



Ottawa, Friday, September 14, 1990

Review No.: RR-89-010

IN THE MATTER OF a review, under section 76 of the *Special Import Measures Act*, of the finding of material injury of the Anti-dumping Tribunal dated June 4, 1984, and of the finding of material injury of the Canadian Import Tribunal dated April 18, 1986, respecting:

WHOLE POTATOES WITH NETTED OR RUSSETED SKIN, EXCLUDING SEED POTATOES, IN NON-SIZE A, ALSO COMMONLY KNOWN AS STRIPPERS, ORIGINATING IN OR EXPORTED FROM THE STATE OF WASHINGTON, UNITED STATES OF AMERICA, FOR USE OR CONSUMPTION IN THE PROVINCE OF BRITISH COLUMBIA;

AND

WHOLE POTATOES, ORIGINATING IN OR EXPORTED FROM THE UNITED STATES OF AMERICA, FOR USE OR CONSUMPTION IN THE PROVINCE OF BRITISH COLUMBIA, EXCLUDING SEED POTATOES, AND EXCLUDING WHOLE POTATOES WITH NETTED OR RUSSETED SKIN IN NON-SIZE A, ORIGINATING IN OR EXPORTED FROM THE STATE OF WASHINGTON

ORDER

The Canadian International Trade Tribunal, under the provisions of section 76 of the *Special Import Measures Act*, has conducted a review of the finding of material injury made by the Anti-dumping Tribunal on June 4, 1984, in Inquiry No. ADT-4-84, and the finding of material injury made by the Canadian Import Tribunal on April 18, 1986, in Inquiry No. CIT-16-85.

Pursuant to subsection 76(4) of the *Special Import Measures Act*, the Canadian International Trade Tribunal hereby continues the above-mentioned findings, without amendment.

Michèle Blouin

Michèle Blouin
Presiding Member

Arthur B. Trudeau

Arthur B. Trudeau
Member

Sidney A. Fraleigh

Sidney A. Fraleigh
Member

Robert J. Martin

Robert J. Martin
Secretary



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WHOLE POTATOES WITH NETTED OR RUSSETED SKIN, EXCLUDING SEED POTATOES, IN NON-SIZE A, ALSO COMMONLY KNOWN AS STRIPPERS, ORIGINATING IN OR EXPORTED FROM THE STATE OF WASHINGTON, UNITED STATES OF AMERICA, FOR USE OR CONSUMPTION IN THE PROVINCE OF BRITISH COLUMBIA;

AND

WHOLE POTATOES, ORIGINATING IN OR EXPORTED FROM THE UNITED STATES OF AMERICA, FOR USE OR CONSUMPTION IN THE PROVINCE OF BRITISH COLUMBIA, EXCLUDING SEED POTATOES, AND EXCLUDING WHOLE POTATOES WITH NETTED OR RUSSETED SKIN IN NON-SIZE A, ORIGINATING IN OR EXPORTED FROM THE STATE OF WASHINGTON

Special Import Measures Act - Whether to continue, with or without amendment, or rescind the findings of the Anti-dumping Tribunal and the Canadian Import Tribunal relating to the above-mentioned goods.

DECISION: The Canadian International Trade Tribunal (the Tribunal) continues the above-mentioned findings. The Tribunal is of the view that the higher potato prices of recent years are due, partly, to drought conditions in parts of the United States, resulting in shortages of supply, and to strong demand by processors. The Tribunal has concluded that a return to more normal supply conditions would quickly result in a return to dumping of potatoes in the B.C. market, and that the consequences of such dumping would be injurious to potato growers in British Columbia.

