

Growing Pains: Conflict and Cooperation

The rapid growth of the greenhouse tomato industry in North America has put downward pressure on grower prices, which has been particularly hard for an industry with large investment costs. Regulatory options vary by country, but growers have made use of the available legal instruments, in particular, trade remedy legislation, to try to counter competition.

The first salvo in the effort to restrict competition was an antidumping case brought by the U.S. greenhouse tomato industry against the Canadian greenhouse tomato industry in 2001 (see appendix 5 for more detail). Canadian growers reciprocated in 2002 with a case against all U.S. fresh tomatoes growers, not just greenhouse growers. The U.S. case was rejected. The U.S. DOC found dumping but the ITC did not find damage (ITC, 2002). The critical issue in the failure to find damage was that the ITC decided that greenhouse and field tomatoes were “like” products. Therefore, a finding of damage was required for all U.S. tomato growers. The Canadian case was ultimately withdrawn although the Canadian government continued the case and reached a negative final determination. The United States only gained a temporary pause in the rapid growth of Canadian imports during part of 2001 and 2002 when some Canadian firms temporarily faced large dumping margins. In 2003, U.S. imports of Canadian greenhouse tomatoes resumed their earlier trend and increased 30 percent.

As the North American greenhouse tomato industry becomes more integrated, with some growers and marketers sourcing from all three countries to provide year-round supply, incentives for international trade disputes should gradually lessen. However, disputes may still arise and the emergence of the greenhouse tomato industry as a source of competition to the field industry raises the probability of disputes.

In 2002, after the antidumping cases were resolved, fresh tomato producers in Canada, the United States, and Mexico established the North American Tomato Trade Work Group (NATTWG) to address trade issues among the three trading partners. Initially, NATTWG was an advisory committee to the Consultative Committee on Agriculture under the Canada-U.S. Free Trade Agreement, which excluded Mexico as an official member. In 2003, it was reorganized as an advisory committee to the NAFTA Committee on Agriculture, giving official membership to all three countries. NATTWG’s mandate is to seek resolution to those issues that may restrict trade between the three countries; domestic sales of any of the members are beyond NATTWG’s purview. However, since the North American tomato industry represents a broad range of producers, there can sometimes be conflicting agendas even within the same country on matters of international trade, complicating interaction within the forum. Nevertheless, the hope is that an organized forum to explore issues of potential conflict and cooperation may diffuse conflict and build more constructive relationships.

Collaboration within the NATTWG forum has enabled the industry to benefit from joint initiatives in several areas, such as harmonization of different types of standards among the NAFTA countries. A NATTWG effort succeeded in harmonizing Canadian and U.S. field tomato arrival standards, with Canada adopting the U.S. standard, benefiting U.S. exporters shipping to Canada. Pesticide residue tolerances between the United States and Mexico have been harmonized, and Canadian standards are in the process of being harmonized. Mexican members of NATTWG recently supported the U.S. effort to encourage Mexico to adopt the U.S. tolerance on stems and leaves in fresh tomato cartons. If this policy is adopted it will benefit U.S. exporters to Mexico by eliminating this nontariff trade barrier. A joint effort to update the decades-old USDA grading standards for greenhouse tomatoes is likely to succeed.

At NATTWG's request, AMS agreed to publish weekly greenhouse shipments, provided it could secure full participation of the large U.S. greenhouse firms, as well as Agriculture Canada. In October 2004, AMS began publishing weekly U.S. and Canadian shipment data in its *Tomato Fax Report*. Mexican data were already available for tomatoes entering via Nogales during the winter season. Reported shipments cover the largest five greenhouses in the United States, but AMS hopes to eventually expand participation to include other firms. Shipment data do not distinguish between types of greenhouse tomatoes. Providing shipment data is relatively inexpensive. Canada collects its own data and sends it to AMS weekly. U.S. firms also send data on a weekly basis. With such a concentrated industry, obtaining even more sensitive price data will likely remain a challenge. The high level of forward contracting reported in the greenhouse tomato industry will also work against price reporting efforts as AMS only reports daily FOB prices, not contract prices.

Another policy tool available to U.S. growers is the ability to define "greenhouse tomato." In the early days of the industry, most production was in Canada and the United States in fairly homogenous greenhouses. But with the entrance of Mexican growers with a wide variety of protected culture systems, including lower technology and lower investment cost systems, high-technology and high-investment North American greenhouse producers have searched for a way to define a greenhouse product as the kind they themselves produce. To date, there is no North American consensus on the definition.

The State of California and the Florida fresh tomato Federal marketing order both have definitions, although they are quite different. In September 2004, the California Department of Food and Agriculture adopted a rather limiting definition. To be labeled as greenhouse, any tomatoes produced, or sold, in that State must be "produced in a fixed steel structure with climate control, irrigation, and grown in a medium that substitutes for soil." This effectively precludes much of the protected culture tomatoes grown in the Baja California peninsula (which enters the U.S. at the California border) from being labeled and marketed as greenhouse. In contrast, Florida's tomato marketing order exempts greenhouse tomatoes, among others, from its regulations and defines greenhouse as simply "tomatoes grown indoors." Hence, Florida's definition is the most all-encompassing, and since it is used merely to exclude certain tomatoes from the provisions of the Florida

Federal fresh tomato marketing order, it has no direct regulatory implications for the greenhouse tomato industry.³⁰

The idea of defining greenhouses to exclude some growers can be viewed from two perspectives, in part depending on whether consumers perceive a distinction between the two types of tomatoes based on the production system. If the consumer only cares about final quality and if the quality is the same in a high-technology and low-technology operation, a restrictive definition could be viewed as purely protectionist with the higher cost producer trying to restrict market opportunities for the lower cost producer. Alternatively, if consumers perceive some quality difference in the two types of tomatoes and prefer tomatoes grown in a high-technology greenhouse, there could be a benefit to defining greenhouse more restrictively. Consumers would be misled if producers with lower technology operations market a lower quality tomato but consumers think they are getting a higher quality tomato produced in a higher technology operation. Potential consumer dissatisfaction could hurt the reputation of the high-technology industry, undermining its investment and ability to offer a premium product. If a high-technology grower cannot get a higher price than a lower technology grower because consumers cannot identify its product, the grower may cease to offer that product. As more tomatoes grown with a variety of protected culture options become available from Mexico, it remains to be seen whether retailers and consumers will differentiate hydroponically grown tomatoes relative to lower technology greenhouse or shade house options, and be willing to pay a premium.

³⁰ Florida tomato growers, however, did investigate using their marketing order requirements to require greenhouse tomato producers to meet the Florida industry standards for field tomatoes. On August 22, 2002, Florida petitioned the USDA Secretary of Agriculture to change its marketing order to eliminate the exemption for greenhouse and hydroponic tomatoes (USDA, Agricultural Marketing Service, 2002). This proposal would impose grade and size regulations on greenhouse tomato growers in their State although Florida grows very few greenhouse tomatoes. The proposed Florida marketing order would impose the same standards applied to their growers on any imported greenhouse tomatoes during the period when the order is in operation (see Calvin and Barrios, 1998, for discussion of the Florida tomato marketing order). While foreign greenhouse producers would have no difficulty meeting grade requirements, the size requirements could serve as an import barrier for TOV, which are typically smaller than regular field tomatoes. Nothing has come of this proposal; USDA asked for more justification and the Florida Tomato Committee has not yet responded.