CASE STUDY: REFINED SUGAR

Introduction
In February of 1995, the Canadian Sugar Institute (CSI), a trade association comprised of all Canadian sugar refiners, filed an antidumping petition in Canada against the United States, four countries in the European Union, and Korea claiming that producers in these countries were selling refined sugar at less than normal value in the Canadian market, and these imports were causing the domestic industry material injury.1 The following year, the agencies charged with investigating Canadian antidumping petitions, Revenue Canada and the Canadian International Trade Tribunal, determined that antidumping duties should be imposed upon imports of refined sugar from all countries under investigation except Korea. Duties continue to this day.

Background: Refined Sugar in North America

The United States is among the world’s largest sugar producers, with well-developed sugarcane and sugar beet industries. Sugarcane is produced in Florida, Louisiana, Hawaii, and Texas, while sugar beets are grown in California, Minnesota, Montana and North Dakota. The total number of U.S. farms growing sugarcane and sugar beets was 5,980 in 2002, a decrease of 30.7 percent from 1997; despite the decrease in the number of farms, the average area harvested per farm and production actually increased during this time period.

Sugar cane must undergo a number of important steps before it can be sold as refined sugar. Once the raw sugarcane is harvested, it is shipped to sugar mills that are typically located near the plantations and are operated either by the plantation itself or a cooperative of sugarcane plantations. Mills run continuously from fall until spring when the last of the sugar cane is harvested.2 At the mill the raw sugar cane is washed and shredded, then placed in either crushing machines or vats of hot water to dissolve the sugar, creating cane juice. Once all the water is removed, the raw sugar is sold to either refiners or consumers. Refiners further process and separate the raw sugar into white sugar, brown sugar and molasses. In 1997 there were 12 U.S. sugar refiners, although four companies accounted for 98.7 percent of all shipments.3

In contrast, beet sugar can be processed directly into refined sugar. Factories wash and cut the root of the sugar beet plant into thin slices, which are then soaked to remove the sugar. After processing to remove impurities, the liquid is evaporated to produce a

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1 European Union countries targeted include Denmark, Germany, the Netherlands, and United Kingdom. CSI filed a countervailing subsidy petition at the same time, claiming that subsidized imports from the United States and European Union were causing material injury to the domestic industry; however, the countervailing duty petition against the United States was terminated by Revenue Canada on July 7, 1995 and is not considered in this case study.

2 Plantations typically grow a wide variety of sugar cane that can be harvested throughout the season, although the variety depends upon the soil and climate of the particular plantation.

3 U.S. Census Bureau, “1997 Economic Census, Concentration Ratios.”
crystallized sugar product. There were eight U.S. beet sugar manufacturers in 1997; the top four firms accounted for 85 percent of production.\(^4\)

U.S. sugar prices have been well above world prices for many years, primarily because of government price supports and import restrictions. Under the Agriculture and Food Act of 1981, the government agreed to purchase raw cane sugar and refined beet sugar for a specific price per pound if commercial prices were not high enough. These price supports are provided in the form of non-recourse loans; sugar growers can borrow money from the government with the crop as collateral, where the value of the crop collateral is the minimum price per pound.

Between October 1, 1990 and December 31, 1994, Canada faced no prohibitive duties for its exports of refined sugar to the United States under the U.S.-Canada Free Trade Agreement. Since January 1, 1995, all U.S. imports of both raw and refined sugar occur under a tariff-rate quota (TRQ)—a two-tiered tariff in which a low tariff is charged for those imports within the quota and a much higher tariff is charged for any imports that occur outside of the quota. For example, in 2004 refined sugar imported within the quota paid an approximate tariff of $0.0366 per kilogram, while those imported outside of the quota paid $0.3574 per kilogram.\(^5\) Although the refined sugar TRQ, which was 43,000 metric tons raw value (MTRV) in 2005, is available to all importers on a first-come, first serve basis, Canadian producers are guaranteed 10,300 metric tons of the quota under the North American Free Trade Agreement (NAFTA). As a result of both the price support program and import restrictions, the U.S. price for sugar was more than double the world price in 1995.