Place of Hearing: Vancouver, British Columbia
Dates of Hearing: April 23, 24 and 26, 1990
Date of Order and Reasons: September 14, 1990

Tribunal Members: Michèle Blouin, Presiding Member
Arthur B. Trudeau, Member
Sidney A. Fraleigh, Member

Director of Research: M.J.W. Brazeau
Research Manager: D. Poirier
Statistical Officer: S. McEachern
Registration and Distribution Clerk: L.E. Pharand

Participants:

P. John Landry and
Keith Mitchell
for B.C. Vegetable Marketing Commission

(Complainant)

Witnesses:

Charles Amor
General Manager
B.C. Vegetable Marketing Commission

R.W. Gilmour
Marketing Services Manager
B.C. Coast Vegetable Co-operative
Association

R.J. Alcock
Horticulture Marketing Specialist
Ministry of Agriculture and Fisheries
Province of British Columbia

George Wright
Chairman of the Board of Directors
B.C. Coast Vegetable Co-operative
Association
Vice-Chairman
B.C. Vegetable Marketing Commission
and Potato Grower

Keith Maddocks
Maddocks Farms Ltd.
Potato Grower

Randolph M. Sung
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Pacific Produce Co. Ltd.

Bob McKilligan
Vice-President, Produce Operations
Overwaitea Foods
A Division of Jim Pattison Industries Ltd.

Steve Thomson
Assistant General Manager
B.C. Federation of Agriculture

James E. Harris
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Ottawa, Friday, September 14, 1990

Review No.: RR-89-010

IN THE MATTER OF a review, under section 76 of the *Special Import Measures Act*, of the findings of material injury of the Anti-dumping Tribunal in Inquiry No. ADT-4-84 and of the Canadian Import Tribunal in Inquiry No. CIT-16-85 dated June 4, 1984, and April 18, 1986, respectively, concerning:

WHOLE POTATOES WITH NETTED OR RUSSETED SKIN, EXCLUDING SEED POTATOES, IN NON-SIZE A, ALSO COMMONLY KNOWN AS STRIPPERS, ORIGINATING IN OR EXPORTED FROM THE STATE OF WASHINGTON, UNITED STATES OF AMERICA, FOR USE OR CONSUMPTION IN THE PROVINCE OF BRITISH COLUMBIA;

AND

WHOLE POTATOES, ORIGINATING IN OR EXPORTED FROM THE UNITED STATES OF AMERICA, FOR USE OR CONSUMPTION IN THE PROVINCE OF BRITISH COLUMBIA, EXCLUDING SEED POTATOES, AND EXCLUDING WHOLE POTATOES WITH NETTED OR RUSSETED SKIN IN NON-SIZE A, ORIGINATING IN OR EXPORTED FROM THE STATE OF WASHINGTON

TRIBUNAL: MICHÈLE BLOUIN, Presiding Member
ARTHUR B. TRUDEAU, Member
SIDNEY A. FRALEIGH, Member

STATEMENT OF REASONS

SUMMARY

This is a review, under section 76 of the *Special Import Measures Act* (SIMA), by the Canadian International Trade Tribunal (the Tribunal) of the findings of material injury of the Anti-dumping Tribunal and the Canadian Import Tribunal dated June 4, 1984, and April 18, 1986, respectively, concerning the above-mentioned goods. In conducting its review of the findings, the Tribunal addressed two essential questions -- what is the likelihood of resumption of dumping and what is the likelihood of material injury resulting from such dumping?

With respect to the likelihood of resumption of dumping, the Tribunal notes that there has been very little dumping of potatoes in British Columbia from the United States of America during the period from 1986 through to the end of September 1989. This is particularly the case with respect to the type of potatoes covered by the finding of the Anti-dumping Tribunal in 1984. With respect to the potatoes covered by the finding of the Canadian Import Tribunal in 1986, it is noted that the level of dumping decreased by more than 50 percent in 1987, subsequent to the finding of the Canadian Import Tribunal, but that the volume dumped in 1988 increased substantially, to attain again almost the 1986 level, before declining once more in the first three quarters of 1989. While the overall percentage of imports that were dumped is not large, the tendency to dump does not appear to have been affected by the finding of the Canadian Import Tribunal so much as it has been affected by market conditions in the United States. The Tribunal notes that a seller's market has existed for potatoes in both British Columbia and the United States for the past several years because of drought conditions in the Midwest that have resulted in reduced potato production in that country and sharply increased potato prices. Demand by processors has also contributed to higher prices. The shortage of supply has affected any normal tendency to dump that might otherwise have existed. The fact that dumping has decreased, and more particularly so in the last year, does not carry the same weight it ordinarily might in the Tribunal's eyes, given the reasons for that decrease.

