ORAL TESTIMONY OF MR. RICH HUDGINS

U.S. INTERNATIONAL TRADE COMMISSION HEARING ON AGOA

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Good afternoon Chairman Williamson, ITC Commissioners, and staff. My name is Rich Hudgins. I am the President and CEO of the California Canning Peach Association and am testifying on behalf of the California Cling Peach Board. The Board represents all 500 cling peach growers in California. Virtually all cling peaches in the United States are grown in California. They are used primarily to produce canned peaches and other processed peach products.

Our industry's three principal products -- canned peaches, canned fruit mixtures, and frozen peaches -- are import-sensitive and have been exempt from AGOA duty-free treatment since AGOA's inception in 2000. Today, U.S. imports from South Africa -- the AGOA country of concern -- are subject to the U.S. MFN duties of 17% on canned peaches, 14.9% on canned fruit mixtures, and 14.5% on frozen peaches.

My message today is straight forward - - U.S. imports of canned peaches, canned fruit mixtures, and frozen peaches from South Africa should remain subject to the U.S. MFN duties. There is no economic or other reason for extending one-way duty-free preferences to South Africa on these three import-sensitive products. South Africa is a leading canned peach producer and exporter, and is one of the five BRICS countries. It is no coincidence the EU has a FTA with South Africa and no longer grants that country one-way trade preferences.

You have our detailed written submission describing our industry's import-sensitivity and our concern over competition from South Africa. Let me highlight a few of the particulars.

In all past GSP reviews, including requests for duty-free treatment made by South Africa; the 2000 AGOA review; and in multilateral and bilateral trade agreements relating to tariffs, the U.S. government has accorded canned peaches, canned fruit mixtures, and frozen peaches import-sensitive treatment. All three products are also on the 2002 Trade Promotion Authority list of import-sensitive U.S. agriculture products and are covered as well by the import-sensitive provisions of the recently introduced Bipartisan Congressional Trade Priorities Act of 2014.

Our industry sells over 90% of its canned peach, canned fruit mixture, and frozen peach production in the U.S. market. The market here is mature, and demand is stable.

Our near-exclusive reliance on the U.S. market is not a path we chose. As some of you know from our prior efforts, our market decline is the result of 30 years of severe market disruption from heavy European canned fruit subsidies and, more recently, heavy Chinese canned fruit subsidies. In the 1980's and 1990's, EU subsidies destroyed our profitable export business in the EU and Japan, and shrank our U.S. sales as well. Then, six years ago, China emerged, almost overnight, as the largest global producer and exporter of canned peaches, including to the U.S. market. As in the EU, China's canned peach industry rose to the top not because of quality or efficiency, but because of substantial national and local subsidies.

The concerning market circumstances that justified our original AGOA exemptions have only gotten worse. Total U.S. imports of canned peaches have increased by as much as 20% since 2000, but U.S. demand has stayed essentially constant, and our exports have fallen. We now export only to Canada and Mexico where NAFTA tariff preferences help keep us competitive, at least for now.

Although California produces the highest quality canned peach products in the world, every U.S. import means a lost U.S. sale because of price. Canned peaches are a product where low price almost always wins over quality and brand loyalty.

Although China's presence in the U.S. canned peach market has somewhat overshadowed the effect of other foreign suppliers, including South Africa, U.S. imports from South Africa at any level displace U.S.-origin sales, help depress the U.S. market price, and hurt our growers, who have no opportunity to recoup their lost U.S. sales through exports.

South Africa is no newcomer to the canned peach industry. It is the second most dominant producer in the Southern hemisphere. In the industry's own words, it is "well-established, [with] reliable supply and quality," [a] "strong manufacturing capability with world class standards," "export-oriented" with "85% of its production exported," and it has "premium quality producers [with] strong and reputable brands." It exports to Europe under a reciprocal FTA arrangement. It also ships to Australia, where its canned peaches are facing import relief investigations because of their low price, and to Japan, Hong Kong and Russia. Its industry is highly developed.

According to U.S. government sources, South African producers are planting two new varieties of peaches that are high-yielding and excellent for canning -- an indication that South Africa's industry is commercially vibrant and has a global expansion plan.

Like the U.S. industry, South Africa sells choice-quality canned peaches and canned fruit mixtures. In the U.S. market, its sells to both the consumer and institutional markets -- meaning it competes head-to-head with our products. Its industry has a cost advantage, though. Its processors pay about one-third less for their raw peaches than we do. The minimum wage for farm labor in South Africa is $10.00 a *day* versus $9.00 an *hour* in California. The lower production costs allow South African producers to sell in the U.S. market at prices below our prices and still be profitable.

We have heard from our South African competitors that they would be much "more competitive in the U.S. market with China and the EU" if they didn't pay the substantial U.S. tariffs. They have warned us they will "ship more canned peaches to the United States" if U.S. canned peach tariffs are eliminated.

South African producers do not need, and should not have, U.S. tariff elimination. Given their advanced, high-quality, low cost product, U.S. duty elimination will only transfer U.S. market share and U.S. sales to South Africa. Since 2000, we have lost nearly 250 growers and a major U.S. canned fruit processor. U.S. canned peach bearing acreage has been reduced by about 30% to its lowest level in more than fifty years. Total U.S. cling peach production has fallen by 20%. At substantial cost to our growers, we have taken steps to offset imports by pulling planted acreage. Just this year, we have finally gotten supply and demand in line, but the situation is unstable and can easily be reversed by South Africa and other suppliers.

Mr. Chairman, Members of the Commission, we see no valid economic or policy justification for expanding AGOA benefits to cover highly-competitive, low-cost South African canned peaches, fruit mixtures, and frozen peaches. AGOA should not be about benefitting an already-advanced South African canned peach industry at the expense of U.S. producers. We therefore ask you to reconfirm the import-sensitivity of our three cling peach products to imports from South Africa.

This concludes my testimony. I am happy to answer questions from the Commissioners and staff.

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