U.S. import restrictions on raw sugar, which raise the price of raw sugar in the United States, reduce the competitiveness of U.S. sugar refiners. As a result, the U.S. Department of Agriculture (USDA) administers two re-export programs. The Refined Sugar Re-Export Program allows refiners to import world-priced sugar for refining and export the refined sugar. The Sugar-Containing Product Re-Export Program allows U.S. firms to buy sugar from participating refiners for use in products that will be exported onto world markets. Imports under these two re-export programs are not subject to the TRQ described above. Virtually all U.S. refined sugar exports occur under one of these two re-export programs. As can be seen in Figure [1], prior to the Canadian antidumping petition, Canada was the leading market for U.S. exports of refined sugar in 1994, accounting for 33.1 percent of total exports. Other leading markets included Peru, Jamaica and Haiti.

In contrast to the U.S. sugar refining industry, which uses domestically grown sugarcane and sugar beets, approximately 90 percent of Canadian refined sugar is processed from imported raw cane sugar; the remainder is processed from sugar beets grown in Alberta. Not surprisingly, Canada does not operate any subsidy scheme for sugar, and sugar tariffs

\(^4\) Ibid.
\(^5\) Actual sugar tariffs are a function of its raw sugar content, as measured by a polarimetric test. The tariff values reported here are for pure raw sugar.
are minimal. All duties are zero if raw sugar is imported by a domestic refinery for processing. There are three Canadian sugar refiners producing sugar in six plants across Canada. Canada primarily produces refined sugar to meet domestic needs, in part due to trade restrictions in other countries that limit exports. Total sugar production in Canada decreased throughout the 1980s, a trend which Canadian producers blame both on increased imports and restricted access to the U.S. market due to U.S. import restraints.

![Figure 1: U.S. Exports of Sugar](image)

Source: U.S. Census Bureau.

The size of the Canadian market increased steadily between 1990 and 1994, growing 15.5 percent. The market is divided into two segments; the industrial market consists of food processors and accounts for approximately 70 to 80 percent of the Canadian refined sugar market. The remaining 20 to 30 percent of the market consists of the retail market for granulated sugar and other sugar products. Because of the growth in Canadian demand, Canadian domestic refined sugar shipments grew 11.7 percent to 970,686 metric tons (MT) between 1990 and 1994. Imports from the United States, European Union and Korea also increased significantly during this time period, by 94.2 percent, 5.5 percent, and 160.9 percent respectively. In 1994, Canadian domestic producers had an 86.8

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6 Canadian sugar beet producers may voluntarily join an income stabilization program under which participants select a protection level for their operation then make a deposit to secure the protection level. Program payments are made when the participant’s profit margin falls below their chosen reference margin.
percent market share, compared to shares of 11.2 percent for the United States, 1.3 percent for the European Union, and 0.3 percent for Korea.

Although Canadian production of refined sugar increased in the years prior to the antidumping petition, profitability levels decreased. According to petition documents, net income before interest and taxes on a per-tonne basis fell 12 percent between 1991 and 1994, and 14 percentage points during the first nine months of fiscal year 1994-1995. As can be seen in Figure 2, the average price per kilogram of refined sugar imports from the United States fell consistently between 1991 and 1994. These conditions spurred the initiation of the antidumping petition against U.S. sugar refiners.

![Figure 2](Image)

**Figure 2**

U.S. Exports of Sugar to Canada
Calculated Average Export Price

Source: U.S. Census Bureau.

Canadian sugar refiners filed an earlier antidumping petition against the United States in 1983, but the petition was rejected the following year because the Antidumping Tribunal found that imports were not causing injury to the Canadian industry.

**The Antidumping Petition**

On February 10, 1995, the Canadian Sugar Institute filed on behalf of its three members—the entire Canadian sugar refining industry—an antidumping petition against sugar producers in the United States, Denmark, Germany, the Netherlands, United
Kingdom, and Korea claiming that refined sugar from these countries was imported at a below normal value, and these imports were causing or threatening to cause material injury to the domestic industry. Based on an initial analysis of the petition, Revenue Canada determined that there was sufficient evidence that the targeted countries were dumping on the Canadian market and injuring the domestic industry. Therefore, the Deputy Minister of National Revenue officially launched an investigation on March 17, 1995. The investigation targeted imports of white granulated sugar, in addition to liquid sugar and specialty sugars such as brown sugar. The Canadian International Trade Tribunal (CITT) made a preliminary determination that there was a “reasonable indication” that the dumping of refined sugar from the targeted countries was causing injury to the domestic industry on May 8, 1995, thus clearing the way for investigation to proceed.

