



Commodity Outlook 2003: Southeast U.S. Fresh Vegetable Market¹

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Introduction

The fresh vegetable market has undergone several changes over the last few years. Many of those changes have been hard on domestic growers as they adapt to increased competition. The years 1980 through 1992 were good years (with the exception of weather events that cut production in some areas) for growers in this industry as they experienced growth in demand for their products. For example, the 1992 season was exceptional for U.S. producers, especially in Florida, due to poor weather conditions in Mexico. The U.S. market remained good until 1995 when a large devaluation in the peso and implementation of the North American Free Trade Agreement began a series of trade disputes that left the fresh vegetable industry in a state of disarray. In 1996, U.S. growers of fresh tomatoes filed an antidumping case with the U.S. International Trade Commission (which resulted in a suspension agreement that placed an effective floor on the price of tomatoes imported from Mexico), and U.S. producers created marketing programs that placed a floor on the price at which they would sell most of their production. The 1997 season was again a strong season for producers of field-grown fresh tomatoes. Both U.S. and Mexican

producers experienced their best years in the 1990s. This paper will summarize current vegetable-related trade issues between the United States, Canada, and Mexico, as well as outline selected vegetable demand and supply considerations impacting the southeastern U.S. fresh vegetable industry.

Tomato Trade Issues Between the United States and Canada

Since the 1997 season, both U.S. and Mexican producers of field-grown fresh tomatoes have had to deal with increased competition from several countries. Holland, Spain, and Israel have increased their presence in the U.S. market with hothouse products. Canada also has emerged as a significant source of produce for U.S. consumers. In 2000, U.S. growers of hothouse tomatoes filed an antidumping petition with the U.S. International Trade Commission against Canadian producers, alleging the Canadian hothouse producers were selling tomatoes below fair market value and causing material injury to the U.S. greenhouse tomato industry. The Canadian hothouse industry responded in 2001 by petitioning their government for relief from what they called the marketing of U.S. tomatoes in Canada at prices below fair market value. Both countries'

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petitions were denied and trade between the U.S. and Canada continues without constraint.

Tomato Trade Issues Between the United States and Mexico

Mexican producers who signed the suspension agreement with the U.S. government in 1996 notified the U.S. government in 2002 that they intended to withdraw from the suspension agreement. This led to a series of negotiations aimed at developing a new suspension agreement with Mexican producers. A new suspension agreement was finalized on November 12, 2002, which allowed the reference price to remain at \$5.22 per 25-pound carton. While Florida producers had hoped the reference price would be increased under a new suspension agreement, the new suspension agreement does allow for additional enforcement provisions, and provides for stronger penalties than the old suspension agreement (Offner, 2002).

Proposed Changes to the Federal Tomato Marketing Order

In August 2002, the Florida Tomato Committee recommended that the U.S. Secretary of Agriculture remove the exemption for greenhouse and hydroponic tomatoes under the Federal tomato marketing order. This marketing order includes regulation of such things as size and grade but has exemptions for types, such as roma tomatoes, cherry tomatoes, and greenhouse and hydroponic tomatoes. Removal of these exemptions could cause a decrease in imported vine, or cluster, tomatoes because imports must comply with any marketing order regulation covering size, grade, quality, or maturity. Much of the on-the-vine product currently imported would not meet the minimum size requirement (2 and 9/32 inches in diameter) specified in the marketing order.

While trade issues continue to make the relationship between U.S., Canadian, and Mexican tomato growers tenuous, there have been signs of cooperation. The North American Tomato Trade Working Group has agreed to a five-point tomato dispute resolution system designed to avoid litigation between tomato growers of the United States, Mexico, and Canada.

Demand Considerations

Consumption of fresh vegetables has increased significantly, especially over the last decade. Fresh vegetable consumption has increased 21 percent since 1990, and all indicators imply that these trends will continue. Increased concerns about diet and health are positive signs for this industry. The increasing concern about the obesity of the U.S. population and its resulting impact on health care costs also point to a promising future for fresh produce. The average American consumes 740 pounds of fruits and vegetables, and in total we spend about \$76 billion on buying these fruits and vegetables (USDA/ERS, 2000). The *Packer* reports that consumers often select a specific store to shop at on the basis of the freshness and availability of fresh produce in the store. The typical grocery store carried at least 335 produce items in 2000, nearly double the number of items stocked in the mid-1980s (Kaufman, 2000). American shoppers are buying more fruits and vegetables but they also want the widest possible selection of traditional fruits and vegetables, as well as exotic specialty items, at the lowest competitive price.

