# THE U.S. ORANGE JUICE TARIFF AND THE "BRAZILIAN INVASION" OF FLORIDA

THE EFFECT OF FLORIDA'S BRAZIL-BASED PROCESSORS ON THE POLITICAL DEBATE OVER THE U.S. ORANGE JUICE TARIFF

Master of Arts in Law and Diplomacy Thesis

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*To Kate*

# ABSTRACT

The Florida citrus industry has always been buffered from overseas competition by a U.S. tariff on orange juice. During the 1990s four Brazil-based orange juice processors (BBPs), including the two dominant orange juice exporters in the world, purchased plants in Florida. By the beginning of the current decade the four companies controlled nearly half the processing capacity in the state.

The orange juice tariff is currently threatened by negotiations over the FTAA (which is scheduled to enter into force by January 2005), as well as in the WTO. As a prominent participant in these negotiations, Brazil is demanding U.S. concessions in agriculture, including specifically the orange juice tariff.

While the industry has defeated attempts to reduce or eliminate the tariff in the past, never before have foreign companies, which would benefit from a removal of the tariff, been significant actors within the industry. This paper investigates the role that the BBPs are playing and could still play in the debate over the orange juice tariff. The first analytical section of the paper investigates the motivations for the BBPs' FDI in Florida. The paper then analyzes the industry's competitive landscape, and finds that the BBPs have accelerated the downstream consolidation of the value chain. Next, the possible effects of tariff elimination are discussed—with a conclusion that the industry would be hurt, but not destroyed.

The final section tests the hypothesis that the entry of the BBPs into Florida has increased the likelihood of a U.S. concession on the tariff. It concludes that the BBPs have not inserted themselves into the political mix for several reasons, including ambivalence (due to vested interests), a fear of anti-foreigner sentiment, and a scarcity of nonmarket strategic resources. In the conclusion, the paper speculates on the future of the tariff debate and discusses broader implications emanating from this case.

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# I. INTRODUCTION

*"Brazilian companies are quietly taking over the Florida orange juice market."*[1]

*"The next great battle over the globalization of the world's economy…could determine the very future of Florida's most enduring symbol: orange juice."*[2]

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*"…any trade agreement which further reduces U.S. tariffs on orange juice from Brazil… will not only cause adverse consequences, but will spell the end of the U.S. industry producing oranges for processing, and should not be considered under the Free Trade Area of the Americas, the next round of WTO negotiations, or any other trade agreement that involves Brazil."*[3]

- Andrew LaVigne, Executive Vice President, Florida Citrus Mutual

*"I know the Florida growers will fight to keep the tariff, but it's globalization. You can't keep a big fence around your country. It won't work. If the tariff is removed, Florida growers will still be in business. Of course, they'll have to be more efficient, but everybody has to be."*[4]

- Ademerval Garcia, President, Brazilian Citrus Exporters' Association

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In January 1986, soon after the Florida freeze of 1985, *Forbes* published an article detailing the rise of the Brazilian orange juice industry as Florida's top competitor. The article mentioned that the two largest Brazilian processors and exporters—Cutrale and Citrosuco—had begun to transport frozen concentrated orange juice to the United States in their own ships, and had even built container facilities in the Northeast, where they could bypass a Florida tax. The article ended by asserting that it would be "naïve to expect the Brazilians calmly to surrender their hard-won markets" just because of increased Florida production, and predicted that their next step might be to build their

[1] Micheal Fabey, "Orange Crush," *Latin Trade* 8, no. 9 (September 2000): 33.
[2] Susan Salisbury, "Citrus Growers Fear End to Their Industry," *Palm Beach Post*, November 2, 2003.
[3] Andrew LaVigne, "Written Testimony by Florida Citrus Mutual Before the Trade Policy Staff Committee, Office of the USTR, In the Matter of: Market Access in the FTAA Negotiations" August 21, 2002, 28 (accessed March 13, 2004); available from http://www.flcitrusmutual.com/resources/PDFs/marketaccess.pdf.
[4] Salisbury, "Citrus Growers."

own plants in the United States.[5] Fifteen years later, these two Brazilian companies, along with two multinationals with processing plants in Brazil, controlled nearly half the processing capacity in Florida.

The Florida citrus industry has always been buffered from overseas competition by a U.S. tariff on orange juice. This tariff is currently threatened by negotiations over the Free Trade Area of the Americas (FTAA), which is scheduled to enter into force by January 2005. As a prominent participant in these negotiations, Brazil is demanding U.S. concessions in agriculture, including specifically the orange juice tariff. The tariff is also potentially threatened by WTO negotiations.

While the industry has defeated attempts to reduce or eliminate the tariff in the past, never before have foreign companies, which would benefit from a removal of the tariff, been significant actors within the industry. This paper investigates the role that the Brazil-based processors—Cutrale, Citrosuco, Cargill, and Dreyfus—are playing and could still play in the debate over the orange juice tariff. Are they lobbying against the tariff? Will their lack of support hurt Florida citrus growers' efforts to protect the tariff? What are the long-term implications for the Florida citrus industry of these Brazilian, and Brazil-based, companies' investments?

In addition to the Introduction and Conclusion (Sections I and VIII), this paper consists of six sections. Section II provides background information essential for an understanding of the rest of the paper. It includes introductions to the orange juice industry, the orange juice tariff, trade negotiations (especially the FTAA), and the Brazil-based processors. In Section III, "Florida, Orange Juice, and the FTAA," the difficult tradeoffs faced by the state of Florida and its political leaders are discussed. With close

[5] Phyllis Berman, "Orange Crush," *Forbes*, January 13, 1986.

ties to Latin America, the state, led by Governor Jeb Bush, is very supportive of the FTAA. On the other hand, Florida has an economically and politically significant citrus industry that, like the sugar industry, is seeking special treatment in the FTAA. Brazil, Florida's largest trading partner, is targeting these two industries as it negotiates the FTAA.

Sections IV and V discuss the entry of the Brazil-based processors (BBPs) into Florida. Section IV, "Brazil-Based Processors' Investments in Florida: Motivations and Timing," investigates the motivations for the Brazil-based processors' foreign direct investment (FDI) in Florida, and examines why that FDI occurred specifically during the mid-1990's. Section V, "Brazil-Based Processors and the Industry's Competitive Landscape," provides an overview of the Florida industry's value chain and applies a "Porter's Five Forces" analysis to the industry.

In Section VI, "Implications of Tariff Elimination: Doom for Growers?," the possible effects of tariff elimination are discussed. The section begins by taking a closer look at the cost structure of the Florida and Brazilian industries, which makes clear why Florida growers rely on the tariff. After considering several potential mitigating factors, it discusses Florida Citrus Mutual's doomsday predictions about a tariff-less industry, and ends by investigating the effect of a tariff elimination on different parts of the value chain.

Finally, in Section VII, "The Brazil-Based Processors and the Politics of the Tariff Debate," information gathered from in-depth interviews with industry insiders is used to test the hypothesis that the entry of the BBPs into Florida has increased the likelihood of a U.S. concession on the tariff. After detailing the forces threatening the

tariff and the political actions taken by Florida growers, the section examines the position and actions taken by the BBPs in the tariff debate. It concludes by speculating on the future of the tariff.

# II. BACKGROUND

This section provides contextual background information essential for an understanding of the subsequent discussion on the orange juice tariff debate. It begins with an overview of the processed orange juice industry, both specifically in Florida and in the world as a whole. After introducing the orange juice tariff, a subsection is devoted to the FTAA, and more generally trade negotiations over agriculture. Section II concludes by introducing the Brazil-based processors.

## *A. The Orange Juice Industry*

This subsection includes a thorough introduction to Florida's orange juice industry and a brief introduction to the world processed orange juice market.

### The Florida Orange Juice Industry

The orange, which originated in Asia, was introduced to Europe in the Middle Ages, and from there made its way to the Americas in 1493, brought by Columbus on his second trip to the Caribbean. Spanish explorers planted the first orange groves in Florida in the early 16th century. Limited for a long time to coastal areas, citrus cultivation followed rapid settlement of Florida's interior with railroad expansion in the early 19th century, and in 1894 Florida's shipments totaled "about 5 million boxes of fruit."[6] The early 20th century saw industry expansion and the growth of grower cooperatives.

The Florida industry's aggressive marketing of oranges and orange juice is a key feature of orange juice history, as it slowly developed demand for the product. According

[6] My Fruit Tree, "History of Florida Citrus" (accessed October 30, 2003); available from http://216.98.153.11:82/history.html.

to Sunkist, around 1907 oranges became the first perishable fruit "ever" to be advertised.[7] As crops expanded quickly, marketing became crucial to avoid overproduction. The growth of farmer cooperatives came largely out of a need to market the products. The Florida Citrus Exchange was organized in 1910 to market fresh citrus and also to do research on processing citrus (the Exchange was the forerunner of the Florida Citrus Commission (FCC), which came into existence in 1935). It created advertising programs and "built national and international sales organizations." In 1927 the first large cooperative was formed: the Florida Citrus Growers Clearing House (FCGCH). It was the forerunner of Florida Citrus Mutual, established in 1948 and still the largest citrus industry trade group in Florida today. The FCGCH "raised $250,000 for an advertising campaign to be launched in 174 cities throughout the country."[8]

Through World War II, oranges were commercialized and sold as either fresh fruit or canned. The invention of frozen concentrated orange juice (FCOJ), in 1945-46 by researchers of the FCC, changed everything. It made it possible to market and transport orange juice throughout the country, and solved (for the time) issues of overproduction. Orange juice had been expensive and seasonal, but by turning it into a year-round, affordable product, the invention of FCOJ "sky-rocketed" the industry "into orbit."[9] By 1947, FCOJ became the leading frozen food product, its sales "outstripping those of peas and strawberries," which had led the category.[10] According to the Florida Citrus

[7] Sunkist, "The History of Sunkist" (accessed October 30, 2003); available from http://www.sunkist.com/about/.
[8] My Fruit Tree.
[9] My Fruit Tree. Abecitrus, "A História da Laranja" (accessed October 30, 2003); available from www.abecitrus.com.br/historia.html. Abecitrus is the Brazilian Association of Citrus Exporters.
[10] Sidney Mintz, "How Juice Went From Stone Age to Ice Age," *Wall Street Journal*, June 22, 2000.

Showcase's history, "the nation embraced the product like nothing since Henry Ford's Model T and Florida citrus vaulted into the world's No. 1 agricultural industry."[11]

Advertising continued to drive growth, as "the message of convenience and efficiency was beamed" to housewives everywhere.[12] Growth in consumption drove huge increases in production, and the industry continued to market aggressively, both in the US and abroad, both to grow the industry, but also out of fear of potential oversupply. The orange industry's sustained marketing has been very successful: oranges are the most consumed fruit in the U.S., and Americans have the highest per capita orange juice consumption in the world. In 2000-01, the average American consumed 12.3 pounds of fresh oranges and 5.2 gallons of juice—the equivalent of 74.1 pounds of oranges. On a given day, 21 percent of Americans will drink orange juice. The value of retail orange juice sales in the U.S. rose from $743M in 1972-73 to $3.16B in 1987-88.[13] According to the Brazilian Ministry of Foreign Relations, Americans drink approximately 60 percent of all the orange juice in the world.[14]

Despite these impressive numbers, it is important to note that up to 2001-2002, the record for both total orange consumption and total orange juice consumption per capita occurred in 1997-98.[15] The growth in orange juice consumption over the past 50

[11] My Fruit Tree.
[12] Mintz.
[13] Florida Department of Citrus (FDOC), Economic and Market Research, "Citrus Reference Book 2003" ("Acreage, Production, and Utilization") (accessed October 7, 2003); available from http://www.fred.ifas.ufl.edu/citrus/pubs/ref/. In 2001-02, the value of orange juice sales just in grocery stores with over $2M annual sales was $3.45B.
[14] Susan L. Pollack, Biing-Hwan Lin, and Jane Allshouse, "Characteristics of Orange Juice Consumption," U.S. Department of Agriculture (USDA), Economic Research Service (FTS 305-01), August 2003 (accessed November 6, 2003); available from http://www.ers.usda.gov/publications/fts/aug03/fts30501/; André Pessôa, "Oranges," Brazilian Ministry of Foreign Relations (accessed November 6, 2003); available from http://www.mre.gov.br/cdbrasil/itamaraty/web/ingles/economia/agric/producao/laranja/apresent.htm.
[15] Pollack, Lin, and Allshouse, 2.

years has been impressive, but it clearly cannot go on forever—people can only ingest so much liquid, and "share of throat" competition has never been greater.

Freezes Have Marked History

The history of Florida's citrus industry has been marked by destructive freezes, which in addition to hurting production, sometimes effected fundamental changes in the industry, from regions of cultivation to competition from abroad. One of the earliest "great" freezes on record was that of 1895. As has been mentioned above, Florida shipped about 5 million boxes of citrus the year before the freeze. The year after, that figure was down to 147,000. The freeze destroyed groves in the north, and it took a decade for the state to recover.[16]

The freeze of 1962 had a more fundamental and lasting effect, though it would not be felt for years to come. That freeze was the worst of the century to that point, and "provided a momentary setback, though disaster was averted by heroic efforts and cooperation," according to the Florida Citrus Showcase's history, written in 1979.[17] With hindsight it is clear that the greatest consequence of the 1962 freeze, likely not much appreciated at the time, was that it served as the catalyst for an industrial transformation and the beginnings of an export-focused orange industry in Brazil. Responding to unmet demand in the U.S., FCOJ processing plants were quickly established, and, according to Abecitrus, the Brazilian Association of Citrus Exporters, the "Brazilian citrus industry focused on exports was born in 1963."[18]

Freezes during the first half of the 1980's fundamentally changed the orange juice landscape, as it further galvanized the Brazilian industry, and moved Florida production

[16] My Fruit Tree.
[17] My Fruit Tree.
[18] Abecitrus, "A História da Laranja."

to the south. During several freeze years in the early 1980's, Florida's share of the U.S. orange juice market was down to 80 percent, with Brazil the prime beneficiary. A new "worst freeze of the century" occurred in 1985, and in that year Brazil's share of the U.S. market was up to about 50 percent. The sustained import demand from the U.S. market led to expansion in production, processing, storage and transportation capacities (including specialized ships that could inexpensively transfer bulk FCOJ) in the Brazilian industry. Back in Florida, as growers moved south to avoid these more frequent freezes, they replaced older groves with new, denser groves with much higher yields. The result, starting in the mid-1990s, was much greater levels of production, and much more intense price competition, since demand was increasing much more slowly than supply (if at all). What had been considered "a windfall business," became much more challenging for Florida growers, as they faced oversupply problems at home and sustained competition from low-cost importers for the first time.[19]

Recent Developments

Probably the greatest demand-side development in orange juice in the last few decades has been the rise in market share of pasteurized, not-from-concentrate orange juice (NFC). The bulk of orange juice sales decades ago was in the form of frozen concentrate, which was mixed with three parts water. Because it took up less space, it had advantages of being much cheaper to transport and to store. Over the years, chilled, ready to drink, orange juice captured much larger shares of the market—since 1979 virtually all

[19] Berman; Ezra K. Davidson, "Central Florida Industry Moving Farther South to Escape Frequent Freezes," *Wall Street Journal*, August 6, 1984; Ray A. Goldberg and Hal Hogan, "Can Florida Orange Growers Survive Globalization?," Harvard Business School Case N2-904-415 (November 3, 2003); Michael Braga, "Citrus Industry Drawn Apart," *Lakeland Ledger*, October 26, 2003.

the growth in orange juice consumption has come from the chilled segment. As recently as the early 1990's, chilled juice was still mostly made from reconstituted concentrate.[20]

In 1998, however, NFC became the top form of orange juice sold in supermarkets, capturing 51 percent of juice sales nationwide. NFC became available in the 1950s, but was at a significant price disadvantage. It was not until 1985 that chilled—both NFC and reconstituted—held a majority share of the market, surpassing frozen concentrate. As recently as 1992, NFC held only 25 percent, behind reconstituted (40 percent) and frozen (31 percent). Among the drivers of this change in juice preferences are increased income from two-income households, and a desire for convenience, freshness, and "natural" foods. The rise of NFC has potentially enormous implications for Brazilian exporters, due to the obvious shipping disadvantages versus FCOJ. However, as will be discussed further in Section VI, Brazilian processors have recently developed larger and faster ships that significantly reduce their disadvantage the NFC market. It should also be noted that the cheaper reconstituted orange juice remains dominant in restaurants, hotels and the institutional market.[21]