Revenue Canada released its preliminary determination that imports of refined sugar from the United States, as well as the other targeted countries, were being dumped on the Canadian market on July 7, 1995, clearing the way for the collection of provisional duties on all dumped imports of refined sugar. The agency’s final determination was released on October 5, 1995; the calculated dumping margins for U.S. refiners are presented in Table 1.

Revenue Canada calculated the dumping margins by looking at the difference between the companies’ Canadian export price and the “normal value.” Typically, normal value is defined as the price set by the firm in the domestic market during the normal course of trade. Only those sales made at a positive profit are considered within the normal course of trade; in other words, sales made at a loss are excluded from the calculation of the normal value. When there are insufficient domestic sales of the product in the normal course of trade, the agency calculates normal value using a constructed value based on the aggregate cost of production of the goods. In this case, Revenue Canada used a combination of domestic sales price and constructed value to define the normal value for all U.S. firms.

<table>
<thead>
<tr>
<th>Firm</th>
<th>Final Antidumping Duty</th>
</tr>
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<tbody>
<tr>
<td>Domino Sugar</td>
<td>85.0</td>
</tr>
<tr>
<td>United Sugars</td>
<td>69.0</td>
</tr>
<tr>
<td>Savannah Foods</td>
<td>78.0</td>
</tr>
<tr>
<td>Refined Sugars</td>
<td>85.0</td>
</tr>
<tr>
<td>All Other U.S. Firms</td>
<td>79.0</td>
</tr>
</tbody>
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The CITT made its final determination on November 6, 1995. Although the agency found that imports from the targeted countries had not caused material injury to the domestic industry, it determined that imports from all countries but Korea were threatening to cause injury to the domestic industry, thus paving the way for the imposition of permanent antidumping duties on imports from these countries.
During the course of the investigation, the CSI argued that trade distortions in the United States and European Union resulted in a surplus of refined sugar. Exporters in these countries had targeted Canada to sell this surplus because Canada was one of the few countries without trade restrictions. CSI further argued that competition from these dumped imports reduced the domestic price for refined sugar, thus reducing profitability levels. Moreover, imports from the United States were likely to increase in the future due to higher production levels and significant idle refining capacity.

U.S. producers argued that there was no connection between imports and the decline in the Canadian industry’s profits. Instead, firms argued that lower profitability levels could be traced to increased competition from high fructose corn syrup, a substitute for refined sugar, and high debt levels. Others suggested that the antidumping petition was filed to retaliate against recent U.S. trade restrictions on Canadian refined sugar. Press reports at the time suggest that this could have been one of the motivations behind the petition. A trade advisor to the Canadian sugar industry was quoted as saying that the refiners’ hoped their trade action would put pressure on the U.S. government to relax restrictions on sugar imports from Canada.  

In their decision, the CITT noted that many statistics such as production, market share, and capacity utilization, indicated that the industry performed well in 1994 and 1995; although imports likely caused a reduction in profitability levels, the CITT found that the industry could remain viable thus imports were not causing material injury. However, the CITT also concluded that without the imposition of dumping margins on imports from the United States and the targeted European countries, the domestic industry would continue to experience lower profitability levels, lost sales, reduced production, and lost market share. This threat of material injury warranted the imposition of dumping duties against these countries.

The Case Outcome

World Trade Organization regulations require countries to review the imposition of antidumping duties every five years. On November 3, 2000, the CITT conducted its first review, reaffirming the imposition of dumping duties. In February 2005, the CITT and Canada Border Services Agency (CBSA) -- the successor to Revenue Canada--launched a second, more complete review of the antidumping duties. While CBSA made a determination on June 30, 2005 that the elimination of antidumping duties would lead to the continuation of dumping by all firms, the CITT determination is still pending.

Canadian imports of the refined sugar products subject to antidumping duties have virtually ceased since 1995 due to the high protection level. Canadian producers have increased their share of the refined sugar market from 86.8 percent in 1994 to 97.3 percent in 2004.

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Nevertheless, Canada was still a leading export market for U.S. sugar refiners in 2004, accounting for 15 percent of total exports which makes it the second largest destination of U.S. exports of refined sugar following Mexico. The original antidumping duty order excluded a number of specialty sugar products, and the 2000 order expanded the number of excluded products. The Canadian Sugar Institute reported during the 2005 investigation that most U.S. imports occurred under these exclusions. As can be seen from Figure 1, imports from the United States did begin to increase following the increase in product exclusions in 2000. However, U.S. exports to Canada are still only a fraction of their earlier levels, and remain over 130 percent lower than import levels in 1994.

References