With respect to the likelihood of material injury, using the constructed cost of production as a base, the net market return to B.C. growers has been negative in five of the last seven years, with the last positive market return having been achieved in crop year 1984/85. The preliminary market return data for 1988/89 suggest another negative market return, although final results may show that at most a very minor positive return was achieved. Indications are that a strong net market return position will be reached for the crop year 1989/90, on the basis of the current exceptionally high potato prices in the B.C. market. The evidence suggests that the B.C. growers are not likely to be materially injured so long as tight supply conditions continue in the United States, thus keeping import prices at their current high levels.

The Tribunal is of the view that, with the return of more normal supply and demand conditions, price levels should return to their historical levels. Those prices would likely be below normal value levels and, in that case, there would be injury to the B.C. industry that would be material.

Accordingly, the Tribunal concludes that the findings relating to the subject potatoes should be continued, without amendment.

BACKGROUND

This is a review under section 76 of SIMA of the findings of material injury made by the Anti-dumping Tribunal and the Canadian Import Tribunal on June 4, 1984, and April 18, 1986, respectively, concerning whole potatoes described as follows:

Inquiry No. ADT-4-84 (June 4, 1984)

Whole potatoes with netted or russeted skin, excluding seed potatoes, in non-size A, also commonly known as strippers, originating in or exported from the state of Washington, United States of America, for use or consumption in the province of British Columbia.

Inquiry No. CIT-16-85 (April 18, 1986)

Whole potatoes, originating in or exported from the United States of America, for use or consumption in the province of British Columbia, excluding seed potatoes, and excluding whole potatoes with netted or russeted skin in non-size A, originating in or exported from the state of Washington.

Pursuant to section 76 of SIMA, the Tribunal initiated a review of the findings and issued a notice of review on November 22, 1989. This notice was forwarded to all known interested parties and was published in Part I of the Canada Gazette of December 2, 1989.

As part of this review, the Tribunal sent detailed questionnaires to the B.C. Vegetable Marketing Commission (the Commission) and to the five growers' co-operatives and sales agencies that market domestically grown potatoes in British Columbia. From the replies to these questionnaires and from other sources, the Tribunal's research staff prepared a public pre-hearing staff report relative to the review. In connection with research activities, members of the Tribunal's staff met with growers' representatives in British Columbia and visited the premises of the B.C. Coast Vegetable Co-operative Association (the B.C. Vegetable Co-op), in order to answer any questions pertaining to the questionnaires. A meeting was also held with a representative of the provincial Ministry of Fisheries and Agriculture to obtain supplementary information. All three members of the Tribunal also viewed the operations of the B.C. Vegetable Co-op prior to the hearings in Vancouver. The record of this review consists of all relevant documents, including the original findings, the Notice of Review, and public and confidential/protected sections of replies to the questionnaires. All public exhibits were made available to interested parties while protected exhibits were provided to independent counsel only.

Public sessions were held in Vancouver, British Columbia, on April 23, 24 and 26, 1990.

The Commission, on behalf of the provincial growers and sales agencies, was represented by counsel at the hearing, submitted evidence and made argument in support of continuing the findings.

Two importers of potatoes from the United states were called as witnesses by the Tribunal: Overwaita Foods, A Division of Jim Pattison Industries Ltd., a major food retailer in British Columbia, and Pacific Produce Co. Ltd., a major wholesaler of produce.

Neither importers nor exporters made formal appearances or submissions to the Tribunal in connection with this review, nor did they take a position with respect to how the Tribunal should find.

THE PRODUCT

The goods under review are whole potatoes originating in or exported from the United States of America.

The potato tuber is an enlarged portion of an underground stem that stores carbohydrates not used by the potato plant for growth. Potatoes come in many sizes, shapes and colors of skin or flesh. The period of growth, from planting to harvest, ranges from 80 to 150 days, depending on variety.

Canadian whole potatoes are generally classified as one of four types: Round White, Russet, Round Red or Long White. In addition, there are several other varieties that are produced in small quantities. The Russet type accounts for over 60 percent of B.C. production.

