CASE STUDY: WHEAT

Introduction

In September 2002, the North Dakota Wheat Commission, the Durum Growers Trade Action Committee, and the U.S. Durum Growers Association filed an antidumping petition with the Department of Commerce (DOC) and International Trade Commission (ITC) claiming that producers from Canada were selling durum wheat and hard red spring wheat in the United States at less than fair value, and these imports were causing or threatening to cause material injury to the domestic industry.\(^1\) The ITC determined that the domestic industry was materially injured by imports of hard red spring wheat but not by imports of durum wheat from Canada, both of which were found by the DOC to be sold in the United States at less than fair value. Antidumping duties were imposed on Canadian imports of hard red spring wheat between May 2003 and October 2005 when the United States was forced to revoke the antidumping duties due to a decision by a NAFTA dispute settlement panel.

Background: The U.S. Wheat Market

Wheat is the second largest grain produced in the United States in terms of value following corn. In the 2003/04 marketing year, total U.S. production of wheat reached 2.3 billion bushels. There are six primary classes of wheat grown in the United States. During the 2003/04 marketing year, hard red winter wheat accounted for approximately 36 percent of total domestic wheat production; in comparison, hard red spring wheat accounted for 22 percent, soft red winter wheat accounted for 16 percent, durum wheat accounted for 4 percent, and hard and soft white wheat together accounted for 17 percent of total wheat production. Leading producers of wheat include Kansas, North Dakota, Oklahoma, Washington and Montana. In total, there were 243,568 farms growing wheat in 1997; of these, 46,268 farms grew spring wheat, 6,887 farms grew durum wheat, and 40,737 farms grew winter wheat, while the remaining farms grew unspecified types of wheat.\(^2\)

Wheat varieties are in part distinguished by their planting season. For example, spring wheat is planted in the spring and harvested in the late summer or early fall, whereas winter wheat is planted in the fall, lying dormant during the winter and harvested in the mid- to late summer. Another primary physical characteristic that distinguishes wheat varieties is the protein content of the kernel. Although the protein content depends in part on weather and varies from year to year, soft wheat has a kernel with relatively low

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\(^1\) The petitioners filed a countervailing duty (CVD) petition against Canada at the same time, claiming that subsidized imports of durum wheat and hard red spring wheat from Canada were causing material injury to the domestic industry. Although the CVD petition also resulted in the imposition of countervailing duties of 5.29 percent on imports of hard red spring wheat from Canada, this study focuses solely on the antidumping portion of the petition.

\(^2\) Census of Agriculture. Most wheat farmers produce other crops as well, including soybeans, barley, and oilseeds. Thus, wheat must compete for acreage with other crops—total production will depend on market conditions for both wheat and these production alternatives.
protein content and thus is generally best used to produce cakes, crackers, biscuits, and pastries.\textsuperscript{3} In contrast, hard wheat has a kernel with higher protein and gluten content. For example, durum wheat is a type of hard wheat grown mainly in the spring that is used to make semolina, a key ingredient in pasta. Other types of hard wheat are produced into flour for use in bread production. In general, higher protein wheat is more expensive than lower protein wheat. The 2002 antidumping petition targeted hard red spring wheat and durum wheat, thus this study focuses on hard wheat varieties.

Different regions of the country grow different types of wheat. While areas with abundant rainfall and moderate temperature produce soft wheat, those regions in which summers are hot and rainfall is moderate grow more hard wheat. In the United States, hard red spring wheat is grown primarily in the Northern Plains such as North Dakota, Montana, Minnesota, and South Dakota; the wheat is planted in April and May and harvested during August and September. Durum wheat production is concentrated in North Dakota, Montana, Arizona, and California.

