CALIFORNIA CLING PEACH BOARD
2014 NATIONAL TRADE ESTIMATE REPORT
ON FOREIGN TRADE BARRIERS

The California Cling Peach Board (the Board) represents all 600 growers of cling peaches in the state of California. California is responsible for all commercial production of cling peaches in the United States. Cling peaches are primarily used for processing, canning, and freezing. The industry's principal products are canned peaches, canned fruit mixtures, and frozen peaches. The Board promotes the sale of California cling peach products in both domestic and foreign markets.

California canned peach sales face unfair competition from subsidized, low-priced canned peaches from China and the European Union (Greece and Spain), which limit the California industry's export opportunities and disrupt its U.S. market sales. The California industry's immediate survival depends on preventing additional losses in its principal U.S. market to low-priced canned peaches from China, the EU, and other foreign canned peach producing countries. The industry is also concerned about losing sales in its two export markets, Canada and Mexico, to EU and Chinese canned peaches.

The California industry has identified India as a strong potential export market for U.S. canned peaches. India's high bound and applied canned peach tariffs are impeding the California industry's development of that market.

The Board requests that the trade barriers in China, the EU, and India that are described in this submission and affecting U.S.-origin canned peach sales be included in the *2014 National Trade Estimate Report on Foreign Trade Barriers.*

Sarb Johl
Chairman
California Cling Peach Board
531-D North Alta
Dinuba, CA 93618
Phone: 559-595-1425
Fax: 559-591-5744

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CHINA

China is the leading global exporter of canned peaches. Its global ascendency has occurred over the last decade with the help of wide-scale government subsidies, low domestic costs of production, environmental and labor standards that are less stringent than those in the U.S. and other developed producer countries, and a devalued currency. Low-priced Chinese canned peaches are displacing U.S. canned peach sales in the U.S. market. In the last five years China has consistently accounted for 70%-80% of total annual U.S. canned peach imports. Chinese canned peaches also represent a growing share of the canned peach markets in Canada and Mexico where low-priced Chinese canned peaches compete directly with U.S.-origin canned peaches. China also exports large volumes of subsidized canned peaches to Japan, Russia, and Korea.

I. Nature and Description of Trade Barriers (Subsidies and Discriminatory VAT)

A. Subsidies

The Chinese government's stated goals for its 2011-2015 "12th Five-Year Development Plan for the Food Processing Industry" include "developing canned peach [and . . .] processing in Zhejiang, Fujian, Hunan, Shandong, Anhui, Xinjiang, and Hebei" and "establishing export processing bases" for processed peach products.

A year-long study of China's canned fruit industry completed in 2013 provides documented evidence of China's wide-scale use of government subsidies to promote its canned peach sector. The Study identifies scores of millions of dollars of funding to China's canned fruit industry and concluded that because of the complex, non-transparent nature of the subsidies, total aid to the sector is almost certain to be much higher.

The Study found that China is supporting the use of "demonstration bases," "export bases," and other types of "agriculture bases" to maximize its canned fruit production, improve its quality, and increase Chinese competitiveness in the export market. The Study provides documented evidence that the "bases" are supported financially at the national, provincial, and sub-provincial levels of the Chinese government through start-up funding, subsidized loans, infrastructure projects, and various other forms of assistance. In addition, the Study confirms that China is also providing its peach sector with general agriculture subsidies in the form of preferential loans, tax exemptions, technology assistance, subsidies for equipment and fertilizer, and fruit processing support. These wide-scale subsidies help support a low export price for Chinese canned peaches.

B. Discriminatory VAT

China applies a 17% VAT on imported canned peaches. Because domestic canned peaches are entitled to a reduced VAT through a series of exemptions, China's VAT scheme accords more favorable treatment to domestic production than to imports. The Chinese canned fruit sector also benefits from a VAT rebate on exports.

II. Trade Effect

Since 2005, China's canned peach exports to the United States have increased by 600% and were over $60 million in 2012. In the first six months of 2013, U.S. imports of canned peaches from

China have increased by another 30% and account for over 70% of total U.S. canned peach imports. The imported Chinese canned peaches are displacing U.S.-origin canned peach sales in the U.S. market due to their low price. The U. S. canned peach industry is also losing sales to China in its two remaining export markets, Mexico and Canada. In 2012, China exported $8.3 million of canned peaches to Canada and $5.7 million to Mexico. In contrast, the U.S. canned peach industry has exported only nominal volumes of canned peaches to China, and none in recent years, because low-priced Chinese canned peaches are filling China's demand, and China's discriminatory 17% VAT and artificially devalued currency increase costs for U.S. exports. The U.S. canned peach industry estimates its global exports would increase in the range of $5 to $25 million in the short term if its producers did not compete with subsidized Chinese canned peach exports.

EUROPEAN UNION

Since the 1980's, the California canned peach industry has faced unfair competition from subsidized, low-priced canned peaches from Greece and Spain, which has limited the California industry's export opportunities and disrupted its U.S. market. U.S. government efforts to discipline the trade-distorting nature of the EU's subsidies and their harmful effects on U.S. canned peach sales have resulted in some changes to the way the EU pays its subsidies, but low-priced Greek canned peaches continue to have a negative impact on U.S. canned peach sales in the U.S. market and in export markets. The non-transparent nature of the EU's current subsidy arrangement has made it impossible to track the full measure of financial support benefitting Greek and Spanish canned peach producers.

