CASE STUDY: POULTRY

Introduction

In 1999, the largest South African poultry producer filed an antidumping petition claiming that U.S. producers were selling frozen chicken leg quarters, thighs and backs at less than normal value in the South African market, and these imports were causing material injury to the domestic industry. The agency charged with administering South Africa’s antidumping law, the Board on Tariffs and Trade (BTT), found on July 5, 1999 that dumped U.S. chicken imports were injuring South African poultry producers. Although the U.S. poultry industry and a group of U.S. senators urged the United States to challenge the finding at the World Trade Organization (WTO), no action was taken and South Africa has imposed antidumping duties on U.S. chicken parts since the 1999 decision. As a result, U.S. exports of chicken to South Africa plummeted to virtually nothing. In September of 2005, South Africa began a five-year review of the antidumping duties to determine whether the imposition of the duties is still warranted.

In contrast, U.S. poultry efforts to use antidumping legislation to protect themselves from unfair imports have been unsuccessful. In December of 2003, the largest producer of kosher chicken in the United States filed an antidumping petition claiming that dumped imports from Canada were causing injury to the kosher chicken industry. The U.S. International Trade Commission (ITC), the agency charged with determining whether imports have caused injury to the domestic industry, ruled in January of 2004 that there was no evidence that imports from Canada were injuring domestic producers, thus terminating the antidumping investigation without the imposition of duties.

Background: The U.S. Poultry Industry

The United States is the world’s largest producer of poultry in the world. In 2003, the United States produced 38.5 billion pounds of poultry valued at $23.3 billion; of this quantity 84 percent consisted of broiler meat, 15 percent was turkey meat, and 1 percent was other chicken meat.1 The leading producers of broilers in the country include Georgia, Arkansas, Alabama, Mississippi and North Carolina. According to the U.S. Census of Agriculture, there were slightly over 32,000 farms producing broilers in the United States in 2002, up from 27,737 farms in 1997. Poultry production is a highly concentrated industry; three percent of top poultry producers, or those with sales in excess of $1 million, accounted for one-third of total U.S. egg and poultry production.

Most U.S. broiler production is done under contract with a broiler processor. The broiler processor typically delivers chicks from company-owned hatcheries to the grower. The processor also provides the grower with feed and veterinary medicines. The grower, in turn, supplies a growout house to raise the chicks with all the necessary heating, cooling, feeding, and watering systems, as well as the labor needed in growing the birds. The grower typically cares for the chick for six weeks until it becomes a broiler chicken ready

1 A broiler is any young chicken suitable for roasting or broiling.
for slaughter. The processor then schedules the transportation of the birds from the farm to the processing plant. At the processing plant, broilers are slaughtered, de-feathered, and eviscerated. In some cases, the chicken is further processed by cutting the chicken into parts and freezing or processing in some way prior to shipment.

U.S. consumption of chicken has increased dramatically in recent years, reaching 81.5 pounds per person in 2002, due in part to consumers’ growing preference for low-fat and healthy food alternatives. In 1992, chicken consumption surpassed beef consumption, the former top meat choice in the United States, for the first time. Most of this consumption is met through domestic production; the United States imports only small amounts of broiler products. In 2003, imports amounted to 12 million pounds, or less than 1 percent of domestic production. As can be seen in Figure [I], Canada accounts for virtually all U.S. imports of chicken.

![U.S. Imports of Chicken](image)

Source: U.S. Census Bureau

In the 1990s, the U.S. market for chicken became increasingly segmented, with virtually all white meat remaining in the United States and most dark meat exported. The United States is the world's largest exporter of broilers; broiler exports totaled 4.93 billion pounds, or approximately 15 percent of total production, valued at $1.5 billion in 2003. As illustrated in Figure [II], in 2004 the leading foreign destinations for U.S. poultry included Russia, Hong Kong, the Ukraine, Turkey and Mexico. Demand for U.S. broiler products has fluctuated over the last several years due to changing economic conditions.
and currency exchange rates in major exporting countries. The imposition of antidumping duties has also retarded U.S. poultry exports, albeit to the relatively small South African market.

![Figure II](image_url)

U.S. Exports of Chicken

Source: U.S. Census Bureau.

U.S. Exports to South Africa

On September 22, 1999, Rainbow Farms, Ltd., the largest poultry producer in South Africa, filed an antidumping petition claiming that U.S. producers were selling chicken leg quarters, thighs and backs at less than normal value, and these imports were causing material injury to the South African Customs Union (SACU) poultry industry. The petition had the full support of the Southern African Poultry Association. On November 5, 1999, the South Africa Board on Tariffs and Trade (BTT), the agency charged with investigating dumping complaints, determined there was enough evidence to launch an official investigation.

In 1998, South Africa was the eleventh largest destination for U.S. exports of poultry; exports reached 69.3 million pounds valued at $23.8 million dollars. As illustrated in Figure [III], U.S. poultry exports to South Africa decreased 28 percent between 1997 and

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2 SACU includes South Africa, Botswana, Lesotho, Namibia, and Swaziland.
Figure III

U.S. Exports of Chicken to South Africa

Source: U.S. Census Bureau.