A more recent phenomenon affecting the demand for orange juice has been the rise of low-carbohydrate diets. The increased popularity of the Atkins and South Beach diets over the past two years have coincided with a drop in orange juice sales, and many believe that is not a coincidence. These diets are followed by 15 million or more Americans, and evidence suggests they have significantly affected demand for several foods: beef, eggs, and cheese have experienced sharp increases, while high-carbohydrate

[20] James Binkley et al., "Competitive Behavior of National Brands: The Case of Orange Juice," *Agribusiness* 17, no. 1 (2001).
[21] Mintz; Goldberg and Hogan, 16; Pam Demetrakakes, "Un-concentrated effort," *Food Processing* 57, no. 11 (November 1996): 77.

foods have dropped. This is a troubling trend for orange juice, which had long been seen as a very healthy beverage, and certainly does not bode well for growers already facing problems of oversupply.[22]

## The World Orange Juice Industry

Brazil and the United States are the two dominant producers of oranges and orange juice in the world. Of the former, Brazil accounted for 39 percent of world production in 1999-2000, and the United States 18.5 percent. The two countries are even more dominant in the latter, with Brazil accounting for 48 percent and the United States for 37 percent.[23] A single state dominates production in each country—as Unctad notes, "The major feature of the world market for orange juice is the geographical concentration of production. There are only two main players: the State of Florida in the United States and the State of São Paulo in Brazil."[24]

Though Brazil and the United States are the two big producers, Brazil stands alone as the dominant orange juice exporting nation. That is because, as was mentioned above, the United States has by far the largest consumption market in the world. While Florida produces almost exclusively for domestic consumption, Brazil exports 99 percent of its processed orange juice (Brazilians do drink their fair share of orange juice, but most of it is fresh-squeezed). It is estimated that Brazil will account for approximately 80

[22] "Is Atkins thinning Florida juice sales?," *Sarasota Herald-Tribune*, October 9, 2003.
[23] Abecitrus, "Produção de Laranja - Série Histórica" (accessed November 17, 2003); available from http://www.abecitrus.com.br/safrano.html.
[24] Unctad (United Nations Conference on Trade and Development), "Citrus Fruit Market" (accessed February 7, 2004); available from http://r0.unctad.org/infocomm/anglais/orange/market.htm.

percent of total exports in 2003/2004, while the United States will be responsible for about eight percent.[25]

Because the United States is close to self-sufficient, the European Union is the largest importer of orange juice, accounting for over 80 percent of world imports. The EU and Japan import most of their orange juice from Brazil. Another large importer, Canada, imports mostly from Florida. Together, North America and Europe consume close to 90 percent of processed orange juice in the world.[26]

## *B. The Orange Juice Tariff*

The orange juice tariff was established in 1930, as part of the Smoot-Hawley Tariff Act.[27] The Tariff Act placed a tax of 70 cents per single-strength equivalent (SSE) gallon on imported citrus juice.[28] The tariff was cut in half, in nominal terms, during GATT talks in 1947. The Florida citrus industry successfully defeated attempts to reduce or eliminate orange juice tariffs by the Kennedy Administration, in 1963, and the U.S. government again in 1970.[29]

During the early 1980s, U.S. agencies stopped attempts by Brazil and other exporters to circumvent the tariff. For example, U.S. Customs ruled that processors could

[25] USDA, Foreign Agricultural Service, "Situation and Outlook for Orange Juice, 2004" (accessed April 12, 2004); available from http://www.fas.usda.gov/htp/circular/2004/1-30-04%20Web%20Art.%20Updates/1-30-04%20Orange%20Juice%20Feature.pdf.
[26] Unctad; Thomas H. Spreen, "Projections of World Production and Consumption of Citrus to 2010" (working paper presented at the China/Food and Agriculture Organization Citrus Symposium, May 2001) (accessed November 12, 2003); available from http://www.fao.org/DOCREP/003/X6732E/x6732e02.htm.
[27] The highly protectionist Smoot Hawley Tariff Act raised tariffs in many sectors to "historically high levels." Fittingly, it was originally intended to protect farmers against agricultural imports from Europe and elsewhere. U.S. Department of State, "Smoot-Hawley Tariff" (accessed March 11, 2004); available from http://www.state.gov/r/pa/ho/time/id/17606.htm.
[28] "Single-strength equivalent" is a measure of the amount that concentrated orange juice represents once it is reconstituted.
[29] Florida Citrus Mutual (FCM), "History of the U.S. FCOJ Citrus Tariff" (accessed March 11, 2004); available from www.flcitrusmutual.com/resources/PDFs/tariffhistory.pdf.

not reconstitute FCOJ at U.S. ports in order to avoid the higher FCOJ tariff. In addition, the Commerce Department levied countervailing duties on Brazilian exporters that had been subsidized by the Brazilian government. Antidumping actions were also taken against Brazilian producers.[30]

New threats to the tariff emerged during negotiations of the GATT's Uruguay Round, as well as during NAFTA negotiations. In the Uruguay Round, industry efforts succeeded in having citrus products largely excluded from tariff reductions, though in 1994 a six-year reduction of a total of 15 percent of the tariff was negotiated. Results of the NAFTA negotiations also largely spared Florida growers from serious competition from Mexico, a minor orange juice supplier. The final agreement included a special provision for citrus, granting 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."[31]

The FCOJ tariff is now at 29.7 cents per SSE gallon, while the tariff on NFC is 17 cents per gallon. Mexico's FCOJ tariff is down to 9.1 cents per gallon, while the NFC tariff is just 5.3 cents. Certain Caribbean and Central American countries are permitted duty-free orange juice exports to the United States, but they are not major producers.[32] Converting to an *ad valorem* (percentage) tariff is difficult because FCOJ prices vary quite a bit. However, the ad-valorem-equivalent rate is clearly quite high. The FCOJ tariff

[30] Ibid.
[31] Ibid. Spreen, "The Free Trade Area of the Americas and the Market for Processed Orange Products," Draft (February 12, 2001), 6 (accessed February 14, 2004); available from University of Florida, Center for International Business, at http://bear.cba.ufl.edu/centers/ciber/workingpapers/FAO2000.pdf.
[32] The tariff is actually applied on the basis of liters, not gallons. The official tariff on FCOJ is 7.85 cents per liter, and for NFC (technically "not made from a juice having a concentration of 1.5 or more"), the tariff is 4.5 cents per liter. U.S. International Trade Commission, "Harmonized Tariff Schedule of the United States (2004)," December 30, 2003 (accessed March 11, 2004); available from http://hotdocs.usitc.gov/tariff_chapters_current/toc.html.

is about $0.289 per pound solids.[33] Using NY Board of Trade Data on citrus contracts, one can calculate that over the last six years, the ad-valorem-equivalent rate has ranged from a low of 27 percent to as high as 49 percent, averaging about 35 percent. Over the past year, the ad-valorem-equivalent rate on the average price has been approximately 39 percent.[34]

## The Duty Drawback

The "duty drawback" is an important element of the orange juice tariff, because it allows Florida-based exporters to recover the cost of any tariffs paid on imported juice when re-exporting it.[35] For example, a processor in Florida may have to import a certain percentage of Brazilian FCOJ to blend with Florida juice to create the right color or acidity mix. When exporting the finished product (to Europe, for example), the processor can get back the duty paid on the imported juice. This obviously enhances the competitiveness of Florida exporters. Significantly, the duty drawback also makes it possible for a Brazilian processor to export juice to Florida and then re-export it to Europe. The duty drawback was established at the same time as the orange juice tariff, in 1930. It reduces the cost of exports by 99 percent of the duty paid on imported components, with one percent kept by U.S. Customs to cover costs.[36]

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[33] Mark G. Brown and Spreen, "The Impact of the Reduction of the Australian Orange-Juice Tariff," University of Florida, December 2002, 7 (accessed on April 17, 2004); available from the Institute of Food and Agricultural Sciences, Food and Resource Economics Department at http://www.fred.ifas.ufl.edu/citrus/pubs/fred/PBTC_02-6.pdf.

[34] New York Board of Trade, "FCOJ Historical Data" (accessed on April 17, 2004); available from http://www.nybot.com/library/fcoj.XLS.

[35] A drawback is a "Rebate of import duties when the imported good is re-exported or used as input to the production of an exported good." Alan V. Deardorff, "Deardorff's Glossary of International Economics" (accessed March 11, 2004); available from http://www-personal.umich.edu/~alandear/glossary/.

[36] FDOC, Economic and Market Research Department, "Florida-Brazil Processing Linkages" (Working Paper Series 971-1), August 11, 1997 (accessed October 7, 2003); available from http://www.fred.ifas.ufl.edu/citrus/pubs/misc/.

## *C. Trade Negotiations and Agriculture*

This subsection provides a general overview of the FTAA, as well as a brief summary of world trade negotiations on agriculture.

### The FTAA

The Free Trade Area of the Americas is a regional trade agreement with the goal of establishing a free trade area spanning the hemisphere. The project was officially launched in December 1994 at the First Summit of the Americas, hosted by President Clinton in Miami. At the Summit, the heads of state of the 34 "democracies" of the Western Hemisphere (all but Cuba) "agreed to construct a Free Trade Area of the Americas… in which barriers to trade and investment will be progressively eliminated, and to complete negotiations for the agreement by 2005."[37]

While the idea of a hemispheric free trade area goes back as far as 1820, this most recent incarnation developed as a result of a newfound enthusiasm for free trade and neoliberal principles in Latin America following the debt crisis in the 1980s and the failure of the import-substitution industrialization model—as well as a renewed interest in Latin America on the part of the United States following the end of the Cold War.[38]

The FTAA's origins can be traced to the administration of President George H.W. Bush, who unveiled the Enterprise for the Americas Initiative (EAI) in June 1990. The EAI had as its ultimate goal the establishment of a hemispheric free trade area. This

[37] Official Website of the FTAA, "Overview of the FTAA Process" (accessed March 13, 2004); available from http://www.ftaa-alca.org/View_e.asp.

[38] Mario Esteban Carranza, *South American Free Trade Area or Free Trade Area of the Americas?* (Burlington, VT: Ashgate Publishing, 2000), 52-58; Maxwell A. Cameron and Brian W. Tomlin, "Canada and Latin America in the Shadow of U.S. Power," in *Toward a North American Community?*, ed. Donald Barry, Mark O. Dickerson and James D. Gaisford (Boulder, CO: Westview Press, 1995), 141; Gordon Mace and Louis Bélanger, ed., *The Americas in Transition: The Contours of Regionalism* (Boulder, CO: Lynne Rienner Publishers, 1999), 6-7

initiative was put on hold pending NAFTA negotiations and ratification, and the idea was picked up again by the Clinton administration in the form of the FTAA.[39]

Slow progress was made through April 2002, when at the Third Summit in Quebec City, deadlines were set for the beginning of the "market access" negotiations, the conclusion of negotiations, and actual implementation of the FTAA Agreement. Tariff negotiations were to begin in May 2002, negotiations to be concluded by January 2005, and the FTAA to enter into force "no later" than December 2005. It was decided in Quebec City that the FTAA would be a "single undertaking," which means that "nothing is agreed until all is agreed." The multilateral negotiations were made even more challenging by the principle that all decisions are taken by consensus.[40]

Not surprisingly, however, the final phase of negotiations over the past two years has proved difficult, in large part due to the very different objectives of the two largest players in the negotiations, the U.S and Brazil. The United States seeks, in addition to lower tariffs for its exports, greater access to services, and investment, intellectual protection, and government procurement measures—areas Brazil prefers not to discuss, since it wants to maintain the ability to have its own "industrial policy." Brazil, on the other hand, wants the United States to lower its agricultural tariffs, and especially its use of non-tariff barriers such as agricultural subsidies and antidumping measures, which it often uses to protect politically sensitive industries.[41]

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[39] Sylvia Saborio, ed., *The Premise and the Promise: Free Trade in the Americas* (New Brunswick, NJ: Transaction Publishers, 1992), 3-7; Peter Morici, "Free Trade in the Americas: A U.S. Perspective," in *The Premise and the Promise: Free Trade in the Americas*, 53-54.
[40] Official Website of the FTAA; Robert Devlin, Antoni Estevadeordal, and Luis Jorge Garay, "Some Economic and Strategic Issues in the Face of the Emerging FTAA," in *The Future of Inter-American Relations*, ed. Jorge I. Dominguez (New York: Routledge, 2000).
[41] "Much wind and little light," *The Economist*, December 16, 2003.

## Agriculture and Trade Negotiations

Many developed nations, believing they have given up more than the developed countries since the establishment of the WTO, are adamantly opposed to making any more concessions in areas such as services, investment, and intellectual protection, until advanced countries open their markets to their agricultural products, and, most importantly, reduce subsidies—which total over $300 billion—to their farmers. The Doha Round of multilateral talks, launched in November 2001, was described as being a "development round," and developing countries agreed to participate largely because of promises for freer farm trade.[42]

In the spring of 2002, soon after the United States had signaled commitment to agricultural talks in the WTO's Doha Round, which was launched in November 2001, President Bush signed into law a new farm bill which "experts estimate…could increase federal spending on agriculture by 70 percent over the next six years, to as much as $180 billion, potentially violating limits for farm support set during the last round of global trade talks."[43]

The failure of the WTO Ministerial Meeting in Cancun last September is the most dramatic example of how contentious the debate on agriculture has become in world trade talks. A block of developing countries, the "G22," led by Brazil, as well as China, India, and South Africa, "tabled a set of radical proposals on agriculture to rival the much more cautious plans agreed to between the EU and America."[44] They refused to consider

[42] "The Doha Squabble," *The Economist*, March 27, 2003.
[43] Daniel Altman, "Global Trade Looking Glass: Can U.S. Have It Both Ways?," *The New York Times*, November 9, 2002.
[44] "The sword and the shield," *The Economist*, September 12, 2003.

EU-led proposals on issues such as investment, competition policy, and government procurement. The talks collapsed dramatically.

In the wake of the failed meeting, Brazil praised the resilience of the G22 for staying together and standing up for itself. The United States, angry at Brazil, announced that it would begin seeking bilateral deals with "can do" countries. Within a month, several Latin American countries, hoping for deals with the United States, had deserted the G22.[45]

Agriculture in the FTAA: U.S. vs. Brazil

While the United States is guilty of a high level of agricultural subsidies, the EU, in particular (followed by Japan, South Korea, and a few other European countries), is the most lavish in its support for its farmers. Understandably, then, the United States' stance is that it will not discuss farm subsidies within the FTAA negotiations. Those discussions have to occur in the WTO, where the United States will tie cuts to concessions by the EU—"Otherwise, we would be disarming unilaterally," states a senior U.S. trade official.[46]

Brazil, on the other hand, insists that it will not make any concessions in the areas dear to the United States, such as investment and intellectual protection, unless the United States gives way in agriculture. In addition to U.S. farm subsidies, Brazil faces high tariffs for several of its key agricultural exports. Though Brazil's average tariff is higher than that of the United States, it faces high tariff peaks on many of its key exports. A study by the Brazilian Embassy in Washington, using 2001 data, revealed that the average tariff "or tariff-equivalent levied by the United States on the 20 main Brazilian

[45] "Much wind."
[46] "The Doha Squabble;" Elizabeth Becker, "U.S. Ready To End Tariffs On Textiles In Hemisphere," *The New York Times*, February 11, 2003.

global export products is 39.1 [percent]," compared to a 12.9 percent rate levied by Brazil on the top U.S. global exports.[47] This analysis is supplemented by an economist at the Institute for International Economics, who noted at an FTAA forum in February 2003 that the average U.S. tariff in agriculture is 11 percent, and that, taking subsidies into account, "the total protection in US agriculture is 34 percent—tariff-equivalent."[48] As we saw above, this rate is close to the average ad-valorem-equivalent rate on FCOJ.

