BRIEFING FOR
OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE
TRADE POLICY STAFF COMMITTEE
AGOA IMPLEMENTATION SUBCOMMITTEE

In re: African Growth and Opportunity Act
Out-of-Cycle Review of South Africa Eligibility for Benefits
Docket No. USTR-2015-0009

Comments of

The Citrus Growers' Association of South Africa

Introduction: The Citrus Growers Association represents all of the citrus producers in South Africa, and the purpose of this memo is to introduce to USTR the AGOA "Case Study" of South African fresh citrus exports to the United States. The results in terms of total shipments, job creation, upward skills mobility, foreign direct investment, export earnings and the critical progress made with socio-economic programs Is powerful justification for continuing AGOA benefits to South Africa. In fact many of the new social programs recently initiated, are not sustainable without AGOA support and program expansion.

While the Case Study will provide a look at some remarkable progress in market development over the first 15 years of AGOA, our single biggest challenge on the horizon is uncertainty. The citrus growers must look at a five to seven year cycle before they start receiving a return on investment in new groves. Most producers will not take that risk, so it becomes critical to have stability in the AGOA trade agreement. For example, if the South African citrus grower were to lose duty free access to the United States market they would no longer be competitive with citrus exporters from Chile and Peru.

Uncertainty also must be looked at in the context of all the growers participating in the U.S. export program. The protocols for entry into the United States are complex and costly as is the implementation of the Work Plan. Investments have been made over the past 15 years to improve the infrastructure for management of these issues. In an environment of certainty or reasonable predictability the producers in South Africa will continue to invest in improving the supply chain which also benefits U.S. agriculture.

Background: In the year 2000 South Africa shipped a limited number of containers of citrus to the United States, a market that was highly protected because of the substantial domestic production of citrus. In that same year the U.S. Congress passed the unilateral trade legislation known as AGOA. At this point the U.S. market was very much a diversification strategy for South Africa and one with high risk.

From the outset the South African citrus industry probably underestimated the difficulty of complying with import protocol which proved to be costly in the earlier years. This was also an issue when it came to marketing! The U.S. consumer was demanding and had limited knowledge about summer citrus and less about South Africa.

In retrospect, this project unfolded in three overlapping phases, first,

- Regulations and Infrastructure; Regulations refer to the implementation of a complex and costly Work Plan and Sanitary Phytosanitary (SPS) issues. Pest interceptions proved costly and threatened the project's viability. Here began a collaboration between the South African Ministry of Agriculture and USDA/APHIS. One clear target was to reduce the populations of False Codling Moth (FCM). Years later this resulted in the Sterile Insect Technique (SIT) project that was funded by a development grant from the Department of Trade and Industry, the Growers and with technical support from the International Atomic Energy Agency. The pest populations of FCM have been significantly reduced and this capacity building project is being expanded within South Africa while exploring potential in Sub-Suharan Africa. The USDA has explored opportunities to use this model with California Table Grapes.

  The Infrastructure was in need for an integrated cold chain to protect product shelf-life. Investments all along the supply chain were needed to gain control over these pest build-ups.

- Market Development: A critical learning curve was trying to understand the U.S. market in an environment where there was a very limited supply of summer citrus. Again, we had to make a positioning of South African citrus as a reliable product and quality conscious shippers. The new partnerships were with major retailers.

- Societal Impact: Gradually we observed a steady growth of exports and with this development new jobs, new skills, export earnings and local investments. In rural areas investments are being made in medical clinics, community centers and educational programs

Export Potential: 15 years of investment in improving the infrastructure, in learning the U.S. market, in building credibility with the USDA and other agencies, allows us to forecast significant potential growth that will have even a greater impact on the socio-economic problems in South Africa. In the absence of AGOA, South American citrus suppliers will enjoy a competitive advantage over South Africa. This also overlooks the value in this partnership to the United States. Of course jobs are created at the ports, and also along the supply chain where ancillary services are provided. Grower and technical exchanges have become more common as growers learn from each other. In recent years Florida citrus growers have started experimenting with Hydroponic Nutrient Systems as a possible way to control citrus greening.

And it is becoming more common to share funding of SPS research projects. I've already referenced the many visits from USDA/APHIS officials to see the functioning of the SIT project.

