CASE STUDY: HONEY

Introduction

In September 2000, the American Honey Producers Association (AHPA) and the Sioux Honey Association\(^1\) filed an antidumping (AD) petition against imports of honey from Argentina and China at the Department of Commerce (DOC) and International Trade Commission (ITC).\(^2\) The associations claimed that producers in Argentina and China were selling honey in the United States at less than fair value, and these imports were causing material injury to the domestic industry. The DOC found that imports of honey from Argentina and the China were being sold in the United States at less than fair value, and the ITC determined that the domestic honey industry was materially injured by imports of honey from these two countries. As a result of the investigation, antidumping duties have been imposed upon honey imports from Argentina and China since 2001.

Background: The U.S. Honey Market

The United States is the largest consumer and second-largest producer of honey in the world. U.S. demand for honey has increased steadily and significantly over time. Between 1998 and 2000 alone demand rose 17.3 percent, from 352.7 million pounds to 419.2 million pounds.

There are over 300 unique varieties of honey produced in the United States; varieties differ in flavor and color depending upon the floral source. Honey is graded based on color, clarity, absence of defects, moisture, flavor and aroma. The colors of honey are related to its mineral content and form a continuous range from water white to dark amber. Light colored honey typically has a mild flavor, while dark colored honey is usually stronger in flavor.

Though U.S. beekeepers operate in virtually every state, California, North Dakota, South Dakota, Florida, and Minnesota accounted for 51 percent of the country’s honey-producing colonies, and 59 percent of total production, in 2000. According to statistics in 2000, there were over 100,000 beekeepers, 350 beekeeper-packers, and 110 independent packers in the United States. Beekeepers are keepers of bee colonies that extract honey from these colonies. They often migrate, generally from north in the summer to south in the winter, to areas in need of bees’ pollination services or to certain rich floral areas to promote production of honey. They also migrate to California during almond season and several other states for pollination of crops such as melons. Honey from beekeepers is generally considered as “raw” or “unprocessed,” and is either bottled in its raw form for local sale, or placed in large drums and transported to packers for further processing.

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\(^1\) Sioux Honey is the only large-scale organization in the United States operating on a cooperative basis for processing, packing, and marketing honey for its beekeeper members.

\(^2\) The petitioners filed a countervailing duty (CVD) petition against Argentina at the same time, claiming that subsidized imports from Argentina were causing material injury to the domestic industry. Although the CVD petition also resulted in the imposition of countervailing duties on imports of honey from Argentina, this study focuses solely on the antidumping portion of the petition.
U.S. Packers of honey are either beekeeper-packers, who extract honey from bee colonies and then process or pack the honey, or independent packers that purchase and then process and pack honey. Honey can be store in sealed containers to remain stable because honey tends to absorb moisture, which can lower its quality.

Despite the increase in U.S. demand, honey production is considered a declining industry in the United States. Honey output has stagnated in recent years despite government support programs and the protection imposed against imports from China, which is discussed below.\(^3\) Between 1998 and 2000, average annual honey production in the United States reached 96,423 tons, an increase of only 7 percent from the 1989 to 1991 period when average annual production was 90,000 tons. In contrast, world output increased by approximately 30 percent and Argentina’s output nearly doubled during the same period.

The increasingly-wide gap between domestic honey demand and supply has been filled by increasing levels of honey imports. Between 1990 and 2000, U.S. imports of honey increased 118 percent while the global honey trade increased 26 percent.\(^4\) In the period leading up to the antidumping petition, the quantity of U.S. imports from Argentina and China increased significantly from 100 million pounds in 1998 to 142.6 million pounds in 1999 and 157.9 million pounds in 2000. This increase can be seen in Figure [1]. During this same time period, domestic market share decreased. U.S. beekeepers’ share of apparent domestic consumption declined from 62.5 percent in 1998 to 52.9 percent in 1999, then declined further to 52.7 percent in 2000; in contrast, the combined U.S. market share of China and Argentina rose from 28.4 percent in 1998 to 36.8 percent in 1999 and 37.7 percent in 2000.