A few key statistics make clear how important it is for Brazil that the FTAA open up agricultural markets. In 2000, Brazil's agribusiness sector accounted for 27 percent of Brazil's GDP, 25 percent of employment, and 40 percent of exports. In that year, Brazil had a $25 billion current account deficit and a $700 million trade deficit—while the agribusiness sector generated a $13 billion trade surplus. Studies in Brazil have suggested that without concessions on agriculture from the United States, the FTAA could lead to a fall in industrial capacity, low jobs, and greater trade deficits.[49]

Brazil has, since the beginning, been ideologically ambivalent about the FTAA. Viewing itself as a continental power and regional leader, Brazil highly values its sovereignty and autonomy. Unlike most Latin American countries, Brazil has a diversified pattern of trade, and it fears the FTAA would concentrate these flows in the United States, leading to economic dependence. With the largest industrial base in Latin America, Brazil fears that U.S. exports to Brazil would take away much of the domestic

[47] Embassy of Brazil in Washington, "U.S. Barriers to Brazilian Goods, Services and Investment" (October, 2003), 9 (accessed December 1, 2004); available from http://www.brasilemb.org/trade_investment/Barr2002_english.pdf.
[48] William Cline, remarks at a February 7, 2003 panel titled "Facts, Tensions, and Disconnects," at the World Times's International Inquiry, "No More Messiahs? Latin America and the FTAA" (accessed March 18, 2004); available from http://www.worldtimes.com/wtinternalpages/cline.html.
[49] Marcos Sawaya Jank, "The FTAA and Agriculture in Brazil-U.S. Relations," October 2001, 1-2. (accessed March 12, 2004); available from *NetAmericas*, at http://www.netamericas.net/Researchpapers/Documents/Jank/Jank1.pdf.

industry's market, while U.S. exports to Latin America would cut into much of the biggest export market for Brazilian manufactured goods.[50]

On the other hand, the siren call of the FTAA is the prospect of greatly increased exports to the North American market, which could be a boon for Brazil's exporters and help the country service its large foreign debt. Furthermore, Brazil has not considered fully pulling out of the FTAA for fear of isolation. Despite its self-image as a unique country able to go it alone, Brazil recognizes it would be hurt if an FTAA in which it alone did not participate cut it off from all of its neighbors. Though many Brazilians are opposed to the FTAA, few suggest the best policy would simply be to drop out: the risk of isolation, and the inevitable trade discrimination that would come with it, are simply too great.[51]

In reaction to this misalignment between its goals and those of the United States, Brazil has pushed for a watered-down FTAA, dubbed "FTAA-lite." It would eliminate the "single undertaking" principle, allowing countries to select from different levels of obligations, and would leave more difficult issues for the WTO. That is exactly what it got at the November 2003 FTAA ministerial meeting, in Miami. Anxious to keep the FTAA moving and to avoid another breakdown so soon after Cancun, the region's trade ministers abandoned the "single undertaking" and consensus decision-making approach that had been central to the agreement, and agreed to pursue a more flexible agreement,

[50] Maria Regina Soares de Lima, "Brazil's Response to the 'New Regionalism,'" in *Foreign Policy & Regionalism in the Americas*, ed. Gordon Mace and Jean-Philippe Thérien (Boulder, CO: Lynne Rienner Publishers, 1996), 144; Peter Hakim, "Two Ways to Go Global," *Foreign Affairs*, January/February 2002; Luiz A.P. Souto Maior, "Brasil-Estados Unidos: desafios de um relacionamento assimétrico," *Revista Brasileira de Política Internacional* 44:1 (2001), 62. Available though the Brazilian International Relations Network, www.relnet.com.br).
[51] Hakim.

"comprising only a few common standards and some tariff cuts."[52] A statement by the Ministers on November 20, 2003 stated:

> Taking into account and acknowledging existing mandates, Ministers recognize that countries may assume different levels of commitments. We will seek to develop a common and balanced set of rights and obligations applicable to all countries. In addition, negotiations should allow for countries that so choose, within the FTAA, to agree to additional obligations and benefits…."[53]

The deadline for negotiations on market access was set for September 30, 2004, and the next Ministerial was to be held in Brazil in 2004.

## *D. Introducing the Brazil-Based Processors*

This subsection begins with a chronology of the investments by the Brazil-based processors (BBPs)[54] in Florida, and provides a brief description of each company.

### The Move into Florida

The "Brazilian invasion" of Florida actually began with the U.S. multinational Cargill, which moved in by purchasing Procter & Gamble's Citrus Hill plant in the early 1990s. Next came another multinational with operations in Brazil, Louis Dreyfus from France, which purchased the Winter Gardens Coop processing plant in Winter Gardens in 1993. The Brazilian exporters did not take long to follow: in 1996, Cutrale bought Coca Cola's two Minute Maid plants, and the following year Citrosuco moved in by purchasing a processing plant from Alcoma. By the 2001-2002 season, Cargill and

[52] "Between rivalry and co-operation," *The Economist*, November 27, 2003.
[53] Official Website of the FTAA.
[54] Please note that the term "Brazil-based processors," or "BBPs" is used in this paper to refer to the four processing companies in Florida that also have operations in Brazil. The term refers collectively to the two Brazilian companies, Citrosuco and Cutrale, Cargill, and Dreyfus. Both Cargill and Dreyfus established orange juice processing operations in Brazil before they invested in Florida.

Dreyfus had each acquired an additional plant, giving the four firms a total of eight plants.[55]

## The Brazil-Based Processors

This section briefly introduces each of the BBPs: Cargill, Citrosuco, Cutrale, and Louis Dreyfus. Note that all four are privately held.

Cargill

Cargill Citro America, Inc. is a subsidiary of Minneapolis-based Cargill, Inc., the largest privately held corporation in the United States. A global agribusiness giant, with operations in 61 countries, Cargill processes, distributes, and markets agricultural commodities, and also produces steel, biochemical products, and financial services. Its worldwide revenues in 2003 were $60 billion. It is among the larger foreign companies in Brazil, with sales of over $3 billion in 2000. Cargill owns two orange juice processing facilities in São Paulo, as well as tanker ships.[56]

Citrosuco

Citrosuco Paulista, headquartered in Matão, São Paulo, had sales of $345 million in 2000. It is part of Grupo Fischer, one of the largest agricultural conglomerates in Brazil. Along with Cutrale, Citrosuco is one of the world's two largest FCOJ exporters—it held a 25 percent share of Brazil's FCOJ exports in 1999-2000. It operates two plants in São Paulo, and is also, again along with Cutrale, one of the two largest orange growers in the state (80,000 acres in 2000). Interestingly, Citrosuco was originally

[55] Waldir B. Fernandes, Jr., "Analyses of the World Processed Orange Industry" (Ph.D. Diss., University of Florida, 2003), 19-20. (accessed March 13, 2004); available from http://plaza.ufl.edu/waldirjr/dissertation.htm.

[56] Cargill website (accessed March 17, 2004); available from http:\\www.cargill.com; "Melhores e Maiores," *Exame* [Brazilian business magazine] (July 2002), 103; One Source, Global Business Browser (accessed March 17, 2004); Fernandes, Jr., "Analyses," 25; FDOC, "Florida-Brazil Processing Linkages," 5.

formed in the 1960s as a joint venture between a Florida grower/processor, Lykes-Pasco, and the Fischer group. Seeking additional production in the wake of the 1962 Florida freeze, Lykes Pasco, which today is the second largest orange grower in Florida, thus contributed to the development of the Brazilian processed orange juice industry. [57]

Cutrale

Cutrale Citrus Juices USA Inc., which had sales of $110 million in 2003, is owned by Sucocítrico Cutrale SA, the largest exporter of FCOJ in the world, with a 27 percent share of the Brazilian export market in 1999-2000. Cutrale's success is in large part due to its long-term relationship with Coca-Cola. As detailed in a 1987 *Wall Street Journal* article, secretive José Cutrale Jr., the company's founder, has leveraged a close, loyal relationship with Coca-Cola (as well as excellent connections with the Brazilian government) since the 1960s to build his citrus empire.[58] This relationship also led to Cutrale's entry into Florida, as it invested in processing operations there by purchasing Coca-Cola's Minute Maid plants. Headquartered in the city of São Paulo, Cutrale operates five plants in that state and also owns its own groves—as of 2000 it had 100,000 acres producing 25 to 30 million boxes of oranges annually.[59]

Louis Dreyfus

Louis Dreyfus Citrus, one of the four largest orange juice processors in the world, has two processing plants in Florida and two in São Paulo, as well as its own groves in

[57] *Exame*, 90; One Source; Fernandes, Jr., "Analyses," 22, 25; Fischer Group website (accessed March 17, 2004); available from http://www.fischerfraiburgo.com.br; FDOC, "Florida-Brazil Processing Linkages," 5; Goldberg and Hogan, 19; Fabey, 33.
[58] Roger Cohen, "Citrus King: Brazil's Jose Cutrale, Helped by Coca-Cola, Is Taking on Florida," *Wall Street Journal*, January 22, 1987.
[59] One Source, Global Business Browser; Fabey.

São Paulo.[60] It is owned by the Dreyfus Group of France, a processor and trader of agricultural goods and energy commodities, with additional lines of businesses including shipping, telecom, manufacturing, and real estate. It has operations in 51 countries and worldwide sales in 2002 of $20 billion.[61]

[60] The three largest processors are Cutrale, Citrosuco, and Citrovita (not Cargill). Citrovita is owned by the giant Votorantim Group of Brazil, and does not (yet?) own plants in Florida. See http://www.citrovita.com.br. Professor Thomas Spreen of the University of Florida informed the author in a telephone conversation on April 12, 2004, that Citrovita has a cooperative marketing relationship with Southern Gardens (a Florida grower-processor owned by U.S. Sugar), and "the story" is that they plan to buy a Florida processing plant when a good opportunity presents itself.

[61] Louis Dreyfus website (accessed March 17, 2004); available from http://www.louisdreyfus.com; One Source, Global Business Browser.

# III. FLORIDA, ORANGE JUICE, AND THE FTAA

In this section, the difficult tradeoffs faced by the state of Florida and its political leaders are discussed. On the one hand, Florida is home to a large citrus industry (as well as the sugar industry) that depends on a tariff to protect it from cheap imports from Latin America, and especially Brazil. On the other hand, the state has very strong economic and cultural connections to Latin America, and Miami has made a bid to be the eventual home of the FTAA's permanent Secretariat.

## *A. The Economic Importance of Orange Juice to Florida*

According to a study by the University of Florida's Food and Economic Resources Department, the citrus industry had a total economic impact on the state of Florida of $9.13 billion in output, $4.2 billion in value added, and 89,700 jobs in 1999-2000. This section details the study and seeks to establish what portion of that amount is attributable to orange juice. As will be noted later in this paper, the results of this study are mentioned repeatedly and consistently by Florida citrus growers in their pro-tariff lobbying.[62]

The study measured direct, indirect, and induced effects of the Florida orange juice industry, as well as total value added and employment. It calculated total direct output of the citrus industry as $4.1 billion: $490 million from fresh fruit and $3.6 billion from processed juice and byproducts (such as pulp, oil, etc.). Of this amount, $3.8 billion

[62] It is important to note here that the University of Florida's Food and Economic Resources Department (FRED) appears to have strong connections with the Florida Department of Citrus. Mark Brown, a Senior Research Economist of the FDOC, is a "Courtesy Associate Professor" at FRED. Other FRED economists cited in this paper (who also worked on this economic impact study) include Thomas Spreen, head of the department and a leading expert on the citrus industry, as well as Ron Muraro. See http://www.fred.ifas.ufl.edu/citrus/pubs/fred/index.htm. This note is not intended to question the objectivity of any of these economists.

was exported outside of the state. Using an input-output model and multipliers, the study's authors then extrapolated the indirect and induced impact of the industry, as well as value added effects. Indirect effects, representing economic activity in sectors that supply the citrus industry, totaled $2.1 billion, while induced effects, representing "additional personal consumption expenditures resulting from employee earnings," totaled $2.9 billion, resulting in total output of $9.13 billion. Value added included "wages earned by employees, income to business owners, and business taxes."[63]

This study measures the entire citrus industry, while we are interested in the orange industry, and especially the processed orange juice sector. What percentage of the citrus industry's impact is attributable to processed orange juice? The published study does not answer this question directly, but it does give us enough information to allow us to estimate it. The study's authors reveal that of the $3.58 billion in direct output of citrus juice products and byproducts, $3.13 billion, or 87 percent, is attributable to orange juice. Prorating the totals for processed citrus juice and byproducts gives us $7.00 billion in output, 63,000 jobs, and $3.2 billion in value added: still a significant amount.[64]

## *B. The Importance of the FTAA to Florida*

Florida is in a unique position when it comes to the FTAA, for although the agreement threatens the high tariffs that support the citrus and sugar industries, the state also has a strong interest in seeing the success of the agreement. Reasons for Florida's interest include its strong trade ties with Latin America, and especially Brazil; the state's

[63] Alan Hodges et al., "Economic Impact of Florida's Citrus Industry, 1999-2000," University of Florida, Institute of Food and Agricultural Sciences, Food and Resource Economics Department, July 2001 (accessed October 30, 2003); available from http://economicimpact.ifas.ufl.edu/publications/er01-2-citrus.pdf.
[64] Hodges et al.

strong cultural and economic connections to Latin America—including Miami's tenuous status as a center of Latin American business; and the potential economic benefits of an FTAA secretariat in Miami.

## Florida's Trade with Latin America

Statistics culled from various sources suggest that exports play an important role in Florida's economy. The USTR asserts that in 1999, over 250,000 of Florida's jobs were supported by goods exports.[65] According to a U.S. government website advocating passing of trade promotion authority, Florida depended on manufactured exports for 160,800 jobs in 1997.[66] Another source states that eight percent of jobs at Florida's manufacturing companies were dependent on exports in 1999.[67] And finally, a Florida International University study suggested that international services exports represented approximately 400 to 500 thousand jobs in Florida.[68]

It would be difficult to overstate the importance of prospective FTAA countries as export destinations for the Florida business sector. Between 1990 and 1998, the combined value of U.S. trade with Latin America nearly doubled, and much of this trade went through Florida. Florida is the leading U.S. trading partner (exports plus imports) for every Latin American country except Mexico, and 60 percent of Florida's trade is with Latin America. Seven of its top 10 and 14 of its top 20 trading partners in 2002 were Latin American/Caribbean countries. In terms of exports, prospective FTAA countries

[65] United States Trade Representative, "Florida State Exports" (accessed March 17, 2004); available from http://www.ustr.gov/outreach/states/florida.pdf.
[66] U.S. Department of Commerce, International Trade Administration, "Florida: Benefits from Exports," August 2001 (accessed March 17, 2004); available from http://www.tpa.gov/statetpa/FLtpa.pdf.
[67] The Progressive Policy Institute, "The 1999 State New Economy Index: Florida" (accessed March 17, 2004); available from http://www.neweconomyindex.org/states/1999/florida.html.
[68] Mercedes M. Ponce, "Services Driving Florida's Economy," August 28, 2001 (accessed March 17, 2004); available from SItrends.org (The Mark Twain Institute) at http://www.sitrends.org/ideas/expert.asp?EXPERT_ID=30.

are even more important, accounting for 17 of Florida's top 20 export destinations in 2002. The Western Hemisphere accounts for 65 percent of trade and 77 percent of exports—and while Florida had a $5.5 billion trade deficit in 2002, it had a $4.5 billion trade surplus with the Western Hemisphere (and a $4.3 billion surplus with South America).[69]

Brazil is Florida's single largest trading partner and export destination. In 2002 it accounted for $5.2 billion of Florida's exports (16 percent, and more than double any other country). Brazil was the second largest source of imports after Japan, with $4.3 billion. Despite a 23 percent drop from 2001, Brazil was also the top export market in terms of Florida-origin exports (products originating in Florida, even if exported from another state), higher even than Canada.[70]

## Florida's Links with Latin America

Beyond trade, the state has become a "communications, transportation, and financial hub for the Americas" and a base for American, European, and Asian multinationals that invested in the region during the 1990s.[71] This is particularly true for Miami, which has been dubbed by many the "business capital," the "financial capital," or simply "the capital" of Latin America. Miami-Dade county has over 1.2 million foreign-

[69] Enterprise Florida Inc., "Florida's International Merchandise Trade and Florida-Origin Exports, 2002," March 2003 (accessed March 17, 2004); available from http://www.eflorida.com/infocenter/trade/Overview.pdf; Terry L. McCoy and Corinne B. Young, "The Free Trade Area of the Americas: Opportunities and Challenges for Florida and Florida Firms" (November 2003), 15 (accessed February 7, 2004); available from the Center for Latin American Studies at the University of Florida, at www.latam.ufl.edu/publications/FTAA2002.pdf.
[70] Enterprise Florida, Inc., "Florida's International."
[71] McCoy and Young, 15.

