

Vegetables

Fresh Tomatoes

Policy Changes Resulting from NAFTA

United States. Prior to 1995, the general U.S. tariff on imported tomatoes equaled 3.3 cents or 4.6 cents per kilogram, depending on the tariff season (table K-1). In accordance with the Uruguay Round Agreement on Agriculture (URAA), the United States gradually lowered these rates to 2.8 cents and 3.9 cents per kilogram, respectively. These reductions were phased in over the 6-year period that ended on January 1, 2001.

Under the Canada-U.S. Free Trade Agreement (CFTA), which was subsumed into NAFTA, the United States phased out its tariff for fresh tomatoes from Canada over the 9-year period that ended on January 1, 1998.

Under NAFTA, the United States gradually eliminated its tariff for Mexican tomatoes imported during the periods of July 15 to August 31 and September 1 to November 14. These reductions occurred over the 4-year period that ended on January 1, 1998.

In addition, the United States is phasing out its tariffs for Mexican tomatoes imported during the tariff seasons March 1 to July 14 and November 15 to the last day of February. This gradual elimination is taking place over a period of 9 years and 2 months. During this transition, a TRQ is in effect. Imports within the quota are charged the reduced tariff specified by NAFTA. Over-quota imports are charged the lower of the MFN tariff in effect before NAFTA and the MFN rate in effect at the time of the over-quota trade.

In the first year of NAFTA (1994), the quota for March 1 to July 14 was 165,500 metric tons, and the quota for November 15 to the last day of February was 172,300 metric tons. These quotas increase at an annual rate of 3 percent during the transition. For the 2000/01 season, the quotas were 197,616 and 205,735 metric tons, respectively.

For March 1 to July 14, the TRQ and associated tariffs will end on January 1, 2003. For November 15 to the last day of February, the under-quota tariff will be eliminated on January 1, 2003, and the quantitative restriction and corresponding over-quota tariff will end on March 1, 2003.

NAFTA also includes a “snapback” provision, negotiated under CFTA, that allows the United States to re-impose MFN tariff levels for Canadian tomatoes until 2008 under certain price and acreage conditions. These conditions have not been satisfied to date.

Cherry tomatoes receive separate tariff treatment under NAFTA. The tariff for Mexican cherry tomatoes for December 1 to April 30 was eliminated immediately on January 1, 1994. The base tariff on cherry tomatoes from May 1 to November 30 is 3.3 cents per kilogram. This tariff was phased out for Mexico over the 4-year period that ended on January 1, 1998.

Mexico. Prior to 1994, Mexico imposed a tariff of 10 percent on fresh tomatoes from the United States. Under NAFTA, Mexico matches U.S. tariffs and transition periods for tomatoes. During the transition, the duty assessed on U.S. imports may not exceed Mexico's pre-NAFTA duty.

Table K-1—U.S. tariff rates for imported fresh tomatoes

Tariff Season	General level prior to 1995	General level as of January 1, 2001	Level for Canadian product as of January 1, 1998	Level for Mexican product for 2000/01 growing season
<i>Cents per kilogram</i>				
November 15 to Last Day of February	3.3	2.8	zero	Under quota (205,735 metric tons): 0.66 Over quota: 2.8
March 1 to July 14	4.6	3.9	zero	Under quota (197,616 metric tons): 0.92 Over quota: 3.9
July 15 to August 31	3.3	2.8	zero	zero
September 1 to November 14	4.6	3.9	zero	zero

Rates listed do not apply to cherry tomatoes.

Canada. Prior to 1989, the seasonal Canadian tariff on imported tomatoes was 5.51 Canadian cents per kilogram, but not less than 15 percent ad valorem. Under CFTA and NAFTA, this tariff decreased 10 percent per year, until it fell to zero on January 1, 1998. NAFTA includes a “snapback” provision, negotiated under CFTA, that allows Canada to re-impose MFN tariff levels until 2008 under certain price and acreage conditions.

Fresh Tomato Trade under CFTA and NAFTA

Imports constitute a large proportion of U.S. domestic tomato consumption, and Mexico is the main source of these imports. In 2000, U.S. imports of fresh tomatoes equaled 730,063 metric tons, with Mexico accounting for 81 percent. This share is even higher during the winter months. However, Mexico's share has eroded steadily since 1994, when it stood at 95 percent. Most of the lost market share has gone to greenhouse/hydroponic tomatoes from Canada and the Netherlands.

Despite its declining market share, Mexico has filled its winter and spring quotas for the United States every year since 1995. On average, U.S. fresh tomato imports from Mexico have increased under NAFTA. During 1994-2000, these imports averaged 607,779 metric tons per year with an average value of \$470 million, compared with 335,083 metric tons and \$256 million during 1989-93. Imports reached 734,053 metric tons in 1997, their highest level under NAFTA. Since then, unfavorable weather in Mexico and low prices in the United States have caused imports to decline. In 1999, imports dropped to 615,064 metric tons, with a value of \$490 million. In 2000, imports fell even further to 589,954 metric tons, with a value of \$412 million.

During the winter season, Florida tomato marketing is governed by Federal Marketing Order Number 966, which mandates minimum size and grade standards. Section 8(e), an amendment to the Agricultural Marketing Agreement Act of 1937, provides that if a commodity listed in the section is regulated by a Federal marketing order that imposes regulations regarding grade, size, quality, or maturity, then the same or comparable requirements may be imposed on imports of that commodity. Thus, Federal regulations concerning Florida tomatoes govern Mexican tomatoes as well. Winter-season tomatoes from Mexico - but not roma, cherry, or greenhouse tomatoes - are inspected at the border by USDA's Agricultural Marketing

Service for quality, condition, and size. All loads are inspected, and on average, about 1 percent of the containers in each load is inspected. Less than one-half of one percent of the inspected shipments fail to meet the standards.

The United States exports a small amount of fresh tomatoes to Mexico, and this trade often fluctuates greatly from one year to the next due to conditions that usually are not NAFTA-related. For instance, bad weather hampered Mexican production in 1997, so U.S. exports to Mexico surged to 17,596 metric tons, compared with 2,560 metric tons in 1996. As Mexican production recovered in 1998, exports fell to 4,789 metric tons. Very low prices across the U.S. vegetable industry boosted exports to 5,837 metric tons in 1999. In 2000, Mexican producers experienced adverse weather conditions once again, and U.S. exports surged to 27,423 metric tons, the highest level during 1989-2000. Exports were valued at \$4 million in 1999 and \$22 million in 2000.

Canada is the major export market for U.S. fresh-market tomatoes, accounting for 89 percent of such exports during 1996-2000. For the United States, Canada has been a relatively steady, mature market over the past decade, and CFTA and NAFTA have had little effect on this trade, largely due to Canada's short growing season which gives them little option but to import, and the United States is the closest supplier. In 2000, U.S. fresh tomato exports to Canada equaled 144,950 metric tons, up from 110,771 metric tons in 1988 and 137,444 metric tons in 1999. Much of the recent gain reflected a slump in U.S. shipping-point prices. Exports were valued at \$104 million in 1999 and \$121 million in 2000.

U.S. fresh tomato imports from Canada have increased under CFTA and NAFTA, from a mere 2,115 metric tons in 1988 to 101,390 metric tons in 2000. In value, these imports increased from \$2 million to \$161 million. As a result, Canada's share of the U.S. import market has expanded from less than 1 percent in 1988 to 14 percent in 2000. The majority of these tomatoes come from a burgeoning greenhouse/hydroponic tomato industry centered largely in Ontario and, to a lesser extent, British Columbia.

