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Hearing Title: Toward the Asia Pacific: Opportunity for Agriculture and Food Producers from the Great Plains to the Pacific Northwest

Mr. Chairman and Members of the Committee:

## INTRODUCTION

Good afternoon, Mr. Chairman and Members of the Committee. I am pleased to be before the committee today, testifying to the exciting export opportunities that the Asia Pacific region holds for those involved in producing deciduous tree fruits in the Pacific Northwest.

I have served as the vice president of the Northwest Horticultural Council since 1999. The NHC is a trade association representing the national and international policy interests of growers, packers and shippers of apples, pears and sweet cherries raised in Idaho, Oregon and Washington. My primary responsibility for the NHC is international trade policy and most of what I do on a daily basis is work to eliminate the various barriers to trade facing pears, cherries and apples. I am a past chairman of the Agricultural Technical Advisory Committee (ATAC) for Trade in Fruits and Vegetables, and serve on the board of directors of the U.S. Agricultural Export Development Council, the Coalition to Promote U.S. Agricultural Exports, Washington State China Relations Council and the Washington Council on International Trade.

The Northwest Horticultural Council is located in Yakima, Washington, and its web site is [www.nwhort.org](http://www.nwhort.org).

## BACKGROUND

The farm gate value of the fresh deciduous tree fruit production in the Pacific Northwest is approximately \$2.5 billion and some 30% of the production volume (\$800 million) of fruit is exported each year. These exports create an estimated 7,350 jobs and generate \$1.5 billion of economic activity in our region.

90 percent of U.S. apple, 92 percent of U.S. pear, and 65 to 75 percent of U.S. sweet cherry exports originate from the Pacific Northwest. The table below provides a regional comparison of Pacific Northwest tree fruit exports (by volume).

### Regional Exports (3 Year Average, 2008-2010)

	Mexico, Canada	Asia Pacific	South America	Middle East	Europe
Apples	44%	28%	7%	18%	3%
Pears	63%	11%	15%	8%	3%
Cherries	40%	51%	2%	0	7%

Exports play a critical role in the financial health of pear, cherry and apple growers and maintaining and improving access to overseas markets is critical.

- Using apples as the example, the U.S. domestic market is profitable and orderly when Washington state ships somewhere between 70 to 80 million cartons domestically. With a normal crop now estimated to range from 100 to 110 million cartons or higher, then at least 35 million cartons have to go to export markets. A level that industry beat for the 2010 crop, as exports then were almost 37 million cartons (34% of the apple crop).
- Mother Nature determines in large part each year what the trees produce in terms of quantity, quality and size of fruit. The variety of export markets makes it more likely that fruit that might not be sold domestically can find a home overseas. For instance, Indonesian consumers like small apples, too small for the typical U.S. consumer. The ability to market more of what each tree produces helps to lower the average unit cost and increase profitability for growers.

The Asia Pacific region is a growth market.

- 95% of the 7 billion people in this world are to be found overseas – to a large extent Asia. That is also where the emerging middle class is found. In comparison, there are about 12 million people in Idaho, Oregon and Washington (4% of the U.S. population).
- Many countries in the Asia Pacific region have tropical climates and do not produce temperate tree fruit and must import to meet demand. Some countries that do compete with us are counter seasonal producers and may allow some fruit to enter the market (e.g., New Zealand allows imports of Pacific Northwest apples, pears and cherries). Others, such as India do not yet produce the quality or variety of tree fruit or produce sufficient volumes to meet in-country demand.
- Other regions of the world have more constraints to growth than the Asia Pacific region. For example, North America is by and large a mature market as is Europe. Europe also has a large and well established domestic industry that harvests at the same time of the year as our growers.
- Annual per capita consumption in the United States for apples (16 lbs.) and pears (3 lbs.) is generally stable and expected to remain so in the foreseeable future. In large part this is due to competition for each consumer's food dollar – made fiercer by the cornucopia of food options available to consumers in the grocery stores. For example, the average U.S. supermarket carries some 350 produce items and roughly 38,000 items overall.

