

U.S. Horticultural Trade With NAFTA Partners Continues To Expand

By Samuel Rosa

In 1989, the United States and Canada began eliminating import tariffs and other trade restrictions under the U.S.-Canada FTA (Free Trade Agreement). In 1994, with implementation of NAFTA (the North American Free Trade Agreement), the accord was expanded to include Mexico.

Since then, U.S. trade in horticultural products with Canada and Mexico has expanded significantly. North America's fruit and vegetable industries, as well as consumers, have benefited from new market opportunities opened up by lower tariffs, import license elimination, greater consumer choice and a more transparent business environment. Today Canada is the top export market for U.S. horticultural products, while Mexico ranks as the fourth largest. The United States has a positive horticultural trade balance with Canada, but an increasing trade deficit with Mexico.

In calendar 2001, U.S. horticultural exports to Canada reached a record \$3.3 billion, almost a third of the value of all U.S. horticultural exports. Fresh fruits, tree nuts and fresh vegetables comprised nearly half the value.

More than 50 percent of Canada's fresh fruit and nut imports and 80 percent of its fresh vegetable imports originate in the United States. Citrus, table grapes and strawberries are the leading fresh fruit imports, and shelled almonds, pecans and walnuts are the major tree nuts. Top U.S. sellers in the fresh vegetable category include lettuce, tomatoes and potatoes.

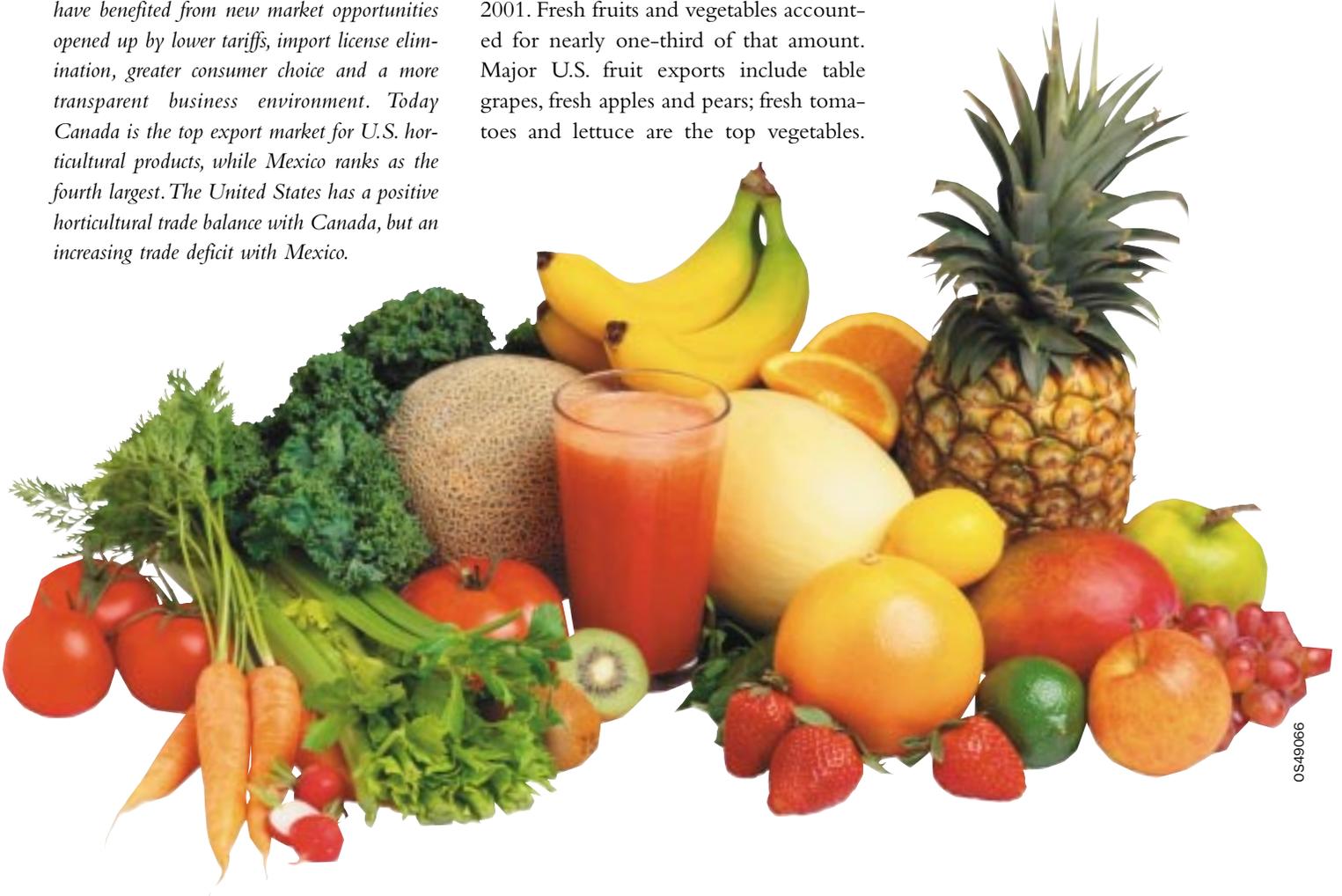
U.S. horticultural exports to Mexico topped \$1 billion for the first time in 2001. Fresh fruits and vegetables accounted for nearly one-third of that amount. Major U.S. fruit exports include table grapes, fresh apples and pears; fresh tomatoes and lettuce are the top vegetables.