Trade Issues

In April 1996, the Florida tomato industry charged Mexico with selling tomatoes in the U.S. market at prices below fair market value, thus materially injuring

the domestic industry. In response, the U.S. Department of Commerce (DOC) initiated an antidumping investigation. On October 28, 1996, DOC announced an agreement with principal Mexican producer/exporters to settle the dispute, and on November 1, 1996, DOC suspended the investigation. DOC had made a preliminary determination that fresh tomatoes from Mexico were likely to sell in the United States at less than “fair value.” As long as the suspension agreement is honored, the antidumping investigation remains suspended.

The original 5-year suspension agreement (which was revised in 1998) established a reference price, or minimum price, covering most fresh Mexican tomatoes exported to the United States. After rebates, discounts, and so on, the net price of Mexican tomatoes is not allowed to fall below the reference price, originally set at \$5.17 per 25-pound box, or 20.68 cents per pound. This price represents the lowest average monthly price for fresh-market tomatoes from Mexico observed at the U.S.-Mexico border during the base period of 1992-94.

On August 6, 1998, DOC and fresh-market producer/exporters from Mexico agreed to amend the suspension agreement to include more Mexican growers, especially those in Baja California. Producers in Baja California were unhappy with the original floor price because it was too high for them to compete effectively with growers in California, where production costs are lower than in Florida. Growers in Baja California produce for the summer and early fall, roughly the same season as producers in California.

The amended agreement specifies two time periods, each with its own floor price. This change acknowledges differences between the shipping season in Florida and Sinaloa and the shipping season in California and Baja California. From October 23 to June 30 (the Florida/Sinaloa season), the minimum price for Mexican fresh-market tomatoes was raised to \$5.27 per 25-pound box (\$0.2108 per pound). From July 1 to October 22 (the California/Baja California season), the minimum price decreases to \$4.30 per box (\$0.1720 per pound).

The agreement required that producer/exporters representing at least 85 percent of traded tomato volume be signatories. The agreement does not cover non-signatories. U.S. Customs examines tomato shipments from non-signatories to ensure that product from signatories is not included. Greenhouse cocktail tomatoes are

exempt from the agreement since they are viewed as a separate market from field-grown tomatoes. In the suspension agreement, cocktail tomatoes are defined as greenhouse tomatoes, generally larger than cherry tomatoes but smaller than roma or common round tomatoes, that are harvested and packaged on the vine for retail sale.

There was strong compliance with the agreement through 1998, but the price never fell to the level of the reference price for more than a few days at a time during this period. In 1999, tomato prices were low for extended periods, forcing Mexican producers to restrict export volume in order to prevent prices from falling below the reference price. The suspension agreement comes up for its 5-year “sunset” review in October 2001. As required by the 1994 Uruguay Round Agreements Act, the DOC and the U.S. International Trade Commission (ITC) must conduct reviews no later than 5 years after an antidumping or countervailing duty order is issued. In these reviews, the DOC will determine whether revoking the order would likely result in a continuation or recurrence of dumping or subsidies, while the ITC will determine whether such a revocation would cause material injury to the domestic industry.

On March 28, 2001, a group of U.S. greenhouse tomato producers filed a petition with the ITC alleging dumping of greenhouse tomatoes by Canada in the U.S. market. The ITC has started an investigation to decide if there is a reasonable indication that the U.S. industry is injured or under threat of injury by the selling of greenhouse tomatoes from Canada at less than normal value.

NAFTA's Impact on Fresh Tomato Trade

U.S. tariffs were not an important impediment to fresh tomato imports before CFTA and NAFTA. Tariff rates for tomatoes prior to the two agreements were specified in fixed dollar amounts and eroded in value over time as the general price of tomatoes increased. In 1993, the weighted-average ad valorem tariff was 4.0 percent during the winter season and 5.3 percent during the rest of the year. Thus, tariff changes to date have been relatively small, and other factors have had a greater impact on tomato trade.

U.S. fresh tomato imports from Mexico increased 47 percent in volume between 1993 and 2000. Holding other factors constant, ERS estimates that NAFTA tariff changes increased these imports by some 8-15

percent above what would have occurred without the agreement. Had only the URAA tariff changes been implemented, this increase would have been less than 10 percent. When imports increased in 1995 and 1996, the higher, over-quota tariffs seemed to do little to slow import growth. Changes in this trade have been due mostly to factors other than NAFTA, such as the peso devaluation in December 1994, relatively favorable weather in Mexico compared with Florida, and technological improvements in Mexican production.

Between 1988 and 2000, U.S. fresh tomato imports from Canada increased 4,694 percent in volume (from a very small base), but factors other than CFTA and NAFTA are primarily responsible for this surge. Based on average import prices (higher than prevailing field-grown prices) and the timing of many shipments (outside the regular Canadian growing season), the majority of these imports appear to be greenhouse/hydroponic varieties. The surge in imports appears to reflect increasing U.S. demand for high-quality, higher-priced tomatoes (due to changing tastes and relative prosperity during the 1990's) and the strong U.S. dollar.

U.S. fresh tomato exports to Canada increased 5 percent in volume between 1993 and 2000. Considering only NAFTA tariff changes, ERS estimates suggest that these exports are 14-18 percent higher than they would have been without the agreement. With just URAA tariff changes, these exports would have increased just 6 percent. Clearly, factors other than tariff reductions are influencing U.S.-Canada tomato trade. Noteworthy examples are U.S. weather conditions, industry promotion programs, and the rapid development of Canada's greenhouse industry.

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Processed Tomatoes

Policy Changes Resulting from NAFTA

United States. Prior to 1995, the United States levied general duties on processed tomato products ranging from 7.5 percent to 14.7 percent (table K-2). Under URAA, the United States reduced these duties by 15 percent over the 6-year period that ended on January 1, 2001.

Under CFTA and NAFTA, the United States gradually reduced its duties on Canadian processed tomatoes by 10 percent per year, starting on January 1, 1989, until these tariffs fell to zero on January 1, 1998.

Upon NAFTA's implementation, the United States immediately eliminated its tariffs on tomato juice and ketchup from Mexico. Also, the United States immediately established a new, lower tariff base of 11.5 percent for Mexican tomato purees, pastes, and sauces. The United States is phasing out its duties on processed tomato products from Mexico over the 9-year period that ends on January 1, 2003.

Mexico. Prior to 1994, Mexico's duty on imported tomato paste was 20 percent. Under NAFTA, Mexico lowered its duties on U.S. processed tomato products to match U.S. levels.

Canada. Prior to 1989, Canada levied a tariff of 13.6 percent on U.S. processed tomatoes and 15 percent on ketchup and other tomato sauces from the United States. Under CFTA and NAFTA, Canada gradually eliminated these tariffs over the 9-year period that ended on January 1, 1998.

