S. imports of potatoes from Canada have increased from 223,000 mt to 873,000 mt, or 291 percent. Imports from Canada have increased 40 percent over the last two years leading to concerns by the U.S. industry that Canadian potatoes were receiving a subsidy. Potatoes account for almost 70 percent of total U.S. fresh and frozen vegetable imports from Canada. Since CUSTA, U.S. potato exports to Canada have increased 548 percent, reaching 259,000 mt in 1997 before falling to 237,000 mt in 1998. U.S. potato exports to all destinations reached 295,000 mt in 1998, up 10 percent from 1996 and double the level of 1990-91.

Canada imposes anti-dumping duties on U.S. potatoes exported into British Columbia from August-June. The duty is scheduled for elimination in 2000. The surge in imports of Canadian potatoes has been met with calls for protection by the U.S. industry. Allegations included the use of government subsidies, requirements that commercial potato shipments be made in containers weighing more than 50 kilograms, the price depressing effects of import competition, and the negative effects of lower quality Canadian imports. The U.S. International Trade Commission completed an investigation of Canada - U.S. potato trade in 1997 and concluded that imports of potatoes did not have a significant negative impact on overall potato prices in the United States, but likely did negatively impact
prices in regional markets, especially the Northeast. The ITC study also revealed that the most prevalent form of government support to the Canadian potato industry was in the form of low cost and zero interest loans and credit guarantees to growers and processors (U.S. International Trade Commission).

Onions

In 1996, Texas producers of dry onions voiced concerns that Mexico was dumping fresh onions on the U.S. market. Onion imports from Mexico reached 228,000 mt, accounting for 80 percent of total imported onions. Similar to complaints of tomato growers, onion producers felt that prices were artificially low as a direct result of increased volume of onions from Mexico. While little evidence was found to support these claims, Texas onion producers continue to be wary of Mexican imports, and the situation merits continued monitoring and investigation of the competitive forces affecting change.

Fruit and Nut Trade

U.S. exports of non-citrus fruit, such as peaches, apples, and pears have increased as Canada and Mexico have lowered import duties. Fresh non-citrus exports to Canada expanded from 220,000 mt in 1987-88 to 596,000 mt in 1997, then declined to 555,000 mt in 1998. Canada the number one export market, accounting for 39 percent of total U.S. non-citrus exports (figure 4). Canned and dried fruits were 44,000 and 20,500 mt, respectively, in 1998. U.S. fresh melon exports to Canada increased to 200,000 mt in 1997 and 1998.

U.S. imports of fresh fruits from Canada totaled 103,000 in 1998, representing only four
percent of the total (figure 3). Apples accounted for 40 percent of total U.S. fresh fruit imports from Canada, totaling 41,000 mt, representing a 33 percent decline from 1997. Berries, at 56,000 mt accounted for most of the balance of non-citrus fruit imports.

U.S. exports of fresh deciduous fruits to Mexico have increased from 57,000 mt in 1990-91 to 173,000 mt in 1998. Mexico is the third largest export market behind Taiwan. Apples and pears account for nearly 70 percent of the trade volume. Greater sales to the Mexican market should occur as incomes rise and consumers develop a preference for U.S. products. Sanitary and phytosanitary restrictions, however, may limit trade to some degree.

Mexico is the top supplier of fresh fruits to the U.S. market, accounting for 40 percent of the total in 1998 (figure 5). Melons, citrus and mangoes account for 76 percent of total U.S. fruit imports from Mexico. Under NAFTA, some U.S. seasonal import duties on oranges and grapefruit were eliminated in 1994, while other duties will be phased out over ten years. Because
of the low level of protection prior to NAFTA and the long phase-out period, it is expected that
NAFTA will have only minimal negative impacts on U.S. citrus producers. U.S. imports of fruits and
preparations from Mexico have increased to more than 1.0 mmt since NAFTA. Melon imports were
up by more than one-third to 445,000 mt in 1998. Most melon imports entered during the part of the
year when U.S. tariffs on Mexican melons are zero. Citrus fruit and mango imports from Mexico
increased to 172,000 mt and 166,000 mt, respectively.

