

THE ROLE OF FOREIGN ASSISTANCE PROGRAMS IN THE
DEVELOPMENT OF EXPORTABLE HORTICULTURAL CROPS

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Introduction

It is from my experiences during eight years working as a project manager in various United States Agency For International Development (USAID) Missions overseas, principally in Latin American countries, and since 1984 within the Latin American and Caribbean Bureau of USAID in Washington, D.C. that I make these remarks. It has been my pleasure to work with a number of indigenous groups in Guatemala, Bolivia,

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Honduras and Belize as they attempted to diversify their agricultural production base out of what has become popular to call "traditional" crops or commodities into so-called "non-traditional" ones. That usually, but not always, means moving out of the production for export of traditional commodities such as sugar, bananas and coffee and into high-value horticultural crops such as temperate and tropical fruits and vegetables.

Most of this activity has been promoted by host country governments, USAID Missions and other bilateral and multinational organizations such as FAO, UNDP, the World Bank, the Interamerican Development Bank, etc., because of the realization that world supplies and prices for many of the traditional export commodities had become problematic. Over supplies of sugar, coffee and bananas, for example, and chronic softening of world prices, coupled with growing debt burdens and a dearth of foreign exchange reserves were catalytic in leading developing country leaders to want to diversify their agricultural production/marketing bases. In our hemisphere the movement accelerated rapidly with passage of the Caribbean Basin Economic Recovery Act by the United States Congress in August 1983.

The Caribbean Basin Initiative

The Caribbean Basin Economic Recovery Act, more popularly called the Caribbean Basin Initiative or CBI, is a one-way free trade proposal between the United States of America and some 27 developing

countries and Island complexes in Central America and the Caribbean.^{1/}

In effect, the legislation is in response to bipartisan concern in the United States (and to similar concerns in Mexico, Canada, Colombia and Venezuela) that the economic crises in the CBI region would soon lead to additional and serious political instabilities if not corrected.

The legislation passed by our Congress, which is to be in effect until 1996, is designed to promote economic revitalization in the region by waiving prevailing duties on most products imported into the United States from these designated beneficiary CBI countries.

The basic provisions of the Caribbean Economic Recovery Act include the following:

1. Duty free imports on eligible articles;
2. Designation of beneficiary countries^{1/};
3. List of exempt commodities;
4. Rule-of-origin requirements; and
5. Procedures to provide emergency relief from imports.

It is important to recognize that the Act exempted certain commodities from duty free status; included were textiles and apparel; footwear, handbags, luggage, flat goods, work gloves and leather wearing apparel; canned tuna; petroleum and petroleum products;

^{1/} The complete list of countries is shown in Annex 1.

watches and watch parts; and limitations on duty free entry of sugar. In the latter case the President has imposed sugar quotas based upon each country's historical share of the market.

The rule of origin requirement is designed to try to assure that an article of commerce under the Act is produced in the designated CBI country to qualify for duty free treatment. There are a number of provisions specified in the Act. Suffice it to say for purposes of this paper that the provisions seek to prohibit "pass through" operations and "runaway plants". Duty free status may be accorded an article or commodity only if the sum of the cost or value of the material produced in a beneficiary country or countries, plus the direct costs of processing operations performed in a beneficiary country or countries, is not less than 35 percent of the appraised value of the article at the time it is entered. Thus, as an example, Brazilian concentrated fruit juice could not have water added to it in a CBI country and receive duty free entry status into the United States by this "pass thru" activity.

Under the import and emergency relief provisions of the Act, a special procedure is established to protect American producers of perishable agricultural products. If they file an import relief petition (with the Department of Commerce under the Trade Act of 1974), they may also file a request with the Secretary of Agriculture for emergency relief.

Within 14 days the Secretary of Agriculture must determine whether there is reason to believe a perishable product from a CBI beneficiary country is being imported in such increased quantities so as to be a substantial cause of serious injury or threat to the domestic industry producing a like or directly competitive product. Upon recommendation from the Secretary of Agriculture, the President could withdraw duty free treatment. Incidentally, perishable products are defined in the Act as live plants, most fresh or chilled vegetables, fresh mushrooms, most fresh fruit, fresh cut flowers, and concentrated citrus fruit juices.

USAID Program and Project Initiatives Under CBI

United States Agency for International Development (USAID) Missions in the region were quick to plan and implement projects with their host country counterparts which would take advantage of the provisions of the CBI program; so were other bilateral assistance groups, such as the Canadian International Development Agency (CIDA), the multinationals operating in the hemisphere, such as the World Bank, various United Nations development entities such as UNDP and FAO, and the International Fund For Agricultural Development (IFAD). Many of the USAID missions had been struggling with concerns about how to help host countries diversify out of monocultures for several years before the Kissinger Commission made it's recommendations to the Reagan Administration.

In fact many USAID concepts and suggestions were incorporated in the Kissinger and Jackson reports.

The various USAID mission projects carry a number of different designations, although the basic thrust of each is to key to the possibility of eventually exporting more commodities to the United States, Canadian or European markets. The majority of new project initiatives could be classified as agricultural diversification activities, although falling under such names as "Commercialization of Alternative Crops" (as in Belize), "High Impact Agricultural Marketing and Production-HIAMP" (as in USAID's Regional Development Office, Caribbean), or directly related to exports as in the Regional Office of Central America Programs of USAID (ROCAP) where it is called the "Non-traditional Agricultural Export Support" project. In the latter case the project is designed to complement similar projects in each of the bilateral USAID missions in Central America, as it's name implies.

One word of caution: it is sometimes hard to determine exactly how much of a given USAID project is truly dedicated to promoting export development, since many of the subproject activities are really directed to helping small farmers diversify out of monocultures, such as the production of corn or beans season after season, and into higher value crops using more advanced levels of technology for the domestic markets of their country. With that caveat, the United States imported nearly \$6.6 billion of horticultural products into the country in 1986.

Of this amount, approximately \$215 million, classified as "non-traditional", were from the 27 CBI countries, Table 1. Between 75 and 85 percent of the non-traditional imports were horticulture products. In fact importation of horticultural commodities into the U. S. on a weight of product basis is dominated by Mexico which accounts for an average of 58 percent of all imports, excluding bananas and plantains, Table 2. Mexico dominates as the country of origin for many of the commodities of interest to this audience. For such horticultural imports as beans, broccoli, cucumbers, egg plant, okra, peppers, radishes, squash, tomatoes, and watermelons, Mexican imports represent 90 percent or more of the total. We will return to these relationships by commodities later.

In fact, USAID's analysis shows that only 1/2 of one percent of all horticultural imports into the United States can be associated with USAID activities in the 17 CBI countries where AID has missions. The commodities had a value of approximately \$30 millions. The important point I wish to make at this time is that the trend in horticultural exports from the CBI countries is a rapidly growing one; and it will continue unabated regardless of USAID's efforts. The latest statistics show that non-traditional horticultural imports from these 27 countries have nearly doubled since the CBI was started in 1983; yet they represent less than 3.25 percent of total U. S. horticultural imports. And as will be shown later, the trend began long before the CBI legislation was conceived.

TABLE 1: U.S. Imports of Selected Agricultural Products
from Central America and the Caribbean

| Calendar year imports | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 2/ |
|--------------------------------|-----------------------------|-------|-------|-------|-------|-------|-------|---------|
| | <u>Million U.S. dollars</u> | | | | | | | |
| Total 1/ | 2,085 | 2,136 | 1,865 | 1,535 | 1,755 | 1,918 | 1,814 | 2,131 |
| Traditional | 1,985 | 2,039 | 1,745 | 1,418 | 1,617 | 1,739 | 1,617 | 1,916 |
| Coffee | 890 | 739 | 433 | 506 | 524 | 599 | 645 | 1005 |
| Bananas | 268 | 292 | 360 | 363 | 392 | 400 | 451 | 419 |
| Sugar | 335 | 657 | 636 | 264 | 425 | 429 | 265 | 220 |
| Beef Fr, Frozen (Inc. veal) | 308 | 226 | 183 | 165 | 133 | 100 | 118 | 131 |
| Molasses | 33 | 31 | 47 | 23 | 29 | 40 | 18 | 24 |
| Cocoa | 126 | 76 | 65 | 68 | 65 | 99 | 84 | 88 |
| Tobacco | 25 | 18 | 20 | 29 | 49 | 72 | 36 | 29 |
| Non- traditional | 100 | 97 | 120 | 117 | 138 | 179 | 197 | 215 |

1/ A simple summation of official U.S. agricultural imports from the Caribbean and Central American regions provides a very close approximation of U.S. agricultural imports from CBI countries.

2/ As Revised May 15, 1987. (Table updated June 17, 1987.)

Source: ERS-USDA Trade Statistics.