Table K-2—U.S. tariff rates for selected processed tomato products

Product	General level prior to 1995	General level as of January 1, 2001	Level for Canadian product as of January 1, 1998	Level for Mexican product for 2001
Tomato ketchup	7.5 percent	6.375 percent	zero	zero
Tomato juice	0.3 cents per liter	0.255 cents per liter	zero	zero
Tomatoes, whole or in pieces, and preserved otherwise than by vinegar or acetic acid	14.7 percent	12.495 percent	zero	2.9 percent
Tomato purees, pastes, and sauces (HS Chapter 20)	13.6 percent	11.56 percent	zero	2.3 percent
Tomato sauces (HS Chapter 21)	13.6 percent	11.56 percent	zero	2.7 percent

HS = Harmonized Schedule of Tariffs.

Source: Economic Research Service, USDA. Tariff rates for Mexican product are drawn from the NAFTA tariff schedule of the United States.

Processed Tomato Trade under CFTA and NAFTA

The United States is a net exporter of processed tomato products. In 2000, exports totaled \$224 million, while imports were \$96 million. The U.S. is also the world's largest producer of tomatoes for processing (with about 45 percent of world output) and one of the top five exporting countries. About 95 percent of production takes place in California, with some 37 canning and dehydrating plants in the central valley of California.

Imports accounted for nearly 3 percent of U.S. tomato product consumption in 2000, compared with 7 percent in 1999. Low inventories and a short crop in 1998 led to a sharp increase in imports in 1999. Exports absorbed about 6 percent of processing tomato supply in 2000 - down from 7 percent in 1998 but above the 5-percent average of the 1990's. After posting strong growth in the early and mid 1990's, per capita use of processed tomato products in the United States has declined to about 72 pounds (on a fresh-weight basis) in 2000 - the lowest level since 1989.

U.S.-Canada trade in processed tomato products is substantial, while U.S.-Mexico trade is much less significant. This is partially explained by the similarity of the U.S. and Canadian diets. U.S. processed tomato exports to Canada totaled \$107 million in 2000. This equals 48 percent of all U.S. exports in this category. Tomato sauce accounted for 50 percent of U.S. exports to Canada, and tomato paste accounted for 30 percent. Corresponding imports from Canada equaled \$30 million. Thirty-one percent of total U.S. processed tomato imports in 2000 were from Canada.

Rising U.S. ketchup imports from Canada are the most notable change in U.S.-Canada processed tomato trade under CFTA and NAFTA. Between 1989 and 2000, these imports jumped from 1 metric ton to 39,476 metric tons, and their value climbed from a mere \$3,261 to \$21 million. As a result of this growth, ketchup accounted for 69 percent of U.S. processed tomato imports from Canada in 2000. Much of this increase is due to the changing business strategies of a major U.S. manufacturer.

U.S. exports to Mexico of processed tomato products totaled \$25 million in 2000 - an increase of 178 percent above the 1993 level. Four product classes accounted for more than 90 percent of this trade: tomato juice (27 percent), sauces (23 percent), paste (21 percent), and ketchup (21 percent). Exports to Mexico make up 11

percent of total U.S. processed tomato exports. The sudden peso devaluation in December 1994 and the accompanying economic downturn hindered U.S. exports to Mexico, particularly in 1995.

U.S. processed tomato imports from Mexico equaled \$22 million in 2000. Four product classes accounted for 93 percent of this trade: tomato juice (34 percent), tomato powder (25 percent), tomato paste (18 percent), and tomato sauce (16 percent). The relatively small share corresponding to tomato paste is somewhat deceiving, as trade in this product fluctuates greatly from one year to the next. For instance, paste imports from Mexico surged from 8,350 metric tons in 1998 to 21,484 metric tons in 1999, largely due to a small U.S. crop of processing tomatoes in 1998. Following a record U.S. crop in 1999 and the accumulation of burdensome stocks, imports dropped to 6,194 metric tons in 2000. Bulk tomato paste is the main ingredient for tomato-based sauces and tomato juice, and most of this paste enters during the spring to supplement the needs of U.S. tomato product manufacturers.

Trade Issues

There have been no NAFTA-related trade disputes involving processed tomatoes.

NAFTA's Impact on Processed Tomato Trade

Between 1994 and 2000, U.S. processed tomato imports from Mexico were relatively minor. Paste imports were strong in both 1994 and 1999, as U.S. processors experienced spring-season shortages caused by smaller tomato crops the previous fall. The United States had excess supplies of tomato paste throughout most of the 1990's.

Over the past 3 years, tomato product imports from Mexico have branched out from primarily tomato paste into tomato juice and sauce. Tomato juice imports from Mexico were non-existent until 1996 and did not exceed \$1 million until 1998. By 2000, these imports were valued at \$7 million. Similarly, tomato sauce imports were minor until 2000, when they reached \$4 million. The United States does not levy a tariff on tomato juice from Mexico, and U.S. tariffs on Mexican tomato sauce range from 2.3 to 2.7 percent.

Ignoring other changes that have taken place since 1993, tariff changes from NAFTA and URAA are estimated to have increased U.S. processed tomato imports from Mexico by 10 percent above what would have occurred otherwise. Had only the URAA tariff changes

been implemented, the increase would have been about 2 percent. Variations in crop production have an important impact on U.S.-Mexico processed tomato trade.

Between 1993 and 2000, U.S. tomato paste exports to Canada declined 5 percent in volume, while U.S. tomato sauce exports to Canada expanded in volume by 50 percent. CFTA and NAFTA tariff reductions probably contributed to the latter increase. With the exception of sauces and ketchup, U.S. exports of processed tomato products to Canada have not risen substantially since 1993. Tomato product exports expanded 23 percent in volume between 1993 and 2000, but the value of this trade increased by just 6 percent. However, since 1988, the value of U.S. tomato product exports to Canada has risen 50 percent to \$30 million. Declining prices caused by large U.S. supplies restrained the gain in value. Without considering other factors, ERS estimates suggest NAFTA and URAA tariff changes alone increased these imports by 34 percent above what would have occurred otherwise. Had only URAA been implemented, the increase attributable to tariff changes would have been 10 percent.

As mentioned above, rising U.S. ketchup imports from Canada are the most notable change in U.S.-Canada processed tomato trade under CFTA and NAFTA. The increase in this trade is primarily due to the changing business strategies of a major manufacturer. Its behavior was likely influenced by the relative strength of the U.S. dollar and the elimination of ketchup duties between Canada and the United States.

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Bell Peppers

Policy Changes Resulting from NAFTA

United States. Prior to 1995, the general U.S. tariff on bell peppers was 5.5 cents per kilogram. Under URAA, the United States gradually lowered this tariff to 4.7 cents per kilogram over the 6-year period that ended on January 1, 2001.

Under CFTA and NAFTA, the United States eliminated its tariff on Canadian bell peppers on January 1, 1998, following a 9-year transition period.

Under NAFTA, the United States is gradually eliminating its tariffs on Mexican bell peppers as well. The

tariff for the June-October season was phased out over the 4-year period that ended on January 1, 1998, and the tariff for the November-May season is being eliminated over the 9-year period that ends January 1, 2003. For 2001, the tariff rate for the November-May season is 1.1 cents per kilogram.

Mexico. Prior to 1994, Mexico imposed a duty of 10 percent on bell peppers. Under NAFTA, Mexico gradually eliminated this tariff over the 4-year period that ended on January 1, 1998.

Canada. Prior to 1989, the seasonal tariff on bell peppers was 4.41 Canadian cents per kilogram but not less than 10 percent. Under CFTA and NAFTA, Canada reduced its tariff on U.S. bell peppers by 10 percent a year until it reached zero on January 1, 1998.