Figure 5. U.S. Fruit and Nut Imports from Mexico,
Pre- and Post-NAFTA

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<th>1990-91</th>
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USDA, FATUS, Calendar Year.

Agribusinesses associated with the U.S. fruit and vegetable industries can expect both positive
and negative impacts. Suppliers of seed, fertilizer, and other chemicals may experience minor losses as
the production of some crops declines and some production shifts to Mexico. Specialized
infrastructure, such as packing sheds, may gain as imported volume expands and capacity increases,
other operations may survive only by relocating nearer production areas in Mexico. Both farm and
non-farm labor can expect some lost employment opportunities as imports of Mexican produce expands.

**Fruit Trade Issues**

Increased fresh fruit imports from Mexico have also raised concerns about food safety and chemical residues, as well as increased concerns about imported plant diseases and pests. There have been trade issues involving apples, avocados, and strawberries. Also, increased import competition by Mexican melons and the lack of expansion of the Mexican market for U.S. citrus have led some U.S. producers to question the benefits of NAFTA.

**Apples**

In September 1997, the Mexican government imposed a minimum price of $13.72 per 42 pound carton on U.S. “Red Delicious” and “Golden Delicious” apples exported from the U.S. This is the equivalent of an *ad valorem* tariff rate of 43 percent. The price floor was a result of a six month investigation by Secretaría de Comercio y Fomento Industrial (SECOFI) in response to allegations by the Chihuahua State Fruit Growers Association that U.S. apples were being dumped into Mexico. The minimum price became effective on May 16, 1998, and will remain in effect until October 1999. On November 1, 1999, and each year thereafter, a new price will be imposed based on the average price of the most recent three years. The current agreement is in effect until 2003. It is believed that this price floor will reduce U.S. apple exports to Mexico.

**Avocados and Strawberries**

In February 1997, the U.S. agreed to begin allowing avocado imports from Mexico into 19 northeastern states for the first time in eighty years. The import ban had been in effect since 1914 due
to avocado seed weevils, and the access window to the U.S. market is from November through February.

In March 1997, an outbreak of Hepatitis A which affected over 150 schoolchildren in Michigan was traced back to Mexican strawberries. While it was not determined how the strawberries became contaminated, it was estimated that the Mexican strawberry industry lost over $250,000 per day during the midst of this event as U.S. shoppers decreased their purchases of strawberries.

**Conclusions**

While NAFTA created one of the world's largest free trade areas, assessing trade impacts is complex. Many non-NAFTA factors may have a greater impact on U.S. agricultural trade than NAFTA. For instance, the 1994/95 peso devaluation had a major influence on trade. Weather, adoption of technology, infrastructure development, and the growth of consumer incomes are all important factors affecting U.S. exports and imports. Trade, employment, and economic activity are interdependent, however, and trade gains will not be made without some costs, as labor intensive horticultural sectors face more competition from imports and must adjust.

NAFTA has been important in providing an effective mechanism for reducing phytosanitary barriers. U.S. trade prospects for fresh oranges, grapefruit, and apples have increased as a result. USDA is also working with Mexico to develop sanitary guidelines to improve U.S. access to the Mexican market for seed and fresh potatoes.

Increased demand in Mexico and Canada will raise U.S. prices, unless there is a corresponding increase in supply. Consumers of some products will be worse off if higher prices are passed on to them. More imports will also increase the supply available to consumers and prices will drop, unless
domestic suppliers reduce production due to lower prices. The net benefits from trade will depend on
the balance between trade gains and losses and the resulting impacts on prices, jobs, income, taxes,
and costs.

Benefits to Mexico and Canada are expected through lower prices to consumers due to tariff
reductions and the elimination of highly restrictive import quotas on some products, along with
increased access for some producers to the U.S. market.

It is important to note that while lower tariffs and less restrictive import quotas will expand
trade, U.S. agriculture is now part of the global economy. Prices for horticultural products are
determined by the interaction of supply and demand on the world market. Farm incomes are not only
dependent upon NAFTA, but upon many other factors emanating from both the domestic and the
international markets.
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