The U.S. OJ tariff and the competitiveness of Florida growers

The tariff protects Florida growers and processors now about as well as it has over the past 30 years.

By Allen Morris and Ronald P. Muraro

Prior to the 1970s, Brazil was a relatively minor producer of processed oranges and orange juice. However, a devastating Florida freeze in 1962 and subsequent freezes in the 1970s and 1980s created an opportunity for Brazil to expand its orange and orange juice production. Most of this production was exported, primarily to the United States and Western Europe.

A climate where freezes do not occur — along with cheaper land and labor — enabled Brazil to continue its expansion, so that by the 1990s Brazil was by far the largest orange juice producer in the world, providing almost twice the amount of oranges and orange juice as Florida.

Without the protective U.S. tariff on imported frozen concentrated orange juice (FCOJ), the Florida processed orange industry would probably either be much smaller than it is or out of business. This article shows how the tariff has been reduced by trade legislation and by inflation, and the resulting impact that has had on the Florida processed orange industry.

THE FCOJ TARIFF

(This section draws heavily on information provided by Florida Citrus Mutual.)

The FCOJ orange juice tariff was initiated with the passage of the Smoot-Hawley Act (Tariff Act) in 1930, before citrus concentrate had been developed. The Tariff Act imposed a tax of 70 cents per single-strength gallon on imported orange juice (Table 1). The citrus tariff remained unchanged until 1947 when

Table 1. History of the U.S. Orange Juice Tariff

Year	Concentrate	NFC
	($ per SSE gallon)	
1930-1947	0.70	0.70
1948-1994	0.35	0.20
1995	0.3415	0.1969
1996	0.3324	0.1893
1997	0.3237	0.1855
1998	0.3150	0.1817
1999	0.3059	0.1742
2000 Onward	0.2972	0.1704

Notes: (1) SSE is single-strength equivalent
(2) The concentrate tariff can be converted to dollars per pound solids by dividing the tariff per SSE gallon by 1.029 pounds of solids per gallon

Source: Florida Department of Citrus.

Table 2. Delivered-In Processed Orange Production Costs

	Florida			Brazil		
Season	Growing	Harvest & Haul	Total	Growing	Harvest & Haul	Total
	($ Per Pound Solids)					
1979/80	.453	.242	.694	.268	.136	.403
1983/84	.521	.253	.775	.267	.139	.406
1987/88	.456	.268	.724	.250	.124	.374
1992/93	.462	.291	.753	.344	.121	.465
1996/97	.414	.282	.696	.389	.133	.523
2000/01	.435	.324	.759	.336	.089	.425
2003/04	.368	.327	.695	.332	.096	.428
2008/09	.696	.375	1.070	.502	.223	.725

Sources: Muraro, 1990; Muraro et al., 1993; Muraro, et al., various reports covering the 1979-80 through 2002-03 seasons; Muraro, et al., 2004; Muraro, et al., 2010; Muraro et al., March 2009; Muraro, et al., September 2009; Muraro, et al., 2000; Muraro, et al., 2002.

the General Agreement on Tariffs and Trade (GATT) talks occurred in Geneva, Switzerland. There it was reduced to 35 cents per single strength gallon ($.34 per pound solids) for concentrate and 20 cents per gallon for chilled single-strength juice — still probably more than it cost to produce oranges and orange juice at that time.

