USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

**Date:** 12/16/2005

**GAIN Report Number:** CA5085

# Canada

# Trade Policy Monitoring

# Provisional Dumping and Countervailing Duties on U.S. Corn Imports

# 2005

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**Report Highlights:**
On December 15, the Canada Border Services Agency (CBSA) announced its preliminary ruling on whether there has been injurious dumping and subsidization of U.S. corn imports. The CBSA found that there was evidence of dumping and subsidization respecting unprocessed grain corn originating in or exported from the United States. The CBSA imposed a temporary anti-dumping duty of $0.58 USD/bu and a temporary countervailing duty of $1.07 USD/bu on U.S. unprocessed corn; there were no findings of injurious dumping and subsidization of U.S. processed corn imports. The duties go into effect right away. The duties are expected to have a negative impact on the various Canadian industries that utilize corn. The CBSA's final decision regarding dumping and subsidization is expected on or before March 15, 2006.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Ottawa [CA1]
[CA]

## SUMMARY

On December 15, 2005, the Canada Border Services Agency (CBSA) announced preliminary countervailing and anti-dumping duties on U.S. corn imports into Canada. The CBSA's preliminary ruling was in agreement with an earlier November 15, 2005 preliminary ruling by the Canadian International Trade Tribunal (CITT), which found that U.S. unprocessed grain imports had caused injury to the Canadian corn industry. The consequences of the duties are expected to impact several sectors within Canada's agricultural industry. Any price increase of corn will have a negative impact on Canada's livestock sector, possibly resulting in increased exports of feeder pig and possibly feeder cattle in order to take advantage of cheaper feeding costs in the United States, as higher feeding costs will make both industries less competitive compared to U.S. producers. In addition, the duties may result in increased movements of feed wheat and feed barley from western Canada into eastern Canada, replacing the more expensive corn for livestock feed. High tariffs on U.S. corn will hamper growth in Canada's ethanol industry, and resulting in increased imports of ethanol from the U.S. to meet mandated requirements. Final decisions from both CBSA and CITT are pending and are due out on March 15, 2006 and April 16, 2006, respectively.

## BACKGROUND

Ontario, Quebec and Manitoba are the three primary grain corn growing regions in Canada, producing over 98% of the Canadian grain corn crop in 2003/2004. Ontario and Quebec produce a majority of the grain corn, while Manitoba contributes a small amount. The Ontario Corn Producers' Association (OCPA), La Federation des producteurs de cultures commerciales du Quebec (FPCCQ) and the Manitoba Corn Growers Association Inc. (MCGA) represent the majority of grain corn growers in Ontario, Quebec and Manitoba and the country in general. The three groups are collectively known as the Canadian Corn Producers (CCP).

In August 2005, the CCP submitted a complaint to the Canada Border Services Agency (CBSA) regarding grain corn in all forms originating in or exported from the U.S., citing evidence of injurious subsidization of grain corn grown in the U.S. and imported into Canada. The complaint also maintained that subsidization of U.S. grain corn has resulted in depressed corn prices, reduced acreage and reduced incomes for Canadian grain corn growers and that is has restricted the development of domestic white dent corn production in Ontario.

On September 16, 2005, the CBSA initiated an investigation on the alleged injurious dumping and subsidizing of grain corn in all forms, excluding seed corn, sweet corn, and popping corn, originating in or exported from the United States. The CBSA notified the CITT that it was commencing an investigation, which then prompted the CITT to initiate a preliminary injury inquiry.