Conclusion: The Case Study follows and presents the accomplishments of this citrus, export development program. The results to date and future projections would seem to provide the justification to continue to include South Africa in the renewal of AGOA.

EBM

August 6, 2015

AGOA
CASE STUDY

SOUTH AFRICAN
FRESH CITRUS EXPORTS

TO

THE UNITED STATES

African Growth and Opportunity Act (AGOA)

Introduction: The African Growth and Opportunity Act is unilateral trade legislation approved by the U.S. Congress in May 2000. AGOA provides trade preferences for quotas and duty-free entry into the United States for certain goods, which includes citrus commodities.

Agricultural products are a primary area for AGOA trade, however much work needs to be done to assist African countries in meeting U.S. sanitary and phytosanitary standards (SPS). South African citrus has been able to leverage AGOA and to establish a market for its citrus in the United States. This diversification initiative as implemented by the South African citrus industry has to date had a positive economic impact on many rural communities.

The AGOA will provide tools to facilitate a transition from a highly regulated export industry to one focused on quality and service. President Obama has called for a seamless renewal of AGOA and the African countries participating in AGOA have developed the theme, "Sustainable Transformation ThroughTrade".

Historical Background: Prior to 1994, horticultural exports were highly regulated by the Government of South Africa, and growers had no independence when it came to marketing their crops into export channels. This all changed in 1997 when exports were deregulated and producers could decide how to market their crops.

The initial result was chaotic as unqualified traders put many growers in or close to bankruptcy. In 1998 market access was granted for citrus exports to the USA, but summer citrus was a new and untested segment within produce, complicated and with high risk. Established trading structures were not in place between the USA and South Africa and volumes were limited.

In South Africa there was a lack of discipline in terms of export procedures and this situation was complicated by difficult phytosanitary protocols enforced by the United States Department of Agriculture. But export systems were improving and here is where AGOA provided some much needed assistance. First, South Africa would enjoy duty free access to the U.S. Market, crucial to maintaining a commercial balance. Capacity building was also provided in terms of putting structures in place to improve packing house procedures and overall compliance with protocols. By the 2001 season, export volumes to the United States began to expand and a more vibrant sector of the citrus industry emerged.

Impact of U.S. Market Development:

- Export Growth to USA: Since the opening of the U.S. market in 1998 to South African citrus the industry has shipped almost 500,000 Metric Tons of citrus to the United States, peaking in 2006 at 50,000 Metric Tons. This amounts to 35 million 15 kilo equivalent cartons. This economic activity impacted many communities and we'll look at those numbers later.

- Export Earnings: A best estimate is that exports to the U.S. market averaged $60 million per annum in export earnings or over $700 million dollars to date. After peaking in 2006, export growth retreated for the next few years and it was not the result of weak markets but rather outcomes from uncertain phytosanitary conditions.

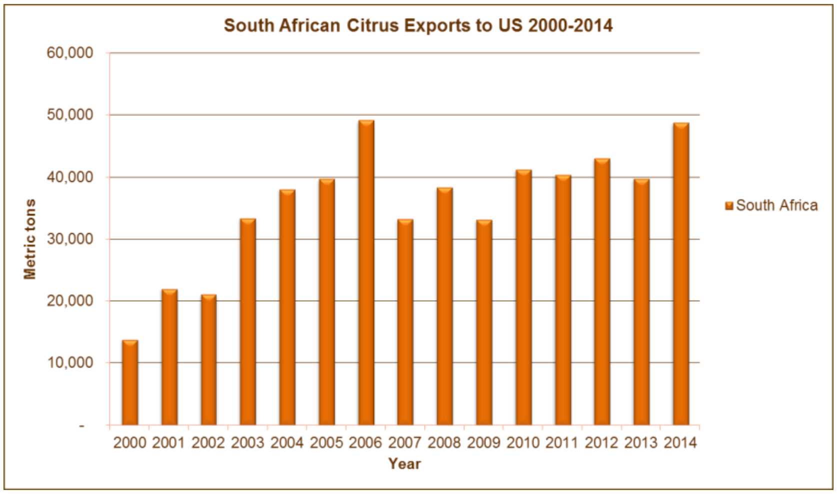
  At the end of the 2006 season, two trucks were inspected going into California and the inspectors claimed they discovered live larvae of False Codling Moth. Standard Operating Procedures to validate the interception were not followed. Pictures were released showing the larvae and the conclusion was that the larvae were dead and the cold treatment worked. The U.S. market was temporarily closed, and the USDA/APHIS imposed an extension of the cold treatment protocol to 24 days from the scientifically based 22 day cold sterilization. In addition APHIS put in place a fruit cutting program at the ports of entry.

