USA Market Access

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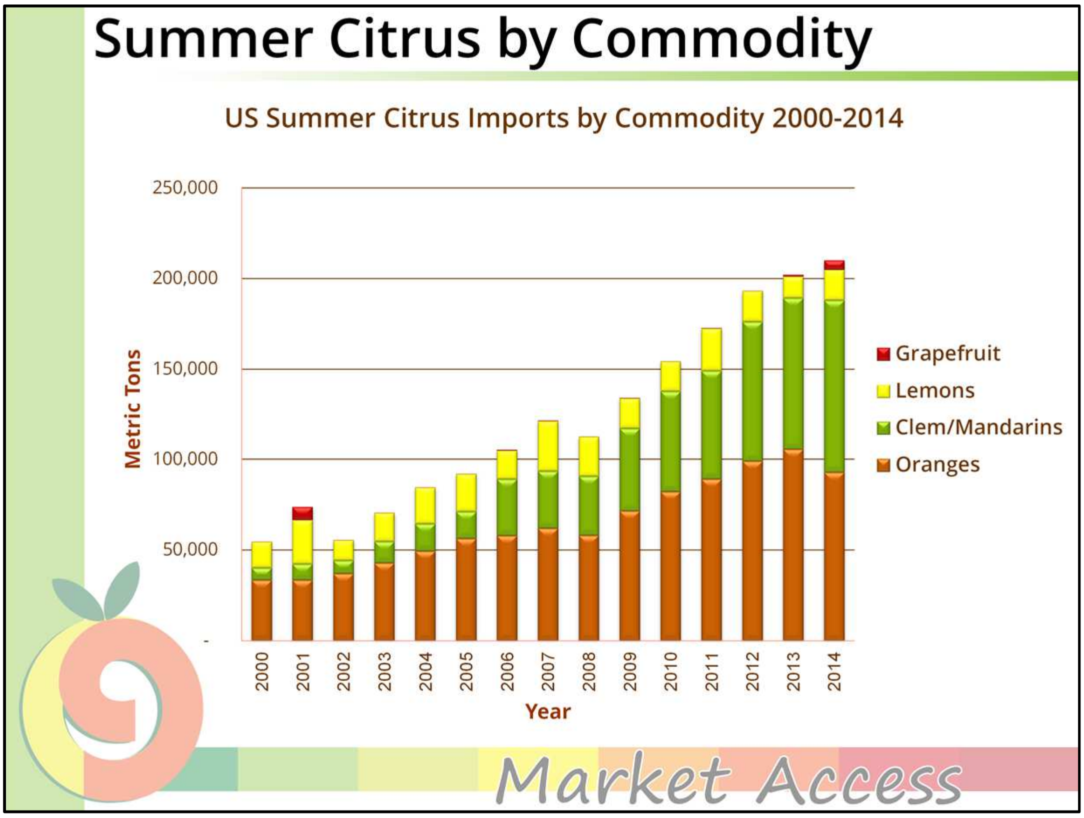
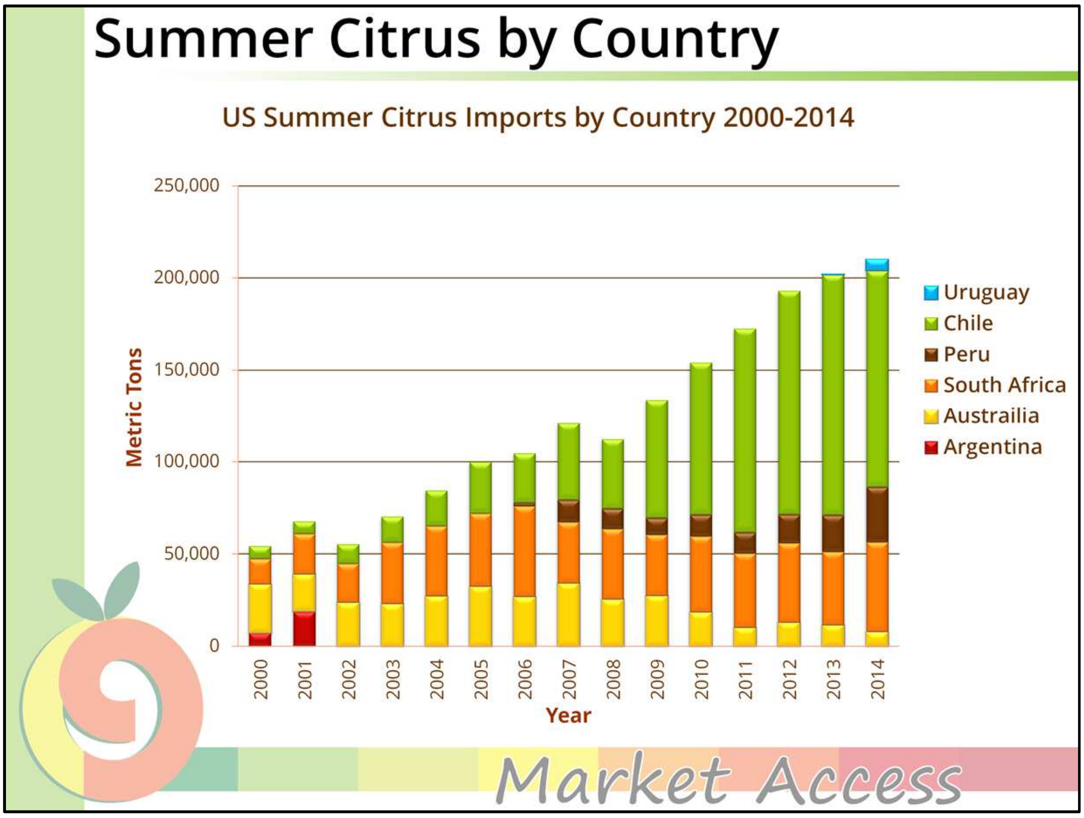
CGA CITRUS SUMMIT
Market Access