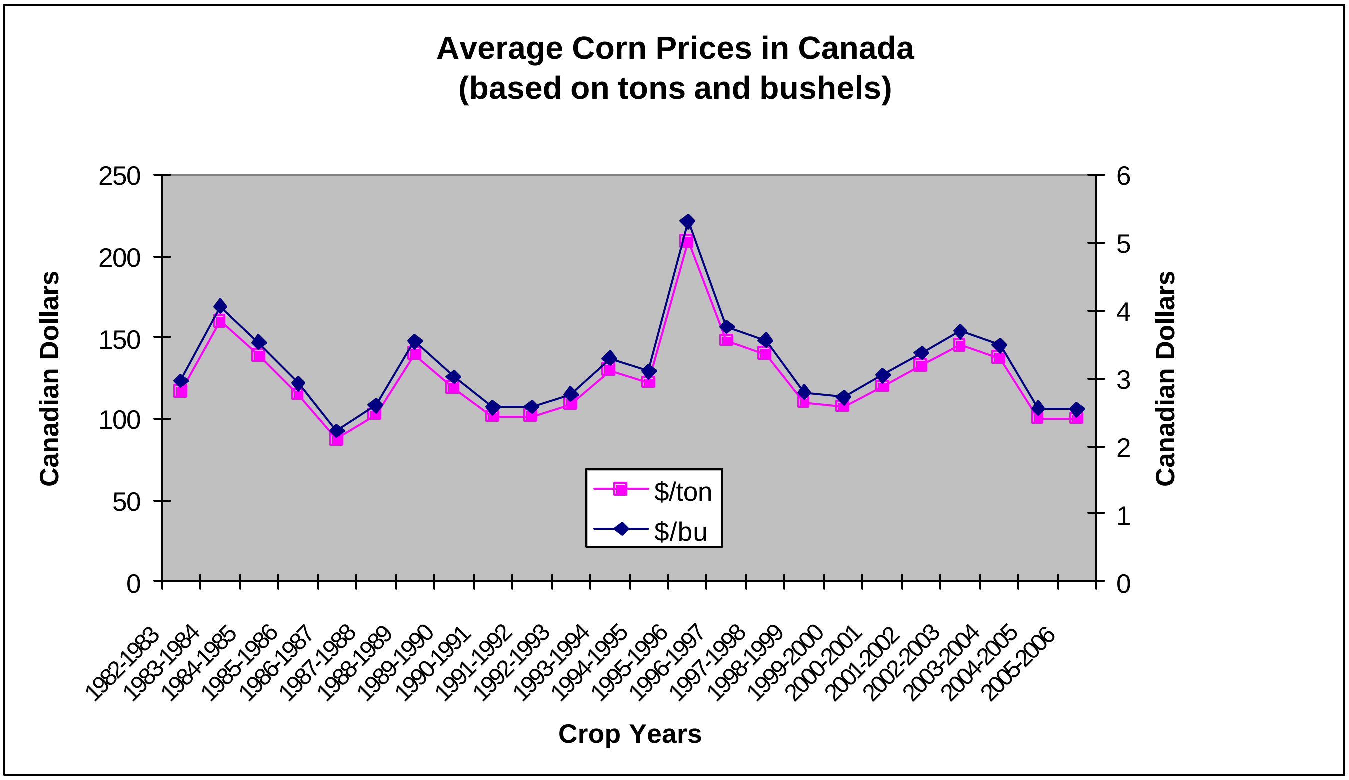
This is not the first time cases against U.S. corn imports into Canada have been investigated by the CITT. The first case was in 1986 and was brought before the CITT by the corn associations in Manitoba, Quebec, and Ontario, and resulted in the imposition of tariffs on grain corn in all forms, excluding seed corn, sweet corn and popping corn, originating in or exported from the United States. The CITT found that grain corn imported from the U.S. had caused material injury to grain corn producers in Canada. In 1992, the CITT removed the tariffs on U.S. grain corn, as the five-year period had expired and none of the parties involved requested a review of the expiry of the finding of the Tribunal.

The second case was in 2000 and was brought before the CITT by corn growers from Manitoba. Unlike both the original and current case, corn producers in Ontario and Quebec did not support the 2000 case. The 1986 case focused on the subsidization of U.S. corn exports into Canada, while the 2000 case was expanded to investigate both subsidization and dumping of U.S. corn, but dealt only with the Canadian market west of the Manitoba-Ontario border. The CITT ruled that U.S. corn imports did not cause injury and dismissed the 2000 case.