The great majority of potatoes grown is sold to the fresh market in British Columbia. There exists very little processing industry for potatoes in the province although sales to that end use have increased significantly in recent years. Potatoes may be boiled, fried, mashed, chipped or baked depending on the variety and the consumer's preference.

Potato grade, size and uniformity of size are significant elements in fresh (tablestock) potato sales. Larger sizes sold in the tablestock market are purchased predominantly by restaurants, hotels or other institutional establishments.

With regard to Canadian standards for potatoes, there are four "grade" designations that are combinations of two quality standards (measuring defects) and three specified size ranges. Potatoes not meeting No. 1 and No. 2 grades are referred to as "culls" and are usually sold for livestock feed or for processing.

There is no difference between potatoes grown in the various areas of the United States or in the other Canadian provinces; to a greater or lesser extent, all the different varieties are grown in all areas. The locally grown potatoes are sold in packs varying from 5-lb. polyethylene bags to 100-lb. burlap sacks. These packs contain a variety of sizes meeting either Canada No. 1 or No. 2 grade. Most of the imports come in similar packages as those available locally. However, under the *Canada Agriculture Products Standards Act*, only potatoes meeting Canada No. 1 standard (i.e., minimum diameter of 1½ in.) can be imported.

THE INDUSTRY

There are currently about 180 growers of potatoes in British Columbia grouped into three regions, namely, Lower Mainland, Vancouver Island and Northern B.C. Each of these regions is represented by a grower's co-operative or sales agency. The B.C. Vegetable Co-op and the Interior Vegetable Marketing Agency Co-operative represent the Lower Mainland and Northern B.C., respectively. The Island Co-operative Association, located in Victoria, and Port Potato Company in Port Alberni, have represented Vancouver Island growers throughout the review period. In June 1988, the Commission appointed Vancouver Island Produce to represent growers in the northern part of Vancouver Island. This area was previously represented by the Island Co-operative Association, but the majority of the potato crop on Vancouver Island is grown in the Northern region. Each of these agencies, as well as the 180 potato growers, is represented by the Commission, which acts as a co-ordinating body.

The Commission is wholly composed of farmers elected from across the province to govern their own affairs and answers to the B.C. Marketing Board, a provincial body with broad representation.

The B.C. Vegetable Scheme, enacted by provincial Order in Council on March 20, 1980, under the *Natural Products Marketing (B.C.) Act*, established the Commission, which is empowered to promote, control and regulate the production, transportation, packing, storage and marketing of vegetables, including potatoes, grown in British Columbia. The Commission administers the scheme and delegates certain of its powers to the five agencies acting as a sales agency for the producers of potatoes in its area. Each individual producer is allocated a sales quota that is dependent upon a five-year average of that producer's shipments of potatoes. A producer can produce more than his quota, but the excess may be taken by the co-op only once all other producers have delivered their quota. Under the scheme, the product then makes its way to the ultimate market through the appropriate sales agency. The Commission and the co-operatives can only control provincial production in terms of prices and quotas; imports from outside the province escape their control, i.e., imports from the United States of America and the other provinces can enter British Columbia in any quantity and at any price, provided that Canadian and provincial standards, where applicable, are adhered to.

The co-operative is farmer-owned and operated. In most cases, it provides for the central receiving, washing, grading, packing, promotion and marketing of the farmer's potatoes through a system of one-desk selling. It also handles other produce such as beets, cabbage, carrots, onions, parsnips and rutabagas. The co-operative is an extension of the farm gate, enabling the farmer to minimize marketing costs through shared facilities.

The co-operative's objective is to provide a stable source of supply to the trade on a year round basis. Daily delivery of product, much of it in prepackaged form, relieves the wholesaler of many capital costs for warehousing space and packaging equipment, removes the need to order in advance and to hold product on the floor for several days, and provides the economies of simplified purchasing from one sales desk.

Large inventories of potatoes are not held in storage by the co-operatives. Potato requirements are ordered daily as needed from a list of member growers who are responsible themselves for the storage of the product. Wholesale price lists are issued very frequently (sometimes weekly) and are adhered to rather closely. Discounts are not usually offered.

Major customers include the supermarket chains such as Safeway Stores, Overwaitea, Supervalu and Woodward's, as well as the wholesale, institutional and restaurant trades.