  The extended cold treatment was harsh on late season Mandarins and some producers were reluctant to ship to the U.S. market, diverting fruit to traditional markets in Europe. The South African Government immediately asked for re-consideration of the modified protocol a theme that has persisted for almost seven years.

  At the same time Chile was granted access to the U.S. market for Clementines and Mandarins, and in late 2006 Peru was granted access for all citrus varieties. It was a few years before these competitors would have a significant impact on the market, but both countries had executed Free Trade Agreements with the United States.

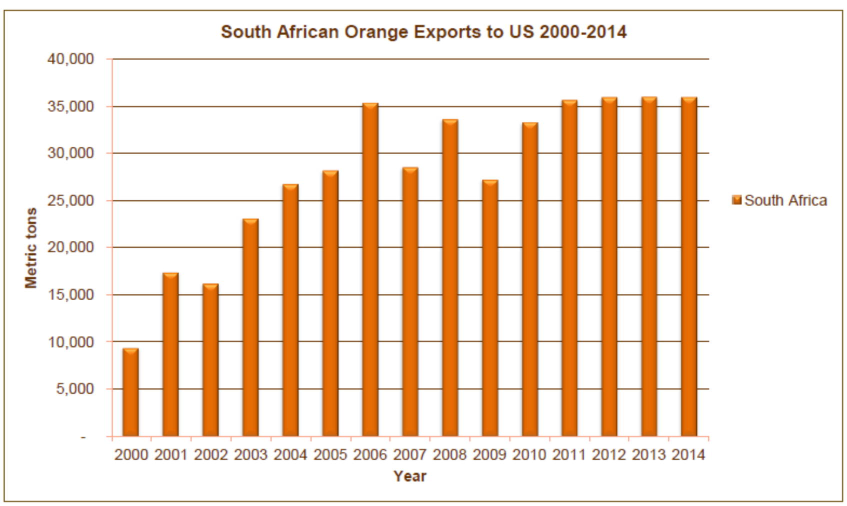
  The following three slides provide the best perspective of impressive growth that could not be sustained because of the inherent risk of the protocol.

Fig. 1 - South African Citrus Exports to the USA



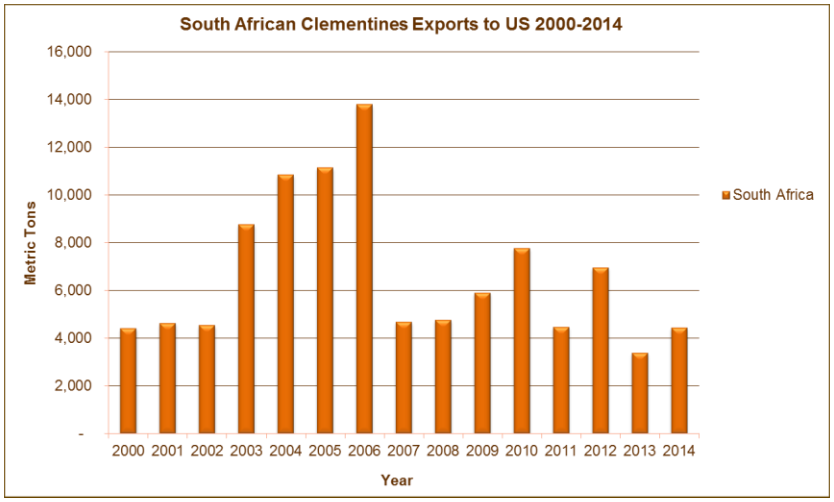
Export momentum was lost once the industry faced uncertain and costly protocols. While these issues remain unresolved, Chile and Peru have gained market share.