## IMPACT OF TARIFFS

### Price Impact

Canada is a net corn importer, as it does not produce enough to fulfill the domestic demands of the processing and livestock industries. As a result, when it comes to the price of corn, Canada is a price taker and the price of corn in Canada is influenced by the price of corn in the United States. Fluctuations in corn prices on the Chicago Board of Trade (CBOT) impact the price of corn paid to Canadian corn producers. According to Agriculture and Agri-Food Canada Market Analysis Division, corn prices in Canada have been fluctuating for the last 23 years, with prices currently on a downward trend. The large spike in world corn production in 2004, with all major world players like the U.S., Argentina and China all seeing significant increases in production, flooded the world market with corn, driving down world prices. Canadian prices fell from an average of $3.48/bu in 2003/2004 crop year to $2.56/bu in 2004/2005 crop year. For the current 2005/2006 crop year, prices have been averaging between $90-$110/ton ($2.29-$2.79/bu) CDN. As a result, producers have relied more heavily on support programs like the Canadian Agricultural Stabilization Program (CAIS), provincial administered programs, like Ontario's Market Revenue Insurance Program and Quebec's Programme D'Assurance Stabilisation Des Revenus Agricoles, and ad hoc programs announced by the federal and provincial governments (see CA5023 and CA5081).

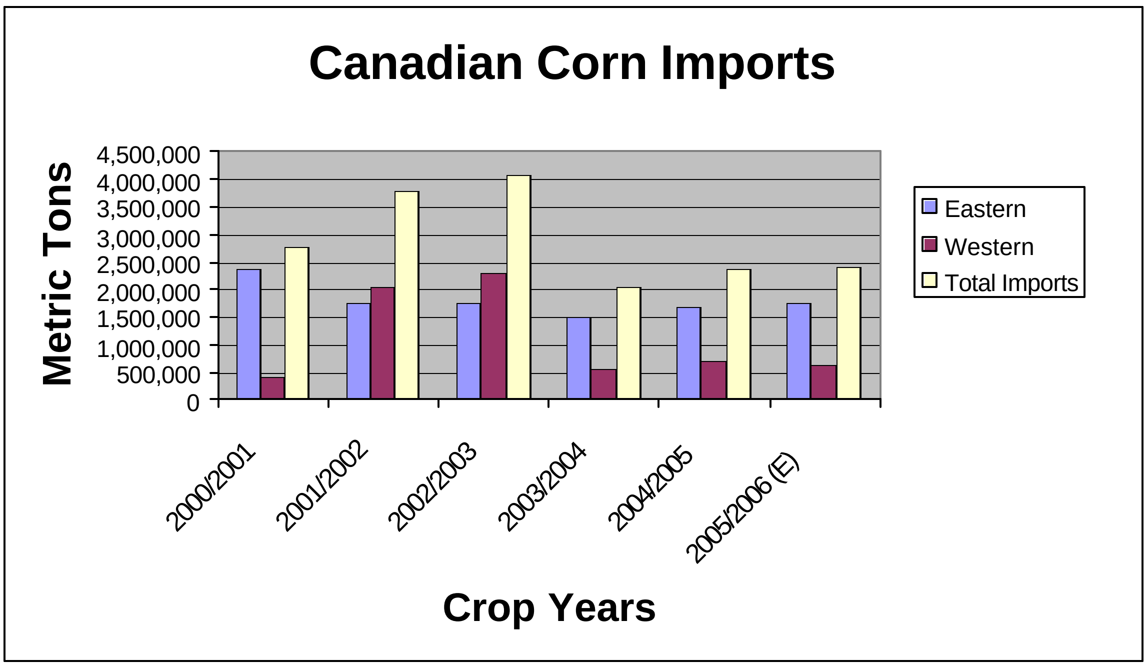



Source: Agriculture and Agri-Food Canada, Market Analysis Division

One of the justifications used by the CCP in this corn dispute is that, by applying tariffs to U.S. corn imports, there will be a jump in the price of the Canadian corn. Many industry observers predict that there will be an increase at least initially in the price of Canadian corn, as was seen when tariffs were applied in 1987, but it will fall back somewhat once the market has adjusted to the situation. If the tariffs result in higher Canadian corn prices for a sustained period of time, users may turn to alternate imported sources, like Brazil or Argentina, assuming the price is high enough to offset the higher transportation costs of bringing corn in from South America. The reduction in U.S. corn imports will not translate into a reduction in U.S. production, as Canada is a relatively small market for U.S. corn exports. As a result, the world price of corn will not increase due to the Canadian tariffs on U.S. corn imports.

