CASE STUDY: RICE

Introduction

In October of 1999, the Mexican Rice Council filed an antidumping petition claiming that U.S. producers were exporting long grain, milled white rice at below normal values, and these exports were causing damage to Mexican rice producers and millers. After a preliminary investigation into the complaint, the agency charged with administering Mexican antidumping law, the Secretariat of Commerce and Industrial Development (SECOFI) initiated a full antidumping investigation over one year later in December of 2000; SECOFI’s predecessor, the Secretariat of the Economy (SE), made a final determination on June 5, 2002 that antidumping duties should be imposed on imports of rice from the United States. The United States challenged the findings at the World Trade Organization. Although a WTO dispute settlement panel found in favor of the United States in a June 2005 ruling, the case is still under appeal thus antidumping duties continue to be imposed upon U.S. rice exports to Mexico.

Background: North American Rice Market

In 2000, the value of cash receipts from the sale of U.S.-produced rice topped $800 million, making rice one of the top 30 agriculture products and the 8th highest field crop produced in the United States in terms of value. All rice in the United States is grown in flooded fields, thus production tends to be located in areas with an abundant and cheap supply of water and certain types of soil. Approximately 80 percent of rice acreage is located in the southern United States in Arkansas, Louisiana, Texas, Mississippi, and Missouri. The remaining 20 percent is located in northern California. There are currently 15,000 growers of rice in the United States.

There are predominantly three types of rice grown in the United States: southern long grain, southern medium grain and California medium grain rice. However, there are thousands of different varieties of rice, and the United States also produces some specialty and aromatic varieties. As can be seen from Figure [1], rice production generally increased during the 1990s, reaching recording highs in 1999. However, in 2000 U.S. rice plantings plummeted due to expectations of low prices, as well as poor growing conditions including drought, heat and saltwater intrusion in the South. Production has since increased, although the average price continues to fall.

Planting of rice in the Southeast begins in spring. Once the rice plants emerge, the field is flooded with water. Water is kept on the growing field until shortly before harvest, when it is drained. Rice grows to maturity in 100 to 120 days, thus in the midsummer or early fall the rice is harvested. After the rice is harvested, it is dried and then sold to a rice mill. Millers shell the rice by removing the inedible hull surrounding the grain. Although the rice may be sold in this form, known as brown rice, millers also polish the rice to produce white rice.1 In total, the rice milling industry, which consists of 56 firms,

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1 Some millers may also “parboil” the rice, or soak the rice in pressurized water prior to milling in order to help retain the nutrients from polished rice. However, parboiled grains take longer to cook.
was worth approximately $1.7 billion in 2001. The industry is highly concentrated, with four firms accounting for over half of total U.S. production in 1997.

Figure I
U.S. Production of Long Grain Rice

Per capita rice consumption in the United States has more than doubled since the late 1970s, and in 2002 reached 26.3 pounds per person. U.S. produced rice accounts for nearly 90 percent of domestic consumption. Approximately 60 percent of U.S. rice consumption is in the form of table rice. An additional 25 percent is consumed in the industrial market or as processed food, such as rice flour, with the remaining 15 percent used in the production of beer.

Historically, over half of all U.S. rice production has been exported; U.S. produced rice accounts for over 10 percent of all internationally traded rice, making it one of the top five rice exporting countries in the world. Leading markets for U.S. produced rice include Mexico, Japan, the European Union, and countries within Central America; U.S. rice is exported to over 100 countries.
Figure II
U.S. Exports of Long Grain Rice

Source: U.S. Census Bureau

Figure III
U.S. Exports of Rice to Mexico
Average Unit Export Price

Source: U.S. Census Bureau
In contrast to the United States, Mexico has two growing seasons for rice—a spring/summer and a fall/winter season. However, nearly 90 percent of all production takes place in the spring/summer season. As a result, most rice milling in Mexico occurs between October and December of each year. On average, imports accounted for 45 percent of total Mexican rice consumption between 1989 and 1998. Most of these imports occurred in Mexico’s off-season, between March and August.²

Although nearly 90 percent of U.S. rice exports to Mexico consist of non-milled rice, in 2000 Mexico accounted for 2.9 percent of total U.S. exports of long-grain white rice, after growing nearly 50 percent between 1999 and 2000 and 17 percent between 1998 and 1999. Between 1998 and 2000, the average unit price of long grain rice exported to Mexico fell 12.7 percent. These statistics are illustrated in Figures [II] and [III].

The Antidumping Case

In October 1999, the Mexican Rice Council (CMA), an association representing Mexican rice producers and millers, filed an antidumping petition alleging that the United States was selling long grain white rice in Mexico at a less than normal value, thus causing damage to the Mexican industry.

On December 11, 2000 SECOFI completed a cursory review, finding that there were some indications of price discrimination. Moreover, SECOFI found that the price discrimination allowed U.S. exporters to decrease the price of long grain white rice between March and August of 1999, and increase the volume of exports.³ The combination of these two factors caused domestic rice prices in Mexico to fall, thus damaging the domestic industry. With this finding, SECOFI launched a full antidumping investigation, giving interested parties 30 days to respond to SECOFI questionnaires regarding the complaint.