U.S. wheat farmers benefit from a number of federal farm programs. For example, under the Farm Security and Rural Investment Act of 2002, wheat growers can participate in federal direct fixed payments, counter-cyclical payments, marketing loans, and crop insurance programs.\textsuperscript{4} The 2002 law decoupled payments from current production, factor use, and commodity price levels, thus providing lump sum income transfers which have increased the wealth of U.S. farmers. These programs can significantly impact production decisions by U.S. wheat farmers. For example, according to the U.S. Department of Agriculture, the crop insurance program increased the number of durum wheat acres planted in North Dakota despite the lower price of durum wheat in 1999 and 2000. When the crop insurance program for durum wheat was terminated in March 2001, the number of acres of durum wheat planted in North Dakota fell by approximately one-third in a single year. In the period leading up to the antidumping petition, government payments under all wheat programs decreased as market prices increased. Not only did decoupled payments fall, but loan program and counter-cyclical payments for all types of wheat were lower in 2001 than in 2000, and almost stopped in 2002 and 2003.

After harvest, farmers typically sell their wheat to local grain elevators which dry and condition the wheat. The wheat is then distributed from the grain elevators to grain trading companies, domestic mills, and feedlots or ports for export, usually by rail. The United States is the largest exporter of wheat in the world, accounting for 26 percent of total world wheat sales. In total, nearly half of U.S. wheat production is exported each

\textsuperscript{3} Drier weather conditions result in the production of wheat with higher protein content.

\textsuperscript{4} For example, under the direct payment program the U.S. government pays farmers a fixed annual rate of $0.62 per bushel of wheat – the farmer collects payments on 85 percent of the average number of bushels historically produced by the farmer. When the sum of market price and direct payment rate is less than a fixed target price, the federal government also makes counter-cyclical payments. Both programs increase expected income and reduce risk for farmers. The Crop Revenue Coverage (CRC) program is a government-backed insurance program that reduces domestic producers’ risk from crop failure and price fluctuations. In general, farmers pay 40 to 50 percent of the total cost of the insurance program while the U.S. Department of Agriculture pays the remainder.
year. Leading foreign destinations for U.S. wheat in the 2003/04 marketing season included Egypt, Japan, Mexico, and Nigeria.

Human consumption accounts for about 80 percent of all wheat consumed in the United States, with much smaller amounts used for livestock feed and seeding. As previously noted, durum wheat is primarily used in pasta, whereas hard red spring wheat is used in bread and other bakery products. As the protein level of wheat depends on weather, flour millers often blend hard red spring wheat with lower-protein hard red winter wheat to reach desired protein level for their products. In the period leading up to the antidumping petition, U.S. consumption of both hard red spring wheat and durum wheat declined sharply. Specifically, U.S. consumption of hard red spring wheat decreased from 324 million bushels in marketing year 2000/01 to 182 million bushels in marketing year 2002/03, whereas U.S. consumption of durum wheat declined from 68 million bushels in 2000/01 to 61 million bushels in 2002/03. Analysts attributed the decrease in consumption to the sudden popularity of diets low in carbohydrates, as well as expanding production of bread with an extended shelf-life. Since 2003, U.S. consumption of wheat has stabilized.

Figure 1

Imports of Durum and Hard Red Spring Wheat

Source: U.S. Census Bureau.

U.S. demand for hard red spring wheat and durum wheat is met with both domestic production and imports. However, virtually all U.S. imports of durum wheat and hard red spring wheat originate in Canada, as indicated in Figure [1]. Although the United States imports modest amounts of desert durum wheat from Mexico, the volume of
imports from all other countries is very small. The Canadian Wheat Board (CWB), a marketing agency for more than 85,000 Canadian growers, accounts for more than 90 percent of all Canadian durum and western red spring wheat production and is the largest single seller of wheat in the world. U.S. imports of wheat from Canada are generally sold directly to wheat mills, thus the imports bypass local grain elevators in the United States. Instead, Canadian imports begin competing with domestically-produced wheat when the wheat is sold to large-scale grain traders; these traders then distribute the wheat to both the domestic and export market. Domestically-produced and Canadian imports of hard red spring wheat and durum wheat are highly interchangeable, although some argue that Canadian wheat is of a more consistent quality.

