CITRUSBR ANALYSIS

BRAZILIAN FCOJ EXPORTS TO THE US AND THE COMPETITION WITH MEXICAN JUICE

Mexico: a new and important player in the international FCOJ market

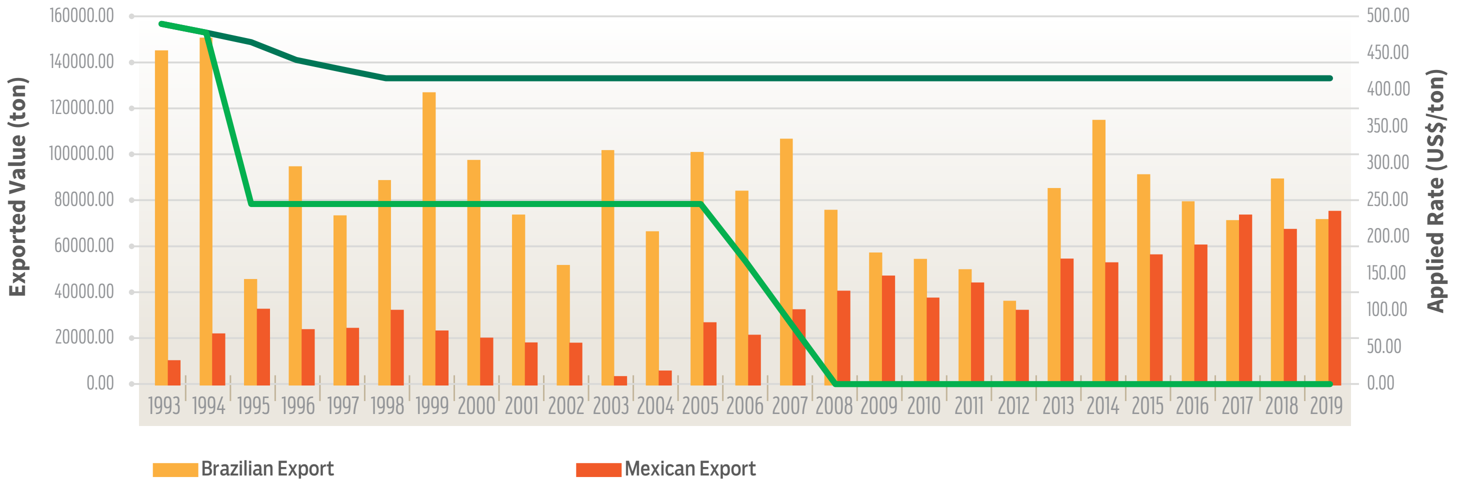
How the North American Free Trade Agreement (Nafta) created a new player in the international orange juice market and made Brazil lose the leadership in the export of concentrated juice to the US market

Graph 01 of this analysis is a summary of the importance of international agreements for countries that intend to remain strong suppliers in the world market. Benefited by series of tax reductions pursuant to the signature of the North American Free Trade Agreement - Naffta, the export of orange juice from Mexico to the United States exploded, mainly since 2008, when the import duty dropped to zero for the Mexican compared to the heavy rate of US$ 415.86 per ton imposed to the Brazilian FCOJ, which is out of the scope of Nafta unfortunately.

In one and the same chart, it is possible to see the import of Brazilian juice (yellow columns), the import of Mexican juice (red columns), the rate applied to the Brazilian product (blue line) and the tax charged for the Mexican beverage. Since 1993, when the design of the rate reduction scaling started, Mexico could prepare to use this advantage, opportunity captured in quite a efficient way. But in 2008, when the rate imposed to the Mexican FCOJ reached zero, it was possible to perceive an evolutionary jump. Only in the period between 2008 and 2019, the Brazilian FCOJ was taxed at US$ 548 million import duty, while Mexico was exempted from payment of US$ 405 million thanks to the enforcement of Nafta.