Increasing attention has been paid to sanitation, food safety (including third-party audits) and pesticide residues. Some may point to these as storm clouds on the horizon, but these could become strengths for U.S. producers. The U.S. regulatory environment is in a much better position to help this industry meet the needs of our consumers for safe products. The implementation of the Country-Of-Origin-Labeling (COOL) legislation as required by the 2002 U.S. Farm Bill will further enhance the ability of U.S. producers to meet the needs of U.S. consumers. The 2002 Farm Bill also contained provisions for the government to increase purchases of fresh fruits and vegetables for distribution to schools and service institutions to approximately \$50 million per year (USDA/ERS, 2002). The demand for fresh produce has never looked brighter. Any strengthening of the U.S. economy will only help the U.S. fresh vegetable market.

The U.S. Department of Agriculture created a set of national standards that food labeled "organic"

must meet whether it is grown in the United States or imported from other countries. As of October 21, 2002, when consumers buy food labeled "organic", they can be sure it was produced using the highest organic production and handling standards in the world (USDA/AMS, 2002). Once thought to be only a small "family farm" enterprise, an increasing number of large-scale conventional producers are entering the organic market.

Increasing retailer consolidation is changing the way business is conducted in the U.S. fresh vegetable industry. The top five grocery store chains by gross sales (Kroger, Albertson's, Safeway, Ahold USA, and Wal-Mart Supercenters) now account for approximately 50 percent of all grocery store sales (Food Marketing Institute, 2002). The everyday low price (EDLP) approach pioneered by Wal-Mart was reconfigured, copied, and enhanced by other mass merchants. Alternatively, other food retailers, who recognized that they could not succeed in competitive price war with Wal-Mart, examined the high service, value-added approach for expanding sales and profit. These stores attempted to appeal to shoppers who were willing to pay for superior produce quality, familiar name brands, and convenience. In high-service food stores, grocers often compete with take-out restaurants and away-from-home eating establishments by offering fully-prepared meals, salad bars, sandwiches, sliced fruit, and fully-cooked chickens as take home goods. In addition, loyalty cards identify regular shoppers and offer frequent shoppers significant price discounts, special mailings, and self-service checkout. In some respects, this consolidation trend has evolved into increasingly "managed" produce availability.

On the one hand, consolidation is reducing the number of produce buyers and traditional produce outlets while forcing produce suppliers to create larger operations or seek alternative produce-sourcing arrangements. On the other hand, increased retail consolidation has put pressure on producer profits and wild price swings are less common, except for major shocks such as weather or trade disasters. An old produce rule of thumb was that producers could expect to make money one out of every four years. Many industry experts believe this number is now one year in five or more.

Supply Considerations

The major concerns in this industry remain on the supply side. Trade disputes are indicative of the increase in global competition that has occurred within the fresh vegetable market. The vibrant growth in demand for fresh vegetables has resulted in an increase in suppliers who want to satisfy that demand. Trade negotiations for the Free Trade of the Americas Agreement (FTAA) and the World Trade Organization (WTO) are likely to increase competition within these markets. Mexico and Canada will remain strong competitors to U.S. producers. The question remains: How will U.S. producers adjust to this increase in global competition? Free trade would imply that production should be focused in areas that hold a comparative advantage and that new technologies will need to be developed to make producers more efficient and competitive. Otherwise, resources currently devoted to fresh vegetable production will have to be revalued so that producing vegetables is more competitive with lower costs of production. This would imply that prices would have to decrease to make resources more advantageous for fresh vegetable production.

Methyl bromide continues to play a major role in the ability of U.S. producers to produce vegetables economically. As part of the Montreal Protocol, the use of methyl bromide is scheduled to end by 2005. Producers (e.g., California, Florida, and North Carolina) of products that rely on methyl bromide filed critical use exemption requests in September 2002 with the EPA. Requests will be forwarded to an international group that will decide whether to allow extended use of methyl bromide for three years. Failure to obtain this critical-use exemption could seriously affect U.S. fresh vegetable producers' ability to compete with fresh vegetable producers from other countries.

Concluding Remarks

Where does all this leave the U.S. fresh vegetable industry today? It appears that demand for fresh vegetables will remain strong and, in fact, should continue to grow. Market globalization through trade agreements will increase the level of competition and trade disputes.

The outlook for 2003 is promising. Vegetable acreage in the United States increased about nine percent in 2002, with production increasing about 5.3 percent (USDA/ERS, 2002b). Even with these production increases, producer prices only increased about one percent. A continuation of these trends through the next season should be expected. A resolution of the trade dispute with Mexico will further strengthen the outlook in these markets. Demand for fresh vegetables should continue to increase. The development of new technologies to make the fresh vegetable industry more competitive could be important to long-term sustainability. Without these developments, the Southeast U.S. fresh vegetable industry could suffer over the long run as global competition increases.

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