In the period leading up to the antidumping petition, domestic production of durum wheat decreased from 110 million bushels in the 2000/01 marketing year to 79 million bushels in 2002/03 as both the number of acres harvested and average production yields declined. Although the number of acres planted with hard red spring wheat increased during this period, drought conditions in 2002/03 lowered average yields drastically which in turn reduced the production of hard red spring wheat from 502 million bushels in 2000/01 to 357 million bushels in 2002/03.

Figure 2
Imports of Durum and Hard Red Spring Wheat from Canada

Wheat imports from Canada increased during much of this same period; figure [2] illustrates the quantity of imports of durum wheat and hard red spring wheat from Canada between 1996 and 2004. The volume of hard red spring wheat imports from Canada rose
from 41 million bushels in marketing year 2000/01 to 46 million bushels in 2001/02, and then fell drastically to 11 million bushels in 2002/03. The market share of Canadian hard red spring wheat increased from 12.8 percent in 2000/01 to 15.9 percent in 2001/02, and then dropped sharply to only 5.8 percent in 2002/03. Although drought conditions reduced production of Canadian durum wheat in marketing year 2001/02, the volume of durum wheat imports from Canada increased significantly from 12 million bushels in 2000/01 to 18 million bushels in 2001/02, and then decreased to 13 million bushels in 2002/03. The market share of durum wheat imports from Canada followed similar trend; Canada’s share of the U.S. market for durum wheat rose from 18.0 percent in marketing year 2000/01 to 29.3 percent in 2001/02, and then declined to 20.8 percent in 2002/03, a level slightly higher than in 2000/01.

Figure 3

Average Import Price of Durum and Hard Red Spring Wheat from Canada
(Calculated Unit Price per Kilogram)

The price of both durum and hard red spring wheat is determined in the global marketplace; U.S. and Canadian producers are price-takers in these markets. As illustrated in Figure [3], the average import price of hard red spring wheat from Canada trended downward in the period leading up to the antidumping petition. The average price received by U.S. farmers for hard red spring wheat also fell during the period from $2.94 per bushel in marketing year 2000/01 to $2.89 per bushel in 2001/02, but rose dramatically to $3.84 per bushel in 2002/03. In contrast, the price of durum wheat imports from Canada trended upward during the period leading up to the antidumping petition. Prices for domestically produced durum wheat increased as well during the
The average price received by domestic durum wheat producers rose from $2.66 per bushel in 2000/01 to $4.04 in 2002/03.

Based on the data collected by the ITC during the course of the antidumping investigation, the domestic hard red spring wheat industry shifted from a positive financial performance in 2000 to significant net losses or zero net returns in 2001, but recovered somewhat in 2002 after the volume of imports from Canada dropped sharply and prices rose significantly. The data for durum wheat farms in North Dakota suggested that the financial health of the domestic durum wheat industry declined from 2000 to 2001, but then improved in 2002; in fact, net returns and total product returns reached levels even higher than those reported in 2000.

The Antidumping Petition

On September 13, 2002, the North Dakota Wheat Commission, the Durum Growers Trade Action Committee, and the U.S. Durum Growers Association filed an antidumping petition claiming that producers from Canada were selling durum wheat and hard red spring wheat in the United States at less than fair value, and these imports were causing or threatening to cause material injury to the domestic industry. During the investigation, the ITC defined two domestic industries; one consisted of all domestic growers of durum wheat and the other included all growers of hard red spring wheat. On November 25, 2002, the ITC made a preliminary determination that dumped imports from Canada were causing injury to both domestic industries, thus allowing the investigation to move forward.

On May 8, 2003, the DOC released its preliminary determination that durum wheat and hard red spring wheat from Canada were being sold in the United States at less than fair value. Temporary antidumping tariffs of 8.15 percent on durum wheat and 6.12 percent on hard red spring wheat from Canada were imposed through August 28, 2003, when the DOC issued its final affirmative determination. The final weighted-average dumping margin imposed on durum wheat was 8.26 percent and compared to 8.87 percent on hard red spring wheat. However, on October 6, 2003, the DOC slightly revised the final dumping margin for hard red spring wheat to 8.86 percent.

