

GARLIC FROM CHINA

The U.S. industry producing fresh garlic is centered in sunny and relatively dry areas, mostly in California.⁷⁵ Garlic is a seasonal crop that is planted in the fall and harvested in June and July of the following year.⁷⁶ Approximately 22 percent of U.S. garlic is grown for fresh use, while the remainder is earmarked for dehydration



(61 percent) and as seed for the future crops.⁷⁷ When the petition was filed in 1994, there were 26 firms that produced garlic in the United States.⁷⁸

In the investigation, garlic producers consisted of firms that plant, harvest, pack and sell garlic.⁷⁹ These firms contract with so-called “crop tenders” who grow garlic on their farms.⁸⁰ Fresh garlic is picked by hand and sold largely to distributors, who then sell the product to retailers and other distributors. While producers of dehydrated garlic also purchase garlic from the fresh market, they typically grow, mechanically harvest, and internally consume garlic. During the period examined by the Commission, total U.S. production of fresh and dehydrated garlic ranged from 341 million pounds to 442 million pounds.⁸¹

Garlic is also produced in large quantities in Argentina, Chile, and Mexico in the western hemisphere. Because the timing of the garlic season depends on the latitude of the growing area, there is little overlap in competition between U.S.-produced garlic and garlic produced in other western hemispheric sources. For example, in Mexico, garlic is planted in the summer and then harvested in the following spring. In Argentina and Chile, garlic is planted in the spring and harvested in the following winter.⁸² In contrast, the crop year in China coincides

75 *Fresh Garlic from The People's Republic of China*, USITC Pub. 2825.Inv. No. 731-TA-683 (Final) (November 1994) at II-4.

76 *Id.* at I-19.

77 *Id.* at II-7 to II-8.

78 *Id.* at I-6.

79 *Id.* at I-6.

80 *Id.* at II-16. The Commission found no garlic farmers who sold garlic independently of the larger garlic producers

81 *Id.* at G-3, based on data from the California County Agricultural Commissioner.

82 *Id.* at II-4.

with the crop year in California. In fact, the Chinese harvest is somewhat earlier, enabling it to enter the U.S. market just prior to the U.S. harvest and compete directly with U.S. garlic.⁸³

Original investigation and determination

In the early 1990s, use of garlic was growing strongly in the United States due to the increasing popularity of ethnic food using garlic.⁸⁴ U.S. production of raw garlic was rising as well.⁸⁵ However, during the summer of 1993, imports of fresh garlic from China experienced an extremely sharp rise.⁸⁶ On January 31, 1994, the Fresh Garlic Producers Association filed a petition alleging that domestic producers of fresh garlic were being injured by reason of dumped imports of fresh garlic from China.⁸⁷ Because none of the named producers of garlic in China responded to the Department of Commerce's questionnaire, the Department found an antidumping rate of 376.67 percent, equal to the dumping margin alleged in the petition.⁸⁸ The Commission determined that the industry producing fresh garlic was materially injured by dumped imports of fresh garlic from China, but that producers of seed garlic and dehydrated garlic were not injured.⁸⁹

The Commission found the following indicators of injury.

- The increase in imports from China was massive. The volume of imports tripled in 1993 and then increased by nearly a factor of seven in 1994.⁹⁰
- The market share of the Chinese garlic by volume rose by 27.2 percentage points in 1994, while the U.S. market share declined by 18.0 percentage points that year.⁹¹ U.S. market share by value also declined substantially in 1994.
- Chinese fresh garlic undersold domestic fresh garlic by margins by that reached 70 percent during crop-year 1994 and depressed U.S. prices.⁹² U.S. producers who initially held off selling their product at low prices were eventually forced to sell at distressed prices when prices for fresh garlic failed to recover as expected.⁹³

83 Id. at I-20 and II-4 to II-5.

84 Id. at II-10.

85 Id. at II-16.

86 Id. at II-55.

87 Fresh Garlic from China, USITC Pub. 3393, Inv. No. 731-TA-683 (Review) (February 2001) at 3.

88 59 Fed. Reg. 49060 (September 26, 1994).