The good news is that market access to much of the Asian Pacific region for the apple, cherry and pear sector of the Pacific Northwest is very healthy and some countries have been importing fruit for many decades. The three year average value of Pacific Northwest commercial tree fruit

exports to Asia Pacific has increased an estimated 50% (to over \$300 million) from 2008. The table below outlines the top five markets in the Asia Pacific region for the crop year 2010/2011.

### Top Five Asia Pacific Export Markets

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Apples	India	\$63	China/H.K.	\$55	Indonesia	\$50	Taiwan	\$43	Thailand	\$17
Pears	Russian Far East	\$4	India	\$2.4	Hong Kong	\$2	Taiwan	\$1.7	New Zealand	\$1.5
Cherries	China/H.K.	\$50	Taiwan	\$30	Korea	\$16	Australia	\$15	Japan	\$12

(Dollar values are in millions and represent estimated FOB packing house values.)

### TRADE BARRIERS

The perspective that I provide on Asia Pacific opportunities is tempered by the everyday work of the Northwest Horticultural Council to keep these markets open. Just as the opportunities for trade are bountiful, so are the opportunities for trade barriers.

Over the past decade the United States has made progress reducing or eliminating tariffs of priority to our industry. In many Asia Pacific countries, such as Australia, Singapore, Indonesia, Malaysia, New Zealand and the Philippines tariffs are at or below 5%. Unfortunately, high tariff levels (10% to 50%) in the People's Republic of China, India, Japan, Thailand and Taiwan remain. Any tariff level is increasingly problematic as other nations negotiate preferential tariffs under free trade agreements. On a positive note, Vietnam has successfully implemented its World Trade Organization tariff rate commitments and reduced its duties on apples, pears and cherries to 10%. With the March 15, 2012, implementation of the U.S.-Korea Free Trade Agreement, Korea eliminated its 24% tariff on sweet cherries – presenting a great opportunity.

Before fruit can be exported to a foreign country, the United States must address the various plant pest concerns that are raised. This category of trade barriers, termed market access barriers, tends to have a very long life. In today's global economy these barriers still exist in countries that are very protective of domestic growers. Examples in the Asia Pacific region involve apple and pear access to Australia, South Korea and the People's Republic of China (in the case of the PRC varieties other than Red and Golden Delicious apples are not allowed access). This type of barrier, while extremely frustrating, does not pose an immediate business risk as no one is planning on that market taking a portion of their inventory.

Today, the barriers that often threaten to close established markets or disrupt sales are non-tariff barriers. These barriers arise in established markets and can significantly injure pricing and movement of fruit. The number of Asia Pacific countries implementing or modifying plant health, food safety, consumer protection and other types of regulations has increased. These changes have not emerged following any direct sanitary or phytosanitary risk involving commercial shipments of tree fruit from the United States. Increasingly, broad regulatory actions involving all trading partners are taken rather than targeted enforcement against commodities from specific origins of concern. As these new laws and regulations are drafted or enacted they sometimes are used to intentionally limit trade.

I would like to make two specific observations on trade barriers: Non-tariff barriers (including Sanitary and Phytosanitary barriers) are exceedingly complex and technical in nature. Resolution of these trade barriers requires an in-depth knowledge of production systems and the specific technical concern raised (plant pest, food safety, or industry practice). Expertise must be drawn from the private sector, government and academia and inevitably involve regulatory agencies. The effort to find a timely solution that is commercially viable requires close consultation and coordination between all parties. Yet, the mechanism for making this process occur is at best ad hoc. Not all governmental entities that may be needed to address an issue are tasked with working on export issues.

The second observation is recognition that at the end of the day if a trading partner is unwilling to remove a barrier to trade there is very little recourse available to small exporters. Neither dispute resolution through the WTO, at one end of the spectrum, or continued technical discussions at the other end is a rapid process.

## ASIA PACIFIC PRIORITIES

### Indonesia

Beginning in early January 2012 and continuing through March the government of Indonesia announced its intention to implement various decrees regarding food safety, plant health, and import licensing for fresh food of plant origin. If implemented as announced (the deadline for one of the main decrees has been delayed until June 19) the various regulations would severely impact the ability to import apples, pears and cherries from the Pacific Northwest.

Exports to Indonesia from the Pacific Northwest 2010 apple and pear crop and the 2011 cherry crop were approximately \$57 million (FOB packing house).