The petition filed by the Mexican Rice Council listed only two U.S. exporters, Producers Rice and Riceland Food, although the petition later discussed a third company, the Rice Company. SECOFI sent questionnaires only to the two exporters listed in the original petition. However, two additional exporters, Rice Company and Farmers Rice Milling Company, requested questionnaires from SECOFI.

Mexico’s Secretariat of the Economy (SE), SECOFI’s successor agency, published a preliminary determination on July 18, 2001. In the preliminary determination, the agency found there was no evidence of injury to the domestic industry and that any industry was due to long term structural problems in the industry such as low profit margins and high levels of short-term debt, as well as a surge in imports of low-priced rice from Argentina. Moreover, SE found that none of the four companies had dumped long grain white rice into the U.S. market. However, this finding was based in part on Producers Rice contention that they had no exports to Mexico during the period of investigation. SE

² USTR (2004).
³ Note that this six month period of investigation is the minimum allowed for under the World Trade Organization (WTO) Antidumping Agreement.
deemed Producers Rice an “uncooperative party” based on this response, and assigned
the firm a preliminary antidumping duty based on “adverse facts available,” or the
dumping margin alleged in the original petition, of 10.18 percent. SE further assigned
this margin to all other U.S. exporters not explicitly investigated.

On June 5, 2002, published the final results of the antidumping review, imposing the
antidumping duties listed in Table [1]. In their final determination, SE found that all but
two U.S. exporters were dumping, and that imports from these firms were causing injury
to the domestic industry thus reversing many of their determinations from the preliminary
investigation. U.S. rice millers and producers protested the finding, and immediately
began to pressure the U.S. government to remedy the situation.

<table>
<thead>
<tr>
<th>Firm</th>
<th>Antidumping Duty</th>
</tr>
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<tbody>
<tr>
<td>Farmers Rice Milling Company</td>
<td>0.0</td>
</tr>
<tr>
<td>Riceland Foods, Inc.</td>
<td>0.0</td>
</tr>
<tr>
<td>The Rice Company</td>
<td>3.93</td>
</tr>
<tr>
<td>All Others</td>
<td>10.18</td>
</tr>
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Case Outcome

On June 16, 2003, the United States launched a formal appeal of the decision with the
World Trade Organization. When consultations between Mexico and the United States
failed to resolve the numerous issues the United States had with Mexico’s use of
antidumping regulations, a formal dispute settlement panel was launched.

The U.S. complaint focused on a number of issues. First, the U.S. claimed that the
lengthy period of time between the period of investigation used to determine both injury
and dumping and the antidumping determination violated the WTO’s antidumping
agreement. Moreover, based on the original petition SE only utilized data from March
to August of each year to determine whether the domestic industry was suffering injury.
As noted above, this is typically a period of little domestic production and a high level of
imports due to Mexico’s growing seasons.

The United States also objected to the technical imposition of dumping margins against
exporters found innocent of dumping. Under the WTO Antidumping Agreement,
countries agree that an investigation will be terminated as soon as a firm is found not to
be dumping. However, although two companies were assigned an antidumping duty of
zero percent in the rice investigation, the case against these firms was not terminated. In
other words, although the companies pay zero antidumping duties they continue to be
subject to future administrative review.

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4 Nearly three years separated the period of investigation and the final determination,
The final and perhaps most egregious measure included in the U.S. complaint involved the imposition of the “adverse facts available” antidumping duty on all imports from companies not specifically investigated. Although the WTO agreement does allow for an “all others” rate to be imposed upon firms not specifically investigated, this rate is typically calculated as the import-weighted average of the margins assigned to firms found to be dumping.

On June 6, 2005, the WTO dispute settlement panel released a ruling that almost entirely sided with the United States, finding many of the methods used by Mexico in the antidumping investigation regarding long grain rice non-compliant with the WTO Antidumping Agreement. Among other things, the WTO found that Mexico improperly based its injury analysis on outdated information, and on only half of the data in collected—the data between March and August. The WTO also agreed that the antidumping investigation against Farmers Rice Milling and Riceland Foods, Inc. should have been terminated. Finally, the WTO affirmed that Mexico improperly used “adverse facts available” to set the dumping margin against Producers Rice and to calculate the all others rate.

Mexico has announced that it will appeal the WTO decision, thus the antidumping duties remain in effect to this day. Although U.S. exports of long grain white rice have fluctuated since the imposition of antidumping duties, reaching a high of $21.5 million dollars in 2004, USA Rice Federation estimates a potential increase in exports of $5 million to $25 million resulting from the removal of the anti-dumping order.5

References


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5 USA Rice Federation, “Submission of the USA Rice Federation for the 2005 National Trade Estimate Report for Foreign Trade Barriers,” downloaded September 19, 2005 from http://www.usarice.com/industry/gov/pop_2005NTE.html. This estimate is based on an assessment of the country's total market demand and the U.S. rice industry's ability to supply that demand.