Bell Pepper Trade under CFTA and NAFTA

Trade is an important component of the U.S. fresh bell pepper market. In 2000, imports accounted for about 20 percent of U.S. consumption, while approximately 7 percent of U.S. production was exported. Seventy-two percent of these imports came from Mexico, and 13 percent came from Canada. Per capita use of bell peppers in the United States climbed 25 percent over the period 1994-2000 to 8.1 pounds.

During 1994-2000, U.S. imports of Mexican bell peppers averaged 136,827 metric tons per year, compared with 91,457 metric tons during 1989-93. Meanwhile, the average annual value of this trade increased from \$79 million to \$125 million. The sudden devaluation of the Mexican peso in December 1994, along with a 20-percent decline in Florida production in 1995, had a dramatic impact on this trade. Imports climbed to 116,173 metric tons in 1995, an increase of 20 percent above the 1994 level. In 1999, imports reached a record 156,068 metric tons, up 54 percent from 1993. In 2000, imports equaled 143,097 metric tons, with a value of \$135 million.

U.S. imports of Canadian bell peppers have increased dramatically under CFTA and NAFTA, and these imports are expected to continue rising due to the growing popularity of greenhouse-grown product. Imports equaled 26,017 metric tons in 2000, compared with just 1,343 metric tons in 1989. The value of these imports increased from \$2 million to \$49 million over the same period. At least one-third of these imports now come from greenhouse/hydroponic facilities.

Peppers from such facilities are priced 2 to 3 times higher than field-grown varieties.

U.S. export data for fresh peppers include all types of peppers (e.g., bell, pimento, and chile peppers), but most of this trade consists of bell peppers. Canada is the primary export market for U.S. fresh peppers, accounting for 98 percent of export volume in 2000. Exports to Canada have increased under CFTA and NAFTA, even as imports from Canada have grown. In 2000, U.S. fresh pepper exports to Canada reached an all-time high of 69,741 metric tons, valued at \$66 million. In contrast, they equaled 41,671 metric tons in 1988, with a value of \$34 million.

Trade Issues

In March 1996, Florida growers, joined by growers from several other States and the Florida Department of Agriculture, petitioned the ITC for economic relief against import surges of fresh tomatoes and bell peppers under U.S. trade law. On July 2, 1996, the ITC found that imports of these commodities were neither a substantial cause nor a threat of serious injury to the fresh tomato and bell pepper industries of the United States.

NAFTA's Impact on Bell Pepper Trade

Although U.S. bell pepper imports from Mexico increased 41 percent in volume between 1993 and 2000, it is unlikely that NAFTA is the most important factor affecting this trade. The tariff elimination for Mexican bell peppers is proceeding gradually, with an annual tariff reduction of less than 1 percent for the December-May season. Before NAFTA, the average ad valorem U.S. tariff on Mexican bell peppers was 7.43 percent. Rising consumer demand, the relative strength of the U.S. dollar, and adverse weather conditions in U.S. production areas in some periods more likely explain the growth in U.S. bell pepper imports from Mexico.

A similar analysis applies to imports from Canada. Between 1989 and 2000, U.S. imports of Canadian bell peppers increased 1,838 percent in volume, but this trade was fairly small before CFTA. Tariff elimination between Canada and the United States occurred gradually, and the relative strength of the U.S. dollar, increased consumer demand, and adverse weather conditions have played more prominent roles in the growth of this trade than CFTA and NAFTA.

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Fresh-Market Cucumbers

Policy Changes Resulting from NAFTA

United States. The general U.S. tariff on fresh-market cucumbers varies by season. Prior to 1995, tariff rates ranged from 3.3 cents to 6.6 cents per kilogram (table K-3). Under URAA, the United States gradually reduced these tariffs over the 6-year period that ended on January 1, 2001.

Under CFTA and NAFTA, the United States reduced its tariffs on Canadian cucumbers by 10 percent a year, until the tariffs fell to zero on January 1, 1998.

Under NAFTA, the United States eliminated duties on Mexican cucumbers for the two lowest tariff seasons: December to February and July to August. The December-February season is a time of low domestic production, and the July-August season is one of low import volume. For the seasons with the higher tariffs, duties are being gradually eliminated. The March-May and October-November tariffs are being phased out over the 14-year period that ends on January 1, 2008. For 2001, these tariffs equal 3.3 cents per kilogram. The June-September tariffs were gradually eliminated over the 4-year period that ended on January 1, 1998.

Table K-3—U.S. tariff rates for imported fresh-market cucumbers

Trade season	General level prior to 1995	General level as of January 1, 2001	Level for Canadian product as of January 1, 1998	Level for Mexican product for 2001
<i>Cents per kilogram</i>				
March 1 to May 31	6.6	5.6	zero	3.0
June 1 to June 30	6.6	5.6	zero	zero
July 1 to August 31	3.3	1.5	zero	zero
September 1 to September 30	6.6	5.6	zero	zero
October 1 to November 30	6.6	5.6	zero	3.0
December 1 to Last Day of February	4.9	4.2	zero	zero

Source: Economic Research Service, USDA. Tariff rates for Mexican cucumber are drawn from the NAFTA tariff schedule of the United States.

NAFTA also includes a “snapback” provision, negotiated under CFTA, that allows the United States to reinstitute MFN tariff levels until 2008 for Canadian cucumbers, under certain price and acreage conditions.

Mexico. Prior to 1994, Mexico's tariff on imported cucumbers was 10 percent. Under NAFTA, Mexico is matching the U.S. seasonal tariffs and phase-out schedule, except that Mexico's transition period lasts 9 years.

Canada. Prior to 1989, Canada's seasonal tariff on fresh cucumbers (not for processing) was 4.96 Canadian cents per kilogram, but not less than 15 percent. Under CFTA and NAFTA, the tariff declined 10 percent a year, until it reached zero on January 1, 1998. A “snapback” provision remains in place under certain price and acreage conditions until 2008.

Cucumber Trade under CFTA and NAFTA

Thanks to salad bars, new varieties, and increased interest in health and nutrition, U.S. per capita use of cucumbers increased 47 percent during the 1990's to 6.9 pounds. About 39 percent of domestic use is imported, with the majority coming from Mexico (90 percent in 2000). In fact, almost all cucumbers in the U.S. market are from Mexico during the months of December, January, and February. This large reliance on imports is due in part to low domestic production during the winter months. Cucumbers suffer injury at temperatures below 50 degrees, which is not an uncommon weather occurrence in Florida during the winter. Overall, Mexico supplied 90 percent of U.S. import volume in 2000, while Canada supplied 7 percent. In 1993, these shares were 90 percent and 2 percent, respectively. Roughly half of the cucumbers imported from Canada are produced in hothouses.

Only 3 percent of U.S. fresh cucumber supply is exported. In 2000, Canada purchased 90 percent of these exports, while Mexico bought 7 percent. Under CFTA and NAFTA, U.S. cucumber exports to Canada increased from 6,761 metric tons in 1988 to 22,542 metric tons in 2000, while the value of this trade climbed from \$2 million to \$22 million.

During 1994-2000, the United States imported an annual average of 283,031 metric tons of Mexican cucumbers, compared with 179,230 metric tons during 1989-93. The average annual value of these imports increased from \$73 million to \$119 million across the

same two periods. Of all the winter vegetables, cucumbers had the highest pre-NAFTA ad valorem tariff, 19.6 percent during the highest tariff season.

