CRNM PRIVATE SECTOR TRADE BRIEF

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THE CARICOM FRUIT/VEGETABLE JUICE TRADE

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IN THIS ISSUE: We examine one of the region's most dynamic value added sectors - the unfermented fruit /vegetable juice industry. We assess markets which have been most receptive to CARICOM exports of these products as well as those markets where there have been major challenges. We pose the question: how can trade agreements provide some relevant support to firms in this industry to further boost their export performance?

General Overview

Caribbean firms are expanding their business offering by producing value added goods which attract higher prices than commodity-based goods. In this effort, the unfermented fruit juice industry has become a leading sector with major trade expansion potential at the global level for regional firms.

According to the United Nations COMTRADE Database, almost US$9bn was spent globally in 2005 on imports of unfermented fruit juice amounting to approximately 2.4bn tonnes. This industry was also dynamic with sales growing by 10% (compared with 6% for total global trade) between 2001 and 2005. Volume grew by 8% per annum over the same period.

Global trade of unfermented fruit juice, based on 2005 sales, is concentrated in the following 10 countries: the USA (12% of global imports), Germany (12%), the Netherlands (9%), France (8%), the United Kingdom (7%), Japan (6%), Belgium (6%), Canada (5%), Austria (2%) and the Russian federation (2%). Together, they account for almost 70% of global import spending. Therefore, firms exporting to these markets can expect fierce competition as these are the largest global markets for unfermented fruit juices.

CARICOM Export Trends

Over the 2001 to 2005 period, CARICOM producers/distributors of unfermented fruit/vegetable juices grew their export sales by 6% per annum. Volume also was up by 3%

per annum, signaling an increase in the export price. It should be noted that between 2004 and 2005, there was significant export dynamism with a 32% increase in sales.

In 2005, CARICOM exporters earned some US$47.4 mn from sales of unfermented fruit/vegetable juices to intra-regional and extra-regional markets. However, when we disaggregate the total fruit juice market into CSME, non-CSME Caribbean[1] and extra regional (i.e. exports outside of the CARICOM region), juice exporters in CARICOM generate most (actually 54% in 2005) of their international sales from external/non-Caribbean markets.

Although CARICOM generates less sales than external markets, it is still a significant fruit/vegetable juice market, accounting for roughly 45% of 2005 sales. Therefore, it is safe to say that currently there is very little focus on trading with the Non-CARICOM Caribbean (see footnote 1 below) which accounted for less than 0.5% of the region's export sales of fruit/vegetable juice.

Specifically, the top five markets for CARICOM fruit/vegetable juices in 2005 were the USA (41% of sales), Jamaica (15%), Trinidad/Tobago (8%), Japan (8%) and Barbados (6%). They jointly accounted for almost 80% of the region's 2005 sales. It should also be noted that CARICOM exporters have been growing their export sales by 3% per annum between 2002 and 2005 whilst their export volume has grown by 6% per annum over the same period. It is noticeable, however, that CARICOM firms have not adequately focused on the top global markets for fruit juices. For example, the EU, Russia and Canada together accounted for just under 5% of CARICOM's 2005 export sales.

An examination of recent sales trends shows that CARICOM firms are now concentrating more on CARICOM, and diverting sales from markets such as Japan, Germany, France and Austria. This has accounted to some extent for the slow growth in sales and volume previously noted.

Markets such as Jamaica have shown hyper-growth in export sales, recording a whopping 247% increase annually between 2001 and 2005 with an almost equal increase in export volume. Barbados (15% per annum), St. Lucia (10%), Guyana (20%), Antigua/Barbuda (17%), Dominica (30%) and St. Kitts/Nevis (24%) have also shown stunning increases in sales.

Outside of the region, the UK has shown a tremendous increase in import sales from CARICOM fruit juice exporters between 2001 and 2005. Sales grew by 87% per annum. On the other hand, Japan registered a 20% decline in annual sales, as well as Germany – 36 %, France - 26%, and Austria - 12%. Trade diversion from the EU and Asia to a large extent was responsible for the growth of CARICOM sales. At the same time, very little new export production (trade creation) was apparent.

Orange juice topped the list of specific types of fruit/vegetable juices that were exported, accounting for almost two thirds of 2005 sales (see Figure 1 below).