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. In this case, the normal value was determined based on domestic market prices in Canada. However, whenever the DOC calculates normal value using domestic prices it compares the domestic prices to the average cost of production in the country under investigation; when a substantial quantity of sales are made at prices below the country’s average cost of production then these sales are excluded from the calculation of normal value. In this case, some sales of hard red spring wheat failed the “Cost-of-Production” test and were therefore excluded from the normal value calculation. Moreover, the DOC determined that some representative Canadian producers did not

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5 The North Dakota Wheat Commission represented growers of hard red spring wheat
6 The period of investigation was from July 1, 2001 through June 30, 2002.
provide all the necessary information to calculate the average cost of production, so the agency used “facts otherwise available” to calculate the cost of production for these producers.  

On October 20, 2003, the ITC determined that the domestic industry producing hard red spring wheat was materially injured by imports from Canada after considering the volume of the dumped imports, the effect of imports on domestic prices, and the total impact on the domestic wheat producers. However, the ITC determined that the domestic durum wheat industry was not materially injured or threatened with material injury by imports of durum wheat from Canada. Specifically, the ITC ruled that because the prices of durum wheat imports from Canada were predominantly higher than those of the domestic producers, the volume of durum wheat imports from Canada could not depress domestic price significantly or prevent price increases. Despite the higher volume of durum wheat imports from Canada, the ITC determined that the lower net returns of domestic durum wheat industry in marketing year 2001/02 were due to decreases in payments from government programs such as crop insurance and disaster payments, as well as an increase in total direct and overhead expenses. The lower net returns were not related to Canadian imports to a significant degree.

The Case Outcome

As noted above, during the antidumping investigation the volume of durum wheat imports from Canada dropped considerably from 18 million bushels in marketing year 2001/02 to 13 million bushels in 2002/03, whereas the volume of hard red spring wheat imports from Canada declined more sharply from 46 million bushels in 2001/02 to 11 million bushels in 2002/03. Despite the decrease in imports, U.S. production of hard red spring wheat continued to drop, thus domestic prices for hard red spring wheat rose during the period. Although the ITC ruled in their final determination that this change in the volume of imports was due to the investigation, Canadian producers argued that the sharp decrease was due to drought conditions in both Canada and the United States.

In 2004, the volume of hard red spring wheat imports from Canada continued to decline, but imports of durum wheat from Canada rose rapidly. However, imports of durum wheat still remained far below the levels in 2001 and 2002, as seen in Figure [2]. The average unit import price of hard red spring wheat increased sharply, from $0.15 per kilogram in 2003 to $0.21 per kilogram in 2004. In contrast, the average unit import price of durum wheat decreased from $0.19 per kilogram in 2003 to $0.17 per kilogram in 2004, as illustrated in Figure [3].

On November 24, 2003, the CWB filed a request for a panel review with the U.S. Section of the North American Free Trade Agreement (NAFTA) Secretariat. On June 7, 2005, a NAFTA dispute settlement panel directed the ITC to reconsider its previous affirmative material injury determination regarding imports of hard red spring wheat from Canada. Specifically, the panel questioned whether in making its determination the ITC compared

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7 Specifically, the DOC calculated the cost of production using both the information submitted in the petition and information submitted by other respondents.
prices at the same level of trade, as well as issues relating to the role of price underselling and the impact of hard red spring wheat imports on the domestic industry.

In the new investigation ordered by the panel, the ITC reexamined purchase prices of domestically-produced and imports of hard red spring wheat as reported by U.S. millers. The ITC subsequently determined that the underselling by Canadian hard red spring producers was not statistically significant. In addition, the ITC determined that the decline in the volume of hard red spring wheat imports from Canada in the 2002/03 marketing year was not clearly related to the antidumping investigation. After considering the Panel’s decision and its remand instructions, in October 2005 the ITC determined that the domestic industry producing hard red spring wheat was not materially injured or threatened with material injury by imports of hard red spring wheat from Canada. As a result, the U.S. eliminated antidumping duties on Canadian imports of hard red spring wheat.

References