TABLE 2: Share of United States Fresh Fruit and Vegetable Imports
From Mexico and All Other Sources, 50
Most Important Commodities, By Weight, 1986

| <u>Commodity</u> | <u>Total Imports From All Sources</u> | <u>Imports From Mexico</u> | <u>Mexico Imports as a Percent of Total</u> |
|--|---|--------------------------------|---|
| | (M.T.) | (M.T.) | |
| 1. Peppers, Chili | 27,191 | 26,725 | 98.3 |
| 2. Tomatoes | 445,409 | 431,279 | 96.8 |
| 3. Squash | 57,485 | 55,328 | 96.2 |
| 4. Broccoli | 3,871 | 3,627 | 94.8 |
| 5. Cucumbers | 194,643 | 184,553 | 94.8 |
| 6. Radishes | 9,053 | 8,566 | 94.6 |
| 7. Eggplant | 16,177 | 15,456 | 95.4 |
| 8. Watermelons | 89,865 | 80,605 | 89.7 |
| 9. Okra | 11,958 | 10,649 | 89.0 |
| 10. Limes | 26,162 | 22,582 | 86.3 |
| 11. Peppers (Not Specified) | 81,860 | 69,472 | 84.9 |
| 12. Strawberries | 5,892 | 4,889 | 83.0 |
| 13. Mangoes | 44,744 | 36,685 | 82.0 |
| 14. Onions | 114,083 | 93,197 | 81.7 |
| 15. Cantaloupes | <u>145,083</u> | <u>117,126</u> | <u>80.7</u> |
| Sub-total, Items 1 thru 15 | 1,273,476 | 1,160,739 | 91.1 |
| All Other Fruits and Vegetables | <u>3,942,133</u> | <u>204,093</u> | |
| Total | 5,215,609 | 1,364,832 | 26.2 |
| Total, Excluding Bananas & Plantains | 2,237,215 | 1,289,610 | 57.6 |

Source: FAS/USDA

This is not to imply that such a volume of growing business is unimportant to these small, developing countries; in fact, it is very important to them and can mean the difference between economic collapse and economic health in the future. It is also to say that in the sum total of horticultural imports into the U.S. each year, CBI imports make up an extremely small part.

There are two very logical reasons why this trend will continue; and these are not original with me, since they were pointed out to me by both Florida produce growers and importer/brokers as early as 1980:

1. Land values in the southeast continue to explode upward with the continued population growth in the area; agricultural enterprises cannot return enough to justify continuing to ignore significant opportunity costs by keeping the land in agricultural production;
2. The cost of wage labor employed in agriculture also continues to increase, and unskilled field laborers are becoming more difficult to locate in sufficient quantities and at crucial times when required.

These are two factors that countries in the Caribbean Basin can, and are, turning to their advantage in attempting to attract additional entrepreneurial talent and capital to their shores.

As one large U.S. grower and produce packer told me in 1982; "It's only a matter of time until all of our winter production activities and supplies will come from off shore. And, we don't care from what part of the CBI or other Latin American area we get that product - only that the quality and price are right, and that we can rely on the supplies arriving as agreed to and on schedule."

What Kinds of Help Does USAID Provide to LDC'S

Nearly all of the USAID projects described above contain the following components: 1) technical assistance, 2) training, 3) loan funds and equity capital promotion, 4) mechanisms for policy dialogue with host country governments regarding factors hindering improved economic development.

1) Technical Assistance is usually, although not always, meant to include expatriot experts or specialists. These may be resident or short term experts brought to the country to achieve certain objectives. Often they evaluate the feasibility of some contemplated action in the original USAID project concept, and/or follow up on its implementation. They may also serve as monitors of host country activities and identify successes and problems during various phases of the implementation of the project.

They also serve as "hands on" trainers in their areas of expertise, especially until a trained or more experienced cadre of indigenous personnel are "on board and in charge".

2) Training needs no special explanation except to say that there are several models used in most USAID projects. The list includes at least the following types of participant training of host country nationals: a) long-term, academic training for a limited number of persons showing leadership potential; b) short-term, specialized training of mid-level managers and operators of all types; c) short-time observational/visitation trips for technicians or operations personnel; d) in-country workshops and seminars organized by expatriot experts familiar with the technical problems confronted by personnel in the project, with heavy inputs by indigenous personnel; e) hands-on training, nearly on a one-on-one basis, by expatriot specialists brought into long-term residence assignments by the project for that purpose.

3) Loan Funds are usually passed by USAID through host country governments to be reloaned through the developing country's central, commercial or development banking system at commercial rates of interest to project institutions. There is a lot of misunderstanding about this in the United States. No private sector firm in a developing country gets "cheap U.S. government

credit" to engage in USAID export development activities.

Agribusiness firms pay commercial or the going rate of interest in the developing country. Occasionally grant funds are given by USAID to provide expert U.S. technical assistance to a group of peasants in a marketing cooperative, for example, to help them improve their management operations, or to help them improve operational efficiency. Other USAID loan funds are provided to host country governments to improve their agricultural research and experiment stations, their extension systems, their agricultural technical schools and colleges. USAID is also active in helping host country businesses get in touch with U.S. agribusiness entrepreneurs, possible joint capital venture partners, etc.

4) Policy Dialogue usually involves utilizing certain types of economic support funds (such as food assistance provided by U.S. surplus commodity programs under Public Law 480) as leverage to get governments to relax trade barriers, reduce subsidies or things like export and import taxes, etc.

Finally, USAID supports many ancillary activities such as the Latin America and Caribbean Bureau's recent funding to partially support the reopening and operation of USDA's Miami, Florida Fruit and Vegetable Market News Office operated cooperatively by the Agricultural Marketing Service and the Florida Department of Agriculture.

USAID is also centrally funding an ongoing research analysis of the long term demand and supply trends for important horticultural commodities of interest to this group and to U.S. and CBI growers, marketers and government officials: these analyses are being conducted by the Economic Research Service of the USDA. A final example I would cite is the funding support USAID's Latin America and Caribbean Bureau is providing the Secretary of Agriculture's Agribusiness Promotion Council through the Private Sector Relations Division of USDA's Office of International Cooperation and Development. That group provides market intelligence to U.S. agribusiness firms about opportunities in the Latin America and Caribbean area, and visa versa; they also bring buyers and sellers, brokers and agents, and others from the two regions into contact with each other for mutual benefits.

Restrictions Imposed on USAID

The very serious problems facing agriculture in the United States in the most recent five year period, especially loss of export markets for course grains, the agricultural credit and finance crunch in our midwest, and the very strong dollar in overseas countries, led to lobbying efforts in our Congress to give U.S. farmers "relief from cheap imports." Horticultural imports from the CBI countries and USAID's diversification and development efforts in those countries received their own share of attention.

USAID Policy Determination 15: This was issued by the Administrator of USAID on September 13, 1986, partially in response to the Bumpers Amendment to the Supplemental Appropriations Act of Congress of July 2, 1986. In effect it says that USAID will avoid supporting the production of agricultural commodities for export by developing countries when the commodities would directly compete with exports of similar U.S. agricultural commodities to third countries and would cause "substantial injury" to U.S. exporters of the same or similar commodities. The important words are substantial injury; the Administrator's Determination goes on to direct missions to examine the export dimension of on-going and proposed projects considering the following factors:

- export potential of the commodity in question;
- magnitude of production likely to result from the project;
- likely export markets;
- volume of U S. exports of the commodity in question and similar commodities;
- U.S. share of the world or regional market that could reasonably be expected to be affected by increased exports of the commodity.

USAID Policy Determination 71: This AID Administrator's policy statement has a much longer history than PD-15, having been published on May 12, 1978.

In part, it says: "Because of the potential injury to U.S. producers of similar products, AID/Washington will as a matter of general policy examine at the earliest possible stage proposed projects involving production, processing or marketing of sugar, palm oil, or citrus for export...will examine potential injury to U.S. producers on the basis of data supplied by the Mission on the export potential of the project, likely export markets, magnitude of production resulting from the project, and the recipient country's relative share of the world market and/or U.S. import market; and on information available in Washington about the condition of the U.S. industry. USAID should, therefore, only finance such projects when their development rationale is strong and their likely impact on U.S. producers is low."

It should be quite obvious that, unlike many other developmental groups, USAID operates under fairly strict guidelines in the CBI agricultural diversification and export development context.

Various multinational and other binational development agencies operating in the region do not have the same kinds of commodity restrictions placed on them in their assistance activities with host countries as does USAID. Thus, FAO, UNDP and IFAD, for example, can provide assistance to CBI producers who wish to develop citrus industries for potential export to any country, in Europe or the U.S.

Types of Horticultural Commodities Showing Growth Potential

Before introducing some data about the growth patterns of specific fruits and vegetables with some visuals, permit me to describe the different types of demand changes that I see taking place in North America and in western Europe which bode well for horticultural crop producers, wholesalers and retailers in the near and intermediate future.

1. A significant change is taking place in the diets of most North Americans and western Europeans; the trend is to consume more fresh and frozen fruits and vegetables per capita per year, Table 3. Note that per capita consumption of fresh fruits has increased from 77 pounds in 1969 to nearly 95 pounds in 1985. Similarly, fresh vegetable consumption per capita has increased from 127.5 pounds in 1969 to 166.4 in 1985.