born residents (more than half the population), many from Central and South America.[72] Tourism, Florida's largest industry, depends on vast numbers of Latin American visitors every year—evidenced by the fact that the economic downturn in Latin America in 2001 hurt Florida tourism, impacting the state's overall economy.[73] Even Governor Jeb Bush has said that Florida is "totally linked" to Latin America and the Caribbean.[74]

## The Economic Impact of Locating the FTAA Secretariat in Miami

When and if the FTAA is concluded, Miami, as birthplace of the FTAA and a Latin American hub, would be a logical home base for a permanent secretariat. It has competition, however. Though the passing of the FTAA may still be in doubt, ten other cities, including five others in the United States, are vying to host the permanent secretariat. Top competitors include Panama City, San Juan, Port of Spain, and Atlanta. Miami is offering two "prime bayfront spots," and proposed a "$15 million, four-story, glass-and-steel complex."[75]

Miami (like its competitors) seeks the economic benefits and prestige that would come to the home of the secretariat. Hosting the secretariat would truly legitimate Miami's self-appointed status as capital of the Americas, potentially making it the Brussels of the hemisphere. Miami's bid has been strongly supported by the State of Florida and Governor Bush. In May 2003, a study on the potential economic benefits to the state of hosting the secretariat was unveiled. The study, prepared for "Florida FTAA"

[72] U.S. Census Bureau, "Quotes and Soundbites" (accessed March 17, 2004); available from http://www.census.gov/pubinfo/www/radio/sb_ACS.html; Frank Norton, "Miami-Dade Hispanic Community more closely mirrors Western Hemisphere," *Miami Today*, October 10, 2002.
[73] Alex Veiga, "Florida's Tourism Industry Making an Uneven Economy," *Associated Press*, September 8 2002.
[74] McCoy and Young, 15.
[75] The other cities are: Cancún; Chicago; Colorado Springs; Galveston, Texas; Houston, and Puebla, Mexico. Douglas Hanks III, "Competition for FTAA headquarters heats up," *Miami Herald*, March 12, 2004.

by Enterprise Florida, which is chaired by Governor Bush, finds that passage of the FTAA and locating the secretariat in Florida would add 89,000 jobs and $13.6 billion to the state's economy.[76]

The study uses a "five-tiered" model, and argues that hosting the secretariat would enhance the trade liberalization benefits that would accrue to Florida if the FTAA is passed. While the secretariat itself would bring just 419 jobs and have a $41 million impact, the clustering of business around it would bring another 2,300 jobs and $173 million, while increases in business visitors would bring 200 jobs and $13 million. More significantly, it predicts "significantly enhanced business development due to the increased and unparalleled branding of Florida as the 'gateway to the Americas' and Miami as the unquestioned 'business capital of Latin America.'" These business development impacts would add 28,000 jobs and $5.5 billion. Finally, and most importantly, FTAA trade liberalization, "heightened" by the secretariat, would bring 58,000 jobs and $7.8 billion.[77]

## FTAA and Florida: Conclusion

In conclusion, Florida potentially has both a great deal to gain and a lot to lose from the FTAA and a more open trade regime in general. The state is fragmented, with Miami, on one extreme, tending to be very supportive of free trade and enthusiastic about the FTAA, while much of the rural, agricultural middle feels threatened by globalization and is generally much more protectionist. Will the FTAA add nearly $14 billion to the

[76] Enterprise Florida, Inc., "The Economic Impacts of Locating the FTAA Secretariat in Florida," May 2003 (accessed February 7, 2004); available from http://www.eflorida.com/infocenter/pubs/reports/FTAAStudy2003.pdf. Enterprise Florida is a "public-private partnership responsible for leading Florida's statewide economic development efforts." See Enterprise Florida's official website at http://www.eflorida.com. See also Florida FTAA Inc. at http://www.floridaftaa.org/frontend/ftaa.php.
[77] Enterprise Florida, Inc., "The Economic Impacts."

state's economy, or ravage a $9 million industry? Where one stands along this continuum will likely determine the relative weight and credence one assigns to the two studies described above. Jeb Bush and his state would ideally like to embrace free trade while exercising "selective exit" in "sensitive" areas, such as citrus and sugar—but given Brazil's stance, it is unlikely that Florida can have its cake and eat it too.[78]

[78] Ari Afilalo, "Not in My Backyard: Power and Protectionism in U.S. Trade Policy," *New York University School of Law Journal of International Law and Politics* 34 (Summer 2002): 752.

# IV. BRAZIL-BASED PROCESSORS' INVESTMENTS IN FLORIDA: MOTIVATIONS AND TIMING

This section reviews the motivations behind the FDI entry into Florida by the BBPs, and also discusses why they moved in specifically during the 1990s.

## *A. Motivations for Brazilian Investment in Florida*

While several motivations may exist for the BBPs' investments in Florida, the most obvious is tariff-free access to the world's largest orange juice market. As noted in a 1997 Working Paper by the FDOC, the United States had a 1995-96 consumption of 1.4 billion pounds solid.[79] "Assuming for illustrative purposes a 3% return and a FOB price of $1.00/PS, a firm that can obtain 10% to 20% of the U.S. market might receive a $4.2 to $8.4 million annual return. Such potential returns alone may motivate international investment in Florida processing."[80]

The investments in Florida also opened up potential arbitrage opportunities. Having plants in both São Paulo and Florida provides flexibility in responding to shifting geographical demands, or demands for juice of different attributes. An example of arbitrage would be that if European markets were willing to pay a premium for Florida orange juice, a Brazilian processor might be able to transport orange juice to Florida, and re-export to Europe, taking advantage of the duty drawback. Many different attributes go into a juice's quality, including flavor, color, acidity, and viscosity. Oranges in Brazil and

[79] Pounds solid measures the amount of soluble solids in orange juice. A 55-gallon drum of FCOJ at 65° Brix (° Brix = percentage of juice soluble solids) contains about 370 pounds solid and 52 gallons. Fresh, or reconstituted juice is about 12° Brix. FDOC, "Citrus Reference Book" ("Conversions and Equivalents"); Richard F. Matthews, "Frozen Concentrated Orange Juice from Florida Oranges," University of Florida, Florida Cooperative Extension Service, Fact Sheet FS 8, April 1994 (accessed October 30, 2004); available from http://edis.ifas.ufl.edu/BODY_CH095.

[80] FDOC, "Florida-Brazil Processing Linkages," 10.

in Florida will have different attributes that vary by season and year, and consumers in different parts of the world may seek different combinations—so the ability to source oranges from both major production regions provides a competitive advantage.[81]

Finally, a presence in both Florida and São Paulo gives the processing companies additional leverage and economies of scale in working with large customers. As has been noted, Cutrale is Coca-Cola's top supplier—that relationship alone could justify Cutrale's investment in the United States. Similarly, Citrosuco is a major supplier for Tropicana in the United States, and it also has a contract with Pepsi to supply orange juice in South American countries.

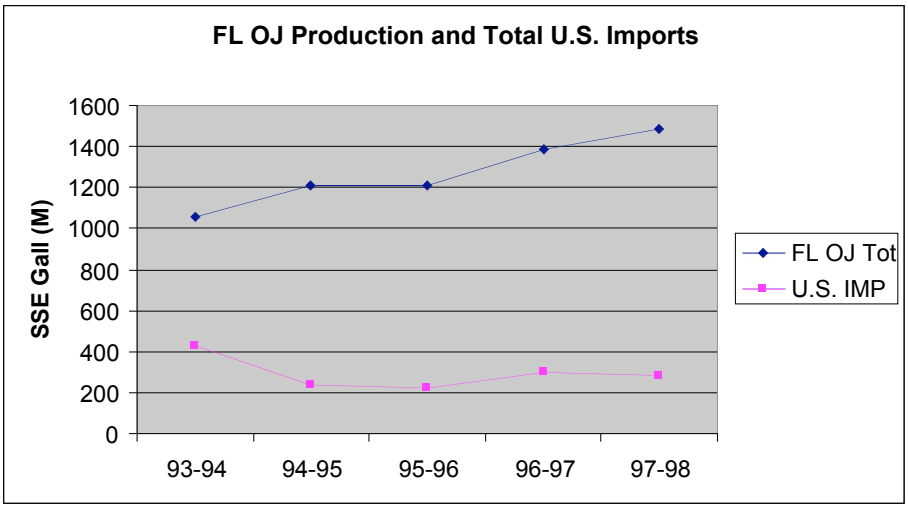
## *B. Timing: Why during the 1990s?*

Since the tariff has been in place since 1930, and the United States has always been the largest market, what explains the timing? Several coincident factors account for the entry of these companies into Florida during the 1990s. These include the increase in Florida's orange production, the rise of NFC orange juice, and resultant lower U.S. imports of FCOJ.

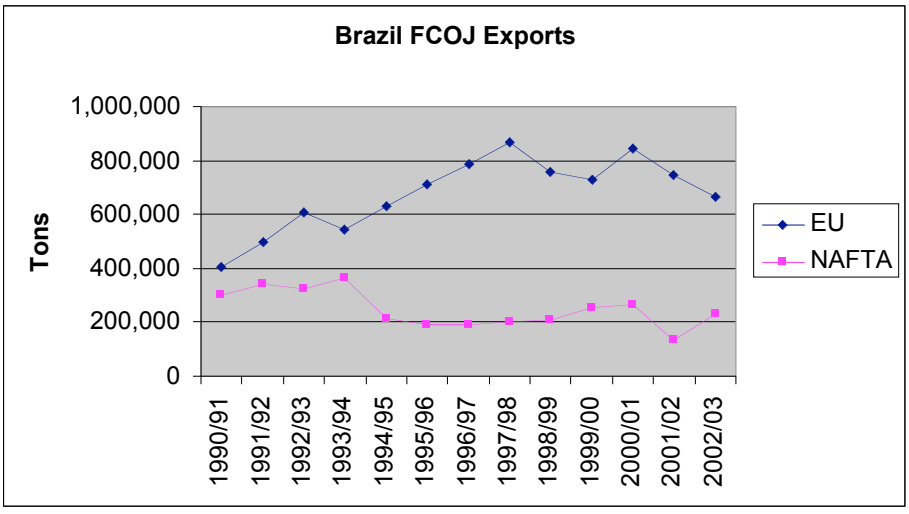
As was mentioned in Section II(A), Florida's orange production increased starting in the mid-1990s, when the new groves in the south became productive. At precisely the same time, NFC was overtaking FCOJ in supermarket sales. Not surprisingly, these two developments led to lower U.S. FCOJ imports. The greater Florida production made the United States more self-sufficient in orange juice. As a FDOC Working Paper details, Brazilian exporters could not compete with Florida processors in NFC, due to the

[81] Ibid., 12.

combination of the tariff and the high transportation costs.[82] As the charts below clearly indicate, total U.S. imports fell or were stagnant during the mid-1990s, as Florida production increased rapidly. Brazil FCOJ exports to NAFTA (primarily the United States) fell during this period, even as they increased to the EU.




**Source:** Florida Department of Citrus




**Source:** Abecitrus

[82] Ibid.," 10, Table 2.

It is also possible that NAFTA and other trade agreements may have hurt Brazilian exports. In 1992, about 90 percent of all U.S. orange juice imports were from Brazil, while at the end of the decade the share was down to 60 percent. The countries with the highest increases of orange juice exports to the United States during that period were Costa Rica, which does not face a tariff, and Mexico, which has a generous quota at a much lower tariff than that faced by the United States. Combined, these two countries' exports jumped from $11 million to $78 million. According to the Brazilian Embassy in Washington, the tariff preferences have stimulated expansion of the industries in both countries.[83]

Finally, the entry of the BBPs may be explained, at least partly, by an opportunistic purchase by Cargill, and then "follow-the-leader" behavior by its competitors. Cargill moved into Florida when Procter & Gamble, having given up in its attempt to break the Tropicana and Minute Maid stranglehold on branded orange juice, decided to discontinue its Citrus Hill brand in 1992, and subsequently sold its processing plants to Cargill. The other multinational, Dreyfus invested in Florida next, followed by Cutrale, which leveraged its Coca-Cola connections, and, finally, Citrosuco, which followed to keep up with its archrival. While opportunism may have played a part, it would not appear a coincidence that as the forces described above combined to keep Brazilian exports out of the United States, the Brazilian processors took the initiative and moved into Florida.[84]

[83] Embassy of Brazil, 35.
[84] Fernandes, Jr., 18-20; Binkley et al., "Competitive Behavior," 146.

# V. BRAZIL-BASED PROCESSORS AND THE INDUSTRY'S COMPETITIVE LANDSCAPE

The entry of the BBPs into Florida over the past ten years has vastly changed the competitive situation in the citrus industry. This is true in two distinct, though interrelated, ways. First, the purchases of processing plants by Brazilian processors have drawn apart the grower and processor links of the industry value chain. Second, the citrus processing industry has become much more consolidated. These two changes in the industry dynamics have clear competitive effects, and could have potentially powerful political repercussions as well, as we will discuss in depth later in this paper.

This section will begin with an overview on the non-processing links in the Florida orange industry supply chain. It will then focus on the processing link, discussing the effect of BBP entry. The section will end with an analysis of the industry using Michael Porter's "Five Forces" framework.

## *A. Florida's Orange Juice Value Chain*

In 2001-2002, retail orange juice sales in grocery stores with over $2 million in annual sales totaled 777 million gallons and $3.45 billion. While this represents most orange juice sales for at-home consumption, it does not include another 691 million gallons sold in other retail outlets or consumed in restaurants, schools, etc.[85]

The orange juice value chain begins with the growers, many of whom are organized through cooperatives. They sell the oranges to processors, who then sell FCOJ or NFC to marketers, directly to retailers for private label sale, or to institutions, such as

[85] FDOC, "Citrus Reference Book."

schools.[86] Backwards and forwards integration occurs, of course, and some players are present in more than one stage of the value chain. The 1990s saw great consolidation in every part of the value chain, though growers remained much less consolidated than downstream links in the chain.

## Growers

Florida's citrus industry is characterized by the number of small citrus growers. In 1997, there were 7,676 citrus farms in Florida, a drop of 6 percent from 1992. Some industry concentration did exist, however: the largest 15 growers owned about 35 percent of citrus acreage in 2003—and the biggest growers owned much more acreage than the biggest owners had owned in the past. Overall bearing acreage for oranges fell during the 1980s with the freezes and increased again during the 1990s. Bearing acreage for oranges has been level since the mid-1990s at about 600,000 acres, up from approximately 400,000 at the beginning of that decade and 575,000 in 1980. While acreage is not much greater than it was in 1980, the number of citrus bearing trees has increased significantly. There were about 78 million citrus bearing trees in 2002, a 64 percent increase over 1980, and 91 percent more than in 1990.[87]

Though most are small, many of Florida's citrus growers have organized into local cooperatives, such as the Gulf Citrus Growers Association, the Highlands County Citrus Growers Association, and the Peace River Valley Citrus Growers Association. One of the most well-known cooperatives is Florida's Natural Growers, which was founded in 1933 and consists of growers in Lake Wales, Florida. This cooperative has

[86] This is admittedly a simplification of the supply chain, since intermediate handlers, packinghouses, wholesalers, and others play a part. The author is focusing on what he considers the most important links in the value chain, particularly for the purposes of this paper.
[87] FDOC, "Citrus Reference Book;" Goldberg and Hogan, 5; Hodges et al., 5-7.

developed one of the top orange juice brands, Florida's Natural.[88] Despite some notable cooperatives, however, citrus growers have not consolidated as much as processors or "bird dogs" (intermediate handlers). According to a Florida grower and FCC Commissioner (see below), Florida's citrus growers "haven't united the way other segments of the industry have, and so haven't gained benefits that consolidation can offer." He notes that growers "tend to be fiercely independent."[89]

As was noted in Section I, Florida Citrus Mutual is a private trade organization that represents Florida citrus growers. It is the state's largest citrus growers' organization with more than 11,000 members. As will be discussed at length in Sections VI and VII, it is highly active politically, particularly in seeking to maintain the U.S. orange juice tariff.[90]

Another important advocate for citrus growers is the Florida Department of Citrus (FDOC). It was established in 1935 through an act by the state's legislature, which states as its purpose:

> …to protect and enhance the quality and reputation of Florida citrus fruit and processed citrus products in both domestic and foreign markets. It also acts to 'protect the health and welfare and stabilize and protect the citrus industry of the state,' which in turn helps to promote the general welfare and social and political economy of the state.[91]

The FDOC is funded by an excise tax on boxes of citrus (a "box tax"), and its main functions include marketing (to which is typically devoted over 80 percent of the budget), lobbying, and scientific research. The Department is designed to promote the entire

[88] See http://www.ultimatecitrus.com/organizations.html; http://www.floridasnatural.com/history.html (accessed October 30, 2003).
[89] Ernie Neff, "Citrus Expo Wrap-Up," *Citrus Industry* 81, no. 10 (October 2000), 17.
[90] FCM, "Citrus Growers Elect Board for Next Season," May 15, 2003 press release (accessed March 11, 2004); available from http://www.flcitrusmutual.com/resources/PDFs/fcmboard.pdf.
[91] FDOC, "Contacts," (accessed October 7, 2003); available from http://www.floridajuice.com/floridacitrus/FDOC/index.htm.

