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Trends and Impacts of Fruit and Vegetable Imports

Statement of
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Before the
Subcommittee on Domestic Marketing,
Consumer Relations, and Nutrition
Committee on Agriculture
House of Representatives

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today at your request to provide an overview of issues relating to increased fruit and vegetable imports, including the extent to which such imports have risen, the reasons for the rise, the impact of these imports on various economic sectors, and related product safety concerns. Much of our testimony today is based on information in the briefing report we just issued, Agriculture Trade: Causes and Impacts of Increased Fruit and Vegetable Imports (GAO/RCED-88-149BR), and in previous GAO reports. (See app. I.)

THE RISE IN AGRICULTURAL IMPORTS IN THE 1980s

An increasing amount of the food Americans consume comes from foreign sources. For example, almost half of the orange juice Americans drink comes from foreign sources, primarily Brazil, and one out of every four grapes eaten in the United States is grown abroad.

In terms of 1986 dollars (that is, discounting for the effects of price changes and exchange rate fluctuations), U.S. agricultural imports of all kinds rose from under $15 billion in 1980 to $21 billion in 1986 and $20.7 billion in 1987. During the

1980-86 period, U.S. agricultural exports declined from almost $34 billion--the highest level ever--to about $26 billion.

Although agricultural imports of all kinds generally rose from 1980 through 1986, fruit and vegetable imports rose even more rapidly. In 1986 dollars, fruit imports increased from about $482 million in 1980 to about $1.6 billion in 1986, over a threefold increase. Vegetable imports more than doubled in value during this period, increasing from about $738 million to about $1.6 billion.

Not only did the value of fruit and vegetable imports increase during the 1980-86 period, but import shares (that is, the percentage of domestic consumption supplied by imports) of major fruits and vegetables rose as well. For a particular fruit or vegetable, the import share provides an indication of the impact of that commodity import on the domestic market. In general, rising imports are likely to affect domestic industry most in markets where the import share has increased over time.

Overall, the import share for major fresh and frozen fruit rose from about 26 percent in 1980 to over 33 percent in 1986. The imported canned fruit share rose from about 5 percent to almost 13 percent during this period. For vegetables, the rise in import share was more modest. The processed vegetable import share rose from about 1.3 percent in 1980 to over 5.4 percent in 1986, whereas

the fresh vegetable import share remained relatively constant during this period, rising from about 5 percent to about 7 percent.

Fruits experiencing major increases in import shares in the 1980-86 period included frozen concentrated orange juice (from about 14 percent to about 54 percent), table grapes (from about 12 percent to about 26 percent), and, to a lesser extent, canned peaches (from an almost zero import share to over 5 percent). For vegetables, import shares of processed broccoli and processed cauliflower increased significantly during that period; from 9 percent to almost 39 percent for processed broccoli and from under 8 percent to 27 percent for processed cauliflower. The import share of processed tomatoes also increased, from about 1.5 percent to over 7 percent.

FACTORS CONTRIBUTING TO THE RISE IN FRUIT AND VEGETABLE IMPORTS

A number of developments converged in the 1980s that contributed to the rise in U.S. fruit and vegetable imports. While not applicable to every commodity, when viewed together, the following factors help explain why fruit and vegetable imports increased.

-- Lower production costs in some foreign countries.

-- The rise in the dollar's exchange rate against the currencies of countries that export fruits and vegetables to the United States.

-- Actions, such as producer and export subsidies, by some governments.

-- Natural disturbances to domestic production, such as bad weather and crop disease.

-- The increased globalization of agriculture, with expanded production worldwide and accelerated flows of commodities and capital across national borders.

-- Demographic and lifestyle changes resulting in rising U.S. consumer demand for fresh and frozen produce.

I'd like to briefly discuss each of these factors in turn.

Lower Production Costs Abroad

Lower labor and other production costs have enabled some producers in some foreign countries to supply imports that can be sold at prices below those of U.S.-produced goods. For example, in 1986 average agricultural wage rates in Mexico were the equivalent of about $3 a day; in California, wages were over $3 an hour. A

1986 University of California Cooperative Extension study also found cost advantages for Mexican producers over U.S. producers in terms of fertilizers, chemicals, and electricity for irrigation.