TABLE 3: United States Annual Per CAPITA Consumption
of Fresh, Canned and Frozen Fruits and Vegetables, 1969 to 1985

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| | <u>FRUITS</u> | | | <u>VEGETABLES</u> | | |
|------|-------------------|-------------------------------|---------------------------------------|--------------------|-----------------|-----------------|
| | Fresh (lbs) | Canned & Dried (lbs) | Frozen Fruits & Juices (lbs) | Fresh (lbs) | Canned (lbs) | Frozen (lbs) |
| 1969 | 77.0 | 27.2 | 9.6 | 127.5 | 51.6 | 9.1 |
| 1970 | 77.6 | 26.4 | 9.9 | 128.0 | 51.1 | 9.6 |
| 1975 | 82.1 | 22.1 | 14.1 | 136.7 | 51.9 | 9.6 |
| 1980 | 86.8 | 20.0 | 13.0 | 143.9 | 48.5 | 10.4 |
| 1981 | 84.0 | 19.2 | 12.7 | 146.5 | 45.6 | 11.6 |
| 1982 | 84.3 | 16.0 | 14.1 | 152.4 | 45.6 | 10.7 |
| 1983 | 91.8 | 15.3 | 15.1 | 148.4 | 47.2 | 11.1 |
| 1984 | 94.4 ¹ | | | 164.4 ² | | |
| 1985 | 94.8 ¹ | | | 166.4 ² | | |

¹ Fresh fruit consumption per capita estimates based on an index of 121.6 for 1984 and 122.2 for 1985, 1970 = 100.0. Fresh vegetable per capita consumption estimates based on an index of 128.5 for 1984 and 130.0 for 1985, 1970 = 100.0.

Source: AGRICULTURAL STATISTICS, United States Department of Agriculture.

This is enhanced by a reduced consumption of canned and dried fruits and vegetables, and a companion reduction in the intake of several livestock products, including beef, pork, some dairy products, eggs, and some saturated vegetable fats.^{1/} These trends are very positive ones for the horticultural products industry; there are some serious complications, however. Consumers want their fruits and vegetables fresh, year round, at competitive prices, and at all retailers where they shop!

a. Narrow windows of opportunity exist for providing fresh, temperate fruits and vegetables to the North American and western European markets in the winter months from the high valleys of countries like Guatemala, Honduras, Costa Rica and the Dominican Republic, to name only a few, when U.S. producers cannot produce enough supply to meet demand. Caution: prices are volatile and transportation and handling from CBI countries are extremely difficult and cost 1/2 or more of the landed value.

^{1/} Annual per capita consumption of meat has decreased from 162 pounds in 1968 to 144 pounds in 1985; animal fat consumption decreased from 17.7 pounds to 6.7, and egg consumption from 40.2 pounds to 32.4.

The type of commodities we are talking about here are common items in the consumers' diets; peas, snap beans, cucumbers, tomatoes, strawberries, onions, apples, cauliflower, broccoli, etc.

b. Tropical and semi-tropical fruits and vegetables which make up a newer, but growing, component of North American and western European consumers' diets. These commodities are growing in popularity because of the merchandising efforts of the produce industry, because of the exposure of more and more people from the developed countries to other cultures and other cuisines, and because of the explosion of communications and contacts between peoples. Chinese pea pods (Snowpeas), mangoes, avocados, kiwi fruit, artichokes, okra, passion fruit, and other tropical and semi-tropical commodities are now becoming common in family meals in areas of the northern hemisphere where they were hardly even known as recently as 25 years ago.

c. Tropical and semi-tropical horticultural commodities preferred by the growing ethnic populations who have recently immigrated to the developed countries in the northern hemisphere. West Indians eat various varieties of yams; Hispanics eat chayote, daikon, and yucca; Asians like lychee fruit and bok choy; Andean immigrants eat quinoa and oka , etc., etc. These specialized commodities require specialized marketers.

There can be no doubt, however, that profitable opportunities are being developed for these types of produce all up and down the east coast of the United States. The same situation exists for the Asian population on the west coast, and in enclaves scattered along the Gulf coast and in inland cities in the midwest.

d. Processed fruits and vegetables, both tropical and temperate.

This category covers a range of horticultural products. The fastest growing items in this category being exported from the CBI to the U.S. are frozen temperate vegetables. Frozen broccoli, frozen cauliflower and frozen okra shipments from CBI countries to the U. S. were valued at nearly \$12 million in 1986. In 1980 they were minuscule. Concentrated pineapple juice, pickling cucumbers in brine, first processed hot pepper sauce in barrels, raw spices, tropical fruit concentrates, semi-processed condiments and spices, all are showing increasing sales to the U.S. and to selected European markets.

e. Cut flowers and ornamentals: This is a relatively new category for most of the CBI countries, although some activity has been carried on for selected items for a number of years. The biggest items in 1986 were fresh roses and fresh carnations, together representing imports into the U.S. of \$2.3 million.

By way of contrast, these same two items represented only \$880 thousand in 1983. We look for this category to continue to grow rapidly in the near term. Another very specialized horticultural activity to watch closely is the production of certified seed in the U.S. winter season in selected areas of the CBI. This is a very high technology activity, requiring very specialized and knowledgeable management, but also can result in very high returns per unit of capital invested when properly managed.

Some Important Problems Facing the Horticultural Industry Seeking Opportunities in the CBI

Pests and Their Control: I suspect that all of us at these meetings are familiar with the recent history of problems regarding the Mediterranean Fruit Fly in the Caribbean Basin region, the former control method utilizing ethylene dibromide (EDB), and the "saga of the mangoes" from the region. The mishandling of the notification, then the establishment of a date of prohibition by the Environmental Protection Agency (EPA), and finally a relaxation of the standard of residues permitted and the extension of the date of prohibition for a year, kept the mango producers, exporters and importers doing loops for nearly three years. The lack of coordination between EPA, the Food and Drug Administration (FDA), the USDA's Animal and Plant Health Inspection Service (APHIS), and the Agricultural Research Service (ARS) of USDA in attempting to find proven, acceptable alternative treatment methods hopefully will never be repeated.

Of course the Medfly is only one of a number of serious pests found in the CBI region countries that could have very negative effects on diversification programs in the area, and/or could become serious threats to producers of fruits and vegetables in the U. S. if allowed to enter our borders. It seems to me that many more resources need to be directed to research efforts designed to find effective, acceptable treatment methods which will serve producers in the CBI countries, will help meet rising U.S., or other country, consumer demand for these commodities, and at the same time will protect U. S. growers from possible harmful pests.

It also seems logical that more effort and resources need to be dedicated by the developing countries in the region, if they want to expand exports to other countries. They should commit more resources in order to accurately identify populations of harmful pests by regions, to identifying and certifying pest-free areas through acceptable research, and engaging in acceptable control or eradication programs with the cooperation of U.S. and other knowledgeable experts.

There is one other aspect which deserves mentioning here; it behooves all of us interested in helping increase marketing efficiency, or working with developing countries on trade and the interdependence in our hemisphere, to help avoid the erection of artificial trade barriers to trade in the name of "protection and health."

Nowhere is this more prevalent than in modern Japan where many "health and sanitation" requirements are imposed which are nothing but blatant protectionism to keep out other country products and to support a policy of "one way trade." We must not be panicked into such a practice in the United States.

Quality Control, Grading and Standardizing: This is probably one of the most important factors inhibiting growth in horticultural product development in the LAC countries that I am familiar with. In one sense of the word, this is a by-product of the shortage of business management skills in many of these countries; it is also partly cultural. That is to say that in most developing countries' domestic food marketing systems, finite quality considerations are of no importance. Grading and standardizing of food products is seldom done formally, and what grades exist from time to time are extremely variable, based on supply and demand changes, not on objective criteria.

It is not uncommon to hear the comment made in Latin America that "the retailer and the housewife grade their fruits and vegetables in the retail end of the channel of distribution".

I have done some produce physical loss research in a number of developing countries; it is no exaggeration to say that as much as 40% of the fresh produce harvested never gets to final consumption, and most of this loss in quality and quantity from poor handling shows up at either the retail end of the marketing chain, or in consumers' kitchens. Unfortunately this is a cultural pattern of long standing, and is extremely difficult to break. The norm is to pack and ship field-run produce of all different qualities, and to handle the produce without proper packaging or care.

Given the heat of the tropics, too frequent and rough handling and poor packaging at all stages of the channel of distribution, it is no wonder that bruised, rotting, valueless produce ends up in retailers' hands. Breaking these habits with indigenous laborers who are hired to work in packing plants organized to pack fresh produce for export to sophisticated markets and consumers is a most difficult managerial challenge. USAID and its Missions have been trying to address this serious constraint by helping provide technical assistance to agribusiness firms, to producers' cooperatives, and exporters in an effort to teach the need to adopt improved standards of quality, and objective grading methods to those standards. The ROCAP Non-traditional Agricultural Export Support Project is addressing this problem as it works with all of the Central America producer and export groups.