Florida industry: at least 7 of the 12 members of its governing body, the FCC, must be growers, while three must represent processors and two must be fresh fruit shippers. Interestingly, however, all 12 current commissioners are growers (three are also processors and two are also shippers). Not surprisingly, the FDOC is largely focused on protecting Florida growers.[92]

## Marketers and Retailers

The marketing segment is the most concentrated link in the value chain. Pepsi's Tropicana, Coke's Minute Maid, and Florida's Natural are the three dominant brands, accounting for over 60 percent of consumer orange juice sales in 2003.[93] Tropicana, which had long played second-fiddle to Minute Maid, rode the NFC wave to become the largest orange juice brand in overall sales in 2000. In 1999, Tropicana Premium "claimed fourth place among grocery store names, after Coke, Pepsi and Campbell's Soup."[94] Minute Maid remained the leader in restaurant and institutional sales. Interestingly, Minute Maid had made the strategic decision to divest itself of its acreage and processing capacity, selling the former to King Ranch[95] and the latter to Cutrale, a long-standing supplier of FCOJ. The difficulty of breaking into the branded orange juice market was made clear when Procter & Gamble was unable to break the grip of its main rivals during the 1980s with its Citrus Hill brand.[96]

The final step in the value chain consists of the retailers, primarily supermarkets. As has been well documented, great consolidation occurred among food retailers during

[92] Ibid; Goldberg and Hogan, 8.
[93] Goldberg and Hogan, 8.
[94] Mintz.
[95] One of the largest cattle ranches in the U.S., King Ranch of Texas also owns citrus groves in Florida. See http://www.king-ranch.com/geography.htm.
[96] Binkley et al., "Competitive Behavior," 146; Goldberg and Hogan, 8.

the 1990s as well. Goldberg and Hogan note that the retail consolidation and competitive shifts had largely disaggregated final consumer prices from orange and bulk FCOJ prices.[97] It should also be noted that many supermarkets sold their own private labels of orange juice—private labels held a significant share of the shrinking FCOJ (as opposed to chilled) business. This increased private label competition with the national brands arguably kept orange juice prices down.[98]

## *B. The Citrus Processors*

The Florida citrus processing industry has been marked by much recent change in ownership, as well as industry consolidation, led by the Brazilian or Brazil-based processors. In the mid 1970s, there were about 50 processing plants in Florida. Most of these plants were owned by growers, while the processor-only companies were family-owned, Florida-based companies. By the beginning of the 1990s, some consolidation had occurred, but the processing capacity was still controlled by Florida firms, and in many cases by growers. In the 1989-1990 season, there were 27 processing firms with 29 plants. Nineteen of the firms, owning 17 of the plants, were either grower-processors or cooperatives.[99]

The 1990s saw accelerating consolidation, marked by the entry of the BBPs and the "sale of grower-processor plants to companies with small or no grove operations in Florida."[100] As has been noted, the four BBPs controlled 45 to 50 percent of the

[97] Goldberg and Hogan, 13.
[98] Binkley et al., "Consolidated Markets, Brand Competition, and Orange Juice Prices," Agricultural Information Bulletin No. 747-06 (accessed November 6, 2003); available from http://www.ers.usda.gov/publications/aib747/aib74706.pdf.
[99] Spreen and Fernandes, Jr., "Consolidation in the Florida citrus processing industry," *Citrus Industry* 81, no. 10 (October 2000), 22-23.
[100] Ibid., 22.

processing capacity in Florida—and the aggregate market share of these companies in 2000-2001 was estimated to be around 47.2 percent. By the 2001-2002 season, 12 firms owned 18 plants—and the BBPs owned eight of them, with Tropicana owning two. This meant that Brazilian companies or multinational companies with operations in Brazil (including Tropicana) owned more than half the processing plants—and controlled an estimated 74 percent of processing capacity.[101]

Possibly an even more dramatic change than the consolidation was the separation of orange processing from orange production. By 2001-2002, the number of grower-processor firms was down to two, each controlling just one plant. None of the 11 grower-processors from the 1989-90 had survived—some could not compete due to their small size, while others were victims of the relocation in production after the freezes of the 1980s. In 1990, grower-processors processed approximately 50 percent of Florida orange juice production—by 2001 that figure was down to 12 percent. The processors controlled by grower's cooperatives can be thought of as grower-processors as well—and these were also reduced, from five to three. In 1989-90, grower-processors and cooperatives represented 59 percent of firms and owned 59 percent of plants, while in 2001-02 those figures were down to 42 percent and 33 percent, respectively.[102]

## *C. Five Forces Analysis*

This section briefly analyzes the dynamics of Florida's orange industry using Michael Porter's "Five Forces" model.[103] Porter's framework uses five market forces to

[101] Fernandes, Jr., "Analyses," 18-20; Goldberg and Hogan, 8.
[102] Fernandes, Jr., "Analyses," 18-20.
[103] For a quick introduction to the Five Forces framework, see QuickMBA.com, http://www.quickmba.com/strategy/porter.shtml. Michael Porter originally presented his five forces in the

analyze an industry's competitive structure, and in the case of the Florida orange industry it proves helpful in gaining a greater appreciation for the competitive context in which growers and processors operate. The analysis below provides insight on the unequal capture of rents within the value chain, and clarifies why growers are unlikely to generate sustainable profits over the long run.

## Growers

*Threat of Entry: High/Medium.* While barriers to entry have risen in recent years, due especially to the higher cost of land and to environmental regulations (including water rights), the financial barriers are relatively low. On the other hand, it takes years for a grove to become productive—so supply is inelastic in the short term, and a prospective entrant faces a real barrier in terms of time to market. That said, the relatively rapid adjustment of the Florida's citrus industry as it moved south after the freezes of the 1980s, and increased production in response to higher prices, is evidence that new competitors can enter without much difficulty (and also that existing competitors can increase in scale).

*Threat of Substitutes: High*. Growers face two significant substitute threats. On the one hand, they compete with other foods and beverages—that is why the Atkins diet is seen as such a threat, as it induces consumers to shift their consumption to substitute products. On the other hand, the greatest threat to citrus growers is that the Brazilian orange is an extremely close, but less expensive (absent the tariff) substitute for Florida oranges.

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1980 classic, *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (New York: The Free Press, 1980).

*Bargaining Power of Suppliers: Medium*. Supplier power in terms of material inputs does not seem to be a major issue for Florida citrus growers. There have been concerns in the farm sector as a whole that small farmers are hurt by a focus of suppliers on selling in bulk to larger farmers—but given the predominance of the small farmer in the citrus industry, this is not likely to be a problem. It does not appear that any supplier poses a credible forward integration threat. On the other hand, the supply of labor is a problematic issue for citrus farmers. Citrus harvesting is still very labor-intensive, and citrus growers rely largely on migrant workers for cheap labor. This has become more of an issue since the September 11 attacks. According to an industry analyst, "over the decade of the 1990s, labor on farms has become more and more scarce, litigious, and thereby expensive."[104] Larger farms also face issues with unions—Minute Maid apparently sold its groves in the 1990s largely because of problems with the United Farm Workers.[105] Section VI(B) discusses the promise of mechanical harvesting, which growers are beginning to turn to in response to labor difficulties and cost pressures.

*Bargaining Power of Buyers: Very High*. Buyer power is clearly a major threat for citrus growers. As we know, 95 percent of orange production goes into processed juice, and in this case the buyers—processors—are very concentrated, with a few of them controlling significant market share. Processors can theoretically threaten backwards integration into growing—the BBPs own their own groves in Brazil, have the expertise to do it in Florida, and reportedly have looked into the possibility.[106] Since they also own processing plants and groves in Brazil, these firms have far more flexibility in sourcing

[104] Ibid., 30.
[105] Fernandes, Jr., 30; David Bacon, "Florida Farmworkers Take on Taco Bell," Interview, April 16, 2002 (accessed April 2, 2004); available from http://www.labornotes.org/archives/2002/06/g.html.
[106] Lisa Rath (Executive Vice President of Florida Citrus Processors Association), telephone conversation with author, March 30, 2004.

their oranges than did processors in the past. The big processors tend to negotiate long-term contracts with the largest citrus growers, leaving smaller growers facing oversupply problems and no leverage in negotiations.[107] Growers have been increasingly unhappy about the prices they have received from processors since the late 1990s.[108]

*Degree of Rivalry among Firms: Very High*. Finally, rivalry among growers is clearly extremely high. Almost all of the characteristics that contribute to high rivalry are present. These include a large number of firms, an undifferentiated product, slow market growth, relatively high fixed costs, a perishable product, and low switching costs for customers. Florida growers overproduced in the most recent season, and subsequently asked the government to bail them out.[109]

## Processors

*Threat of Entry: Medium/Low*. While the data on capital requirements for a processing plant are not available, they are clearly very high relative to a farm. The business also requires significant expertise. The BBPs were able to purchase existing processing plants rather than building new ones.

*Threat of Substitutes: Medium*. Florida-only processors face the same substitute threats as the growers: shifts in consumer demand and foreign juice. The BBPs, on the other hand, are well-positioned in terms of substitutes. Brazilian juice is no threat to them, for obvious reasons. Additionally, they have the obvious advantages of already being major exporters to Europe, and have also begun exporting to the growing markets

[107] Enza Tedesco, "Florida Orange Juice Attracts Brazilian Firms," *Wall Street Journal*, July 24, 2000; Golberg and Hogan, 8.
[108] Kevin Bouffard, "Citrus Ad Study Sways Few," *Lakeland [FL] Ledger*, October 15, 2003.
[109] Bouffard, "Citrus Department Seeks $250 Million Bailout," *Lakeland [FL] Ledger*, October 30, 2003.

of Asia—so they are less threatened by a drop in U.S. demand for orange juice than are Florida's growers.

*Bargaining Power of Suppliers: Low*. Supplier power here represents the flip-side to the buyer-power threat for the growers. Unless Florida's growers can join forces as suppliers, they pose little threat to the processors. And given the high level of rivalry and incredible fragmentation among growers, it seems unlikely this will happen. The same goes for the BBPs' suppliers in Brazil—where the major processors function as an oligopsony.[110]

*Bargaining Power of Buyers: High.* As the value chain analysis above noted, the marketing segment of the value chain is highly concentrated, and dominated by just three companies. Cutrale is Minute Maid's preferred supplier, while Tropicana has its own processing plants, and also purchases from Citrosuco. Florida's Natural is owned by the cooperative processor Citrus World. Despite this high-level of concentration among the leading brand-name marketers, processors can also sell their goods to the private labels of supermarkets and packers, as well as directly to institutions.

*Degree of Rivalry among Firms: Medium/High*. Because the BBPs sell an undifferentiated product in a market with slow growth, rivalry is certainly not low. However, as has been noted, the BBPs, along with Tropicana, control much of the processing industry, are diversified, and are well-placed to exploit growing markets in other parts of the world. The concentration of the processing sector in Florida, as well as in Brazil, limits what would be a very rivalrous situation given the commodity product. The BBPs' connections to Brazil, along with the overproduction in Florida, give them very strong bargaining power relative to Florida growers, which should allow them to

[110] Fernandes, Jr., "Analyses," 25.

maintain attractive margins. They are helped by the fact that retail prices for orange juices have not fallen nearly as much as the price for oranges.

# VI. IMPLICATIONS OF TARIFF ELIMINATION: DOOM FOR GROWERS?

In recent years, as trade negotiations have potentially threatened the orange juice tariff, growers and organizations that support them have repeatedly warned that elimination of the tariff, or even reductions, would decimate the industry and force most growers out of business. Is this really true, or does it represent posturing on the part of growers who simply fear greater competition from Brazil? This section investigates the implications of tariff elimination or reduction on orange growers and on the Florida orange juice industry.

## *A. Cost Comparison: Florida and Brazil Bulk FCOJ*

A cost comparison of Florida and Brazilian orange juice makes clear that the orange juice tariff is necessary to keep Florida FCOJ, which has much higher labor costs, competitive with Brazilian juice within the U.S. market. Specifically, a study on the cost to deliver bulk FCOJ to Florida processors in the 2000-2001 season shows that the total F.O.B. costs per pound solid were $.098 from SW Florida, and $1.06 from São Paulo. Of the $1.06 cost for Brazilian juice, $0.29, or 27 percent, is due to the U.S. tariff. Clearly even a small reduction of the tariff would allow Brazilian processors to deliver bulk FCOJ to Florida processors more cheaply than it can be produced within the state.

The table below provides further detail on the cost comparison conducted by two University of Florida professors.[111] Note that while Brazilian exports face significant transportation costs of approximately $0.10 per pound solid, these do not come close to

[111] Ron Muraro and Spreen, "Cost for processed oranges: A comparison of Florida and São Paulo (Brazil)," *Citrus Industry* 83, no. 8 (August 2002), 8-10.

offsetting the higher production costs in Florida. In fact, the transportation costs more or less offset the higher grower costs for Florida farmers. Clearly the São Paulo industry has

**COST COMPARISON: DELIVERY OF BULK FCOJ TO FL PROCESSOR FROM SW FLORIDA AND SAO PAULO**

| **Grow and Deliver to Processing Plant** | **SW FL** | **SP** | | |
|---|---|---|---|---|
| | ($/P.S.) | ($/P.S.) | **FL less SP** | **SP / FL** |
| Labor | 0.0690 | 0.0285 | 0.0405 | 41% |
| Chemicals and Fertilizer | 0.1038 | 0.1108 | (0.0070) | 107% |
| Machinery Operating Costs | 0.0409 | 0.0291 | 0.0118 | 71% |
| Contract (Tree Replant/Pruning) | 0.0293 | - | 0.0293 | |
| Tot Production Costs | 0.2429 | 0.1684 | 0.0745 | 69% |
| Other Costs (Depr, Finance) | 0.0454 | 0.0293 | 0.0161 | 65% |
| Annual Charge… | - | 0.0287 | (0.0287) | |
| Total Specified Costs | 0.2883 | 0.2264 | 0.0619 | 79% |
| Taxes and Reg Fees | 0.0284 | - | 0.0284 | 0% |
| Capital Investment Costs | 0.1177 | 0.1073 | 0.0104 | 91% |
| Total Grower Costs | 0.4344 | 0.3337 | 0.1007 | 77% |
| | | | | |
| Picking Oranges and Roadsiding | 0.2462 | 0.0640 | 0.1822 | 26% |
| Hauling/Transporting to Plant | 0.0774 | 0.0250 | 0.0524 | 32% |
| Total Harvesting | 0.3236 | 0.0890 | 0.2346 | 28% |
| | | | | |
| Assessments | 0.0269 | 0.0208 | 0.0061 | 77% |
| | | | | |
| **Total Delivered-In Costs** | **0.7849** | **0.4435** | 0.3414 | 57% |

| **Process Bulk FCOJ and Deliver to Florida Processor** | **SW FL** | **SP** | | |
|---|---|---|---|---|
| Total Delivered-In Costs | 0.7849 | 0.4435 | 0.3414 | 57% |
| Bulk Processing Cost | 0.2034 | 0.1691 | 0.0343 | 83% |
| Transport to Harbor, Storage | - | 0.0292 | (0.0292) | |
| **FCOJ Tariff** | **-** | **0.2890** | (0.2890) | |
| FL Equalization Tax | - | 0.0299 | (0.0299) | |
| Ocean Freight and Insurance | - | 0.0716 | (0.0716) | |
| USDA Inspection, Other Costs | - | 0.0285 | (0.0285) | |
| **Total F.O.B. Costs** | **0.9883** | **1.0608** | (0.0725) | 107% |
| | | | | |
| Total Labor Costs | 0.3926 | 0.1175 | 0.2751 | |
| Total Transportation Costs | - | 0.1008 | (0.1008) | |
| Total "Foreign Costs" | - | 0.4190 | (0.4190) | |

**Source:** Muraro and Spreen

a lower cost structure, especially in labor. The activities of "picking orange and roadsiding" account for one quarter of the total FOB cost for Florida bulk FCOJ, and total harvesting costs represent almost one-third. Adding in production labor costs give us an estimated total labor cost of $0.39, or $0.28 more than in Brazil. This difference is essentially offset by the citrus tariff.[112]

## *B. Potential Mitigating Factors*

This subsection discusses three potential mitigating factors for Florida orange producers in the event of a tariff cut. These factors are: mechanical harvesting technology; citrus variegated chlorosis, a disease ravaging São Paulo groves; and the increase of NFC as a percentage of the orange juice market.

