

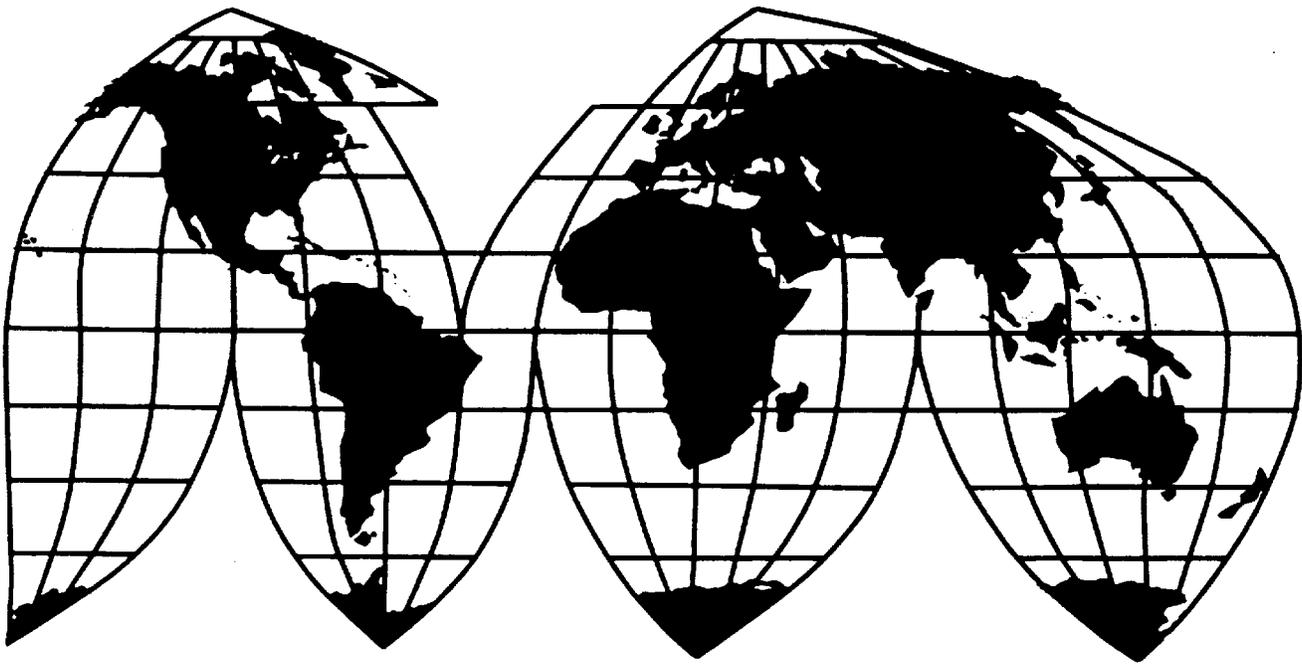
# Hard Red Spring Wheat From Canada

Investigation Nos. 701-TA-430B and 731-TA-1019B (Remand)

Publication 3806

October 2005

**U.S. International Trade Commission**



# U.S. International Trade Commission

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# U.S. International Trade Commission

Washington, DC 20436

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**Note.--Information that would reveal confidential operations of individual concerns may not be published and therefore has been deleted from this report. Such deletions are indicated by asterisks.**



## VIEWS OF THE COMMISSION

By a decision dated June 7, 2005, a Binational Panel constituted under Article 1904 of the North American Free Trade Agreement (“NAFTA”) remanded the Commission’s determination in Hard Red Spring Wheat from Canada, Inv. Nos. 701-TA-430B and 731-TA-1019B (Final), USITC Pub. 3639 (October 2003). The Panel ordered the Commission to issue a new determination consistent with a nine-part set of instructions.<sup>1</sup> Upon consideration of the record, the Panel’s decision, and its remand instructions, we determine that an industry in the United States is not materially injured, or threatened with material injury, by reason of imports of hard red spring wheat (“HRS wheat”) from Canada found to be subsidized and sold in the United States at less than fair value (“LTFV”).<sup>2</sup>

### I. Background

In October 2003, the Commission determined that an industry in the United States was materially injured by reason of imports of HRS wheat from Canada found to be subsidized and sold in the United States at LTFV.<sup>3</sup> Respondent parties subsequently challenged the Commission’s final determination before a NAFTA Article 1904 Binational Panel.<sup>4</sup> After receiving the Panel decision, the Commission gave notice of its intention to re-open the record to gather data responsive to the Panel’s instructions.<sup>5</sup> The Panel subsequently granted the Commission’s request to extend the period for completion of the remand views by 30 days to October 5, 2005.

### II. Adoption and Summary of Portions of Prior Views

Each Commissioner participating in this remand investigation has reviewed the entire record, as supplemented, in light of the Panel decision and instructions on remand. Based on that consideration, the Commission determines to adopt and incorporate by reference the “Dissenting Views of Chairman Deanna Tanner Okun and Commissioner Stephen Koplan,”<sup>6</sup> as well as sections I, II, III.A, and III.B of the Commission majority’s original views.<sup>7</sup>

We provide additional explanation of our determination here as well. For the most part, the record as supplemented on remand is not materially different than the record before the Commission in the original investigations. Nevertheless, some of the newly gathered data merits discussion for the sake

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<sup>1</sup> Hard Red Spring Wheat from Canada, Secretariat File No. USA-CDA-2003-1904-06 (Panel Decision of June 7, 2005) (Panelist Maureen Irish dissenting in part).

<sup>2</sup> Commissioner Jennifer A. Hillman dissenting. See Dissenting Views of Commissioner Jennifer A. Hillman. Commissioner Shara L. Aranoff is recused from this remand determination.

<sup>3</sup> Durum and Hard Red Spring Wheat from Canada, Inv. Nos. 701-TA-430A and 430B and 731-TA-1019A and 1019B (Final), USITC Pub. 3639 (October 2003) (“USITC Pub. 3639”). Commissioners Hillman and Miller voted in the affirmative. Chairman Koplan and Vice Chairman Okun dissented. Commissioner Lane did not participate.

<sup>4</sup> Two parties filed complaints with the NAFTA Secretariat – the Canadian Wheat Board and the North American Millers’ Association.

<sup>5</sup> 70 *Fed. Reg.* 38981 (July 6, 2005).

<sup>6</sup> At the time of the original determination, Chairman Koplan was serving as a Commissioner, and Vice Chairman Okun was serving as Chairman. While Commissioners Lane and Pearson did not participate in the original determination, they participate in this remand determination.

<sup>7</sup> The adoption of the dissenting views and portions of the majority views from the original investigations does not extend to any statements that are inconsistent with the additional explanation provided in these remand views.

of completeness.

We also provide explanation pertaining to the remand instructions issued by the Panel. While these instructions were directed to the Commission's affirmative material injury determination in the original investigations, certain aspects of them could be understood to warrant additional explanation of the dissenting views as well. Generally, however, the Panel's instructions pertain to aspects of the majority's determination that are not in question here given our negative determination.

In order to establish the context in which the additional explanation is provided, we summarize briefly the findings adopted and incorporated by reference here. However, the omission of facts or analysis here does not signal an intent to narrow the basis of our determination.

The Department of Commerce defined the merchandise subject to these investigations as "all varieties of hard red spring wheat from Canada. This includes, but is not limited to, varieties commonly referred to as Canada Western Red Spring, Canada Western Extra Strong, and Canada Prairie Spring Red."<sup>8</sup> The Commission defined the domestic like product corresponding to the subject merchandise as hard red spring wheat.<sup>9 10</sup> The Commission declined to define the like product to include hard red winter wheat, based on differences between the two classes of wheat in terms of physical characteristics, uses, the growers producing the wheat, and other factors.<sup>11</sup> The Commission defined the domestic industry as the growers of HRS wheat.<sup>12</sup>

The Commission addressed various conditions of competition characterizing the market for HRS wheat, including factors influencing supply and demand of HRS wheat.<sup>13</sup> The Commission also found that HRS wheat grown in the United States and Canada is largely interchangeable, that HRS wheat is a widely traded commodity, and that the Minneapolis Grain Exchange is the primary source of information regarding prices of HRS wheat.<sup>14</sup> The Commission also observed that drought conditions adversely affected U.S. production in marketing year 2002/03.<sup>15</sup>

With respect to the volume of subject imports, the dissenting views, which we adopt, observed that subject imports from Canada declined in volume from 41 million bushels in marketing year 2000/01 to 11 million bushels in marketing year 2002/03.<sup>16</sup> The volume of HRS wheat from Canada likewise declined sharply relative to U.S. production and U.S. apparent consumption.<sup>17</sup> Accordingly, the dissenting Commissioners found that the volume of subject imports from Canada was not significant in absolute terms or relative to production or consumption in the United States.<sup>18</sup>

With respect to the price effects of the subject imports, the dissenting views noted that monthly underselling comparisons were performed on several different bases in response to arguments presented

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<sup>8</sup> 68 *Fed. Reg.* 52741, 52742 and 68 *Fed. Reg.* 52747, 52748 (September 5, 2003).

<sup>9</sup> USITC Pub. 3639 at 12.

<sup>10</sup> All Commissioners participating in the original investigations joined the discussion of the domestic like product, the domestic industry, and the conditions of competition. USITC Pub. 3639 at 3 n.1.

<sup>11</sup> USITC Pub. 3639 at 4-12.

<sup>12</sup> USITC Pub. 3639 at 12.

<sup>13</sup> USITC Pub. 3639 at 51, 14-19.

<sup>14</sup> USITC Pub. 3639 at 51, 21-23.

<sup>15</sup> USITC Pub. 3639 at 51, 19-20.

<sup>16</sup> USITC Pub. 3639 at 51.

<sup>17</sup> USITC Pub. 3639 at 51-52.

<sup>18</sup> USITC Pub. 3639 at 52.

by the parties.<sup>19</sup> Specifically, the parties argued that unadjusted price comparisons would be skewed by certain factors – principally transportation costs and protein content. The various price comparisons were supplemented by a statistical analysis of prices for domestic and Canadian HRS wheat over the period examined. This statistical analysis addressed certain factors with the potential to affect prices that could not be addressed in the monthly comparisons.

The dissenting views found that adjusted price comparisons revealed mixed underselling. As those views noted, the data also showed that the estimated mean price for domestic grade number 1 HRS wheat was lower, but not statistically different than, the estimated mean price for subject number 1 HRS wheat.<sup>20</sup> The record showed that the estimated mean price for grade number 2 HRS wheat was statistically less than the mean estimated price of comparably graded HRS wheat from Canada.<sup>21</sup> The views also observed that there was no underselling among the adjusted price comparisons after August 2002.<sup>22</sup> On these bases, the dissenting Commissioners found that price underselling by the subject imports was not significant.<sup>23</sup>

The dissenting views also noted that the record evidence did not show price depression or price suppression.<sup>24</sup> Prices for HRS wheat fluctuated early in the period examined, then increased and remained generally high during crop year 2002/03.<sup>25</sup> Farm prices for HRS wheat declined only slightly from \$2.94 per bushel in marketing year 2000/01 to \$2.89 per bushel in marketing year 2001/02, before rising sharply to \$3.84 per bushel in marketing year 2002/03.<sup>26</sup> Nor was there evidence that subject imports prevented price increases, which otherwise would have occurred, to a significant degree. Not only did prices rise, but the record did not suggest a pattern of rising costs leading to a “cost-price squeeze.”<sup>27</sup> Total direct and overhead expenses declined over the period examined for producers in the primary HRS wheat-growing states.<sup>28</sup>

With respect to the impact of the subject imports on the domestic industry, the dissenting views noted the unique analytic challenges posed in many investigations of agricultural imports, including the present one.<sup>29</sup> They examined a wide variety of factors bearing on the state of the domestic HRS wheat industry.<sup>30</sup> With respect to the financial state of the domestic industry, the dissenting views noted that domestic wheat growers generally generated positive net returns (without government payments) in 2000, while net returns declined to a breakeven point or lower during 2001, as total product returns fell from peak levels, and total direct and overhead expenses increased.<sup>31</sup> In 2002, net returns increased, as declining total product returns (as result of lower per acre yields due to drought conditions) were more

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<sup>19</sup> USITC Pub. 3639 at 53-54.

<sup>20</sup> USITC Pub. 3639 at 54.

<sup>21</sup> USITC Pub. 3639 at 54.

<sup>22</sup> USITC Pub. 3639 at 54-55.

<sup>23</sup> USITC Pub. 3639 at 55.

<sup>24</sup> USITC Pub. 3639 at 55.

<sup>25</sup> USITC Pub. 3639 at 55-56.

<sup>26</sup> USITC Pub. 3639 at 55.

<sup>27</sup> USITC Pub. 3639 at 56.

<sup>28</sup> USITC Pub. 3639 at 56.

<sup>29</sup> USITC Pub. 3639 at 57.

<sup>30</sup> USITC Pub. 3639 at 57-59.

<sup>31</sup> USITC Pub. 3639 at 58-59.

than offset by declining expenses and increasing miscellaneous income.<sup>32</sup> The dissenting Commissioners concluded that import trends precluded it from attributing even the temporary financial decline in 2001 to subject imports.<sup>33</sup>

Based on its analysis of the significance of the volume, price effects, and impact of subject imports, the dissenting Commissioners determined that the HRS wheat industry in the United States was not materially injured by reason of subject imports from Canada.

With respect to the determination as to the threat of material injury, the dissenting views were based on an examination of each of the relevant statutory factors.<sup>34</sup> The dissenting views observed that the United States did not account for the majority of shipments of HRS wheat by the subject Canadian producers and that the Canadian home market accounted for an increasing share of Canadian HRS wheat shipments.<sup>35</sup> They found that there was not a likelihood of a substantially increased volume of subject imports in the imminent future.<sup>36</sup> The dissenting views observed that Canadian producers' shipments declined relative to U.S. apparent consumption.<sup>37</sup> They found that the record indicates that the volume of subject imports is likely to be greater than the low level experienced in marketing year 2002/03, but not likely to reach the level of marketing year 2000/01, given lower production, lower available stocks, export commitments to third-country markets, and limits on product-shifting by Canadian producers in the imminent future.<sup>38</sup>

The dissenting views found no evidence that subject HRS wheat is likely to enter the United States at prices likely to have a significant depressing or suppressing effect on U.S. prices of HRS wheat.<sup>39</sup> The dissenting views observed that there has been no price underselling since August 2002 and that the estimated mean price of Canadian HRS wheat was higher than that for domestic HRS wheat in the U.S. market.<sup>40</sup> They noted that prices for domestic HRS wheat were near the highest levels observed at the end of the period examined, and that the U.S. Department of Agriculture projected a \$0.30 per bushel increase in overall wheat prices for the 2003/04 marketing year.<sup>41</sup> The dissenting views also noted the lack of evidence on the record suggesting a likely and imminent decline in the price of subject imports, particularly given smaller stocks in both the United States and Canada.<sup>42</sup>

On these bases and others, the dissenting views concluded that the HRS wheat industry in the United States is not threatened with material injury by reason of subject imports from Canada.<sup>43</sup>

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<sup>32</sup> USITC Pub. 3639 at 59.

<sup>33</sup> USITC Pub. 3639 at 59.

<sup>34</sup> USITC Pub. 3639 at 60.

<sup>35</sup> USITC Pub. 3639 at 61.

<sup>36</sup> USITC Pub. 3639 at 61.

<sup>37</sup> USITC Pub. 3639 at 61-62.

<sup>38</sup> USITC Pub. 3639 at 62.

<sup>39</sup> USITC Pub. 3639 at 63.

<sup>40</sup> USITC Pub. 3639 at 63.

<sup>41</sup> USITC Pub. 3639 at 63.

<sup>42</sup> USITC Pub. 3639 at 63.

<sup>43</sup> USITC Pub. 3639 at 63.

### III. DISCUSSION OF INFORMATION GATHERED ON REMAND

It is in the context of the views we adopt, as briefly summarized above, that we address certain newly gathered evidence on the record. As noted, the supplemental information generally does not materially alter the body of facts before the Commission at the time of its original determination, including with respect to our findings as to the domestic like product, the domestic industry, the conditions of competition, as well as the volume, price effects, and impact of the subject imports. The newly gathered data did affect both the frequency of underselling observed and, to a lesser extent, the estimated mean prices for number 1 and number 2 HRS wheat from the United States and Canada.

Consistent with the Panel's remand instructions, the Commission re-opened the record to gather additional information with respect to the data used in the Commission's underselling analysis. During the original investigations, the Commission collected pricing data for HRS wheat on a number of different bases. In order to account for price differences arising as a result of differences in transportation costs, pricing data were collected on a plant/company-specific basis,<sup>44</sup> as well as on a Minneapolis basis.<sup>45</sup> The Commission also used a statistical analysis to estimate the effects of different factors on mean prices for number 1 and number 2 HRS wheat from the United States and Canada, during the entire period examined. Those estimated prices accounted for the effects of additional attributes, such as dockage, protein content, and test weight, on prices.<sup>46</sup>

In its review decision, the Panel instructed the Commission to explain in greater detail the prices used in the price comparisons, particularly whether the prices used were for sales made at the same level of trade.<sup>47</sup> During the remand proceeding, the Commission sent questionnaires to each industry participant that had supplied prices used in the adjusted company-specific and Minneapolis comparisons. The questionnaire responses confirmed that the prices used were purchase prices reported by millers, which purchased from grain elevators as well as from large grain trading firms. The questionnaire responses also revealed that certain prices used in the original price comparisons were for sales between related parties.<sup>48</sup> These related-party data were removed from those used in the underselling analysis because they are not necessarily indicative of prices in arm's length transactions.<sup>49</sup> While the exclusion of these data results in a greater frequency of price underselling by subject imports than was observed in the original investigations, the record continues to support our finding that such underselling is not significant in this investigation.

As noted, the price comparisons examined here are based on prices reported by millers for their

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<sup>44</sup> USITC Pub. 3639 at 53, V-12.

<sup>45</sup> USITC Pub. 3639 at 53. In gathering prices on a Minneapolis basis, the Commission considered pricing data for purchases occurring in the Minneapolis area, and purchases where reported transportation costs between Minneapolis and another location enabled an adjustment to reflect the value at Minneapolis. See USITC Pub. 3639 at V-12 to V-13.

<sup>46</sup> USITC Pub. 3639 at 53-54.

<sup>47</sup> Panel decision at 66. As the panel noted, subject HRS wheat from Canada competes with the domestic product for sales to millers. Domestic producers of HRS wheat generally do not sell directly to millers, but rather to grain elevators. Grain elevators, in turn, mainly sell domestic HRS wheat to grain trading firms, millers, or integrated grain trading and milling concerns. Domestic HRS wheat sold to grain trading firms is sold to millers and to export markets. Memorandum INV-CC-126 (August 16, 2005) ("Remand Staff Report") at II-1. The Panel instructed the Commission to clarify whether the prices used in the price underselling comparisons occurred at the same level of trade.

<sup>48</sup> Remand Staff Report at III-9.

<sup>49</sup> Remand Staff Report at III-9.

purchases of domestic HRS wheat and the subject HRS wheat imported from Canada. For domestic HRS wheat, the reported prices include those from transactions in which the product was purchased from grain elevators and transactions in which the product was purchased from grain trading companies. In making price comparisons with subject imports from Canada, we have considered, separately, prices for purchases from domestic grain elevators, purchases from domestic grain trading companies, and combined data for sales by both grain elevators and grain trading companies. As discussed below, the data show no significant distinctions in the comparisons as a result of the identity of the seller of the domestic HRS wheat.<sup>50</sup>

In price comparisons specific to U.S. miller \*\*\*, the subject imports undersold the domestic product in 1 of 3 comparisons based on elevator prices, 1 of 2 comparisons based on grain trading firm prices, and 2 of 4 price comparisons involving combined data for number 1 HRS wheat.<sup>51</sup> In comparisons specific to U.S. miller \*\*\*, the subject imports undersold the domestic product in 11 of 14 price comparisons involving Grade No. 2 HRS wheat.<sup>52</sup>

For number 1 HRS wheat purchased on a Minneapolis basis, subject imports undersold the domestic product in 8 of 11 comparisons using grain elevator prices, 9 of 11 comparisons using grain trading companies prices, and 8 of 11 comparisons using the combined data.<sup>53</sup> For number 2 HRS wheat on a Minneapolis basis, subject imports undersold the domestic like product in 2 of 4 comparisons using grain elevator prices, 9 of 16 comparisons using prices from purchases from grain trading companies, and 8 of 16 comparisons using the combined data.<sup>54</sup>

While the frequency of underselling based on the supplemented record is greater than that observed in the original investigations, the estimated mean prices for subject and domestic number 1 and 2 HRS wheat over the period investigated remain very similar. As noted, these estimated mean prices adjust for differences in dockage, protein content, and test weight – variables that are not accounted for in the transportation-adjusted comparisons discussed above.

In the original investigations, for both grade number 1 and grade number 2 HRS wheat, the estimated mean price for HRS wheat from Canada was higher than the estimated mean price for domestic HRS wheat, although the difference between the estimated mean prices for number 1 HRS wheat was too small to be statistically significant.<sup>55</sup> In the remand investigation, the revised estimated mean prices are approximately \$142.98 per metric ton for number 1 HRS wheat from Canada and approximately \$144.18 per metric ton for domestically produced number 1 HRS wheat.<sup>56</sup> While the revised estimated mean price for number 1 HRS wheat from Canada is now lower than the revised estimate for domestic number 1 HRS wheat, the difference remains too small to be statistically significant.<sup>57</sup> For number 2 HRS wheat, the revised estimated mean price for HRS wheat from Canada remains higher, at \$146.01 per metric ton, than the revised estimated mean price of \$141.70 per metric ton for domestic HRS wheat, although that

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<sup>50</sup> Given that the Commission placed little weight on conventional, unadjusted price comparisons in the original investigations, the industry participants that supplied the prices used in those comparisons to the Commission were not asked to clarify the identity of the seller during the remand investigation.

<sup>51</sup> Remand Staff Report at Table III-5.

<sup>52</sup> Remand Staff Report at Table III-7.

<sup>53</sup> Remand Staff Report at Table III-4.

<sup>54</sup> Remand Staff Report at Table III-6.

<sup>55</sup> USITC Pub. 3639 at 54.

<sup>56</sup> Remand Staff Report at III-18.

<sup>57</sup> Remand Staff Report at III-18 to III-19.

difference is now too small to be statistically significant.<sup>58</sup> In sum, while the frequency of underselling shown on the supplemented record is greater than that observed previously, the estimated mean prices remain relatively unchanged.

Also unchanged is that very few of the observed instances of underselling occurred in the last marketing year examined in this investigation (3 of 59 underselling observations).<sup>59</sup> No underselling was observed with respect to plant/company specific comparisons for \*\*\* after September 2001, and none for \*\*\* comparisons since April 2002.<sup>60</sup> There has been no underselling by subject imports of number 1 HRS wheat compared on a Minneapolis basis since August 2002, and none for number 2 HRS wheat compared on a Minneapolis basis since March 2002.<sup>61</sup>

While the observed underselling is high enough in frequency that it might have been significant under other circumstances, we find it is not significant here given that the estimated mean prices for domestic and subject HRS wheat are not statistically different, and (more importantly) that there was very little underselling during the last crop year examined in this remand investigation. Our finding that the volume of subject imports is not significant lends additional support to our conclusion that price underselling is not significant in this remand investigation.<sup>62 63</sup>

In response to the Panel's instructions, the Commission sought additional information from market participants as to another issue – whether farm prices for HRS wheat were affected by the filing of the petition on HRS wheat from Canada.<sup>64</sup> A majority of both grain elevator associations and grain trading firms that responded to the questionnaires indicated that the filing of the petition did not affect HRS wheat prices.<sup>65</sup> Moreover, as noted in the dissenting views, our analysis of the data lead us to conclude that changes in the volume of subject imports from Canada are not clearly related to the filing of the petition.<sup>66</sup> Accordingly, the newly gathered data lends further support for our finding.<sup>67 68</sup>

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<sup>58</sup> Remand Staff Report at III-19.

<sup>59</sup> Remand Staff Report at Tables III-4 to III-7.

<sup>60</sup> Remand Staff Report at Tables III-5 and III-7.

<sup>61</sup> Remand Staff Report at Tables III-4 and III-6.

<sup>62</sup> The remand record includes reports from grain trading companies and grain elevator associations generally indicating that all or most price effects occurring at the mill level translate back to domestic producers (farmers). Remand Staff Report at II-5 to II-6. This evidence does not undermine our finding that underselling was not significant, given that the mean estimated prices for subject and domestic HRS wheat were not statistically different, there was very little underselling during the last crop year of the period examined, and the volume of subject imports was not significant.

<sup>63</sup> The new data similarly do not undermine our analysis with respect to the threat of material injury. See USITC Pub. 3639 at 60-63.

<sup>64</sup> Panel decision at 65.

<sup>65</sup> Remand Staff Report at Table II-2.

<sup>66</sup> USITC Pub. 3639 at 52 n.408.

<sup>67</sup> We note with concern the Panel's discussion of what data may be accorded less weight under the post-petition data provision. The statute provides that if there is any petition-related change in the "volume, price effects, or impact of the [subject] imports," then the Commission may "reduce the weight accorded to the data for the period after the filing of the petition . . ." 19 U.S.C. § 1677(7)(I). Thus, the statute expressly defines the data that may be accorded less weight as the data for the post-petition period. The Panel, however, opines that a petition-related change in the volume of subject imports permits according less weight to post-petition data relating to volume only. Panel decision at 26. That factor-specific view ignores the fact that the volume, price effects, and impact of subject  
(continued...)

We have also considered the other newly gathered information, but find that none of it materially alters the analysis that we adopt. Accordingly, we decline to discuss the other evidence, consistent with our defined obligations to explain the reasons for our determination.