When observing the historical series, it is possible to note that the American import of Brazilian FCOJ dropped from 144,538 tons in 1993 to 71,114 tons in 2019, reduction by 50.7%. On the other hand, the Mexican shipment to the United States increased from 9,772 tons in 1993 to 74,680 in 2019 - increase by 664.2% in the period. However, it is possible to perceive that the total import remains at a level of around 155 thousand tons of FCOJ. The change was the aggressive entrance of Mexico in this market

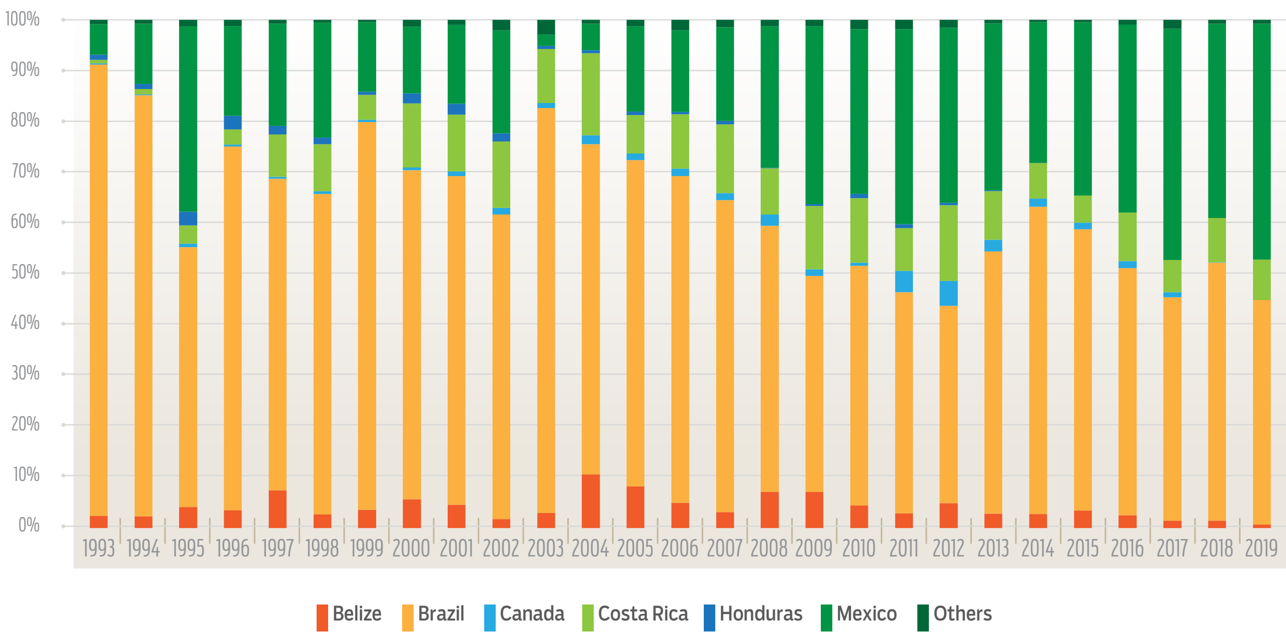
Relationship between export volume and import tax in the comparison between Brazil and Mexico for sales in the US



Source: United States Department of Commerce. Prepared by CitrusBR and BMJ Associados

With a good-quality product, similar to that produced in Florida, and road freight cost about 50% cheaper compared to the Brazilian ocean logistics, mexican product it keeps gaining space. **Graph 02** shows that in 1993, the Mexican share was 6% only, while the Brazilian corresponded to 89% of the total import of FCOJ in the United States. Twenty-eight years later, the Mexican share of the FCOJ import to the American market increased to 46% and the Brazilian dropped to 44%.

Evolution of the share of juice of different origin in the FCOJ import in the American market



Source: United States Department of Commerce. Prepared by CitrusBR and BMJ Associados

The expansion of the FCOJ in the American import is done at the expense of a heavy tax falling upon the Brazilian product. Despite the increase of volume and share, the Mexican citrus area has remained virtually stable. USDA report - the US department of agriculture, published in November 2009, shows that the citrus plantation area corresponds to about 339 thousand hectares. However, in the version from July 2020, USDA shows that the planted area remains stable at 340 thousand hectares. With a number of trees, which is also stable, around 65 million trees producing for more than ten years, the increase is provided by the increase of the production of boxes per tree due to the renewal of orchards, as well as crop treatments.

FOB FROM THERE IS MORE BEAUTIFUL THAN FOB FROM HERE

The Brazilian difficulty to keep the leadership in the FCOJ market can be explained in numbers, as demonstrated in **table number 01**. The chart shows the net receivables of the exporter after the deductions of import duty, customs clearance costs and freight, ocean for the Brazilians and road for the Mexicans. For the ocean freight, we take the study of the economist Alexandre Mendonça de Barros, published in Consecitrus Models, dated 2012, into consideration. For the road freight in Mexico, research at Mexican logistic companies was necessary. Finally, adding taxes and costs, the difference is US$ 482.86 in favor of the Mexicans.