Unless resolved, losses next year could easily reach \$40 to \$50 million. This estimate assumes that the apples are not sold elsewhere. The size (more than 2 million cartons) and unique character of the Indonesian apple market make it difficult to sell that manifest to other markets. Indonesian's like small apples, something that is not true for consumers in all other markets. Ultimately the price will have to be reduced, likely by several dollars per carton, across the entire crop of Red Delicious apples and perhaps other varieties as well. The three year average Washington state Red Delicious crop volume is 34 million cartons. At a conservative \$2/carton impact that would result in a \$68 million reduction in the price of Red Delicious apples.

### China – Market Access for Pears

The People's Republic of China currently prohibits the importation of pears from the United States due to alleged plant health quarantine concerns. China has access to our markets for its Ya pears and Fragrant pears and the U.S. Department of Agriculture is now in the process of rulemaking to allow Chinese Sand pears access.

In cooperation with the Animal and Plant Health Inspection Service and the Foreign Agricultural Service, the NHC has been actively seeking access for pears to the PRC's market since 1991 and, following bilateral technical meetings in Shanghai, China, July 14-16, 2009, the PRC finally provided its pest risk analysis on U.S. pears. Since then the traditional back and forth technical

exchanges have been underway to address the PRC's stated quarantine concerns. To date the two sides have yet to reach agreement on the work plan conditions that are technically justified due to plant health risk.

The Pear Bureau Northwest, based in Portland, Oregon, estimates that direct access to China will allow Pacific Northwest pear growers to initially export between 100,000 and 150,000 cartons of fresh pears, valued at up to \$2 million, to that country per year. Growers in our region produce pear varieties not grown in China including some red varieties that should prove to be very popular in China's major cities. Red and green Anjou pears and the Starkrimson are the varieties that hold the most promise.

#### India – Tariff Rate Elimination

Eliminating India's 50% tariff on apples and its 30% tariff on pears and cherries is a priority for the Northwest Horticultural Council. Eliminating these tariffs would provide significant economic benefit to the Pacific Northwest tree fruit industry and would not generally adversely impact the ability of India's domestic industry to successfully market its crop. India, a country with 300 million middle class consumers, is now the third largest importer of Washington state apples with sales of the 2010 crop surpassing 3 million cartons valued at over \$50 million: more than double the level of exports to India during the 2009 season. India is the seventh largest importer of USA pears with 2010 crop shipments estimated at \$2.6 million. The growers, packers and shippers in the Pacific Northwest are the primary U.S. suppliers of apples and pears to India, a market that has been under development since access for imported produce from around the world was allowed beginning in 1999. Temperate fruits (e.g., apples and pears) account for roughly three percent of India's total fruit production. Currently more than 85 percent of India's fruit imports are temperate fruits; and apples account for some 75 percent of that volume.

#### Taiwan

Codling moth is a pest of apples in the United States and a pest of quarantine concern to Taiwan. Following a detection in Taiwan in 2002 and resulting market closure, the two countries negotiated the *Systems Approach Work Plan for the Exportation of Apples from the United States to Taiwan*. As a condition for allowing the importation of apples from our country to resume under the terms of this work plan, Taiwan is permitted to suspend the importation of all U.S. apples following three separate detections of codling moth larvae. This penalty system is not based on scientific principles and is being maintained without sufficient scientific evidence. It is an arbitrarily chosen threshold that is more trade-restrictive than required to achieve the appropriate level of phytosanitary protection. The three-strike penalty system should be eliminated.

A USDA Animal and Plant Health Protection Service technical document finished in October of 2006 supports industry's position. The results of this assessment demonstrate that based on the environmental requirements for codling moth to complete its lifecycle, the climate in Taiwan and the very low rate of codling moth infestation, apple shipments from the United States are a very low risk pathway for codling moth establishment in Taiwan. There is a 99 percent chance that it would take at least 10,091 years before a mating pair of codling moths would occur in Taiwan as a result of U.S. apple shipments. Based on this risk assessment, industry requested that USDA and USTR seek modifications to the current penalty structure that will remove the threat of market closure as part of the penalty for detection of codling moth upon arrival in Taiwan.