Fig. 2 - South African Orange Shipments



A consumer preference for South Africa helped to maintain orange volumes

Fig. 3 - Decline in soft citrus shipments



South Africa retreated from the growth sector of the citrus category, Mandarins because the cold treatment was too harsh on soft citrus. The U.S. market is exceptionally strong when Late Mandarins mature.

- **Foreign Direct Investment:** The citrus industry's consistent efforts to access global markets, the expanding use of precision agriculture, the existence of an export infrastructure and a willingness and experience to plant proprietary citrus varieties have encouraged foreign direct investment in South Africa by companies such as San Miguel in Argentina and Seald Sweet LLC in the United States. This activity will increase as new demands for food safety and traceability are imposed on the by retailers and by governments.

- **Job Creation:** It is estimated that the development of the U.S. market for summer citrus has generated 5,000 new, permanent jobs in those areas approved for shipment to the United States and 3,000 temporary positions supporting 25,000 dependents. While new plantings are taking place the incremental shipments to the USA require more labor. New work positions are found all along the supply chain in order to accommodate a challenging protocol that begins in the groves and continues until the cargo is released from the ports.

- **Upward Skills Mobility:** The USA protocol requires what can be described as precision agriculture and this has created the need for new skills in the groves, the packing houses, in managing and monitoring the Work Plan and in port services. The addition of the SIT project again requires training and development of new skills. This was a bold step that involved the growers, the South African Government and the Atomic Energy Agency in a unique and effective collaboration.

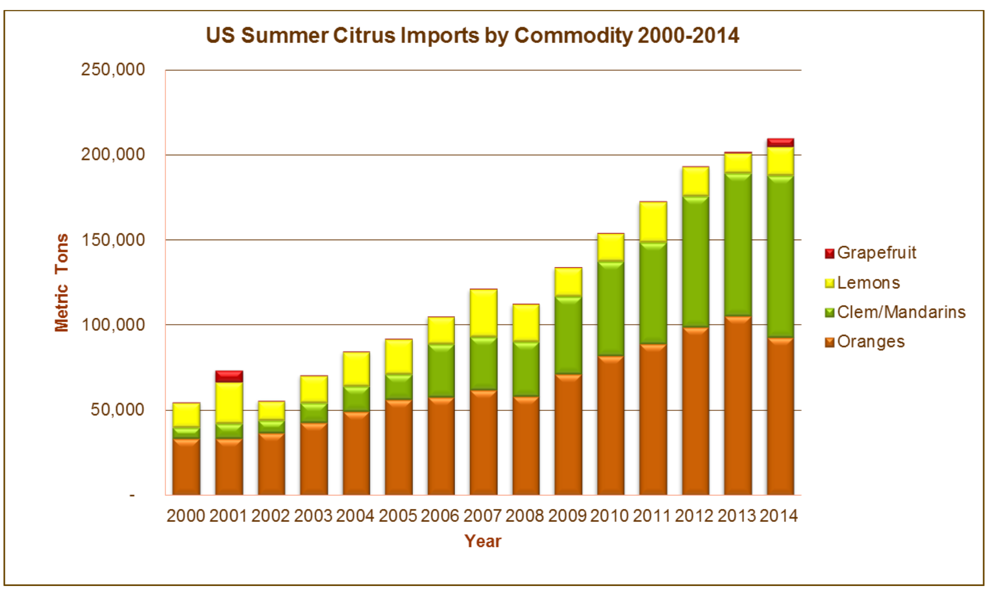
- **<u>Support for Transformation:</u>** Early in the development phase of building the U.S. market a number of Black Economic Empowerment projects were formed in the Western Cape. When constructed properly they became a source of workforce stability and also a catalyst for bring new ideas such as community centers into the rural areas.