Processed vegetables (canned, dried and frozen) turned in combined sales of \$300 million.

Mexico is the top market for U.S. exports of fresh deciduous fruit. Apples and pears are the top commodities in this category, accounting for 75 percent of U.S. fruit exports to Mexico in 2001. Nearly 5 percent of the U.S. apple crop (volume) was exported to Mexico that year, compared to 2 percent in 1999. Nearly half of all U.S. pear exports, 10 percent of total production, go to Mexico.

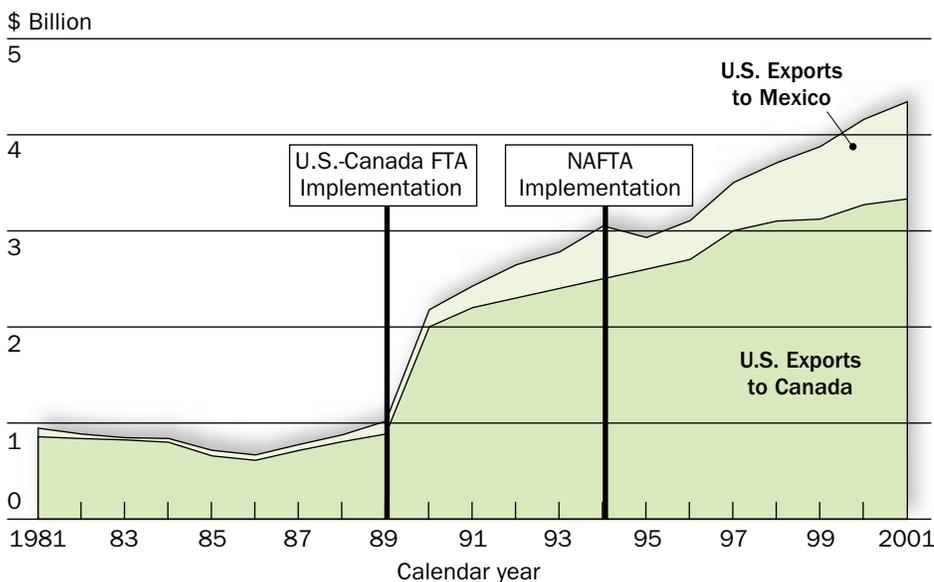
U.S. Imports Also on the Upswing

The United States is also a good customer for its NAFTA partners, typically



Trade Liberalization Has Enhanced Overall U.S. Horticultural Exports to Canada and Mexico

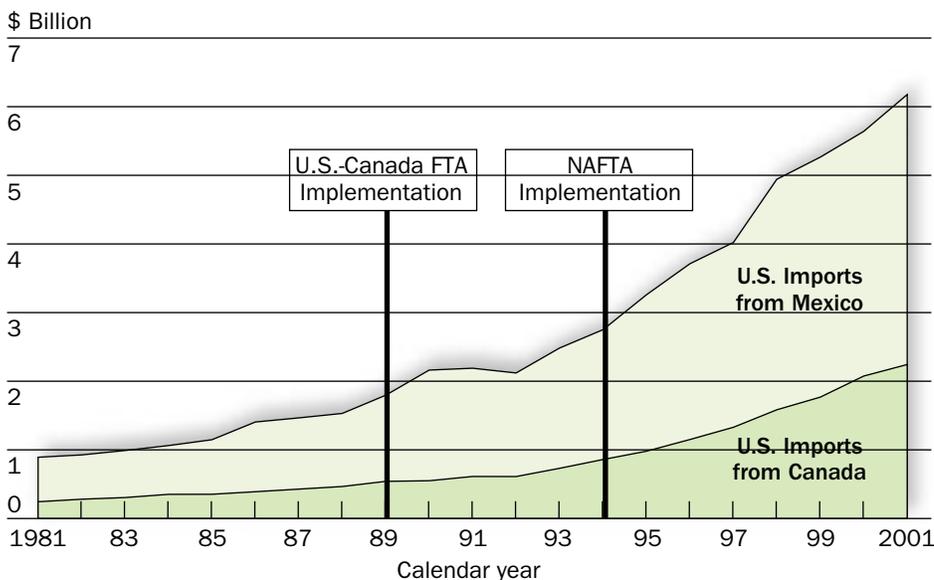
In 7th Year of NAFTA, Combined U.S. Horticultural Exports Set a Record \$4.3 Billion



Source: U.S. Bureau of the Census.