#### IV. Discussion Relating to Panel Decision and Remand Instructions

As noted, the Panel's decision and remand instructions were directed to the affirmative determination of the Commission majority in the original investigations. Nevertheless, we have considered whether any instruction could be construed to relate to the present negative determination.

The Panel remanded with instructions to further "[e]xamine exports of domestically-produced HRS wheat . . . [and] competition in third-country markets."<sup>69</sup> During the remand investigation, the Commission asked grain traders to identify how and when any changes in competition in export markets for HRS wheat affected HRS wheat prices in the United States.<sup>70</sup> The parties were also given opportunities to submit comments on the remand record. Nevertheless, no changes in competition in third-country markets were identified beyond the effects of drought, which were addressed in the original investigations. Accordingly, we have examined effects in third country markets that could affect our analysis.<sup>71</sup>

The Panel also instructed the Commission majority to explain "why yields per acre and farm prices are the most relevant factors in determining the financial state of the domestic industry."<sup>72</sup> By way of explanation, yields per acre and farm prices are among the elements incorporated in the calculation of "net returns," which we examined in our analysis of the impact of subject imports. "Net returns" represents reported income minus reported expenses.<sup>73</sup> Income falls into the categories "total product return" and "miscellaneous income."

With respect to the Panel's instruction, "total product return," which usually accounts for most of

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<sup>67</sup> (...continued)

imports are often interrelated, so that a factor-specific approach to weighing post-petition data would frequently not be meaningful. Moreover, the Commission's interpretation of this provision is entitled to deference under Chevron U.S.A. Inc. v. Natural Resources Defense Council, Inc., 467 U.S. 837 (1984).

<sup>68</sup> We briefly address the fact that almost all responding grain elevator associations indicated that increased volumes of HRS wheat imported from Canada affected domestic prices for HRS wheat. We note first that the same was reported by only 2 of 6 responding grain trading firms. Remand Staff Report at II-13 (responses of grain elevator associations) and at Table II-12 (responses of grain trading firms). Moreover, as discussed in the views we have adopted and incorporated by reference, the volume of subject imports declined sharply from 41 million bushels in crop year 2000/01 to 11 million bushels in crop year 2002/03, while the average farm price of HRS wheat increased from \$2.94 per bushel in crop year 2000/01 to \$3.84 per bushel in crop year 2002/03. Accordingly, any decreases in prices for HRS wheat observed by grain elevator associations that might have been the result of increased volumes of subject imports were short-lived and not significant in our view.

<sup>69</sup> Panel decision at 66.

<sup>70</sup> Remand Staff Report at II-16.

<sup>71</sup> See USITC Pub. 3639 at 50-62 (incorporating drought into analysis).

<sup>72</sup> Panel decision at 66. We do not consider the Panel's instruction to reconsider yield fluctuations to implicate any aspect of our views. Based on the Panel's decision, that instruction appears to pertain only to statements of the majority finding that fluctuations in per acre yields made the domestic industry highly sensitive to adverse price effects of subject imports.

<sup>73</sup> See USITC Pub. 3639 at, e.g., Table VI-3. Table VI-3 also exemplifies the other points expressed in the text above with relation to the calculation of net returns.

the producers' income, is derived by multiplying per acre yields by farm prices, and adding a much smaller sum representing loan deficiency payments. Accordingly, yields per acre and farm prices account for most of the positive side of the net return calculation, making them important to our consideration of the financial state of the domestic industry. We do not, however, consider these factors in isolation from the other factors affecting net returns.

### **CONCLUSION**

For the reasons contained in the views that we adopt, as further elaborated above, we determine that an industry in the United States is not materially injured, or threatened with material injury, by reason of imports of HRS wheat from Canada found to be subsidized and sold in the United States at LTFV.



## DISSENTING VIEWS OF COMMISSIONER JENNIFER A. HILLMAN

These views respond to a decision of a NAFTA panel remanding portions of the Commission's affirmative determination concerning hard red spring (HRS) wheat from Canada for further consideration. In response to the panel's decision, the Commission re-opened the record to gather certain additional information, and offered parties an opportunity to comment on the revised record.

As explained below, on remand I again determine that the domestic industry is materially injured by reason of subsidized and less-than-fair-value imports of HRS wheat from Canada. I address each of the issues identified by the Panel. Except as modified below, I re-adopt all of the findings of the Commission's original determination.

### A. Post-petition information<sup>1</sup>

In the original determination, the Commission found that subject imports increased from 41 million bushels in marketing year 2000/2001 to 46 million bushels in marketing year 2001/2002, and then dropped off sharply to only 11 million bushels in marketing year 2002/2003.<sup>2</sup> The Commission found that the increase in subject import volume from 2000/01 to 2001/02 was significant, but determined to give less weight to the subsequent decline in 2002/03 because it appeared to have been caused in large part by the September 13, 2002 filing of the petition requesting initiation of the current investigations.

In deciding that the petition had suppressed subject import volumes, the Commission relied primarily on the following record information: (1) subject imports fell off sharply in October 2002, the month following the filing of the petition, and thereafter were at minor levels; (2) certain large purchasers specifically cited the investigation as a reason why their purchases of imports from Canada fell; and (3) the percentage decrease in subject imports was \*\*\* the percentage decrease in exports from Canada to other world markets (\*\* percent versus \*\* percent).<sup>3</sup>

The Panel does not take issue with the Commission's decision to give less weight to the data on subject import volume in 2002/03. However, the Panel remanded two issues with regard to post-petition information to the Commission for further consideration. First, the Panel found that the Commission had not adequately shown that the filing of the petition had had an effect on the price effects of the subject imports, separate from the effects on subject import volume. Second, the Panel found that the Commission had not adequately demonstrated how it had given the post-petition information at least *some* weight, albeit reduced weight, in its analysis.

With regard to the first issue, it appears that the Panel's instructions are premised on an incorrect interpretation of the statute. I will not delve deeply into this issue here. Suffice it to say that the Commission spoke clearly on this issue in its recent decision on remand in *Wire Rod from Canada*. There the Commission stated that it disagreed with the view that the statute "requires us to consider separately whether significant changes in all three statutory factors (volume, price effects, and impact) are related to

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<sup>1</sup> This section responds to issues 1 and 2 remanded by the Panel. Panel Report at 65.

<sup>2</sup> Commission Determination at 61. Marketing years for HRS wheat run from June 1 in one year to May 31 in the following year.

<sup>3</sup> Commission Determination at 63. The ability of the petition to have a strong impact on subject imports is facilitated by the status of the Canadian Wheat Board (CWB) as the only seller of Canadian produced HRS wheat. Unlike some industries involving multiple suppliers, the CWB's decision on where to direct its product in response to events (including the filing of the petition in this case) will quickly and uniformly determine overall trade flows of Canadian HRS wheat.

the pendency of the investigation in order to discount, respectively, volume data, price effects data, and impact data. The statute only states that the Commission must consider whether there has been ‘any change in the volume, price effects or impact of imports of the subject merchandise’ since the filing of the petition, not a change with respect to each factor.”<sup>4</sup>

Thus, having determined that the subject import volumes were suppressed by the filing of the petition, the Commission was entitled to reduce the weight given to post-petition information generally, including information on price effects. Especially in cases such as this one involving a highly-substitutable commodity product, subject import volume and price effects are frequently closely intertwined. The drop in subject import volume after the petition was filed was so substantial that questionnaire respondents reported no pricing data for subject imports from September 2002 onwards.

Although I disagree with the Panel’s legal interpretation, I will proceed to address the information cited by the Panel as undercutting a finding that the filing of the petition affected the price effects of subject imports. The Commission specifically addressed the issue of the effect of the petition on prices in its original determination. There it noted that farm prices increased substantially from August 2002 (prior to the filing of the petition) to October 2002 (after the filing of the petition), and then declined somewhat but remained at levels above levels of comparable months in 2001. The Commission observed that the fact that prices peaked in the month just after filing was evidence of the effects of the petition itself.<sup>5</sup>

The Panel claims that the data show substantial increases in U.S. prices in August and September 2002, but little or no increase in October 2002.<sup>6</sup> However, the Panel appears to be referring to a different set of pricing data than the set relied upon by the Commission in its opinion. The Commission cited monthly farm price data reported by USDA, whereas the Panel examined data on downstream purchases by millers from grain elevators and grain trading companies. No party challenged the Commission’s use of the farm price data. It is not clear why the Panel chose to examine data that were not relied upon by the Commission in making its determination. The USDA data show a 3.9 percent increase in prices from September to October 2002, compared to a 0.5 percent increase in the data cited by the Panel.<sup>7</sup>

I continue to find that the increase in farm prices from August 2002 to October 2002 is evidence of the effects of the petition. It is true that prices increased from June 2002 to August 2002 as well. This was prior to the filing of the petition, and may well have been the result of other factors such as news regarding the effects of drought conditions in Canada and the United States. The fact that other factors also affected prices does not mean that the filing of the petition did not have an important effect.

The Panel also faults the Commission for not addressing the fact that prices declined in the six months after October 2002, even in the absence of substantial imports from Canada.<sup>8</sup> In fact the Commission explicitly considered data after October 2002, observing that in the three months after the filing of the petition, prices remained well above prices in comparable months in 2001, when imports were still present in substantial quantities.<sup>9</sup> Thus the Commission addressed post-petition pricing trends,

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<sup>4</sup> *Carbon and Certain Alloy Steel Wire Rod from Canada*, Inv. No. 731-TA-954 (Final) (Remand), USITC Pub. 3730 (Oct. 2004) at 6 (footnotes omitted) (emphasis in original).

<sup>5</sup> Commission Determination at 69.

<sup>6</sup> Panel Report at 20.

<sup>7</sup> *Compare* First Staff Work Papers, Oct. 2, 2003, Table C, *with* Panel Report at 20. The 0.5 percent increase was for No. 1 HRS. The Panel observed that prices for No. 2 HRS actually declined 4.1 percent from September to October 2002.

<sup>8</sup> Panel Report at 22.

<sup>9</sup> Commission Determination at 69.

making clear its view that price levels in the latter part of 2002 were elevated from the previous year due, in part, to the absence of Canadian imports suppressing prices.

The second issue on post-petition data remanded by the Panel was for the Commission to clarify the manner in which it placed at least *some* reliance upon the post-petition information. The Panel indicated that, while the Commission could in an appropriate case choose to give no weight to post-petition data, this was not such a case given that the Commission acknowledged that drought conditions also had an effect on the volume and price effects of subject imports during a period that overlapped the filing of the petition.<sup>10</sup>

I note that the statute authorizes the Commission to give “less weight” to the post-petition information once it finds that the investigation has had the requisite effects. The statute does not require the Commission to specify precisely the quantum of reliance it has placed on the post-petition information as compared to information pertaining to prior periods. Nor am I aware of prior investigations in which the Commission has sought to do so.

Having said that, I do agree with the Panel that in a case such as this one in which another factor – in this case drought in Canada and the United States – has also had the effect of dampening import volume and raising prices in the post-petition period, it is appropriate not to completely discount the post-petition information. Accordingly, I have given the post-petition volume some weight in my analysis. This information shows lower subject import volumes and higher U.S. prices for HRS wheat, which would tend to support a negative determination. However, because I give this information substantially reduced weight (for the reasons described here and in the original Commission views), I do not find that the post-petition information is sufficient to outweigh the pre-petition information in the record indicating significant subject import volume and significant price effects caused by the subject imports.

## **B. Price effects<sup>11</sup>**

The circumstances of the HRS wheat market make evaluating the relative prices of U.S. and Canadian product challenging. U.S. farmers generally sell their wheat to grain elevators, who then typically resell to domestic mills or grain trading firms. Trading firms may either resell their product to U.S. mills, or export it. The Canadian Wheat Board (CWB) generally does not sell to elevators, but rather sells to mills and trading firms. Thus competition between subject imports and U.S. HRS wheat takes place at a level downstream from U.S. farmers. Other issues such as transportation costs and protein content can also affect the comparability of price data.

In the original investigation, the Commission went to great lengths to gather pricing data that reflected the level of actual competition between subject imports and domestic HRS wheat. In addition to monthly data from purchasers and importers of HRS wheat, the Commission compared prices of U.S. and Canadian HRS wheat purchased by individual large purchasers as well as those made on the basis of a Minneapolis delivery.<sup>12</sup>

The pattern of relative prices of U.S. and Canadian product varied somewhat by product, and by whether it was company-specific or place-specific, but generally showed underselling by the subject imports in approximately one-half of comparisons. For a highly price-sensitive commodity product, we found this frequency of underselling to be significant. We also considered a further statistical analysis

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<sup>10</sup> Panel Report at 25.

<sup>11</sup> This section addresses points 3, 4, 6, 7, 8 and 9 remanded by the Panel. Panel Report at 65-67.

<sup>12</sup> Original Staff Report at Tables V-6, V-7, V-12, V-13, V-14, V-15.

that sought to control for other factors, such as protein content, dockage and weight. We found that the results of this analysis were not inconsistent with a finding of significant underselling.<sup>13</sup>

The Panel affirmed our conclusion that underselling was significant in this market, recognizing that the Commission has significant discretion in evaluating the weight and significance of the evidence before it.<sup>14</sup> However, the Panel remanded several issues related to the Commission's data and analysis of underselling.

First, the Panel questioned whether the Commission had adequately ensured that price comparisons were at the same level of trade. The Panel observed that traders who buy U.S. wheat may subsequently compete with subject imports for sales further downstream. Thus, the Panel stated, sales by elevators to trading companies may not reflect the same level of trade as sales of subject imports to mills.<sup>15</sup> The Panel ordered the Commission to ensure that its data did reflect sales at the same level of trade. Second, the Panel ordered the Commission to address the extent to which price changes at the level of grain elevators were transmitted to farmers, who constitute the domestic industry.<sup>16</sup>

#### *Same level of trade*

In response to these concerns, the Commission re-opened the record to gather additional information concerning prices. The Commission clarified that the purchaser data was exclusively from mills and did not include purchases by trading companies. The Commission also discovered that some of the data involved sales between related parties. Consistent with prior practice, the Commission excluded those sales from our data set since they do not necessarily reflect transactions at market prices.<sup>17</sup> Thus the revised data resolve the concerns identified by the Panel over whether the pricing data reflects prices at the same level of trade. The Commission also obtained information from grain elevators and traders on the extent to which they transmit to their upstream suppliers the price changes they receive from their customers.

The revised pricing data show a slightly greater frequency of underselling than the data used in the original determination. Using combined elevator/trader sales to mills, there was underselling in 64 percent of observations.<sup>18</sup> In light of this revised data, I continue to find that underselling by subject imports of HRS wheat was significant. A statistical analysis controlling for protein content, dockage, and weight produced similar results as in the original determination, and thus is not inconsistent with a finding of significant underselling.<sup>19</sup>

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<sup>13</sup> Commission Determination at 67 and n.350.

<sup>14</sup> Panel Report at 37-38.

<sup>15</sup> Panel Report at 49-50.

<sup>16</sup> Panel Report at 66.

<sup>17</sup> Remand Staff Report at III-9.

<sup>18</sup> Calculated from Remand Staff Report, Tables III-4 through III-7.

<sup>19</sup> Remand Staff Report at III-18 through III-20.

### *Pass-through of price changes to farmers*

On the issue of pass-through of price changes from downstream sellers to farmers, most grain elevator associations stated that price changes received by elevators on their sales are passed back to farmers.<sup>20</sup> Similarly, the prevailing view of grain trading firms was that the competitiveness of the wheat market results in price changes being transmitted quickly and fully to their suppliers. This confirms that underselling at the level of purchases by mills is significant with respect to the farmers that produce the like product, and very quickly results in lower prices to the farmers.

### *Role of underselling*

The Panel also ordered the Commission to clarify what role underselling had in its findings of significant price depression and adverse impact.<sup>21</sup> For a highly-substitutable product, one would expect underselling to facilitate growth in import volume. This growth of imports, at relatively low prices, would naturally be expected to place downward pressure on wheat prices in the U.S. market.<sup>22</sup>

The link between changes in subject import volume and U.S. wheat prices can be seen from the pricing data. As the Commission observed in the original determination, there is an inverse correlation between the volume of subject imports and farm prices when the data are examined on a yearly or monthly basis. On a yearly basis, the average farm price fell from \$2.94 per bushel in 2000/01 to \$2.89 per bushel in 2001/02, as subject imports grew 11 percent from 41 million bushels to 46 million bushels, and increased their share of the U.S. market. On a monthly basis, for example, over the five-month period November through March, farm prices were lower, and subject imports higher, in 2001/02, as compared to the corresponding month in 2000/01.<sup>23</sup> Thus, the data demonstrate that Canadian HRS wheat, which was underselling U.S. wheat to a significant degree, gained sales and market share in the U.S. market, while U.S. prices were declining as a result of price pressure from Canadian HRS wheat.

Indeed, in my view, the evidence also supports a conclusion of significant price *suppression* in addition to price depression. As the Commission found in the original determination, the financial performance of farmers deteriorated substantially from 2000 to 2001. In addition to lower per-unit returns, the data show that rising costs between 2000 and 2001 were a substantial factor in lower overall farmer returns. The variance analysis generated by the Commission for purposes of this remand illustrates this effect.<sup>24</sup> Thus, at the same time that domestic producers were experiencing lower per-unit returns, they were being squeezed by higher costs. Thus the rising volume of subject imports had doubly damaging effects, by keeping prices low at a time of rising farmer costs.

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<sup>20</sup> Remand Staff Report at II-5, II-6.

<sup>21</sup> Panel Report at 38.

<sup>22</sup> In many markets, the effects of low-priced offers for subject imports can be seen directly, albeit anecdotally, through confirmed instances in which domestic producers lost sales or had to lower their prices in the face of import competition. As the Commission noted, one would not expect to see specific instances of lost sales and revenues in a commodity market such as the market for HRS wheat. Rather, the effects of underselling can be inferred.

<sup>23</sup> First Staff Work Papers, Tables A & C.

<sup>24</sup> Remand Staff Report at Appendix C. For several of the sets of farmer data, rising costs in 2001 had an even greater negative impact on overall returns than falling prices. Tables C-1D, C-1E.

### *Competition in third-country markets*

The Panel also faulted the Commission for not analyzing the effects of competition in third-country markets on domestic producers: “Just as downstream competition in the U.S. domestic market might be linked to upstream injury to U.S. farmers, so too could downstream competition in third-country markets be linked to the same upstream injury.”<sup>25</sup>

The Commission’s remand staff report presents data on exports from the United States to third country markets. Total U.S. exports of HRS wheat decreased from 227 million bushels in 2000/01 to 216 million bushels in 2001/02, then increased to 254 million bushels in 2002/03. As a share of U.S. HRS production, exports were 45 percent in both 2000/01 and 2001/02, and then grew substantially to 71 percent in 2002/03.<sup>26</sup> The share of U.S. production that is exported is high enough so that developments with respect to the export trade can have a significant effect on the fortunes of the U.S. industry.

However, there is nothing in the data to indicate that competition in export markets explain the injury experienced by the domestic industry. As noted, the injury is most apparent in examining trade data pertaining to 2001/02 and financial data pertaining to 2001, as compared to the immediately preceding marketing and calendar years. Between 2000/01 and 2001/02, U.S. exports remained at a constant 45 percent of domestic production. Moreover, the unit value of these export sales increased from 2000/01 to 2001/02.<sup>27</sup> This is in contrast to falling HRS wheat prices in the U.S. market. Thus the situation with respect to U.S. exports of HRS wheat did not change in an appreciably negative way so as to account for any of the declining trends in domestic industry indicators in 2001/02 and calendar year 2001.<sup>28</sup>

### *Role of the Minneapolis Grain Exchange (MGE)*

The Panel also faulted the Commission for what it views as an incomplete analysis of the role of the Minneapolis Grain Exchange (MGE) in establishing U.S. HRS wheat prices. Specifically, the Panel ordered the Commission to “[a]nalyze and explain how average farm prices for HRS wheat are based on the outcome of downstream transactions, and subject imports are large enough to impact HRS wheat prices on the futures market of the MGE, specifically taking into account the proprietary information found at page 56 of the CWB’s brief.”<sup>29</sup>

In the original determination, the Commission explicitly set out its views of the factors that influence U.S. market prices for HRS wheat:

Prices for HRS wheat are influenced by both global and local factors.  
Changes in global supply and demand affect prices worldwide, as  
demonstrated by the fact that prices for HRS wheat at different locations

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<sup>25</sup> Panel Report at 52.

<sup>26</sup> Remand Staff Report at Table II-3.

<sup>27</sup> USDA data, at Exhibit 6 of Petitioner’s Remand Comments (exports were \$3.46 per bushel in 2000/01, and \$3.61 per bushel in 2001/02).

<sup>28</sup> While the U.S. industry’s reliance on export sales grew substantially in 2002/03, as described above I have given data pertaining to this period substantially less weight in my analysis given the effects of the filing of the petition. In any event, industry financial performance was substantially improved in 2002 as compared to 2001.

<sup>29</sup> Panel Report at 66-67. One Panelist dissented from the Panel’s decision to remand on this issue. Panel Report at 62 n.158.

in the world tend to fluctuate in tandem. Local factors also influence prices of HRS wheat, as a result of changes in local supply and demand, which changes are independent of global trends. The trade-limiting effect of transportation costs results in “location economics,” with the result that HRS wheat flows to the best market with the least transportation cost. Events affecting supply and demand in local markets, therefore, cause local HRS wheat prices to change relative to prices in other markets around the world.<sup>30</sup>

As the Commission stated, both global and local factors affect wheat prices in the United States. Local factors play an important role for the simple reason that wheat has a relatively low value-to-weight ratio. The cost of transporting it can therefore be significant relative to the price that can be obtained for it. In the original determination the Commission cited various record sources that demonstrate the importance of local factors.

The additional information gathered in this remand further bolsters the support for the significance of local factors, including local supply, in setting the price for HRS wheat. All responding grain traders, and most responding elevator associations, agreed that wheat prices were affected by “supply and demand in a region served by a local grain elevator or group of elevators.”<sup>31</sup> It stands to reason that the number of wheat suppliers offering product to a purchaser at a particular time and delivery location would tend to impact the prices that the purchaser can obtain.

In the U.S. market, the MGE plays a key role in price discovery. As the Commission indicated in the original determination, the MGE is the primary source of information regarding prices of HRS wheat, and has a cash market, futures markets, and an options market.<sup>32</sup> Grain elevators and traders generally use MGE prices as a reference in setting the prices they pay for HRS wheat.<sup>33</sup> While prices in the MGE markets typically serve as a starting point, other factors play a role in setting the actual price for a particular transaction in a particular location. These include quality, protein-content, transportation, timing, as well as “supply and demand conditions at locations closer to the ultimate consumer.”<sup>34</sup> The difference between MGE and local cash prices is known as the “basis” and it can vary over time and by location.

With respect to the effect of subject imports on MGE wheat prices themselves, the Panel has asked the Commission to address whether “subject imports are large enough to impact HRS wheat prices on the futures market of the MGE, specifically taking into account the proprietary information found at page 56 of the CWB’s brief.”<sup>35</sup> The Panel was referring to comments by \*\*\* to the effect that Canadian wheat exports to the United States were insignificant because those exports accounted for only one percent of the total wheat trades at the MGE.<sup>36</sup> However, this fact alone does not mean that Canadian product does not affect MGE prices. The futures trade at the MGE is so large that it dwarfs even U.S. wheat production, which presumably affects MGE prices. MGE prices appear to be influenced by

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<sup>30</sup> Commission Determination at 65 n.338.

<sup>31</sup> Remand Staff Report at Table II-2.

<sup>32</sup> Commission Determination at 33.

<sup>33</sup> Remand Staff Report at II-6 to II-8.

<sup>34</sup> See Remand Staff Report at II-11.

<sup>35</sup> Panel Report at 66-67.

<sup>36</sup> Affidavit of \*\*\*, attached to NAMA Post-Hearing Brief at Exhibit 1.

various, generally global, factors of supply and demand. On the supply side, important factors appear to be production and inventory of the world's large wheat-producing regions, including Canada and the United States.<sup>37</sup>

It is less easy to establish that exports of HRS wheat from Canada to the United States specifically, as opposed to Canadian production of HRS wheat generally, influence MGE prices.<sup>38</sup> Exports to the United States represented roughly \*\*\* percent of total Canadian shipments of HRS wheat in the two marketing years prior to the filing of the petition.<sup>39</sup> Thus, these exports represented an important portion of the overall Canadian supply of HRS wheat, and as such, accounted for a portion of the impact of Canadian supply on MGE prices for HRS wheat.<sup>40</sup>

While I find that subject imports probably had some effect on MGE futures prices, I have relied mainly on the fact that U.S. HRS wheat prices are ultimately determined by a number of factors, including local supply and demand, and that MGE prices are merely a starting reference point, albeit an important one. This means that the role of the MGE futures markets does not insulate prices in the U.S. HRS wheat market from the price effects of subject imports.

### C. Impact<sup>41</sup>

The Panel also remanded the Commission's determination with respect to impact to further examine the issue of crop yields; specifically, the Panel ordered the Commission to "[p]rovide a new analysis of the impact of subject imports on the domestic industry, explaining and analyzing (a) how fluctuating yields may leave the domestic industry vulnerable as a result of price depression of the subject imports, (b) how yield fluctuations were accounted for, and (c) why yields per acre and farm prices are the most relevant factors in determining the financial state of the domestic industry."<sup>42</sup>

Before I address the merits of this issue, I wish to note that it is not clear to me why the Panel took up the issue of yields since neither of the parties challenging the determination before the Panel raised any issue regarding the Commission's analysis of yields. Rather, the parties' arguments were focused on the treatment of post-petition information and the Commission's findings of significant price effects, and only touched on impact to the extent that the Commission's impact finding was based on its price effects findings. The U.S. statute governing review of Commission's decisions by the Court of International Trade, into whose shoes a NAFTA panel steps in conducting its review, provides that "the decision of . . . the International Trade Commission is presumed to be correct [and that] [t]he burden of proving otherwise shall rest upon the party challenging such decision."<sup>43</sup> In the absence of any proof (or

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<sup>37</sup> Remand Staff Report at II-9.