SUMMARY OF 1984 FINDING

On June 4, 1984, the Anti-dumping Tribunal (the ADT) found that the dumping of the subject potatoes in non-size A, also known as strippers, from the state of Washington, had caused, would have been causing, except for the fact that provisional duties were applied, and was likely to cause material injury, but that the dumping of

sizes other than non-size A from the state of Washington and of whole potatoes with netted or russeted skin from states other than Washington, had not caused, was not causing and was not likely to cause material injury to B.C. growers of like goods.

The complainant, the Commission, argued that the dumping of russeted potatoes from the United States of America in the province of British Columbia caused material injury in the form of loss of market share, price erosion and loss of producer profit for the 1982 and 1983 crop years.

Because British Columbia is next to a large volume potato producing state, prices in the province are a reflection of prices in the state of Washington market. The testimony of industry witnesses confirmed that the co-operatives in British Columbia set the price of their product at the price of the competing state of Washington product landed in Vancouver. Local market prices for the 1982/83 crop year opened at much lower levels than the two previous years, as a direct result of the lower import prices for that year. The ADT accepted that part of the decline in local market price was due to the decline in price in the state of Washington for the 1982/83 crop, attributable to good crops in that state and the neighboring states. However, imports of russeted potatoes from the state of Washington remained at a high level and at prices lower than for the previous years. To the extent that such imports were found to be dumped, they further depressed local prices for the product.

The ADT noted that claims of material injury by the B.C. potato industry were essentially aimed at imports from the state of Washington. The ADT was not persuaded that imports from states other than Washington were the cause of the injury suffered by the industry. Landed import prices from states such as California, Oregon and Idaho tended to be higher priced than the state of Washington and the B.C. grown russets. The ADT also noted that very little of the complainant's case was directed against imports from states other than Washington. Consequently, the ADT was of the opinion that russeted potatoes shipped from states other than Washington did not contribute to the injury suffered by B.C. growers.

The financial data submitted by large growers showed profits for fiscal year 1980/81, some losses in fiscal 1981/82 and severe losses in fiscal 1982/83 for sales of the subject goods. The ADT was also persuaded that imports of russeted potatoes from the state of Washington would have continued to exercise a depressive effect during the 1983/84 crop year were it not for the Deputy Minister's investigation and the imposition of provisional anti-dumping duties.

The ADT thus concluded that the dumping of whole potatoes with netted or russeted skin from the state of Washington had caused and would have been causing material injury to B.C. growers of potatoes except for the fact that provisional duties were applied. There seemed to be little doubt, given the quantities of potatoes produced in the state of Washington, that the injury outlined above would continue to be felt by the B.C. producers in the foreseeable future. Estimates indicated that there has been an increase in plantings for 1984/85 and that, barring any unforeseen weather conditions, British Columbia would most probably be subjected to dumping on the scale found in 1982/83. The ADT thus concluded that the dumping of russeted potatoes from the state of Washington was likely to cause material injury to B.C. growers of russeted potatoes.

It was found that "non-size A" potatoes comprised some 87 percent of total imports investigated by Revenue Canada. The ADT, therefore, found that the dumping of non-size A whole potatoes from the state of Washington, with netted or russeted skin, had caused, would have been causing and was likely to cause material injury to the production in British Columbia of like goods.

SUMMARY OF 1986 FINDING

On April 18, 1986, the Canadian Import Tribunal (the CIT) found that the dumping in Canada of whole potatoes from the United States of America, for use or consumption in the province of British Columbia, excluding seed potatoes, and excluding whole potatoes with netted or russeted skin in non-size A, originating in or exported from the state of Washington had caused, would have caused except for the fact that provisional duties were applied and was likely to cause material injury to the production in Canada of like goods.

The complainant, the Commission, argued that the dumping of whole potatoes from the United States of America in the province of British Columbia had caused material injury in the form of price erosion, loss of market share and a complete loss of producer profit during the 1985/86 crop year, up until the Deputy Minister's preliminary determination of dumping.