### The Promise of Mechanical Harvesting

As they face the possibility of tariff elimination, Florida growers are beginning to turn to mechanical harvesting as a way to significantly reduce their costs and stay competitive globally. Spurred initially by fears of shortages of labor (as well as a desire to lower costs generally), the industry has been working to develop mechanical harvesting systems to replace the current handpicking of oranges. The FDOC has invested over $9 million to help develop these machines.[113]

According to a story in *Citrus Industry*, current mechanical harvesting systems have the potential to cut Florida's harvesting costs from a third to a half, and, eventually, could potentially lower them close to Brazilian levels. However, while the number of

[112] Of course, such a cost comparison will be influenced by the dollar/real exchange rate. During the period analyzed in this study, the rate was about two reais to the dollar, while today it is close to three to one. The effects of exchange rate movements on this cost comparison are beyond the scope of this paper.
[113] Neff, "Goodbye, ladder; hello, shaker," *Citrus Industry* 81, no. 10 (October 2000), 12; Laura Layden, "Brazil, labor crunch make citrus growers eye mechanical harvesting," *Miami Herald*, February 24, 2004.

groves harvested mechanically has increased steadily since 1999, they still represent less than four percent of total acreage. Growers are unsure about the effect mechanical harvesting may have on their trees, and groves and trees have to be of the right density and height to be mechanically harvested. Additionally, these "tree-shaking machines" can cost close to $1 million each. Despite this slow growth, many feel mechanical harvesters could eventually allow Florida to compete without the tariff. "Continuous travel canopy shake and catch systems" operating in suitable groves could bring costs close to that in Brazil. However, this is an ideal scenario that likely will not be reached in this decade, according to experts.[114]

## Citrus Variegated Chlorosis

Another important factor to consider when considering the impact of a tariff elimination/reduction is that the São Paulo growers face serious challenges of their own—in particular the prevalence of citrus variegated chlorosis (CVC), a bacterial disease the reduces production of orange trees. It is present in over one-third of the orange trees in Brazil, and "represents a prominent threat" to Brazil's industry.[115] Brazil's Fundecitrus[116] estimates that in 2002, 38 percent of São Paulo orange trees were infected with CVC. The disease has no cure, though it can be contained through pruning, eradication of highly infected trees, and insecticides. According to an industry analyst, CVC has limited production expansion, increased costs, and reduced yields. Efforts to control and cure the disease are underway, but over the rest of the decade it appears that

[114] Neff, "Goodbye," 12-15; Layden; Glenn C. Wright, "Robotic harvesting of citrus may solve labor shortage," *Yuma [FL] Sun*, October 24, 2003.
[115] Fernandes, Jr., "Analyses," 42.
[116] "The Fund for Citrus Plant Protection," an entity supported by the Brazilian citrus industry. See http://www.fundecitrus.com.br.

CVC will somewhat reduce São Paulo's orange production and FCOJ production.[117] According to Spreen, São Paulo's orange production will drop, due to both disease and low grower prices, but should fully recover by 2010 and "maintain its dominance of the world processed orange market."[118]

## NFC Trend: The Salvation for Florida Growers?

While mechanical harvesting could help in the long-term, and CVC would limit São Paulo's ability to increase production immediately, the increase of NFC as a percentage of the orange juice market would likely serve as the greatest mitigating factor in the event of a tariff cut. That is because, as was mentioned earlier, NFC has much higher transportation costs. Since it is not concentrated, an equivalent amount of NFC takes up seven times the volume of FCOJ. The higher transportation costs have meant that nearly all the NFC consumed in North America is produced in Florida—very little has been shipped from Brazil (and just small amounts from Mexico). Since 40 to 50 percent of Florida's orange crop has gone to the NFC market in recent years, it would seem that a good portion of the industry is well insulated from Brazilian competition. [119]

The assumption that the NFC market would be much less vulnerable to a cut in the tariff was used by University of Florida economist Thomas Spreen in a 2001 study. Using the aforementioned model of the world market, Spreen projected the possible impact of both a gradual reduction and an immediate elimination in the orange juice tariff

[117] Fernandes, Jr., "Analyses," 42-74.
[118] Spreen, "Projections."
[119] Spreen, "The Free Trade Area of the Americas," 2-3.

due to the FTAA. His projections begin with the 2001-02 season and go out to the 2015-16 season.[120]

Spreen's projections are far from the doomsday predictions of many Florida growers—though he does find that prices would drop. According to his projections, neither phased reduction nor immediate elimination of the tariff would result in much of a drop in total production—production would not change for years, and by the end of the period would be down by one percent and three percent in the respective scenarios. Prices, on the other hand, would drop significantly. On-tree prices in a phased reduction would gradually fall and by the end of the period would be 25 percent lower than they would have been in the base scenario (with the tariff intact). In the immediate elimination scenario, on-tree prices would immediately drop by 29 percent from the base scenario, and would stabilize at about 24 percent below the base scenario.

As noted, this study was based on the assumption that the growing NFC market does not need the tariff protection. Given recent events, however, that may be an optimistic scenario for the growers. According to a Harvard Business School case study, Florida citrus growers recently were shocked by Citrosuco's 2003 launch of giant, new generation ships that significantly reduced shipping costs from Brazil, giving the company's bulk NFC exports from Brazil to the Northeast United States a cost advantage over Florida NFC, *with or without the tariff*. Calculations by Ron Muraro, a University of Florida economist, show that before these new ships, Florida had a large cost advantage over São Paulo in delivering bulk NFC to Florida processing plants, with or without the $0.17/gallon tariff. However, since transportation costs from Brazil to the Northeast

[120] Spreen apparently did not assume that any reductions would have to wait until the expected completion of the FTAA in 2005.

United States were not any more than to Florida, Florida needed the tariff to maintain a cost advantage to the Northeast. Despite the new ships, Florida still has a cost advantage in delivering to a Florida plant, even without the tariff, but it is down from $0.38 to $0.12/gallon. Worse yet, the tariff is no longer enough to make Brazilian bulk NFC more expensive in the Northeast—Brazil now has a $0.13/gallon advantage with the tariff—and $0.30/gallon without! It seems clear, then, that Citrosuco's technological innovation (ships that can haul eight million gallons of NFC per trip, and travel and unload faster than before) has made the prospect of a cut in tariffs much more dire for the Florida industry.[121]

It should be noted, however, that Spreen does not entirely agree with Muraro's analysis. According to Spreen, Muraro has not included the land transportation costs of NFC imports within the U.S to packaging facilities—while he has included similar costs for Florida NFC. Additionally, Spreen is not convinced that a FCOJ storage tank can readily be converted to aseptic NFC tanks. Most interestingly, Spreen believes Tropicana is behind Citrosuco's use of large NFC tankers, and is experimenting with the European market, where NFC demand is growing. In conclusion, Spreen affirms that the the FCOJ/NFC distinction is largely moot, since there are strong cross-price effects.[122]

## *C. Florida Citrus Mutual's Argument*

Florida Citrus Mutual (FCM) is the entity that is most prominent and active in promoting and defending the orange juice tariff, and a review of its arguments and public statements provides a good general understanding for its strategy. As has been mentioned

[121] Goldberg and Hogan, 16-17, 24-25.
[122] Spreen, telephone conversation with author, April 12, 2004.

above, FCM is the largest grower cooperative association in Florida, self-reporting an "active" membership of 11,676 growers in 2002. According to FCM, it "represents more than 90 percent of Florida's citrus growers" and "also accounts for as much as 80 percent of all oranges grown in the United States for processing into juice and other products."[123]

In an August 2002 "Written Testimony" to the Office of the USTR, "In the Matter of: Market Access in the FTAA Negotiations," FCM stated its arguments in defense of the U.S. orange juice tariff. While just about every conceivable argument is enlisted, FCM focuses on a few key issues. These include the polarization of supply and demand, supposedly resulting in a Brazilian monopoly; the unfair advantages enjoyed by the Brazilian industry; and the economic importance of Florida's industry.[124]

The first part of FCM's argument is that the elimination of the tariff would result in Brazil's "realization of an airtight global monopoly on orange juice."[125] This would ultimately result in higher prices which would hurt American consumers. FCM argues that the large Brazilian orange juice processors have an oligopoly that allows them to manipulate the global orange juice market. Because the United States has the largest market, "Brazil has enormous incentive, as well as potential, to cripple the U.S. industry so it can dominate the U.S. orange juice market."[126] The document then goes on to accuse the Brazilian industry of dumping FCOJ in the EU, and notes that Brazilian orange juice export prices have been trending lower for the past 15 years.

FCM of course does not mention that two of the "oligopolist" Brazilian processors are not Brazilian—and that Cargill is American. Its argument that Brazil

[123] LaVigne, "Written Testimony," 2.
[124] Ibid.
[125] Ibid., 8.
[126] Ibid., 8.

would have a monopoly on orange juice is clearly protectionist rhetoric—Brazil as an entity is not a monopoly, and in the case of orange juice the processors are from multiple countries and compete strongly against one another. In addition, the two largest marketers of orange juice are American companies. That said, it is widely believed that Brazilian processors operate something close to a cartel in São Paulo. Spreen notes that a removal of the tariff would strengthen the hold of Cutrale, Citrosuco, and Tropicana on the world orange juice market.[127]

The second main argument of the FCM testimony appeals to "fair trade" advocates—criticisms of free trade that focus on unequal labor and environmental standards. In a section entitled "Brazil's Unnatural Advantages," the document accuses the Brazilian industry of using illegal child labor and abiding by much lower worker safety protection and environmental regulatory standards than that faced by Florida growers. Finally, it is noted that the Brazilian industry consistently benefits from currency devaluations. Because the "playing field is grossly skewed," the Florida growers need and deserve the tariff protection to counter these "unnatural advantages."[128]

The third main point of the testimony is that the reduction or elimination of the tariff would have terrible economic consequences in Florida, and would "ravage" entire counties."[129] Because production is highly inelastic, falling prices below the cost of production would force the closure of many groves, would hurt upstream suppliers of the industry (including financial institutions), and would hurt downstream players that rely on the domestic industry.

[127] Spreen, telephone conversation.
[128] LaVigne, "Written Testimony," 9-16.
[129] Ibid., 17.

## *D. Effect of Tariff Cut on Separate Links in Value Chain*

While Florida growers on the whole would clearly be hurt by a cut in the tariff, it would seem that it would benefit Florida processors, U.S. marketers and retailers, and consumers. Elimination of the $0.29 and $0.17 per gallon tariffs on bulk FCOJ and bulk NFC imports, respectively, should create a significant amount of surplus which presumably would be distributed to downstream players in the value chain, as well as to U.S. consumers. This section seeks to take a closer look at the effect of a tariff cut on growers, processors, marketers and retailers, and consumers.

### Growers

The effects of a tariff reduction will differ between large and small growers, and will depend on the economics of NFC exports, among other factors. If, as Spreen's model predicted, a tariff cut has the effect not of reducing overall production, but rather dropping on-tree prices, it is likely that many smaller growers will go out of business, while the larger growers, with their greater economies of scale, will pick up the slack. Depending on one's perspective, one could interpret such an outcome as terrible for the industry. It makes sense that FCM, the vast majority of whose members are small farmers, wants to avoid such an outcome.

On the other hand, this is probably what will eventually happen anyway, with or without the tariff. U.S. per capita demand for orange juice seems to have reached its peak, growers are overproducing, prices are low, and a shakeout appears inevitable. Large-scale growers have superior bargaining power in negotiating contracts with processors, and have economy-of-scale cost advantages that will likely continue to grow as they invest in mechanical harvesting. As NFC continues to grow as a percentage of the

market, these larger growers will focus on that area, and, with improvements in efficiency, should be able to compete against the Brazilians, even if the tariff is removed. As Ademerval Garcia, president of Abecitrus (the Brazilian Association of Citrus Exporters) has said, "If the tariff is removed, Florida growers will still be in business. Of course, they'll have to be more efficient, but everybody has to be."[130]

## Processors

On the face of it, the elimination of the tariff is clearly a good thing for the BBPs, plus Tropicana, while it would hurt the Florida-only processors. With the tariff removed, the BBPs would be able to import orange juice from São Paulo—including from their own groves, with no restraint other than the transportation costs. They would be able to force Florida growers to lower their prices, essentially to parity with Brazil. While some of the smaller processors would also be able to take advantage of cheaper imports—possibly by forming relationships with other Brazilian processors—they would be hard pressed to compete with the BBPs. And the grower-processors and cooperative processors that remain would likely either be acquired, go out of business, or survive as smaller, niche players.

## Marketers, Retailers and Consumers

As processors are able to lower their costs, some of the surplus generated should flow down to marketers, retailers, and consumers. The power held by Tropicana, the dominant marketer of orange juice in the United States (especially NFC), is exemplified by recent events. As noted above, Tropicana, as well as being vertically integrated into processing, also has a supplier relationship with Citrosuco. When Citrosuco launched

[130] Salisbury, "Citrus Growers."

their new generation ships last year, Tropicana began to put pressure on some Florida growers to renegotiate contracts that they negotiated in the early 1990s, when prices were much higher. The 10-15 year contracts guarantee floor prices that are as much as 50 percent higher than today's prices. Tropicana is asking growers to renegotiate prices in return for a contract extension. And they are threatening to start meeting more of their NFC needs from Brazil, through Citrosuco, if the growers resist this pressure.[131]

[131] Bouffard, "Orange Blues," *Lakeland [FL] Ledger*, November 13, 2003; Goldberg and Hogan, 16.

# VII. THE BRAZIL-BASED PROCESSORS AND THE POLITICS OF THE TARIFF DEBATE

As has been discussed above, there are many forces in the United States in support of free trade and the FTAA, both in and outside of Florida, that would like to see a reduction of the U.S. orange juice tariff. In response, the Florida citrus industry has mobilized in defense of the tariff—as it has, successfully, when the tariff came under attack in the past. However, the industry is no longer composed of only local Floridian or American companies. With a good percentage of the processing sector controlled by Brazilian or multinational processors, would the industry as a whole be less unified and therefore less effective in its fight to retain the tariff?

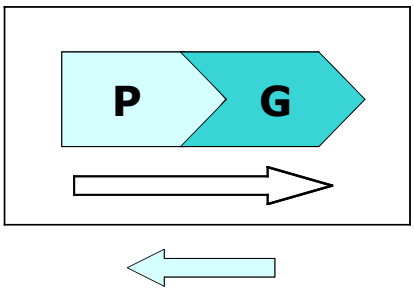
The author's hypothesis, which is tested using in-depth interviews with industry players and trade analysts, was that the entry of the BBPs into Florida has changed the politics of the tariff debate, weakening the industry's political clout and support for the tariff, and thereby making it more likely (or less unlikely) that the tariff will be reduced as a U.S. concession in the FTAA negotiations. This section of the paper begins by laying out three potential scenarios that could represent the current industry dynamic in the political struggle over the tariff. It then summarizes the extra-industry forces that are creating vulnerability for the tariff, and reviews the mobilization by the citrus growers in defense of the tariff. Finally, the section investigates and posits evidence in support of each of the three scenarios, and settles on a most likely scenario.

## *A. The Political Influence of the BBPs: Three Scenarios*

As follows from our discussion in Section V, the Florida citrus industry was quite unified with regards to the tariff until the 1990s. There was significant cross-ownership

between growers and processors, and the entire industry was Florida-based. As the diagram below illustrates in simplified form, the result is that the growers (G) and processors (P) worked together to exert political pressure in support of the tariff (white arrow), which was always strong enough to defeat any attacks on it (the dark arrow represents anti-tariff political pressure from extra-industry forces). This situation represented the status quo until recently.