Reflecting low prices in the United States for most vegetables, the average import value for fresh Mexican cucumbers declined 16 percent in 1999 to 17.7 cents per pound. Despite these low prices, imports from Mexico reached a record 314,462 metric tons in 1999, an increase of 2 percent over the previous year. In 2000, imports decreased slightly to 312,307 metric tons, with a value of \$150 million. U.S. cucumber exports to Mexico are small and variable.

The increasing popularity of hothouse-produced, European-type cucumbers is likely an important factor behind the 5-fold increase in the volume of fresh-market cucumber imports from Canada since 1994. In 2000, this trade reached a record 22,542 metric tons, with a value of \$ 22 million. Reflecting the presence of hothouse product, the average unit value for fresh cucumbers from Canada - 45 cents per pound - was nearly twice that for all fresh cucumber imports.

Trade Issues

There have been no trade disputes involving cucumbers.

NAFTA's Impact on Cucumber Trade

Between 1993 and 2000, U.S. imports of Mexican cucumbers increased 53 percent in volume. Holding other factors constant, tariff changes under NAFTA and URAA are estimated to have increased U.S. imports of Mexican cucumbers by about 3 percent above what would have occurred otherwise. Had only the URAA tariff changes been implemented, this increase would have been less than 1 percent. Other factors, such as the peso devaluation and adverse weather conditions, account for much of the observed changes in U.S.-Mexico cucumber trade. Between 1992 and 1998, U.S. cucumber exports to Canada decreased steadily in volume from 36,501 metric tons to 22,654 metric tons. In 1999 and 2000, exports rebounded to 23,441 metric tons and 25,578 metric tons, respectively. Factors besides the gradual elimination of tariffs, such as adverse weather conditions in the United States, the relative strength of the U.S. dollar, and the growth of greenhouse production in Canada, are influencing cucumber trade with Canada.

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Squash

Policy Changes Resulting from NAFTA

United States. Before 1995, the general U.S. tariff on squash was 2.4 cents per kilogram. In accordance with URAA, the United States gradually lowered this tariff to 1.5 cents per kilogram over the 5-year period that ended on January 1, 2001.

Under CFTA and NAFTA, the United States reduced its tariff on Canadian squash by 10 percent per year until January 1, 1998, when the tariff was eliminated.

Under NAFTA, the United States made several changes in its tariffs on Mexican squash. First, the United States phased out the tariff for the July-to-September season over the 4-year period that ended on January 1, 1998. Second, the United States is gradually eliminating the tariff for the more sensitive season of October to June over the 9½-year period that ends on June 30, 2003. For this transition, the United States established an initial TRQ of 120,800 metric tons. The volume of the TRQ increases at an annual rate of 3 percent over the transition and is set at 144,242 metric tons for the 2000/01 season (October 1, 2000 to June 30, 2001). For 2001, the over-quota tariff equals 1.5 cents per kilogram, and the within-quota tariff equals 0.4 cents per kilogram. The under-quota tariff will be eliminated on January 1, 2003, while the TRQ and corresponding over-quota tariff will disappear on June 30, 2003. Finally, NAFTA contains a “snapback” provision, negotiated under CFTA, that allows the United States until 2008 to re-institute the MFN tariff for Canadian squash, under certain price and acreage conditions.

NAFTA includes chayote squash in a separate category from other squash. Prior to 1994, the United States imposed a tariff of 12.5 percent on Mexican chayote. This tariff was eliminated immediately upon NAFTA's implementation on January 1, 1994.

Mexico. Mexico immediately eliminated its 10-percent duty on U.S. squash upon NAFTA's implementation on January 1, 1994.

Canada. Prior to 1989, Canada levied an ad valorem tariff of 5 percent on U.S. squash. Under CFTA and NAFTA, this tariff declined 10 percent a year, until it fell to zero on January 1, 1998.

Squash Trade under CFTA and NAFTA

Imports supply about one-third of U.S. squash consumption. The United States receives practically all of its fresh squash imports (98 percent in 2000) from Mexico. A minor amount, less than 1 percent each, comes from Panama and Canada. About 80 percent of U.S. squash imports arrive between November and April. This squash competes primarily with product from Florida.

As mentioned earlier, NAFTA places chayote in a different category from other squash. Costa Rica is the dominant foreign supplier of chayote to the United States, with an 81-percent share of the U.S. import market in 2000. Mexico's share equaled 18 percent, with exports to the United States totaling 4,238 metric tons and valued at \$1.6 million.

USDA began to collect national production data for squash in 2000. Georgia, California, and Florida are the leading producers of domestic squash. Most of the import competition takes place during the months when Florida is the primary domestic source. About half of Florida's squash crop is marketed during March, April, and May. Per capita use of fresh-market squash in the United States is estimated to be 4 pounds and held fairly steady during the 1990's.

U.S. squash imports from Mexico averaged 134,752 metric tons per year during 1994-2000, compared with 79,910 metric tons during 1989-93. Across the same two periods, the average annual value of these imports increased from \$52 million to \$89 million. In the first two years of the TRQ, (October 1, 1994 to June 30, 1995, and October 1, 1995 to June 30, 1996), 81 percent and 87 percent of the quota was filled, respectively. Since then, the quota has been filled every year. Imports from Mexico were 148,210 metric tons in 1999 and 148,476 metric tons in 2000, well above the quota level. These imports were valued at \$99 million and \$111 million, respectively. Low prices in the United States discouraged imports in 1999 and 2000. U.S. squash exports to Canada are not reported as a separate category.

Trade Issues

There have been no trade disputes involving squash.

NAFTA's Impact on Squash Trade

Between 1993 and 2000, the volume of U.S. imports of Mexican squash increased 66 percent. Before NAFTA, the United States imposed an average ad

valorem equivalent tariff on Mexican squash of 5.21 percent. Ignoring other developments since 1993, ERS estimates suggest that NAFTA and URAA tariff changes together would have increased imports from Mexico by only 1 percent. Had only the URAA tariff changes been implemented, the change in imports due to tariff changes would have been even smaller.

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Eggplant

Policy Changes Resulting from NAFTA

United States. Prior to 1995, the general U.S. tariff on eggplant was 2.4 cents per kilogram during the December-to-March season and 3.3 cents per kilogram during the rest of the year. Under URAA, the United States gradually lowered these tariffs to 1.9 cents per kilogram for the December-to-March season and 2.6 cents per kilogram for the rest of the year. These reductions were phased in over the 6-year period that ended on January 1, 2001.

Upon NAFTA's implementation on January 1, 1994, the United States immediately eliminated its tariffs on Mexican eggplant for the December-to-March and July-to-September seasons. Tariffs for the two remaining seasons, April to June and October to November, are being phased out over the 9-year period that ends on January 1, 2003. In addition, an initial TRQ of 3,700 metric tons was established for the April-to-June season. The volume of the TRQ increases at an annual rate of 3 percent during the transition and stands at 4,551 metric tons for 2001. Over-quota volume is charged the lower of the pre-NAFTA rate and the current MFN rate. For 2001, the within-quota rate is 0.6 cents per kilogram, and the over-quota rate is 2.6 cents per kilogram.