Export And Import Taxes, Controls And Similar Barriers To Efficient Trade: There are a number of policies which have been adopted by developing countries, usually in an effort to raise needed revenue, but which are often short-sighted, vis-a-vis their need to also create jobs, earn needed foreign exchange, and develop export markets. Probably just as frustrating to the entrepreneur attempting to develop an export business, especially a fresh produce export business where time and rapid delivery because of perishability factors are crucial, are the masses of "red tape" and bureaucratic procedures confronted. This was the most frustrating factor mentioned by exporters in Honduras at a seminar several years ago; they complained about the very large numbers of papers that had to be signed by too many officials in too many ministries, and requiring too much wasted time in order to either: 1) obtain a license to export a Honduran agricultural commodity, 2) obtain a license to import needed supplies, such as paper products or chemicals for a produce packing line, or 3) complete paper work to obtain a letter of credit or to obtain other credit or financial documents, certifications, etc.

Similarly, getting products cleared through customs, either outbound or inbound, can be most frustrating; complaints about U.S. customs delays wax to insignificance when actual experiences with customs in many LDC's are told by businessmen. These barriers to more efficient marketing and trade need to be eliminated.

Here again, USAID Missions are in a good position, along with their U. S. colleagues in our embassies such as agricultural and commercial attaches, to help persuade developing country leaders to work hard to eliminate these barriers.

Export taxes tend to defeat the purpose of creating more jobs and incomes in LDC's, as well as earning needed foreign exchange, since they are regressive. That is they raise the selling country's product prices above those of near competitors' prices, and result in lost sales. Similarly, the country that taxes imported commodities, especially those that are not manufactured in the country, raises the cost of growing, processing or packaging and shipping the product, and puts the potential grower and exporter at a competitive disadvantage. These concepts are all self defeating. Since time means money, any inefficiency in needless paper work is also a form of regressive tax on the produce exporters, and should be eliminated.

Monetary Controls, Expatriation Of Profits And Capital: This is a very specialized area of concern, especially for those businessmen who anticipate becoming involved with LDC businessmen in joint capital ventures. Many developing countries insist that capital and control of enterprises be held by nationals. This means that at least 51% of the ownership in any enterprise will be provided by indigenous sources, and no more than 49% can be contributed by foreigners - in this case by Americans.

These arrangements seem to be straight forward until problems of control of policies, of management, of the distribution of profits and losses, or the distribution of ownership equity come into play. Then joint capital ventures in developing countries can become very difficult. Even if a produce specialist or broker from a developed country does not wish to engage in a joint capital venture, but only wishes to enter into some kind of management contract, or other type of supply agreement, these factors become very important.

Quite often the developing country maintains an overvalued exchange rate on its monetary unit, or puts a heavy tax on converting revenues from exports from dollars (or other currencies) to the local currency. Finally, it may restrict the amount of profits that may be expatriated out of the country; in fact, some short-sighted country policies prohibit the expatriation of any profits earned in the host country to other countries.

All of these factors, and the various laws in the developing country that might impact on a produce venture, must be studied carefully by experts before a potential produce agreement is initiated. Again, various experts in USAID may be helpful. Each USAID Mission has access to a regional lawyer who can assist in obtaining legal guidance regarding the developing country of interest. Similarly, commercial and agricultural attaches in the embassies have access to information that can be very helpful to the American businessman.

Newer organizations such as the Private Sector Relations offices of USAID, in the USDA and in the Department of Commerce all have access to specialists who can give assistance to businessman. Finally, in the Latin American region we are fortunate that Latin America Agricultural Development, Inc. (LAAD), and the Overseas Private Investment Corporation (OPIC) have taken an active role in assisting agribusiness ventures over the past 15 years in the region, and have developed a great deal of expertise which can be accessed.

Significant Trends - A Look at the Future

The growth in volume and value of exports from the 27 CBI countries of Central America and the Caribbean islands has been significant since 1983. As shown in Table 1, non-traditional exports to the United States from the 27 CBI countries grew from \$100 million to \$215 million between 1979 and 1986. The point was made that while this is a significant trend and factor in the economic well-being of the CBI countries, it is not significant to the United States, which imports nearly \$6.6 billion of horticultural commodities each year. A second factor of importance to remember is that of the \$6.6 billion of horticultural products imported to the U. S., Mexico alone accounts for approximately 26 percent of the total on the average; this represents \$1.72 billion annually.

Excluding bananas and plantains, Mexico accounted for 58 percent of all horticultural imports into the U.S. in 1986.

In an earlier section of this paper I talked about the long-term or secular trends in U. S. consumers' demand for fresh fruits and vegetables of all kinds, as well as significant trends in the imports of specific horticultural commodities from the 27 CBI countries. In the interest of time, I have chosen four commodities to look at in depth: two fruits and two vegetables. At the same time it is important to show how the CBI exports to the U.S. compare with those of Mexico.

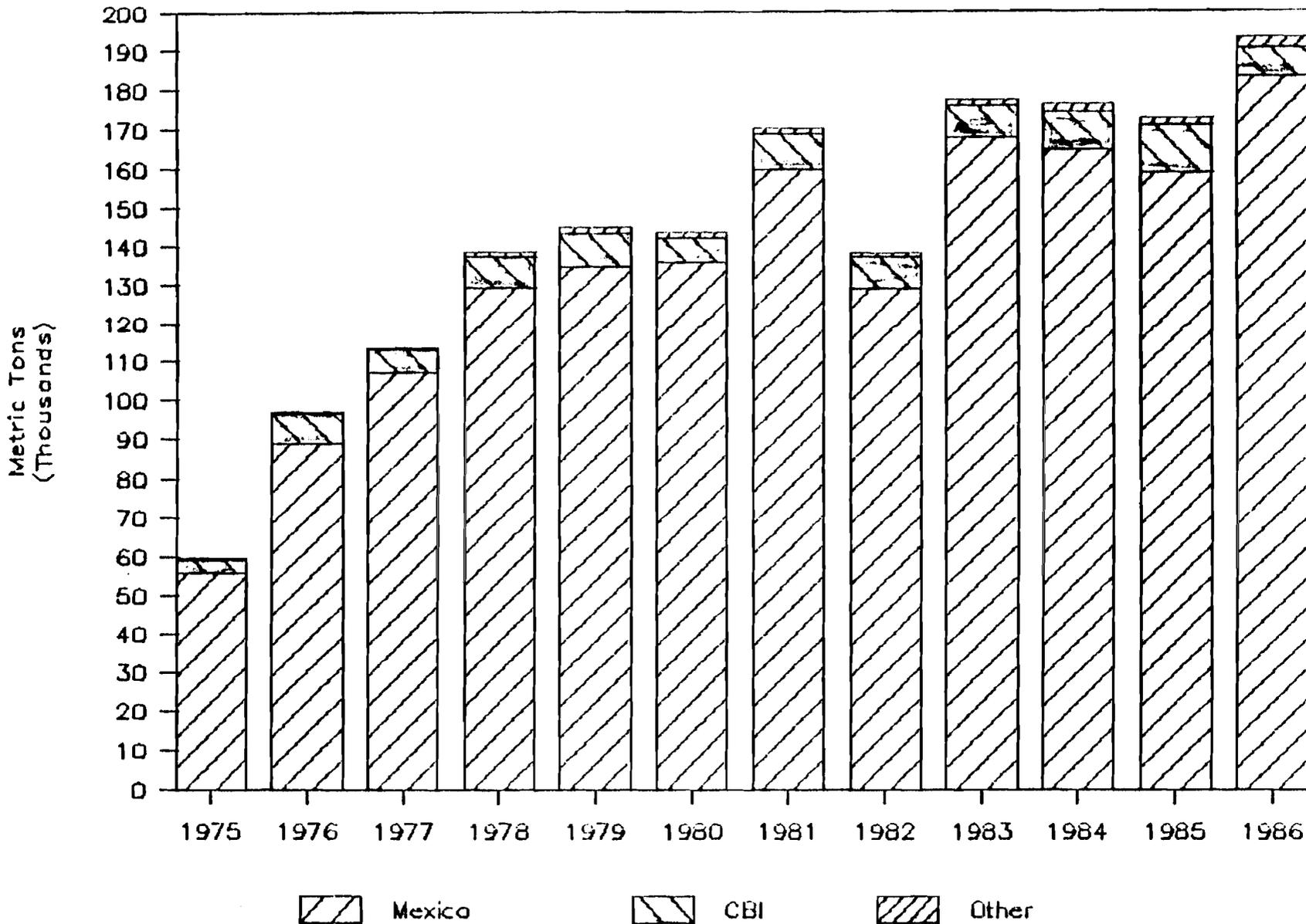
Cucumbers: Imports of cucumbers continued to grow from about 60,000 metric tons in 1975 to 195,000 M.T. in 1986. Mexico continued to dominate imports; and, in fact increased their share of total imports from 92.3 percent in 1975 to 93.5 percent in 1986. The CBI countries USAID is helping only accounted for 5.3 percent of total imports in 1986.