<sup>38</sup> See Remand Staff Report at II-9.

<sup>39</sup> Original Staff Report at Table VII-2. The remaining shipments were sold in Canada or in third-country markets.

<sup>40</sup> The assertion of \*\*\* that it is supply generally, regardless of destination, that affects MGE prices is based on the erroneous assumption that all destination markets are fungible. It is not necessarily the case that HRS wheat diverted from one market could simply be moved to and absorbed by some other market. Transportation costs and other factors may make it infeasible or uneconomical to divert a particular volume of wheat from a closer market to a more distant one.

<sup>41</sup> This section addresses point 5 remanded by the Panel. Panel Report at 65-66.

<sup>42</sup> Panel Report at 65-66.

<sup>43</sup> 19 U.S.C. § 2639(a)(1). In contrast to its decision to remand the issue of yields in the absence of party argument, the Panel took the correct approach with respect to the domestic like product finding, which the Panel

even argument) offered by the challenging parties that the Commission's analysis of yields was incorrect, there was no basis for the Panel to find that the presumption of correctness as to that issue had been overcome.

Turning to the substance of the issue, the Commission explained in its determination that yields – *i.e.*, bushels harvested per acre planted – is an important determinant of industry financial performance: “Prices and yields determine total product return (except for the much smaller contribution of loan deficiency payments).”<sup>44</sup> These return factors, along with per acre costs, determine per acre industry profitability.

As the Commission found in the original determination, yields fell during the period of investigation, from 37.0 bushels per acre in 2000/01, to 34.6 bushels per acre in 2001/02, and to 28.2 bushels per acre in 2002/03.<sup>45</sup> Because declining yields means lower industry revenue, I have considered the extent to which falling yields have adversely impacted the domestic industry. I have focused on the first two marketing years since, as discussed above, subject import patterns and price effects were affected in 2002/03 by the filing of the petition.

Between 2000/01 and 2001/02, yields fell from 37.0 bushels to acre to 34.6 bushels per acre, or by 6.4 percent. This change in yield, while significant, is not large compared to year-to-year fluctuations in yield experienced by farmers over the last 20 years.<sup>46</sup> Thus, it does not seem reasonable to ascribe to the yield decline the large deterioration in industry financial condition from 2000 to 2001 (the calendar years most closely corresponding to those two marketing years). As the Commission observed, farmers went from solid profits in 2000 to break-even levels or even losses in 2001.<sup>47</sup>

As a way to analyze the relative effects of yield changes as compared to changes in prices and costs, the Commission generated a variance analysis in these remand proceedings. This analysis shows that, for four of six farmer groups, the negative effect of lower prices far exceeded the negative effects of declining yields from 2000 to 2001.<sup>48</sup> In two of the six groups, yield effects were greater than price effects, but negative price effects were still significant.

In sum, I find that while declining yields had a negative effect on the domestic industry's performance in 2001/02, this effect does not diminish the effect of falling prices. As explained above and in the Commission's prior views, subject imports at underselling prices were a key factor contributing to lower market prices that injured the domestic HRS wheat industry.

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declined to review because Complainants failed to pursue the argument in their briefs or at oral argument. Panel decision at 5 n.5.

<sup>44</sup> Commission Determination at 78.

<sup>45</sup> Original Staff Report at Table C-2.

<sup>46</sup> See Remand Staff Report at Table II-4 (annual yield changes varied, and often exceeded 10 percent).

<sup>47</sup> Commission Determination at 76.

<sup>48</sup> Remand Staff Report at Appendix C (since the financial data is on a per-acre basis, yield corresponds to “Volume” in the appendix tables).



## PART I: INTRODUCTION

### BACKGROUND

On October 20, 2003, the U.S. International Trade Commission (“Commission” or “USITC”) determined that an industry in the United States is materially injured by reason of imports from Canada of hard red spring wheat (“HRS wheat”) that were found by the Department of Commerce (“Commerce”) to be subsidized by the Government of Canada and sold in the United States at less than fair value (“LTFV”).<sup>1</sup>

On November 24, 2003, the Canadian Wheat Board (“CWB”) filed a request for a panel review with the U.S. Section of the North American Free Trade Agreement (“NAFTA”) Secretariat in accordance with Rule 34 of the NAFTA Article 1904 Panel Rules. On December 23, 2003, the CWB and the North American Millers’ Association (“NAMA”) filed complaints in accordance with Rule 39 of the Panel Rules. The CWB and NAMA alleged in their complaints that the Commission’s final injury determination was unsupported by substantial evidence.

On June 7, 2005, the NAFTA Panel remanded the Commission’s affirmative present material injury determination with regard to HRS wheat. The Panel directed the Commission to issue a remand determination consistent with its instructions. Among these instructions, the Panel instructed the Commission to reconsider its treatment of post-petition data, as well as issues relating to price underselling, price depression, the causal relationship of such price effects, and the impact of subject imports on the domestic industry. The NAFTA Panel instructed the Commission to submit its remand determination to the Panel by October 5, 2005.<sup>2</sup>

### SUMMARY OF PROCEEDING

Information relating to the remand proceeding is provided below.<sup>3</sup>

<u>Date</u>	<u>Action</u>
June 7, 2005 . . . . .	Remand order issued by NAFTA Panel (Secretariat File No. USA-CDA-2003-1904-06)
June 29 . . . . .	Commission issues notice of remand proceedings, noting its intent to re-open the record (70 F.R. 38981, July 6, 2005)
July 5 . . . . .	Supplemental information requested of millers, grain traders, grain elevator associations, and other parties and non-parties
July 18 . . . . .	Commission issues revised scheduling notice, extending deadline for remand determination by 30 days (70 F.R. 42381, July 22, 2005)

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<sup>1</sup> *Durum and Hard Red Spring Wheat from Canada*, Invs. Nos. 701-TA-430A-430B and 731-TA-1019A-1019B (Final), USITC Publication 3639 (October 2003), p. 1. Vice Chairman Jennifer A. Hillman and Commissioner Marcia E. Miller made affirmative determinations. Chairman Deanna Tanner Okun and Commissioner Stephen Koplan made negative determinations. Commissioner Charlotte R. Lane did not participate and Commissioner Daniel R. Pearson was not sworn in until after the determinations were approved by the Commission.

The Commission also issued an unanimous negative determination with regard to durum wheat from Canada.

<sup>2</sup> The original deadline was within 90 days or by September 6, 2005. The Panel, however, granted the Commission’s request for an extension of time by 30 days, or by October 5, 2005. *Hard Red Spring Wheat from Canada: Notice of Revised Schedule for Remand Proceeding*, 70 F.R. 42381 (July 22, 2005).

<sup>3</sup> *Federal Register* notices cited in the tabulation are presented in app. A.

August 16 . . . . . Commission’s remand staff report  
August 23 . . . . . Submission of briefs by parties  
August 31 . . . . . Closing of the record  
September 2 . . . . . Final comments of the parties to the Commission  
October 5, 2005 . . . . Transmittal of the Commission’s determination and views to the NAFTA Panel

As discussed above, the NAFTA Panel instructed the Commission to explain certain findings and to examine and analyze elements of the record in the original investigations. The Commission re-opened the record and took several steps to comply with the Panel’s instructions, such as issuing questionnaires to millers, grain traders, and grain elevator associations, as well as a more directed inquiry to \*\*\*; conducting a literature review of relevant research; and providing additional analysis of existing and revised data. The information collected in this remand proceeding is summarized in parts II and III and appendixes B and C of this report.<sup>4</sup>

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<sup>4</sup> In addition, the Commission solicited submissions by parties to the original investigations. Both petitioners and the Canadian Wheat Board filed supplemental information with the Commission on July 21, 2005.

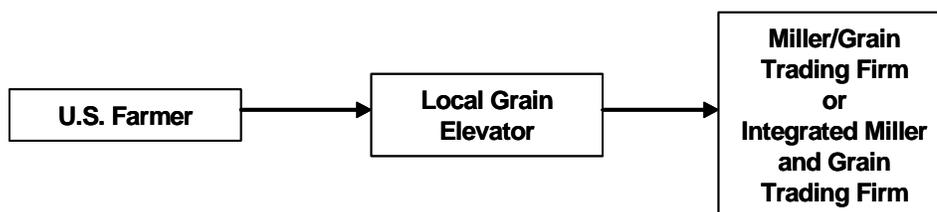
## PART II: MARKET CONSIDERATIONS

### CHANNELS OF DISTRIBUTION

Questionnaires to grain traders and to grain elevator associations asked if the pathway depicted in figure II-1 accurately described the primary channels through which hard red spring wheat is marketed in the United States. All 16 responding grain elevator associations and 6 grain traders agreed that it is accurate for most sales of domestically produced wheat.

**Figure II-1**

**Hard red spring wheat: Pathway through which hard red spring wheat is marketed in the United States**



Source: Testimony of Richard O’Cunningham, on behalf of CWB, Commission hearing, September 4, 2003, chart #6.

Farmers usually truck hard red spring wheat to country elevators where it is graded and stored. Country elevators, which often also dry and condition wheat, use a variety of payment and transportation arrangements with their suppliers.<sup>1</sup> Country elevators sometimes ship grain directly to ports using large shuttle trains, but they also ship to millers, feedlots, and larger river and rail-terminal elevators.<sup>2</sup> River and rail-terminal elevators receive grain from both country elevators and directly from farmers. All elevators may ship to domestic buyers, such as millers or feedlots. Wheat bound for export typically passes through port elevators, which usually purchase grain from other elevators but occasionally buy from local producers.

Grain elevators operate on the difference between their costs and the revenue received from the sale of cleaned and elevated grain.<sup>3</sup> Other than the purchase of wheat, their major costs of operation are those associated with drying, cleaning, weighing, grading, and elevating the grain taken from farm trucks into the elevator, and moving grain onto railcars, as well as marketing and selling. Elevators are capital intensive operations and intensive users of energy, such as electricity or methane gas for drying and

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<sup>1</sup> ERS/USDA, “Cargill’s Acquisition of Continental Grain: Anatomy of a Merger,” *Agricultural Outlook*, September 1999, p. 21. Wheat destined for export may change ownership several times between the farmer and the port.

<sup>2</sup> Over the past decade trains with a greater number of cars have increasingly been used to transport wheat, according to Marvin Prate, Agricultural Marketing Service, Transportation Services Branch, USDA. While 54-car trains are perhaps most common, there are 110 car trains, called shuttles, with engines on the front and back for easier turn-around, which are dedicated solely to grain transport. Each rail car holds about 3,700 bushels, so a shuttle train would hold about 0.4 million bushels. \*\*\* estimated in a telephone interview that it costs about \$12 to \$16 million to construct an elevator large enough to service a shuttle train. As train size has increased, so has elevator size.

<sup>3</sup> William Wilson, “Changes in Grain Marketing Industries in the United States and Canada,” in Won W. Koo and William W. Wilson, eds., *Agricultural Trade under CUSTA* (Hauppauge, NY: Nova Science Publishers, Inc., 2002).

movement of the grain. Some grain elevators' costs can be offset by the sale of grain waste or "screening" to feedlots.<sup>4</sup>

A 1998 survey of North Dakota grain elevators and grain handlers indicated that the total cost of elevating and cleaning grain averaged 18 cents per bushel; this was equivalent to 5 percent of the hard red spring wheat average farm price of \$3.52 per bushel received in 1997/98.<sup>5</sup> Thus, the actual cost of receiving grain at a North Dakota farm elevator and transforming it into graded, grain loaded at a major grain terminal averaged about 18 cents per bushel in 1998, of which 10 cents were for elevation at the country elevator, 4 cents for terminal elevation, and 4 cents for cleaning.

Grain elevator associations and grain traders were asked if subject Canadian wheat moved from the farmer to the Canadian Wheat Board and then to U.S. millers or grain trading firms. All six responding grain traders and nine responding grain elevator associations responded affirmatively. A tenth elevator association (\*\*\*) responded "yes and no" and remarked that some U.S. elevators apparently buy Canadian wheat in a similar way that they buy from U.S. farmers.<sup>6</sup>

The six firms that responded to the Commission's grain traders questionnaire reported that they purchased hard red spring wheat from independent and related elevators and other U.S. wheat traders during marketing years 2000/01 through 2002/03. Only two of the six reporting firms stated that they had purchased from the CWB. Two firms (\*\*\*) reported that they had purchased directly from growers. \*\*\* reported that it had also purchased from affiliated cooperatives.

Grain elevator associations were asked to identify the types of their customers and to estimate the percent of total sales to each type. Simple mean responses were 36.3 percent to millers, 62.0 percent to grain trading companies, and 1.7 percent directly to exports or to feedlots.

Grain traders were asked to estimate their average share (by volume) of hard red spring wheat that was sold in different markets during marketing years 2000/01 through 2002/03. Mean responses were 30.7 percent to U.S. millers, 44.3 percent to export markets, and the remainder to internal consumption for milling into flour. \*\*\* reported that virtually all of its sales were to U.S. millers; \*\*\* and \*\*\* reported that most (\*\*\* and \*\*\* percent, respectively,) of their sales during this time were to export markets. \*\*\* reported that \*\*\* percent of its sales went to flour production to make its own products; \*\*\* reported that \*\*\* percent of its hard red spring wheat was ground into flour at its own mills.<sup>7</sup> None of these firms reported sales to feedlots.

## MARKET STRUCTURE

Concentration has increased over time both in grain storage and in grain trading. Archer Daniels Midland and Cargill, the two firms with the largest grain storage capacity in 2000, greatly expanded their capacity between 1990 and 2000,<sup>8</sup> although because of the large number of storage facilities, these firms

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<sup>4</sup> Ibid., pp. 9-10.

<sup>5</sup> Ibid., table 3.

<sup>6</sup> The Canadian Wheat Board (CWB) is believed to be the sole exporter and marketer of wheat grown in the prairie provinces, where over 90 percent of western red spring wheat is grown.

<sup>7</sup> Another division of \*\*\* is dedicated to grain merchandising and export, but this division did not respond to the Commission's questionnaire.

<sup>8</sup> Wilson, *op. cit.*

did not hold a high share of the grain storage capacity in the United States.<sup>9</sup> Cargill has increased its ownership of elevators in the United States and is the largest exporter of wheat with an estimated 40 percent market share of exports in 1998.<sup>10</sup> Also, cooperatives have expanded from just operating elevators into exporting wheat.

Many companies have become vertically integrated. For example, Archer Daniels Midland and ConAgra own some elevators, merchandise grain, and have related firms that mill wheat into flour. Both of these firms have operations in Canada and in various overseas locations. Several cooperatives, including \*\*\*, have become substantial exporters. There are also some joint ventures between elevators including cooperatives and grain merchandising companies. Many of the six firms responding to the Commission's grain trading questionnaire reported being involved in more than one activity (table II-1).

**Table II-1**  
**Hard red spring wheat: Activities in which the six reporting grain traders are involved**

Activity	Involved in activity (number responding)	Not involved in activity (number responding)
Storage	5	1
Brokerage	1	5
Elevation	5	1
Shipping	5	1
Milling	3	3
Sales	5	1

Source: Compiled from data submitted in response to Commission questionnaires.

## TRANSMISSION OF SUPPLY AND DEMAND SHOCKS

The supply of hard red spring wheat in the U.S. market is a function of domestic production and exports, U.S. imports, and existing stocks. Demand for hard red spring wheat is derived from the demand for the final products, such as bread, that it is used to produce. An important question is how shocks, whether supply shocks (such as weather) or demand shocks, are transmitted to other market participants.

Grain elevator associations were asked if grain elevators passed any changes in their selling price of hard red spring wheat back to farmers. Fourteen out of 16 responded in the affirmative; two associations (\*\*\*) responded both "yes and no." \*\*\* reported that it depended on freight, position (long or short) in the market, timing (i.e., when the product is due to arrive), and many other variables. \*\*\* stated that it depended upon whether the grain had already been purchased. Another association, \*\*\*, reported that there was a direct relationship and that the market is very competitive, so that any changes in

<sup>9</sup> Hayenga, Marvin and Robert Wisner, "Cargill's Acquisition of Continental Grain's Grain Merchandising Business," Iowa State University, Department of Economics, Staff Paper 312, January 1999, table 20. Cargill and Archer Daniels Midland had shares of 6.2 and 5.8 percent, respectively, of the U.S. grain storage market.

<sup>10</sup> In 1999, after adding the assets of the acquired Continental Grain, Cargill had approximately 150 country elevators, 50 river elevators, and 75 rail-terminal elevators. The export market share is that of Cargill and Continental combined. ERS/USDA, "Cargill's Acquisition of Continental Grain: Anatomy of a Merger," *Agricultural Outlook*, September 1999, p. 21.

market prices are immediately transmitted back to the farmer. \*\*\* reported that markets are very visible; for example, if a buyer fills its nearby need for wheat, the transaction will immediately appear in the marketplace, and bids will fall.

Grain elevator associations were asked what percentage of price increases or decreases received from their customers were passed on to their suppliers. Nine elevator associations responded that they passed 100 percent of the change back to farmers. One association, \*\*\*, stated that it passed 90 to 100 percent back to suppliers, and another, \*\*\*, reported that it passed 75 percent back to suppliers, but two associations, \*\*\* and \*\*\*, reported that they did not pass any price changes back to their customers.

Grain traders were asked what percentage of price changes that they received from their customers were passed back to their suppliers. One firm, \*\*\*, stated that it could be 100 percent and that as wheat prices move, it adjusts its flour prices accordingly. It added, however, that prices for wheat and flour do not always move by the same amount, or even in the same direction, because of the influence of many variables. Another firm, \*\*\*, stated that the competitive domestic and export markets for hard red spring wheat require that all price increases and decreases be reflected in the price it pays its suppliers. \*\*\* stated that the market is very competitive and any price change is almost instantly reflected in the price it pays its suppliers. \*\*\* said that 100 percent of price changes received from customers are reflected in its price to suppliers. \*\*\* stated that it hedges all purchases and sales daily at the Minneapolis Grain Exchange (MGE) and that any price changes that it experiences are passed on given the high degree of competitiveness in the market.

## **SUPPLY AND DEMAND FACTORS AND THE MGE**

Grain traders were asked the extent to which events, such as a reduction in world demand, drought, increased imports, etc., influenced the price they paid for hard red spring wheat during marketing years 2000/01 through 2002/03. \*\*\* remarked that prices in North America usually follow world prices. \*\*\* and \*\*\* remarked that prices, which they characterized as stable between 2000 and 2002, were affected by drought in 2002/03 in Australia, Canada, and the United States. Prices initially rose dramatically as users struggled to find supply. However, strong supply in states of the former Soviet Union, which were initially unnoticed, led to lower prices in November 2002. \*\*\* and \*\*\* stated that many factors influence supply and demand and thus cash and futures prices and that it is not apparent which factors may be predominant.

Grain elevator associations were asked if their members used prices from the MGE as a reference in determining the prices that they pay farmers for hard red spring wheat. All 15 responding grain elevator associations reported that they use prices from the MGE as a reference. All of these elevator associations reported that they use the price of the hard red spring wheat futures contract. Seven associations reported using cash prices in addition to the futures prices. One association, \*\*\*, stated that the MGE is part of the pricing process and that the futures price and basis (difference between the futures price and the local cash price when delivered) are an important part of determining price. Another association, \*\*\*, stated that it uses MGE futures prices and bids from grain companies and millers to determine its local price.

Grain elevators associations were asked to discuss how supply and demand factors and the MGE influence the price that elevators are willing to offer farmers. \*\*\* remarked that if supply is provided by another source, the basis goes down, which lowers the price to farmers. \*\*\* remarked that the MGE is used for hedging and that supply and demand influence the basis and that total supply, whether Canadian or U.S. wheat, drives the basis. \*\*\* reported that the local market is influenced by supply, freight costs, and freight availability. \*\*\* responded that there is a direct correlation between supply and demand and prices and that the search and purchase activity of a single mill can affect prices. Several other firms reported that the MGE price is used as a reference, but that quality, freight considerations, and other variables also influence the local price.

Grain traders were similarly asked to discuss how supply and demand factors and the MGE influenced the price they were willing to pay for hard red spring wheat. \*\*\* remarked that supply and

demand factors around the world affected all grain prices and commodity futures at the MGE and at other exchanges. \*\*\* stated that MGE futures prices reflect the global needs of buyers and sellers and that the actual cash price is a function of quality and logistics relative to the futures market. \*\*\* stated that supply and demand establish the market price and that its opinion of how those factors may change indicates possible price movement. \*\*\* assessment of these factors influences its timing and degree of aggressiveness. The MGE futures price reflects the balance of the global supply and demand forces. \*\*\* price is set by the market, and it chooses when to buy. \*\*\* stated that rail freight has an immediate impact on the price of hard red spring wheat. For example, the lack of hopper cars could limit the amount of wheat in certain markets and inflate prices in those markets.

Four out of six responding grain traders, \*\*\*, remarked in their questionnaire responses that many factors, such as those listed in table II-2, are reflected in the MGE futures prices. Another firm, \*\*\*, stated that all of these factors except the filing of the antidumping and countervailing duty petition and imports from Canada influence the MGE reference price, which it judges to be reliable. To the extent that it makes forward purchases, it uses the MGE reference price and its judgment of how factors may change in the future; however, no single factor by itself will have a significant effect on the price of hard red spring wheat. \*\*\* stated that all factors in table II-2 are always reflected in the MGE cash and futures prices. It stated that any differences between what it paid and the MGE reference prices are governed by its logistic or quality needs, transportation arrangements, and opinions on future market direction. \*\*\* continued, saying that global forces, not an individual company, determine prices; a company's choice is whether to buy and sell at the current market levels or wait.

Grain traders were asked what influences the price of hard red spring wheat at the MGE. Commonly cited factors included world supply and demand, U.S. supply and demand, Canadian supply and demand, weather, commodity fund speculation, quality of hard red spring wheat, hard red winter wheat crop size, and the price of hard red spring wheat relative to prices of competing classes of wheat. \*\*\* stated that supply and demand influences include acres planted, yields, domestic use, exports, time of year, prices, and quality of potential substitutes.

Responses by the questionnaire recipients suggest that companies use the MGE futures prices in establishing their transaction prices because the futures prices summarize a number of broad supply and demand factors, but not because they determine prices independent of other market factors. The MGE futures prices appear to be an important reference that is widely used by wheat buyers and sellers.

\*\*\* stated that the volume of wheat imported from Canada represented only one percent of the total wheat trade on the MGE and that the quantity of Canadian imports were therefore too small to influence prices at the MGE or, in turn, to influence U.S. farm prices.<sup>11</sup> In this remand proceeding, the Commission asked \*\*\* a series of questions. The first question was whether the volume of imported Canadian western red spring wheat affects the MGE futures prices, cash prices, or options prices. He responded that the MGE futures contract is a global benchmark price for hard red spring wheat and the MGE cash price is a spot market price for transactions that take place immediately. He continued that most wheat is sold on the basis of contracts typically involving a large grain trading company or a mill. The MGE futures market provides a reference price for those transactions. To his knowledge no Canadian wheat is traded in the cash market. He added that MGE options are a derivative of the futures contracts and are thus not directly affected by cash transactions or imports.

The Commission asked, in reference to his earlier statement about the volume of Canadian imports, whether U.S. production, which was around a tenth of the volume of the futures trade at the MGE, was large enough to influence the futures price.<sup>12</sup> He stated that the most important supply-side

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<sup>11</sup> NAMA posthearing brief, exh. 1 (\*\*\*).

<sup>12</sup> In marketing year, 2001/02, hard red spring imports from Canada were 46 million bushels; U.S. production of hard red spring wheat totaled 476 million bushels, and MGE futures trade in hard red spring wheat was approximately 4.6 billion bushels. Hard red spring wheat futures are traded in contracts of 5,000 bushels on the MGE. The volume of trade was at 955,659 contracts in calendar year 2000; 967,666 contracts in 2001; 1,199,149 in (continued...)

influence on MGE futures prices is the volume of wheat produced or held in inventory by the world's major wheat producing regions, such as the United States, Canada, Australia, and the area around the Black Sea. He continued, adding that production in Canada is important, but that futures prices are not greatly influenced by whether the wheat is sold in Canada or exported to the United States or to third country markets.

The Commission also asked \*\*\* what determined the price of U.S. hard red spring wheat. He replied that many factors, which could be summarized as supply and demand, determine prices. Other important factors are quality, expectations, changes in markets for substitute and complementary goods, currency fluctuations, and government policy. He added that the U.S. market is connected to the global market and affected by supply and demand considerations in other major markets. The United States is a major wheat producer, exporter, and consumer, and is therefore an important influence on global supply and demand.

The Commission also asked him to characterize the relationship between farm prices and MGE futures prices for hard red spring wheat. His response was that all buyers and sellers know the MGE futures price, and elevators use this price, after making adjustments for transportation costs, protein content, etc. in determining the prices that they post for different grades of wheat. Also, the MGE futures price is used as a reference in establishing a local cash price for a specific transaction.

The Commission also asked what share of the volume of contracts at the MGE was cash-traded wheat and what share was futures contracts that were never actually delivered. He responded that most wheat is sold under arrangements between the buyer and seller and other parties use the MGE to hedge price risk. He added that neither the buyer nor seller is obligated to report the transaction; therefore, it is impossible to know the portion of the total wheat trade that is in cash. One of the most important roles of the MGE futures market is to provide a benchmark price for transactions involving hard red spring wheat. He continued, saying that MGE futures play a critical role in price discovery even though generally less than 3 percent of MGE futures contracts are actually delivered.

