CALIFORNIA OLIVE ASSOCIATION

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May 10, 2013

Mr. Douglas Bell, Chair
Trade Policy Staff Committee
Office of the United States Trade Representative
600 17th Street, NW
Washington, DC 20508

Re: **Transatlantic Trade and Investment Partnership Agreement**

Dear Chairman Bell:

The California table olive industry is comprised of some 890 olive growers and two processor/canners. Although this industry is not as large as some sectors of U.S. agriculture, it has a long history of significant contributions to farm income and the California economy.

California produces more than 95% of the olives grown in the U.S. today. Typically, farms are not the large corporate industrial farms but are multi-generational orchards powered by hard working California farmers and their families. Plots come in all sizes, ranging from small 5 acre lots to 1,000 acre multi crop farms, and are individually serviced by some of the finest stewards of the land who utilize sustainable growing practices and strict quality standards.

California table olive growers play a role in strengthening the economic climate of our state simply by doing what they love: growing the best olives in the world for the American consumers.

The California olive grower community alone spends more than $332.8 million in an average year. What does this mean?

- **$493.6 million** in business activity or nearly **$1.4 million** a day. This is enough to pay each resident of the city of Fresno $1,000.
- **3,555 jobs** and more than **$135 million** in labor income each year in farming and non-farming sectors. Many of these jobs are located in small rural communities that need this employment and economic activity.
- **$ 14.7 million** in additional business taxes or nearly **$40,274 a day**. These funds can help pay for state and local programs that benefit all Californians

The entire domestic table olive industry is vehemently opposed to any reduction or elimination of duties or tariffs on table olives from the EU or any other consideration which may potentially provide additional advantages to any country and their growers and processors who export black ripe table olives to the U.S. We desperately need our

government officials to respond appropriately to matters which may yield unfair advantage to offshore competition.

The California table olive growers have been facing a daunting struggle for survival largely as a result of the foreign invasion in the form of a continuous flood of highly subsidized low priced olives (especially from Spain but also Morocco) which have cannibalized the U.S. table olive industry's share of growth and have also contributed to the precipitous drop in the U.S. industry's share of market in canned black ripe olives.

Not only did the domestic industry lose market share, but in an attempt to compete with these low priced imported olives, the domestic processors were placed in the untenable position of reducing the prices paid to growers for raw fruit.

Grower returns were negative in 9 out of 12 years, not only dampening the growers' enthusiasm for olive acreage expansion to meet a growing market but also contributing to the decision to pull olive trees and plant alternative crops that offered better returns. As a result, in the past few years, the California industry has lost more than 38% of its total olive acreage, thus further reducing its potential participation in the U.S. market growth.

Over the years we have had numerous discussions with USDA, USTR, ITC and the California congressional delegation and appeals to the Secretary of Agriculture to stop negotiating with foreign governments or entities without first considering the potential future harm or damage to the U.S. table olive industry.

The EU's CAP spending provides Spain with enormous subsidies for its olive industry. With its 6,343,000 acres of olives, Spain is the world's largest producer of table olives and olive oil.

The EU total budget in the early 2000s was below 100 billion Euros and provided 40% for agriculture, from which olives received 5.4%. This equated to about 2 billion Euros or roughly 2.5 billion U.S. dollars annually for olives on a pure production basis. Fast forward to 2013, the EU budget is forecasted to increase to 150 billion Euros. Agriculture's share is projected at between 35% and 40% of the total budget or an estimated 57 billion Euros. Olives are still expected to receive somewhere between 5% and 5.4% of the total agricultural budget which would equate to some 4.2 billion U.S. dollars being spent on table olives and olive oil.

The new subsidy that has been adopted would move 60% of the original support from a production-linked payment into an entitlement. The remaining 40% would be retained by member states as national envelopes to grant producers additional olive grove payments. While there is a lack of transparency, it is believed that the large subsidies received are, in most cases, adequate to cover all or nearly all of the growers' out of pocket cash costs.

The significance of EU subsidies is certainly validated by increased production of table olives. In the 5 years prior to EU subsidies going into effect in 1998, average table olive production was 264,100 tons. In the 5 years after the subsidies went into effect, production of table olives was 540,100 tons. This verifies the fact that the subsidies were responsible for a considerable increase in new plantings.

