

## **OCA Position on Tariff proposed by Canadian Corn Producers**

March 15, 2006

### **Background**

On August 12, 2005, the Ontario Corn Producers' Association, the Manitoba Corn Growers Association, Inc. and La Federation des producteurs de cultures commerciales du Quebec, collectively referred to as the Canadian Corn Growers (CCG), filed a complaint alleging the 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 of America. The CCG feel that the complaint will enable Canadian corn producers to earn a fair return on their crops, and will level the playing field for Canadian corn producers who for years have suffered injury from low corn prices caused by billions of dollars of illegal US subsidies and dumping.

After consultations were held between Canadian government officials and representatives of the government of the United States, on September 16, 2005 the President of the Canadian Border Services Agency (CBSA) initiated an investigation. Upon receiving notice of the investigation, the Canadian International Trade Tribunal (CITT) started its preliminary injury inquiry.

On October 31<sup>th</sup>, OCA President Ian McKillop and Executive Director Dave Stewart presented to the House Standing Committee on Agriculture and Agri-Food about the corn countervail issue.

On November 15, 2005 the CITT concluded its preliminary inquiry and found that unprocessed grain corn constitutes a class of goods separate from processed grain corn. Unprocessed grain corn includes whole kernel grain corn and grain corn which has been milled to a limited degree, such that the milled grain corn, regardless of its physical form, preserves all the constituent parts of whole kernel grain corn and is chemically identical to whole kernel grain corn. Processed grain corn, in contrast, results from dry milling operations that separate or remove constituent parts of the whole kernel grain corn, such as the bran layer or pericarp, germ, tip cap or endosperm. The CITT concluded that the evidence does not disclose a reasonable indication that the dumping and subsidizing of processed grain corn have caused injury of retardation or are threatening to cause injury to the domestic industry. However, the CITT found evidence that the dumping and subsidizing of unprocessed grain corn has caused injury to the domestic industry and proceeded to investigate the complaint.

Also on November 15, 2005, the Canadian Cattlemen's Association, together with its Animal Industry Corn Users (AICU) coalition partners (Canadian Pork Council and Animal Nutrition Association) issued a joint news release expressing disappointment of the CITT decision. Following the preliminary inquiry, AICU urged the Canadian government:

- To delay the preliminary determination to January 30, 2006
- That Ministers direct the CITT to consider the public interest in parallel with its examination of injury, and
- To recommend to the President of the CBSA to exercise his discretion to not collect provision duties.

Despite the above attempts, the CBSA released its preliminary determination of dumping and subsidizing, in regards to unprocessed grain corn on December 15, 2005. Effective December 15, provisional anti-dumping duties of US\$0.58 and a provisional countervailing duty of US\$1.07 per bushel (a total of US\$1.65, or approx. CAN\$1.90) are payable on US corn imports.

Following the preliminary determination, the CBSA has continued its investigation and will make a final decision on or before March 15, 2006. The CITT began its full inquiry into the question of injury to the Canadian industry on December 15 and will issue its decision on or before April 18, 2006.

### **Impact**

The corn tariff would create an imbalance of costs in the integrated North American Market, would drive up the price of feeding cattle in Ontario, and would create an advantage to

feedlots in the US. Canadian corn users would lose feeding and finishing to the United States and Canadian processing will be lost to the United States. Increased exports of young pigs and beef cattle will attract trade actions from US producers. Imposing a duty will not add costs to American farmers of the American Treasury. The cost will be born by domestic corn buyers.

After the December 15<sup>th</sup> preliminary determination, the AICU estimated that if Canadian corn prices rise by the same amount as the \$1.90 duty, it could add feed costs of up to \$100 per head of cattle in corn-feeding regions such as Ontario. As OCA President Ian McKillop made clear, the cattle industry's recovery strategy after the BSE crisis is now in jeopardy. The recovery strategy focuses on reducing the dependency of Canadian cattle producers on exporting live cattle. If Canada builds the capacity to feed and process its own cattle, the industry can protect itself against potential future market losses for live cattle exports. The plan has been successful in increasing capacity from approximately 72,000 to 93,000 head per week.

Drawback of 100 per cent of customs duties is granted on imported NAFTA originating goods that are exported or combined/consumed in goods that are exported within four years of the date of importation of those goods. Thus, the situation could arise that Canadian animals are fed with American corn and then the live animal is exported to the US. Or, Canadian animals are fed American corn and then sent to an abattoir or packing plant with the packaged product then being exported to the US. In order to receive relief, complete documentation is required to demonstrate that American corn was fed to Canadian animals and that animal is now being exported back to the United States.

Five proposed new ethanol plants in Ontario will consume 60 million bushels of grain corn per year. The construction of these plants could be jeopardized by this action.

#### **OCA Position**

- OCA understands the situation faced by Canadian grain corn producers
- OCA supported grain producers in seeking an RMP
- Canadian packing capacity will be placed under increased pressure to fill hooks because Canadian fed cattle would have to be sold south of the border in order to qualify for drawback
- The countervail undermines the cattle industry's attempt to restructure after the BSE crisis
- OCA does not feel the countervail is an effective way to achieve the income support that corn producers want
- Call for CBSA to run information seminars across Ontario/Canada to explain in detail the duties relief and drawback process, including what information is required to submit and how to fill out the forms
- Lobby for a duty remission. This would be a policy decision within the Department of Finance. An Order in Council is required which means going to Cabinet
- Continue to make it known that this tariff will hurt Canadian cattle producers and that it will undermine the cattle industry's attempt to restructure
- Continue to demand that instead of merely low-cost corn, there needs to be cost-parity between US and Canadian cattle feed inputs