After more than 30 years of apple shipments (totaling over 8 billion apples), Taiwan does not have codling moth. Either our methods of shipping apples mitigate the risk to levels below quarantine concern or codling moth cannot survive in Taiwan or both.

### *Trans-Pacific Partnership*

The Northwest Horticultural Council supports the efforts to negotiate a Trans-Pacific Partnership free trade agreement involving Australia, Brunei Darussalam, Chile, Malaysia, New Zealand, Peru, Singapore, Vietnam and the United States. It is important for the U.S. to have an active trade liberalization initiative in the region and hopefully expand the agreement to include other nations such as India, Indonesia and Thailand.

Immediate duty-free access for tree fruit, of the kind obtained under the Chile, Australia, Peru and Singapore free trade agreements, should continue to be the negotiating objective for all current and future Trans-Pacific Partnership members.

TPP negotiations present an opportunity to eliminate phytosanitary barriers to trade that exist in Australia. Obtaining access to Australia for apples was a goal of our industry long before the U.S.–Australia FTA was signed in 2004. Depending on the provisions of access, sales to Australia could reach at least \$5 million per year. The U.S. has requested phytosanitary access to Australia for stone fruit and access for U.S. pears is also of interest. Expanded phytosanitary access to New Zealand for Pacific Northwest sweet cherries, under a systems approach, and stone fruit is also under discussion and would benefit from the increased attention TPP negotiations might provide.

In assessing the value of Japan's potential membership in the Trans-Pacific Partnership the Northwest Horticultural Council has asked that the Trade Policy Staff Committee evaluate Japan's commitment to eliminate its tariffs on apples, pears and cherries. Japan's current tariff rate is 17 percent for apples, 9 percent for cherries, and 5 percent for pears.

Japan is a valuable and important market for Pacific Northwest cherries. During the 2011 cherry export season Pacific Northwest growers exported \$12 million (FOB packing house) of fruit to Japan during the approximate three month season. Elimination of the 9% tariff would provide estimated benefits of at least \$2 million.

The Pacific Northwest tree fruit industry has a long and complicated history with Japan's sanitary and phytosanitary measures. The Office of the U.S. Trade Representative has twice taken Japan to the World Trade Organization Dispute Settlement Body involving cases where Japan's overly restrictive phytosanitary measures for apples and cherries were proven to be largely unjustified. However, even after successful litigation problems remain. A case in point is Japan's continued insistence that it approve each variety of cherry for export to Japan when fumigated with methyl bromide. More than thirty years of commercial shipping history and research by the U.S. Department of Agriculture's Agricultural Research Service document that these plant health requirements are overly restrictive and unnecessary. Removing them would allow valuable governmental and industry resources to be redirected toward resolving other trade barriers. Of note, last year in response to a request by Japan, USDA readily agreed to allow all varieties of Japanese apples to enter our country based on an assessment that such access poses no increased pest risk.

Phytosanitary barriers prevent U.S. growers from exporting apples and pears to Japan. Removal of these barriers remains an important goal.

A simple litmus test to gauge Japan's ability to engage in a 21<sup>st</sup> century trade agreement would be the unilateral elimination by Japan of its varietal cherry methyl-bromide fumigation approval requirement.

## U.S. GOVERNMENT

The Northwest Horticultural Council works with many United States governmental offices to remove barriers to trade. The U.S. Department of Agriculture's Foreign Agricultural Service and the Animal and Plant Health Inspection Service along with the Office of the U.S. Trade Representative are those most frequently contacted. USDA's Agriculture Research Service provides expert research to answer the technical questions that inevitably arise. The Environmental Protection Agency and now the Food and Drug Administration also have important regulatory roles that impact international trade.

I would like to acknowledge the value that these entities and their staff provide our sector. As you know, the regulation of international trade is conducted by governments. Our success as an export industry depends largely on the continued funding, authority and oversight of these institutions by Congress.

## CONCLUSION

In short, the Asia Pacific region provides significant opportunities for those trading Pacific Northwest apples, pears and cherries. The prospects look good for continued success in the future, so long as protectionist forces are kept at bay.

Thank you for this opportunity to participate in this important public hearing. I look forward to answering any questions members of the committee may have as a result of this testimony.