This has tremendous bearing on the export capacity of Spain with an average annual production of 540,100 U.S. tons. Spanish domestic consumption is approximately 190,000 U.S. tons, and without consideration for internal EU transfers this creates a surplus for export of more than 350,000 U.S. tons. With the subsidy and resultant low prices, this alone is enough to destroy the total U.S. domestic olive industry and consume the entire U.S market of 161,000 tons of black ripe olives.

In 1980 imports represented about 10% of the total U.S. black ripe table olive market. Shockingly, imports now represent more than 45% of the total U.S. black ripe table olive sales. Over the course of 22 crop years (1990/91 through 2011/12) total black ripe olive sales increased 50,352 tons or 45%, an average annual growth rate of 2%.

Shipments of domestically-produced black ripe olives stayed virtually level while imports dominated the market during past 22 years. Imported product sales grew 50,290 tons or 224% (10% average annually) which means that

the domestic table olive industry did not participate in any of the table olive growth as it was totally consumed by import gains of 50,290 tons.

The dramatic escalation of imports volume was in the foodservice arena, the fastest growing segment of the black ripe olive business in the United States. Since crop year 1990/90 imports of foodservice black ripe olives have increased by 50,175 tons or 231%, an average annual growth rate of 10.5%. Over the past 22 years, imports share of the foodservice black ripe olive business has doubled, moving from 38% to 76%. Not only did imports consume the entire foodservice arena growth, they actually cannibalized 12,580 tons of the domestically produced foodservice volume.

Offshore exporters were able to successfully penetrate foodservice segment due to the fact that they were able to sell a foodservice case for $10 to $15 or more per case below the prices that domestic processors must charge to recover their grower purchase commitments and production costs.

Given the current EU subsidies contributing to very low prices, the domestic olive industry has little hope for the future if any further action on the part of our government would provide additional advantages to foreign countries through the elimination of duties and tariffs. Spain, the major olive producing country in the EU, represented more than 50% of all black ripe table olives exported into the United States in crop year 2011/12.

After numerous discussions with USDA/AMS and the California congressional delegation and several appeals to the Secretary of Agriculture, we have learned that without consideration for further harm or damage to the U.S. table olive industry, the USDA plans to test a self-certification program for canned ripe olives being shipped to the U.S. market from Spain beginning in Spring of 2013.

Our industry is solidly opposed Spanish self-certification. The elimination of USDA inspection would give yet another potential advantage to Spain and its growers who process and export black ripe table olives to the United States. If any consideration is granted to this request, the Spanish olive industry would surely benefit significantly from lower inspection costs and would gain an additional cost advantage over the U.S. processors.

We also have olives coming into the United States from many other countries such as Morocco, Argentina, Greece, Egypt, Turkey, etc. We believe that granting self-inspection and certification of compliance to Spain would certainly set a precedent that these countries … some of whom have less experience in processing black ripe olives, less government involvement in food safety, and less stringent processing and quality controls … would be eager to pursue. Since 9/11 and given the current attitude toward the United States from certain corners of the world, our government and many U.S. food manufacturers have had heightened concern and awareness regarding food security, particularly that of imported food products.

As we are sure you are aware, domestically produced canned ripe olives are marketed under a Federal marketing order and packed under strict quality standards with mandatory on-site USDA inspectors checking each production run to ensure compliance with U.S. Standards for Grades of Canned Ripe Olives. Furthermore, according to the Agricultural Marketing Agreement Act Section 8e, imports of that (federal marketing order) commodity must meet the same or comparable grade, size, quality and maturity requirements. Currently, to ensure compliance with the requirements of Section 8e, imported canned ripe olives are sampled and graded at the U.S. port of arrival by USDA inspectors.