**Trade Impact**

Canadian corn imports have increased significantly since the 1990s, due to an increase in the number of industries that rely corn. The growth in the livestock sectors, the ethanol industry and other end users has increased the demand for corn. Eastern Canada, primarily Ontario, is the largest corn-importing region in Canada. A poor 2000/2001 crop resulted in large imports of U.S. corn into both Ontario and Quebec. Overall corn imports remained high in the 2001/2002 and 2002/2003 crop years, due to the drought in western Canada. Livestock producers in western Canada imported a record amount of corn from the U.S. during those two crop years to compensate for the lack of feed barley and feed wheat. It was cheaper for producers in western Canada to import corn from the U.S. rather than import it from eastern Canada. Corn imports into Quebec and Ontario returned to more normal levels during those two crop years as corn production increased. The return to more normal crop conditions and production of large quantities of feed wheat and barley since the drought have reduced the reliance on U.S. corn imports to feed the livestock sector in Western Canada. Imports into eastern Canada have remained strong, as the processing and livestock industry require a guaranteed supply of corn to meet their needs.




Source: World Trade Atlas, Ontario Corn Producers' Association

The high tariffs will result in decreased imports into Canada and may actually stop all corn imports into western Canada, as the region is awash in surplus feed wheat and feed barley, which would make it uneconomical to import corn for feed use. U.S. corn imports into Eastern Canada will decline, but many processors may be willing to pay the higher price in the short term in order to meet demand, as long as there is an indication that the tariffs will not be permanent. If there is any indication that the tariffs will be applied for the five-year period, U.S. corn imports into Eastern Canada may fall significantly.

The reality of the world situation is that if the U.S. continues to produce large quantities of corn and Canada inhibits U.S. corn imports through tariffs, there are enough nations throughout the world that are increasing their production of cheap corn that may be able to fulfill any demand in the Canadian market, thereby nullifying the argument by the CCP that tariffs on U.S. will result in increased corn acreage in Canada. Argentina, China and Brazil could possibly step in to fill the void.

## FEED / LIVESTOCK

### Livestock and Poultry Feed Demand

Total feed demand in Canada has been increasing in recent years reflecting a significant expansion in the hog industry, a dramatic increase in cattle numbers (partly attributable to the disruption caused by BSE on normal marketing and trade flow patterns), and a moderate expansion in poultry meat production. According to the Animal Nutrition Association of Canada (ANAC), which represents Canadian feed manufacturers, total feed grain utilization is distributed in Canada as follows: hogs, 37%; beef cattle, 29%; poultry, 16%; dairy cattle, 15%; and other (sheep, horse, etc.), 3%. In recent years, it is estimated that feed use accounts for roughly 70% of Canadian corn supply (domestic + imports).