89 USITC Pub. 2825 at I-5.

90 Id. at I-25.

91 Id. at I-25.

92 Id. at I-26.

93 Id. at I-26.

- Despite the rapid growth in the U.S. market for fresh garlic, the U.S. industry experienced falling profitability from 1991 to 1994, including negative operating income in 1994, a year in which garlic consumption rose by 53.5 percent.⁹⁴

Certain indicators of injury in the Commission's report are shown in the table below. The table includes information from the original investigation, which covered 1991 to 1994, and for 1998 to 2000, the three years covered in the Commission's sunset investigation carried out during 2000-2001.

Table 9. Fresh Garlic from China:
Selected Data Collected by the USITC

Item	1991	1992	1993	1994	1998	1999	2000
U.S. shipment (\$1,000)	32,538	39,766	53,191	52,966	95,423	89,196	89,616
U.S. market share (percent, by value)	58.3	64.7	71.1	58.4	76.5	59.5	75.5
Subject imports (\$1,000) ⁽¹⁾	2,474	1,446	3,719	20,014	92	261	182
Subject import unit value (\$/lb) ⁽¹⁾	0.41	0.41	0.40	0.32	0.19	0.30	0.18
Wages paid (\$1,000)	6,380	8,519	10,008	10,463	10,262	10,192	12,195
Sources: USITC Pub. 3393 at to I-4.							

Estimated revenue impact of unfair trade

The dumping margin resulting from the Chinese respondent's lack of cooperation with the Department of Commerce's investigation is too large to be used in the model. To derive a meaningful estimate of the impact of dumping, a lower margin was required. The margin used was 30 percent, which was high enough to reduce Chinese penetration of the U.S. market by a significant amount.⁹⁵ The other elasticities used were the midpoint of the Commission estimates from the sunset review. Based on the 30 percent margin, the model indicates that dumping of fresh garlic cost the domestic industry a cumulative \$12.3 million in lost revenue during the three-year period, with losses varying between \$0.7 and \$8.6 million per year. Losses are concentrated in 1994, the last year of the period of investigation. This result is consistent with the fact that imports from China increased significantly during crop year 1994.

⁹⁴ Id. at I-27.

⁹⁵ In 1992, a 30 percent margin was enough to eliminate Chinese fresh garlic from the market entirely, so a margin of 29 percent was input into the model instead.

Table 10. Fresh Garlic from China:
Estimated Lost Revenue due to Dumping

Item	1991	1992	1993	1994	Total
Estimated dumping margin (percent)	30.00	30.00	30.00	30.00	N/A
Lost revenue due to dumping (\$1,000)	1,053	693	1,990	8,586	12,321

Sources: USITC Pub. 3393 at I-2 to I-3 and author's calculations.

The combined losses to other sectors resulting from this lost revenue, as well as the financing costs of the increase in imports, appear in the table below. According to the Department of Commerce's detailed benchmark estimates of industry-by-industry total output multipliers for the U.S. economy, the indirect effect of a one dollar change in output from the U.S. fresh garlic industry is \$0.75.⁹⁶ The cumulative indirect effect of the dumping is an estimated \$9.2 million. The financial cost of consuming more imports is estimated to equal the one-year Treasury bill rate multiplied by the increase in import value resulting from the dumping. The annual financial costs during the 1991 to 1994 period were \$30,000 to \$0.4 million. The low financing costs in part reflect the way in which the model treats fairly traded imports. Those imports rise in response to the decline in Chinese imports in the same way that U.S. sales rise in the absence of dumping. The model likely overstates the increase in fairly traded imports without dumping (because they enter the market during the U.S. off-season) and therefore understates the required financing costs associated with the dumped imports.

Table 11. Fresh Garlic from China:
Indirect Costs and Interest Costs due to Dumping

Item	1991	1992	1993	1994	Total
Indirect industry output multiplier	0.75	0.75	0.75	0.75	N/A
1-year T-bill rate (percent)	5.86	3.89	3.43	5.31	N/A
Lost indirect activity (\$1,000)	790	520	1,493	6,440	9,242
Interest on borrowed funds (\$1,000)	76	30	66	448	619

Sources: Bureau of Economic Analysis at <http://www.bea.gov/bea/dn2/i-o.htm#benchmark> (data for multiplier); Federal Reserve Bank of St. Louis at <http://www.research.stlouisfed.org/fred2/series/GS1/downloaddata> (interest rates); and authors' calculations.