Spain's proposal for self-certification of their canned ripe olives is a major concern to our olive growers and producers in California. The proposal submitted by Spain, whereby PPB-trained Spanish inspectors would certify that their canned ripe olives meet Section 8e requirements would apparently eliminate the majority of USDA Section 8e compliance inspections at the U.S. port of arrival. In spite of our good

efforts under the current inspection system, there have been increased instances of imported ripe olives reaching the U.S. marketplace and ultimately rejected by consumers who purchased olives in retail channels where the quality was exposed by the usage of the product as hors d'oeuvres and for snacking. Additionally there is substantial industry concern given the fact that canned black ripe olives are a low acid food requiring specific time and temperature controlled cooking time which must be carefully monitored to eliminate the risk of botulism. Therefore, rather than eliminating the majority of port of arrival inspections by USDA, more stringent inspections could minimize the risk of health concerns from poor quality imports that further damaging the domestic market by depriving consumers of purchase satisfaction and discouraging repeat olive purchases. The USDA has made a commitment to further train their inspectors in the area of sensory evaluation which helps address import quality issues.

Perhaps equally distasteful to the U.S. domestic black ripe table olive industry are the subsidies (in the form of American taxpayer dollars) going to Morocco from our own U.S. Government's Millennium Challenge Corporation. An agreement was signed in August 2007 that made available to Morocco $ 697.5 million to stimulate economic growth in Morocco.

The agreement provided $ 328.4 million to the Fruit Tree Productivity Project, with olives being the major recipient. A large portion of the Fruit Tree Productivity funding was allocated to the rehabilitation of existing olive orchards and also provided for additional new olive acreage.

Before the subsidies provided by the U.S. Millennium Challenge Corporation, according to the International Olive Council, in 2005 Morocco already had 1,482,000 acres of olive trees. By 2011 Morocco's olive acreage had increased to 2,074,800 acres, a gain of 582,800 acres or 40%. By 2014 it is estimated that Morocco's olive acreage will total 2,445,300 acres, an increase of an additional 370,500 acres.

The Morocco agricultural development plan … known as MAROC VERT … calls for 3,013,400 acres of olives by 2020, which would represent an increase of 103% since 2005 and raise production to around 2.7 million U.S. tons. The MAROC VERT objective is to move table olive exports from the current 66,000 tons to 165,345 tons or 150% increase by 2020. The plan also calls for the expansion of olive oil exports from their current 11,000 tons to 132,000 tons, an increase of 1,000%.

The Millennium Challenge Corporation, with U.S. tax dollar funding, is partially responsible for this growth. While their objective may have been to increase olive oil production, most of the plantings to this point are the Picholene variety which is a multi-purpose fruit that can be used for olive oil or table olive production. Since the MCC has gone into effect, tonnage of Morocco's low priced black ripe olives entering the U.S. market has increased by 45% over the past four crop years, moving them from a share of 24% to more than 33% of the total black ripe olives coming into the U.S. market.

While the MCC's initial intent of stimulating economic growth in Morocco may or may not have considered the impact on our U.S. domestic olive producers, it is a fact that the U.S represents the largest single black ripe olive market in the world. It would seem only natural that increased production from significant olive acreage expansion and rehabilitation could find its way to our shores. All of this is particularly reprehensible to the California table olive growers and processors since the Millennium Challenge Corporation funding is provided from U.S. taxpayer dollars.

In addition, before the MCC, the U.S. government had already granted a 2006 request by Morocco to phase out duties on canned black ripe olives over the course of ten years.

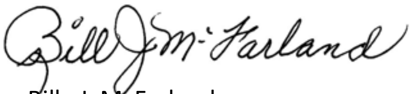
It should be recognized that the EU aggressively protects its olive industries with significantly higher tariff rates on olive products entering the EU as opposed to U.S. rates on foreign table olives entering the U.S. Using the highest volume black ripe olive item coming into the U.S. (6/55 oz. Sliced) as an example, the EU tariff is calculated at

approximately $4.48 per case … more than 4 times higher than the U.S. tariff of 94 cents on the same item coming into the U.S.

Given the EU's olive tariff levels, perhaps more appropriately the U.S. should reform its olive tariffs so they are proportionate to those of the E.U.

For the sake of survival, the domestic table olive industry desperately needs our elected representatives and government agencies to curtail negotiated advantages that further contribute to unfair foreign competition that already exists as a result of EU subsidies, tariff reductions or eliminations, U.S. support of foreign olive production, etc. If not curtailed, the continued foreign product advantages will, most assuredly, lead to the demise of the domestic table olive industry.

Sincerely,



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