Some might ask, but isn't this all at the expense of the American grower of cucumbers? Again the answer is a definite NO! Note from the table that during the same period U.S. total production of cucumbers increased from 218,588 M.T. per year to 310,743 M.T. The state of Florida's production increased from 83,500 M.T. annually in 1975 to 117,384 M.T. in 1985. Every other producing state also showed significant increasing production over the period.

CUCUMBER: U.S. IMPORTS, ANNUAL

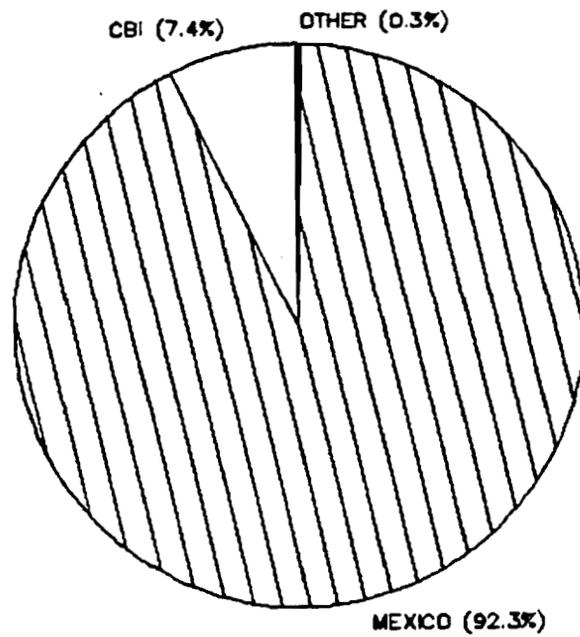
1975-1986

31

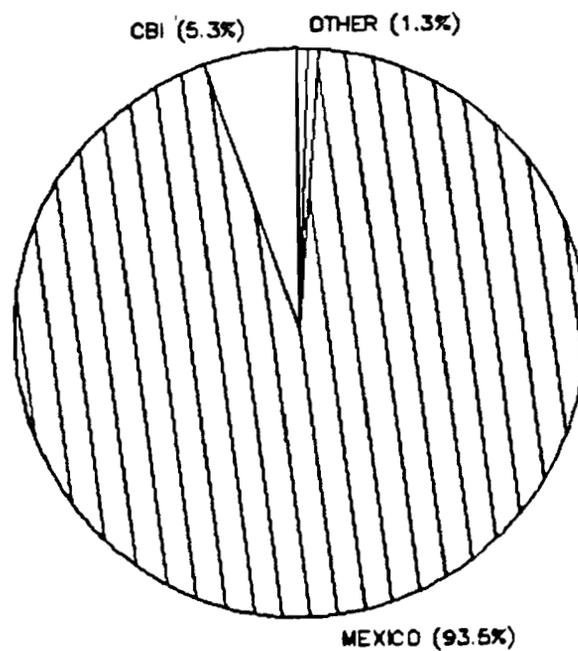


CUCUMBER: U.S. IMPORTS

1975-1976 AVERAGE



1985-1986 AVERAGE



Cucumber: Source of U.S. supplies, production by major states
and imports by country of origin, quantity, annual, 1975-85.

| Source of Supply | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 |
|--------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| U.S. Production 1/ | 218588 | 230337 | 254740 | 269028 | 268575 | 278645 | 273837 | 272158 | 307947 | 294177 | 310743 | |
| Calif | 32704 | 32977 | 32750 | 32704 | 43772 | 36877 | 38256 | 38022 | 43022 | 41098 | 43413 | |
| Florida | 83553 | 88542 | 95074 | 107049 | 91536 | 108092 | 103442 | 102808 | 116328 | 111126 | 117384 | |
| Texas | 18597 | 18008 | 36787 | 37014 | 36923 | 36877 | 32636 | 32436 | 36701 | 35060 | 37034 | |
| N.Carolina | 17373 | 19777 | 19505 | 18779 | 22090 | 21002 | 21420 | 21288 | 24088 | 23011 | 24306 | |
| S.Carolina | 13835 | 20140 | 19505 | 19505 | 18507 | 17917 | 19762 | 19642 | 22225 | 24231 | 22426 | |
| Other | 52526 | 50894 | 51120 | 53978 | 55747 | 57879 | 58321 | 57962 | 65583 | 59651 | 66180 | |
| Imports 2/ | | | | | | | | | | | | |
| Total | 59465 | 97026 | 113834 | 138336 | 145135 | 143439 | 169937 | 138144 | 177164 | 176125 | 172585 | 192781 |
| Mexico | 55482 | 89004 | 107119 | 129223 | 134692 | 135785 | 159697 | 128873 | 167679 | 164668 | 158771 | 182772 |
| CBI | 3750 | 7824 | 6111 | 8321 | 8544 | 6408 | 8905 | 8147 | 8163 | 9517 | 11848 | 7346 |
| Other | 233 | 198 | 604 | 792 | 1899 | 1246 | 1335 | 1124 | 1322 | 1940 | 1966 | 2663 |

1/ Statistical Reporting Service-USDA.

2/ U.S. Customs

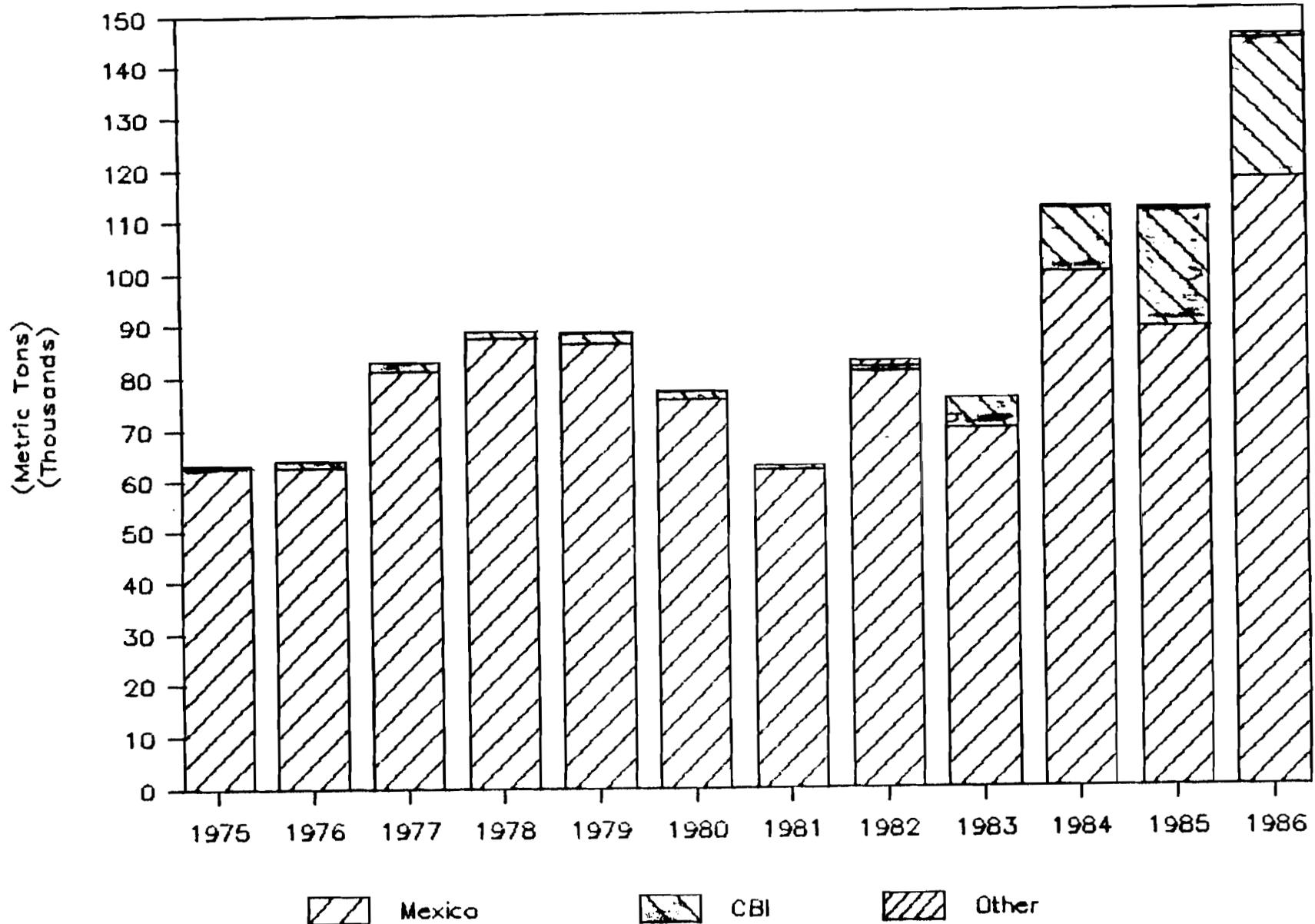
* Production data from SRS for cucumbers were discontinued after 1981.
Numbers for 1982-1985 are estimates based on shipments data from the
Agricultural Marketing Service-USDA.