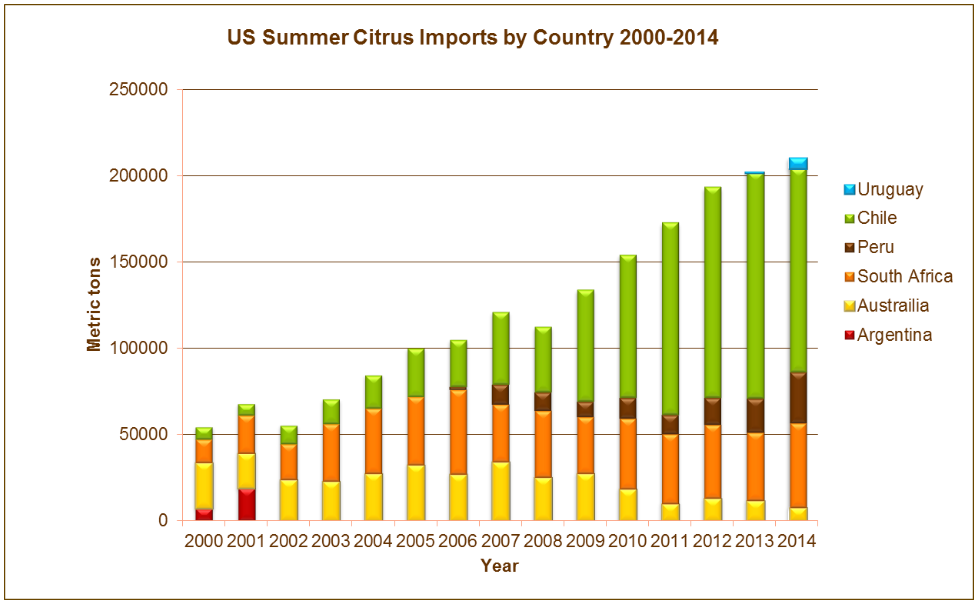
<u>The Potential for Growth in Citrus Exports to the USA under a Renewal of AGOA:</u> The potential for South Africa to increase its export volumes to the United States is contingent on the continuation of duty free access under AGOA; the resolution of SPS issues; a provision for capacity building by USDA/APHIS and USAID; and the extension of Brand South Africa marketing.

- **<u>Potential for U.S. Market Growth:</u>** The summer citrus category volumes grew from 20,000 metric tons to 200,000 metric tons from the year 2000 to 2012. While the market dynamics have changed significantly the category could double again over the next decade and South African volume could grow to 100,000 Metric Tons. To reinforce the point we'll present some slides that show the emergence of the summer citrus category within produce.

(cont. next page)

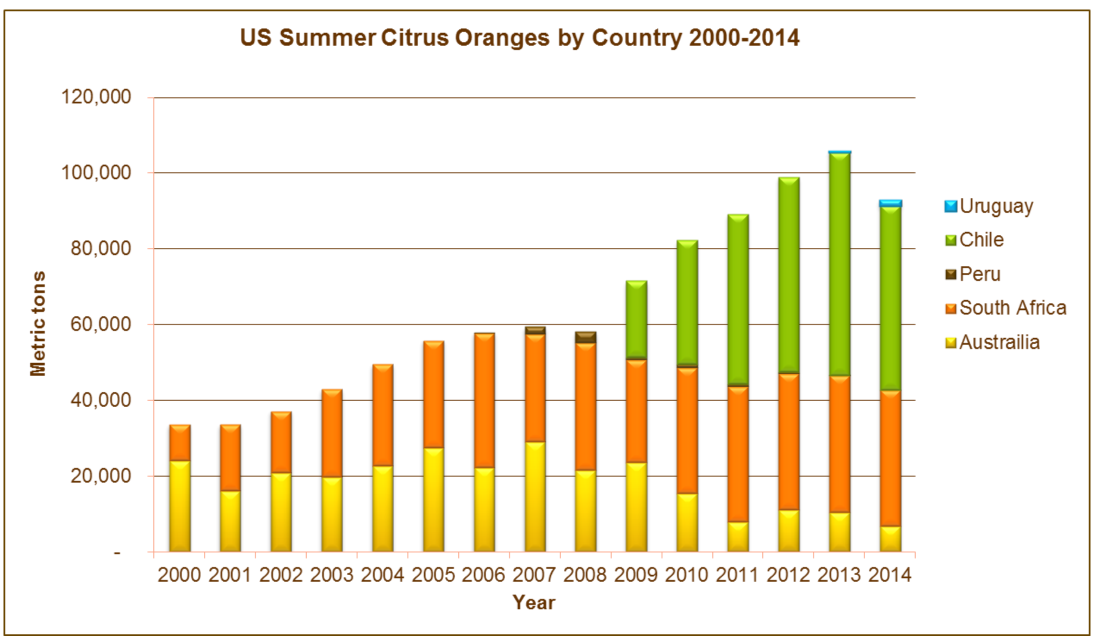
Fig. 4 & 5 -Shipments by citrus commodity and country