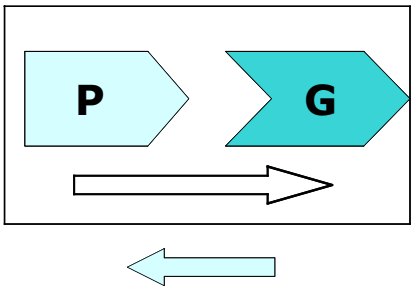
**Former Status Quo**




As we saw in Section V, however, the entry of the BBPs has dramatically changed the situation, largely disaggregating the processors from the growers, and bringing in key players based outside of Florida and the United States. While the processors and growers no longer constitute a unified industry entity as in the former status quo, three different political situations could ensue, depending on the positioning of the processing sector (and more specifically the BBPs).

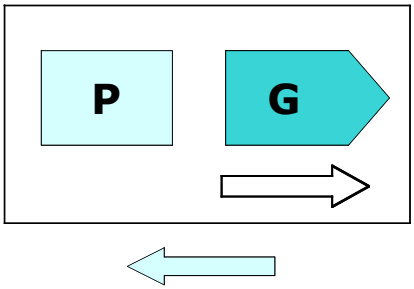
In Scenario 1, the processors would continue to support the fight to maintain the tariff. In this scenario, though the industry now looks different, the political battle over the tariff remains largely unchanged.

**Scenario 1: Tariff Support**



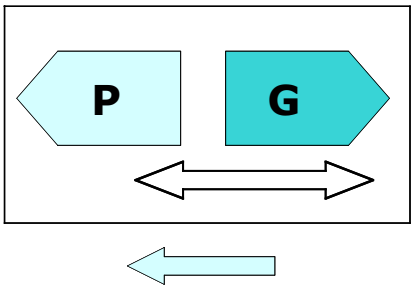

In Scenario 2, the processors would choose to sit on the political sidelines, whether due to ambivalence or other reasons. By not supporting the growers in the effort to maintain the tariff, they would theoretically decrease the domestic industry's political leverage. They would not provide an intra-industry political counterweight, however.

**Scenario 2: Inaction**




Finally, in Scenario 3, some or all of the BBPs (and possibly Tropicana), would engage politically in support of a tariff reduction. In this scenario, at least part of the processing sector would actively serve as a counterweight to the growers. While it would be unlikely that the processors would fully negate the growers' efforts, the possibility of a concession by the United States on the tariff would clearly be most likely under this scenario.

**Scenario 3: Active Opposition**




It should be noted that in laying out these scenarios, no claim is being made as to the absolute (or even approximate) probability of a tariff reduction in the FTAA negotiations. Rather, it is suggested that the *relative* probability of a tariff reduction increases as one moves from Scenario 1 to Scenario 2, and on to Scenario 3. A tariff reduction is still possible under Scenario 1, and is far from certain under Scenario 3, but is more likely, *ceteris paribus*, under Scenario 3 than under Scenario 1.

## *B. The Tariff under Attack*

This section is intended briefly to establish that there are, in fact, forces opposed to the U.S. orange juice tariff, to summarize those forces, and to bring our introduction of the FTAA process up to date. As was discussed in Section II(B), less developed countries have recently become more strident and assertive in their demands that the leading advanced industrialized countries improve access, and reduce non-tariff barriers, such as subsidies, to agricultural goods. Within the FTAA, many countries, with Brazil the most prominent and adamant among them, are demanding that the United States improve access to their agricultural exports. As has been noted, Brazil would like to see reduced agricultural subsidies on the part of the United States, but that is extremely unlikely to

happen in the context of the FTAA—it must be dealt with in WTO negotiations. Since subsidies are off the table, the primary concessions the United States can make in the area of agriculture are in market access, and particularly tariffs and quotas.

The reason the United States would contemplate making politically difficult concessions in agriculture is that export-oriented industries and multinationals, both in manufacturing and the giant services sector, want the United States to make a deal on the FTAA (as well as in the WTO). Approximately 80 percent of U.S. international trade is in manufactured goods (versus less than 10 percent in agricultural goods), and the National Association of Manufacturers would like the FTAA to go forward in "as ambitious a form as possible….we shouldn't let the few losers hold up the whole progress for the rest of our economy."[132] According to Mark Smith, the Executive Vice President of the Brazil-U.S. Business Council, the deal the United States has been trying to broker with Brazil in the FTAA essentially trades off commitments from Brazil in the areas of intellectual protection rights, investment, and services measures for improved access to sensitive areas in the United States—such as steel, sugar, and orange juice.[133]

The Brazilian focus on the orange juice tariff, specifically, exists for two primary reasons: economics and symbolism. Beginning with the latter, it appears that the orange juice tariff has become a symbolic and popular issue for Brazil in the FTAA negotiations. The symbolic appeal of the orange juice tariff can be attributed largely to the fact that it is an issue with which most Brazilians (as well as Americans) can relate: a product with which everyone is familiar. Second, while processed orange juice may not be Brazil's

[132] Brian Monroe, "Talks concern citrus growers," *Florida Today*, November 20, 2003.
[133] Mark Smith, telephone conversation with author, April 9, 2004. The Brazil-U.S. Business Council is a bilateral trade organization. The U.S. section "represents the majority of the largest American corporations invested in Brazil and operates under the administrative aegis of the U.S. Chamber of Commerce." See www.brazilcouncil.org.

largest export product, there is pride in Brazil that the country is the dominant producer and exporter in the world. Third, the fact that it is a product based in Florida, the birthplace of the FTAA, clearly adds to the symbolic intensity of the tariff debate within the FTAA negotiations.

A not uncommon criticism of the Brazilian diplomatic corps is that they negotiate largely from an ideological position. This view was expressed by a staff member at a Washington-based trade organization, who noted that the Brazilian Ministry of Foreign Relations is relatively disconnected from business, and is crusading against the orange juice tariff because it is popular to do so.[134] According to U.S. Representative Adam Putnam, a Republican from Florida's 12th District and an ardent defender of the tariff, "the Brazilian government…has seen FCOJ tariff elimination as a symbolic issue, more than a necessary boost to market access."[135]

While symbolism likely plays an important part, there are undeniable economic and business reasons for Brazil to push for a reduction in the tariff. Abecitrus, which includes the four BBPs among its ten members, has strongly lobbied the Brazilian government on the tariff. Its president, Ademerval Garcia, has stated publicly that Brazil should not sign on to the FTAA if the United States does not make concessions.[136] Waldir Fernandes, Jr., a Professor at UNESP, the São Paulo State University, also disagrees with Rep. Putnam's suggestion that the orange juice tariff is primarily a symbolic issue for Brazil.[137] And though orange juice is not as economically important as some other

[134] Telephone conversation with author, April 6, 2004.
[135] U.S. Representative Adam Putnam, email to author, April 7, 2004.
[136] Fernando Dantas, "Agronegócio critica atitude do Brasil na Alca ," *O Estado de São Paulo*, April 11, 2004; Ademerval Garcia, "U.S. Orange Juice Tariffs: Squeezing Brazil and Consumers," Infobrazil.com, week of November 15-21 2003 (accessed April 12, 2004); available from http://www.infobrazil.com/Conteudo/Front_Page/Opinion/Conteudo.asp?ID_Noticias=834&ID_Area=2&ID_Grupo=9.
[137] Fernandes, Jr., Internet voice conversation with author, April 7, 2004.

agribusiness products, such as soy, it makes sense that Brazil will push hard for improved access for any major export product of an agribusiness sector that today represents about one-third of Brazil's GDP and over 40 percent of exports—and accounted for a large part of Brazil's trade surplus in 2003.[138]

Whatever the primary motivation for its position, it appears clear that Brazil continues to consider the orange juice tariff an important issue in the FTAA negotiations. The *Tampa Tribune* reported that another U.S. Congressman from Florida, Democratic Senator Bill Nelson, returned from a trip to Brazil in December to warn that Brazil was "hellbent" on having access to the U.S. market, and that even Brazilian Vice President José de Alencar had told him that "instead of pushing to keep the tariff, Florida citrus growers should consider moving their operations to Brazil."[139]

According to Smith, the negotiations are currently deadlocked, and further official talks have been put off indefinitely. The United States has reduced many of its demands in areas such as intellectual protection rights, services, and government procurement, but its trade representatives do not feel that Brazil has responded in kind: instead of offering more flexibility, it has asked for more concessions. Terry McCoy, Latin American studies director at the University of Florida, who stated before the Miami Ministerial that the "administration will have to sacrifice Florida agriculture for the FTAA,"[140] now believes that the citrus tariff is currently off of the bargaining table.[141] However, while it is very unlikely that the U.S. administration will be willing to make any politically difficult

[138] Mario Osava, "Agriculture-Brazil: Smaller Soy Harvest, but Bigger Revenues," globalinfo.org (accessed April 21, 2004); available from http://www.globalinfo.org/eng/reader.asp?ArticleId=29055.
[139] Gary Haber, "Brazil Targeting U.S. Citrus Tariffs," *Tampa Bay Tribune*, December 18, 2003.
[140] Salisbury, "Citrus Growers."
[141] McCoy, telephone conversation with author, March 24, 2004.

concessions during the presidential campaign, Smith believes that after the election it may contemplate some concessions—including the orange juice tariff.[142]

The tariff is also threatened by the WTO negotiations. For example, the United States has recently tabled a proposal in the Doha Round that envisages the eventual elimination of all agricultural tariffs, and has made a proposal for "reducing all agricultural tariffs… that will cut high tariffs more than low tariffs, ensuring no individual tariff exceeds 25 percent after a five-year phase-in period."[143] Were this proposal to be followed through, the orange juice tariff would have to be cut (unless FCOJ prices rose significantly).

As was discussed at length in Section III, there are forces that support the FTAA (and that are therefore directly or indirectly anti-tariff) within Florida as well. While Governor Bush has clearly stated his support for the citrus industry, he is in a difficult position, as such a stance conflicts with his general pro-Latin America, pro-FTAA position. According to the *Tampa Tribune* article quoted above, Senator Nelson was told by a "high-ranking U.S. official" that Brazil tried to "barter support" for placing the FTAA Secretariat in Miami in exchange for an end to the orange juice tariff.[144]

In conclusion, extra-industry forces opposing the tariff, both directly and indirectly, do exist, in Florida, in the United States, and in Brazil. Absent a significant

[142] Though the source is somewhat dated, it is interesting to note that an August 2002 Working Paper by a U.S. State Department Official predicted: "Last-minute concessions on subsidies, antidumping, and countervailing duties will probably be significant if Bush is re-elected and the Republicans control the Senate. If neither of these conditions hold, U.S. concession will depend on what is possible under the new political lineup." Stephen K. Keat, "A Free Trade Area of the Americas: Implications of Success and Failure for the Members of the OAS," *The Dante B. Fascell North South Center Working Paper Series*, Paper No. 7 (August 2002), 15. (accessed February 7, 2004); available from the University of Miami, at www.miami.edu/nsc/publications/nscpublicationsindex.html#wp.
[143] USDA, Foreign Agricultural Service, "The U.S. WTO Agriculture Proposal" (accessed April 11, 2004); available from http://www.fas.usda.gov/itp/wto/proposal.htm.
[144] Haber.

political effort by the Florida citrus industry in support of the tariff, it seems very likely that it would be eliminated, or at least reduced. In the next section we summarize the actions Florida citrus growers have taken in defense of the tariff.

## *C. Florida Growers in Defense of the Tariff*

As was noted above, the Florida citrus industry has successfully defeated challenges to the tariff in the past, and FCM, with help from the FDOC, has recently mobilized against the tariff. Many citrus growers believe the tariff is the most important issue facing the industry, and feel that they face a battle for their very survival.

As reported on its website, FCM's "Tariff Oversight Committee" held its first meeting on February 28, 2003. It was formed to "oversee all industry-coordinated efforts to preserve the citrus tariff, including political, legislative and public relations aspects."[145] On the same date, a letter to "Florida citrus growers" was posted on the web site. Signed by FCM leadership as well as the heads of the FDOC and the Florida Citrus Commission (FCC), it announced that a "dark cloud" hung over the industry as the Bush administration had announced plans to eliminate all tariffs in FTAA and WTO negotiations. The letter urged leaders to "get involved in the tariff fight today"—to make sure the tariff would be exempted as in previous negotiations. Also posted on the site was the summary of a tariff survey conducted by FCM, which revealed that 80 percent of growers considered "protecting the tariff" their most important issue, and that 56 percent were willing to spend "whatever's necessary" to do so.[146] A month later, the hiring of a

[145] FCM, "Tariff Oversight Committee Held First Meeting," February 28, 2003 (accessed March 11, 2004); available from http://www.flcitrusmutual.com/resources/PDFs/firstctocmtg.pdf.
[146] FCM, "Industry Leaders United in Fight to Retain Citrus Tariff," February 28, 2003 (accessed March 11, 2004); available from http://www.flcitrusmutual.com/resources/PDFs/industryleadersunite.pdf. For other documents see http://www.flcitrusmutual.com/index.cfm?pageID=14.

"leading political firm" in Washington, and in May a box tax and other funding mechanisms for a "Citrus Preservation Fund," were announced.

In the FDOC, FCM has a partner in protecting the tariff. The FDOC, though nominally a state government agency, is funded by an excise tax applied to boxes of citrus (a "box tax"). The agency head is the FCC, which is dominated by citrus growers. Additionally, the agency's purpose is to support and protect the Florida citrus industry. Though most of its funding generally goes to marketing and promoting Florida citrus products, it also allocates funds to "regulatory activities."[147] In support of FCM's fight, the FDOC began a public relations campaign called "Florida Citrus Matters." Agreeing to pay the National Football League's Tampa Bay Buccaneers (Super Bowl winners in 2003) $840,000 over five years, the FDOC secured the right to use Tampa Bay's popular coach, Jon Gruden, in a series of television ads in support of the tariff. The ads were launched in October 2003 in several Florida markets—in one of them, "over a background of rolling snare drums and blaring trumpets" Gruden states "'Eliminate the tariff and you eliminate Florida orange juice, and all the good that it does for Florida and its people.'"[148] A web site featuring Gruden was also created (www.citrusmatters.com).

As was noted in Section II(C), FCM has had a successful history of defending the citrus tariff over the years. It has very effectively lobbied on the issue, and continues to do so. The growers' power is a classic example of the power of a concentrated interest group. Well-organized and with political connections maintained and reinforced over decades, citrus growers enjoy incredibly staunch support from many local politicians. Ed Price, a former state senator and chairman of the FCC, expressed the strategy well when

[147] FDOC, "Contacts."
[148] Robert Trigaux, "Gruden tackles orange juice competition," *St. Petersburg Times*, September 19, 2003.

he stated, "All the people that make up the agriculture interests need to band together and go to work on every congressman and senator."[149]

One of the strongest supporters of the tariff is Republican U.S. Representative Andrew Putnam, in whose congressional district lies Lakeland, FL, home of both FCM and the Department of Citrus. Putnam is frequently quoted in Florida newspapers, faithfully disseminating FCM's rhetoric. He even published an article in a recent issue of the *Florida State University Law Review* defending the tariff. Almost as surprising as the fact that a law review would publish political propaganda was the degree to which Putnam's article parroted the arguments in support of the tariff that FCM is using.[150] Rep. Putnam repeated the same arguments, in condensed form, in a personal email to the author.[151] Next to President George Bush, Putnam was the politician receiving the largest contribution from FCM's PAC, according to a campaign finance disclosure website.[152]

Both U.S senators from Florida, Democrats Bill Nelson and Bob Graham also defend the tariff. In the drafting of the most recent Omnibus Trade Bill, which included Trade Promotion Authority, the two senators saw to it that "language was included to ensure the executive branch studies the economic effects a tariff removal would have on import-sensitive commodities like FCOJ and citrus."[153] Senator Nelson also recently arranged for FCM's Andrew LaVigne to testify before the Senate Foreign Relations Committee, "in order to ensure the concerns of the citrus community were well-aired and made a permanent part of the record of the FTAA debate."[154] Senator Nelson is a member

[149] Richard Dymon, "Citrus growers fight for tariff," *Bradenton [FL] Herald*, December 12, 2003.
[150] Adam H. Putnam, "The Free Trade Area of the Americas: Opportunities for Economic Growth through Fair Trade in the Hemisphere," *Florida State University Law Review* 31, no. 2 (Winter 2004): 279-287.
[151] Putnam, email to author.
[152] PoliticalMoneyLine (accessed April 12, 2004); available from www.fecinfo.com.
[153] U.S. Senator Bill Nelson, email to author, April 9, 2004.
[154] Ibid.

of the Foreign Relations Committee, while Senator Graham sits on the Finance Committee.