The point is that both per capita and total demand by American consumers continues to grow; both American producers and exporters from Mexico and other countries are benefiting. Obviously imports are coming in during the winter months from December to April when the "windows of opportunity" are open, and when U.S. domestic production and supply is not sufficient to satisfy domestic demand. The only solution is to go "off shore" to make up the difference. That is exactly what growers and marketers are doing in order to keep their produce wholesale and retail customers happy. USAID and the CBI host country institutions are endeavoring to improve the efficiency of these operations in response to the felt needs.

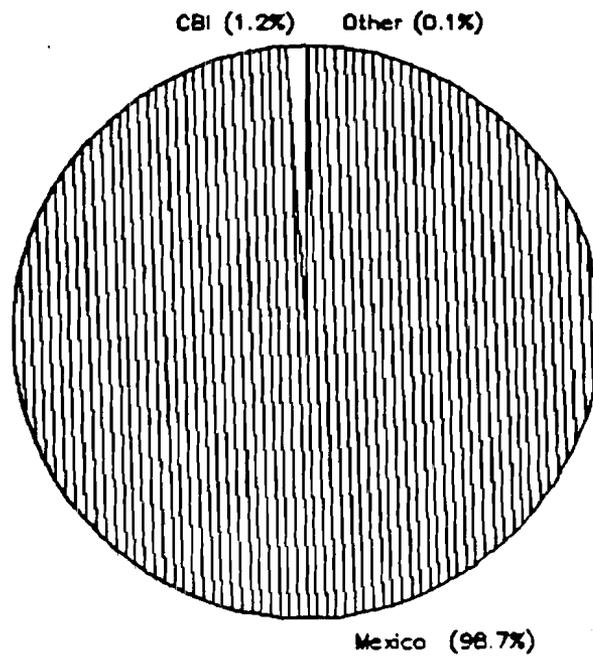
Cantaloupes: A similar pattern to that of cucumbers is demonstrated by cantaloupes. Note from the figure that a steady growth in imports has been seen since 1975; i.e., from 63,012 M.t. to 145,00 M.T. in 1986. Again Mexico dominates, accounting for 98.7 percent of imports in 1975 to a lower 80.2 percent in 1986. The CBI countries have increased their share from 1.2 percent of all imports in 1975 to 19.2 percent in 1986. Domestic production also registered large gains; from 447,156 M.T. in 1976 to 795,202 M.T. in 1985. All major producing states showed significant increases in total production of cantaloupes over the period; U.S. demand and consumption continues to grow, and imports from CBI countries are both necessary and desirable to help satisfy the demand when American climate and producers are not able to do so.

CANTALOUPE: U.S. IMPORTS, ANNUAL

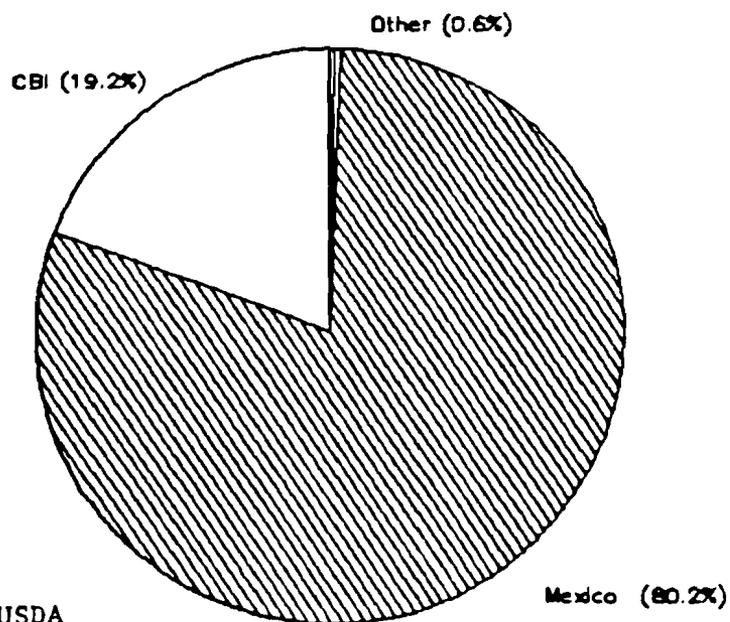
1975-1986



CANTALOUPE: U.S. IMPORTS, ANNUAL 1975-1976 AVERAGE



1985-1986 AVERAGE



SOURCE: ERS/USDA

Cantaloupe: Source of U.S. supplies, production by major states
and imports by country of origin, quantity, annual, 1975-85.

| Source of Supply | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 |
|--------------------|-------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Metric Tons | | | | | | | | | | | |
| U.S. Production 1/ | 447156 | 459947 | 494375 | 604100 | 563413 | 555293 | 605371 | 793482 | 677163 | 687121 | 795202 | |
| Ariz | 43364 | 48127 | 71895 | 68992 | 56473 | 41141 | 38919 | 79332 | 67716 | 68712 | 79520 | |
| Calif | 286038 | 300553 | 282863 | 384832 | 366280 | 382654 | 425247 | 515763 | 440156 | 446651 | 516881 | |
| Texas | 69128 | 64774 | 91672 | 103692 | 95618 | 91944 | 88860 | 128609 | 109756 | 112750 | 128888 | |
| Ind | 14606 | 15332 | 17690 | 16511 | 15332 | 15332 | 17781 | 27550 | 23511 | 23857 | 27609 | |
| Mich | 7620 | 8210 | 8119 | 7983 | 8346 | 8165 | 8346 | 12224 | 10431 | 10584 | 12249 | |
| Other | 26399 | 22952 | 22136 | 22090 | 21364 | 16057 | 26218 | 30004 | 25593 | 24567 | 30055 | |
| Imports 2/ | | | | | | | | | | | | |
| Total | 63012 | 63963 | 82899 | 88711 | 88285 | 77074 | 62616 | 82772 | 75337 | 111888 | 111603 | 145000 |
| Mexico | 62838 | 62541 | 81271 | 87220 | 86125 | 75356 | 61557 | 80595 | 69670 | 99705 | 88678 | 117000 |
| CBI | 73 | 1409 | 1616 | 1428 | 1821 | 1537 | 964 | 964 | 5556 | 12092 | 22395 | 27000 |
| Other | 100 | 13 | 12 | 63 | 338 | 182 | 95 | 1213 | 111 | 91 | 530 | 1000 |

1/ Statistical Reporting Service-USDA.

2/ U.S. Customs

* Production data from SRS for cantaloupe were discontinued after 1981.
Numbers for 1982-1985 are estimates based on shipments data from the
Agricultural Marketing Service-USDA.

Peppers: As with the first two commodities, imports of peppers increased from 30,742 M.T. in 1975 to nearly 109,000 M.T. in 1986. Mexico accounted for 93.1 percent of these imports in 1975, and for 93 percent of the much larger quantity in 1986, while the CBI countries maintained their 6.6 percent share. Again, U. S. production grew from 231,607 M.T. in 1975 to 305,010 M.T. in 1985, with all major U. S. producing states showing large increases. Florida, for example, increased total production from 86,093 M.T. in 1975 to 106,845 in 1985.