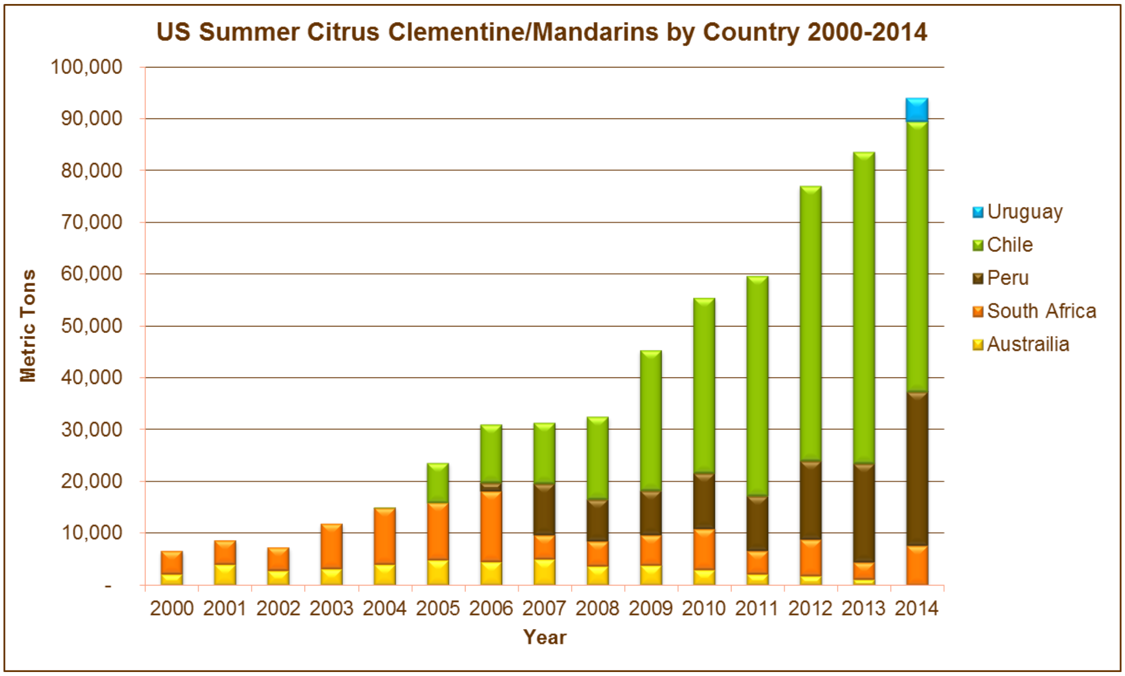
The dynamic growth of summer citrus in the U.S. market. Slides show growth by country and commodity. You will note that the market keeps expanding even with the additional sources of supply. The market grew from 20,000 MT to 200,000 MT over a decade.

