CASE STUDY: PASTA

Introduction
In May of 1995, three of the largest pasta manufacturers in the United States filed an antidumping petition claiming that producers in Turkey and Italy were selling dry pasta at less than normal value in the U.S. market, and these imports were causing material injury to the domestic industry. Both the U.S. International Trade Commission (ITC) and Department of Commerce (DOC) agreed, and antidumping duties have been imposed on imports from these countries ever since.

Background: The U.S. Pasta Industry

Dried pasta is manufactured primarily from durum wheat semolina or flour due to durum wheat’s high level of gluten, which makes a stiff dough. A softer wheat, farina, may sometimes be added as may eggs or powdered flavorings such as tomato or spinach. The dough is then formed into hundreds of different shapes and sizes.

The United States ranks fourth in the world in average annual per capita consumption of pasta following Italy and Venezuela. U.S. consumption increased significantly in the 1970s through the early 1990s; Americans increased pasta consumption by 90 percent between 1975 and 1995 and 9.8 percent between 1993 and 1995 alone. The growth in popularity has been attributed to pasta’s low cost, convenience, and reputation as a low-fat food. However, Americans began to shift to low-carbohydrate diets in the late 1990s which resulted in a significant decrease in pasta consumption. U.S. shipments fell from $1.8 billion in 1997 to $1.2 billion in 2000.1

Approximately 50 companies produce all of the pasta made in the United States through 266 establishments, although half of those firms were subsidiaries of larger companies. The largest U.S. pasta manufacturers include New World Pasta, a former division of Hershey Foods Corporation, Borden Foods Incorporated, and American Italian Pasta Company.2 The five largest producers of pasta in the United States accounted for approximately 70 percent of the production of dry pasta in 1995.3 Virtually all U.S. production of dry pasta is consumed domestically.

Today, Italy is by far the largest source of U.S. dry non-egg pasta imports, accounting for nearly 56 percent of all imports, followed by Mexico, China and Canada. Turkey is the ninth largest foreign supplier of dry non-egg pasta to the United States. However, the market share of these two countries was much higher in the year prior to the filing of the antidumping petition. Specifically, in 1994 Italy was the largest foreign supplier of dry non-egg pasta to the United States, accounting for 61.6 percent of imports. Italian imports of the product increased 28.9 percent between 1993 and 1994. Turkey at this point was the second largest supplier of dry non-egg pasta to the United States, accounting for 13.8 percent of imports in 1994; imports had increased 27.1 percent

1 Encyclopedia of American Industries.
2 Ibid.
between 1993 and 1994. This surge in imports from Italy and Turkey is illustrated in Figure [1]. Domestic shipments between 1993 and 1994, meanwhile, grew only 3.5 percent. U.S. market share fell from 87.8 percent in 1993 to 85.7 percent in 1994, while Italian and Turkish market share increased. Prior to the antidumping petition, imports of pasta entered the United States duty-free.

![Figure 1](image-url)

Source: U.S. Census Bureau

At the same time that imports were increasing, U.S. pasta producers also saw costs rise dramatically as the price of durum wheat increased anywhere from 18 to 50 percent between 1993 and 1995.\(^4\) U.S. exports of durum wheat had steadily climbed since the 1960s, and by the 1990s the United States was exporting 50 percent of its durum wheat. As a result, supply of durum wheat in the United States fell in short supply during the pasta boom of the early 1990s, particularly as U.S. production of durum wheat was attacked by Karnal Bunt disease. Although prices of both domestically-produced and imported pasta increased between 1993 and 1995, some U.S. producers argued during the antidumping petition that the price increase was not enough to offset the higher price of durum wheat. Thus, although net sales of pasta by U.S. firms remained fairly constant between 1993 and 1995, profitability fell significantly. Calculated unit import prices are illustrated in Figure [2].

During this time period, domestically produced pasta was typically less expensive than imports from Italy. However, at the time of the antidumping investigation one of the major issues under discussion was to what extent U.S., Turkish and Italian dry pasta were substitutes for one another. Importers and purchasers claimed that Italian pasta was often perceived as a superior product to the pasta produced domestically, while Turkish pasta was often perceived as an inferior product to domestically produced pasta.

**Figure 2**

Calculated Average Price per Kilogram
(excluding antidumping margin)

Source: U.S. Census Bureau

**The Antidumping Petition**

On May 12, 1995, three of the largest U.S. pasta manufacturers, Borden, Inc., Hershey Foods and Gooch Foods, Inc., filed both antidumping and countervailing duty petitions against imports of dried non-egg pasta from Turkey and Italy.\(^5\) The case only targeted pasta sold in packages of 5 pounds or less, or packages for retail sale.\(^6\) The Department of Commerce initiated an investigation the following month, on June 8. As per U.S. antidumping regulations, the ITC issued a preliminary finding within 20 days on June 26, stating that that there was “a reasonable indication” that the industry was materially injured due to these imports.

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5 Gooch Foods, Inc. is a subsidiary of Archer Daniels Midland.
6 At the time of the investigation, approximately 62 percent of U.S. pasta shipments were destined for the retail market, compared to 75 percent of imports from Italy and 95 percent of imports from Turkey.
The DOC released its preliminary estimates of the dumping margins on January 17, 1996, which were revised in their final determination on July 24, 1996. The final dumping margin determinations are presented in Table [1]. Note that although the initial DOC review revealed nearly 73 Italian and 15 Turkish pasta producers or exporters, the agency has limited resources to review price and cost information for all companies. Therefore, the agency reviewed the eight largest Italian firms and two largest Turkish firms; these firms accounted for 45 percent of U.S. imports from the two countries. The remaining firms would be assessed the “all other” rate, a weighted average of the dumping margin for the investigated firms. These firms could petition for firm-specific rates in new shipper reviews in the future.