1 Aruba, Bahamas (not yet in the Common Market), Netherlands Antilles and the British Virgin Islands (BVI).

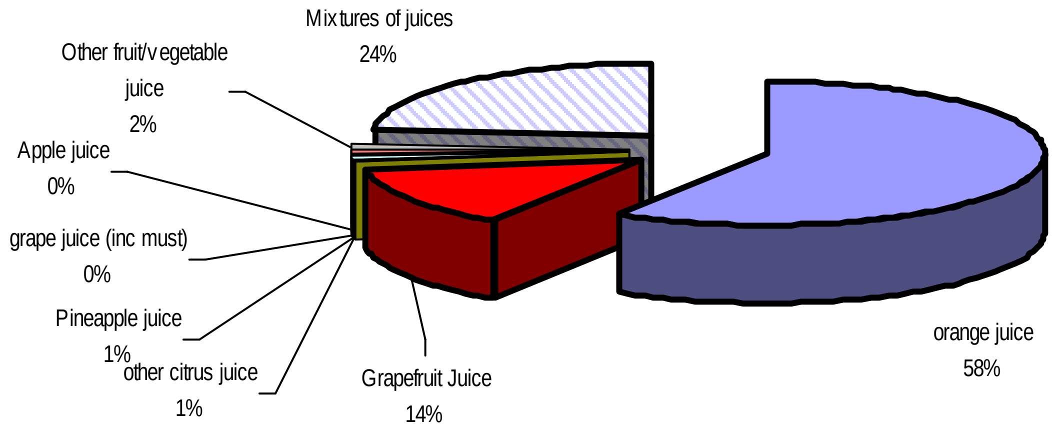

Figure 1: Share of Fruit/Vegetable Juices exported from CARICOM firms in 2005

Significant sales (24%) were also generated from mixtures of juices in 2005. Grapefruit juice generated 14% of total sales while pineapple juice accounted for just 1%. There was hyper-growth (121% per annum) in export sales of mixtures of juices between 2001 and 2005, with grapefruit juice showing some dynamism by growing at 8% per annum. In fact, grapefruit juice export sales have been growing despite a 15% per annum decline in volume of juice exported, showing that the export price for grapefruit juice is increasing significantly. Additionally, exports of unfrozen orange juice have been dynamic, growing by 53% per annum since 2001.

However, the major juice category for CARICOM exporters -- frozen orange juice -- declined by 11% per annum over 2001 to 2005. Global frozen orange juice imports declined by 6% per annum during the same period. The region therefore performed negatively in comparison to global sales. Global import sales of other citrus juices (including ortaniques, nectarines, and tangerines) have grown by 6% per annum since 2001. Against this backdrop, the CARICOM outturn of a 1% decline per annum reveals some difficulty in capitalizing on the global growth trend in this juice category.

Frozen Orange Juice Competitiveness

With frozen orange juice accounting for almost two-thirds of the region's juice trade, we have chosen this product as the focus of a competitiveness assessment. The assessment is simple: where CARICOM firms have shown the capacity to export at prices coinciding with or below the prevailing market price, then they are deemed competitive for this product.

Table 1: CARICOM Frozen Orange Juice Price Competitiveness Indicators

Market	Applied tariff	MFN	Preference Mgn	Imp price (US$/ton)	Export price (US$/ton)	PC ratio
China	7.5%	7.5	0%	1,017	1,266*	1.24
Russian fed	15%	15%	0%	1,161	1,266*	1.09
USA	0%	7.9c/ltr	7.9c/ltr	1,242	1,241	0.99
Germany	€20.6/100kg	33.6%+€20.6/100kg	33.6%	956	1,266*	1.32
Japan	30%	30%	0%	1,856	1,770	0.95
Canada	0%	0%	0%	1,392	1,390	0.99

Source: TradeMAP database accessed December 15, 2006- January 18, 2007. Note: 1) * implies that CARICOM has not exported to this market, and as such, CARICOM's average export price for frozen orange juice, US$1,266/ton, was used. 2) The unit value (shipment value divided by shipment volume) is actually used as a proxy for the price.