Impact of the import duty on the FOB operations in export of Brazilian FCOJ compared to of the producing countries

Country of origin	Reference	BRAZIL	MEXICO	COSTA RICA	FLORIDA
Rate of the ICE Exchange in Pound per Solid	US$/ps	1.04	1.04	1.04	1.04
Conversion to ton at 66o Brix	US$/ton	1,513.25	1,513.25	1,513.25	1,513.25
Import Duty	US$/ton	415.86	0.00	0.00	0.00
Expenses for unloading and storage in the USA	US$/ton	76.50	76.50	76.50	0.00
Freight	US$/ton	125.00	58.00	60.00	0.00
Total import and internationalization costs	US$/ton	617.36	134.50	136.50	0.00
Amount received by the industry (FOB)	**US$/ton**	**895.89**	**1,378.75**	**1,376.75**	**1,513.25**

Source: ICE NY, Agmark, Consecitrus Model. Prepared by CitrusBR and BMJ Associados

The exchange rate used as a reference at 1.04 pounds per solid corresponds to the average of the harvest 2019/20 ended in June 30, 2020. While the value of the Mexican juice is US$ 1,378.75 FOB per ton, the Brazilian competitor receives US$ 894.95 for the same ton of FCOJ 66° Brix – a difference of US$ 484.9 per ton in favor of the Mexican exporter, which can withstand lower exchange rates in case of drop, while the operation for the Brazilian exporter can be made unfeasible, which explains the Mexican invasion in the American harvest 2018/19.

In 2020, the Mexican orchards were devastated by one of the worst droughts of the recent history. According to the USDA estimation, the juice production shall be reduced by 60%. This would be an opportunity for the Brazilian product; however, which might be partially dimmed by the high stock in Florida.

OTHER DESTINATIONS AND BRAZIL

The American incentive to the Mexican plantations increased the Mexican appetite for other markets, which led do signature of commercial agreements, Costa Rica, El Salvador, Guatemala, Japan, New Zealand, Nicaragua – with preferential rate, and they also use an aliquot of reduced rate for about 30 thousand tons for the European Union and EFTA (Switzerland, Liechtenstein, Norway and Island).

From the Brazilian side, some efforts try to put the national orange juice on the Map of the international agreements. With negotiations completed in 2019, the Mercosur/ European Union agreement provides immediate tax elimination of 50%, which will reach 0% in a period of 10 years. Today, the average rate paid by the Brazilian FCOJ to enter Europe is 12.2%, compared to 4.2% of the Mexican competitor. The problem is that there is no deadline for ratification. The process is slow and need approval by the parliament of each member state of the European Union, as well as the parliaments of the Mercosur partners: Argentina, Brazil, Uruguay and Paraguay.

Via Mercosur, Brazil also negotiates a commercial agreement with South Korea and the sector claim is the tax for the orange juice to be reduced to zero as for the juice produced in Florida, which supplies a little to that Country, which would be an important milestone, considering that in the past, Brazil has already exported more than 30 thousand tons a year, and nowadays, it virtually does not export anything to that destination anymore due to the 54% rate ad valorem compared to the free trade with the Americans.

The scale and the competitiveness of the Brazilian orange juice will continue shining in the international market. NFC - the non-concentrated juice has offered new opportunities. However, the international arrangements, which did not impact the national chain that much before, today suppress about US$ 200 million annually, which do not enter Brazil and irrigate the Mexican orchards, industries and citrus producers.

Between 2019 and 2020, the Brazilian government opened more than 60 markets. The orange juice was included in all big agendas and it is part of the claims presented to partners. However, Brazil is still a very closed Country with sectors of the industry stuck in the old protectionist zeal. However, little by little, we are learning that in the international market game, those who want to sell have to know how to buy.

SOURCES:

- *United States Department of Commerce. Prepared by CitrusBR and BMJ Associados*
- *United States Department of Agriculture (USDA)*
- *ICE NY, Agmark, The Consecitrus Model. Prepared by CitrusBR and BMJ Associados*