Although imports from Argentina generally consist of lighter grades of honey and imports from China predominately consist of the darker grades, imports from these two countries and domestically-produced honey are highly substitutable. Honey from China and Argentina is often blended with domestic honey to ensure consistent color, taste, and price. While both Argentinean and Chinese honey is exported throughout the entire year, the heaviest export flow of Argentinean honey occurs between March and May, whereas the export volume of Chinese honey is usually higher between November and December. Domestic honey and imports are distributed to three sectors: the industrial/ingredient sector accounts for 48 percent of U.S. consumption, while the retail sector accounts for 40 percent and the food service sector accounts for 12 percent of consumption.\(^5\) The darker grades of honey are generally used in the industrial sector, while the lighter grades are used in the retail sector.

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\(^3\) The United States had operated a loan program and guaranteed purchase program for honey since 1951. In 1986, the program was amended to eliminate the purchase feature and became a recourse loan program. In the 1995 Farm Bill, the recourse loan program for honey was eliminated, but it was reestablished in 1998. Another change was made on October 6, 2000 for fiscal year 2001, when the recourse, non-purchase loan rate program was switched to a non-recourse, purchase loan rate program or loan deficiency payment (LDP) program.

\(^4\) Nogues (2003).

\(^5\) Percentages reflect data in 2000.
In 1994, the American Beekeeping Federation (ABF) and the American Honey Producers Association (AHPA) filed a petition claiming that the domestic industry was being injured by “less than fair-value” imports from China. The preliminary determination of injury was affirmative and preliminary dumping margins ranged from 128 percent to 157 percent. In August 1995, China concluded an “agreement” with the DOC that suspended the investigation. In this five-year agreement that ended in August 1, 2000, China was obliged to restrict the volume of honey exports to the United States to 20,000 tons per year, about a 30 percent reduction in trend exports to the United States; in addition, exports could not be sold at a price below a reference price.6

Due to the suspension agreement, U.S. honey imports from China, the world’s largest honey exporter, increased only 17 percent between 1990 and 2000.7 In contrast, U.S. imports of honey from Argentina, which supplied 14 percent of total world exports in 1990 and 24 percent of world exports in 2000, grew quickly during this same time period. Argentina became the world’s second-largest exporter and the third largest producer (following China and the United States) of honey in 2000. As shown in Figure [1], the

6 The reference price is calculated as 92 percent of the weighted-average of the honey unit import values from all other countries for the most recent six months of data available.
7 China typically accounts for one-third of all global honey exports.

This 1995 suspension agreement with China triggered higher domestic prices. However, as new exporters like Argentina entered the scene international prices began decline, as did domestic prices. The ITC found that imports from China and Argentina depressed domestic prices to a significant degree prior to the antidumping investigation. Between the first quarter of 1998 and the second quarter of 2001, prices for domestic and imported honey from China and Argentina fell by 17 to 26 percent. Although prices rebounded somewhat in the first half of 2001, they remained at levels well below those of the first quarter of 1998, as illustrated in Figure [2]. In addition, the ITC found that the prices of imports from China and Argentina were below those for domestically-produced honey by anywhere from 0.4 percent to 20.8 percent.

Figure 2

Calculated Average Import Price per Kilogram

[Graph showing import prices from 1998 to 2004 for Argentina and China with a significant decline in 1998 and then a rebound in 2001.]

Source: U.S. Census Bureau.

Because of the significant decline in the domestic price of honey and stagnant honey production, the value of U.S. honey production decreased. Low honey prices also led to increased inventory and holding costs for the domestic industry because sales didn’t generate profit. U.S. beekeepers’ net income before taxes fell significantly prior to the initiation of the antidumping petition, as did the independent packers’ operating income. The adjusted net income before taxes for all reporting beekeepers declined irregularly from $5.1 million to $2.0 million between 1998 and 2000. Further, the number of
beekeepers reporting net losses increased over the period. Despite of the loan deficiency payment (LDP) program,\(^8\) the decline in honey prices and, thus, domestic operating profits, made repaying agriculture program loans difficult. The number of production workers in the honey industry declined slightly between 1998 and 2000, although the hours worked by the remaining workers remained steady.

