CASE STUDY: GRAIN CORN

Introduction

In June 2000, the Manitoba Corn Growers Association (MCGA) filed an antidumping petition claiming that U.S. producers were selling grain corn at less than normal value, and these imports had caused or were threatening to cause material injury to corn growers in the provinces of Manitoba, Saskatchewan, Alberta and British Columbia. Although Revenue Canada, the agency charged with administering investigations into whether countries are dumping products in the Canadian market, made an affirmative determination in February 2001, the Canadian International Trade Tribunal (CITT) found that these imports were neither causing nor threatening to cause material injury to the domestic industry. As a result, antidumping duties were not imposed upon U.S. grain corn shipments to Canada at that time, although a new antidumping investigation was launched in 2005.

Background: The North American Grain Corn Market

Corn is the most widely produced feed grain in the United States, accounting for over 90 percent of total production of feed grains. In 2002, the United States produced 228.8 million metric tons (MT) of grain corn valued at $21.2 billion. Although corn is produced in almost every state in the country, the leading producers include Iowa, Illinois, Nebraska, Minnesota, and Indiana. In 2002, there were 348,590 farms growing corn in the United States. The United States is the largest producer of corn in the world, typically accounting for around 40 percent of world production.

The most common variety of corn grown in North America is dent or field corn. The corn is harvested when the kernels are dry, usually from September through November depending on the region. Corn kernels are separated from the husk at harvest then sent to corn refiners or processors. Although most grain corn is used as livestock feed, corn is also processed into starch, sweeteners, industrial alcohol, fuel ethanol, and other products. Demand for corn is primarily driven for the demand for livestock, which in turn is driven by consumer demand for meat, milk and eggs.

Under the 1995 and 2002 Farm Bills, U.S. corn producers are eligible for significant financial assistance from the government. For example, under the non-recourse

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2 Other varieties, such as sweet corn and pop corn, are also grown in North America, but in smaller quantities. Moreover, these varieties are primarily used for human consumption unlike the grain corn which was the subject of the antidumping petition.
3 U.S. producers of high fructose corn syrup (HFCS), which is produced from corn, was also targeted by antidumping actions by Mexican sugar producers in the late 1990s.
4 The 1995 Farm Bill included direct payments under the Production Flexibility Contracts. A more simplified direct payment program was included in the 2002 Farm Bill. Many of these programs were targeted by the Canadian countervailing duty petition.
marketing loan program, farmers can obtain loans from the United States government at a designated loan rate per unit bushel by pledging and storing a crop as collateral. Farmers have the option either to repay their loans with interest or to forfeit their crops to the government and have the loan and interest forgiven. To discourage crop forfeitures, the United States allows corn growers to repay the loans at lower rates when market prices decline below the loan rate, resulting in a gain to the farmer. Eligible farmers who do not take out loans may also receive direct payments called loan deficiency payments that are equal to the difference between the loan rate and the repayment rate. Other government-sponsored programs include crop insurance programs and ethanol production subsidies.

In 2003, the United States accounted for approximately 53 percent of world corn exports. Approximately 20 percent of U.S. corn production is exported to other countries. Leading U.S. markets for corn include Japan, Mexico, Taiwan, and Canada. Figure [1] illustrates recent U.S. corn export levels, as well as the share of these exports shipped to Canada.

![Figure I](image1.png)

Source: U.S. Census Bureau.

Canada is also one of the top ten producers of corn in the world. Compared to the United States, however, Canada is a much smaller producer; production reached 8.84 million MT in the 2004/2005 marketing year. Moreover, less than three percent of total Canadian corn is produced in western Canada, the specific region that filed the
antidumping petition. As a result, the western region of Canada has traditionally relied upon imports to meet demand. In the period leading up to the antidumping petition, the import market share fluctuated between 53 and 59 percent, reaching a high of 63 percent in the 2000/2001 marketing year.

U.S. corn production in 1999, the year prior to the antidumping petition, was 9,437 million bushels, down 3 percent from 1998 but the fourth highest on record. At the same time, grain corn consumption in the United States reached near record highs during the year as both feed and other uses for grain corn, namely ethanol and high fructose corn sweetener production, expanded. Despite the increase in demand, the U.S. Department of Agriculture forecast in April, 2000 that the season average farm price of corn in 1999/2000 would be $1.85-1.95 per bushel. As illustrated in Figure [2], corn prices began falling in 1996 and continued to fall through 2000; the midpoint of the forecasted range for the 1999/2000 growing season was the lowest reached since the 1986/87 growing season. The USDA attributed the weak prices to fundamental developments in the corn market, including favorable crop production, and low prices for virtually all commodities. In March of 2000, the USDA reported that corn growers intended to plant 77.9 million acres of corn in 2000, up 1 percent from 1999, which would likely put further downward pressure on U.S. corn prices.

Figure II

Prices Received by U.S. Farmers
Grain Corn

Source: U.S. Department of Agriculture
The Antidumping Case

In June 19 2000, the Manitoba Corn Growers Association (MCGA) filed an antidumping petition claiming that U.S. producers were selling grain corn at less than normal value, and these imports had caused or were threatening to cause material injury to corn growers in the provinces of Manitoba, Saskatchewan, Alberta and British Columbia. MCGA is a producer organization that represented all 391 corn growers at the time in the province of Manitoba, where the majority of corn is produced in western Canada. The association argued that the price of corn in western Canada was determined by the price in the United States. Because of depressed U.S. corn prices, producers in western Canada had been forced to accept reduced gross sales margins and lower profits. Moreover, the association argued that the projected record U.S. corn production levels threatened the domestic producers with more injury in the future.