### The Potential Impact of Corn Duty(s) On Livestock Sector

Feed costs typically represent about 60-75% of producing livestock and poultry in Canada. Therefore, countervailing and anti-dumping duties that result in an increase in the price of corn will have an immediate effect on Canada’s livestock sector, particularly in the East. In general terms, corn is the feed of choice in the East, while barley dominates western feeding practices. The Animal Industry Corn Users (AICU), a coalition comprised of the Canadian Cattlemen's Association, Canadian Pork Council, and Animal Nutrition Association of Canada, oppose the decision to impose anti-dumping and countervailing duty investigations against U.S. corn. Below, Post speculates on the impact that the imposed duties may have on the various livestock sectors.

### Hogs

Potentially, the Canadian hog industry could be the sector hardest hit by the application of countervailing and anti-dumping duties on imports of U.S. grain corn. Hog market prices in Canada track U.S. hog market prices. To remain competitive in U.S. and world pork markets, Canadian pork processors cannot buffer Canadian hog producers from increased corn costs by raising Canadian market hog prices. Rising feed costs associated with imposed duties would initially impact Quebec and Ontario hog producers more severely since corn is the feed of choice in the region. The impact on hog producers in the West would be reduced by their proximity to western feed supplies (i.e., barley and wheat). As a result, hog feeders in Eastern Canada risk becoming less competitive in the North American hog market leading to a potential reduction in hog feeding in the region and increased feeder pig exports to the U.S. mid-west where feeding (i.e., corn) costs are lower. In Canada, the resultant east/west imbalance in the industry can be expected to result in a hastened shift in hog feeding and processing to western Canada. In the medium term, the overall demand for eastern-grown Canadian corn could decline as the number of animal units in the region declines while the numbers in the west increase.

### Beef Cattle

Anti-dumping and countervailing duties on U.S. corn are expected to hinder the recovery of the Canadian beef sector, which is attempting to emerge from the hard hitting effects of BSE on beef and livestock trade. Much of the industry’s effort during the past two and one-half years has been focused on addressing the policies that caused problems during the BSE disruption (i.e., inadequate slaughter capacity particularly for cull animals, and tremendous dependence on the U.S. market). The industry’s BSE-adjustment strategy is to design a “made in Canada” solution whereby the Canadian packing industry makes the necessary investments to increase slaughter capacity for both fed cattle and for cull cattle over 30 months (the latter remain ineligible to move south under current U.S. BSE import control provisions). The prevailing wisdom in the industry is that expanding slaughter capacity and reducing dependence on U.S. live cattle markets would enable the industry to better handle its cull cattle and develop a more global export market for Canadian beef. However, anti-dumping and countervailing duty on imports of U.S. grain corn have the potential to increase livestock feeding costs in Canada thereby reducing the overall competitiveness of the cattle feeding sector, again particularly in eastern Canada. There may be increased feeder cattle exports to the United States where feed costs are lower. Such a development could threaten the goals of slaughter capacity expansion at some of the major packing plants.

Ironically, a higher market price for corn due to the imposition of duties may increase the demand for cheap western feed grains into Eastern Canada to the point where these alternate feedstuffs begin to make an important inroad into the eastern feed grain market. Under this scenario, western feeds would capture an increased share of the market that the petitioning complainants had supposed would be captive for their eastern-grown domestic corn.

**The Potential Impact of Corn Duty(s) on Canada's Feed Manufacturers**

According to ANAC, approximately 50% of the overall complete feed required to meet livestock and poultry feed demand in Canada is mixed on-farm. Swine, dairy and poultry feeds account for approximately 85% of the complete feeds manufactured and sold by commercial manufacturers in Canada. There are an estimated 450 commercial feed manufacturing establishments in Canada. Regional distribution is as follows: Ontario and Quebec, 68%; Prairie Provinces, 22%; Atlantic Provinces, 6%; and British Columbia, 4%.