U.S. Exports of Chicken to South Africa
Average Unit Price

Source: U.S. Census Bureau.
1998, due in part to economic conditions in South Africa. Nevertheless, chicken remained the leading export of the United States to South Africa. The United States increased their share of the South African market by 1 percent between 1996/1997 and 1998/1999, while South African domestic producers lost four percent of their market share. Figure [IV] illustrates the average unit price of chicken shipped from the United States to South Africa, which consistently fell in the period leading up to the antidumping petition, falling 12.8 percent between 1996 and 1997, and an additional 2.3 percent between 1997 and 1999.

On July 5, 1999, the BTT completed their preliminary investigation, finding that dumped imports of chicken parts from the United States were causing injury to the domestic poultry industry in South Africa. The decision paved the way for the temporary collection of antidumping duties. On December 27, 2000, the BTT revised the antidumping margins in their final determination. The final antidumping duties ranged from 2.24 to 6.96 Rand per kilogram (approximately $0.37 to $1.13 per kilogram in average 1999 exchange rates). Firm specific dumping duties are listed in Table [1]. In comparison, the average unit price of U.S. poultry imports in 1999 was 2.24 Rand per kilogram. Note that the BTT opted not to impose dumping duties on frozen whole chickens, but did impose duties on chicken parts that had been processed by adding certain preservatives or flavoring to prevent U.S. firms from circumventing the antidumping order.

In order to calculate the dumping margin, the BTT calculated the difference between the U.S. export price and the “normal value” of chicken over the investigation period. Under South African antidumping law, normal value is typically calculated as the price set by the producers under investigation in their domestic market. However, if the BTT cannot calculate the normal value in this way because of a “particular market situation,” normal value may alternatively be calculated as a constructed value based on the producers’ cost of production.

The BTT determined over the course of their investigation that the United States is characterized by an unusual market situation in which consumers have a strong preference for white over dark chicken meat. U.S. consumers are willing to pay a premium for white meat; the surplus dark meat is often shipped overseas at artificially low prices. South African consumers, in contrast, typically prefer dark meat over white

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Table 1
Antidumping Duties Imposed by South Africa on U.S. Poultry (Frozen Bone-In Cuts)

<table>
<thead>
<tr>
<th>Firm</th>
<th>Duty (Rand/Kilogram)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tyson Foods Incorporated</td>
<td>2.24</td>
</tr>
<tr>
<td>Gold Kist Incorporated</td>
<td>2.45</td>
</tr>
<tr>
<td>All Others</td>
<td>6.96</td>
</tr>
</tbody>
</table>

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3 The investigation period was defined as August 1, 1998 through July 31, 1999.
meat. Because of this particular market situation, BTT chose to calculate normal value using a constructed value. Moreover, the BTT found that U.S. poultry producers allocated costs between the production of white and dark meat according to the product’s contribution towards sales revenue, and not through the usual accumulation of costs principles. Specifically, the BTT stated that “the costing policy has the effect that actual production costs are not reasonably reflected, although this costing policy may generally be consistent with acceptable international accounting practices.” The BTT therefore allocated costs according to their own methodology.

Typically the “all others” antidumping rate, or the antidumping margins paid by importers/producers that did not take part in the investigation, is a weighted average of the firm-specific dumping margins. In this case, the BTT used the highest normal value of the firms taking part in the investigation. The export price was calculated as the average unit price (value of imports divided by quantity of imports) by all U.S. firms excluding those taking part in the investigation, Tyson and Gold Kist.

In their determination of whether the dumped imports caused injury to the domestic injury, BTT noted that although imports of whole chickens from the United States had decreased over the investigation period, imports of frozen chicken pieces increased 103 percent between 1996 and 1999. While U.S. producers claimed that the South African import figures were incorrect, South African producers argued that the discrepancy between U.S. and South African trade statistics was due to the fact that U.S. exports to Russia were often rerouted to South Africa. The BTT also found that U.S. imports were preventing South African producers from raising prices, despite the fact that domestic poultry prices increased 12 percent between the 1995/1996 and 1998/1999 marketing years. The BTT concluded that dumped imports from the United States contributed to lower profit margins and lower employment in the domestic poultry industry; the dumping duties listed above were imposed to remedy this injury.

The USA Poultry and Egg Export Council (Council) urged the United States to challenge the South African finding at the World Trade Organization. U.S. producers argued that the BTT decision did not recognize value-based, cost-allocation methods and failed to find a reduction in prices or production in the domestic market due to U.S. imports. In August of 2001, a group of 21 U.S. senators wrote a letter to the U.S. Trade Representative, urging action in order to discourage other countries from following in South Africa’s footsteps. According to press reports, South Africa’s ruling encouraged producers in countries like Venezuela, Mexico, Canada and Great Britain to protest the alleged dumping of chicken parts by U.S. producers on overseas markets. According to the South Africa Poultry Association general manager, producers from these countries disrupted an international meeting of egg producers to protest international pricing practices by U.S. firms shortly after the final South Africa ruling. The U.S. government opted not to take any WTO action.