## **PRICE DETERMINATION**

Grain elevator associations were asked how they determined prices for the hard red spring wheat that they purchase directly from farmers. \*\*\* reported determining its price by using the futures contract for hard red spring wheat from the MGE in conjunction with bids from grain-trading companies or millers minus the cost of freight and its margin. \*\*\* reported that the market value of hard red spring wheat is primarily determined by futures prices, basis, grade factors, and transportation costs. \*\*\* reported that it receives bids daily from buyers (millers or exporters). These bids are a basis price and are usually similar to the nearby adjusted Minneapolis futures price and reflect the delivered bids. This association then determines its freight costs and elevation margin to determine its local price. Finally, \*\*\* stated that its purchase price is the price at the mill less freight and handling.

Grain traders were asked to describe how they determined purchase prices for U.S. and Canadian hard red spring wheat. \*\*\* reported that its price is determined by the quality demanded by customers and by the prices at which it can sell particular flours. It would pay the same price for U.S. and Canadian wheat if quality, availability, and shipment times are similar. It stated that MGE price quotes are merely a reference price to start the cash grain discovery process. \*\*\* stated that its prices are determined by quality, consistency, and the logistical needs on any given day. \*\*\* stated that it looks at futures prices, the volume it needs, the volume moving through the market, the time frame of the shipment, its knowledge of current bids and offers, market structure, the quality needed, and availability. \*\*\* reported

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<sup>12</sup> (...continued)

2002; and 1,066,489 in 2003 according to the "Annual Volume of Futures Trading," [http://www.mgex.com/documents/MGEXHistoricalVolumeSummarybyMonth\\_005.pdf](http://www.mgex.com/documents/MGEXHistoricalVolumeSummarybyMonth_005.pdf), retrieved August 15, 2005.

that it begins with the hard red spring wheat futures price and adds a premium based on supply, demand, quality, shipment times, and freight costs.

Publicly available data from the MGE, USDA, local elevators, and other sources assist firms in price discovery and increase the transparency of the wheat market. As Hayenga and Wisner remarked:

Price discovery takes place at each stage of the system where ownership changes hands, with the interaction of supply and demand forces in each local or regional area, in turn influenced by supply and demand conditions at locations closer to the ultimate customer for the basic commodities -- the domestic or export customer. Price reporting by government agencies plus the interactions of buyers and sellers provide a good deal of transparency in the price discovery process among the merchandisers, and -- through government price reporting and bids to local elevators -- ultimately to farmers.<sup>13</sup>

### **FACTORS INFLUENCING PRICES**

Grain elevator associations and grain traders were asked what factors, other than MGE reference prices, influenced the price they paid for domestically produced wheat (table II-2). All six responding associations and all 16 responding grain traders reported that the quality of the hard red spring wheat influenced the price that they paid. Eleven out of 16 responding associations reported that local supply and demand factors influenced the price that they paid for domestically produced wheat. Five elevator associations and only one grain trader reported that the filing of the antidumping and countervailing duty petition had affected prices. Ten elevator associations listed transportation (in the other category) as an important influence on price. A greater share of grain traders compared to elevator associations indicated that local supply and demand factors, crop quality reports, weather reports, and competition in export markets influenced the price they paid for hard red spring wheat.

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<sup>13</sup> Hayenga, *op. cit.* p. 5.

**Table II-2**  
**Hard red spring wheat: Importance of factors influencing the price of domestically produced hard red spring wheat**

<b>Factors</b>	<b>Grain elevator associations (number responding)</b>	<b>Grain traders (number responding)</b>
Quality of HRS wheat being sold	16	6
Factors affecting supply and demand in a region served by a local grain elevator or group of elevators	11	6
Crop quality reports	6	6
Weather reports	6	6
Reports about changes in government programs (including crop insurance) that affect production of HRS wheat	4	4
Filing of the antidumping/countervailing duty petition against HRS wheat from Canada (September 13, 2002)	5	1
Volume of HRS wheat imported from Canada	12	2
Factors affecting competition in export markets	6	6
Other <sup>1</sup>	12	3
<p>Note.—16 grain elevator associations and 6 grain traders responded to these questions. “HRS wheat” refers to hard red spring wheat.</p> <p><sup>1</sup> Elevator associations’ responses included fluctuations in producer sales volumes, competition from a domestic customer using Canadian wheat and freight, transportation cost and availability, and currency fluctuations. Grain traders’ responses included global supply and demand factors, transportation availability and rates, and the volume of producer selling.</p> <p>Source: Compiled from data submitted in response to Commission questionnaires.</p>		

### **IMPORTS FROM CANADA**

Grain elevator associations were asked if increased volumes of hard red spring wheat imported from Canada affected grain elevators’ selling price of hard red spring wheat during marketing years 2000/01 to 2002/03.<sup>14</sup> Fifteen out of 16 elevator associations responded in the affirmative. Remarks by the majority of elevator associations were about imports reducing the share of demand available to their firms. \*\*\*, which held the dissenting view, remarked that imports of Canadian western red spring wheat were actually down significantly due to drought, but that Canadian imports can change the relationship between domestic and export markets. It indicated that, in the global marketplace, competition exists whether Canadian wheat is sold to a U.S. miller or elsewhere.

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<sup>14</sup> Imports of hard red spring wheat from Canada were 41,425,913 bushels in 2000/01, increased to 46,109,669 bushels in 2001/02, but fell to 10,560,837 bushels in 2002/03. *Durum and Hard Red Spring Wheat from Canada*, Invs. Nos. 701-TA-430A and 430B and 731-TA-1019A and 1019B (Final), Publication 3639, October 2003, table IV-2, p. IV-4.

The grain elevator associations were asked to characterize the instances in which U.S. grain elevators lowered their price to farmers due to competition from imports of hard red spring wheat from Canada as frequently, sometimes, rarely, or never. Five elevator associations characterized the instances as frequently; nine elevator associations characterized them as sometimes; one, \*\*\*, characterized them as rarely; and no one characterized them as never.

Grain traders were asked if the prices at which they sold hard red spring wheat to domestic millers declined as a result of competition with subject imports during the period in question. \*\*\* answered in the affirmative and added that U.S. cash and futures markets will always decline for hard red spring wheat as available substitutes increases. It stated that the decline affected the price at which it purchased hard red spring wheat from local grain elevators; purchases depend upon the market price, and when the market drops for any reason, the purchase price drops by the same amount. \*\*\* stated that it was hard to determine if its selling prices declined as a result of competition with subject Canadian imports or because of other factors. It doubts that subject imports had much of an effect because, if Canada does not export to the U.S. market, it has more to export to other markets, and competition occurs either way. \*\*\* stated that subject Canadian imports likely had little effect on prices paid to grain elevators. It did not absorb any losses but switched to foreign markets. \*\*\* denied that its selling prices to domestic millers changed as a result of competition with subject imports.

Grain elevator associations were asked if imports from Canada affected the financial condition of grain elevators during marketing years 2000/01 through 2002/03. Thirteen responded affirmatively and three negatively, without specifying which particular market year or years. \*\*\* reported that U.S. mills at times filled demand with wheat from Canada and lowered the prices that they paid its elevators. \*\*\* added that it may be forced to absorb the shock because it may have already paid the farmers and therefore not be able to pass the shock on to them. \*\*\* stated that if it had already bought the wheat and the price dropped, it would immediately drop bids on future purchases to recoup any losses and that its drop could be greater than the actual drop in bids. \*\*\* also stated that, if it had not yet bought the grain, it would lower its purchase prices to producers, usually penny for penny. Faced with lower prices, a farmer may hold his wheat, or the farmer may switch to alternative crops or retire land from production over a longer period of time.

In addition to presenting information from grain traders and grain elevator associations, this report includes a review of literature regarding the impact of imports of hard red spring wheat and all wheat on the U.S. market. The review of selected literature appears in appendix B.

## **EXPORT MARKETS**

U.S. hard red spring wheat exports rose from 227 million to 254 million bushels during crop years 2000 to 2003 (table II-3). Foreign markets purchased the equivalent of 45 percent of U.S. hard red spring wheat production during 2000/01 and 2001/02; the share of domestic production being exported rose to 71 percent in 2002/03. U.S. exports of hard red spring wheat as a share of domestic supplies available for export (production plus beginning inventories) similarly rose from 33 percent in 2000/01 and 32 percent in 2001/02 to 51 percent in 2002/03. Canadian exports of Canadian western red spring wheat, both to the United States and to third-country markets, declined in 2002/03 as a result of a drought in Canada.

**Table II-3**  
**Hard red spring wheat and total wheat: Exports by marketing years**

Item	2000/01	2001/02	2002/03
	<i>(Millions of bushels)</i>		
U.S. HRS exports	227	216	254
Canadian exports of HRS to the United States	***	***	***
Canadian exports of HRS to third-country markets	***	***	***
	<i>(Percent)</i>		
U.S. exports as a share of U.S. HRS production	45	45	71
U.S. exports as a share of U.S. HRS production and inventory	33	32	51
	<i>(Millions of metric tons)</i>		
Canadian exports <sup>1</sup>	17.4	16.8	8.5
U.S. exports <sup>1</sup>	28.0	26.2	23.5
Other exporting countries <sup>1</sup>	58.2	67.4	73.2
Total <sup>1</sup>	103.6	110.4	105.2
<sup>1</sup> All classes of wheat.			
Source: Compiled from official statistics of the U.S. Department of Agriculture; and tables III-6 through III-8 and table VII-2 of the staff report. All classes of wheat data are from USDA, FAS, <i>Grain: World Markets and Trade</i> , July 2003, p. 7; USDA estimates as of July 11, 2003.			

World markets for all U.S. wheat reflected a decline as world wheat production in major exporting countries including Canada fell during the three marketing years.<sup>15</sup> Canadian exports of all wheat dropped nearly in half from 2001/02 to 2002/03, as a result of a drought. U.S. exports of wheat of all types fell only slightly from 2001/02 to 2002/03 despite similar drought conditions lowering U.S. production.

Grain traders that indicated that changes in export markets for hard red spring wheat had affected its U.S. prices were asked to identify those changes and to indicate how and when they affected prices in the United States. Firms were generally unable to provide very specific answers to this question. \*\*\* stated that, if the United States loses export sales to competitors, more wheat will remain in the domestic market, and U.S. prices for hard red spring wheat decline if all other supply and demand factors are constant. \*\*\* stated that the United States saw significant competition from states of the former Soviet Union in 2002/03. \*\*\* stated that changes are referenced daily by bids and offers at export locations and that data on export sales and shipments are published. It also stated that export activity does not generally

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<sup>15</sup> ERS, USDA, "World Wheat Production and Stocks Plummet in 2002/03, Trade Declines," *Wheat Situation and Outlook Yearbook*, March 2003.

affect prices or the futures market unless global supply and demand conditions are changing. It added that basis levels may go up or down depending upon whether the exporter already owns wheat or is short and whether the volume and prices of traded hard red spring wheat are higher or lower than market expectations.

Grain elevator associations were asked a similar question. \*\*\* stated that it sold to domestic mills with higher quality needs prior to 2002 and that its impression was that, when Canada was shipping heavily in 2002 and 2003, it had to settle for export markets that were priced 30 cents per bushel less. \*\*\* stated that strong demand in export markets puts pressure on the local milling market to raise basis levels. \*\*\* stated that greater exports leads to higher cash prices. \*\*\* stated that higher exports implies that more farm production is being exported but that export markets tend to be less profitable than the U.S. market.

### **FARM CROP YIELDS**

Historically, USDA data suggest that there is an inverse relationship between crop yields and the average price received by the farmers. Years with low yields generally result in higher prices. In addition, a drought-stressed hard red spring wheat crop tends to result in higher levels of protein, which tend to be more valued by wheat mills, and thus can contribute to somewhat higher prices. The price and yield relationship is shown in table II-4 and figure II-2. In addition, a variance analysis reflecting the effects of price, volume (calculated from crop yield data), and costs on financial performance appears in appendix C.

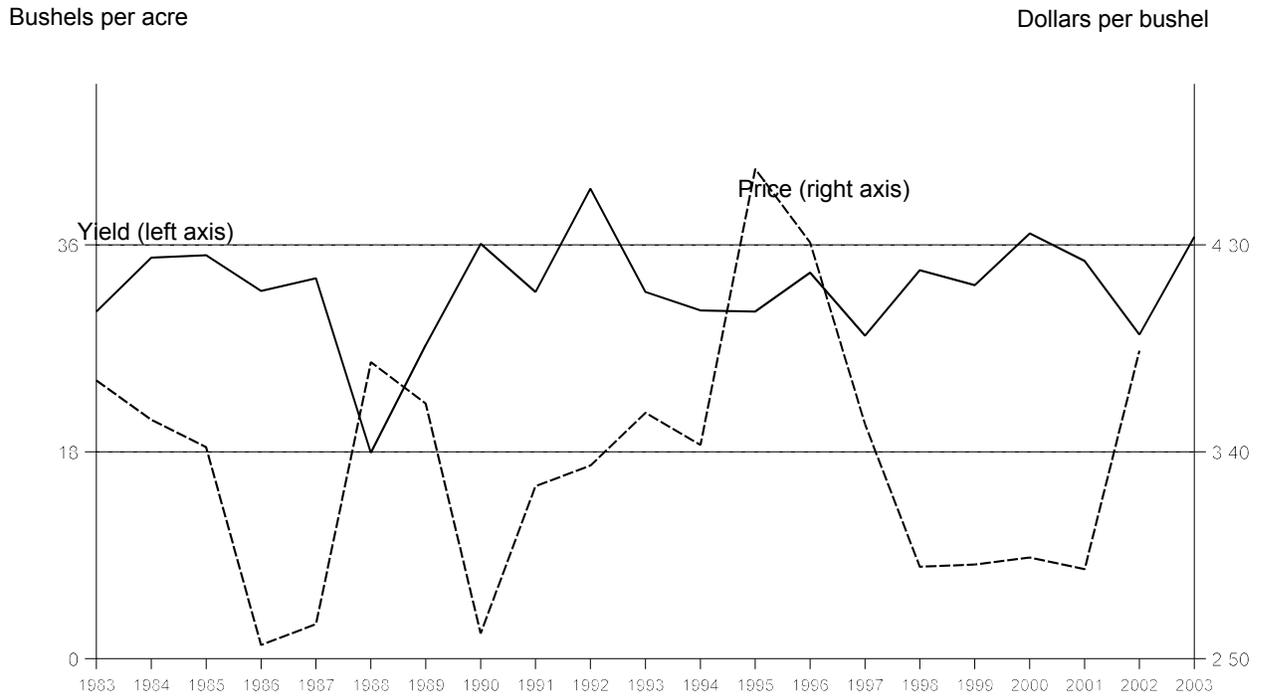
**Table II-4**  
**Hard red spring wheat: Average price received by U.S. farmers, acreage, yield, and production, crop years 1983-2003**

<b>Crop year</b>	<b>Average price received by farmers (U.S. dollars per bushel)</b>	<b>Planted acreage (millions of acres)</b>	<b>Harvested acreage (millions of acres)</b>	<b>Yield (bushels per acre)</b>	<b>Production (millions of acres)</b>
1983	\$3.71	11.1	10.7	30.2	322.7
1984	3.54	12.0	11.7	34.9	408.8
1985	3.42	14.0	13.1	35.1	460.2
1986	2.56	14.6	14.1	32.0	451.4
1987	2.65	13.3	13.0	33.1	430.6
1988	3.79	13.0	10.1	17.9	181.2
1989	3.61	16.5	15.9	27.3	433.5
1990	2.61	16.2	15.4	36.1	554.7
1991	3.25	14.0	13.5	31.9	431.2
1992	3.34	17.8	17.3	40.9	706.7
1993	3.57	17.5	16.0	31.9	511.8
1994	3.43	17.6	17.0	30.3	515.3
1995	4.63	16.1	15.7	30.2	474.8
1996	4.31	19.1	18.8	33.6	630.7
1997	3.52	18.3	17.5	28.1	491.3
1998	2.90	14.8	14.4	33.8	486.4
1999	2.91	14.3	13.8	32.5	447.9
2000	2.94	14.4	13.6	37.0	502.3
2001	2.89	14.8	13.8	34.6	475.5
2002	3.84	14.9	12.6	28.2	356.6
2003	( <sup>1</sup> )	13.8	12.7	36.7	450.0

<sup>1</sup> Not available in July 2003.

Source: USDA, ERS, *Wheat Situation and Outlook Yearbook*, March 2003; and *Wheat Situation and Outlook Report*, July 15, 2003.

**Figure II-2**  
**Hard red spring wheat: U.S. crop yield and farm price received, crop years 1983/84 to 2003/04**



Source: USDA, ERS, *Wheat Situation and Outlook Yearbook*, March 2003; and *Wheat Situation and Outlook Report*, July 15, 2003.



## PART III: PRICING AND RELATED INFORMATION

### SELECTED PUBLIC DATA

Substantial amounts of public data were used in the subject investigations and in this remand proceeding. Table III-1 presents public data on hard red spring (HRS) and hard red winter (HRW) wheat farm prices, HRS wheat cash prices for different protein levels, and import volume.<sup>1</sup> Many of the price series vary together, and correlation analysis is one way to examine the association between two variables.<sup>2</sup> Correlation does not, however, necessarily mean that changes in one variable cause the other variable to change, and it only captures linear relationships.

**Table III-1**  
**HRS and HRW wheat: Selected public data, monthly, June 2000-May 2003**

Period	HRS farm price (\$/bu.)	HRW farm price (\$/bu.)	Cash price HRS-13 (\$/bu.)	Cash price HRS-14 (\$/bu.)	Cash price HRS-15 (\$/bu.)	Imports (millions of bu.)
June 2000	2.95	2.51	3.50	3.78	4.08	4.5
July 2000	2.78	2.41	3.24	3.50	3.91	4.9
August 2000	2.63	2.40	2.99	3.29	3.73	2.3
September 2000	2.67	2.53	3.10	3.17	3.37	3.4
October 2000	2.88	2.76	3.52	3.69	4.10	5.3
November 2000	3.02	2.84	3.64	3.77	4.03	5.8
December 2000	3.05	2.88	3.60	3.52	3.97	5.1
January 2001	3.01	2.90	3.60	3.79	4.12	3.2
February 2001	3.03	2.85	3.53	3.68	3.97	4.4
March 2001	3.01	2.92	3.45	3.63	3.98	4.8
April 2001	3.06	2.80	3.59	3.73	4.02	4.1
May 2001	3.17	2.97	3.69	3.88	4.12	4.1
June 2001	3.03	2.86	3.63	3.81	4.07	3.8
July 2001	2.80	2.73	3.51	3.72	4.01	5.5
August 2001	2.83	2.68	3.37	3.54	3.92	3.7

Continued on following page.

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<sup>1</sup> Farm prices, cash prices, and import volumes are defined in the source notes to table III-1.

<sup>2</sup> The Pearson product moment correlation coefficient varies between +1 and -1, with +1 indicating a perfect positive correlation; -1 indicating a perfect negative correlation, and values near 0 indicating no relationship.

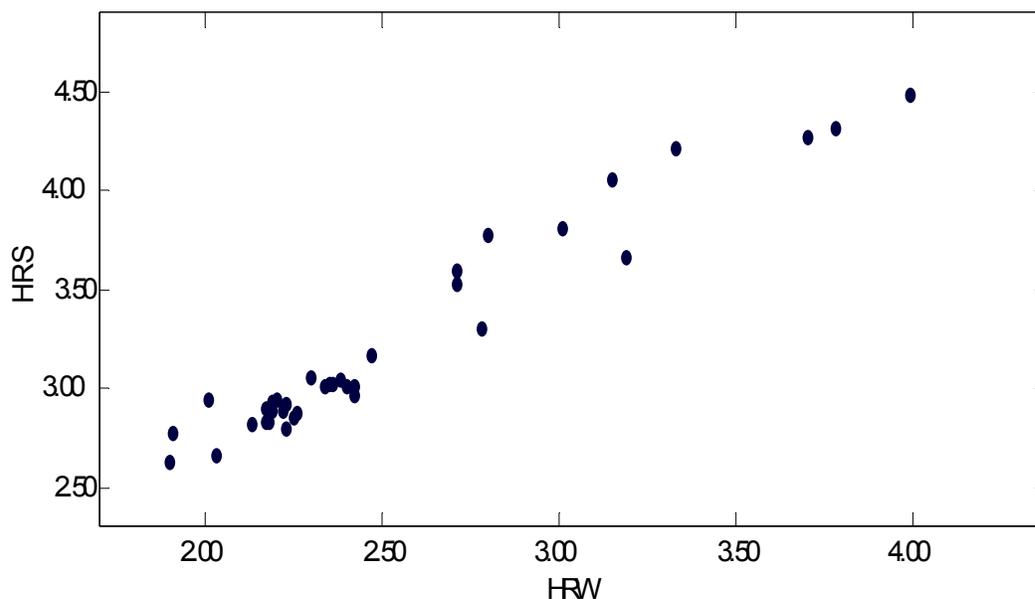
**Table III-1 -- Continued**  
**HRS and HRW wheat: Selected public data, monthly, June 2000-May 2003**

Period	HRS farm price (\$/bu.)	HRW farm price (\$/bu.)	Cash price HRS-13 (\$/bu.)	Cash price HRS-14 (\$/bu.)	Cash price HRS-15 (\$/bu.)	Imports (millions of bu.)
September 2001	2.82	2.63	3.47	3.52	3.61	3.8
October 2001	2.94	2.69	3.68	3.71	3.77	4.3
November 2001	2.89	2.69	3.61	3.69	3.75	7.4
December 2001	2.95	2.70	3.54	3.59	3.72	6.4
January 2002	2.86	2.75	3.51	3.55	3.63	3.9
February 2002	2.84	2.67	3.51	3.51	3.62	5.1
March 2002	2.89	2.72	3.46	3.51	3.60	5.8
April 2002	2.92	2.73	3.52	3.55	3.58	3.8
May 2002	2.90	2.67	3.56	3.59	3.63	3.2
June 2002	2.97	2.92	3.55	3.64	3.69	3.5
July 2002	3.31	3.28	4.96	4.03	4.02	4.9
August 2002	3.67	3.69	4.44	4.37	4.36	2.6
September 2002	4.32	4.28	5.20	5.24	5.25	3.4
October 2002	4.49	4.49	5.12	5.20	5.22	1.6
November 2002	4.28	4.20	5.00	4.99	5.02	0.8
December 2002	4.22	3.83	4.50	4.47	4.50	0.4
January 2003	4.06	3.65	4.30	4.34	4.41	0.5
February 2003	3.81	3.51	4.54	4.52	4.62	0.5
March 2003	3.78	3.30	4.10	4.36	4.43	1.4
April 2003	3.53	3.21	4.10	4.22	4.29	1.7
May 2003	3.60	3.21	4.10	4.20	4.31	0.9

Source: All prices are from the USDA, *Wheat Situation and Outlook Reports*, various issues. Farm prices are farm gate prices as collected by the USDA in the producing states. Cash prices are at the Minneapolis Grain Exchange (as reported by USDA); the numbers in HRS-13, HRS-14, and HRS-15 refer to the percent protein content levels. Imports are official Commerce statistics of the quantity of imports of western red spring wheat from Canada, which is the only sizeable supplier of imports of such wheat to the U.S. market.

As noted in the Commission's original investigations, the Pearson correlation coefficient between farm prices for hard red spring wheat and hard red winter wheat was 0.971.<sup>3</sup> When there is perfect positive correlation, a scatter plot of the two series is an upward sloping line at a 45-degree angle; a negatively sloping line at a 45-degree angle would indicate perfect negative correlation. The plot of hard red spring wheat versus hard red winter wheat demonstrates the former feature, although the correlation is not perfect (figure III-1). Part of the strength of this correlation depends upon rising prices of both series during marketing year 2002/03. If only data from marketing years 2000/01 and 2001/02 are considered, the correlation coefficient falls to 0.833.

**Figure III-1**  
**HRS and HRW wheat: Scatter plot of monthly prices (\$/bu.) of hard red winter wheat (HRW) versus hard red spring wheat (HRS), June-2000-May-2003**

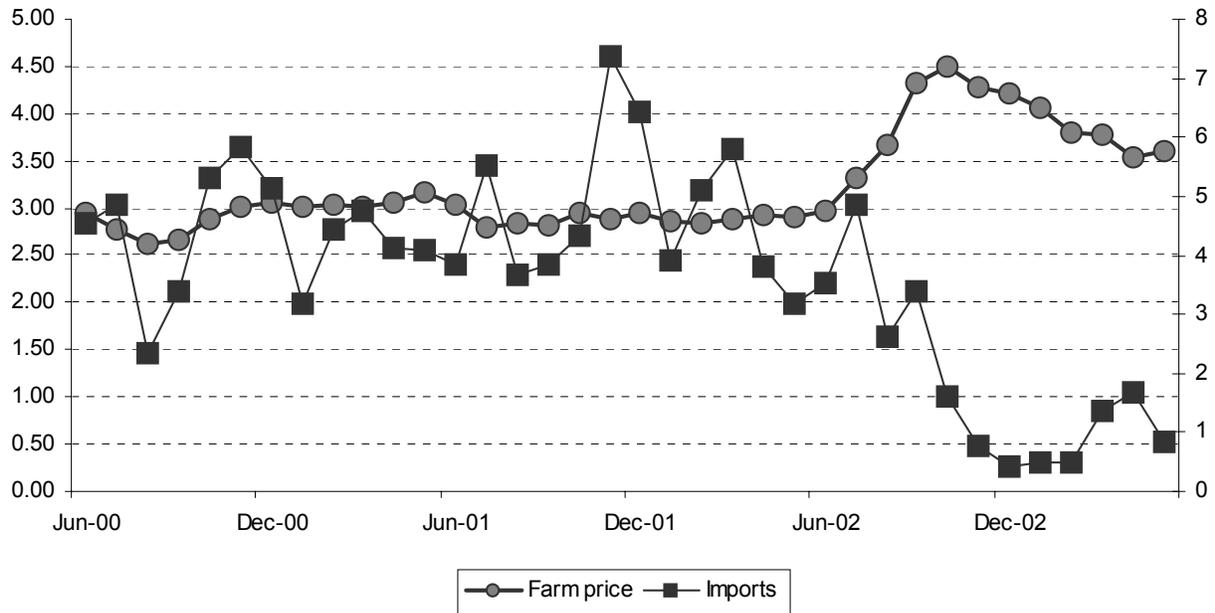


Farm prices of U.S. hard red spring wheat and imports of Canadian western red spring wheat are shown on a dual axis graph (figure III-2). During the early part of marketing year 2002/03, prices for U.S. hard red spring wheat rose while imports of Canadian western red spring wheat declined. This divergence suggests that these two series could be negatively correlated. Figure III-3, a scatter plot of imports versus U.S. hard red spring wheat farm prices, does not disprove that some negative correlation exists, but suggests that the relationship is weak or possibly non-linear.