Mexico. Mexico immediately eliminated its 10-percent duty on U.S. eggplant upon NAFTA's implementation on January 1, 1994.

Canada. Prior to 1989, Canada did not levy a tariff on eggplant. This policy has remained unchanged under CFTA and NAFTA.

Eggplant Trade Since NAFTA

Trade is important to the U.S. fresh eggplant market. Per capita consumption of eggplant in the United States has increased since the mid-1990's and now

averages about 0.8 pounds per year. During the 1990's, about 40 percent of the eggplant consumed domestically was imported (37 percent in 2000). The majority of these imports came from Mexico. However, Mexico's share of the U.S. import market has eroded somewhat, falling from 99 percent to 93 percent in volume terms between 1993 and 2000.

U.S. imports of Mexican eggplant experienced little growth during the 1980's and early 1990's but have trended higher under NAFTA. During 1994-2000, imports averaged 29,504 metric tons per year, compared with 17,529 metric tons during 1989-93. Across the same two periods, the average annual value of imports grew from \$13 million to \$21 million.

After reaching a record high in 1998, low U.S. vegetable prices and erratic weather in Mexico caused imports to decline by 15 percent in 1999 to 30,667 metric tons. In 2000, imports reached 36,018 metric tons, nearly surpassing the record of 1988. The value of this trade in 2000 was \$22 million. Since NAFTA's implementation in 1994, the eggplant quota has been completely filled every year.

During the 1990's, an average of 13 percent of U.S. eggplant supply was exported, compared with 9 percent in 2000. About 99 percent of U.S. exports go to Canada, with minor amounts going to Mexico.

Trade Issues

There have been no trade disputes involving eggplant.

NAFTA's Impact on Eggplant Trade

Eggplant imports from Mexico have risen tremendously since the advent of NAFTA, with a 101-percent increase in volume between 1993 and 2000. Before NAFTA, the average ad valorem equivalent U.S. tariff on Mexican eggplant was 5.69 percent. Ignoring the influence of other factors, ERS estimates suggest that NAFTA and URAA tariff changes would have increased U.S. imports of Mexican eggplant by 4 percent above what would have occurred otherwise. Had only URAA been implemented, tariff changes would have increased this trade by less than 1 percent. Increased demand associated with the rising popularity of ethnic cuisines in the United States and the peso devaluation help to explain the increase in eggplant imports from Mexico.

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Snap Beans

Policy Changes Resulting from NAFTA

United States. Prior to 1995, the general U.S. tariff on fresh-market snap beans (not reduced in size) was 7.7 cents per kilogram. In accordance with URAA, the United States gradually reduced this tariff to 4.9 cents per kilogram over the 6-year period that ended on January 1, 2001.

Under CFTA and NAFTA, the United States reduced its tariff on Canadian snap beans by 10 percent a year, until the tariff was eliminated on January 1, 1998. A “snapback” provision for Canada is included until 2008.

Under NAFTA, the United States phased out its tariff on Mexican snap beans for the June-to-October season over the 4-year period that ended on January 1, 1998. The tariff for the November-to-May season is being phased out over the 9-year period that ends on January 1, 2003. For 2001, this tariff is set at 1.5 cents per kilogram.

Mexico. Prior to 1994, Mexico levied a tariff of 10 percent on fresh snap beans from the United States. This tariff was eliminated immediately upon NAFTA's implementation on January 1, 1994.

Canada. Prior to 1989, the seasonal tariff on snap beans was 4.41 Canadian cents per kilogram, but not less than 10 percent. Under CFTA and NAFTA, this tariff declined 10 percent a year, until it reached zero on January 1, 1998.

Snap Bean Trade under CFTA and NAFTA

Since 1993, U.S. per capita consumption of fresh-market snap beans increased 40 percent, to 2.1 pounds in 2000—the highest level since 1964. The United States was a net exporter of fresh-market snap beans during the 1990's. On average, 9 percent of domestic use was supplied by imports - the same as during the 1980's. About 11 percent of supply was exported, up from 8 percent in the 1980's.

More than three-fourths of imports enter during the winter season (December to April), supplementing production in Florida. As measured by shipment volume, Mexico's share of the entire U.S. fresh snap bean market averaged 31 percent during the 1997-99

winter seasons. Since peaking at 37 percent in 1997, Mexico's share of the U.S. market declined in both 1998 and 1999.

U.S. snap bean imports from Mexico averaged 16,646 metric tons per year during 1994-2000, compared with 11,426 metric tons during 1989-93. Over the same period, the average annual value of these imports increased from \$13 million to \$21 million. Part of the gain in Mexican imports under NAFTA is attributable to the peso devaluation in December 1994, which made it easier for hand-picked Mexican snap beans to compete with machine-harvested product from Florida.

Imports grew steadily in volume between 1994 and 1997 and then declined in 1998 and 1999, due partly to lower yields in Mexico and larger U.S. output (especially in Florida). In 2000, imports equaled 20,673 metric tons - a record high - with a value of \$23 million. Responding to strong demand, domestic fresh snap bean production reached its highest point since 1951.

Although imports from Mexico generally have increased under NAFTA, Mexico's share of total U.S. snap bean imports has declined slightly, from 94 percent during 1989-93 to 91 percent during 1994-2000. Canada has picked up much of this lost share, with its share rising from 5 percent to 7 percent across the same two periods.

Total U.S. snap bean exports increased 69 percent in volume between 1993 and 2000, but this development is largely due to increased sales to the Dominican Republic and not to NAFTA. Exports to the Dominican Republic surged from 17 metric tons in 1994 (and zero in 1993) to an average of 11,651 metric tons during 1998-2000.

Still, Canada is the top foreign market for U.S. snap beans, with a 66-percent share of U.S. export volume in 2000. Exports to Canada increased from 14,000 metric tons in 1990 (and 3,681 metric tons in 1989) to 20,971 metric tons in 2000. The value of this trade increased from \$14 million to \$21 million between 1990 and 2000. Export volume grew steadily during 1998-2000, after experiencing little to no growth during 1995-97.

Trade Issues

There have been no trade disputes involving snap beans.

NAFTA's Impact on Snap Bean Trade

Between 1993 and 2000, U.S. fresh-market snap bean imports from Mexico increased 92 percent, with much of this gain occurring in 1995. Prior to NAFTA, the average ad valorem equivalent U.S. tariff on Mexican snap beans was 8.04 percent. According to ERS estimates, NAFTA and URAA tariff changes would have increased U.S. snap bean imports from Mexico by 6 percent above what would have occurred otherwise. Had only URAA been implemented, this increase would have been only 3 percent. Other factors - such as weather, the peso devaluation, and rising demand for fresh snap beans—likely account for the majority of the change in trade.

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Fresh and Processed Potatoes

Policy Changes Resulting from NAFTA

United States. Prior to 1995, the United States imposed a general tariff of 0.77 cents per kilogram on all fresh and seed potatoes, 17.5 percent on frozen potatoes, and 10 percent on frozen french fries, potato chips, and other prepared potatoes. Under URAA, the United States gradually reduced these tariffs over the 6-year period that ended on January 1, 2001. As a result, the general tariff now equals 0.50 cents per kilogram for fresh and seed potatoes, 14 percent for frozen french fries, 8 percent for other french fries, and 6.4 percent for potato chips and other prepared potatoes.

