Message from the President

All Eyes East:
Part Two

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Leading up to Super Bowl LI on February 5, 2017, avocados were once again in the media spotlight with guacamole continuing its reign as a party mainstay. Unlike prior years, however, press coverage about the 128 million pounds of avocados consumed around Super Bowl was not relegated to page two news. Instead, avocados claimed a place in front page headlines as an iconic example of trade between Mexico and the United States when the Trump administration announced its intention to scrap or renegotiate the North American Free Trade Agreement (NAFTA). What would a tariff on Mexican avocados mean for California avocado growers?, the press wanted to know.

Since January 20, 2017, a dizzying array of Executive Orders (EO) and memoranda has issued forth from the White House, all of which have implications for agriculture. It was widely speculated that an EO stating the administration's intent to renegotiate NAFTA would be signed during the President's first week in office, but that did not materialize. Instead, catch-phrases about the possibility of a "border adjustment tax" or "excessive tariffs" let slip during press interviews ignited speculation about the administration's next move. The President of Mexico stayed home and phone lines lit up at the Commission's offices.

On its face, a 20 percent (or higher) tariff on imports from Mexico might seem to be just what is needed to begin leveling the playing field for California growers whose costs of production are considerably higher than those of their counterparts in Mexico. The issue transcends avocados, however, or for that matter, agriculture. Mexico is among the top three export markets for the United States, taking $236 billion worth of goods in 2015, some $18 billion of which were agricultural products. Imposition of tariffs is a two-way street.

During 2009 and 2010, Mexico imposed retaliatory tariffs of between 10 and 45 percent over NAFTA trucking provisions, leading 56 Congressmen to pressure the Department of Transportation to immediately resolve the matter because the tariffs were having a devastating impact on local industries, especially agriculture.

The idea of a possible tariff is already making U.S. cotton, corn, and soybean producers nervous, and the portion of Congress that represents these industries cuts a broad swath across the U.S. heartland. Mexico is among the top three importers of U.S. cotton, which fuels a denim industry dependent upon textile mills in Mexico. Forty percent of the jeans sold in the United States are the product of this cross-border collaboration. Corn, soybean, dairy and pork producers also depend on Mexico as an export market, to the tune of $7.3 billion annually.

In the absence of a clear proposal out of Washington, it is impossible to predict impacts if Mexican avocado imports suddenly were faced with a tariff. Prior to NAFTA, the tariff on fresh avocados was 13.2 cents per kilogram, and this ratcheted down to zero by January 1, 2003. The pre-NAFTA tariff equates to about $1.49 per 25-pound lug of avocados or 4.25 percent of a box wholesaling for $35. The response to tariffs imposed today could take many forms, and the Asociación de Productores y Empacadores Exportadores de Aguacate de México (APEAM) has already hinted that Mexico might be inclined to divert product to other markets or absorb some or all of the additional costs to remain competitive. It is possible, too, that if faced with higher prices for Mexican avocados, retailers and restaurateurs would expect California to provide a "better deal." And then there is the inevitable cry and hue from U.S. sectors of industry who fall victim to retaliation by Mexico.

One thing is certain in the analysis – we can ill afford anything that threatens to unseat avocados from the pinnacle to which we have ascended. U.S. per capita consumption has maintained steady growth of around 10 percent annually and this, more than any other factor, has been our salvation here

in California. A slowing of that engine or fall from grace is clearly not in our interest.

Other directives coming out of Washington bring their own measure of hope or uncertainty for California agriculture. A January 20, 2017, White House memorandum issued to all executive agencies and department heads establishing a regulation freeze has put the brakes on avocado imports from Colombia and lemons from Argentina at the U.S. Department of Agriculture (USDA), seemingly a good thing. A January 30, 2017, EO requiring agencies to identify two regulations to be revoked for each regulation proposed or finalized also seems positive. Among those drawing mixed reactions from agriculture, however, are a January 23, 2017, memorandum to the U.S. Trade Representative directing the withdrawal of the United States as a signatory to the Trans-Pacific Partnership and the January 25, 2017, EO on Border Security and Immigration Enforcement Improvements.

The latter EO directs the Secretary of Homeland Security to, among other things, "immediately take all appropriate actions to ensure detention of aliens apprehended for violations of immigration law" and "hire 5,000 additional border patrol agents." While it makes clear that priority enforcement should be directed toward detaining and deporting those illegal aliens convicted of serious crimes, undocumented farm workers are manifestly nervous. By contrast, agriculture's agenda with respect to immigration puts legalizing the workforce as a top priority, either through H-2A program reforms or a qualified path to citizenship, and understandably so. In California alone, UC Davis estimates that 70 percent of all farm workers in the Central Valley are undocumented and an integral part of the $35 billion specialty crop industry centered there, and USDA estimates that 22 percent of the labor used in field crops is undocumented.

There is little doubt that the new administration means business, and many see this as a refreshing change from the status quo. Now, several months along, as intentions translate into action, the picture is becoming a little clearer but the complexity of change is evident. Like the rest of you, the Commission is closely monitoring and analyzing these developments, watching for that spot to make the collective voice of the industry heard in a way that best serves your interests. As for those press calls – our answer is going to be: *Why would you want anything other than a California Avocado?* – at least until a concrete proposal surfaces. After all, it's all about controlling the topic of conversation, isn't it?