The EU recently adopted a new Common Agricultural Policy (CAP) for 2014-2020. Until the new CAP is implemented, it will not be possible to know whether the new CAP policy makes any meaningfully changes to the nature or level of EU subsidies benefitting the Greek and Spanish canned peach industries. New programs for "young" farmers or for "small" farmers and for sectors important for economic, social, or environmental reasons and that are experiencing difficulties could offer new forms of support for small cling peach growers in Greece and Spain.

The 2013 *NTER* noted that the EU Common Market Organization (CMO) for fruits and vegetables "makes payments to producer organizations for dozens of products, including peaches," and raised concern that even though the EU support for the canned peach sector is decoupled from production decisions, "hidden subsidies remain an ongoing concern for U.S. producers" and the "United States continues to monitor and review EU assistance in this sector, evaluating potential trade-distorting effects." Because these same concerns are still present today, it is important that the *2014 NTER* continue to identify these subsidies as trade barriers affecting U.S. canned peach sales.

I. Nature and Description of Trade Barriers (Subsidies)

A. Single Payment Scheme Direct Payments

EU cling peach growers have received direct EU subsidy payments for nearly three decades in one form or another. From 2008 through 2013, EU cling peach growers in Greece and Spain have been eligible to receive direct payments under the EU's Single Payment Scheme (SPS) based on historical payments made under the EU's prior sector-specific subsidies that were paid on a per ton basis for peaches sold to processors. In 2008, the EU transferred 11.8 million Euro to Greece's annual SPS fund and 6.667 million Euro to Spain's annual fund for the period 2008-2013 to cover the prior canned peach payments. Because the SPS regime is non-transparent and the monies are not reserved for any specific product, it has been impossible to track the EU monies paid by Greece and Spain to their canned peach sectors. Even though no clear public records are kept of the SPS monies, low-priced Greek canned peach exports would not be commercially sustainable without subsidized support.

Although sector-specific details of the EU's new 2014-2020 CAP scheme are not available, the EU is revising its "direct payment" mechanism such that it will be available to "active" farmers who will be paid based on a "uniform unit value." There will also be support schemes for "young" farmers and "small" farmers. In addition, Member States will be allowed to grant direct payments to fruit, vegetable and certain other agriculture sectors, which are important for economic, social or environmental reasons and that are experiencing difficulties. Unless the new direct payment mechanism and other EU subsidies are more transparent than the current EU regime, it will continue to be impossible to determine the extent to which Greek and Spanish cling peach producers are receiving these new forms of subsidies.

B. Producer Organization Aid

Producer Organizations, which provide administrative, marketing, and other support to EU cling peach grower members, are funded jointly by the EU and the growers. The EU has confirmed that (i) cling peach grower producer organizations can receive EU “financial contributions” for up to 50% of expenditures made under their operational funds, (ii) the monies can be used for “the acquisition of fixed assets, training and technical assistance, crisis prevention and management measures, research and experimental production, and environmental actions,” and (iii) Greece decides how the operational funds will be will used by peach POs. The EU also has confirmed that “since the support [provided to and by Producer Organizations] does not refer to specific products, the data for peaches are not available.” (WT/TPR/M/248/Add.1, p.261)

Information about the new EU CAP scheme for 2014-2020 indicates that Member States will be required to recognize Producer Organizations in the fruit and vegetable sectors, the PO’s operational funds will continue to be partially funded by the EU, and PO support will cover technical assistance, crisis prevention, and other measures to increase the member growers’ bargaining positions.

II. <u>Trade Effect</u>

During the 1990’s, the U.S. government calculated that the U.S. industry sustained as much as $50 million of injury a year in lost sales due to the EU's canned fruit subsidy regime. Today, with annual U.S. imports of canned peaches from Greece valued at nearly $20 million, U.S. cling peach producers continue to lose sales to lower-priced, subsidized EU canned peaches in the U.S. market. The U.S. industry is also losing sales to EU-origin canned peaches in Mexico and Canada, despite the NAFTA tariff advantage enjoyed by U.S. exports. U.S. canned peach producers risk losing their entire markets in Mexico and Canada if subsidized EU canned peaches receive duty-free access into these two markets under the EU’s new FTA with Canada and renegotiated FTA with Mexico.

INDIA

The California canned peach industry has identified India as a potential export market for U.S.–origin canned peaches if India's high tariff can be reduced. India is a market not yet dominated by low-priced, subsidized canned peaches from Greece and China, and its consumers have shown an interest in high-quality U.S. canned peaches.

I. Nature and Description of Trade Barriers (High Tariff)

U.S. canned peaches and fruit mixtures entering the Indian market face an applied tariff of 30% and a prohibitive bound tariff of 150%. They are also subject to a 3% education tax and 4% special "CVD" charge, which raise the effective applied duty to over 37%. Hotels, restaurants, bakeries, and other potential importers have identified India's steep tariff and taxes as the principal barriers to importing high-value U.S.-origin canned peaches. The storable nature and long shelf-life quality of canned peaches make this an attractive commodity for the Indian market. Because India is not a producer of canned peaches, it could lower its canned peach duty without harming domestic producer interests.

II. Trade Effect

India would be a new export market for California canned peaches. India has a large middle-class that has an interest in consuming fruit. Based on prior research of the Indian market, the California industry believes a lower India tariff could allow it to develop a commercially meaningful export market of up to several million dollars in the short term, which could grow significantly over time.