Under CFTA, the United States implemented many tariff reductions with respect to Canadian potatoes. On January 1, 1989, the United States immediately lifted its tariffs on fresh yellow (Solano) potatoes, seed potatoes, potato chips and other prepared potatoes, and yellow frozen french fries from Canada. In addition, the United States gradually eliminated its tariffs for Canada on frozen potatoes, other fresh potatoes, and other frozen french fries over the 9-year period that ended on January 1, 1998.

Under NAFTA, the United States made similar tariff reductions for Mexico. Tariffs on fresh yellow (Solano) potatoes, seed potatoes, potato chips and other prepared potatoes, and yellow frozen french fries from Mexico were immediately eliminated on January 1, 1994. After a 4-year transition period that concluded on January 1, 1998, the United States eliminated its

tariffs for Mexico on frozen potatoes, other fresh potatoes, and other frozen french fries.

CFTA allows the United States to implement a “snapback” provision on fresh potatoes from Canada, but only until 2008. Given certain conditions, the United States has the discretion to re-institute the tariff level (0.50 cents per kilogram) associated with most-favored-nation (MFN) status, the rate that applies to most countries outside of NAFTA. To date, the United States has not exercised its “snapback” option for fresh potatoes.

Mexico. Prior to 1994, Mexico imposed tariffs of 15 percent on frozen potatoes and 20 percent on dried potatoes, frozen french fries, and other prepared potatoes from Canada and the United States. In addition, Mexico required import licenses for fresh potatoes.

Under NAFTA, all tariffs on processed potatoes from the United States and Canada are being phased out over a 9-year period that ends on January 1, 2003. In addition, Mexico eliminated its import license requirements for Canadian and U.S. fresh potatoes and instituted a TRQ in their place. With an import permit (in conjunction with the TRQ) and a phytosanitary permit, fresh potatoes may be exported to Mexico, but the potatoes must be treated with a sprout inhibitor to ensure that they cannot be used as seed.

Under the TRQ for fresh potatoes, the United States initially received a duty-free quota of 15,000 metric tons. This amount increases at an annual rate of 3 percent during the 9-year transition period. For 2001, the duty-free quota is 18,448 metric tons. Initially, over-quota imports were assessed a tariff of \$354 per metric ton, but not less than 272 percent. For 2001, the over-quota tariff equals \$134 per metric ton, but not less than 103.3 percent ad valorem.

Mexico's processed potato industry is also protected by TRQ's, but the over-quota tariff is Mexico's MFN rate of 20 percent. In 1994, the TRQ's for processed potatoes were 1,800 metric tons for frozen potatoes, 200 metric tons for dried potatoes, 3,100 metric tons for frozen french fries, and 5,400 metric tons for other prepared potatoes. These quotas grow at an annual rate of 3 percent. For 2001, the quotas are approximately 2,214 metric tons for frozen potatoes, 246 metric tons for dried potatoes, 3,813 metric tons for frozen french fries, and 6,641 metric tons for other prepared potatoes.

Canada. Prior to 1989, the general Canadian tariff on fresh and seed potatoes was 7.72 Canadian dollars per

metric ton, and the tariff on frozen french fries and other prepared potatoes was 10 percent. Under CFTA and NAFTA, Canada phased out its tariffs on U.S. potatoes and potato products, until they reached zero on January 1, 1998.

Potato Trade with Mexico

Between 1989 and 1993, U.S. fresh potato exports to Mexico grew from 4,910 metric tons to 17,409 metric tons. Although the volume of these exports fell slightly in 1994 and 1995, they rose substantially over the next 4 years to 37,380 metric tons in 1999. In 2000, exports declined to 30,776 metric tons. U.S. exports to Mexico of fresh potatoes have exceeded the TRQ in each year since NAFTA's implementation. The United States imports virtually no fresh potatoes from Mexico (none since 1993).

U.S. exports to Mexico of frozen french fries also have increased under NAFTA. In 1993, exports equaled 8,540 metric tons. In 1994, this total jumped to 13,216, and by 2000, exports had grown to 31,199 metric tons.

Potato chip exports to Mexico have fluctuated under NAFTA but generally have trended upward. These exports averaged 8,777 metric tons per year during 1994-2000, compared with 2,584 metric tons during 1989-93. During the 4 years prior to NAFTA (1990-93), the United States imported an average of 1,528 metric tons of potato chips from Mexico. Since then, the United States has only imported a small amount of chips from Mexico, and only in 3 years: 1994 (448 metric tons), 1997 (0.34 metric tons), and 2000 (0.56 metric tons).

Potato Trade with Canada

U.S. exports to Canada of fresh and seed potatoes have been substantially higher in volume under CFTA and NAFTA than they were during the 5 years immediately prior to CFTA. Exports averaged 126,272 metric tons per year during 1989-91 and 235,809 metric tons during 1992-2000, compared with just 43,094 metric tons during 1984-88. Exports in 2000 equaled 249,822 metric tons.

U.S. exports of frozen french fries to Canada averaged 17,843 metric tons per annum during 1996-2000, more than double the average of 6,713 metric tons for 1991-95. Much of this increase is attributable to Canada's decision in December 1995 to relax its strict packaging and labeling rules for U.S. frozen french fries sold to the Canadian food service sector. However,

with the rapid expansion of the Canadian french fry processing industry over the past several years, U.S. fry exports to Canada sagged somewhat in 1999 and 2000 and are likely to be negatively affected in the coming years. During 1996-2000, U.S. potato chip exports to Canada averaged 18,938 metric tons per year, up from an average of 9,710 metric tons during 1991-95.

U.S. fresh and seed potato imports from Canada have varied substantially under CFTA and NAFTA, ranging from a low of 181,990 metric tons in 1992 to a high of 480,961 metric tons in 1998. The annual average for 1996-2000 was 411,847 metric tons, 44 percent above the 1989-95 average. In 2000, imports equaled 365,287 metric tons.

Potato chip imports from Canada have increased significantly in the last three years. Imports equaled 2,177 metric tons in 1998 and 4,721 metric tons in 1999, and 17,121 metric tons in 2000. In each of these years, the volume of trade exceeded the cumulative total of 1,519 metric tons that occurred during the first 9 years following CFTA's implementation (1989-97).

Except for a small decrease in 1989, U.S. frozen french fry imports from Canada have increased steadily under CFTA and NAFTA, from 45,985 metric tons in 1988 to 480,060 metric tons in 2000. This expansion corresponds to a compound annual growth rate of 24 percent.

Trade Issues

Antidumping Duties on U.S. Potatoes. Since 1984, Canada has imposed an antidumping duty against U.S. fresh potatoes imported into British Columbia. Potatoes imported between May 1 and July 31 are not subject to the duty. The Canadian International Trade Tribunal (CITT) reviewed the antidumping duties in 2000, and decided that the duties would continue for another 5 years. The Tribunal concluded that if the duties were rescinded, U.S. potatoes would enter British Columbia in high volumes at "dumped prices" that would injure the domestic industry in that province. CITT considers "dumped prices" to be significantly below "normal" prices for potatoes, as calculated by the Canadian Customs and Revenue Agency.¹

¹ The complete ruling may be read on the CITT website at ftp://ftp.citt.gc.ca/doc/english/Dumping/Reviews/Orders_Reasons/rr99005e.pdf.