It was further argued that the dumping of the subject potatoes would have also caused material injury during the provisional period had it not been for the application of provisional duties. Moreover, it was stated that the dumping was likely to injure B.C. growers by eroding the price of potatoes to the point where their net return would be less than their cost of production. Counsel for the industry also noted that dumping had occurred in British Columbia in three of the past four years at that time and that it could be anticipated that US exporters would look to British Columbia as a market within which to dispose of product at prices below their own costs of production.

The CIT noted that the prices for potatoes produced in British Columbia were totally dependent on the landed Vancouver prices for competing product from the United States, while US domestic prices were principally a factor of that country's yearly production output and were determined by free-market forces. The CIT also noted that the record-high US crop in 1985 not only led to a "total collapse" of US domestic potato prices, but also had a detrimental impact on B.C. potato growers. According to the evidence, during the early part of 1985, overplanting and overproduction from early planted areas along with existing supplies of storage potatoes started the price deterioration that became evident as early as June 1985.

The B.C. Vegetable Co-op had returned its growers a net of \$13.84/cwt. on its Round Red group, an early variety, in August 1984. This amount had decreased to \$6.56/cwt. a year later and growers were no longer covering their cost of production. This situation continued in the fall when "late" Russet potatoes, the mainstay of B.C. production, became available on the market. In September 1985, the Russet group netted growers \$3.86/cwt. as opposed to a cost of production of \$7.66/cwt. The downward pressure exerted by US prices was so strong that B.C. growers experienced staggering losses during the first two quarters of crop year 1985/86.

The CIT had no difficulty in establishing a causal link between the low-dumped prices prevailing in the B.C. marketplace and the severe financial losses suffered by the B.C. industry. Moreover, the material injury that was thus caused by the dumping of US potatoes would have continued into 1986 but for the application of provisional duties. Inventories in the United States were particularly large, running at 17 percent higher in February 1986 than they were a year earlier. The outlook for the foreseeable future was that, in the absence of anti-dumping measures, the B.C. potato growers would continue to suffer material injury from dumped imports from the United States.

In light of the evidence, the CIT concluded that the dumping in Canada of whole potatoes originating in or exported from the United States of America, excluding seed potatoes, and excluding whole potatoes with netted or russeted skin in non-size A, originating in or exported from the state of Washington, had caused, would have caused except for the fact that provisional duties were applied and was likely to cause material injury to the production in the province of British Columbia of like goods.

POSITION OF PARTIES

The Industry

The industry claimed that the 1986 finding had a stabilizing effect on the B.C. potato industry. B.C. producers have been able to compete with US potatoes priced at or above the normal values, and had been successful in increasing their market shares by five to seven percentage points since the 1985/86 crop year.

This added stability had allowed the B.C. Vegetable Co-op to invest in a potato grading line in an effort to supply a market for count-size potatoes and to respond to marketing concerns expressed by its customers. Furthermore, individual producers had invested in storage facilities to enable them to provide better quality potatoes to the marketplace for the full crop year.

With respect to the propensity to dump, counsel argued that US producers have shown in the past their propensity to dump potatoes in British Columbia, and provided evidence to show that the domestic US market price for the state of Washington non-size A potatoes was below the normal value set by Revenue Canada for over 80 percent of the time since crop year 1982/83.

Counsel contended that without the protection afforded by the 1984 and 1986 findings, US potatoes would have been dumped in British Columbia in 1986, 1987 and 1988.

Counsel also noted that, notwithstanding the finding in 1984, US potatoes not covered by that finding were subsequently dumped in British Columbia when their prices fell below those of the potatoes covered by the normal values established by Revenue Canada, thereby circumventing the 1984 finding.

With respect to vulnerability, counsel contended that the 1988/89 and 1989/90 crop years were anomalous and that the prices for potatoes in both the United States and Canada reached unprecedented levels. They further contended that this anomaly

occurred because of weather-related disasters, citing the severe droughts in the Midwest that caused prices to skyrocket.

Counsel attributed the fluctuation in price solely to supply conditions and suggested that high demand for seed potatoes in the United States pointed to the possibility of increased plantings and therefore potential price declines in the next crop year.

The position of the industry to continue the findings was unopposed by importers, exporters or other parties.