Fig. 6 - Summer Orange volumes



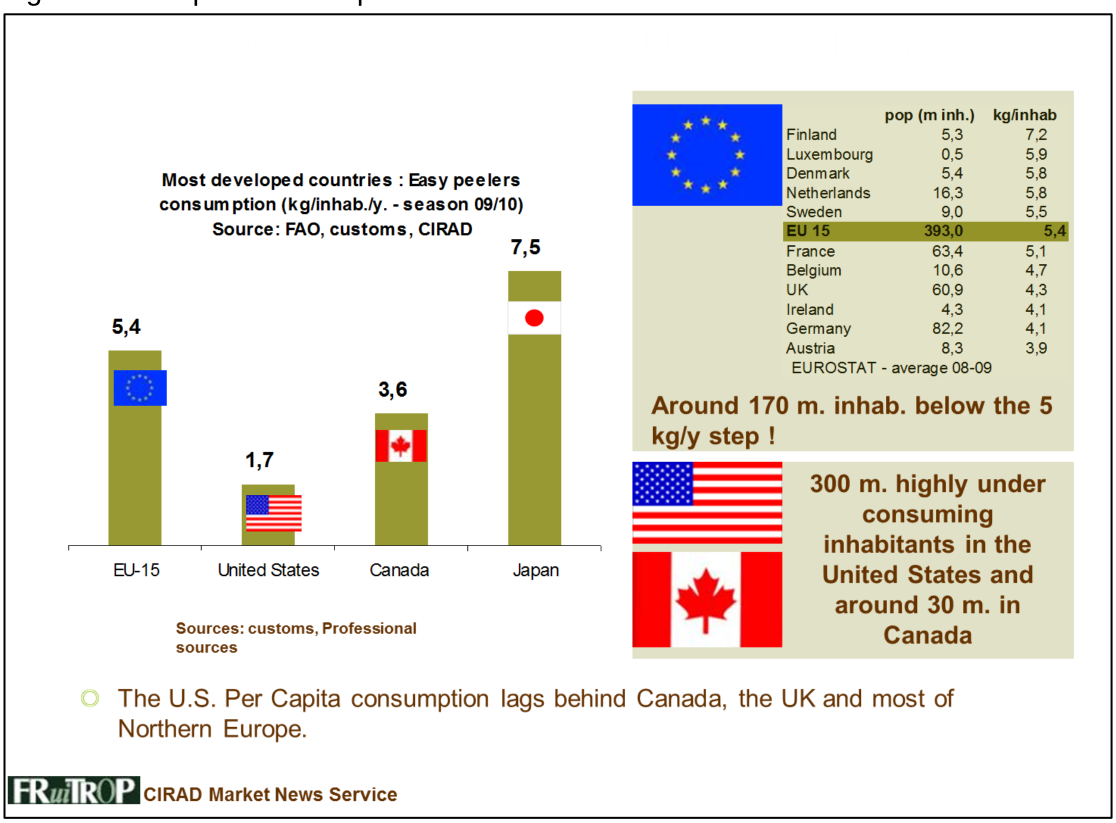
South Africa held its volume based on trade and consumer preference

Fig. 7 - Growth of Clementine and Mandarins



This category was hit the hardest by the protocols and it is a real growth market.

Fig. 8 - Per Capita Consumption



The U.S. Per Capita consumption lags behind Canada, the UK and most of Northern Europe.

- **The Need for Marketing Investment:** The South African citrus industry has also invested in the U.S. market starting with trade and consumer research that was designed to position a brand equity over time and this challenge was two-fold.

  -*South Africa – Who?* It was clear in the research that most Americans were unfamiliar with South Africa, where it was located, and even the fact that they actually produce citrus under ideal conditions. The image Americans have comes from movies and television news, and this includes the trade,

  -*Trade Perception Gap*: In the early 90's, Australia was the only Southern Hemisphere citrus producer allowed to ship to the U.S. market. The trade rationalized that this was because the American consumer did not want citrus during the summer months. They referred to this as "Flavor Fatigue". In addition there was an abundance of summer fruits at reasonable prices on the market.

  The Gap referred to above occurs when you talk to consumers. The heavy user of citrus, 67% of the U.S. population wants citrus 12 months of the year based on the powerful drivers of taste and health. The consumer feedback was, if it's on display they will purchase.

  The South African growers took these research studies seriously and retained Public Relations and Merchandising support to better position their offering. They also encouraged buyers to visit South Africa under educational programs and of course sampling, tastings and events were non-stop.

- **Resolution of SPS Issues:** While South Africa struggles to find a practical resolution of protocol issues, competitors are building the market and developing brand equity. Since the interceptions, the South African industry and government have had numerous sessions with USDA/APHIS in trying to find a resolution.

  -Standard Operating Procedures at the packing house level have been greatly improved in order to be a final check on FCM.

  -Monitoring and Oversight by the Ministry of Agriculture have been expanded and delegated to competent organizations.

  -A Sterile Insect Technique project has been developed with support from the Atomic Energy Agency and this project has reduced significantly the population of FCM.

  -The 24-day cold treatment remains unresolved, and the cutting of fruit upon arrival continues.

All of these efforts are paid for by the producers, and this is also the case for significant investments in groves, dams and basic production infrastructure. It is critical that these market issues be resolved within the context of an AGOA Renewal.