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<tbody>
<tr>
<td>Italy</td>
<td></td>
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<tr>
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<td>19.09</td>
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<tr>
<td>De Cecco</td>
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<td>De Matteis</td>
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<td>Liguori</td>
<td>12.41</td>
<td>11.58</td>
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<tr>
<td>Pagani</td>
<td>18.30</td>
<td>17.47</td>
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<tr>
<td>All Others</td>
<td>11.26</td>
<td>11.23</td>
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<tr>
<td>Turkey</td>
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<tr>
<td>Filiz</td>
<td>63.29</td>
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<tr>
<td>Maktas</td>
<td>48.26</td>
<td>48.26</td>
</tr>
<tr>
<td>All Others</td>
<td>51.49</td>
<td>51.49</td>
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To calculate the dumping margin for Turkish producers, the DOC compared the weighted average adjusted export prices to the weighted average “normal value” for the individual products under consideration. In this particular case the DOC defined the normal value as the price of the product sold by the firms in the Turkish domestic market. However, the antidumping petition filed by the domestic producers alleged that Turkish firms were selling pasta at prices less than their cost of production. The DOC investigation revealed that both companies had more than 20 percent of their sales at less than their cost of production for certain pasta products. Therefore, the below cost sales for these firm’s products were excluded in calculating the normal value. Because this exclusion resulted

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7 Note that the DOC also found evidence that Italy and Turkey were subsidizing their pasta industry, and issued preliminary countervailing duty findings on October 17, 1995. This study, however, will focus solely on the antidumping case.
8 Under U.S. antidumping law, if more than 20 percent of a firm’s home market sales are made at below the cost of production, than these sales must be excluded for the purpose of determining the product’s normal value.
in no eligible home market sales of certain pasta products by Filiz, the DOC calculated
the normal value as the “constructed value,” or the estimated cost plus a profit margin for
the product.

Italian dumping margins were calculated in a virtually identical method as the Turkish
dumping margins. Because one Italian firm, De Cecco, did not provide sufficient
information for the DOC to calculate an accurate cost of product, the DOC utilized the
“facts available” to calculate the margin for this firm. Specifically, De Cecco’s dumping
margin was calculated using a simple average of the adjusted dumping margin
estimations submitted in the original antidumping petition.

The ITC made its final determination that domestic producers were materially injured due
to the imports sold at less than fair value on July 9, 1996, clearing the way for the
permanent imposition of dumping duties. In making this determination, the ITC
specifically cited the increase in imports from Turkey and Italy over the investigation
period. Furthermore, Commissioner’s stated that domestic producers were unable to
raise prices during the investigation period to cover higher costs due to these imports.

Note that the ITC and DOC also found that domestic producers were materially injured
by subsidized imports of pasta from Turkey and Italy in the countervailing duty
investigation that paralleled the antidumping investigation. Countervailing duties on
individual Italian firms ranged from zero to 11.23 percent, while those on Turkish
producers ranged from 3.87 to 15.82 percent. The WTO prohibits assessing dumping
duties on the portion of the dumping margin attributed to the export subsidies. Therefore,
the dumping margins presented in Table I are adjusted to exclude this portion.

The Case Outcome

Following imposition of the dumping and countervailing duty orders, U.S. imports of
pasta from Turkey fell over 300 percent between 1995 and 1997. Italian imports,
however, increased by nearly 20 percent during this time period and did not begin to drop
off until 1998. Domestic producers claimed that the benefits of the order were nullified
for two years because of the circumvention of the order by one of the largest Italian
producers of pasta, Barilla. 9 Italy-based Barilla Group began selling pasta in the U.S.
market in 1996, and today has captured a 15 percent market share through aggressive
advertising. 10 However, Barilla produces pasta within the United States. In 1997, Barilla
invested $130 million in the opening of a U.S. production plant in Ames, Iowa.

Between 1995 and 2001, the U.S. pasta industry consolidated; Hershey sold its pasta
branch to New World pasta in 1999 and Borden sold its pasta divisions to New World
and AIPC in 2001. As noted above, industry officials believe that U.S. consumption of

9 DOC initiated an anti-circumvention inquiry in 1997 following claims that Barilla was exporting pasta in
large containers (which are not covered by the scope of the ruling), and repackaging the pasta for retail in
order to avoid paying the AD and CV duties. On October 5, 1998 the DOC confirmed that Barilla had
illegally avoided paying the antidumping duties.
10 Encyclopedia of American Industries.
pasta fell after the imposition of the duties due primarily to changes in diets, however shipments and market shares of domestic pasta producers increased through 2000. In fact, the U.S. pasta industry added production capacity between 1997 and 2000.

Between 1997 and 2001, the DOC reviewed the antidumping orders on imports of pasta from Italy and Turkey and made several modifications. For example, on December 13, 2000, the DOC revoked the AD order for one of the largest Italian sources of pasta, De Cecco, finding that the company had sales above normal value for 3 consecutive administrative reviews. In 2001, the ITC and DOC initiated a five-year sunset review of the pasta antidumping and countervailing duties as required under the WTO. The two agencies found that revocation of the dumping duties would be likely to lead to continuation or recurrence of material injury of the domestic industry due to imports of pasta at less than fair value. The dumping margins set by the DOC during this review that remain in effect today were virtually identical to those from the original investigation, and are presented in Table 1.

References


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11 This may in part be due to new production facilities of Barilla.