The Antidumping Petition

On July 3, 2000, the ITC and DOC instituted a five-year review concerning the suspended investigation on honey from China as required under the World Trade Organization’s (WTO) Antidumping Agreement. The U.S. industry elected to let the suspension agreement expire by not participating in the five-year “sunset” review because it believed that the reference price mechanism of the suspension agreement was unsuccessful in stabilizing the price. On September 29, 2000, the American Honey Producers Association (AHPA) and the Sioux Honey Association filed an antidumping petition against imports of honey from Argentina and China claiming that the domestic honey industry was materially injured by reason of imports of honey from Argentina and China that were sold at less than fair value. The petitioners argued that the low import prices of honey drove down domestic prices.

U.S. honey producers had a few advantages over the importers in the course of the investigation. First, U.S. beekeepers were well organized and had efficient organizations that were capable of coordinating their actions. Second, because the previous antidumping case against China successfully resulted in a suspension agreement, petitioners were better able to assess their chance of achieving a successful outcome from the new petition. Finally, petitioners had significant financial resources; Governor Bill Janklow of South Dakota pledged to contribute $50,000 to help AHPA fight against unfair trade practices by Argentina and China. U.S. honey producers also raised nearly one million dollars to bring the lawsuit.

As requested in the petition, the ITC and DOC investigation focused on natural and flavored honey, as well as artificial honey and honey products which contain more than 50 percent natural honey by weight. Investigated products included all grades and colors of honey whether in liquid, creamed, comb, cut comb, or chunk form, and whether packaged for retail or in bulk.

On May 11, 2001, the DOC released its Notice of Preliminary Determination that honey from Argentina and China was being sold, or likely to be sold, in the United States at less than fair value. Temporary antidumping tariffs that ranged from 49.93 percent to 60.67 percent for Argentinian honey imports and from 36.98 percent to 183.8 percent for Chinese honey imports were imposed through October 4, 2001, when the DOC released its Notice of Final Determination. The amended weighted-average dumping margins,

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\(^8\) Under the LDP program, if the market price of honey dropped below the loan rate, 65 cents per pound when the program was introduced, the beekeepers could forfeit their honey to the Commodity Credit Cooperation (CCC) and collect 65 cents per pound. But the subsidy was capped at 15 cents per pound and a maximum of $150,000 per beekeeper.
presented in Tables I and II, ranged from 32.6 percent to 60.7 percent for Argentinean producers and from 25.9 percent to 183.8 percent for Chinese producers.

Table I
Weighted-Average Dumping Margin for China

<table>
<thead>
<tr>
<th>Exporter/Manufacturer</th>
<th>Weighted-Average Margin (percent)</th>
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</thead>
<tbody>
<tr>
<td>Inner Mongolia</td>
<td>57.13</td>
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<tr>
<td>Kunshan</td>
<td>49.75</td>
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<tr>
<td>Zhejiang</td>
<td>25.88</td>
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<tr>
<td>High Hope</td>
<td>45.51</td>
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<tr>
<td>Shanghai Eswell.</td>
<td>45.51</td>
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<tr>
<td>Anhui</td>
<td>45.51</td>
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<tr>
<td>Henan</td>
<td>45.51</td>
</tr>
<tr>
<td>PRC-wide Entity</td>
<td>183.80</td>
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</tbody>
</table>

Table II
Weighted-Average Dumping Margin for Argentina

<table>
<thead>
<tr>
<th>Exporter/Manufacturer</th>
<th>Weighted-Average Margin (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asociacion Cooperativas Argentinas (ACA)</td>
<td>38.71</td>
</tr>
<tr>
<td>Radix S.R.L.</td>
<td>32.56</td>
</tr>
<tr>
<td>ConAgra Argentina</td>
<td>60.67</td>
</tr>
<tr>
<td>All Others</td>
<td>36.59</td>
</tr>
</tbody>
</table>

The DOC typically calculates the dumping margin as the average difference between the average normal value over the investigation period and export prices associated with individual transactions. Although normal value is typically defined as the price set by producers in their domestic market, the DOC determined there was an insufficient volume of sales in Argentina to serve as a basis for normal value; therefore, normal value was calculated based on the price of Argentinean honey in Germany, where Argentina also exported heavily. However, the DOC determined all German sales were made below the cost of production (COP). Since all sales were excluded from the normal value calculations, normal value was calculated based on Constructed Value, or based on the cost of production.