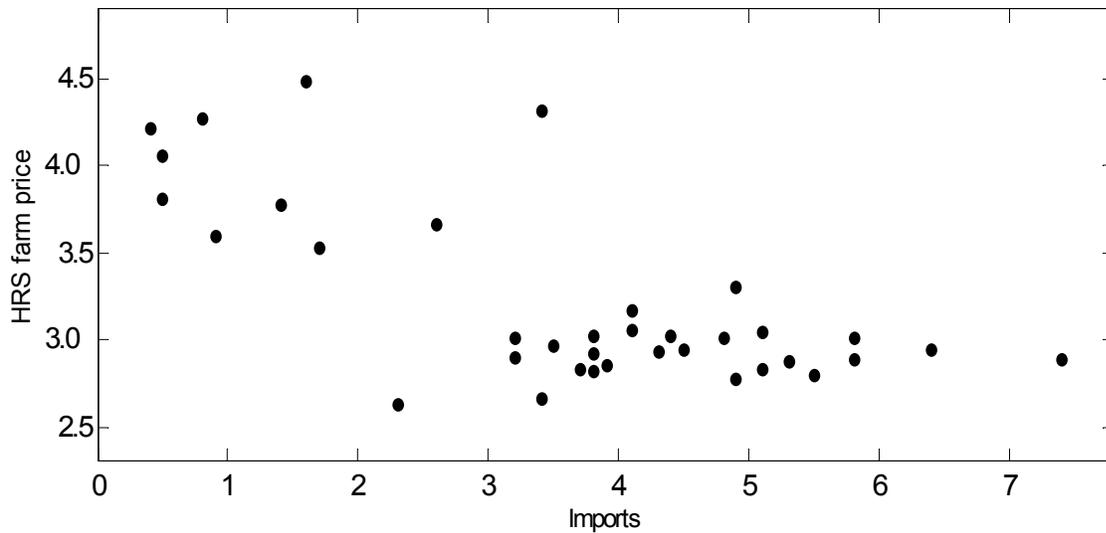
In comparing these data series, it is desirable to calculate confidence intervals of the correlation coefficients to assess the strength of the relationship. The standard calculation of confidence intervals for correlation coefficients relies on the assumption that the two series are jointly normally distributed. Although the correlation coefficient and confidence intervals can still be calculated, the resulting

<sup>3</sup> *Durum and Hard Red Spring Wheat from Canada*, Invs. Nos. 701-TA-430A and 430B and 731-TA-1019A and 1019B (Final), Publication 3639, October 2003, p. V-8.

**Figure III-2**  
**HRS wheat: U.S. farm prices of hard red spring wheat (\$/bu. (left axis)) and imports of Canadian western red spring wheat (millions of bushels (right axis)), June 2000-May 2003**



**Figure III-3**  
**HRS wheat: Scatter plot of imports of Canadian western red spring wheat (millions of bushels) versus U.S. farm prices of hard red spring (\$/bu.), June 2000-May 2003**



confidence intervals will be misleading if the normality assumption is violated. In order for the bivariate normality assumption to hold, both series must be univariately normally distributed, although this alone does not imply that the series together are bivariate normal.

Univariate tests for normally distributed data were performed on each series (table III-2). None of the price series were normally distributed, although imports could be viewed as normally distributed. The lack of at least two data series that could be normally distributed implies that no correlation coefficients computed from these data could be bivariate normal.

**Table III-2**  
**HRS and HRW wheat: Shapiro-Wilk<sup>1</sup> tests of normality**

Variable	Shapiro-Wilk Test	P-value <sup>2</sup>	Conclusion
HRS farm price	0.812	0.0000	Not normally distributed
HRW farm price	0.835	0.0001	Not normally distributed
Cash price HRS 13	0.833	0.0001	Not normally distributed
Cash price HRS 14	0.085	0.0002	Not normally distributed
Cash price HRS 15	0.903	0.0042	Not normally distributed
Imports	0.960	0.2179	Possibly normally distributed

<sup>1</sup> The Shapiro-Wilk test is one of several relatively standard tests for normally distributed data.  
<sup>2</sup> Small p-values indicate that the null hypothesis of normality is probably not true.

Source: Staff calculations.

When data are non-normal, the Spearman rank correlation coefficient can be used to make inferences about the association of two variables.<sup>4</sup> Spearman correlation coefficients are reported in table III-3 for the data in table III-1. All of these correlation coefficients are significantly different from zero. Import quantities were negatively correlated with each of the price series, although the correlation was not very strong. (Price series could be negatively correlated with a domestic production variable, but production is only available on an annual basis.)

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<sup>4</sup> The Spearman correlation coefficient is similar to the Pearson correlation coefficient but is based on ranks. It takes on values between -1 (when the ranks are exactly inversely associated) and 1 (when the ranks are exactly positively associated) inclusive and is near 0 when there is no association between the variables. Although the results are generally similar to the Pearson correlation coefficient, differences can occur when variation in the rank is not the same as variation in the original variables.

**Table III-3  
HRS and HRW wheat: Spearman rank correlation coefficients and their (95-percent confidence intervals),<sup>1</sup> for monthly data, June 2000-May 2003**

Variable	HRW farm price	Cash price HRS 13	Cash price HRS 14	Cash price HRS 15	HRS imports from Canada
HRS farm price	0.924 <sup>2</sup> (0.815, 0.970)	0.903 (0.769, 0.961)	0.887 (0.666, 0.959)	0.835 (0.635, 0.930)	-0.517 (-0.737, -0.176)
HRW farm price		0.855 (0.641, 0.947)	0.853 (0.618, 0.946)	0.808 (0.572, 0.914)	-0.510 (-0.717, -0.158)
Cash price HRS 13			0.900 (0.740, 0.963)	0.777 (0.566, 0.899)	-0.451 (-0.680, -0.111)
Cash price HRS 14				0.920 (0.801, 0.970)	-0.510 (-0.721, -0.169)
Cash price HRS 15					-0.508 (-0.733, -0.164)

<sup>1</sup> Confidence intervals were estimated by bootstrapping from the original data with 3,000 re-samples in each case and by using the bias-corrected (BCa) method, Efron and Tibshirani, *An Introduction to the Bootstrap*, (1993).  
<sup>2</sup> The Spearman correlation coefficient between the farm prices of hard red winter wheat and hard red spring wheat using only data for marketing years 2000/01 and 2001/02 was 0.774.

Source: Staff work.

All the price series were positively correlated. This could be the case because there is some similarity among supply and demand factors for the individual wheat products. While hard red spring wheat and hard red winter wheat generally, as well as hard red spring wheat of differing protein levels, are used somewhat differently, all are affected by the overall demand for bread products. On the supply side, although weather and growing conditions vary between regions that grow hard red spring wheat and hard red winter, similar production technology and other factors imply that there are some similarities in the supply of these different wheat products.<sup>5</sup>

The Spearman correlation coefficient between the farm prices of hard red spring and hard red winter wheat is high, although not as high as the Pearson correlation coefficient. The farm price of hard red spring wheat is more strongly correlated with the cash price of 13 percent protein content wheat than with the other cash prices for other protein content levels.<sup>6</sup> There is considerable overlap within the ranges of their 95 percent confidence intervals, which indicates that the differences may not be very significant. The series on cash prices of hard red spring wheat of 13 and 15 percent protein content are less closely correlated than the 13 percent and 14 percent series and the 14 and 15 percent protein series.

<sup>5</sup> *Durum and Hard Red Spring Wheat from Canada*, Invs. Nos. 701-TA-430A and 430B and 731-TA-1019A and 1019B (Final), USITC Publication 3639, October 2003, pp. I-7-I-8.

<sup>6</sup> The Pearson correlation coefficient for the farm price of hard red spring wheat and the cash price of the 14 percent protein level was higher than the similar measure between the farm price and the 13 percent protein level. Staff also computed Spearman correlations between the current period farm price of hard red spring wheat and the three cash prices lagged one month and between the farm price lagged one month and the current period three cash prices. These were all less than the regular current period correlations except that lagged farm price and current period cash price for the 15 percent product were approximately the same as the regular current period correlation. This is not surprising as \*\*\*.

## PRICE DATA

The NAFTA Panel instructed the Commission to provide detail as to the prices it used, indicate whether such prices were at the same level of trade, and adjust prices that were not at the same level of trade, if possible.<sup>7</sup> Purchasers that provided price data in the original investigations that were presented on either a Minneapolis or a company-specific basis<sup>8</sup> were asked to identify the type of seller from which they purchased (e.g., farmer, grain elevator, grain trading company, the CWB, or other). Purchasers were also asked to report whether the seller was an independent firm or related to the purchaser. The pricing products were, as before, U.S. no. 1 hard red spring wheat, U.S. no. 2 hard red spring wheat, no. 1 Canadian western red spring wheat, and no. 2 Canadian western red spring wheat.

The millers \*\*\* responded to the Commission's questionnaire.<sup>9</sup> \*\*\* did not respond to the Commission's questionnaire. Thus, all prices in the tables to be discussed later are purchase prices of U.S. wheat millers.

Standard Commission practice is not to use pricing data from related parties. Prices from related parties may be priced higher or lower than the market price and are not generally accurate indicators of market transactions prices. The Commission asked these purchasers if the price they paid for hard red spring wheat differed during the period in question depending upon whether they purchased it from an independent or related seller. Five responding millers responded in the negative, and one \*\*\* responded that it did not know. Nevertheless, looking at the data and taking differences in protein into account showed that purchases from related parties were on average priced about three percent higher than other purchases, although some related party purchases were priced less. These data from related parties are thus excluded from the forthcoming pricing tables. For the period in question, these data include 1,487,115 metric tons purchased from independent entities and exclude 376,780 metric tons purchased from related parties.

Tables III-4 through III-6 show the price data broken out by U.S. purchases from grain elevators, from grain traders, and from elevators and traders combined. All of the Canadian data were from the CWB.<sup>10</sup>

For no. 1 hard red spring wheat on a Minneapolis basis, the subject Canadian product undersold the similar domestic product in 8 months using the purchases from the elevators by margins ranging from 1.1 to 10.6 percent, in 9 months using the grain trader data with margins ranging from 0.9 to 8.4 percent, and in 8 months using the combined data with margins ranging from 1.6 to 9.2 percent (table III-4). The Canadian product oversold the similar domestic product in 3 months by margins ranging from 2.8 to 5.7 percent using purchases from elevators, in 2 months by margins of 0.6 and 4.4 percent using purchases from grain traders, and in 3 months by margins ranging from 1.2 to 3.5 percent using the combined data.

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<sup>7</sup> Article 1904 Binational Panel Review, *Hard Red Spring Wheat from Canada*, pp. 52-53.

<sup>8</sup> As in the original investigations, purchases of hard red spring wheat by different firms that are put on a Minneapolis basis are believed to be comparable because transportation costs, an important cost item, will be similar for different firms. Either data that were already on a Minneapolis basis or could be put on such a basis were used, as explained in footnote 15, p. 22 of the staff report. The most directly comparable purchases are those of a single company when it buys both domestic and imported products, although coverage may be limited. As before, a table that only uses purchases by \*\*\* is shown for no. 1 hard red spring wheat, and a table that only uses purchases by \*\*\* is shown for no. 2 hard red spring wheat.

<sup>9</sup> \*\*\* provided data for both no. 1 and no. 2 HRS wheat. \*\*\* provided data only for no. 1 HRS wheat, and \*\*\* provided data only for no. 2 HRS wheat.

<sup>10</sup> In the original investigations, \*\*\* presented some data for no. 1 Canadian western red spring wheat that were priced \*\*\*. In its questionnaire response, \*\*\* identified these purchases as coming from a related party. \*\*\* confirmed that these purchases were from a related party and not the CWB in a telephone conversation and an e-mail.

Because of removal of data from related parties, there were fewer comparisons for \*\*\*'s purchases of no. 1 hard red spring (table III-5). Looking at the combined purchases, the Canadian product undersold the similar domestic product in 2 months by margins of 0.2 and 0.5 percent and oversold the domestic product in 2 months by margins of 6.3 and 7.8 percent.

For no. 2 hard red spring wheat<sup>11</sup> on a Minneapolis basis, the subject Canadian product undersold the similar domestic product in 2 months, 9 months, and 8 months for purchases, respectively, from elevators, traders, or the two combined. The Canadian product oversold the domestic product in 2 months, 7 months, and 8 months for purchases, respectively, from elevators, traders, or the two combined. For the combined grouping, underselling margins ranged from 0.1 to 5.6 percent, and overselling margins ranged from 0.7 percent to 20.0 percent.

\*\*\* only reported purchases of hard red spring no. 2 from an elevator during one month; therefore only the combined data are shown (table III-7). These data show 11 months of underselling with margins ranging from 1.5 to 16.8 percent and 3 months of overselling with margins ranging from 3.5 to 18.0 percent.

**Table III-4**

**HRS wheat: Weighted-average net delivered prices and quantities of U.S.-grown No. 1 hard red spring and imported Canadian No. 1 western red spring wheat on a Minnesota basis and margins of underselling/overselling, by purchases from elevators, traders, and total and by months, June 2000-May 2003**

\* \* \* \* \*

**Table III-5**

**HRS wheat: Weighted-average net delivered prices and quantities of U.S.-grown No. 1 hard red spring and imported Canadian No. 1 western red spring wheat as reported by \*\*\* and margins of underselling/overselling, by purchases from elevators, traders, and total and by months, June 2000-May 2003**

\* \* \* \* \*

**Table III-6**

**HRS wheat: Weighted-average net delivered prices and quantities of U.S.-grown No. 2 hard red spring and imported Canadian No. 2 western red spring wheat on a Minnesota basis and margins of underselling/overselling, by purchases from elevators, traders, and total and by months, June 2000-May 2003**

\* \* \* \* \*

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<sup>11</sup> \*\*\* in its questionnaire response made a correction to its data by changing a July 2000 purchase of \*\*\* from a domestic purchase to a purchase of the Canadian product.

Table III-7

**HRS wheat: Weighted-average net delivered prices and quantities of U.S.-grown No. 2 hard red spring and imported Canadian No. 2 western red spring wheat as reported by \*\*\* and margins of underselling/overselling, by months, June 2000-May 2003**

\* \* \* \* \*

**STATISTICAL ANALYSIS OF PRICES**

Because protein content, dockage, and weight affect price and are not taken into account in the standard pricing tables, a statistical analysis of prices was undertaken. A mixed effects model, similar to the one used in the original investigations, was used, but the data from purchases of related parties was excluded. It envisions that the price of hard red spring wheat is a function of the fixed effects of the companies and the product, and the month enters as a random effect. Continuous covariates are protein content, dockage, and weight. A statistical test was performed that takes the covariates into account and subtracts the mean of the U.S. product from the mean of the Canadian product. If the 95 percent confidence interval for this test contains only positive values, it is an indication that the Canadian product was priced higher considering the effects of the factors included in the model. If the confidence interval contains only negative values, it is an indication that the domestic product was priced higher, but if the confidence interval contains zero, the test is inconclusive, and no statistical difference is indicated. The combined elevator and trading purchase data from all non-related parties were used.

Tests of the fixed effects are shown below for no. 1 hard red spring wheat. Protein was significant and had the expected positive sign. Dockage and (test) weight were close to being statistically significant (at the 5 percent level) and had the expected negative signs.

Fixed Effect	Estimate	Numerator DF	Denominator DF	F-value	Probability > F
Product	-	1	284	0.52	0.4723
Company	-	3	283	25.07	<.0001
Protein	4.0095	1	284	38.74	<.0001
Dockage	-2.3131	1	283	3.84	0.0510
Weight	-0.7438	1	284	3.62	0.0580

Note.—DF denotes degrees of freedom. The Satterthwaite formula, which is data dependent and involves the within-group variance estimates, was used to compute the degrees of freedom.

The estimated mean of no. 1 Canadian western red spring wheat was approximately \$142.89 per metric ton, and the estimated mean of U.S. no. 1 hard red spring wheat was approximately \$144.18. Results of the differences of the means test are shown in the box below. The 95-percent confidence interval includes zero, which indicates that there is no statistical difference in the mean price of the Canadian No. 1 western red spring wheat and the mean price of U.S. No. 1 hard red spring wheat.

Mean of Canadian HRS1 minus mean of US HRS1	-1.28
Degrees of freedom	284
t-value	-0.72
Probability > t-value	0.4705
Lower and upper limits of 95 percent confidence interval	-4.8140, 2.2465

Canadian No. 2 western red spring wheat was compared to U.S. No. 2 hard red spring wheat. The company effect and protein content were significant, and protein had the expected positive sign. Dockage and (test) weight were not significant statistically but were retained because they improved the goodness of fit as judged by the Akaike information criterion, although weight did not have the expected negative sign.

Fixed Effect	Estimate	Numerator DF	Denominator DF	F-value	Probability > F
Product	-	1	125	2.89	0.0915
Company	-	3	126	5.07	0.0024
Protein	6.9144	1	126	34.15	<.0001
Dockage	-0.8751	1	124	0.17	0.6849
Weight	0.2286	1	125	0.08	0.7782

Note.—DF denotes degrees of freedom. The Satterthwaite formula, which is data dependent and involves the within-group variance estimates, was used to compute the degrees of freedom.

The estimated mean of Canadian HRS 2 was approximately \$146.01 per metric ton, and the estimated mean of U.S. HRS 2 was approximately \$141.70 per metric ton. Results of the differences of the means test are shown in the box below. The 95-percent confidence interval contains zero, which indicates that there is no statistical difference between the mean prices of the two products.

Mean of product Canadian HRS 2 minus mean of U.S. HRS 2	4.32
Degrees of freedom	125
t-value	1.70
Probability > t-value	0.0929
Lower and upper limits of 95 percent confidence interval	-0.7105, 9.3418

Canadian prices appear lower in the statistical analysis, particularly for no. 2 hard red spring wheat, than in the pricing comparison tables. This distinction emerges, in large part, because the protein content, a valued attribute, is higher in the pricing data for the domestic product than the Canadian product (table III-8).

**Table III-8**  
**HRS wheat: Weighted-average protein content, by year and by wheat type**

Wheat type	2000	2001	2002	2003
No. 1 Canadian western red spring wheat	13.2	13.3	13.6	( <sup>1</sup> )
No. 2 Canadian western red spring wheat	13.7	14.0	13.8	( <sup>1</sup> )
U.S. no. 1 hard red spring wheat	13.7	13.8	14.1	14.4
U.S. no. 2 hard red spring wheat	14.5	14.4	14.3	14.4

<sup>1</sup> No data were presented for this wheat type for this period.

Source: Compiled from data submitted in response to Commission questionnaires.

**APPENDIX A**  
***FEDERAL REGISTER* NOTICES**



**Written Submissions:** The Commission does not plan to hold a public hearing in connection with the preparation of this report. However, interested persons are invited to submit written statements concerning the matters to be addressed in the report. All written submissions should be addressed to the Secretary, United States International Trade Commission, 500 E Street SW., Washington, DC 20436. To be assured of consideration by the Commission, written statements relating to the Commission's report should be submitted to the Commission at the earliest practical date and should be received no later than the close of business on November 30, 2005. All written submissions must conform with the provisions of section 201.8 of the Commission's Rules of Practice and Procedure (19 CFR 201.8). Section 201.8 of the rules requires that a signed original (or a copy designated as an original) and fourteen (14) copies of each document be filed. In the event that confidential treatment of the document is requested, at least four (4) additional copies must be filed, in which the confidential business information (CBI) must be deleted (see the following paragraph for further information regarding CBI). The Commission's rules do not authorize filing submissions with the Secretary by facsimile or electronic means, except to the extent permitted by section 201.8 of the rules (see Handbook for Electronic Filing Procedures, [ftp://ftp.usitc.gov/pub/reports/electronic\\_filing\\_handbook.pdf](ftp://ftp.usitc.gov/pub/reports/electronic_filing_handbook.pdf)). Persons with questions regarding electronic filing should contact the Secretary (202-205-2000 or [edis@usitc.gov](mailto:edis@usitc.gov)).

Any submissions that contain CBI must also conform with the requirements of section 201.6 of the Commission's rules (19 CFR 201.6). Section 201.6 of the rules requires that the cover of the document and the individual pages clearly be marked as to whether they are the "confidential" or "nonconfidential" version, and that the CBI be clearly identified by means of brackets. All written submissions, except for CBI, will be made available for inspection by interested parties.

The Commission may include any CBI received in the confidential report it sends to the USTR. Should the Commission at a later date make its report available to the public, any CBI received by the Commission in this investigation will not be published in that report in a manner that would reveal the operations of the firm supplying the information.

The public record for this investigation may be viewed on the Commission's electronic docket (EDIS) at <http://edis.usitc.gov>. Hearing-impaired individuals are advised that information on this matter can be obtained by contacting the Commission's TDD terminal on 202-205-1810. Persons with mobility impairments who will need special assistance in gaining access to the Commission should contact the Office of the Secretary at 202-205-2000.

Issued: June 29, 2005.

By order of the Commission.

**Marilyn R. Abbott,**

*Secretary to the Commission.*

[FR Doc. 05-13234 Filed 7-5-05; 8:45 am]

**BILLING CODE 7020-02-P**

## INTERNATIONAL TRADE COMMISSION

[Inv. Nos. 701-TA-430B and 731-TA-1019B]

### Hard Red Spring Wheat From Canada; Notice and Scheduling of Remand Proceeding

**AGENCY:** U.S. International Trade Commission.

**ACTION:** Notice.

**SUMMARY:** The U.S. International Trade Commission (the Commission) hereby gives notice of proceedings in the remand investigation ordered by a binational panel established under Article 1904 of the North American Free Trade Agreement (NAFTA) in Hard Red Spring Wheat from Canada, Inv. Nos. 701-TA-430B and 731-TA-1019B (Final).

#### FOR FURTHER INFORMATION CONTACT:

Christopher J. Cassise, Office of Investigations, telephone 202-708-5408 or Michael Diehl, Esq., Office of the General Counsel, telephone (202) 205-3095, U.S. International Trade Commission, 500 E Street, SW., Washington, DC 20436. Hearing-impaired persons are advised that information on this matter can be obtained by contacting the Commission's TDD terminal on (202) 205-1810. The public record for this investigation may be viewed on the Commission's electronic docket (EDIS) at <http://edis.usitc.gov>. General information concerning the Commission may also be obtained by accessing its Internet server (<http://www.usitc.gov>).

#### SUPPLEMENTARY INFORMATION:

##### Background

In October 2003, the Commission determined, by a two-to-two vote, that an industry in the United States was

materially injured by reason of subject imports of hard red spring wheat from Canada. On June 7, 2005, a binational panel formed under Article 1904 of the NAFTA issued a decision in its review of the Commission's determination. The panel remanded the determination to the Commission with an order to take further action consistent with its instructions. The Commission is directed to issue its remand determination within 90 days of the issuance of the Panel's decision, *i.e.*, by September 6, 2005.

##### Reopening the Record

In order to assist it in making its determination on remand, the Commission is reopening the record in this investigation to seek additional information with respect to certain of the instructions provided by the panel.

##### Participation in the Remand Proceedings

Only those interested parties who were parties to the original investigations (*i.e.*, persons listed on the Commission Secretary's service list) may participate in this remand proceeding. No additional filings with the Commission will be necessary for these parties to participate in the remand proceeding. Business proprietary information (BPI) obtained during the remand proceeding will be governed, as appropriate, by the administrative protective order (APO) issued in the original investigations. (Parties who participated in the original investigation, if no longer covered by the APO, are directed to contact the Commission Secretary.)

##### Written Submissions

Information obtained during the remand investigation will be released to the parties under the administrative protective order ("APO") issued in the original investigations on or about July 19, 2005. The remand staff report will be placed in the nonpublic record on August 1, 2005, and a public version will be issued thereafter, pursuant to section 207.22 of the Commission's rules. Parties that are participating in the remand proceedings may file comments on or before August 8, 2005 with respect to how the record, as supplemented, bears on the issues presented by the panel's remand instructions.

No additional factual information may be included in such comments. Comments shall not exceed 30 pages of textual material, double-spaced and single-sided, on stationery measuring 8½ x 11 inches.

All written submissions must conform with the provisions of section 201.8 of the Commission's rules; any submissions that contain business proprietary information (BPI) must also conform with the requirements of sections 201.6, 207.3, and 207.7 of the Commission's rules. The Commission rules do not authorize filing submissions with the Secretary by facsimile or electronic means, except to the extent permitted by section 201.8 of the Commission's rules, as amended, 67 FR 68036 (Nov. 8, 2002).

In accordance with sections 201.16(c) and 207.3 of the Commission's rules, each document filed by a party to the investigations must be served on all other parties to the investigations (as identified by either the public or updated BPI service list), and a certificate of service must be timely filed. The Secretary will not accept a document for filing without a certificate of service.

Parties are also advised to consult the Commission's Rules of Practice and Procedure, part 201, subparts A through E (19 CFR part 201), and part 207, subpart A (19 CFR part 207) for provisions of general applicability concerning written submissions to the Commission.