My plan today is to give you some grounding or impressions on the Summer Citrus market in the United States, and then to discuss 4 Market Access issues.

There is probably no better example of the effectiveness of a market access campaign than the evolution of the Summer Citrus Category in the United States.

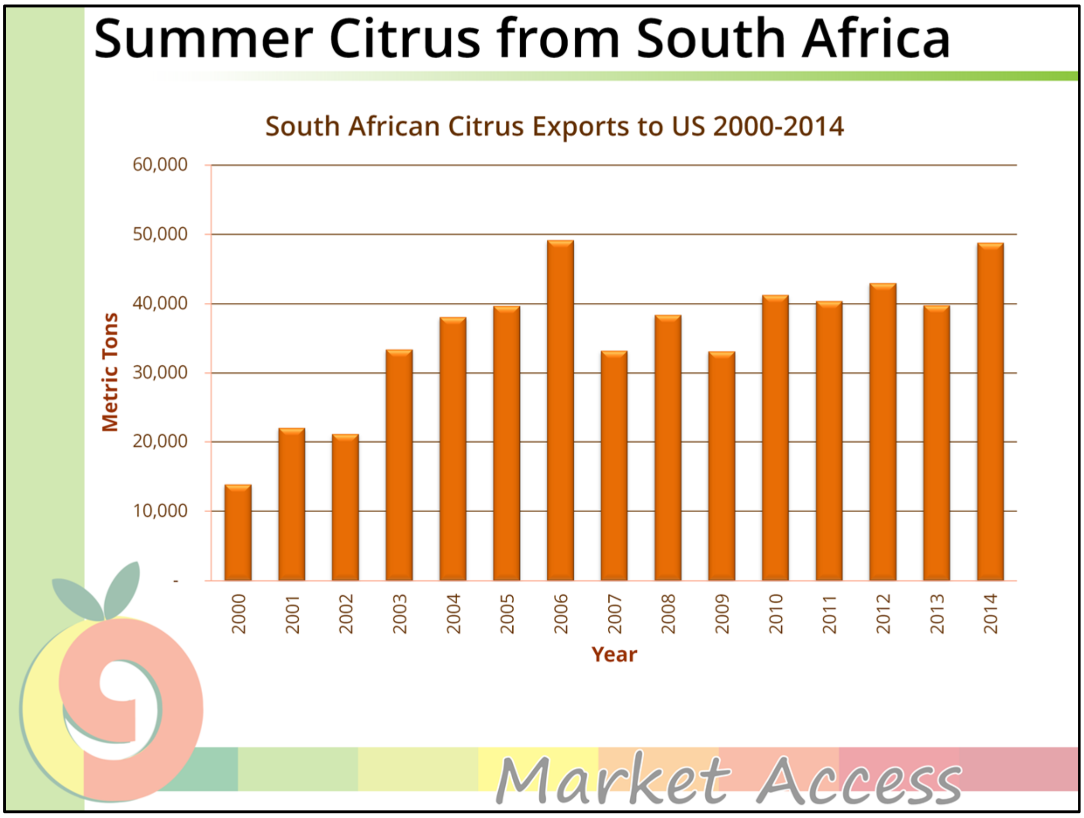
- Prior to the year 2000 the only supplier was Australia, 20,000 MT
- Over next 15 years volume increase from 20,000 MT to 210,000 MT
- Overcome many SPS barriers
- Retailers recognize heaver user year-round demand
- Category emerges: Home address for merchandising