Outbreak of Potato Wart on Prince Edward Island. On January 2, 2001, Canada requested NAFTA Consultations with the United States with respect to U.S. restrictions on imports of potatoes from the province of Prince Edward Island (PEI), following the discovery of a potato wart outbreak on October 26, 2000. Potato wart is a soil-borne fungus that produces lesions on potatoes, rendering them unmarketable. The Canadians believe that they have substantially proven through scientific sampling of soil that this outbreak is an isolated problem and that PEI potatoes are free of the fungus and thus safe to export. Trade sources estimate that PEI potato producers have suffered about \$15 million in damages. The United States buys almost 10 percent of the annual PEI potato crop. In 1999, about 96,000 metric tons of PEI potatoes were destined for the United States. On April 30, 2001, the United States resumed imported PEI potatoes from the 2000 crop year, following months of discussions with Canadian officials on measures aimed at mitigating the risk of spreading the potato wart fungus.

NAFTA's Impact on Potato Trade

U.S. exports of fresh and processed potatoes to Canada and Mexico have benefited from CFTA and NAFTA. Increased potato trade with Mexico has primarily been unilateral, with the United States making significant gains in the export of processed potato products, particularly french fries. Fresh exports to Mexico are limited by a TRQ that is relatively large, compared with the TRQ's for processed potato products. As these restrictions are gradually eliminated, U.S. exports to Mexico should continue to increase. The United States imports little to no potatoes or potato products from Mexico despite the elimination of tariffs on these products.

U.S.-Canada potato trade has increased in both directions under CFTA and NAFTA, with Canada gaining more exports than the United States. Increased imports of fresh and processed potatoes from Canada have occurred for several reasons in addition to the two agreements. First, Canadian potato production has expanded greatly, with six record crops in the last 7 years. Second, the Canadian processing industry has experienced rapid growth, particularly in the provinces of Manitoba and Alberta. Some of this growth is the result of direct investment by U.S.-owned companies. Lamb-Weston owns a plant in Alberta, and the J.R. Simplot Company is building a plant in Manitoba, scheduled for completion in 2002. Third, the Canadian dollar is relatively weak, having depreciated 20 percent vis-a-vis the U.S. dollar over the period 1989-

99. Imports, particularly of frozen french fries, are likely to increase over the next several years as the Canadian processing industry continues to expand.

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Frozen Broccoli and Cauliflower

Policy Changes Resulting from NAFTA

United States. Prior to 1995, the general U.S. tariff on frozen broccoli and cauliflower was 17.5 percent. Under URAA, the United States decreased this tariff to 14 percent over the 6-year period that ended on January 1, 2001.

Under CFTA and NAFTA, the United States phased out its tariff on Canadian frozen broccoli and cauliflower over the 9-year period that ended on January 1, 1998.

Under NAFTA, the United States immediately lowered its base tariff on frozen broccoli and cauliflower from Mexico to 15 percent. This tariff is being phased out over the 9-year period that ends on January 1, 2003.

Mexico. Prior to 1994, Mexico levied a 15-percent tariff on frozen broccoli and cauliflower from the United States. Under NAFTA, these tariffs are being phased out over the 9-year period that ends on January 1, 2003.

Canada. Prior to 1989, Canada imposed a 20-percent tariff on frozen broccoli and cauliflower from the United States. Under CFTA and NAFTA, this tariff declined 10 percent a year, until it fell to zero on January 1, 1998.

Frozen Broccoli and Cauliflower Trade under CFTA and NAFTA

When NAFTA was implemented, Mexico was already the dominant player in the U.S. market for frozen broccoli and cauliflower. During 1989-93, Mexico supplied 91 percent of U.S. frozen broccoli imports and 93 percent of its frozen cauliflower imports. However, Mexico's share of U.S. frozen broccoli imports declined from 89 percent in 1993 to 82 percent in 2000, as lower-cost product from Guatemala increased its market share from 11 percent to 16 percent. Meanwhile, Mexico's share of U.S. frozen cauliflower imports remained fairly constant, dropping slightly from 90 percent to 89 percent over the same period. Guatemala

is also the second largest source of U.S. frozen cauliflower imports, with a share of 7 percent in 2000.

In 1992, the United States imported 156,058 metric tons of frozen broccoli from Mexico - the highest volume before NAFTA. Since the agreement's implementation, imports have surpassed this level only once - in 1996, with a volume of 158,779 metric tons. However, U.S. frozen broccoli imports from Mexico generally have been larger under NAFTA in both volume and value terms. During 1994-2000, imports averaged 144,048 metric tons per year with an average annual value of \$91 million, compared with 120,823 metric tons and \$80 million for 1989-93. In 2000, imports equaled 137,272 metric tons, with a value of \$99 million. Poor weather conditions and pest problems have hampered Mexican production over the past several years.

U.S. imports of frozen cauliflower from Mexico reached 26,620 metric tons in 1994. Since then, imports have not regained this level, due to production problems and reduced demand in the United States. Per capita use of frozen cauliflower in the United States has declined by nearly half since the late 1980's, after peaking at 0.9 pounds. In 1999, imports from Mexico reached 20,148 metric tons, their highest level since 1994, with a value of \$16 million. In 2000, they equaled 18,053 metric tons, with a value of \$15 million. On average, U.S. imports of frozen cauliflower from Mexico have been smaller under NAFTA. During 1994-2000, imports averaged 19,270 metric tons, with an average value of \$17 million, compared with 22,571 metric tons and \$14 million during 1989-93.

Trade Issues

There have been no trade disputes involving frozen broccoli and cauliflower.

NAFTA's Impact on Frozen Broccoli and Cauliflower Trade

Between 1993 and 2000, U.S. imports of frozen broccoli from Mexico increased 3 percent in volume, while

corresponding imports of frozen cauliflower dropped 17 percent. Considering only the impact of NAFTA and URAA tariff changes, ERS estimates suggest that U.S. imports of frozen broccoli and frozen cauliflower from Mexico would have increased by 6 percent and 3 percent respectively above what would have occurred otherwise. Had only URAA been implemented, tariff changes would have accounted for a 1-percent increase in frozen broccoli imports from Mexico and an increase of less than 1 percent in frozen cauliflower imports from Mexico.

Production difficulties in Mexico and changes in consumer demand are likely to have had a greater impact on U.S.-Mexico frozen broccoli and cauliflower trade than NAFTA tariff changes. Between 1988-90 and 1998-2000, per capita consumption of frozen broccoli in the United States remained unchanged. On the other hand, the introduction of various convenient fresh-cut products helped to drive per capita consumption of fresh-market broccoli up 59 percent over the same period. Accordingly, fresh broccoli imports from Mexico increased 254 percent in volume between 1993 and 2000. Between 1988-90 and 1998-2000, U.S. per capita consumption of frozen cauliflower dropped 27 percent. Per capita consumption of fresh cauliflower - 3 per cent of which is imported—declined 19 percent over the same period.

Although small relative to Mexican volume, U.S. imports of frozen broccoli and cauliflower from Canada have increased substantially under CFTA and NAFTA. This is likely due to the elimination of tariffs between Canada and the United States and the strong U.S. dollar. Between 1989 and 2000, frozen broccoli imports from Canada jumped by 2,135 percent (from a very low base) to 2,308 metric tons, while frozen cauliflower imports increased 335 percent to 6,929 metric tons. U.S. export data are not reported separately for frozen broccoli and cauliflower.

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