**Authority:** This action is taken under the authority of the Tariff Act of 1930, title VII.

Issued: June 29, 2005.

By order of the Commission.

**Marilyn R. Abbott,**

*Secretary to the Commission.*

[FR Doc. 05-13236 Filed 7-5-05; 8:45 am]

**BILLING CODE 7020-02-P**

## INTERNATIONAL TRADE COMMISSION

[USITC SE-05-026]

### Government in the Sunshine Act Meeting Notice

**AGENCY HOLDING THE MEETING:** United States International Trade Commission.

**TIME AND DATE:** July 14, 2005 at 11 a.m.

**PLACE:** Room 101, 500 E Street SW., Washington, DC 20436, Telephone: (202) 205-2000.

**STATUS:** Open to the public.

**MATTERS TO BE CONSIDERED:**

1. Agenda for future meetings: None.
2. Minutes.
3. Ratification List.
4. Inv. Nos. 731-TA-1092 and 1093 (Preliminary) (Diamond Sawblades and Parts Thereof from China and Korea)—briefing and vote. (The Commission is currently scheduled to transmit its determination to the Secretary of

Commerce on or before July 18, 2005; Commissioners' opinions are currently scheduled to be transmitted to the Secretary of Commerce on or before July 25, 2005.)

5. Outstanding action jackets: None. In accordance with Commission policy, subject matter listed above, not disposed of at the scheduled meeting, may be carried over to the agenda of the following meeting.

By order of the Commission.

Issued: June 30, 2005.

**Marilyn R. Abbott,**

*Secretary to the Commission.*

[FR Doc. 05-13391 Filed 7-1-05; 2:14 pm]

**BILLING CODE 7020-02-P**

## DEPARTMENT OF LABOR

### Employment and Training Administration

#### Workforce Investment Act; Native American Employment and Training Council

**AGENCY:** Employment and Training Administration, Labor.

**ACTION:** Notice of meeting.

**SUMMARY:** Pursuant to section 10(a)(2) of the Federal Advisory Committee Act (FACA) (Pub. L. 92-463), as amended, and section 166(h)(4) of the Workforce Investment Act (WIA) (29 U.S.C. 2911(h)(4)), notice is hereby given of the next meeting of the Native American Employment and Training Council as constituted under WIA.

**Time and Date:** The meeting will begin at 9 a.m. e.d.t. (eastern daylight time) on Thursday, July 14, 2005, and continue until 5 p.m. e.d.t. that day. The period from 3 p.m. to 5 p.m. e.d.t. on July 14 will be reserved for participation and presentation by members of the public. The meeting will reconvene at 9 p.m. e.d.t. on Friday, July 15, 2005, and adjourn at approximately 12 p.m. e.d.t. on that day.

**Place:** All sessions will be held at the Crowne Plaza Hotel, 1800 Market Street, Philadelphia, Pennsylvania.

**Status:** The meeting will be open to the public. Persons who need special accommodations should contact Ms. Athena Brown on (202) 693-3737 by July 7, 2005.

**Matters to be Considered:** The formal agenda will focus on the following topics: (1) Strategic Planning for Economic Development Report; (2) UI Wage Study-Discussion of Preliminary Findings; (3) Follow-up Issues on Technical Assistance; (4) Follow-up on Resolutions; (5) Timeline for Implementation of Common Measures;

and (6) Proposed Changes to Section 166 Reporting (NAWIA).

**FOR FURTHER INFORMATION CONTACT:** Ms. Athena Brown, Chief, Division of Indian and Native American Programs, Office of National Programs, Employment and Training Administration, U.S. Department of Labor, Room C-4311, 200 Constitution Avenue, NW., Washington, D.C. 20210.

**Telephone:** (202) 693-3737 (VOICE) (this is not a toll-free number) or (202) 693-3841.

Signed at Washington, DC, this 29th day of June, 2005.

**Emily Stover DeRocco,**

*Assistant Secretary, Employment and Training Administration.*

[FR Doc. 05-13216 Filed 7-5-05; 8:45 am]

**BILLING CODE 4510-30-M**

## NATIONAL TRANSPORTATION SAFETY BOARD

### Sunshine Act; Meeting

**TIME AND DATE:** 9:30 a.m. Tuesday, July 12, 2005.

**PLACE:** NTSB Board Room, 429 L'Enfant Plaza, SW., Washington, DC 20594.

**STATUS:** The one item is open to the public.

**MATTER TO BE CONSIDERED:** 7727, Highway Accident Report—Motorcoach Median Crossover and Collision with the Sport Utility Vehicle, Hewitt, Texas, February 14, 2004 (HWY-03-MY-022).

**NEWS MEDIA CONTACT:** Telephone: (202) 314-6100.

Individuals requesting specific accommodations should contact Ms. Carolyn Dargan at (202) 314-6305 by Friday, July 8, 2005.

The public may view the meeting via a live or archived Webcast by accessing a link under "News & Events" on the NTSB home page at <http://www.nts.gov>.

**FOR MORE INFORMATION CONTACT:** Vicky D'Onofrio, (202) 314-6410.

Dated: July 1, 2005.

**Vicky D'Onofrio,**

*Federal Register Liaison Officer.*

[FR Doc. 05-13377 Filed 7-01-05; 1:49 pm]

**BILLING CODE 7533-01-M**

Steel from Italy and Japan, Invs. Nos. 701-TA-355 and 731-TA-659-660 (Review) USITC Pub. 3396 (February 2001). The Commission's determinations were appealed to the U.S. Court of International Trade ("Court"). On December 24, 2002, the Court remanded the Commission's determinations on the grounds that the Commission did not apply the correct "likely" standard; that the Commission failed to specifically discuss each of the four factors outline in 19 U.S.C. 1675a(a)(2)(A)-(D); and that the Commission failed to discuss whether the likely volume of imports of subject merchandise would be significant in absolute terms or relative to U.S. production and consumption, pursuant to 19 U.S.C. 1675a(a)92). *Nippon Steel Corp., et al. v. United States*, Slip Op 02-153 (December 24, 2002).

On first remand, the Commission again found that revocation of the countervailing duty order on GOES from Italy, and the antidumping duty orders on GOES from Italy and Japan would be likely to lead to a continuation or recurrence of material injury to an industry in the United States within a reasonably foreseeable time. Grain-Oriented Silicon Electrical Steel from Italy and Japan, Invs. Nos. 701-TA-355 and 731-TA-659-660 (Remand) (Review), USITC Pub. 3585 (March 2003). On December 17, 2003, the Court issued an opinion remanding the Commission's first remand determination. *Nippon Steel Corp., et al. v. United States*, 301 F. Supp 1355 (CIT 2003). Specifically, the Court remanded the Commission's no discernible adverse impact, cumulation, likely volume, likely price and likely impact findings for reconsideration.

On second remand, the Commission found that revocation of the countervailing duty order on GOES from Italy, and the antidumping duty orders on GOES from Italy and Japan, would be likely to lead to a continuation or recurrence of material injury to an industry in the United States within a reasonably foreseeable time. Grain-Oriented Silicon Electrical Steel from Italy and Japan, Inv. Nos. 701-TA-355 and 731-TA-659-660 (Review) (Remand), USITC Pub. 3650 (Mar. 2004).

On June 15, 2005, the Court issued an opinion affirming in part and remanding in part, the Commission's affirmative sunset determination on second remand. Specifically, the court affirmed the Commission's determination with respect to discernible adverse impact, cumulation, and likely price effects. However, the court remanded the commission's likely volume and likely

adverse impact determinations to the Commission with an order to take further action consistent with its instructions. The Commission is directed to issue its remand determination within 90 days of the issuance of the Court's decision *i.e.*, by September 13, 2005.

#### Reopening the Record

In order to assist it in making its determination on third remand, the Commission is reopening the record in this investigation to seek additional information with respect to certain of the instructions provided by the Court.

#### Participation in the Remand Proceedings

Only those interested parties who were parties to the original investigations (*i.e.*, persons listed on the Commission Secretary's service list) may participate in this remand proceeding. No additional filings with the Commission will be necessary for these parties to participate in the remand proceeding. Business proprietary information (BPI) obtained during the remand proceeding will be governed, as appropriate, by the administrative protective order (APO) issued in the original investigations. (Parties who participated in the original investigation, if no longer covered by the APO, are directed to contact the Commission Secretary.)

#### Written Submissions

Information obtained during the remand investigation will be released to the parties under the administrative protective order ("APO") issued in the original investigations on or about July 28, 2005. The third remand staff report will be placed in the nonpublic record on August 8, 2005, and a public version will be issued thereafter, pursuant to section 207.22 of the Commission's rules. Parties that are participating in the remand proceedings may file comments on or before August 15, 2005 with respect to how the record, as supplemented, bears on the issues presented by the panel's remand instructions.

No additional factual information may be included in such comments. Comments shall not exceed 20 pages of textual material, double-spaced and single-sided, on stationery measuring 8½ × 11 inches.

All written submissions must conform with the provisions of section 201.8 of the Commission's rules; any submissions that contain business proprietary information (BPI) must also conform with the requirements of sections 201.6, 207.3, and 207.7 of the Commission's

rules. The Commission rules do not authorize filing submissions with the Secretary by facsimile or electronic means, except to the extent permitted by section 201.8 of the Commission's rules, as amended, 67 FR 68036 (Nov. 8, 2002).

In accordance with sections 201.16(c) and 207.3 of the Commission's rules, each document filed by a party to the investigations must be served on all other parties to the investigations (as identified by either the public or updated BPI service list), and a certificate of service must be timely filed. The Secretary will not accept a document for filing without a certificate of service.

Parties are also advised to consult the Commission's Rules of Practice and Procedure, part 201, subparts A through E (19 CFR part 201), and part 207, subpart A (19 CFR part 207) for provisions of general applicability concerning written submissions to the Commission.

**Authority:** This action is taken under the authority of the Tariff Act of 1930, title VII.

Issued: July 18, 2005.

By order of the Commission.

**Marilyn R. Abbott,**

*Secretary to the Commission.*

[FR Doc. 05-14483 Filed 7-21-05; 8:45 am]

BILLING CODE 7020-02-M

#### INTERNATIONAL TRADE COMMISSION

[Inv. Nos. 701-TA-430B- and 731-TA-1019B]

#### Hard Red Spring Wheat From Canada; Notice of Revised Schedule for Remand Proceeding

**AGENCY:** U.S. International Trade Commission.

**ACTION:** Notice.

**SUMMARY:** The U.S. International Trade Commission (the Commission) hereby gives notice of a revised schedule for the proceedings in the remand investigation ordered by a binational panel established under Article 1904 of the North American Free trade Agreement (NAFTA) in Hard Red Spring Wheat from Canada, Inv. Nos. 701-TA-430B and 731-TA-1019B (Final).

**FOR FURTHER INFORMATION CONTACT:** Christopher J. Cassise, Office of Investigations, telephone 202-708-5408 or Michael Diehl, Esq., Office of the General Counsel, telephone (202) 205-3095, U.S. International Trade Commission, 500 E Street, SW., Washington, DC 20436. Hearing-impaired persons are advised that

information on this matter can be obtained by contacting the Commission's TDD terminal on (202) 205-1810. The public record for this investigation may be viewed on the Commission's electronic docket (EDIS) at <http://edis.usitc.gov>. General information concerning the Commission may also be obtained by accessing its Internet server (<http://www.usitc.gov>).

#### SUPPLEMENTARY INFORMATION:

##### Background

In October 2003, the Commission determined, by a two-to-two vote, that an industry in the United States was materially injured by reason of subject imports of hard red spring wheat from Canada. On June 7, 2005, a binational panel formed under Article 1904 of the NAFTA issued a decision in its review of the Commission's determination. The panel remanded the determination to the Commission to issue its remand determination within 90 days of the issuance of the Panel's decision, *i.e.*, by September 6, 2005.

On July 6, 2005, the Commission published in the **Federal Register** (70 FR 38981) a notice of the remand proceeding, of the Commission's decision to reopen the administrative record, and of the schedule for written submissions.

On July 7, 2005, the Panel granted a consent motion to extend the time period for filing the remand determination by 30 days to October 5, 2005.

##### Participation in the Remand Proceedings

Parties are referred to the Commission's July 6, 2005 notice with respect to participation in the remand proceedings.

##### Revised Schedule for Written Submissions

Given the extension of time granted by the Panel, the schedule for written submissions is revised as follows. Information obtained during the remand investigation will be released to the parties under the administrative protective order ("APO") issued in the original investigations on or about July 22, 2005. The remand staff report will be placed in the nonpublic record on August 16, 2005, and a public version will be issued thereafter, pursuant to Section 207.22 of the Commission's rules.

Parties that are participating in the remand proceedings may file comments by August 23, 2005 with respect to how the record, as supplemented, bears on the issues presented by the Panel's remand instructions. No additional

factual information may be included in such comments. Comments shall not exceed 30 pages of textual material, double-spaced and single-sided, on stationery measuring 8½ × inches.

Parties that are participating in the remand proceedings may also file final comments on or before September 2, 2005. Final comments are limited to providing commentary on party comments filed by August 23, 2005 and with respect to new information, if any, released on or after August 23, 2005. No additional factual information may be included in such final comments. Final comments shall not exceed 15 pages of textual material, double-spaced and single-sided, on stationery measuring 8½ × 11 inches.

All written submissions must conform with the provisions of section 201.8 of the Commission's rules; any submissions that contain business proprietary information (BPI) must also conform with the requirements of sections 201.6, 207.3, and 207.7 of the Commission's rules. The Commission rules do not authorize filing submissions with the Secretary by facsimile or electronic means, except to the extent permitted by section 201.8 of the Commission's rules, as amended, 67 FR 68036 (Nov. 8, 2002).

In accordance with sections 201.16(c) and 207.3 of the Commission's rules, each document filed by a party to the investigations must be served on all other parties to the investigations (as identified by either the public or updated BPI service list), and a certificate of service must be timely filed. The Secretary will not accept a document for filing without a certificate of service.

Parties are also advised to consult the Commission's Rules of Practice and Procedure, part 201, subparts A through E (19 CFR part 201), and part 207, subpart A (19 CFR part 207) for provisions of general applicability concerning written submissions to the Commission.

**Authority:** This action is taken under the authority of the Tariff Act of 1930, title VII.

By order of the Commission.

Issued: July 18, 2005.

**Marilyn R. Abbott,**

*Secretary to the Commission.*

[FR Doc. 05-14482 Filed 7-21-05; 8:45 am]

**BILLING CODE 7020-02-M**

## INTERNATIONAL TRADE COMMISSION

### Summary of Commission Practice Relating to Administrative Protective Orders

**AGENCY:** U.S. International Trade Commission

**ACTION:** Summary of Commission practice relating to administrative protective orders.

**SUMMARY:** Since February 1991, the U.S. International Trade Commission ("Commission") has issued an annual report on the status of its practice with respect to violations of its administrative protective orders ("APOs") in investigations under Title VII of the Tariff Act of 1930 in response to a direction contained in the Conference Report to the Customs and Trade Act of 1990. Over time, the Commission has added to its report discussions of APO breaches in Commission proceedings other than under Title VII and violations of the Commission's rules including the rule on bracketing business proprietary information ("BPI") (the "24-hour rule"), 19 CFR 207.3(c). This notice provides a summary of investigations of breaches in proceedings under Title VII, section 421 of the Trade Act of 1974, as amended, and section 337 of the Tariff Act of 1930, as amended, completed during calendar year 2004. There were no completed investigations of 24-hour rule violations during that period, but there were two violations of Commission rule 210.34(d), the requirement that APO signatories inform the Commission in writing immediately upon learning that there has been a court order or discovery request for confidential business information ("CBI") that has been released to signatories under an APO. The Commission intends that this report educate representatives of parties to Commission proceedings as to some specific types of APO breaches encountered by the Commission and the corresponding types of actions the Commission has taken.

#### FOR FURTHER INFORMATION CONTACT:

Carol McCue Verratti, Esq., Office of the General Counsel, U.S. International Trade Commission, telephone (202) 205-3088. Hearing impaired individuals are advised that information on this matter can be obtained by contacting the Commission's TDD terminal at (202) 205-1810. General information concerning the Commission can also be obtained by accessing its Internet server (<http://www.usitc.gov>).

**APPENDIX B**

**REVIEW OF SELECTED LITERATURE  
REGARDING U.S. MARKET IMPACTS FROM IMPORTS**



## INTRODUCTION AND OVERVIEW

This appendix reviews selected literature on the effects on U.S. wheat markets of U.S. imports of wheat. Where possible, effort was made to find estimates of the effects of U.S. wheat imports specifically on U.S. markets for hard red spring wheat (hereinafter HRS). As well, and given the dearth of such HRS-related literature, staff has reviewed selected literature on the import-induced effects on the U.S. all-wheat market, where all-wheat price and quantity are aggregated across the five U.S. wheat classes. Only selected studies published during the period from January 1, 1994, through September 30, 2003 are reviewed here.<sup>1</sup> The following eight reports and/or studies are reviewed below:

- Three studies on the import-induced effects on the U.S. market for HRS:

Jeremy W. Mattson and Won W. Koo, "Canadian Exports of Wheat and Barley to the United States and Impacts on U.S. Domestic Prices, in Won W. Koo and William W. Wilson, eds., *Agricultural Trade Under CUSTA* (Hauppauge, NY: Nova Science Publishers, Inc., 2002), pp. 73-92.

Kevin McNew and Vincent H. Smith, "The Impact of Canadian Wheat Imports on Regional U.S. Wheat Prices," Montana State University, Agricultural Marketing Policy Center briefing paper No. 45 (August 2003), pp. 1-2.

Samarendu Mohanty and E. Wesley F. Peterson, "Estimation of Demand for Wheat by Classes for the United States and The European Union," *Agricultural and Resource Economics Review*, Vol. 28, No. 2 (October 1999), pp. 158-168.

- Various reports on the import-induced effects on the U.S. all-wheat market:

Ronald A. Babula, David A. Bessler, and Warren S. Payne, "Dynamic Relationships Among Selected U.S. Commodity Based, Value-Added Markets: Applying Directed Acyclic Graphs to a Time Series Model," U.S. International Trade Commission unpublished working paper No. ID-07, July 2003, pp. 1-21.

Karl M. Rich, Ronald A. Babula, and Robert F. Romain, "The Dynamics in the Wheat and Wheat Products Sector: U.S.-Canada Comparisons," as chapter 5 in Won W. Koo and William W. Wilson, eds., *Agricultural Trade Under CUSTA* (Hauppauge, NY: Nova Science Publishers, Inc., 2002), pp. 93-117.

Three studies that were related to the import-induced effects on the U.S. all-wheat market and were submitted to *Wheat, Wheat Flour, and Semolina, Investigation No. 22-54* (these three analyses are cited and summarized in various articles and reports cited below):

Analysis submitted by Commission staff;

Analysis submitted by the Canadian Wheat Board; and

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<sup>1</sup> In 1994 the Commission and many others performed extensive modeling of the import-induced U.S. market effects of U.S. wheat imports in *Wheat, Wheat Flour, and Semolina, Investigation No. 22-54*, USITC Publication 2794 (July 1994).

Three studies were located dealing with import-induced effects on U.S. HRS markets, and these comprise the first section of this review. The three HRS-related studies are reviewed in the greatest detail given their greater relevance to this NAFTA remand.

The second section focuses on selected, but more numerous, studies on import-induced effects on U.S. all-wheat markets. Nonetheless, HRS is a major component of the U.S. all-wheat market, having accounted for 22 percent to 24 percent of U.S. production during the market year period 2000/2001 through 2002/2003.<sup>2</sup> Generally, no research was located that would contradict the contention that import-induced effects which hold for the U.S. all-wheat market are likely valid, at least directionally or qualitatively, for the U.S. HRS market. This second section's studies are further subdivided into two groups: (1) a subgroup of two recent studies on import-induced effects on U.S. all-wheat markets and (2) a second subgroup of three modeling analyses of import-induced U.S. all-wheat market effects specifically submitted in *Wheat, Wheat Flour, and Semolina, Investigation No. 22-54* in 1994.<sup>3</sup> The three reviewed analyses related to the investigation on wheat, wheat flour, and semolina were submitted by the Canadian Wheat Board, by the USDA, and by Commission staff, and have been summarized and reviewed in various reports and journal articles cited below.

## LITERATURE ON IMPORT-INDUCED EFFECTS ON U.S. HRS WHEAT MARKETS

Three studies were located on import-induced effects on U.S. markets for HRS wheat.

### Mattson and Koo (2002)

Mattson and Koo<sup>4</sup> aimed to estimate econometrically the factors that affect U.S. imports of Canadian HRS wheat, durum wheat, malting barley, and feed barley (hereinafter, four modeled grains). These four flows of Canadian grains are interchangeably considered Canadian exports. This review examines Mattson and Koo's model, analysis, estimates, and results related to HRS wheat only.<sup>5</sup>

Mattson and Koo specified and estimated two U.S. HRS equations: a Canadian export equation of HRS wheat to the U.S. and a price-dependent "inverse" U.S. excess demand equation (hereinafter, the export and excess demand equations, respectively). Export levels of U.S.-bound Canadian HRS were assumed to depend (i.e., made a function of) real deflated U.S. farm price received for HRS, the real Canadian/U.S. dollar exchange rates, U.S. domestic HRS consumption, payments made under the U.S. Export Enhancement Program or EEP, a quality variable for the U.S. crop, binary variables for the 1989 implementation of CUSTA and the period of Canadian rail subsidies, and other binary variables.<sup>6</sup> In their

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<sup>2</sup> These shares were calculated by staff using USDA data.

<sup>3</sup> *Wheat, Wheat Flour, and Semolina, Investigation No. 22-54*, USITC Publication 2794 (July 1994).

<sup>4</sup> Jeremy W. Mattson and Won W. Koo, "Canadian Exports of Wheat and Barley to the United States and Impacts on U.S. Domestic Prices, in Won W. Koo and William W. Wilson, eds., *Agricultural Trade Under CUSTA* (Hauppauge, NY: Nova Science Publishers, Inc., 2002), pp. 73-92.

<sup>5</sup> For the four commodities, the authors estimated the eight equations in double log format, with intercepts, and with three-stage least squares. The HRS and durum equations were estimated with quarterly, 1986-1999 data. Jeremy W. Mattson and Won W. Koo, "Canadian Exports of Wheat and Barley to the United States," pp. 83-86.

<sup>6</sup> Jeremy W. Mattson and Won W. Koo, "Canadian Exports of Wheat and Barley to the United States," pp. 82-89. The other binary variables include a set of three quarterly seasonal variables, as well as a binary variable defined for the period of the "U.S./Canadian Wheat Peace Agreement," for the year ending September 11, 1995, when separate U.S. tariff rate quotas were imposed on certain U.S. imports of HRS wheat and of durum wheat from

(continued...)

“inverse” U.S. excess demand for Canadian HRS wheat, Mattson and Koo posited U.S. HRS farm price as a function of U.S. domestic supply, the volume of U.S.-bound Canadian HRS exports, lagged U.S. HRS farm price, a quality variable for the U.S. crop, and three quarterly seasonal binary variables.<sup>7</sup> Mattson and Koo’s principal HRS-related results are as follows:

- U.S.-bound Canadian HRS elicited far-less-than-proportional declines in U.S. HRS farm price. The negative and statistically significant estimated coefficient on U.S.-bound HRS imports in the price-dependent excess demand equation was -0.017, and suggests that each percent rise in the volume of U.S. imports of Canadian HRS has elicited an average U.S. farm price decline for HRS of 0.017 percent.<sup>8</sup>
- Because of statistically insignificant coefficient estimates in the HRS export equation, Mattson and Koo conclude that U.S. HRS farm prices and U.S. HRS consumption did not appreciably or importantly influence the volume of U.S.-bound exports of Canadian HRS, although this conclusion’s validity may be compromised by collinear variables.<sup>9</sup>
- Due to positive and statistically significant coefficient estimates, Mattson and Koo concluded that U.S.-bound exports of Canadian HRS were encouraged by the rising relative strength of the U.S. dollar, the level of EEP export subsidy payments, and the 1989 implementation of the CUSTA agreement.<sup>10</sup> Negative and statistically significant coefficient estimates suggested that high (low) U.S. crop quality discourages (encourages) U.S. purchases of Canadian HRS.<sup>11</sup> The Canadian rail subsidy tended to discourage such purchases by subsidizing transport of west Canada grain to ports for export to non-U.S. destinations.<sup>12</sup>

### **McNew and Smith (2003)**

This is very similar to an analysis previously contributed to the underlying investigation on behalf of the U.S. producers, although the material has been summarized into a university briefing paper. Having noted that although Canadian-sourced imports have accounted for no more than 3 percent of total U.S. wheat supplies during 1990–2002, McNew and Smith<sup>13</sup> contended that import-induced effects on U.S. wheat farmers were injurious to U.S. HRS (and durum) growers, and such injury is manifest regionally, rather than nationally. Their HRS-related model analysis and results are reviewed here. They

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<sup>6</sup> (...continued)

Canada. The latter binary variable was not included in the HRS equations.

<sup>7</sup> They chose a lagged price in order to account for any dynamic price/export relationship. Ibid., pp. 83-88.

<sup>8</sup> Ibid., pp.

<sup>9</sup> Commission staff questions the validity of this conclusion as the authors apparently did not consider the potential collinearity of these two variables. It is well-known that collinearity among regressors (here U.S price and consumption of HRS) may generate misleading t-values for the coefficient estimates and compromise the validity of such inferential assertions of non-importance.

<sup>10</sup> Jeremy W. Mattson and Won W. Koo, “Canadian Exports of Wheat and Barley to the United States ,” pp. 85-88.

<sup>11</sup> Ibid., pp. 73-92.

<sup>12</sup> Ibid.

