

**TESTIMONY OF
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Before the U.S. International Trade Commission**

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

May 16, 2013

Mr. Chairman and members of the Commission, my name is Michael Wootton. I am former Senior Vice President of Sunkist Growers, and am pleased to be testifying before you today. I have been with the cooperative since 1997.

Sunkist Growers is a 120 year-old agricultural marketing cooperative owned and governed by approximately 4,000 citrus growers in California and Arizona. The average size of their family farms is approximately forty acres. Sunkist Growers members account for most of the lemons grown in the United States, the majority of which are destined for the fresh market. Lemons that either do not meet the cosmetic standards for the fresh market or are surplus for fresh market demand will be sent for processing into juice, oils and various byproducts. Under Sunkist's cooperative three party structure, the citrus growers join a packinghouse that exclusively packs for Sunkist. Essentially under this agreement, the grower dedicates all fruit from certain acreage to be handled by a Sunkist packinghouse, which is then in turn marketed by Sunkist or sent for processing. Sunkist and other U.S. processors make two main products from lemons, juice and oil.

In 2008, Sunkist consolidated our lemon processing operations, closing our older processing plant in Ontario, California and moving the equipment and many of our employees to our plant in Tipton, California. This improved efficiency by having lemon and orange processing co-located. In February 2012, Sunkist entered into a joint venture with another U.S. fruit processor, Ventura Coastal. The purpose of this joint venture is to create efficiencies and deliver better per ton returns for our cooperative grower owners, who, prior to the JV, were often not able to get their actual costs covered by the returns from juice and oil sales. Under the new structure, Sunkist grower members are paid soon after fruit delivery based on market value and subsequently receive a dividend from Sunkist's share of any profits on the sale of the lemon products.

Prior to the original investigation, the expansion of lemon groves in both Argentina and Mexico was encouraged by soft drink manufacturers who forecast expanded demand for lemon oil. In addition, the World Bank provided low-interest loans for Argentina's expansion in anticipation of this increased global demand for lemon oil. The projected demand for lemon oil resulted in the overproduction of lemon juice and, during the four years prior to the suspension agreements, the U.S. market was flooded with an oversupply of lemon juice from Argentina and Mexico at very low prices.

At that time, Sunkist lost significant business and was forced to cut prices in order to maintain the rest. Its production and shipments were falling and inventories were rising to historic levels. Storage capacity limitations forced us to reduce prices significantly and extend payment terms to our customers in order to survive. The production of lemon juice had become so unprofitable that Sunkist would probably not have continued processing lemons if disposal did not present serious environmental issues.

Since the imposition of the suspension agreements in 2007, lemon juice prices have increased significantly and the returns to our growers from lemon juice sales have correspondingly increased. However, as you will hear, income to growers was still insufficient to cover their costs during this period.

U.S. production of lemons has been flat since at least 2005. While U.S. bearing acreage has declined and weather events have impacted crop size in certain years, yields (tons/acre) have increased and overall production of lemons in the United States has remained steady. While U.S. production has been steady, production in Argentina and Mexico have continued to increase. Argentina is the largest producer of lemons in the world and unlike the U.S., growers are focused on sales of fruit to the processing industries instead of fresh fruit market.

Argentina produced a record lemon crop in 2011 of 1.6 million metric tons of lemons. The 2012 crop was smaller but still significant and we project that the 2013 crop will be larger than the 2012 crop at approximately 1.5 million metric tons. The ability of the Argentine industry to sell all of these lemons on the fresh market is limited, due to phytosanitary restrictions in the United States, China, and elsewhere. Argentina's exports of fresh lemons fell by 28 percent between 2007 and 2012, which in part has also resulted in a dramatic increase in lemon production in Turkey for the E.U. and Russian markets.

This decline in exports of fresh lemons has resulted in an increasing share of Argentina's lemon production being processed into lemon juice. Between crop years 2006/07 and 2011/12, an average of 73 percent of the country's lemon crop was used for processing and it is projected that Argentina will process 79 percent of its 2013 crop. Our market intelligence indicates, that the large crops and increasing production of lemon juice in Argentina has resulted in the accumulation of large inventories and that processors in Argentina are very concerned about the situation. Demand has declined, particularly in their largest market in Europe, and they are looking for an outlet for these inventories. The situation will become even more urgent as Argentina gets deeper into its 2013 season which began in April and will continue through early fall.

The likely outlet for this excess production and inventories is the United States, a large market with a relatively stable demand. Without the suspension agreement to set a floor on their prices, Argentine processors will dump these inventories on the U.S. market at extremely low prices, which will negate everything Sunkist and Ventura Coastal have tried to accomplish over the past five years to create an efficient and profitable U.S. industry.

Finally, while Argentina is obviously the larger threat, Mexico cannot be ignored. Their production of lemons is also growing. The majority of these lemons are sent for processing and the United States is their most important market. They are also increasing the volume of fresh lemons into the U.S. market.

We respectfully urge the Commission to keep the order in place. I will be pleased to answer any questions that you might have.