The Rise of the Dollar's Exchange Rate

The dollar's rise against the currencies of major U.S. trading partners during the early 1980s helped make fruit and vegetable imports generally less expensive than commodities produced in the United States. Although the overall value of the dollar decreased substantially against the yen and West European currencies after 1985, it continued to rise against the currencies of such agricultural exporters as Mexico, Brazil, and Chile. This helps explain why fruit and vegetable imports did not decline significantly as the overall (trade-weighted) value of the dollar fell in 1986.

Actions by Some Foreign Governments

Foreign government actions, such as export and production subsidies and other export promotion programs (which the United States also uses in the case of some export commodities), acted in some cases to help fruit and vegetable imports compete in U.S. markets. Examples of import commodities that may have been made more competitive due to foreign government actions include

processed tomatoes from the European Community (EC) and frozen concentrated orange juice from Brazil.

Bad Weather and Crop Disease

By creating shortages in domestic production levels and price spikes in the affected commodities, bad weather and crop disease in the United States allowed foreign imports to gain increased footholds in some U.S. markets. For example, in 4 of the first 5 years of the 1980s, freezes destroyed 13 to 31 percent of Florida's orange crop. Problems worsened when, in 1984, citrus canker--a bacterial disease affecting citrus trees--was discovered in Florida, further reducing supplies. U.S. processors supplemented low domestic supplies with imports from Brazil. Thus, Florida processors were able to provide steady supplies to their customers while the Brazilians expanded their U.S. market share.

Increased Globalization of Agriculture

The recent trend of rising fruit and vegetable imports may be viewed as part of a broader trend toward the globalization of business and agriculture. This trend has been characterized by increased flows of capital and commodities across national boundaries and by increased agricultural production worldwide.

World agricultural output and trade expanded greatly in the 1980-86 period, fueled by accelerated improvements in technology, government export subsidies and pricing policies, and increased emphasis on agricultural self-sufficiency in developing countries. Countries that were once net agricultural importers became net exporters. Additionally, developing countries faced with economic problems began to import fewer agricultural goods than in the past. Some countries whose export markets grew in the 1980s (e.g., Chile and Mexico) have climates that allow production of certain crops during times when production in the United States is limited or nonexistent. In such instances, increased imports filled domestic seasonal production gaps.

Another aspect of globalization is the search for profitable business opportunities worldwide. Lower operating costs and the need for multiple, year-round supply sources and markets have led some U.S. firms to establish production and/or processing operations abroad. At the same time, foreign-owned multinational corporations have increased investments in U.S.-based agricultural operations.

One form of U.S. investment abroad occurs when U.S. firms establish foreign subsidiaries, some of which produce for export to the United States. Imports shipped by these foreign affiliates to their U.S.-based parent companies in the food industry rose steadily from $430 million in 1982 to $776 million in 1985.

In Mexico, U.S.-based firms are involved in financing fruit and vegetable production aimed at the U.S. market. Several large U.S. companies have purchased or developed food production and processing interests in Mexico and have signed contracts with Mexican farmers to grow vegetables. This U.S. investment is one factor that helped push the value, in current dollars, of Mexican fruits and vegetables exported to the United States from $473 million in 1980 to about $834 million in 1986.

While Mexico has attracted some U.S. investments in recent years, the greatest increase in direct investments abroad by U.S. food companies between 1982 through 1986 was in EC countries. In 1986 over half of the U.S. investment position was in the EC. In the 1982-86 period, U.S. food company investments increased by 65 percent in the EC, by 40 percent in Canada, by 19 percent in Mexico, and by 5 percent in Brazil.

Demographic and Lifestyle Changes

Another contributing factor to rising fruit and vegetable imports is the increased demand for such products in the United States. Demographic and lifestyle changes, such as an older population (as people get older, their vegetable consumption increases), increased participation of women in the labor force (increased household incomes generate greater demand for fresh and

frozen vegetables), and a growing nutritional awareness have resulted in greater demand for fresh and frozen produce than ever before. Consequently, an increasing amount of produce is being imported to help meet this demand.

IMPACTS OF IMPORTED PRODUCE ARE COMPLEX AND VARY AMONG COMMODITIES AND ECONOMIC SECTORS

The impact of increasing imports from 1980 through 1986 varied among commodities and across industry sectors, that is, producers, processors, distributors, and consumers. In general, the information we obtained, although not conclusive, indicated that consumers, distributors, and some processors benefited from expanded supplies brought on by imports. For these groups, imports provided increased availability and variety of foods, additional processing and marketing opportunities, and, sometimes, lower prices.