Regionalization Benefits:

- Sterile Insect Technique (SIT): This project is a "Capacity Building" program whereby the production and release of sterile moths are utilized in an area-wide suppression program. The project initiated on a small scale in 2006 currently releases 120 million sterile moths per month covering 5,000 hectares of citrus production. The current facility could cover 14,000 hectares before an expansion would be necessary. This proven biological control strategy also reduces the number of pesticide applications required, a significant environmental benefit and a positive economic factor.

Irradiator table

Mating trial

Gyrocopter

This tested SIT project could have regional benefits including expanded application of this technology in Sub-Saharan Africa. The initial investment cost is high but the regional applications could attract USAID interest. There could also be applications of this technology in U.S. agriculture.

- Leveraging Market Access Infrastructure: South Africa's ongoing experience with the protocols for gaining and maintaining market access to the USA can be extended to other citrus producing countries such as Swaziland. A successful market penetration program requires not only an understanding of SPS issues but also knowledge of trade and consumer dynamics.

- Exports through Maputo, Mozambique: As citrus exports from South Africa continue to expand, other countries may be able to supply services along the supply chain such as utilizing other ports for shipping. Port congestion in South African could be alleviated through infrastructure improvements in Maputo.

- Angola: Survey on Citrus Varieties: A transfer of know-how is already providing government officials and producers with guidance on citrus varieties best suited for the soils and climates of Angola. There is also technology transfer for the standards needed in foundation nurseries an essential part of a new breeding program. It is certainly possible to extend this to new varietal development.

Benefits to the USA: While AGOA is a unilateral trade agreement designed to assist the economies of Sub-Saharan Africa, and to improve economic relations between the United States and the region the USA will also directly benefit from a continuation of AGOA.

- A fully implemented AGOA will lead to economic stability within the region.

- An improved infrastructure will allow for more internal, Sub-Saharan trade and increased exports to the USA.

- A growing middle class in Africa will stimulate exports from the USA to Africa.

- Exports from South Africa of citrus and other commodities create jobs at the US Ports of Entry and all along the supply.

- Finally, we can't underestimate the importance of the Goodwill created by the AGOA legislation within Sub-Saharan Africa.

<u>Potential for growth in citrus exports to the USA under a renewal of AGOA</u>

Base Year 2014: 50,000 Metric Tons
Renewal plus 5-years: +50,000 MT = 100,000 MT
Renewal plus 10-years: +50,000 MT = 150,000 MT

These projections are based on a 15-year renewal of AGOA without any special conditions for South Africa. They are also based on the governments of the United States and South Africa resolving SPS issues and other barriers to trade between the countries.

The most damaging aspect to export growth is uncertainty. It is difficult for growers to make long-term financial decisions on planting investments and market development expenditures in an uncertain environment. The current dialogue on poultry is a good example of what causes growers to be hesitant even though the fundamentals are positive.

Factors that support growth:

- The evolution of the Summer Citrus Category over the past 10 years. Category implies a home base for merchandising and promotion. It also implies critical mass.

- On February 27th, the USDA released its import projections for fruit and nuts which stand at $14.9 billion for 2014, expanding to $27.2 billion in 2024. Import dependency will grow from 45% to 53% during that same period.

- U.S. per capita consumption is relatively low compared to Canada and Northern Europe allowing room for solid growth.

- Many U.S. markets are under-served with Summer Citrus and Gulf ports of entry could greatly expand distribution. Again, governments will have to facilitate the process.

- Supply Gaps remain unfulfilled such as grapefruit during most of the summer and Mandarins in September and October.

- The U.S. Consumer and trade preference for South African Navel Oranges and Mandarins, the latter being a category with significant sales potential.

- Consumer research has found that 67% of Americans are heavy user of citrus and they want citrus year-round because of the taste and health attributes.

- An expanded sourcing capability from South Africa will help to maintain supply capability.

This export growth will have a tremendous impact on job creation in South Africa, but also at the U.S. ports of entry. These export numbers will influence upward skills mobility, export earnings, direct foreign investment in the citrus industry and societal benefits.

The development of the U.S. market for South African Citrus has been a sound diversification strategy for the industry. The reauthorization of AGOA is critical to the extension of that strategy.

EBM
March 2, 2015