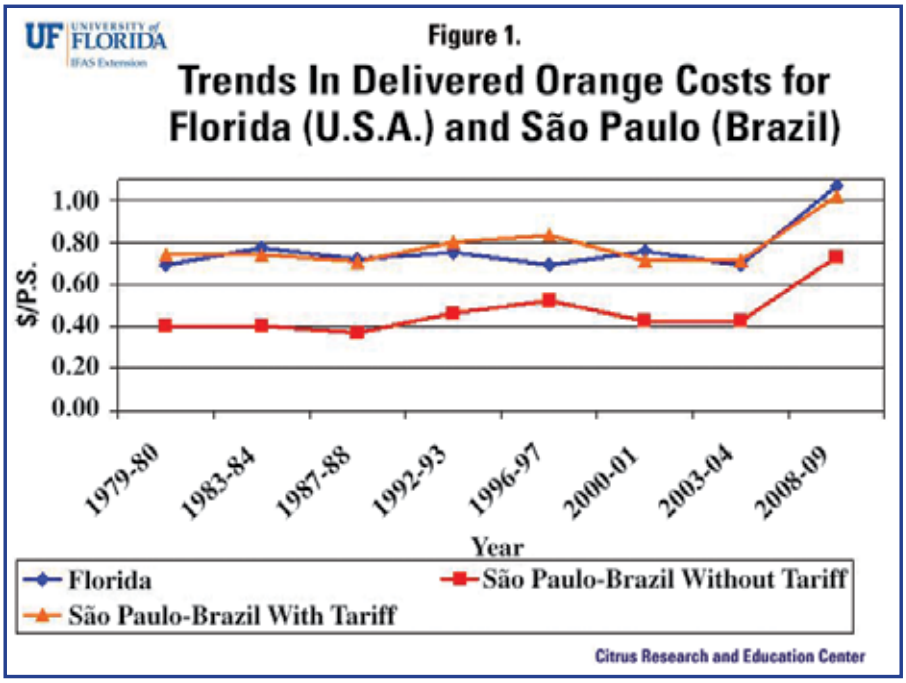
In the 1980s, the U.S. Department of Commerce discovered that the government of Brazil had provided illegal subsidies to growers as well as FCOJ exporters. The U.S. Department of Commerce then forced these companies to pay additional countervailing taxes on exports to the United States. Three Brazilian producers protested this accusation, but Florida Citrus Mutual fought back and the U.S. International Trade Commission ruled to uphold a countervailing duty on Brazilian FCOJ exports. Brazil once again attempted to bypass the tariff legislation and was discovered to have been dumping FCOJ under the fair market value in the United States. The U.S. Department of Commerce forced exporters from Brazil to pay an additional duty bond on FCOJ. An international trade court then ruled on an anti-dumping order that required continued surveillance of Brazilian prices. This was done in order to protect U.S. citrus growers from Brazilian exports being sold at less than fair-market value. The battle for the protection of the citrus tariff continued at the Uruguay Round Tariff and Non-Tariff Measure Negotiations in September 1986. Though negotiators threatened to reduce the citrus tariff, Mutual fought the reduction and citrus products were excluded from tariff reductions.

Trade negotiations continued in the 1990s with the advent of the North American Free Trade Agreement (NAFTA). NAFTA's primary goal was to establish free trade between Mexico and the United States. Mutual fought against the effort to eradicate tariffs

and was victorious when the Generalized Agreement on Tariffs and Trade upheld the tariff on imported citrus. Though NAFTA was finally passed during the 1992-93 season, it included special provisions for citrus. These provisions granted a 15-year, phase-out on import tariffs as well as a snapback provision in which tariffs are reinstated if there are considerable shifts in price and import volume. Tariffs also suffered a gradual decrease as a result of the Uruguay Round Trade talks in 1994. It was negotiated that FCOJ and NFC tariffs decrease in equal increments, finally totaling 15 percent, after a period of six years.

IMPACT OF INFLATION ON THE FCOJ TARIFF

Inflation has reduced the U.S. orange juice tariff by about 50 percent since 1980. During that same period, orange production costs in Florida increased from $.69 to $1.07 per pound solids, while in Brazil they went from $.40 to $.73 (Table 2, page 15). Much of this increase occurred since 2002/03, and was the result of increased energy costs, increased fertilizer prices and costs to battle greening disease.



Brazil's orange production costs ranged from 52 percent to 67 percent of Florida's production costs over this 1980-2009 period. However, once the U.S. orange juice tariff is added to Brazil's production costs, they ranged from 94 percent to 120 percent of Florida's, over this 1980-2009 period. Thus, the tariff protects Florida growers and processors now about as well as it has over the past 30 years (Figure 1). Costs in Brazil increased 80 percent between 1980 and 2009 compared to 54 percent in Florida, offsetting the erosion of the tariff by inflation.

CONCLUSIONS

Brazil has grown from an insignificant producer and exporter of orange juice in the 1960s to the largest producer and exporter of orange juice in the world. This is because Brazil has lower orange production costs than Florida or other potential producers such as Mexico, Costa Rica, China, etc. However, a tariff on U.S. orange juice imports, put into effect in 1930, protects the Florida orange juice industry. Threats to the success of this tariff have come from legislation to reduce it, Brazilian dumping of orange juice into the U.S. market and inflation. However, this tariff protects Florida orange producers now about as well as it has over the past 30 years. That is because more rapid increases in orange production costs in Brazil have offset increases in orange production costs in Florida. If the Florida citrus industry is to remain a viable $9 billion economic engine to Florida, the current citrus tariff must not be altered in future trade agreements.

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