CONSIDERATION OF THE EVIDENCE

The apparent B.C. market for potatoes has remained relatively constant at about two million hundredweight throughout the period from crop year 1982/83 through to 1988/89, the last full crop year for which data are available. Variations in total market demand are minimal, which is understandable, given the nature of the goods under review. Potatoes seem to sell in approximately the same volumes over the longer period, regardless of changes in their price level.

During the 1982/83 to 1987/88 time period, domestic producers have held at least a 50 percent share of the market. In crop year 1988/89, their market share fell to 46 percent. This loss of market share was largely attributable to flooding in British Columbia, which resulted in the loss of 423 acres of production.

B.C. potato growers are unable to supply the total demand for potatoes in their province. Imports from the United States are therefore an essential factor in the B.C. marketplace. Because they loom so large, however, and because of the sheer size of US potato production and, more particularly, potato production in the neighboring state of Washington, the price of imported potatoes tends to set the price for B.C. grown potatoes as well.

For most of the period noted above, B.C. potato growers have held on to their market share through the simple expedient of pricing their goods according to the landed cost in Vancouver of competitive US potato imports. In many cases, this has resulted in B.C. growers receiving a market return for their potatoes that has been less than the calculated cost of production, so that the growers have had to draw on payments from the provincial Farm Income Insurance Program to supplement their income from sales of potatoes in the domestic market. Except for the 1983/84 and 1984/85 crop years, it was not until the 1989/90 crop year that the B.C. growers attained a market return in excess of the calculated cost of production used for purposes of the Farm Income Insurance Program.

In crop year 1988/89, prices of imported US potatoes began to increase, due to supply shortages caused by drought conditions in the Midwest and to strong demand by processors in that country. These prices continued to increase to the point where prices for potatoes in crop year 1989/90 reached what have been called record high levels.

Because of this decrease in supply and increase in price levels, imports of potatoes into British Columbia have, for the most part, exceeded the normal values established by Revenue Canada. Consequently, very little dumping of potatoes has taken place in recent years.

Evidence was presented at the hearings to the effect that increased plantings of potatoes were taking place in the United States for crop year 1990/91. This evidence was based largely on an apparent increase in demand for seed potatoes in the United States. The industry stated that even relatively small increases in plantings/production could have far-reaching consequences for domestic potato growers. It was noted that the increase in US potato acreage planted of some 7,000 acres in 1989/90 over the previous year was almost equal to the entire potato acreage planted in British Columbia in the latest crop year.

REASONS FOR THE DECISION

The questions to resolve in this review are, if the findings are rescinded, would dumping resume, and would that dumping cause material injury? To address these interrelated factors, the Tribunal looks at the question of likelihood of resumption of dumping by US exporters should the findings be rescinded and the likelihood of material injury resulting from such dumping.

Likelihood of Resumption of Dumping

Since the findings have been in place, the existence of normal values has established the base price level for potatoes in the B.C. market. However, the high prices of the last two crop years have been such that import prices have regularly exceeded the normal values. The question that must be resolved is whether the current market conditions are indeed abnormal and, if so, whether a return to more normal market conditions (i.e., higher US production and lower US prices) would result once again in a dumping situation in the B.C. market.

It was argued that the drought situation in the Northwestern United States has had a major impact on production levels in the United States in the last two years. United States whole potato production did, in fact, decrease by 9 percent in crop year 1988/89, and, while increasing somewhat in crop year 1989/90, still remained about 6 percent below the 1987/88 level of production. It was further argued that these production declines, abetted by continuing strong demand in the United States for processing potatoes, had stimulated the increase in US domestic and export potato prices. The price of Russet Burbank 100 count potatoes in the state of Washington increased from US\$7.00/cwt. in December 1987 to \$13.00/cwt. in December 1988 and to as high as \$16.00/cwt. in December 1989. The average import value of US whole potatoes increased from CAN\$9.67/cwt. in crop year 1987/88 to \$13.15/cwt. in crop year 1988/89, and to \$16.31/cwt. in the first half of the 1989/90 crop year (i.e., the six-month period ending on December 31, 1989).

A major wholesaler of imported and domestic potatoes in the B.C. market testified that these price levels are exceptional and due to tight potato supply. The wholesaler also said that "it has just been a very good year for producers who have had potatoes to sell and probably the highest price we have seen in ten years these last two years."