In conclusion, Florida citrus growers, have, once again, mobilized effectively in support of the tariff. They are well organized, well-funded, and enjoy strong support from politicians in Florida and in Washington.

## *D. The Brazil-Based Processors: Action or Inaction, and Why?*

Even as FCM and the growers it represents have mounted a public offensive in support of the tariff, and Abecitrus lobbies Brazil to target the tariff in the FTAA negotiations, the BBPs in Florida have remained conspicuously quiet on the matter. So what position have they taken on the tariff, and why? Are they with the Florida growers, against, or are they really staying out of the political debate? The answers could have important implications for the future of the tariff. On the surface, it would seem that the BBPs would be opposed to the tariff—and that is what many growers have feared. As an article in the *Sarasota Herald-Tribune* stated recently, "Because of their ties to Brazil, the companies are natural supporters of free trade, which automatically pits them against domestic growers and processors."[155] The author's interviews with industry experts and insiders turned up at least as many questions as answers, however.

### Official Support for the Tariff?

Conversations with several industry insiders suggest that the BBPs have not taken political action against the tariff within the United States. Neither of the two politically connected Florida growers interviewed for this paper is aware of any lobbying or other

[155] Braga, "In troubled times, citrus industry is divided against itself," *Sarasota Herald-Tribune*, October 20, 2003.

political effort by the BBPs.[156] Fernandes, Jr., who earned his Ph.D. in Florida and is a top Brazilian expert on the citrus economy, is similarly unaware of any lobbying by Brazilian processors in Florida, though he did note that the Florida Citrus Processors Association (FCPA), of which the BBPs are prominent members, formally supports the tariff.[157] According to a staff person at the Washington, DC-based Brazil Information Center, an organization that counts Cutrale among its corporate members, Cutrale has never approached them for help in lobbying in Washington.[158] Lisa Rath, Executive Director of the FCPA, confirmed that her organization's members "are together" in support of the tariff.[159]

It would appear, then, that Scenario 3, in which the BBPs lobby against the tariff, has not come to pass. Rather, what we have is either Scenario 1 (support for the tariff), or Scenario 2 (inaction). While it appears counterintuitive that the BBPs would support the tariff, one can speculate on reasons why they would be in favor of it.

## Possible Reasons for Support

The most obvious reason would be that the processors have vested interests in Florida—and that now that they are in the state, they also benefit from the protection afforded by the tariff. While the processors do not reveal how much they have invested in their Florida processing plants, Tom Spreen, the most prominent citrus economist in Florida, confirms that they have invested "a lot" of money, both in purchasing and

[156] A mid-size Florida grower, telephone conversation with author, March 30, 2004; The president of a large-scale Florida orange producer, telephone conversation with author, April 1, 2004. Please note that both interviewees asked not to be identified in this paper.
[157] Fernandes, Jr., email to author, March 23, 2004.
[158] Telephone conversation with author, 3/30/04. The Brazil Information Center is a Washington-based nonprofit that works "with Brazil's private sector to provide information about Brazil in the United States." See http://www.brazilinfocenter.org.
[159] Rath, telephone conversation.

upgrading their plants. Spreen states that although many growers believe that the Brazilian companies (Cutrale and Citrosuco) are behind a "grand scheme to kill the Florida industry," he does not believe it, because they have invested too much money for it simply to be an effort to destroy the industry.[160] Rath also points out that the BBPs have made investments in large, unconvertible assets in Florida—plants that are good just for processing and storage—and that they do not want the industry to disappear.

In addition to the large-scale investments they have made, the BBPs also benefit, to some extent, from the tariff. As has been noted, Mexico benefited from a lower FCOJ tariff than Brazil when NAFTA went into effect, and had hopes of replacing the Brazilian industry as the "residual supplier" to the United States (supplying any demand in excess of Florida production). However, Spreen notes that when the Brazilian companies moved into Florida it "killed Mexico," which does not even meet its import quota. The BBPs do not import from Mexico—or from the once growing industries of Costa Rica or Belize. Only the remaining Florida-only processors purchase from those countries.[161] Finally, it is conceivable (though it seems unlikely) that another country could challenge the Brazilian industry's world supremacy in orange juice exports—and if that were to happen the BBPs might enjoy the protection the tariff would afford them. (Abecitrus's President Garcia noted recently that China has become the world's fourth largest citrus producer, and has the potential to challenge Brazil in the future.)[162]

[160] Spreen, telephone conversation.
[161] Ibid.
[162] See Mike Williams, "Trade deal threatens Florida's citrus sales," *Atlanta Journal-Constitution*, November 19, 2003; Clóvis Rossi, "Os negócios da China," *Brazilnews.com*, November 20, 2003 (accessed March 28, 2004); available from http://www.brasilnews.com.br/News3.php3?CodReg=8985&edit=Artigos&Codnews=999.

Spreen notes what could, or should, be another reason why the BBPs would not want to see the demise of the Florida industry—and therefore might not be adamant about cutting the tariff. As we have noted, the orange juice industry was created and developed in Florida, and Florida played a significant role in the birth of the Brazilian export industry. The Florida industry remains the primary source for marketing innovation and scientific research in the world citrus industry. According to Spreen, while Florida industry has a history of cooperation (even processors buy and sell juice from each other to create the right blends), the Brazilian industry is cutthroat and secretive—so much so that the largest processors each conducted their own expensive tree census recently in São Paulo, refusing to share or publish their results. Another example of the lack of cooperation is that the Brazilian processors have refused to cooperate with the Florida industry in any kind of generic promotion of orange juice in Europe (the Brazilians' largest market). Spreen's point is that if the Florida industry were eliminated (or drastically reduced), it could have negative long-term implications for the worldwide citrus industry, including Brazil. While he is not confident that the Brazilian companies "get it," it is possible that the BBPs recognize, to some extent, the importance of a dynamic Florida industry.

## Inaction: Ambivalence or Inexperience?

So have we established that the BBPs, surprisingly, are supportive of the tariff, and that Scenario 1 represents the current state of affairs? Far from it. Their putative support for the tariff through the FCPA hardly means that they have allied themselves with the Florida growers. Though they appear not to be taking any political action in opposition to the tariff, neither have they come out in support.

Furthermore, the reasons posited above for possible support for the tariff can be challenged. The threat of Mexico or China is quite small, and it is unlikely that the BBPs would sacrifice their own profits for the good of the Florida industry. What of their large-scale investments in Florida, however? While the removal of the tariff might reduce the return on the BBPs' Florida investments, all of these companies are sophisticated enough to recognize the notion of a sunk cost, and to conduct a cost/benefit analysis for their entire citrus operations, both in Florida and in Brazil. It would seem that, in terms of increased exports to the United States, a reduction in the tariff would sufficiently benefit the BBPs—and especially Cutrale and Citrosuco—that it would outweigh lower returns from their Florida operations. Additionally, as was discussed in Section VI, the Florida industry would not disappear—instead it would gradually shrink and become more specialized, as output fell to a new, profitable level.[163] Far from useless, the BBPs' Florida plants could still be used for processing, blending, and storage.

Given such a scenario, why have the BBPs remained silent on the issue? The author's conversations and analysis suggest two possible reasons: ambivalence and political weakness. Disagreeing somewhat with the assessment laid out directly above, Spreen believes that the BBPs are not overly concerned with the tariff. Focusing in on the dominant Brazilian firms, Cutrale and Citrosuco, Spreen states that from a competitive standpoint a tariff cut "wouldn't matter that much." He believes the big losers would be the Florida growers and the biggest winners would be Brazilian growers. Pressed on the issue, Spreen concedes that the loss of the tariff could strengthen the hold of Cutrale and Citrosuco on the world processing market. Within Florida, the loss of the tariff would likely eliminate some of the few remaining Florida-only processors, which would lead to

[163] Spreen, telephone conversation.

further domination by Cutrale, Citrosuco, and Tropicana, and give them even more market power. Additionally, the BBPs would gain from the increased value of their land holdings in Brazil.[164]

Overall, then, it would seem that a reduction of the tariff would benefit the BBPs—even if the case is not nearly as clear-cut as it first appeared. If that is so, and if the Brazilian government and Abecitrus are working against the tariff, we are back at the question posed above: why are the BBPs not acting?

The answer may come back to politics. More specifically, it may be that, working in a foreign country, within a supply chain fighting for its survival, the Brazilian companies, as well as Dreyfus, do not have the political resources and credibility to effectively voice their opinions. And Cargill, as a diversified American agribusiness firm, must choose its political battles and may wisely have chosen to focus on other issues. Professor Ray Goldberg of Harvard Business School notes that the BBPs "have to be very careful" politically, as they cannot afford to completely alienate producers in Florida. As a result, they do not take a strong stand against the tariff—instead saying that they generally believe in free trade, and that they are against tariffs, wherever they may be found.[165]

Somewhat contradictorily, Fernandes, Jr. recounts that at a National Juice Products Association event in New York City, he heard a senior Cargill executive clearly express opposition to the tariff. He imagines that the other BBPs feel similarly, and that FCPA is not nearly as divided as it appears. He does agree with Goldberg, however, that the BBPs have remained quiet on the tariff issue out of caution, because they want to

[164] Ibid.
[165] Goldberg, telephone conversation with author, March 25, 2004.

avoid confrontation and fear a "xenophobic" reaction if they were to advocate tariff elimination.[166] The staff person from the Brazil Information Center concurs, expressing the opinion that Cutrale would rather remain inconspicuous, and not bring further attention to the fact that it is a Brazilian company. The large-scale grower interviewed for this paper also suggested that the BBPs have not lobbied because of "parochial interests": they fear bad press, and they just do not have any votes in today's political climate. Similarly, the mid-size grower does not believe the BBPs could effectively lobby on the issue within Florida—that they would continue to do so from Brazil.

In addition to what is clearly a hostile political environment, the Brazilian companies may suffer from their inexperience with the American political system. Rath, the FCPA Executive Director, while acknowledging that the Cutrales are "very smart," says that the foreign companies "don't really understand how government works" in the United States. She believes that the Brazilian companies have tried to become more politically active in the United States, but that they remain naïve about the political process, and do not understand that they need to participate. Mark Smith, who as Executive Vice President of the Brazil-U.S. Business Council has seen the inner workings of the political system in both countries, provides fodder for this view, explaining that a Brazilian company in the United States would face a "psychological hurdle," because the political "game" is much different in the United States. It requires more resources, more money for political contributions, more participation—something that may not be easy for a highly secretive company such as Cutrale.

In sum, it appears that the challenging political situation, the inexperience of the Brazilian companies, and a certain amount of ambivalence have combined to keep the

[166] Fernandes, Jr., Internet conversation.

BBPs out of the political battle over the tariff within the United States. Though it remains to be seen whether the extra-industry forces are strong enough to defeat the tariff in the FTAA process, the BBPs are not acting as an intra-industry political counterweight to the growers, and Scenario 2 (inaction) best represents today's reality.

## VIII. CONCLUSION AND IMPLICATIONS

While Section VII ends by asserting that the BBPs are not engaging in a political effort to defeat the tariff, it would be a mistake to conclude that they will have no long-term effect on the tariff debate. As was expounded in Section V, the BPPs' entry into Florida has fundamentally altered the economic structure of the industry, and has negatively impacted the growers' economic prospects. Though interest group politics may trump economics in the short-term, it seems inevitable that economics (and globalization) will win out in the end. Indirectly, through the consolidation of the processing sector, the BBPs will, sooner or later, weaken the political power of the Florida growers. In addition to consolidating the processing sector, the BBPs (especially Citrosuco and Cutrale) have forged even stronger partnerships with Tropicana and Minute Maid by establishing a presence in Florida—thereby further increasing the buyer power faced by growers.[167]

Section VI suggested that though a tariff cut would not "destroy" the Florida industry, it would shrink production, and would especially hurt smaller growers, many of whom would go out of business. Such a state of affairs is plausible even if the tariff is retained, however. As noted in Sections V and VI, Florida citrus growers face overproduction, little or no demand growth, and powerful buyers along the value chain. The large-scale grower interviewed for this paper said that his company is gradually

[167] According to an industry insider interviewed for this paper, the company the growers should fear the most is Tropicana: as the giant player, it wields enormous leverage, and if it begins to source more of its product from Brazil it would really hurt the Florida industry. Pepsi recently moved Tropicana's headquarters from Bradenton, FL, to Chicago, raising questions about Tropicana's commitment to the state. According to a Florida activist, "Decisions once made close to the grove now will be done under a cold, financial decision-making process." Duane Marsteller, "Growers Wary of Move," *Bradenton [FL] Herald,* December 4, 2003.

reducing its exposure to citrus because the returns "just aren't good enough." Though it is still among the ten or fifteen largest citrus producers by acreage in Florida, it has gradually reduced its citrus acreage from over 20,000 acres to about 14,000 today, and intends to go down to 10,000. As he puts it, they are "shrinking" and "selling out," and if they continue selling at this pace they will be out of the business in ten to fifteen years. Another grower noted recently that "a lot of growers are figuring out ways to sell their land."[168]

FCM's rhetoric and political clout were discussed in Sections VI and VII, respectively. Even if the BBPs are not acting to challenge it directly, however, the growers' political supremacy within Florida is threatened by economic and environmental changes. As the citrus industry becomes smaller, and other industries in the state grow, its political clout will likely decrease. Though FCM continues to claim that citrus is the second largest industry in the state, after tourism, a recent newspaper article noted that (at least by some measures) it is no longer even the largest agricultural industry: "State statistics show citrus, long king of Florida agriculture, has been supplanted by greenhouse shrubs as the state's largest cash crop."[169] As Section III explained, Florida has a lot to gain from freer trade, and the less vital and economically significant citrus growers become, the less likely it is that they can retain their political influence.

The possibility also exists that the BBPs will become more sophisticated and begin to insert themselves into the political mix. One potential scenario is that as the growers' political clout wanes and the tariff issue becomes less politically combustible,

[168] Salisbury, "Florida Citrus Industry is Losing Ground, *The Palm Beach Post*, March 29, 2004.
[169] Marsteller.

the indigenous industry will be outweighed by an anti-tariff alliance among Tropicana, Minute Maid, Cutrale, and Citrosuco. Section IV discussed several motivations for the BBPs' investments in Florida. A possible motivation that was not mentioned (and one of the author's original theories) was that the BBPs entered Florida in part to undermine the U.S. tariff from within. This possibility may seem far-fetched, particularly given the lack of political action by the BBPs thus far; nonetheless, one of the interviewees for this paper, a third-generation grower who has close connections with the processors, brought up this possibility of his own accord. He stated that "things work long-term," and that the "Brazilian companies…are longer term strategists than the Florida-based processors have been and it is likely that they have had a 20-year plan in place to remove the tariff."[170]

On the other hand, the growers may prevail in maintaining the tariff for a long time. They are well organized and politically shrewd—and if free trade remains and grows as a national issue while Florida remains a swing state, the industry will be well positioned to continue wielding political power far in excess of its economic and geographical importance.

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Beyond the tariff debate, the case of the BBPs raises interesting implications—and potentially questions for future research. For example, do a causal relationship and intertemporal connection exist between FDI and trade regulations? The

[170] Industry insider, telephone conversation with and personal email to author.

United States has a very liberal FDI regime, while it engages in much more selective protectionism when it comes to market access for goods. The case presented in this paper suggests that FDI by foreign firms theoretically could contribute to a change in U.S. trade policy. If such influence may exist, an implication is that trade groups in sensitive industries should consider FDI regulations when acting to maintain trade barriers. On the other hand, liberal FDI policies could potentially serve as an escape valve for the U.S. government when the reduction of trade barriers is politically infeasible. For example, Smith notes that the entry of the Brazilian processors into Florida has "defanged" the orange juice issue somewhat, and could potentially make Brazil and Abecitrus less "virulent" about the orange juice tariff.

Finally, the failure of the BBPs thus far to insert themselves into the political debate suggests that foreign subsidiaries may face significant barriers when attempting to influence trade policy in the United States, including a lack of familiarity with the political culture and the intricacies of policymaking, as well as a bias against foreign companies. The challenges to establishing a nonmarket strategy in the United States may be particularly acute for companies from developing and emerging countries, which may have more limited economic and political resources and come from more distant business and regulatory cultures. Research on how such companies can establish and build nonmarket capabilities would be interesting, and could build on the case presented in this paper.[171]

[171] David P. Baron, "Integrated Strategy: Market and Nonmarket Components," *California Management Review* 37 , no. 2 (Winter 1995): 14.

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