<sup>13</sup> Kevin McNew and Vincent H. Smith, “The Impact of Canadian Wheat Imports on Regional U.S. Wheat Prices,” Montana State University, Agricultural Marketing Policy Center briefing paper No. 45 (August 2003), pp. 1-6.

contend that HRS and durum wheat imports enter primarily through ports in North Dakota and Minnesota, and have far more pronounced decreasing effects on farm price regionally in the U.S. Northern Plains and Pacific Northwest where most U.S. HRS and durum wheats are produced, than would register nationally.<sup>14</sup> As a result, McNew and Smith collected monthly prices, stock levels, and use levels across 57 separate HRS markets in the U.S. Northern Plains and Pacific Northwest regions, which are primarily serviced by monthly volumes of Canadian-sourced imports that enter U.S. Customs from Pembrina, ND, Duluth, MN, Seattle, WA, and Great Falls, MT (hereinafter, four examined U.S. ports of entry in the analysis).<sup>15</sup>

For each of the 57 examined HRS markets, the U.S. price paid to farmers at the elevator was assumed to be dependent on a stock share variable defined as the share of U.S. all-wheat use accounted for by the USDA's projected all-wheat ending stocks;<sup>16</sup> the volume of Canadian "wheat" imports into the four examined U.S. ports of entry which primarily service the examined 57 HRS markets;<sup>17</sup> and the apparently nominal U.S./Canadian dollar exchange rate.<sup>18</sup> Their analysis also accounted for spatial price variations across the 57 HRS markets by having included a market-specific binary variable.<sup>19</sup> McNew and Smith estimated the 57 equations as a spatial system with a maximum likelihood general regression estimator, and accounted for serially correlated errors.<sup>20</sup> They then used the coefficient estimates to calculate the effects of a one-million bushel increase in Canadian wheat imports into the four examined ports on market-specific farm prices received for HRS at the elevators. Their analysis suggested generated a number of results:

- A million-bushel rise in imports elicited per-bushel farm HRS price declines that ranged from 3.7 cents to 7.7 cents, and which averaged 5.3 cents across the 48 markets with statistically significant import coefficient estimates.<sup>21</sup>
- The stock ratio variable had a statistically significant negative effect on farm prices for HRS at the elevators, while the Canadian/U.S. dollar exchange rate had a positive effect.<sup>22</sup>
- Regional differences in import-induced effects on U.S. HRS price at the elevators emerged from close examination of the 48 market-specific coefficients on Canadian wheat imports that achieved statistical significance. The larger import-induced impacts on U.S. HRS price were

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<sup>14</sup> Kevin McNew and Vincent H. Smith, "The Impact of Canadian Wheat Imports," pp. 1-2.

<sup>15</sup> Ibid., pp. 1-2.

<sup>16</sup> Although in each 57 HRS farm price equations the farm price of HRS at the relevant market's elevator is used, it is unclear whether the stock share variable is calculated for HRS wheat. The stock share variable in each equation is apparently calculated for the entire U.S. and for all five U.S. classes of wheat. Ibid., pp. 1-6.

<sup>17</sup> The paper states that the import variable is the volume of Canadian wheat imports into these four ports and does not indicate if the variable is the volume of Canadian HRS wheat imports. Kevin McNew and Vincent H. Smith, "The Impact of Canadian Wheat Imports," pp. 1-6.

<sup>18</sup> Ibid.

<sup>19</sup> Ibid., p. 3.

<sup>20</sup> They used Anselin's procedure. Coefficient estimates were restricted for the effects of stock shares and exchange rates to be the same across all markets. Kevin McNew and Vincent H. Smith, "The Impact of Canadian Wheat Imports," pp. 4-6. For more on the estimation procedures, see L. Anselin. *Spatial Econometrics: Methods and Models* (Dordrecht, Netherlands: Kluwer Academic Publishers, 1998).

<sup>21</sup> The chosen level of statistical significance was 10 percent. Kevin McNew and Vincent H. Smith, "The Impact of Canadian Wheat Imports," p. 4.

<sup>22</sup> Ibid., pp. 4-6.

generally found in North Dakota and Minnesota markets proximal to those ports of the four examined ports of entry that were located in those states.<sup>23</sup>

Commission staff offers several observations about this work. First, the paper provided inadequate evidence of regression quality or goodness of fit, by having reported only a system-wide r-squared value (0.98). Such system-wide values are not widely accepted for systems estimations. Given the admittedly parsimonious specification of each equation, more evidence is required to discern the validity and/or reliability of the estimated price responses. At the very least, widely used and accepted diagnostic tests are available to discern whether the equations' estimated residual behavior suggests adequate model specification.<sup>24</sup> Second, no information was provided on the stationarity properties of the data. It is well-known that using nonstationary time series data in regressions encounters potentially substantial econometric problems, including potentially compromised inference statistics and in some cases estimate bias.<sup>25</sup> Without test evidence on the stationarity properties of the modeled data series, one cannot discern the quality and reliability of the inference, coefficient estimates driving the estimated HRS farm price impacts, or the authors' conclusions. Third, each equation's data may be cointegrated, and no tests for cointegration were provided. Failure to properly exploit cointegration properties of nonstationary data series could result in compromised inference and in some cases, biased estimates.<sup>26</sup> Fourth, there is inadequate explanation on why the authors chose to construct the stock share variable with U.S. all-wheat data rather than with U.S. HRS data. Fifth, it is not clear why the stock variable was constructed with USDA projected stocks rather than stocks actually observed.<sup>27</sup>

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<sup>23</sup> Ibid., p. 4.

<sup>24</sup> U.S. International Trade Commission (USITC), *Wheat, Wheat Flour, and Semolina*, chapter II and Appendix N; and Ronald A. Babula, Cathy L. Jabara, and John Reeder, "Role of Empirical Evidence in U.S./Canadian Dispute in U.S. Imports of Wheat, Wheat Flour, and Semolina," *Agribusiness: An International Journal*, Vol. 12, No. 2 (April 1996), pp. 191-192.

<sup>25</sup> C.W.J. Granger and Paul Newbold, *Forecasting Economic Time Series* (New York: Academic Press, 1986), pp. 1-4. A good summary of the problems of estimating regressions with nonstationary data is provided by David F. Hendry, "Econometric Modelling with Cointegrated Variables: An Overview," *Oxford Bulletin of Economics and Statistics*, Vol. 48 (1986), pp. 201-212.

<sup>26</sup> Soren Johansen and Katarina Juselius, "Maximum Likelihood Estimation and Inference on Cointegration – With Applications to the Demand for Money," *Oxford Bulletin of Economics and Statistics*, Vol. 52, No. 2 (1990), pp. 169-210.

<sup>27</sup> Kevin McNew and Vincent H. Smith, "The Impact of Canadian Wheat Imports," p. 3.

## Mohanty and Peterson (1999)

Mohanty and Peterson<sup>28</sup> began by noting that many past studies estimating U.S. wheat demand relations have either ignored or failed to fully recognize two important factors: product differentiation of wheat and the dynamics in wheat demand functions. They note that in addition to wheat being differentiated in world markets by wheat classes oriented to end use (e.g. durum class for pasta; soft and hard red winter wheats for pastries, cookies, crackers, etc.), commonly-classed wheat is often differentiated by country of origin as well (e.g. Canadian and U.S. consignments of durum).<sup>29</sup> They also contend that it is important for wheat demand functions to capture dynamic elements and that many prior studies have estimated static wheat demand functions which failed to capture consumer behavior's adjustment processes that typically span multi-period time frames.<sup>30</sup> Such processes of adjustment that form wheat demand preferences and that typically endure beyond a single time period (year, quarter, month) include preference patterns for classes of wheat among end uses, demand effects of technological changes (changes in milling technology), and long term effects of trade agreements (e.g. NAFTA, CUSTA), among others.<sup>31</sup> To account for such multi-period dynamics and sources of demand differentiation based on wheat end-use and country-of-origin, Mohanty and Peterson provided detailed theoretical specifications, and then proposed a general dynamic specification of an Almost-Ideal Demand System (AIDS) model.<sup>32</sup>

Mohanty and Peterson divided world wheat into three class-based quantity groups: durum wheat, spring wheat, and "other" wheat with quantities of other non-durum and non-spring wheat classes.<sup>33</sup> They then specified dynamic AIDS demand systems for the European Union and for the United States for these wheat classes. We only review the analysis and results generated by their system of three U.S. demand equations for spring wheat: U.S. demand for U.S. spring wheat, U.S. demand for imports of Canadian spring wheat, and U.S. demand for U.S.-grown other wheat. Two principal results emerged from the Mohanty and Peterson results for U.S. spring wheat:

- The study's results suggest that U.S. demand for spring wheat is somewhat elastic, with each percent rise in U.S. price eliciting a 0.85 percent drop in demand for U.S.-produced spring wheat. Mohanty and Peterson suggest that U.S. farm and other policies supporting U.S. spring wheat prices at higher than normal level could ultimately lead to substantial decreases in U.S. demand for domestically produced spring wheat and encourage U.S. imports of Canadian spring wheat.<sup>34</sup>
- Results suggest that U.S. demand for imports of Canadian wheat is highly responsive to price and that each percentage drop of Canadian spring wheat price in the U.S. market elicits a far greater-than-proportional 2.76 percent rise in U.S. demand for such Canadian wheat. Mohanty and Peterson state that a Canadian policy (by CWB or farm subsidies, e.g.) that reduces Canadian

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<sup>28</sup> Samarendu Mohanty and E. Wesley F. Peterson, "Estimation of Demand for Wheat by Classes for the United States and The European Union," *Agricultural and Resource Economics Review*, Vol. 28, No. 2 (October 1999), pp. 158-168.

<sup>29</sup> Samarendu Mohanty and E. Wesley F. Peterson, "Estimation of Demand for Wheat by Classes," pp. 158-160.

<sup>30</sup> *Ibid.*, pp. 159-160.

<sup>31</sup> *Ibid.*, p. 159.

<sup>32</sup> Mohanty and Peterson derived a dynamic AIDS demand system (readers are referred to their article for the rather complex specifications based on shares which nest numerous arguments). Samarendu Mohanty and E. Wesley F. Peterson, "Estimation of Demand for Wheat by Classes," pp. 159-162, 166.

<sup>33</sup> *Ibid.*, pp. 159-162.

<sup>34</sup> *Ibid.*, pp. 164-166.

spring prices in the United States could lead to substantial displacement of U.S. spring with Canadian spring in that market.<sup>35</sup>

## LITERATURE ON IMPORT-INDUCED EFFECTS ON U.S. ALL-WHEAT MARKETS

### Babula, Bessler, and Payne (July 2003)

Babula, Bessler, and Payne<sup>36</sup> combined recently developed methods of directed acyclic graph (DAG) analysis with well-known Bernanke methods of structural vector autoregression (VAR) modeling and estimated a quarterly “DAG/Bernanke VAR” model of the U.S. markets for wheat and principal wheat-based products.<sup>37</sup> The econometric model was built to illuminate updated estimates of market-driving and policy-relevant market elasticities, as well as the dynamic natures of the patterns of interactions among U.S. wheat-related markets. They simulated the DAG/Bernanke VAR model’s impulse response function under two separate shocks: (1) a presumably import-induced change in U.S. market-clearing wheat quantity, and (2) a change in all-wheat U.S. farm price.<sup>38</sup> As well, they provided an analysis of decompositions of forecast error variance or FEV that illuminate patterns of causality among the modeled endogenous variables.<sup>39</sup> Their results included the following:

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<sup>35</sup> Ibid.

<sup>36</sup> Ronald A. Babula, David A. Bessler, and Warren S. Payne, “Dynamic Relationships Among Selected U.S. Commodity Based, Value-Added Markets: Applying Directed Acyclic Graphs to a Time Series Model,” U.S. International Trade Commission unpublished working paper No. ID-07, July 2003, pp. 1-21.

<sup>37</sup> More specifically, Babula, Bessler, and Payne followed work by Bessler and Akleman, and by Haigh and Bessler, and applied the methods of the Bernanke structural VAR and DAG analysis to U.S. markets for wheat (“all wheat” using U.S. Department of Agriculture data that aggregates across all U.S. wheat classes, including HRS), wheat flour, mixes and doughs, bread, wheat-based breakfast cereals, and cookies/crackers. Babula, Bessler, and Payne specified a VAR model of the seven endogenous wheat-based variables by having posited the current values of each endogenous variable as a function of a set number of lagged values (here one) of itself and of the remaining endogenous variables. As well, they placed the following variables in each of the VAR model’s seven equations: a set of three quarterly binary variables to account for seasonal effects; a time trend to account for time-dependent influences not directly modeled; and a set of binary variables defined for the 1989 implementation of the Canada/U.S. Free Trade Agreement, the implementation of NAFTA, and the tariff rate quotas imposed separately on certain U.S. imports of durum and on non-durum wheat from Canada for the year ending September 11, 1995. For a first-time application of these DAG/Bernanke modeling procedures to U.S. agriculture, see D. Bessler and D. Akleman, “Farm Prices, Retail Prices, and Directed Graphs: Results for Pork and Beef,” *American Journal of Agricultural Economics*, Vol. 80, No. 5 (1998), pp. 1144-49; and M. Haigh and D. Bessler, “Causality and Price Discovery: An Application of Directed Acyclic Graphs,” *Journal of Business* (May, 2002), forthcoming. For Bernanke’s structural VAR methods, see B. Bernanke, “Alternative Explanations of the Money-Income Correlation,” *Carnegie-Rochester Conference Series on Public Policy*, Vol. 25 (1986), pp. 45-100.

<sup>38</sup> Ronald A. Babula, David A. Bessler, and Warren S. Payne, “Dynamic Relationships Among Selected U.S. Commodity Based, Value-Added Markets,” pp. 11-12. Babula, Bessler and Payne imposed shocks of an import-induced decline in U.S. market-clearing quantity and a rise in U.S. farm price, although this review characterizes these shocks as “changes” which can be either increases or decreases. This is because the model is a linear one and hence the sign of the imposed shock is arbitrary. For instance, the impulse responses from imposing a 10 percent decline in price or quantity may be obtained by simply multiplying the impulse responses from an imposed 10 percent rise in the price or quantity by the scalar -1.0. For a discussion of this linearity property of impulse response generated by linear VAR models, see R. Babula, P. Colling, and G. Gajewski, “Dynamic Impacts of Rising Lumber Prices on Housing-Related Prices,” *Agribusiness: An International Journal*, Vol. 10 (1994), pp. 377.

<sup>39</sup> For a discussion of how FEV decompositions illuminations of patterns of causality among endogenously modeled variables in VAR models, see David A. Bessler, “An Analysis of Dynamic Economic Relationships: An  
(continued...)

- Each presumably import-induced decline (increase) in market clearing wheat quantity, on average historically, elicits an oppositely-directed 0.7 percent rise (decline) in U.S. all-wheat farm price.<sup>40</sup> These quarterly responses in U.S. all-wheat price would, on average, last about a year, and take on a bell-shaped pattern.
- Each percentage rise (fall) in U.S. farm price imposed on the model would generate, on average historically, an oppositely-directed decline (increase) in U.S. market-clearing quantity of 0.5 percent.<sup>41</sup> The quarterly quantity responses generally commence strongly, decline over time, and last for about a year.
- FEV decompositions, which provided indications of causality over different quarterly monthly time horizons, suggested that changes in U.S. market-clearing all-wheat quantity (such changes may be import-induced) may explain up to 14 percent of U.S. farm all-wheat price's behavior.<sup>42</sup>

The Babula, Bessler, and Payne model generated strong evidence that it achieved literature-established standards of adequate specification.<sup>43</sup>

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<sup>39</sup> (...continued)

Application to the U.S. Hog Market," *Canadian Journal of Agricultural Economics*, Vol. 24 (1984), pp. 109-124; *See also* Ronald A. Babula, David A. Bessler, and Warren S. Payne, "Dynamic Relationships Among Selected U.S. Commodity Based, Value-Added Markets," pp. 1-6.

<sup>40</sup> Import-induced rise in market clearing quantity refers to a rise in imports, which would, on balance, increase the overall amounts of wheat bought and sold domestically. Following findings of previous literature and explained by Babula, Bessler, and Payne, the change in market-clearing quantity imposed on the model could have arisen from imports (as well as from other sources, say U.S. production) because the imports and U.S. product were likely highly, perhaps perfectly, substitutable in the U.S. market. Consequently, a change in imports and in U.S. supply would likely have similar or identical effects on U.S. all-wheat price. Ronald A. Babula, David A. Bessler, and Warren S. Payne, "Dynamic Relationships Among Selected U.S. Commodity Based, Value-Added Markets," pp. 11-12.

<sup>41</sup> *Ibid.* pp. 11-12.

<sup>42</sup> *Ibid.*, pp. 13-15.

<sup>43</sup> They offered the well-known reasoning why the VAR model was appropriately estimated with ordinary least squares or OLS over the quarterly 1986/87:1 – 2002/2003:2 sample period. They provided a detailed inquiry into the stationarity properties of their modeled data series using the following unit root tests: Dickey-Fuller tests, the Sargan-Bhargava test, and the unit root tests of Kwiatowski, Phillips, Schmidt, and Shin. Summarily, all of the endogenous variables were deemed stationary in logged levels, except logged bread price. Consequently, there was not a need to exploit cointegration, and a VAR model of the following was justified: all variables in logged levels, except bread price, which was included in first differences of logged levels. Tiao and Box's lag selection procedure was applied and suggested a one-quarter lag structure. Ljung-Box Portmanteau and Dickey-Fuller tests on the model's estimated residuals suggested that the model was adequately specified. Exhaustive efforts were made to utilize the information inherent in contemporaneously correlated current errors using DAG analysis. *See* Ronald A. Babula, David A. Bessler, and Warren S. Payne, "Dynamic Relationships Among Selected U.S. Commodity Based, Value-Added Markets," pp. 1-22. *See also* D. Kwiatowski, P. Phillips, P. Schmidt, and U. Shin, "Testing the Null Hypothesis of Stationarity Against the Alternative of a Unit Root: How Sure Are We that Economic Time Series Have a Unit Root?" *Journal of Econometrics*, Vol. 54 (1992): 159-178; and J. Sargan and A. Bhargava, "Testing Residuals from Least Squares Regression for Being Generated by a Gaussian Random Walk," *Econometrica*, Vol. 51(1983), pp. 153-174.

### Rich, Babula, and Romain (2002)

Compared with Babula, Bessler, and Payne, an earlier econometric study by Rich, Babula, and Payne<sup>44</sup> on the same wheat-based markets used more traditional methods, utilized an earlier sample, but focused on a wider analytical purview. Rich, Babula, and Romain specified, and then estimated VAR models of the U.S. and Canadian market systems for wheat, wheat flour, mixes/doughs, bread, wheat breakfast cereals, and cookies/crackers (the U.S. model used quarterly data; the Canadian model used triennial data.)<sup>45</sup> They then simulated and compared the results of the U.S. and Canadian models. The goal was to illuminate, and compare across the U.S. and Canadian systems, updated estimates of market-driving and policy-relevant market elasticities, as well as the dynamic natures of the patterns of interactions among wheat-related markets. Rich, Babula, and Romain simulated several common shocks on each model's impulse response function and provided an analysis of each model's patterns of FEV decompositions. The U.S. model and related analysis are reviewed here. Rich, Babula, and Romain generated substantial evidence that the U.S. and Canadian models achieved literature-established standards of model adequacy.<sup>46</sup>

Among the several imposed shocks simulated with the U.S. model, Rich, Babula, and Romain simulated a change in market-clearing U.S. all-wheat quantity and in the all-wheat U.S. farm price on the U.S. model.<sup>47</sup> The U.S. model generated results similar to those generated by Babula, Bessler, and Payne, and suggested:

- That each percentage decline (increase) in U.S. all-wheat quantity, which could have conceivably been import-induced, elicits, on average historically, oppositely-directed increases (decreases) of 0.8 percent in all-wheat U.S. farm price, with quarterly responses having taken-on a bell-shaped pattern that lasted for nearly a year.<sup>48</sup>

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<sup>44</sup> Karl M. Rich, Ronald A. Babula, and Robert F. Romain, "The Dynamics in the Wheat and Wheat Products Sector: U.S.-Canada Comparisons," as chapter 5 in Won W. Koo and William W. Wilson, eds., *Agricultural Trade Under CUSTA* (Hauppauge, NY: Nova Science Publishers, Inc., 2002), pp. 93-117.

<sup>45</sup> Karl M. Rich, Ronald A. Babula, and Robert F. Romain, "The Dynamics in the Wheat and Wheat Products Sector," pp. 93-117. More specifically, they estimated a levels VAR of these wheat-based markets using quarterly market-year data for the 1985/86 – 1999/2000 period for the U.S. model, and triennial market year data for the 1981/82 – 1999/2000 period for the Canadian model, with "split" years denoting market years, as opposed to calendar years.

<sup>46</sup> More specifically for the U.S. model, the following battery of unit root tests were applied to the logged data to show that six of the seven modeled series were likely stationary, and thereby validated the choice of a VAR model over a cointegration model (vector error-correction) model: Dickey-Fuller tests, test of Kwiatowski et. al., and tests of Sargan and Bhargava. The U.S. VAR model was specified in logged levels for six stationary variables in first differences for the one nonstationary variable. A lag search procedure developed by Tiao and Box was used to impose a one-lag structure on the quarterly model, which was then estimated over the market-year period of 1986/87:1 – 2002/2003:2. Binary variables were included to account for important effects including seasonality, trend, the Canada/U.S. free trade agreement, NAFTA, and the U.S. tariff rate quotas imposed separately on certain imports of Canadian HRS and durum wheat during the year ending September 11, 1995. Finally, diagnostic evidence from Dickey-Fuller and Ljung-Box Portmanteau tests conducted on the model's estimated residuals suggested that the model was adequately specified. Readers interested in all of this note's different references are referred to the above paper by Babula, Bessler, and Payne.

<sup>47</sup> Karl M. Rich, Ronald A. Babula, and Robert F. Romain, "The Dynamics in the Wheat and Wheat Products Sector," pp. 110-114.

<sup>48</sup> *Ibid.*, pp. 111-112.

- That each percentage decline (increase) in U.S. wheat farm price elicits, on average historically, oppositely-directed increases (decreases) of 0.6 percent in U.S. wheat market-clearing quantity.

### **Modeling Analyses Related to *Wheat, Wheat Flour, and Semolina: Investigation No. 22-54 (1994)***

#### **Commission Staff Analysis on the Import-Induced Effects on U.S. All-Wheat Markets<sup>49</sup>**

Commission staff and others did extensive econometric modeling work that arose from *Wheat, Wheat Flour, and Semolina*, Investigation No. 22-54, in 1994. This work focused directly on estimating import-induced effects on the U.S. all-wheat market (hereinafter, U.S. wheat market), particularly on U.S. farm price and on other U.S. all-wheat market variables. Listed as follows, this work used the same model, reported the results of the same set of simulations, and has been published in a variety of forms: as the staff report in Investigation No. 22-54, as an article by Babula, Jabara, and Reeder, and as an article by Babula and Jabara (hereinafter, USITC/BJR/BJ).<sup>50</sup>

USITC/BJR/BJ estimated a quarterly VAR model in logged levels of the following U.S. all-wheat market variables: U.S. farm price, supply, use, exports, and ending stocks, which diagnostic evidence suggested was adequately specified.<sup>51</sup> Based on questionnaire responses from the investigation, USITC/BJR/BJ assumed that comparatively classed consignments of U.S. and Canadian wheat are highly, perhaps perfectly, substitutable in the United States, enabling the model's impulse response function to be shocked with a presumably import-induced rise in U.S. domestic (all-wheat) supply.<sup>52</sup> A number of impulse response multipliers emerged that provided the following results: on average historically, each import-induced percentage increase in U.S. domestic wheat supply elicited:

- a 0.42 percent fall in the U.S. all-wheat price of all-wheat;
- a proportional 1.0 percent rise in U.S. domestic all-wheat use; and

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<sup>49</sup> Collectively, these reports and articles are as follows: USITC, *Wheat, Wheat Flour, and Semolina, Investigation No. 22-54*, USITC Publication 2794 (July 1994), chapter II and Appendix N; Ronald A. Babula, Cathy L. Jabara, and John Reeder, "Role of Empirical Evidence in U.S./Canadian Dispute in U.S. Imports of Wheat, Wheat Flour, and Semolina," *Agribusiness: An International Journal*, Vol. 12, No. 2 (April 1996), pp. 183-199; and Ronald A. Babula and Cathy L. Jabara, "The Wheat War of 1994: A Comment," *Canadian Journal of Agricultural Economics*, Vol. 47 (1999), pp. 89-98.

<sup>50</sup> Ibid.

<sup>51</sup> More specifically, the vector autoregression or VAR model was econometrically estimated with quarterly, market year 1979:4-1993:2 data in logged levels. As explained in the cited sources, the model was appropriately estimated with ordinary least squares or OLS. Dickey-Fuller test evidence suggested that the data were stationary in logged levels. In addition to the above endogenous variables, a series of binary variables were included: a set of three seasonal variables and three binary variables defined for the portions of the estimation period for which the U.S. Farm Bills of 1981, 1985, and 1990 were in force. Diagnostic evidence generated by Ljung-Box and Dickey-Fuller tests performed on the model's estimated residuals suggest that by literature-established standards, the model was adequately specified. USITC, *Wheat, Wheat Flour, and Semolina*, pp. II.86-II.96 and Appendix N; Ronald A. Babula, Cathy L. Jabara, and John Reeder, "Role of Empirical Evidence in U.S./Canadian Dispute," pp. 183-199; and Ronald A. Babula and Cathy L. Jabara, "The Wheat War of 1994," pp. 89-98.

<sup>52</sup> USITC, *Wheat, Wheat Flour, and Semolina*, p. II.83, Appendix I; Ronald A. Babula, Cathy L. Jabara, and John Reeder, "Role of Empirical Evidence in U.S./Canadian Dispute," pp. 191-193; and Ronald A. Babula and Cathy L. Jabara, "The Wheat War of 1994," pp. 89-98.