While it is not known what the potato crop in the United States will be in the coming crop year (1990/91), it would seem only logical to conclude that, if more normal production levels are achieved, prices will fall to their historical levels. Based on apparent increased demand for seed potatoes in the United States, counsel for the B.C. potato growers argued that all available evidence indicates that potato plantings in the United States are on the upswing for crop year 1990/91. It was suggested that even small increases in production levels in the United States could have serious consequences for Canadian potato growers. Fraser's Newsletter, a respected trade publication, has predicted an increase in acreage planted in the state of Washington for the 1990/91 crop year.

The United States has a strong interest and a well-established presence in the B.C. market for the subject goods. The proximity of British Columbia to the state of Washington growers makes it a natural outlet for their potatoes, irrespective of the production levels that might exist at any given time in the United States. The US growers do not use the B.C. market simply to dispose of excess production, but view it instead as a normal extension of their domestic market. In so doing, the US growers are taking advantage of the economies associated with shipping to a nearby market and to established customers with whom they have developed long-term business relationships.

The Tribunal makes the following observations. First, after the 1984 hearing and positive finding against non-size A potatoes with netted or russeted skin exported from the state of Washington, the US exporters circumvented the finding. They did this by shipping other grades of potatoes and potatoes from other states not covered by the 1984 finding, at times when the US price for those potatoes was below the established normal values. Second, a review of the history of potato production and potato prices in the United States reveals that production follows a definite pattern of peaks and valleys and that prices follow a similar pattern, rising as production falls and declining as production increases. It follows then that, as production returns to more normal levels, prices will decrease to a level where dumping would resume without the protection of the finding. The Tribunal is of the view that there are strong indications that the dumping is likely to resume if the finding is rescinded.

Likelihood of Material Injury

Profitability in the potato-growing industry is very difficult to measure using a standard analytical approach. In the first place, the sheer number of producers makes it impracticable to carry out a detailed analysis of individual growers' financial statements. In addition, many growers are involved in the production of other vegetables and/or are also livestock producers. The difficulties that thus arise in identifying and isolating the relevant cost factors associated with agricultural production in general have led to the development of economic models that attempt to construct realistic input costs for various kinds of produce, including potatoes.

The significantly higher US (and, accordingly, B.C.) potato prices of recent years have improved the financial situation of the B.C. growers. Nevertheless, it is probably only in the current 1989/90 crop year that B.C. growers will actually receive market returns sufficiently high to equal or exceed the constructed cost of production and provide them with a positive market return for the first time since the 1984/85 crop year.

Market returns have consistently been below the constructed cost of production calculated by the B.C. Federation of Agriculture in conjunction with the B.C. Ministry of Agriculture and Fisheries. Furthermore, it should be noted that these costs are relatively unchanged from crop year 1982/83 through to crop year 1988/89 (1989/90 costs have not yet been finalized). In fact, the cost of production of late potatoes calculated for crop year 1988/89 (\$7.54/cwt.) is nine cents below the cost of production in place in 1982/83.

A typical potato growing operation in British Columbia consists of a farm of very limited acreage, in comparison to the very large farms that are commonplace in the United States, and, more particularly, in the state of Washington. Besides, this difference in farm size, the crop yields attained by US growers are more than double the yields achieved in British Columbia. A further major distinction between the state of Washington and B.C. potato growing industries is that a preponderance of the state of Washington potatoes is sold to the processing industry. In contrast, there is very little processing of potatoes carried out in British Columbia.

The net effect of these differences is that the B.C. potato growers cannot compete with import prices below the normal values established by Revenue Canada. Consequently, with a likelihood of resumed dumping if the findings were not in place, the domestic industry is likely to be materially injured.

CONCLUSION

The Tribunal concludes that the industry is likely to be materially injured from a resumption of dumping from the United States. Therefore, the findings are being continued, without amendment.

Michèle Blouin
Michèle Blouin
Presiding Member

Arthur B. Trudeau
Arthur B. Trudeau
Member

Sidney A. Fraleigh
Sidney A. Fraleigh
Member