The industry relies on imports from the United States, Europe and Asia for the majority of the high value single micro-ingredients such as vitamins, trace minerals, amino acids, animal health pharmaceuticals and other micro feed additives, used in most feed products. An increase in the price of corn due to the imposition of trade remedy duties is expected to increase production costs and initially reduce the competitiveness of the industry's exports to the United States, which include complete feeds that originate mainly from Ontario and Quebec in Eastern Canada and from Manitoba and Alberta in the West.

**Dairy and Poultry**

Although they are significant users of grain corn, Canada's dairy and poultry industries are likely to suffer less economic hardship from higher corn prices brought on by duties imposed on imports of U.S. corn. Within the supply management system, increased costs of production, whether energy, feed, interest rates or land value, are systematically factored in to the cost of production models used to determine guaranteed returns to producers. While producers of these commodities may experience higher feed costs initially due to duties against U.S. corn, their regulating representative agencies possess pricing mechanisms to insulate producers from rising costs.

**Potential Impact on the Ethanol Sector**

Canada currently produces approximately 250 million liters of ethanol and is rapidly expanding its production capacity. Within the next five years, production is expected to increase to nearly 1.6 billion liters, as federal and provincial incentives and legislation drive the demand and mandate the use of ethanol in gasoline. In western Canada, ethanol produced primarily out of wheat or other plant sources, while ethanol produced in eastern Canada is primarily produced from corn. Expansion of current ethanol-producing facilities is occurring across the country, but the largest growth and development is happening in Ontario. When all the plants in Ontario that are either under construction or expanding come on line, Ontario will be producing almost 1 billion liters of ethanol. As a result, the ethanol industry in Ontario is a large consumer of locally produced and imported corn. At the current conversion rate of approximately 10 liters of ethanol/bushel of corn, Ontario plants would require approximately 10 billion bushels of corn to meet the demand. The ethanol industry is not the only end user of corn in Ontario, therefore there is need to import corn from the U.S. in order to meet demand. As the industry has expanded in Ontario, there has been pressure on Ontario's government to mandate an Ontario First ethanol policy, which would require the ethanol plants to purchase Ontario corn prior to importing corn to produce ethanol. To this date, the provincial government has refused to do this and some of the ethanol producers in the province have indicated that they will purchase corn based on the best market price and availability.

The high tariffs could severely impact the ethanol industry's ability to further expand in Ontario and Quebec. In a worst cast scenario, a dramatic and sustained increase in the price of corn could make it uneconomical to produce ethanol in Canada, leading to the closure of existing plants and the mothballing of expansion to existing facilities and the construction of new facilities. As a result, Canada may be forced to import larger quantities of ethanol from the U.S. and even Brazil (cost dependent) in order to meet ethanol requirements legislated by the provinces and the federal government. The ethanol industry in Canada may be able to endure a short-term increase in corn prices without dramatic consequences. If the duties are implemented for the five-year period, there would most likely be slow down in the investment and expansion of ethanol production in eastern Canada, with an increase in ethanol imports from the U.S. occurring to meet the requirement. The expansion of the ethanol industry is economically beneficial for those communities in which plants are being built. Not only would the tariffs hurt the expansion of the ethanol industry in eastern Canada, the impact would be extended to those communities that are benefiting from the development of those plants.

### Important Dates

1. CITT Preliminary Decision Announcement: November 15, 2005
2. CBSA Preliminary Decision Announcement: December 15, 2005
3. CBSA Final Decision Announcement: (expected) March 15, 2006
4. CITT Final Decision Announcement: (expected) April 15, 2006

### HS Codes Affected

1005.90.00.11 U.S. No. 1 yellow dent corn
1005.90.00.12 U.S. No. 2 yellow dent corn
1005.90.00.13 U.S. No. 3 yellow dent corn
1005.90.00.14 U.S. No. 4 yellow dent corn
1005.90.00.19 Other
1005.90.00.99 Other (including white dent corn)
1104.23.00.00 Corn which is sliced (corn which is hulled or kibbled is not subject, but also falls within this tariff number)

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