The information also indicated that the impact of increased imports may have been detrimental to some fruit and vegetable producers and processors.[1] But again, the information was

[1]The impact on processors depends in part on whether imports come in as finished products. Some processed imports that enter the United States as finished products, such as canned tomatoes and canned peaches, compete directly with similar domestic processed products. Other imports, such as frozen concentrated apple and orange juices, undergo further processing before being marketed and thus provide U.S. processors with needed additional supplies.

inconclusive. Producer association representatives and individual growers told us that problems were created when fruit and vegetable imports captured greater shares of the market and displaced or reduced U.S.-based production and processing capacity. The degree to which and ways in which an import competes with a domestic commodity is, we believe, largely related to the market structure of the affected commodity. Two relevant structural factors include the maturity of the market and market timing, that is, when products come to market.

Market Maturity

A growing market, such as that for fresh broccoli or table grapes, is often better able to absorb increased imports--that is, consumer demand may be sufficient to at least maintain domestic prices and production levels. Industries with a more developed, or "mature," demand structure, such as the processed tomato or cling peach industries, may not be as able to absorb added supplies at the same price levels

Market Timing

The significance of market timing is seen in cases where the domestic crop is grown only during certain periods, and imports fill seasonal production gaps. In such cases, imports may complement domestic production and, therefore, initially at least,

do not directly compete with domestic products. For example, grapes from California are available primarily from May through December, so Chilean winter grapes have not usually been directly competitive with domestic grapes. However, competition in the table grape market has developed in recent years as producers in both countries sought, through new technology, to expand their growing seasons to secure the U.S. table grape market during periods of high prices, that is, December and April-May.

PRODUCT INTEGRITY CONCERNS GENERATED BY INCREASED IMPORTS

The increased competition from imported fruits and vegetables has led to some concerns about the safety of such products. Producers and consumers have called for increased inspection of imported produce for health and safety factors. In particular, questions have been raised about the levels of pesticide residues and the use of pesticides banned in the United States on imported produce.

These health and safety concerns are heightened by the knowledge that, as we reported in 1986, the Food and Drug Administration (FDA) annually sampled less than 1 percent of the approximately 1 million imported food shipments.[2] The adequacy of FDA's border inspections is directly linked to the safety of

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[2]Pesticides: Better Sampling and Enforcement Needed on Imported Food (GAO/RCED-86-219, Sept. 26, 1986).

imported produce. At the Chairman's and Representative Horton's request, we are currently reviewing the controls foreign countries have in place to assure the safety of exported produce.

That concludes my statement. We would be glad to respond to your questions.

GAO PRODUCTS RELATING TO ISSUES DISCUSSED IN THIS STATEMENT

Rise in Agricultural Imports

GAO/RCED-88-149BR	May 10, 1988	Agricultural Trade: Causes and Impacts of Increased Fruit and Vegetable Imports
GAO/RCED-87-177FS	September 29, 1987	Agricultural Trade: Trends in Imports of Fruits, Vegetables, and Other Agricultural Products

Safety Issues

GAO/T-RCED-88-12	December 14, 1987	H.R. 3504: Pesticide Monitoring Improvements Act
GAO/T-RCED-87-21	April 30, 1987	Federal Regulation of Pesticide Residues in Food
GAO/RCED-86-219	September 26, 1986	Pesticides: Better Sampling and Enforcement Needed on Imported Food
GAO/RCED-83-153	September 9, 1983	Monitoring and Enforcing Food Safety--An Overview of Past Studies
CED-79-43	June 22, 1979	Better Regulation of Pesticide Exports and Pesticide Residues in Imported Food is Essential

Statutory Trade Remedies

NSIAD-88-58BR	December 30, 1987	International Trade: International Trade Commission's Agricultural Unfair Trade Investigations

GAO/NSIAD-87-74BR	March 17, 1987	International Trade: Implementation of the Agricultural Export Enhancement Program
GAO/NSIAD-87-103BR	March 17, 1987	International Trade: Synopsis of Recent GAO Reports on Trade Issues
GAO/NSIAD-87-80	February 25, 1987	International Trade: Observations on the Operations of the International Trade Commission
GAO/NSIAD-83-10	August 15, 1983	Benefits of International Agreement on Trade-Distorting Subsidies Not Yet Realized
ID-81-42	August 5, 1981	Changes Needed in Administering Relief to Industries Hurt by Overseas Competition

Customs Inspections

GAO/GGD-86-136	September 8, 1986	Cargo Imports: Customs Needs to Better Assure Compliance With Trade Laws and Regulations