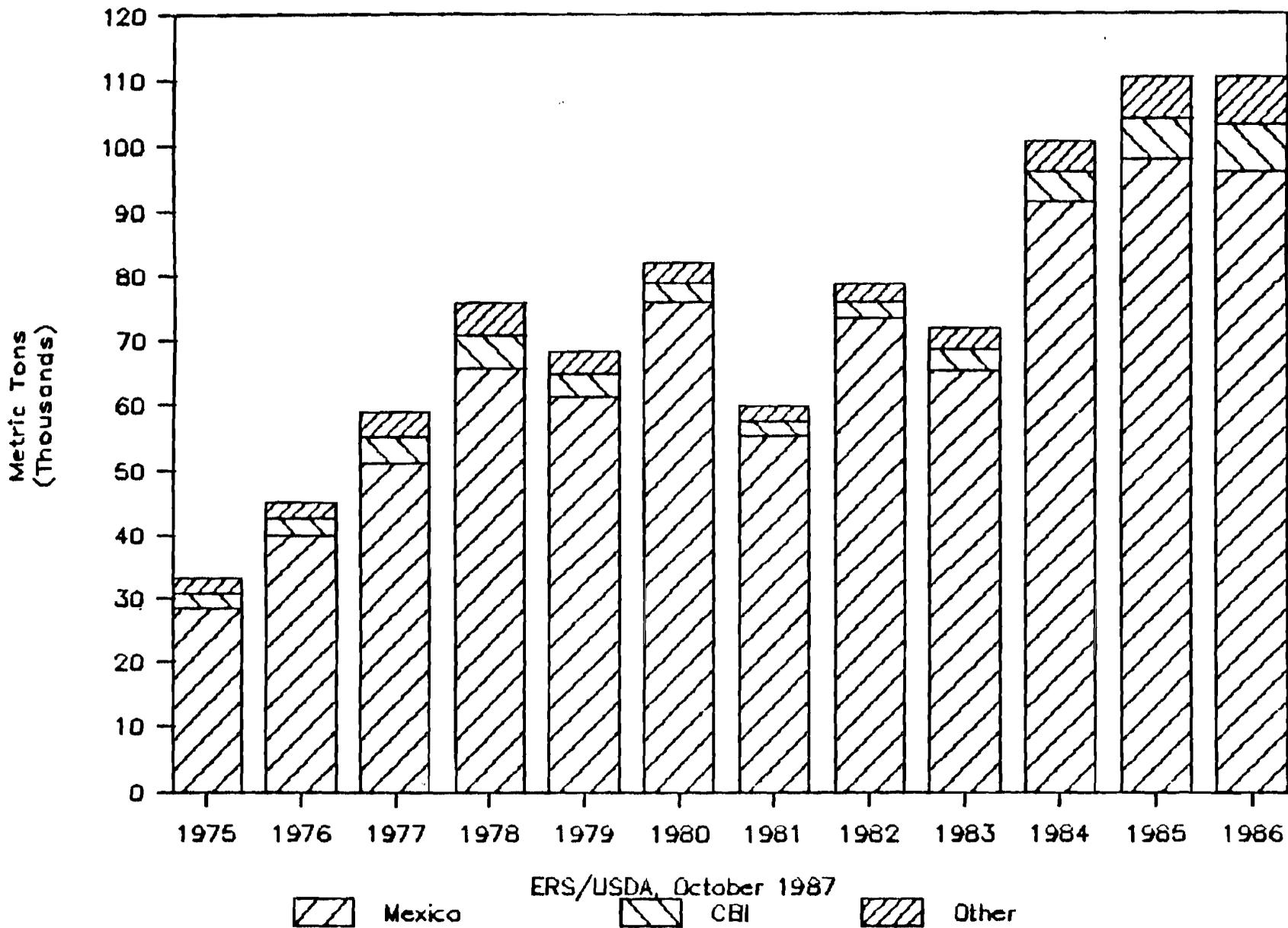
Mangoes: Mangoes are a special case representing a newer commodity in the typical U.S. consumer's diet. Per capita consumption is growing very rapidly as Americans become accustomed to this delicious tropical fruit. In fact, U. S. production statistics do not start until 1978; apparently the commodity was not grown in sufficient amounts to track until that year. Imports have grown from 8,054 M. T. in 1975 to 44,675 in 1986. Total U. S. production is recorded as being produced in Florida, and equaled 4,037 M.T. in 1985.

The future picture for horticultural export growth to the United States, to Canada and to western Europe looks very bright to me for the several reasons I have already stated at different places throughout my presentation above. Permit me to briefly summarize them here.

FRESH AND FROZEN PEPPERS: U.S. IMPORTS

Annual 1975-1986

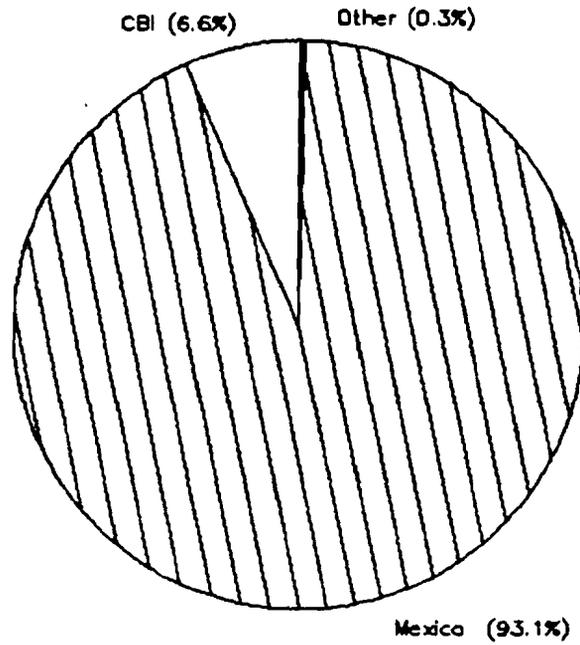
39



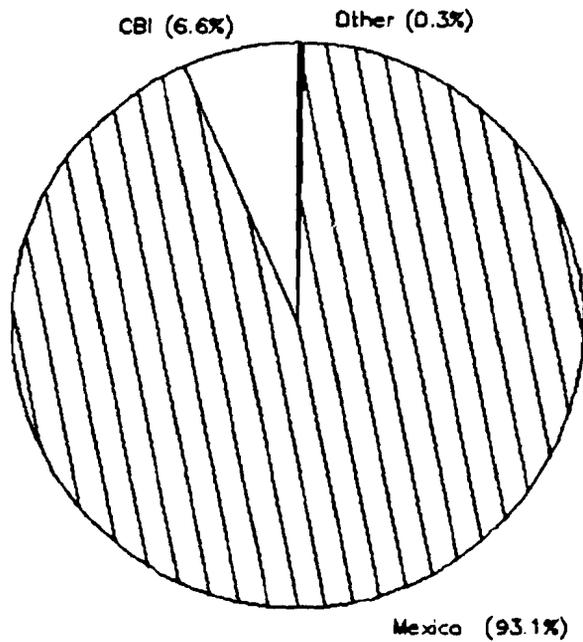
*Frozen, less than 5%

FRESH PEPPERS: U.S. IMPORTS*

1975-1976 AVERAGE



1985-1986 AVERAGE



SOURCE: ERS/USDA
* Frozen, less than 5%

Peppers: Source of U.S. supplies, production by major states and imports by country of origin, quantity, annual, 1975-85.

| Source of Supply | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 |
|--------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| U.S. Production 1/ | 231607 | 238365 | 241903 | 235916 | 263948 | 249206 | 266488 | 294013 | 301143 | 311882 | 305010 | |
| Calif | 68402 | 71124 | 72077 | 68720 | 86955 | 76431 | 78881 | 88838 | 91005 | 94251 | 92174 | |
| Florida | 86093 | 85684 | 83326 | 85957 | 85548 | 86456 | 90855 | 102987 | 105490 | 109252 | 106845 | |
| Texas | 24812 | 27942 | 28441 | 29393 | 36016 | 32205 | 37512 | 36666 | 37553 | 38892 | 38035 | |
| N.Carolina | 12701 | 12882 | 12066 | 11567 | 11748 | 12474 | 12701 | 14701 | 15057 | 15594 | 15250 | |
| New Jersey | 23496 | 21274 | 24449 | 18870 | 19958 | 21546 | 19187 | 25446 | 26049 | 26978 | 26383 | |
| Other | 16103 | 19459 | 21546 | 21410 | 23723 | 20094 | 27352 | 25375 | 25989 | 26915 | 26323 | |
| Imports 2/ | | | | | | | | | | | | |
| Total | 30742 | 42704 | 55106 | 70827 | 65163 | 78996 | 57593 | 76565 | 69798 | 98556 | 108788 | 108833 |
| Mexico | 28303 | 40106 | 51199 | 65598 | 61381 | 75610 | 54913 | 73154 | 65242 | 91439 | 97880 | 96083 |
| CBI | 2262 | 2566 | 3834 | 5157 | 3354 | 3116 | 2345 | 2636 | 3138 | 4555 | 6230 | 7115 |
| Other | 176 | 32 | 73 | 72 | 429 | 270 | 335 | 775 | 1418 | 2562 | 4678 | 5635 |