Revenue Canada, the agency charged at the time with evaluating whether dumping has occurred, determined that there was sufficient evidence in the petition that grain corn from the United States was dumped in western Canada. As a result, an official antidumping investigation was launched on August 9, 2000. On October 10, 2000, the Canadian International Trade Tribunal made a preliminary determination that there was a reasonable indication that dumped imports were causing injury to corn growers in western Canada, thus allowing the investigation to move forward.

In certain circumstances, the government may be more likely to impose antidumping duties if producers can prove that they qualify as a regional market. It may be easier, for example, to prove that a subset of producers in a certain region have been hurt by imports than all producers in the country. Under Canadian antidumping law, producers must meet two specific conditions in order to qualify as a regional market. First, producers in the region must sell all or almost all of their production in the region. Second, the demand in the regional market must not be supplied by producers in the rest of Canada. Although the Canadian International Trade Tribunal (CITT) makes the final determination whether producers qualify as a regional market, Revenue Canada made a preliminary determination that producers qualified as a regional market at the time that the investigation was initiated based on the lack of corn flows between western and eastern Canada, and CITT later agreed.

On November 7, 2000, Revenue Canada made a preliminary determination that there was evidence that U.S. grain corn producers were dumping corn in western Canada, and set a provisional duty of $1.58 per bushel. As a comparison, the U.S. Department of Agriculture reported that various grain corn prices in major U.S. markets ranged from $1.82 to $2.27 per bushel in the 2000/2001 marketing year. In their final determination,

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6 The other corn grower association in the region, Bow Island Corn Marketing Ltd. of Alberta, Canada, represented 12 growers at the time and took no position on the antidumping petition.

7 This provisional duty was intended to offset both dumping on the part of U.S. producers and countervailable subsidies.
which was released on February 5, 2001, Revenue Canada stated that if CITT made a final affirmative determination, antidumping duties would be assessed on grain corn imported for use in western Canada in an amount equal to the margin of dumping established by comparing the export price to the normal value of US $2.46 per bushel. This is unusual final ruling, as must antidumping duties are a fixed percentage, regardless of the current export price.

In an effort to calculate the dumping margins, Revenue Canada requested information from exporters representing 90 percent of corn shipped to western Canada.\(^8\) Dumping margins are typically calculated based on the difference between the export price and normal value, where normal value is based on the average price of profitable sales in the exporter’s domestic market. In this case, however, Revenue Canada determined that none of the submissions by exporters provided sufficient information to determine normal value. Therefore, the agency used the best “facts available,” which in this case was defined as the average cost of production and selling price as published by the USDA. Because the USDA data revealed that during the investigation period the average cost of production for corn in the United States exceeded the average harvest selling price, Revenue Canada determined that selling prices in the United States could not be used as the normal value. Normal value was instead “constructed” using cost data from the USDA and a profit margin of 2.4 percent, which was the profit margin earned by U.S. soybean producers in 1997.\(^9\)

**Case Outcome**

On March 7, 2001, the CITT released its final determination that imports of grain corn from the United States were not causing, nor threatening to cause, material injury to corn producers in western Canada, thus ending the investigation without the imposition of antidumping duties. In their determination, the CITT noted that the price of corn had declined between 1997 and 2000, resulting in a decline in the financial performance of corn growers in western Canada. However, they found that despite arguments to the contrary by the petitioner, the price of corn in western Canada was determined by a combination of import prices and other market forces, such as the price of other feed grains.

The more important element of the CITT determination that U.S. imports were not causing injury to western producers was the fact that a significant portion of the domestic industry had not been hurt by imports. For example, an examination of individual firm’s prices and costs revealed that some producers had been able to earn reasonable rates of return even when U.S. prices were at their lowest levels. Moreover, farmers producing corn for on-farm livestock consumption, or diversified farms, had not been injured by imports, as even the petitioner admitted. CITT estimated that production by diversified farms accounted for between 31.5 to 33.3 percent of total production in western Canada.

\(^8\) Because of the large number of U.S. corn exporters, it proved impossible to collect data from all exporters.

\(^9\) Soybeans proved to be the only field crop earning a profit in the United States during the investigation period.
The CITT decision resulted in the refund of all posted antidumping duties between November of 2000 and March of 2001. Moreover, as illustrated in Figure [III], the temporary imposition of antidumping duties between November 2000 and March 2001 did not appear to harm U.S. corn exports to Canada.

Figure III

U.S. Exports of Corn to Canada

Source: U.S. Census Bureau.

U.S. exports of grain corn to Canada continued unabated between 2001 and 2005. However, on June 30, 2005, the Canadian Corn Growers Association filed another antidumping petition against U.S. grain corn following an increase of U.S. grain corn imports of over 50 percent between 2003 and 2004. An investigation was initiated by Canada’s Border Service Agency (CBSA), the successor of Revenue Canada, on September 16, 2005. Results of the investigation are still pending.

References


Revenue Canada, “Initiation—Grain Corn,” AD-1242, August 9, 2000