- a 1.3 percent rise in ending stocks.<sup>53</sup>

Alston, Gray, and Sumner; Babula, Jabara, and Reeder; and the USITC provided detailed critiques of the USITC/BJR/BJ work and analysis.<sup>54</sup>

#### **Canadian Wheat Board's Analysis for Investigation 22-54**

Dan Sumner, Julian Alston, and Richard Gray submitted a partial equilibrium, deterministic analysis of the effects of imports on the U.S. market for wheat (including the impact on deficiency payments) for the Canadian Wheat Board to the Commission in *Wheat, Wheat Flour, and Semolina*, Investigation No. 22-54. Their submitted exhibit, model, and analysis were summarized by Alston, Gray, and Sumner and by the USITC.<sup>55</sup> The Sumner, Alston, and Gray work for the CWB (hereinafter, CWB/SAG) was critiqued and then critically compared with other analyses submitted to *Wheat, Wheat Flour, and Semolina*, Investigation No. 22-52, including the Commission staff's econometric analysis. These critical evaluations were provided in the USITC report, by Babula, Jabara, and Reeder, and by Babula and Jabara.<sup>56</sup>

CWB/SAG built, but did not empirically estimate, a partial equilibrium simulation model of the world wheat market, consisting of the United States, Canada, and the rest of the world (ROW). Nor did they empirically estimate, but rather assumed values for, parameters and elasticities needed to service their model. The CWB/SAG analysis was detailed, with extensive discussion of choices of the model's underlying parameters and assumptions. The CWB/SAG model simplified the world market with five theoretical and structural assumptions. First, they imposed an Armington demand system where wheat is differentiated by type (milling wheat for non-pasta, durum for pasta, and feed wheat) and by country of origin (Canada, the United States and the ROW).<sup>57</sup> Second, different grades of feed, milling, and durum wheat were assumed substitutable in production but not consumption. Third, Canada was assumed to import no wheat. Fourth, U.S. wheat imports from Canada were assumed limited to milling and feed wheat. And fifth, the U.S. imports of ROW pasta were assumed to be a form of durum wheat imports.

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<sup>53</sup> Kloek and Van Dijk's well-known Monte Carlo procedures generated t-values used to discern statistically non-zero impulse responses. Only the statistically non-zero impulses at the 10 percent significant levels were considered and used to calculate the response multipliers. All methods and procedures are summarized in USITC, *Wheat, Wheat Flour, and Semolina*, chapter II and Appendix N; Ronald A. Babula, Cathy L. Jabara, and John Reeder, "Role of Empirical Evidence in U.S./Canadian Dispute," pp. 183-199; and Ronald A. Babula and Cathy L. Jabara, "The Wheat War of 1994," pp. 89-98. For details of the Monte Carlo analysis, see T. Kloek and H.K. Van Dijk, "Bayesian Estimates of Equation System Parameters: An Application of Monte Carlo," *Econometrica*, Vol. 46 (1973), pp. 1-20.

<sup>54</sup> Julian M. Alston, Richard Gray, and Daniel A. Sumner, "The Wheat War of 1994: Reply," *Canadian Journal of Agricultural Economics*, Vol. 47, No. 1 (March, 1999), pp. 99-105; USITC, *Wheat, Wheat Flour, and Semolina*, chapter II; Ronald A. Babula, Cathy L. Jabara, and John Reeder, "Role of Empirical Evidence in U.S./Canadian Dispute," pp. 191-193; and Ronald A. Babula and Cathy L. Jabara, "The Wheat War of 1994," pp. 89-98.

<sup>55</sup> Julian M. Alston, Richard Gray, and Daniel A. Sumner, "The Wheat War of 1994," *Canadian Journal of Agricultural Economics*, Vol. 42, No. 3, pp. 231-251; USITC, *Wheat, Wheat Flour, and Semolina*, chapter II.

<sup>56</sup> USITC, *Wheat, Wheat Flour, and Semolina*, chapter II.; Ronald A. Babula, Cathy L. Jabara, and John Reeder, "Role of Empirical Evidence in U.S./Canadian Dispute," pp. 183-199; and Ronald A. Babula and Cathy L. Jabara, "The Wheat War of 1994," pp. 89-98.

<sup>57</sup> Paul Armington, "Geographical Pattern of Trade effects and Price Changes," *IMF Staff Papers*, Vol. 26, No. 1 (1969), pp. 179-201.

CWB/SAG shocked their model with an import restriction equal to 50 percent of the 1993/94 market year and then projected 1994/1995 import levels.<sup>58</sup> Results suggested that a decrease in imports would induce an increase in the annual U.S. price from 0.4 to 0.5 U.S. cents per bushel and would imply savings in Federal outlays on the U.S. wheat program of \$8-10 million from reduced deficiency payments. Commission staff and Babula, Jabara, and Reeder imputed elasticities from CWB/SAGs' results: that each percent rise in U.S. imports of Canadian wheat elicits, on average historically:

- A decline in U.S. all-wheat farm price of -0.15 (implying the most mild or moderate import-induced effect on U.S. all-wheat farm price of the major analyses submitted to the investigation);
- A zero change in price-influencing U.S. wheat stocks (they assumed no stock change); and
- Increases of 0.90 percent in U.S. wheat use and of 1.6 percent in U.S. exports.

The validity of CWB/SAGs' underlying assumptions and analysis has been debated and comparatively evaluated against modeling and/or work submitted to the case by Commission staff and other interested parties and in the agricultural economics literature.<sup>59</sup> More pointedly, the USITC report and various literature has concluded that CWB/SAG chose a model, assumptions, and the supporting economic literature so that their analysis generated small U.S. market effects, particularly on U.S. all-wheat farm price, from U.S. imports of Canadian wheat.<sup>60</sup> The USITC provided an extensive review of then-current literature, and concluded that many CWB/SAG assumptions of parameters and elasticities needed to service the model were not supported by that literature.<sup>61</sup>

#### **United States Department of Agriculture (1994) Analysis for Investigation No. 22-54**

The United States Department of Agriculture or USDA submitted an analysis of the U.S. farm price, market, and wheat program impacts of U.S. imports of Canadian wheat which opposed the

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<sup>58</sup> USITC, *Wheat, Wheat Flour, and Semolina*, chapter II; Ronald A. Babula, Cathy L. Jabara, and John Reeder, "Role of Empirical Evidence in U.S./Canadian Dispute," pp. 184-188; and Ronald A. Babula and Cathy L. Jabara, "The Wheat War of 1994," pp. 89-98.

<sup>59</sup> USITC, *Wheat, Wheat Flour, and Semolina*, chapter II; Ronald A. Babula, Cathy L. Jabara, and John Reeder, "Role of Empirical Evidence in U.S./Canadian Dispute," pp. 183-199; and Ronald A. Babula and Cathy L. Jabara, "The Wheat War of 1994," pp. 89-98.

<sup>60</sup> Because of space considerations, the main criticisms here are summarized, and interested readers are referred to the above-cited USITC report and journal articles for the very extended and detailed critical analysis of the CWB/SAG model, analysis, and conclusions. Criticisms focused on the general validity and unsupported nature of CWB/SAG assumptions. It was reported that for their simulated decline in U.S. wheat imports, CWB/SAG modelers arbitrarily chose model parameters, which by the evidential standards of the data and literature, overstated the price-depressing domestic use decreases, overestimated the price-depressing feed wheat use reduction, overstated the price-depressing drop in U.S. exports, and understated the price-increasing ending stock withdrawals so as to provide understated effects on U.S. all-wheat farm price of U.S. imports of (primarily Canadian) wheat. USITC, *Wheat, Wheat Flour, and Semolina*, p. II.96; Ronald A. Babula, Cathy L. Jabara, and John Reeder, "Role of Empirical Evidence in U.S./Canadian Dispute," pp. 183-199; and Ronald A. Babula and Cathy L. Jabara, "The Wheat War of 1994," pp. 89-98.

<sup>61</sup> USITC, *Wheat, Wheat Flour, and Semolina*, chapter II.; Ronald A. Babula, Cathy L. Jabara, and John Reeder, "Role of Empirical Evidence in U.S./Canadian Dispute," pp. 183-199.

CWB/SAG analysis above. As with CWB/SAG's analysis, the USDA exhibit and analysis are detailed and critically evaluated in the USITC report and by Babula, Jabara, and Reeder.<sup>62</sup>

The USDA examined whether U.S. wheat imports (virtually all Canada-sourced) influenced average market all-wheat price, and hence wheat deficiency payments. As the USDA noted, their analysis was based on "judgmental analysis" by grains experts and did not employ an economic or econometric model. The analysis compared two alternative scenarios: (1) a non-quota scenario where imports were limited to levels actually observed for the actual 1992/92 and 1992/93 market years and to what were then USDA projected import levels for the 1993/94 and 1994/95 market years, and (2) a quota scenario for the same market years where imports are restricted to half of the average levels over the 1987/88-1991/92 period.<sup>63</sup> The USDA results suggested that imposing the assumed quota over the 1991/92-1994/95 period would increase the average market price by an average 9-cent rise annually; would lessen added deficiency payment outlays from 64 million to 230 million dollars annually or by an average of \$171 million annually; and would reduce Federal wheat deficiency payment outlays by nearly \$700 million over the four market years ending 1994/95.<sup>64</sup> Implied by their analysis was that on average historically, each percentage increase (decrease) in U.S. imports of Canadian wheat has elicited:<sup>65</sup>

- a decline (rise) in the U.S. price of all-wheat of -1.47 percent (the largest such implied decline of all analyses submitted);
- a rise (fall) in price-depressing ending stocks of 3 percent; and
- increases (declines) of 0.45 percent in U.S. exports and 0.65 percent in U.S. domestic use.

Criticisms focused on the general validity and unsupported nature of the assumptions underlying and parameters implied by the USDA's analysis. Commission staff and published literature have noted that the USDA's analysis of a decline in U.S. imports of Canadian-sourced wheat and underlying assumptions were not always supported by the literature.<sup>66</sup> More specifically, the primary reasons for the USDA's high estimates of import-induced effects from their hypothesized import restrictions arose from the USDA's "judgmental analysis" and expert opinions that generated market responses and implied parameters which, by the evidential standards of the data and literature, understated the price-depressing total use decreases and led to overstated price-increasing ending stock withdrawals, so as to result in excessive U.S. wheat price increases (and excessive U.S. wheat program cost savings).<sup>67</sup> More pointedly, the USITC report and various literature have concluded that the USDA analysis consulted market expertise, judgmental analysis, and literature to have their judgmental analysis generate very pronounced

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<sup>62</sup> Ibid.

<sup>63</sup> Ibid.

<sup>64</sup> USITC, *Wheat, Wheat Flour, and Semolina*, chapter II; Ronald A. Babula, Cathy L. Jabara, and John Reeder, "Role of Empirical Evidence in U.S./Canadian Dispute," pp. 188-89.

<sup>65</sup> Ibid.

<sup>66</sup> Ibid.

<sup>67</sup> Ibid.

U.S. market impacts, particularly on U.S. all-wheat price, from U.S. imports of (primarily Canadian) wheat.<sup>68</sup>

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<sup>68</sup> USITC, *Wheat, Wheat Flour, and Semolina*, chapter II; Ronald A. Babula, Cathy L. Jabara, and John Reeder, "Role of Empirical Evidence in U.S./Canadian Dispute," pp. 183-199; and Ronald A. Babula and Cathy L. Jabara, "The Wheat War of 1994," pp. 89-98.

**APPENDIX C**  
**VARIANCE ANALYSIS**



The variance analyses showing the effects of prices and volume on the farmers' sales of hard red spring wheat (the data presented in tables VI-4 to VI-6 of the original staff report),<sup>1</sup> and of costs and volume on their total cost, are shown in tables C-1A to C-1F. The data in tables VI-4 to VI-6 are presented on a per acre basis, with no quantities indicated. The underlying data for these tables (contained in appendix F of the staff report) indicate the denominator used to calculate the per acre data is the yield per acre, or bushels. Thus, bushels are the measure of quantity (the volume) used in the variance analyses.

The data in tables VI-4 to VI-6 of the original staff report were for the four year period 1999 to 2002. Staff variance analyses typically analyze the differences between the first and last years' data, and then analyze differences from year to year. In other words, the staff variance analysis for 1999 to 2002 would typically analyze the differences between the 1999 and 2002 data, and then the differences between the 1999 and 2000, the 2000 and 2001, and the 2001 and 2002 data. However, since the Commission's analysis focused on the period 2000 to 2002 in these investigations, instead of presenting a 1999 to 2002 analysis, this appendix presents a 2000 to 2002 analysis, as well as the analyses for each of the year to year periods.

With respect to wheat grown in North Dakota on owned land (table C-1A, based upon data in table VI-4 in the staff report), the summary at the bottom of the table illustrates that the \$22.25 decrease in the farmers' net returns from 2000 to 2002 was the combined effect of large decreases in volume (bushels), and unit costs increasing faster than unit revenues (which was in turn the net effect of changes in product return (wheat revenue), miscellaneous income, and government payments). The analysis for wheat grown in North Dakota on cash rented land (table C-1B, also based upon data in table VI-4 in the staff report) shows similar trends. The summary for that analysis illustrates that the \$15.16 decrease in the farmers' net returns for wheat grown on cash rented land was also the result of unit costs increasing faster than unit revenues and decreasing volume, although the effect of decreased volume was not as pronounced as in the case of wheat grown on owned land. The analysis for wheat grown in North Dakota on share rented land (table C-1C, also based upon data in table VI-4 in the staff report) illustrates that the farmers' net returns decreased by \$1.27 even though unit revenues increased faster than did unit costs, because of a decrease in volume.

With respect to wheat grown in Northwest Minnesota on owned land (table C-1D, based upon data in table VI-5 in the staff report), the summary at the bottom of the table illustrates that the \$62.96 decrease in the farmers' net returns from 2000 to 2002 was the result of increases in unit costs and decreases in volume (bushels) much more than offsetting increases in unit revenue. The analysis for wheat grown in Northwest Minnesota on cash rented land (table C-1E, also based upon data in table VI-5 in the staff report) is quite similar. It shows that the \$52.07 decrease in the farmers' net returns was the also the combined effect of unit costs increasing much faster than unit revenues, and large decreases in volume.

Finally, the analyses for wheat grown in South Dakota on owned and rented land (table C-1F, based upon data in table VI-6 in the staff report), indicates that the \$13.03 decrease in the farmers' net returns from 2000 to 2002 was, as with Northwest Minnesota, the combined result of unit costs increasing faster than unit revenues, and decreases in volume.

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<sup>1</sup> *Durum and Hard Red Spring Wheat from Canada*, Investigations Nos. 701-TA-430A and 430B and 731-TA-1019A and 1019B (Final), October 2003, USITC Publication 3639, tables VI-4 through VI-6 (appearing on pages VI-7 through VI-9).

**Table C-1A**  
**Hard red spring wheat: Variance analysis of the operations of North Dakota farmers growing wheat on their own land, 1999-2002**

Item	Between years			
	2000-2002	1999-2000	2000-01	2001-02
	<i>Value (dollars)</i>			
Gross return:				
Total product return:				
Price variance	15.22	7.75	(14.75)	24.87
Volume variance	(42.87)	19.31	(2.91)	(34.86)
Total variance	(27.65)	27.06	(17.66)	(9.99)
Miscellaneous income:				
Price variance	17.11	(1.24)	(1.67)	18.20
Volume variance	(1.94)	1.15	(0.13)	(1.23)
Total variance	15.17	(0.09)	(1.80)	16.97
Total gross return:				
Price variance	32.33	6.51	(16.42)	43.07
Volume variance	(44.81)	20.46	(3.04)	(36.09)
Total variance	(12.48)	26.97	(19.46)	6.98
Total direct and overhead expense variance:				
Cost variance	(34.03)	13.42	(9.09)	(28.08)
Volume variance	35.33	(19.36)	2.40	36.07
Total variance	1.30	(5.94)	(6.69)	7.99
Net return variance	(11.18)	21.03	(26.15)	14.97
Government payments:				
Revenue variance	(3.99)	(4.94)	(1.20)	(3.21)
Volume variance	(7.08)	4.27	(0.48)	(6.18)
Total variance	(11.07)	(0.67)	(1.68)	(9.39)
Net return variance	(22.25)	20.36	(27.83)	5.58
Summarized as:				
Price variance	28.34	1.57	(17.62)	39.86
Cost/expense variance	(34.03)	13.42	(9.09)	(28.08)
Volume variance	(16.56)	5.37	(1.13)	(6.21)
Note.--Unfavorable variances are shown in parentheses; all others are favorable.				
Source: Compiled from public data presented in table VI-4 and appendix F of the Commission's original report.				

**Table C-1B**  
**Hard red spring wheat: Variance analysis of the operations of North Dakota farmers growing wheat on cash rented land, 1999-2002**

Item	Between years			
	2000-2002	1999-2000	2000-01	2001-02
	<i>Value (dollars)</i>			
Gross return:				
Total product return:				
Price variance	16.29	5.61	(14.19)	26.61
Volume variance	(33.75)	15.12	(3.90)	(25.98)
Total variance	(17.46)	20.73	(18.09)	0.63
Miscellaneous income:				
Price variance	13.26	3.09	(2.71)	15.23
Volume variance	(2.80)	0.89	(0.32)	(1.74)
Total variance	10.46	3.98	(3.03)	13.49
Total gross return:				
Price variance	29.54	8.70	(16.90)	41.84
Volume variance	(36.54)	16.01	(4.22)	(27.72)
Total variance	(7.00)	24.71	(21.12)	14.12
Total direct and overhead expense variance:				
Cost variance	(30.32)	15.68	(10.67)	(22.55)
Volume variance	33.77	(18.11)	3.90	32.77
Total variance	3.45	(2.43)	(6.77)	10.22
Net return variance	(3.55)	22.28	(27.89)	24.34
Government payments:				
Revenue variance	(5.56)	(4.13)	(2.52)	(3.72)
Volume variance	(6.05)	3.43	(0.70)	(4.67)
Total variance	(11.61)	(0.70)	(3.22)	(8.39)
Net return variance	(15.16)	21.58	(31.11)	15.95
Summarized as:				
Price variance	23.99	4.57	(19.42)	38.12
Cost/expense variance	(30.32)	15.68	(10.67)	(22.55)
Volume variance	(8.83)	1.33	(1.02)	0.38
Note.--Unfavorable variances are shown in parentheses; all others are favorable.				
Source: Compiled from public data presented in table VI-4 and appendix F of the Commission's original report.				

**Table C-1C**  
**Hard red spring wheat: Variance analysis of the operations of North Dakota farmers growing wheat on share rented land, 1999-2002**

Item	Between years			
	2000-2002	1999-2000	2000-01	2001-02
	<i>Value (dollars)</i>			
Gross return:				
Total product return:				
Price variance	13.69	1.85	(8.33)	20.30
Volume variance	(16.15)	10.74	(1.06)	(13.37)
Total variance	(2.46)	12.59	(9.39)	6.93
Miscellaneous income:				
Price variance	4.14	(1.90)	(1.66)	5.46
Volume variance	(0.87)	0.88	(0.06)	(0.47)
Total variance	3.27	(1.02)	(1.72)	4.99
Total gross return:				
Price variance	17.84	(0.05)	(9.99)	25.76
Volume variance	(17.03)	11.62	(1.12)	(13.84)
Total variance	0.81	11.57	(11.11)	11.92
Total direct and overhead expense variance:				
Cost variance	(10.20)	7.40	(6.60)	(4.97)
Volume variance	16.73	(12.51)	1.10	17.00
Total variance	6.53	(5.11)	(5.50)	12.03
Net return variance	7.34	6.46	(16.61)	23.95
Government payments:				
Revenue variance	(5.42)	(3.15)	(2.16)	(3.70)
Volume variance	(3.19)	2.65	(0.21)	(2.54)
Total variance	(8.61)	(0.50)	(2.37)	(6.24)
Net return variance	(1.27)	5.96	(18.98)	17.71
Summarized as:				
Price variance	12.42	(3.20)	(12.15)	22.06
Cost/expense variance	(10.20)	7.40	(6.60)	(4.97)
Volume variance	(3.49)	1.75	(0.23)	0.62

Note.--Unfavorable variances are shown in parentheses; all others are favorable.

Source: Compiled from public data presented in table VI-4 and appendix F of the Commission's original report.

**Table C-1D**  
**Hard red spring wheat: Variance analysis of the operations of Northwest Minnesota growing wheat on their own land, 1999-2002**

Item	Between years			
	2000-2002	1999-2000	2000-01	2001-02
	<i>Value (dollars)</i>			
Gross return:				
Total product return:				
Price variance	11.78	30.61	(16.95)	22.39
Volume variance	(97.18)	74.21	(43.13)	(47.71)
Total variance	(85.40)	104.82	(60.08)	(25.32)
Miscellaneous income:				
Price variance	29.76	(69.29)	8.34	24.54
Volume variance	(1.25)	33.88	(0.55)	(3.82)
Total variance	28.51	(35.41)	7.79	20.72
Total gross return:				
Price variance	41.54	(38.69)	(8.61)	46.93
Volume variance	(98.43)	108.10	(43.68)	(51.53)
Total variance	(56.89)	69.41	(52.29)	(4.60)
Total direct and overhead expense variance:				
Cost variance	(60.29)	100.87	(40.83)	(34.73)
Volume variance	70.82	(112.29)	31.43	54.66
Total variance	10.53	(11.42)	(9.40)	19.93
Net return variance	(46.36)	57.99	(61.69)	15.33
Government payments:				
Revenue variance	(2.11)	(25.02)	1.48	(3.04)
Volume variance	(14.49)	25.04	(6.43)	(8.61)
Total variance	(16.60)	0.02	(4.95)	(11.65)
Net return variance	(62.96)	58.01	(66.64)	3.68
Summarized as:				
Price variance	39.42	(63.71)	(7.13)	43.89
Cost/expense variance	(60.29)	100.87	(40.83)	(34.73)
Volume variance	(42.09)	20.85	(18.68)	(5.48)

Note.--Unfavorable variances are shown in parentheses; all others are favorable.

Source: Compiled from public data presented in table VI-5 and appendix F of the Commission's original report.

**Table C-1E**  
**Hard red spring wheat: Variance analysis of the operations of Northwest Minnesota farmers**  
**growing wheat on cash rented land, 1999-2002**

Item	Between years			
	2000-2002	1999-2000	2000-01	2001-02
	<i>Value (dollars)</i>			
Gross return:				
Total product return:				
Price variance	10.55	31.63	(18.48)	23.23
Volume variance	(74.44)	64.04	(26.36)	(42.28)
Total variance	(63.89)	95.67	(44.84)	(19.05)
Miscellaneous income:				
Price variance	20.35	(72.33)	11.48	12.47
Volume variance	(1.44)	32.80	(0.51)	(4.53)
Total variance	18.91	(39.53)	10.97	7.94
Total gross return:				
Price variance	30.90	(40.70)	(7.00)	35.71
Volume variance	(75.88)	96.84	(26.87)	(46.82)
Total variance	(44.98)	56.14	(33.87)	(11.11)
Total direct and overhead expense variance:				
Cost variance	(54.31)	93.40	(28.42)	(34.81)
Volume variance	64.12	(107.36)	22.71	50.33
Total variance	9.81	(13.96)	(5.71)	15.52
Net return variance	(35.17)	42.18	(39.58)	4.41
Government payments:				
Revenue variance	(4.78)	(24.10)	(0.39)	(4.52)
Volume variance	(12.12)	23.08	(4.29)	(7.70)
Total variance	(16.90)	(1.02)	(4.68)	(12.22)
Net return variance	(52.07)	41.16	(44.26)	(7.81)
Summarized as:				
Price variance	26.12	(64.80)	(7.39)	31.19
Cost/expense variance	(54.31)	93.40	(28.42)	(34.81)
Volume variance	(23.88)	12.55	(8.46)	(4.19)

Note.--Unfavorable variances are shown in parentheses; all others are favorable.

Source: Compiled from public data presented in table VI-5 and appendix F of the Commission's original report.

**Table C-1F**  
**Hard red spring wheat: Variance analysis of the operations of South Dakota farmers growing wheat on rented and owned land, 1999-2002**

Item	Between years			
	2000-2002	1999-2000	2000-01	2001-02
	<i>Value (dollars)</i>			
Gross return:				
Total product return:				
Price variance	26.20	0.82	(14.20)	35.97
Volume variance	(44.47)	39.24	0.88	(40.92)
Total variance	(18.27)	40.06	(13.32)	(4.95)
Miscellaneous income:				
Price variance	(4.06)	(2.80)	(2.07)	(2.63)
Volume variance	(2.07)	2.60	0.04	(1.47)
Total variance	(6.13)	(0.20)	(2.03)	(4.10)
Total gross return:				
Price variance	22.14	(1.99)	(16.27)	33.34
Volume variance	(46.54)	41.85	0.92	(42.39)
Total variance	(24.40)	39.86	(15.35)	(9.05)
Total direct and overhead expense variance:				
Cost variance	(29.09)	22.03	(3.54)	(26.66)
Volume variance	40.46	(41.93)	(0.80)	42.37
Total variance	11.37	(19.90)	(4.34)	15.71
Net return variance	(13.03)	19.96	(19.69)	6.66
Government payments:				
Revenue variance	0.00	0.00	0.00	0.00
Volume variance	0.00	0.00	0.00	0.00
Total variance	0.00	0.00	0.00	0.00
Net return variance	(13.03)	19.96	(19.69)	6.66
Summarized as:				
Price variance	22.14	(1.99)	(16.27)	33.34
Cost/expense variance	(29.09)	22.03	(3.54)	(26.66)
Volume variance	(6.08)	(0.08)	0.12	(0.02)
Note.--Unfavorable variances are shown in parentheses; all others are favorable.				
Source: Compiled from public data presented in table VI-6 and appendix F of the Commission's original report.				