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4 BTT statistics also showed that domestic production increased during this time period by approximately 6 percent.
The Council reported that chicken prices in the South African market rose 30 percent between July and December of 2000 following the preliminary antidumping ruling. In the first nine months of 2001 alone, U.S. exports of poultry to South Africa fell 77 percent from $9.3 million in 2000 to only $2.2 million in 2001. As can be seen in Figure [III], U.S. exports have never recovered since the imposition of the high dumping duties. In 2004, the U.S. exported 548,700 pounds to chicken to South Africa compared to 49.4 million pounds in 1999. However, South Africa continued to import large quantities of chicken, primarily from Brazil and China. Total South African broiler imports increased 67 percent between 2001 and 2003, from 64,000 tons to 125,000 tons.

On September 9, 2005, South Africa’s Department of Trade and Industry, the successor of BTT, announced that it was initiating a five-year “sunset” review of the chicken antidumping duties as required under the World Trade Organization. The review will determine whether dumping duties are still needed to prevent continued dumping by U.S. producers. The review is ongoing.

U.S. Imports from Canada

On December 1, 2003, Empire Kosher Poultry, Inc. filed an antidumping petition claiming that Canadian producers of ready-to-cook kosher chicken were dumping their product in the U.S. market, and these imports were causing material injury to the domestic poultry industry. U.S. antidumping law requires that petitions be filed by or on behalf of the domestic industry, defined as firms representing at least 25 percent of domestic production or 50 percent of the production of those firms that both support and oppose the petition. The DOC defined the industry as producers of ready-to-cook kosher chicken; based on this definition of the industry, the DOC determined that the petitioner and an additional U.S. producer that also indicated its support for the petition had standing to file the antidumping petition. Therefore, the DOC initiated an official antidumping investigation on December 31, 2003.

Kosher chicken is chicken that has been certified as Kosher, or fulfills the requirements of Jewish dietary laws. At the time of the investigation, U.S. producers accounted for 90 percent of the ready-to-eat kosher chicken market, while imports from Canada accounted for the remainder of the market. There were five U.S. producers of kosher chicken at the time of investigation located in Pennsylvania, Iowa, and New Jersey; two Canadian firms produced kosher chicken at this time.

As illustrated in Figure [I], Canada accounts for nearly all U.S. imports of chicken; imports of chicken as a whole increased significantly in the period leading up the investigation, growing 57 percent between 2000 and 2002 before falling slightly in 2003.

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7 Ibid.
8 This determination also relied on the fact that the DOC received no information that any domestic producer of ready-to-eat Kosher chicken opposed the petition.
9 The process for killing, cleaning, inspecting and chilling kosher chicken is different than non-kosher chicken; specially trained religious Jews must perform the slaughter of kosher chicken.
As illustrated in Figure [IV], the unit price of Canadian imports of all poultry was fairly consistent; the annual average unit price fell 3 percent between 2001 and 2002, but increased nearly 15 percent in 2003. The ITC investigation revealed that imports of kosher chicken from Canada, as well as Canada’s market share of the U.S. kosher chicken market, increased each year between 2000 and 2003. The investigation also revealed that prices for kosher chicken fluctuated throughout the period, with no clear trends, although Canadian imports were typically priced above the competing U.S. products.

![Figure IV](image.png)

Source: U.S. Census Bureau.

On January 14, 2004, the ITC made its preliminary determination that there was no evidence that imports from Canada were causing material injury to the domestic poultry industry, thus terminating the investigation without the imposition of dumping duties. In their explanation of the determination, the ITC noted that Canadian imports did not have a significant market share and did not seem to depress U.S. prices, particularly as Canadian prices were typically higher than U.S. prices. In fact, the Commission noted that there was little evidence of a strong correlation between U.S. and Canadian prices for kosher chicken. Moreover, the U.S. industry increased shipments between 2000 and 2001 and again in 2003 after a 2002 decline in production. The industry’s gross profit was also showing signs of improvement in 2003 despite the increase in Canadian imports.
The ITC further ruled that there was little evidence that imports from Canada would increase significantly in the future.\(^{10}\)

There have not yet been any published, negative consequences from the ITC decision to terminate the antidumping investigation. Although statistics on U.S. imports of kosher chicken are not readily available, imports of chicken from Canada increased significantly between 2003 and 2004, growing 32 percent over the course of the year. Empire Kosher Poultry continues to serve about half of the U.S. market for kosher chicken.

References


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\(^{10}\) One commissioner dissented from the ruling, stating that the price data collected during the preliminary investigation could be unreliable because many of the U.S. importers of kosher chicken from Canada were also distributors of domestically-produced kosher chicken. The commissioner also found the volume of, and increase in, imports from Canada to be significant, unlike the majority of commissioners. Thus, these imports could have caused material injury to the domestic industry.