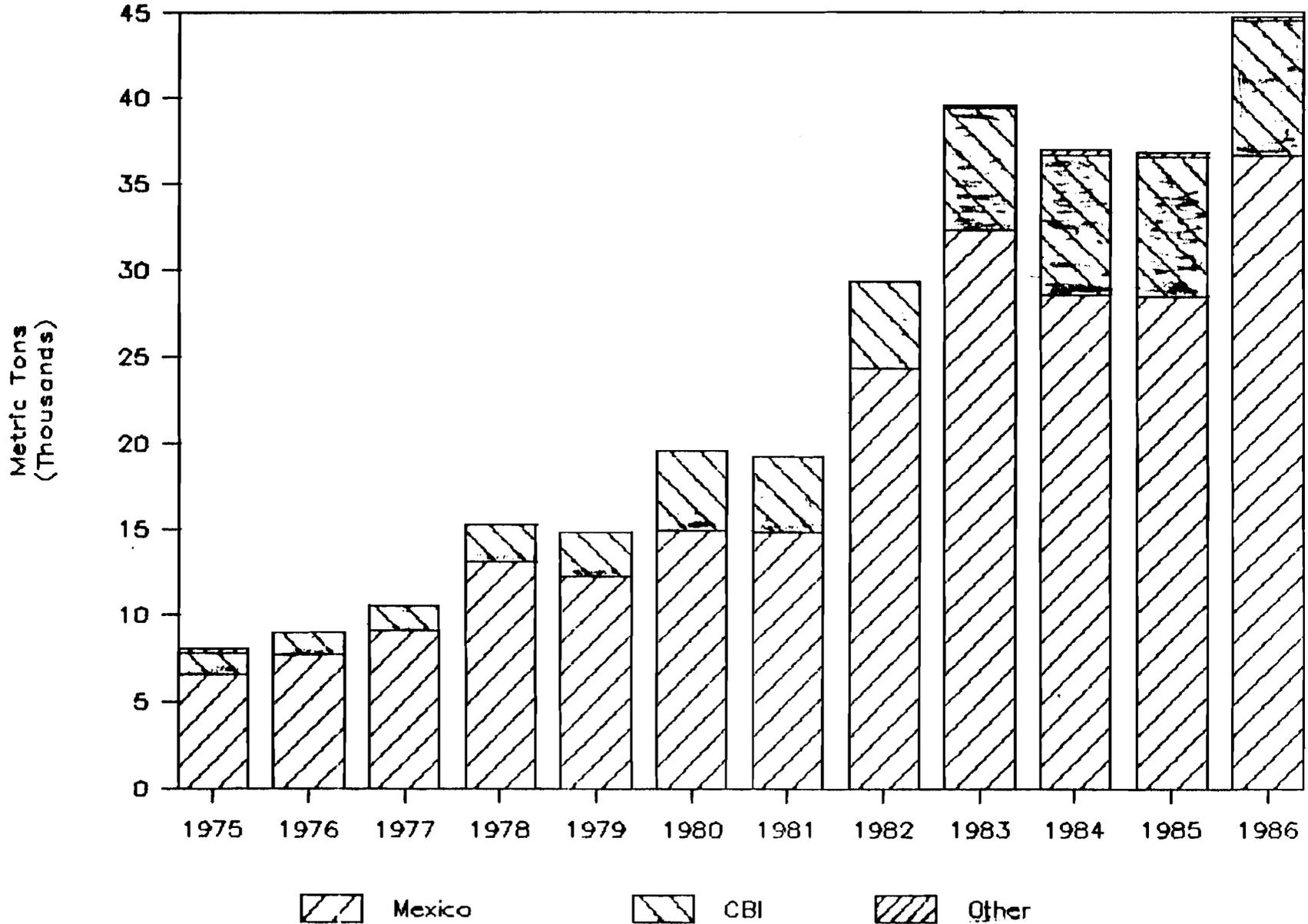
1/ Statistical Reporting Service-USDA.

2/ U.S. Customs. Less than 5% frozen.

* Production data from SRS for bell peppers were discontinued after 1981. Numbers for 1981-1985 are estimates based on shipments data from the the Agricultural Marketing Service-USDA.

Mango: U.S. IMPORTS, ANNUAL

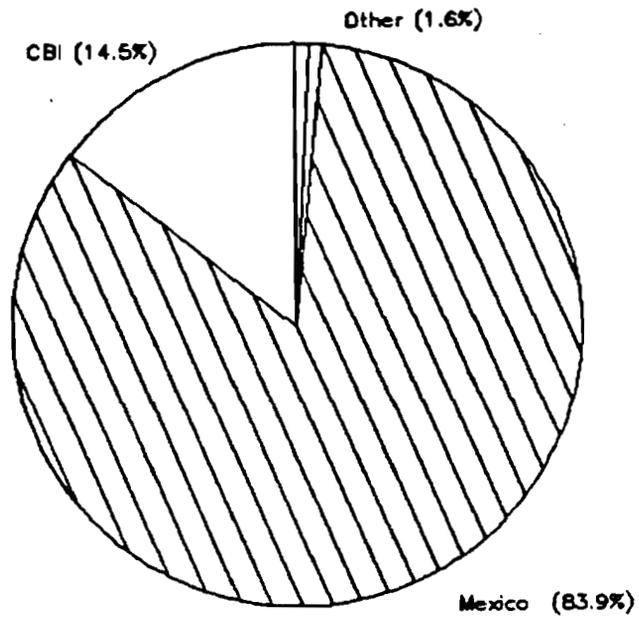
1975-1986



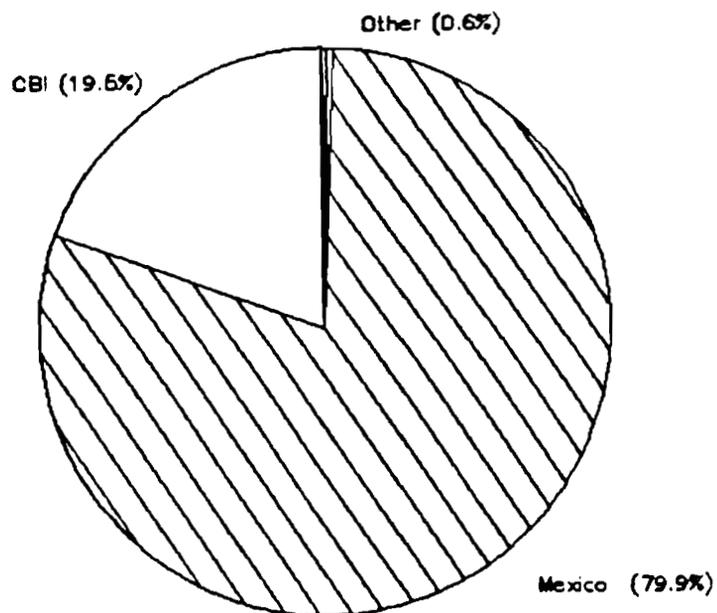
Source: ERS/USDA

MANGO: U.S. IMPORTS

1975-1976 AVERAGE



1985-1986 AVERAGE



Mango: Source of U.S. supplies, production by major states
and imports by country of origin, quantity, annual, 1975-85.

| Source of Supply | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 |
|--------------------|------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Metric Tons | | | | | | | | | | | | |
| U.S. Production 1/ | | | | | | | | | | | | |
| Florida(Total) | n/a | n/a | n/a | 3765 | 4309 | 4037 | 4264 | 3493 | 3765 | 3765 | 4037 | |
| Imports 2/ | | | | | | | | | | | | |
| Total | 8054 | 8947 | 10521 | 15296 | 14852 | 19587 | 19238 | 29394 | 39598 | 37087 | 36863 | 44675 |
| Mexico | 6577 | 7692 | 9066 | 13151 | 12225 | 14930 | 14816 | 24377 | 32364 | 28577 | 28478 | 36686 |
| CBI | 1213 | 1255 | 1455 | 2118 | 2597 | 4618 | 4388 | 4957 | 7043 | 8095 | 8121 | 7769 |
| Other | 265 | 1 | -0 | 27 | 29 | 40 | 34 | 60 | 191 | 415 | 264 | 220 |

1/ Statistical Reporting Service-USDA.

2/ U.S. Customs

- 1) Changing tastes and preferences for fresh and fresh frozen fruits and vegetables by consumers resulting in significantly growing per capita and total demand for "traditional" commodities of this type.
- 2) A growing awareness of the cornucopia of tropical fruits and vegetables which are becoming available from the tropical countries, and which are being consumed by consumers in the developed countries in increasing quantities. This includes supplying the growing demand for ethnic foods from our growing immigrant population groups.
- 3) Tremendous population growth in our temperate states of the southeast and southwest, taking large quantities of land out of agricultural production for other uses. These were the very areas that produced many of our fruits and vegetables, especially in the winter seasons; now these production areas must be replaced by other areas.
- 4) Growing per capita incomes and discretionary incomes which permit our consumers to purchase more "exotic" foods, to travel to other countries and become familiar with other types of cuisines and ambiances, etc.
- 5) Improved handling, packaging, storage, and transportation facilities and methods, permitting more imports from distant production regions.

The major negative points relate to disease and pest control problems, poor management and untrained labor, trade barriers and the need to provide improved policy and administrative mechanisms, including working capital and credit, to permit timely growing, packing, storage, and transportation of the horticultural commodities at competitive prices.

Annex 1

LIST OF CBI BENEFICIARY COUNTRIES

| | |
|------------------------|-----------------------------------|
| Anguilla | Jamaica |
| Antigua and Barbuda | Nicaragua |
| The Bahamas | Panama |
| Barbados | Saint Lucia |
| Belize | St. Vincent and the Grenadines |
| Costa Rica | Surinam |
| Dominica | Trinidad and Tobago |
| Dominican Republic | Cayman Island |
| El Salvador | Monserrat |
| Grenada | Netherlands Antilles |
| Guatemala | St. Christopher- Nevis |
| Guyana | Turks and Caicos Islands |
| Haiti | |
| Honduras | |
| British Virgin Islands | |