The above table shows the applied tariff, meaning the tariff actually applied to CARICOM exports of frozen orange juice. The MFN (Most Favoured Nation) tariff rate refers to the tariff applied to all other WTO (World Trade Organization) members with which the importing market has no trade relief programs (i.e. trade agreements etc). Therefore, the preference margin refers to the tariff advantage that CARICOM exporters have (based on special trade deals) over other exporters with no special trade deals.

The import price refers to the price at which the importing market imported frozen orange juice in 2005, while the export price refers to the price at which CARICOM exported frozen fruit juice in 2005, and as such, the Price Competitiveness (PC) ratio measures the extent to which CARICOM firms can export frozen orange juice competitively. A PC ratio less than 1 implies that CARICOM exports of frozen orange juice are not price competitive, and vice versa. The smaller the PC ratio (below 1), the more price competitive the CARICOM export is, and vice versa[2].

Of the six major export markets identified in table 1 above, CARICOM is most competitive in Japan, and least competitive in Germany. This is a quite interesting result as CARICOM firms have the highest tariff advantage in Germany, and no tariff advantage in Japan. Specifically, in Japan, CARICOM exporters sold 946 tons of frozen orange juice, paying the 30% import tariff, whilst in Germany where CARICOM firms have a 33.6% tariff advantage (i.e. based on the Cotonou trade deal, regional firms face one-third less tariffs than exporters with no special deals), they did not export any frozen orange juice to this market between 2001-2005.

Furthermore, CARICOM frozen orange juice exporters did not export to China, Russia or Germany, all countries where there is no apparent price competitiveness, but exported to the USA, Japan and Canada, three countries with some price competitiveness. Therefore, it seems that price competitiveness and preference margin jointly operate to provide enough incentive for firms in this sector to undertake export activity.

It is also interesting to note that since 2004 CARICOM frozen orange juice exporters have shown more dynamism in exporting to Canada, Japan and the USA. Since 2004, CARICOM's exports of frozen orange juice grew by 40% to the USA, 148% to Japan, and 850% to Canada. Exports to Canada are duty free for all exporters as the MFN duty (i.e. the duty to all traders with Canada) is already 0, and as such, regional exporters have no preference margin there.

However, the marginal price competitiveness seems adequate to be fueling some recent export growth as CARICOM firms are matching the import price for this product. In the USA, the situation differs from Canada as there is a significant tariff applied to frozen orange juice, specifically 7.9c per litre, which is waived to Caribbean exporters who are certified under the Caribbean Basin Initiative (CBI), a trade deal between the Caribbean and the USA where the USA gives duty relief for regional exports including frozen orange juice. However, Caribbean exporters have no preference advantage in relation to African countries, Andean countries(Colombia, Ecuador, Venezuela, Peru), Canada and Israel, who also have duty free market access for this product.

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2 For the technicians amongst us, the Balassa Revealed Comparative Advantage Index could have been used, but the PC ratio just seems to appeal more to businesspersons.

With regards to China, the CARICOM region is not price competitive even if a trade agreement is negotiated which waives the 7.5% duty. Based on 2005 prices, regional exporters can sell frozen orange juice at a price which is 24% higher than the price at which Chinese importers were willing to purchase in 2005. However, in Germany and Russia, negotiations to remove tariffs could produce some price competitiveness depending on how the tariff reductions are reflected in export prices.

In Germany's case, if the proposed Economic Partnership Agreement (EPA) with the Caribbean could result in a removal of the €20.6/100kg duty, then based on 2005 prices, this could compensate for the region's export price being 32% higher than what would make it price competitive into this market. Similarly, where CARICOM could negotiate away the Russian federation's 15% tariff on frozen orange juice, then the region could be price competitive into this market. Based on 2005 prices, the regional export price is 9% higher than Russia's average import price for this product.

Currently, CARICOM is not contemplating any trade discussions with Japan, Russia or China. As such, hopes for any tariff reductions rest on the outcome of current multilateral trade negotiations under the Doha Development Round which is facing various challenges. For reference, China, Russia and Germany accounted for 17% of world imports of frozen orange juice in 2005. As such, they represent a significant market.

As a concluding note, frozen orange juice is a product whose competitiveness can be boosted by proactive external trade negotiations to further open up a market which is equivalent to almost one-fifth of global import spending. You are encouraged to make your voice heard on this topic. Please email us at privatesector@crnm.org. We look forward to your input.