Hearing Testimony of Amy Warlick
Before the U.S. International Trade Commission

Sunset Review of Suspension Agreements on
Lemon Juice from Argentina and Mexico

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Good morning, Commissioners and Staff, my name is Amy Warlick and I am an International Trade Economist with Barnes, Richardson & Colburn.

As you have likely surmised by now, the global lemon juice industry is unique and rather complicated. It is complicated because lemon groves were planted in various countries for different reasons. In the United States, lemons are grown for the fresh market, with eliminations from that market becoming available for processing into lemon oil and juice. Sales of oil and juice help U.S. lemon growers recover some of their costs of production. But in Argentina and Mexico, the fresh market, although lucrative, is much less significant. In these countries, lemon groves were primarily planted to produce lemons for processing into oil and, consequently, juice. The lemons grown there are not necessarily unsuitable for fresh consumption.

Another complicating factor is that the ever-rising global demand for lemon oil is the chief driver of lemon processing. EXHIBIT 1 shows Argentine exports of lemon oil from 2005 to 2011. Lemon oil demand is primarily dictated by global consumption of carbonated soft drinks, which continues to climb, primarily in Asia and Latin America. See EXHIBIT 2. Since oil and juice are co-products, processed simultaneously from lemons, the higher demand for oil creates overproduction of juice. Lemon juice is highly acidic and, therefore, difficult and costly to dispose of when overproduced. It is also expensive to store. In addition, lemon juice is perishable, even when frozen, so it rapidly loses value in inventory. These facts all indicate that the price of lemon juice is highly responsive to oversupply. So, when an imbalance in the global demand for oil over juice creates overproduction of juice that overproduction, in turn, quickly translates into juice price erosion and injury to U.S. lemon processors and growers.

Another complicating issue in this industry, hence, in this investigation, is the historical structure of most of the U.S. lemon juice industry as an agricultural cooperative. Until February 2012, when Sunkist and Ventura Coastal established their joint venture, Sunkist operated as a cooperative, not a corporation. As a cooperative, Sunkist did not pay for the lemons they processed, so the cost of raw materials does not include their fundamental raw material: lemons. Instead, all proceeds from the sale of the lemon juice were distributed by the cooperative back to its patron growers who used those funds to help cover the multitude of costs associated with growing, harvesting, and transporting their lemons to market.

Much has and will be said by Respondents about the "profitability" of the U.S. lemon juice industry. But I trust that the Commission understands that they are looking at only half of the equation. If this industry was really as profitable as it appears when lemon costs are not considered, then none of us would be here today defending these suspension agreements. Instead, lemon growers must receive distributions from lemon juice, lemon oil and fresh lemons that together will cover their rising costs.

However, due to the definitions of domestic industry and like product in this review, these grower costs have not been requested. That does not mean that the cooperative goal of recovering these costs should be ignored, and the distributions to growers merely understood as profits. The Commission has recognized the need to examine cooperatives separately from corporations and to develop an appropriate analytical methodology.

All of that said, the U.S. lemon juice industry's financial performance has improved significantly since the implementation of the suspension agreements. At least until 2010, their production and shipments were up and their inventories were down. Also, they were employing more workers to work more hours, and their productivity was up as well. These improvements have clearly resulted from a recovery in the price of lemon juice to levels that covered a greater portion of both the lemon processors' and the lemon growers' costs. However, that improvement is largely contingent on the maintenance of stable prices.

Over the past 2 years, we have seen some price erosion due to sustained high levels of imports in 2011 and 2012 stemming from the overproduction of lemon juice, particularly in Argentina. See EXHIBIT 3. U.S. prices of frozen concentrated lemon juice (FCLJ) peaked in late 2010 and 2011, as can be observed in Sunkist's and Ventura's Product 1 and 2 pricing data. However, when U.S. imports from Argentina spiked, the import unit values of imports from both Argentina and Mexico fell between 23 and 56 percent between 2010 and 2012. See EXHIBIT 4. These increased imports at lower prices, in turn, caused a swift loss of U.S. market share for U.S. producers to shares even lower than those experienced during the initial period of investigation.

Petitioner understands that the U.S. industry does not satisfy all U.S. lemon juice demand and import supplies play a role in the U.S. market. But we need to ensure that that role is complementary and not destructive. Imports should enter the United States because they are demanded by the U.S. lemon juice market. They should not enter show rapidly increasing imports of lemon juice from Argentina. See EXHIBIT 8. It is only logical to conclude that Argentine juice has been diverted away from the EU market and into the U.S. market. So, we are not at all confident that the current large stocks of excess Argentine juice will be exported to the EU. Recent trade patterns suggest that they will be exported to the United States, where prices are already on the downswing.

Few lemon industry data are available on the Mexican industry. EXHIBIT 9 shows what little we have been able to extract from USDA's GAIN Reports. It would appear from these data that Mexico is now able to produce nearly 147,000 metric tons of lemons per year, and process well over 1 million gallons of lemon juice at 400 GPL. This as well as the data on the record indicate that after its rapid expansion during the initial period of investigation, Mexico's capacity is still growing. Mexico has also proven its ability to produce NFC for sale in the United States. However, NFC represents only about 10 percent of U.S. lemon juice imports from Mexico.

It is the cumulative effect of high volumes of U.S. lemon juice imports from Mexico starting in 2010 and from Argentina starting in 2011, in addition to the building of inventories of Argentine and Mexican juice during these years, which caused U.S. prices to begin their downslide in 2012 and the domestic industry to build inventories and lose its fragile market share. While Sunkist-Ventura has very recently succeeded in winning back a significant lost customer, it has been forced to do so by reducing its prices to near Argentine levels.

Respondents have suggested that the U.S. lemon industry is shrinking and has lost market share because it doesn't have enough lemons. While the frost of 2007 was quite damaging to U.S. lemon production, the damage was only temporary. See EXHIBIT 10.

U.S. production has recovered nicely since then, producing robust lemon crops throughout the period of review. There was some frost damage to the smaller Arizona lemon crop during 2011/12, but ERS estimates a full recovery for Arizona with the 2012/13 crop. While the U.S. lemon crop is susceptible to various citrus diseases, the California and Arizona lemon growing regions do not have severe disease problems, such as citrus canker or greening.

As U.S. demand for fresh lemons has recently recovered following the U.S. economic downturn, there has been a greater portion of the U.S. crop sold fresh. However, that is not the reason why U.S. lemon juice shipments have declined in recent years. U.S. lemon juice shipments have slowed down because lemon juice prices have declined and U.S. processors are reticent to sell at such low prices. So, instead, they have held back significant volumes in inventory hoping for restored prices in the near future. Industries that do not have enough product to sell, do not have burdensome inventories. Industries facing the threat of high import volumes at low prices have burdensome inventories.

Thank you for your attention. I will be happy to answer any questions you may have.