- Market Access Dynamic: Australia 1994; South Africa 1998; Argentina 2000; Peru 2006 all citrus; Chile Easy Peel 2007; Chile 2009 Navel Oranges; Uruguay 2014 all citrus.

- Early shipments included Argentine Lemons and Grapefruit, terminated in 2001on issue of negligible risk.

- Growth potential remains significant



- Aggressive ramp-up from 10,000 tons in 2000 to 50,000 tons in 2006.
- 2005 interception of a False Codling Moth at the California border causes uncertainty, pull back.
- Imposition of enhanced risk mitigations by APHIS, cold treatment and inspections.
- 2014 volume approaches 50,000 ton for first time in almost 10 years

Transition: Now that you have an impression of the Summer Citrus Market in the States, let me take you through some market access initiatives.

Pilot Program 22-Day Cold Treatment: Market Optimization

For almost a decade the CGA has tried to roll-back the 24-day cold treatment protocol, which was not based on science but rather an arbitrary decision. During that same period inspections imposed at the port of entry have yielded no interceptions, yet the sampling remains unchanged. It's hard to know what caused the lack of progress in re-visiting this protocol, people issues, communications, disagreements on the interpretation of the science and so forth.

Whatever the reason, there were major changes in the staffing of APHIS (Animal Plant Health Inspection Service) at the start of 2013. New Directors were assigned who had the motivation to resolve long-standing issues such as the cold treatment protocol.

The first breakthrough came when APHIS agreed to schedule a conference call in late November of 2013 with the primary issue being citrus. One outcome from this session was the agreement to consider government to government consultations in March 2014, the first in five years. This would be finalized during a second conference call in January 2014.

The face to face consultations took place in March last year and they provided a forum for problem solving and networking. These consultations proposed a Pilot Program for a 22-day cold treatment test, and this would take place during the 2014 shipping season. Working groups would establish the design of the Pilot Program and what constitutes success. Another outcome from these consultations was the agreement to look at the inspection routine after the test. The parties also agreed to a Pilot Program for Houston in 2015.

While the Pilot Program would seem to be a simple project, it's hard to reflect on the number of approvals or at least people involved or needed to pass judgment. For example, people have to modify or amend manuals, and there are other agencies involved such as Homeland Security for port inspections. And of course every APHIS project has a scientific sign-off.

We are now waiting for a summary report with recommendations on going forward. We have intervened with DAFF and requested a formal intervention. This is normal procedure, since DAFF was part of the consultations.

Houston Test Program: Market Expansion

In retrospect we pushed this project forward, and unnecessarily stressed the system and working relationships. But in the context of late spring 2014, a cold treatment protocol was being tested at the Port of Miami, and Peru and Chile were making test shipments of citrus into the Port of Houston. We did not want to fall behind in terms of experience.

This test was modest, a total of 11 containers on two shipments. We were also caught up the in the wood boring pest, pallet fiasco, but I would like to isolate the commercial learnings from that separate history.

Houston was attractive in that it is a city of 7.5 million, in a State of 26 million and with access to the Midwest and Southwest. But questions were raised about the adequacy of the cold storage infrastructure. Houston is one of the largest containers ports in the country, but is does not have a history of handling produce and this had to be evaluated.

Rather than go through a project case history, I'll just highlight some of the learnings.

- The importance of pre-season planning with team-South Africa and equally with the Houston Port Authority, USDA/APHIS/AMS, Homeland Security and other officials was made clear.

- The most time-consuming part of the test was evaluating cold treatment options in the event of a failure, since the cargo had to be certified as passing the cold treatment before off-loading in Houston. We looked at options such as Panama or Kingston, Jamaica but we kept coming back to in-transit uploading of the data, transmitting the data to an Independent Surveyor in Houston who would format the data for PPQ certification.