The gains to consumers from increased consumption of fresh garlic are shown in the table below, along with the estimated revenue, indirect, and financial losses from the dumping. The pure gains to consumers are relatively small in this case, peaking at \$0.7 million in 1994. The small pure consumer gains likely reflect the small market share held by the subject imports until the massive

⁹⁶ This estimate is based on detailed estimates from the U.S. 1997 Benchmark Input-Output industry-by-industry total requirements table. The total requirements multiplier for vegetable and melon farming is 1.78. The detailed data are available from <http://www.bea.gov/bea/dn2/i-o.htm#benchmark>.

increase in dumped imports in 1994. It is also evident that the revenue losses to U.S. producers from the Chinese dumping far outdistanced the pure consumer gains from increased consumption.

Table 12. Fresh Garlic from China:
Summary of Costs and Benefits of Dumping

Item	1991	1992	1993	1994	Total
Lost revenue due to dumping (\$1,000)	-1,053	-693	-1,990	-8,586	-12,321
Lost indirect activity (\$1,000)	-790	-520	-1,493	-6,440	-9,242
Interest on borrowed funds (\$1,000)	-76	-30	-66	-448	-619
Consumption gains (\$1,000)	12	3	23	734	772
Sources: Author's calculations.					

Long-term impact of the order

As indicated by Table 9 above, the affirmative dumping order had a noticeable impact on the flow of dumped garlic from China. By 1998, for instance, the value of subject imports totaled only \$92,000, compared to \$20 million in 1994. According to the Commission, “The order resulted in an immediate and massive reduction in the volume of imports from China, from 63.5 million pounds in 1994 to 3.7 million pounds in 1995.”⁹⁷

The Commission determined that in the absence of the order, China’s export oriented industry would have had a strong incentive to export to the U.S. market, and that imports from China would likely increase if the order were lifted.⁹⁸ The Commission noted that trade actions had been used to block the disruptive effects of Chinese imports in other markets.⁹⁹ The Commission also noted that China’s export price of \$0.16 per pound was much lower than the prevailing U.S. price of \$0.51 to \$0.58 per pound.¹⁰⁰ The Commission thus concluded that there would be a significant increase in imports of the subject merchandise if the order were revoked.¹⁰¹

In the aftermath of the order, the profitability of the U.S. fresh garlic industry experienced a dramatic improvement. Operating income, which had declined to almost minus \$1.0 million in 1994, recovered to \$15.7 million in 1998.¹⁰² Hourly wages, which had been declining during the original investigation, increased during the 1998 to 2000 period and supported an overall increase in wages paid by the industry.¹⁰³ The domestic industry also invested in cold storage and controlled

97 USITC Pub. 3393 at 11.

98 *Id.* at 11-12

99 *Id.* at 11.

100 *Id.* at 11.

101 *Id.* at 11.

102 *Id.* at I-3.

103 *Id.* at I-3.

atmosphere storage equipment in order to prolong the shelf life of fresh garlic.¹⁰⁴

Domestic producers were thus able to increase their share of the home market. By 1998, domestic producers held approximately three-quarters of the U.S. market for fresh garlic. U.S. market share and financial performance tailed off somewhat in 1999 and 2000.¹⁰⁵ In 1999, the size of the domestic crop declined due to fungal damage, leading to higher prices but lower domestic volumes.¹⁰⁶ Fairly traded imports increased to replace the lost domestic output. In 2000, domestic producers over planted, leading to increased supply and a fall in prices consistent with the price levels that had prevailed during the original investigation of dumped fresh garlic.¹⁰⁷ Despite the bad luck, the domestic industry was still able to achieve better financial results in 1999 and 2000 than it had when the dumped Chinese fresh garlic was in the market.

Accordingly, the Commission determined that material injury would revisit the domestic producers of fresh garlic if the order on fresh garlic from China were revoked. The second sunset review of the order is scheduled to be completed by September 14, 2006. From 2001 to 2005, members of the U.S. industry received approximately \$1.1 million in revenue from the Countervailing Duty and Subsidy Offset Act.

104 *Id.* at 10.

105 *Id.* at I-4.

106 *Id.* at V-1.

107 *Id.* at V-1.