In contrast, under U.S. antidumping law all cases involving China are treated under special procedures governing non-market economies. Under these procedures, the factors of production used by the Chinese producers are valued in a surrogate market economy. The DOC chooses a surrogate economy at a similar level of development to China that produces the product in question. In this case, the DOC chose India as the surrogate economy to evaluate the cost of honey production in China. Normal values were calculated for the seven largest producers by valuing the factors of production used by these firms at the prices for these factors in India.
In the determination of whether domestic industry was materially injured by reasons of imports, the ITC mainly considered the volume of imports, the effect of imports on domestic prices, and the total impact on the domestic honey producers. The ITC found a significant increase in the volumes of imports from China and Argentina, both in absolute terms and relative to U.S. consumption. With significant margins of underselling, these imports from Argentina and China had depressed domestic prices and led to significant declines in the financial health of the domestic industry over the period examined.

In their decision, the ITC defined the domestic honey industry as all U.S. producers of honey, both raw and processed. Hence, packers, who produce processed honey, as well as beekeepers, which produce raw honey, were treated as U.S. producers. However, as the vast majority of imports from China and Argentina were of raw or bulk honey, not processed honey, the ITC focused the material injury analysis on the beekeepers, the producers of raw honey that competed most directly with the subject imports.

The Case Outcome

There is no doubt that the U.S. AD investigation had a devastating effect on Argentina’s and China’s honey exports to the United States; imports from the two countries began to decline during the investigation by the DOC and the ITC. In 2001, U.S. honey imports from Argentina declined by 55 percent, and those from China by 33 percent. At the same time, the U.S. imports of honey from many other countries increased, as can be seen in Figure [1].

According to Lyle Johnston, President of the AHPA, the ITC’s decision has resurrected the U.S. honey industry. In early 2002, following the imposition of antidumping duties, honey prices jumped by 20 cents per pound. By October of the same year, the price of U.S. honey was nearly 80 cents per pound higher than when the petition was filed. By then, U.S. honey industry had received a $140 million return on its one million dollar investment for the petition.10

A sanitary-induced import ban against China has added another destabilizing element to the world honey market. In 2002, a mission of the European Union (EU)’s Food and Veterinary Office (FVO) revealed serious deficiencies of the Chinese residue control system and problems related to the use of banned substances in the veterinary field. In the same year, during an investigation of illegal transportation of bulk honey from China to the United States through third-party countries to evade payments of U.S. antidumping duties, the U.S. Customs Service and the Food and Drug Administration (FDA) discovered that some of the bulk imports of Chinese honey were contaminated with low levels of chloramphenicol (CAP), a potentially harmful antibiotic and unapproved food

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9 In agriculture cases, the ITC must decide whether to include growers of the raw agriculture input in the definition of the domestic industry. The growers are included if the processed product is produced from the raw product in a single continuous line of production and there is a “substantial coincidence” of economic interests between growers and processors.

10 Kemp (2002).
additive. These findings have led major honey importing countries to ban imports from China, creating a supply shortage that has caused accelerated increases in honey prices around the world. The ban has benefited other exporting countries, including Argentina, whose total exports (in dollar terms) in the first six months of 2002 increased by 28 percent on an annual basis.11

According to the U.S. trade statistics, the imposition of the dumping duties resulted in a rapid and significant decline in imports of honey from Argentina, from 20.5 million kilograms in 2001 to 3.8 million kilograms in 2004. Imports from China dropped significantly in 2002, but have since increased slightly. The average unit import price from China has gradually increased, from $1.99 per kilogram in 2001 to $2.32 in 2003, but decreased to $1.90 in 2004. On the other hand, the average unit import price from Argentina rose rapidly, from $1.31 in 2001 to 5.58 in 2004, as illustrated in Figure [2].

References