Overall U.S. Horticultural Imports from Canada and Mexico Are Expanding As Well

In 2001, Combined U.S. Horticultural Imports Reached a Record \$6.2 Billion



Source: U.S. Bureau of the Census.

buying more than 70 percent of Canada's horticultural exports. Processed fruits and vegetables are the main Canadian horticultural products shipped to the United States, accounting for about 30 percent of the value.

U.S. frozen vegetable imports from Canada have tripled since 1994, exceeding \$430 million in 2001. Frozen potato fries are the leading frozen vegetable item, increasing steadily since 1994 to reach a record \$382 million in 2001.

U.S. imports of Canadian canned vegetables were valued at nearly \$90 million in 2001, seven times the amount imported prior to 1994. After Canada, Mexico and Brazil supply most U.S. demand for imported processed fruits and vegetables.

Mexico is the United States' top export supplier of horticultural products and the leading foreign provider of fresh fruits and vegetables. According to U.S. Census Bureau data, from calendar years 1994 through 2001, U.S. imports of fresh fruits and vegetables from Mexico increased from \$1.2 to \$2.3 billion—nearly 100 percent.

While Mexico has had a trade surplus in fresh fruits and vegetables with the United States for many years, this surplus (or U.S. deficit) has expanded significantly in the past decade. Key U.S. fresh produce imports include tomatoes, peppers, squash, onions, cucumbers, mangos, melons and table grapes.

U.S. Trade Surplus with Canada Narrowing, Trade Deficit with Mexico Widening

U.S.-Canadian horticultural trade has increased substantially. Although the United States has maintained a surplus, it has dropped markedly in recent years, from \$1.7 billion in 1993 to \$1.1 billion

in 2001. A strong U.S. dollar accounts for part of the decrease.

Nevertheless, viewed in per capita terms, the United States maintains a very strong position in Canada. With a population of 32 million people and a current average per capita GDP (gross domestic product) of approximately \$28,000, Canada imported \$104.07 per capita of U.S. horticultural products in 2001, while the United States, with a population of about 280 million and a per capita GDP of over \$36,000, posted per capita horticultural imports from Canada of only \$7.99.

The same year, U.S. fresh fruit and vegetable sales to Mexico exceeded \$300 million, while U.S. imports of fresh horticultural products from Mexico reached \$2.3 billion. At nearly \$2 billion, the 2001 U.S. trade deficit in fresh horticultural products with Mexico was more than three times the shortfall registered 20 years ago.

In per capita terms, Mexico imported \$9.81 of U.S. horticultural products in 2001. This figure compared with \$13.99 in per capita horticultural imports from Mexico posted by U.S. consumers the same year. Key U.S. horticultural imports include tomatoes, peppers, squash, onions, cucumbers, mangos, melons and table grapes. A stronger U.S. dollar vis-à-vis the Mexican peso and increased U.S. fresh produce consumption have helped widen the deficit.

Bumps in the Road

A number of additional factors are also contributing to the growing trade imbalance, such as Mexico's phytosanitary policies, increased import documentation requirements and other nontariff barriers.

U.S. horticultural exports are also



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constrained by a Canadian regulation that prohibits bulk shipments of some foreign and domestic fresh fruits and vegetables under certain circumstances. Under the regulation, the Canadian Food Inspection Agency grants waivers (also known as "ministerial exemptions") for bulk imports when local supplies are insufficient to meet domestic fresh or processing demand.

Because Canada is an important market for U.S. fresh potatoes, it is not surprising that the U.S. potato industry has longstanding concerns about Canada's bulk limitations.

The U.S. apple industry has also expressed concern about the Canadian bulk restrictions. Over the years, apple growers from New York have had problems getting red varieties into Canada, primarily when domestic supplies are plentiful. More recently, New York growers have encountered similar problems shipping golden apple varieties. This is principally due to the fact that the Canadians are now growing more golden

varieties to fulfill demand in this market, which was developed by U.S. exporters.

Problems and disputes have also plagued apple trade between the United States and Mexico for many years (e.g., an onerous oversight inspection program and an antidumping case). In August 2002, Mexico's Secretariat of Economy cancelled the U.S.-Mexico apple dumping suspension agreement of 1998, thereby resuming the antidumping investigation begun in 1997 on imports of U.S. red and golden delicious apples and re-establishing a provisional 46.58-percent antidumping duty.

FAS trade analysts and U.S. trade negotiators are working vigilantly to monitor NAFTA and ensure that our partners live up to their obligations under the agreement. ■

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