
**BEFORE THE OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE
TRADE POLICY STAFF COMMITTEE**

**WITHDRAWAL OF TARIFF CONCESSIONS AND INCREASE IN APPLIED DUTIES
IN RESPONSE TO EUROPEAN UNION (EU) ENLARGEMENT AND EU CHANGES
TO ITS RICE IMPORT REGIME**

**WRITTEN TESTIMONY OF THE
CALIFORNIA CLING PEACH BOARD
(In Support of Increased Duties on Canned Peaches - HTSUS 2008.70.20)**

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The following comments are submitted by the California Cling Peach Board (Board) in response to the *Federal Register* notice of September 10, 2004 (69 *Fed. Reg.* 54827), requesting comments on the list of products on which the United States may impose increased duties under GATT Article XXVIII if the European Union (EU) fails to offer adequate compensation for EU tariff increases resulting from EU enlargement and a change to the EU's rice import regime.

The California Cling Peach Board is a non-profit quasi-governmental association representing all 700 cling peach producers and 4 cling peach processors in the State of California. Virtually all of the United States' production of cling peaches is found in California. Over ninety-five percent of that production is used for processing. Canned peaches are the industry's principal product, with approximately 70% of the annual cling peach crop processed into canned peaches. Other important products are canned fruit mixtures, peach concentrate, frozen peaches, and peach pulp and puree.

The California cling peach industry strongly urges the Trade Policy Staff Committee (TPSC) to designate prepared or preserved peaches (*i.e.*, canned peaches), classified under HTSUS 2008.70.20, as a product that will be subject to increased U.S. duties if EU-targeted retaliation is taken. For the reasons discussed below, canned peaches are an appropriate and obvious product for EU-targeted retaliation.

I. The U.S. Canned Peach Industry Has Suffered Severe Economic Harm for Twenty-Plus Years Due to Unfair Competition From Heavily Subsidized EU Canned Peaches

For over twenty years the U.S. canned peach industry and U.S. government have sought relief from the EU's excessive, trade-distorting canned peach subsidies. The long history of the United States' dispute with the EU over its canned fruit subsidy regime has included a Section 301 case, a successful GATT panel ruling, a bilateral agreement under which the EU agreed to

discontinue subsidizing its canned peach processors, and numerous U.S. government interventions at the very highest levels.

Despite these efforts, heavily subsidized EU canned peaches continue to prosper. In contrast, the competitive position of U.S. canned peach growers and processors relative to subsidized EU canned peach producers has weakened.

In the early 1990's EU aid averaged \$200 million annually. That excessive level of aid was compounded by fraudulent payments, which USDA documented as illegally increasing the level of EU aid by as much as 20 percent.¹

Although several years ago the EU changed its canned peach subsidy regime to address the fraud issue and reduced some forms of subsidies, like withdrawal aid, it adopted other less-transparent forms of aid that continue to benefit the sector in ways that are unmatched by any other producer country. The totality of the subsidies and their trade-distorting effects are still huge. Subsidized EU canned peaches continue to displace U.S.-origin canned peach sales in every global market.

Even this past year, when Greece's cling peach crop was devastated by a freeze, Greek cling peach growers received disaster aid payments that on a per-ton basis totaled more than California growers received for their 2003 crop (*i.e.*, \$237 short ton). That level of "disaster aid" is impossible to explain, given that Greek growers incurred substantially lower production costs than California growers this past year, and had no transport or harvest costs.

Continuing extraordinary levels of EU subsidies have encouraged EU canned peach production and exports over a 20-plus-year period, enabling Greece to become the largest producer and exporter of canned peaches worldwide. Except for this past year when Greece had an unusually small weather-reduced crop, subsidized, low-priced Greek canned peach exports have dominated the global marketplace.

That dominance has been at the direct expense of U.S. canned peach producers, who have lost significant volume and market share and millions of dollars of sales annually, both abroad and at home, to low-priced EU-origin canned peaches.

II. Retaliation on U.S. Imports of EU Canned Peaches (HTSUS 2008.70.20) Would Provide California Growers and Processors with Much-Needed Relief in the U.S. Market

In the 1980's, the U.S. canned peach industry was a net exporter, enjoying substantial exports to Europe and Asia. Almost exclusively because of competition from subsidized EU canned peaches, the U.S. industry almost entirely lost its export-market position and today is dependent on the U.S. market for 95% of its annual canned peach sales. The U.S. industry's export markets have shrunk to its two neighboring markets -- Mexico and Canada.

¹ *Competition in the Canned Peach Industry*, USDA Economic Research Service, No. 9901, January 1999, p. 47.

Over the last five years, subsidized low-priced canned peaches from Greece and Spain -- and to a small extent Italy and France -- have entered the U.S. market in increasing amounts and at prices substantially below the prices for equivalent California canned peaches. With the U.S. market mature, and demand for canned peaches fairly static, these imports are directly displacing California canned peach sales.

The displacement has caused unrecoverable U.S. grower and processor losses. With nearly all export markets dominated by lower-priced EU and other foreign-sourced canned peaches, U.S. producers are unable to salvage their lost U.S. sales by selling to export markets.

Greece has been the largest exporter of canned peaches to the U.S. market -- accounting for over 50% of total U.S. canned peach imports in 2000, 2001, and 2002 (based on value). Even last year (2003), with an abnormally small weather-reduced crop, Greece was the second largest exporter of canned peaches to the U.S. market behind only Thailand. Many of the imports from Thailand are Greek peaches repackaged into plastic cups in Thailand for export to the U.S. market. With Greece reporting a near-normal-size crop this year, U.S. growers and processors are anticipating that EU exports to the U.S. market will increase this coming year, resulting in more lost U.S. sales in both west and east coast U.S. markets.

Spain has also become a significant exporter of canned peaches to the United States. In the last four years, U.S. imports from Greece and Spain combined have accounted for as much as 85% of total U.S. imports of canned peaches in a single year. In 2002, when Greece had a relatively normal-size crop, U.S. imports of canned peaches from the EU were valued at over \$29 million.

The imposition of additional duties of 55%² on U.S. imports of subsidized Greek, Spanish and other EU canned peaches would slow U.S. imports from these countries and provide the U.S. industry much-needed relief in the U.S. market.

III. Conclusion

For the foregoing reasons, the California industry believes that canned peaches (HTSUS 2008.70.20) are almost uniquely appropriate for EU-targeted retaliation. The California canned peach industry accordingly urges USTR and the other agencies involved in the interagency decision process to designate canned peaches for increased U.S. duties, at the maximum allowable level, if retaliation is taken against the EU.

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² Based on the *Federal Register* notice, it appears the U.S. duty on canned peaches could be raised to 55%, which is 20% ad valorem above the 1975 column-2 rate of 35%.