This is what actually happened and it's new territory. All 11 containers passed the cold treatment in-transit and this allowed the captain to adjust temperatures for the balance of the voyage. APHIS allowed this test to go forward to demonstrate that we have the technology to do this certification but not the policies to let it happen.

We also identified issues that have to be resolved before this can be a long-term program.

- The Agricultural Quarantine Inspections (AQI) was a true bottleneck because Customs and Border Protection called for full, intensive inspections and there were no pest identifiers at the port.

- Cold Storage facilities were inadequate, but investments in new or expanded cold store operations were stimulated by these and other tests.

- Road weight restrictions were a real cost factor, but there is a broad coalition of interests lobbying for change.

- Customer interest and acceptance were quite good and supportive.

At our last meeting of the Houston Task Force the participants reached a consensus to continue with an expanded test and hopefully at a 22-day cold treatment protocol.

Citrus Black Spot, Proposed Rule: Wider Access

In an attempt to gain greater access to the U.S. Market South Africa pursued a strategy of gradual expansion. The concept of a low prevalence area of Citrus Black Spot (CBS) with CBS free production units was a concept that APHIS and DAFF had under consideration and the target area for testing the concept was Limpopo. One immediate challenge was that the concept would require formal rulemaking because it was controversial and APHIS wanted to initiate a stakeholder notice.

On March 25, 2010 the Florida Department of Agriculture and Consumer Affairs identified and reported to the USDA the discovery of Citrus Black Spot in Collier and Hendry Counties. The Federal Domestic Quarantine Order was published in

October 2010 and subsequently amended on three occasions.

In order to harmonize its domestic requirements with import requirements, APHIS published in August 2014 a Proposed Rule for the importation of fresh citrus fruit from South Africa from areas were CBS was known to occur. The comment period ended October 27, 2014.

Of course the effect of this rule will be to open up more growing areas from which to export fresh citrus to the United States.

The comments that APHIS received on this Proposed Rule came mainly from the California Citrus Industry, and focused on the technical and commercial differences between citrus production in Florida and that of South Africa. Rather than spend time here on those comments, please note that the CGA and CRI have submitted comprehensive comments.
What's the process? First let me say that in general it takes at least six months to go from Proposed Rule to a Final Rule and it certainly can take longer if there are controversial issues.

The comments received by the USDA go to the Regulatory Analysis and Development Division of APHIS where the staff must respond to every negative comment. In this regard they liasse with the office of the General Counsel and with technical experts. The output is not a direct response to each submitted comment, but rather weaves the response into the Final Rule by either accepting or rejecting each material comment. Their comments may include additional risk mitigation steps that are detailed in the Final Rule. They proceed under an order called Ex Parte which prevents them from discussing content.

What we understand today is that the documents have not yet been prepared for publication, and this usually means they are still drafting the Rule or they could also be going through agency review.

Please keep in mind that APHIS moves more slowly when dealing with significant crops such as citrus. I think we should let the process continue and if there is no response by the end of March 2015, request a formal intervention by the South African Embassy.

African Growth and Opportunity Act (AGOA): Market Optimization

AGOA is a unilateral trade agreement between the United States and most African nations. This treaty provides preferential access to the United States, and for South African citrus that means zero duty. It provides assistance grants for infrastructure projects and technical support for other programs.

The original agreement was signed in May 2000, just as the SA citrus industry launched its first major penetration of the U.S. market. This trade treaty comes up for renewal in September 2015. In general reauthorization is strongly supported by the President and trade agreements also have support from the Republicans.

But we can’t be complacent! There is strong opposition coming from the U.S. poultry industry that wants to finally resolve a longstanding anti-dumping case against the United States. It’s difficult to assess whether the poultry industry can gain the support needed to oppose AGOA.

There have also been challenges from the Office the U.S. Trade Representative (USTR). They contend that South Africa’s economy is expanding and they should “Graduate” from AGOA and negotiate a bi-lateral agreement with the United States. The counter is that taking South Africa out of the agreement would damage the balance of Africa.

There is some fear that USTR would push for a 5-year conditional agreement so they could evaluate progress on a list of issues ranging from the South Africa treaty with the European Union to SPS issues.

The current status is that the committees in the House and Senate have started drafting the renewal language but dedicated efforts to complete the legislation will probably only take place after the Easter break.

EBM
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Thank you

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