



## The Public Interest in an anti-dumping investigation

### Introduction

This paper concludes that the introduction of an anti-dumping duty to combat dumping of frozen potato produce into the New Zealand market is necessary to safeguard the New Zealand public interest. In particular, it would shield New Zealand's potato processors from opportunistic and harmful behavior by foreign firms, and it would safeguard the many growers who supply the potato processors.

The paper has been prepared by Business and Economic Research Limited (BERL). It is intended to support an application to the Ministry of Business Innovation and Employment (MBIE), by Potatoes New Zealand (PNZ), for an investigation under the terms of the Trade (Anti-dumping and Countervailing Duties) Act 1988 (the Act).

It is acknowledged that the Act defines the public interest in terms of whether the imposition of a duty would be injurious to the interests of industries downstream from the frozen potato producers, and to consumers. However, we believe that it is important, when considering the public interest in this context, to take a more rounded view of which groups would benefit from, or be harmed by, the imposition of a duty. In particular, we see little economic rationale in considering the impact of a duty only on the downstream industries and consumers, and not its impact on the upstream industries. In other words, we believe that the examination of the public interest should encompass the entire value chain, from potato growing, through to final sales to consumers.

### Background

The background is that PNZ is concerned that Northern Hemisphere potato processors plan to dump excess frozen potato product on the New Zealand market in the near future. It has been well publicised that there is a significant stockpile of frozen potato product in Europe and the US, and PNZ has evidence to suggest that part of the stockpile could be dumped on the New Zealand domestic market. PNZ believes that such dumping would harm the domestic potato growing and production industry, which is not in the best public interests.

Dumping is thought to be likely because subsidies for growers in Europe have resulted in low cost raw material for processors. Instead of surplus potatoes being diverted for animal feed, the surplus potatoes have been processed into frozen fries. Stocks of frozen fries have also grown partly because measures to contain COVID-19 in Europe have reduced demand at fast food outlets.

### How a duty would affect different parts of the value chain

#### Effects on potato growers

PNZ records show that there are 148 potato growers in New Zealand, and BERL estimates from production data that these growers employ around 2,200 people. The areas where potato growing is most concentrated are Pukekohe and Timaru, although potato growing occurs in most regions of the country.

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While potato growing directly employs approximately 2,200 people, we estimate that the multiplier effect means that, for every person employed in growing potatoes, a further 0.75 people will be employed in related activities, such as agricultural contracting, fertilisers, energy and transport. In other words, total employment in New Zealand attributable to potato growing is approximately  $2,200 \times 1.75 = 3,850$ .

In the absence of a duty, potato processors would be forced to cut production and their demand for potatoes from the growers. Inevitably, this would lead to a loss of employment and a threat to the viability of some potato growing businesses. By corollary, the imposition of an anti-dumping duty on dumped imports of frozen potato products would help to maintain demand for New Zealand grown potatoes, and it would help to ensure the continuity of employment and business in the growing sector. A duty would mean that the potato growers would experience the same market conditions, including competition between themselves and fluctuations in market prices, as they did before the dumping occurred.

### **Effects on potato processors**

There are five potato processors in New Zealand and they directly employ a total of approximately 450 people. These processors would be the first to be harmed by the dumping of frozen potato products into the New Zealand market.

If an effective anti-dumping duty is imposed on imports of dumped frozen potato products, the New Zealand based processors would experience similar market conditions, including the competition between them, as prevailed before the dumping.

### **Effects on downstream industries**

The principal downstream industries from potato processing are the retail and food service industries, particularly the fast food sector. These industries might enjoy lower input prices while dumping continued, but they could face disrupted supplies, and potentially higher prices, once market condition experienced by the frozen potato processors in Europe improved. An anti-dumping duty would leave these industries no worse off than they were before the dumping.

An anti-dumping duty would also mean that importers of dumped frozen potato products be denied supernormal profits. In the absence of a duty, they would be able to purchase stock at artificially low prices and sell on to wholesalers and retailers at normal prices. However, it is again important to note that, after the imposition of a measure, they would be no worse off than before the dumping.

### **Effects on consumers**

Consumers might be denied the opportunity to buy lower priced frozen potato products, although an anti-dumping duty would mean that they would pay no more than they would need to pay in the absence of dumping. It should also be noted that there is no guarantee that the benefit of lower prices would be passed on to consumers. And, in any case, it is probable that the advantage of low prices to consumers would not endure. Dumping occurs because overseas producers have a glut of produce or a collapse in demand in their own markets, and both these conditions are unlikely to be sustained. Accordingly, a longer term consequence for consumers is that they could face higher prices, if New Zealand based processors and growers are forced out of business by the dumping.

## Wider strategic and trade issues

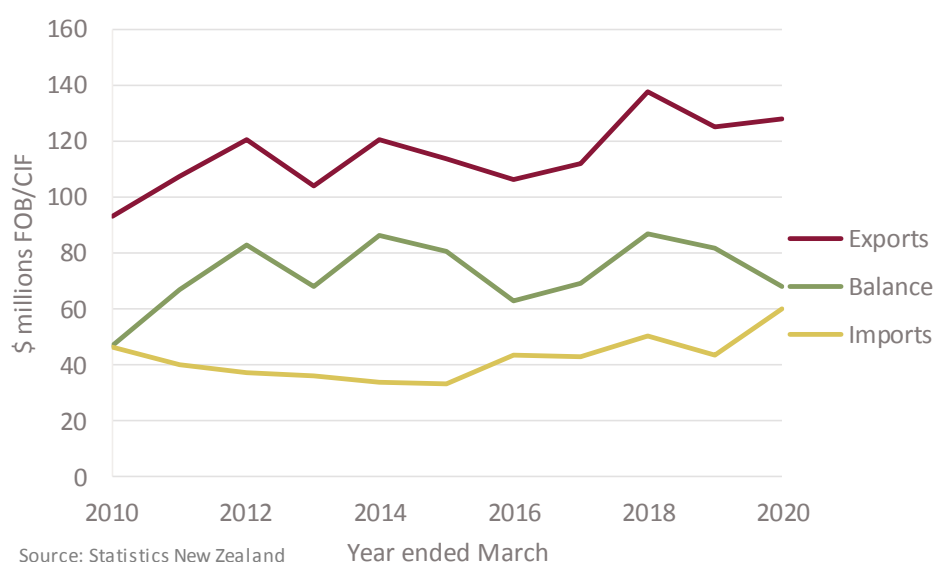
### The strategic importance of the domestic industry

The potato growing and processing industry is strategically important for a number of reasons. It:

- Helps to ensure a reasonable balance of trade, with overall commodity exports broadly in line with commodity imports
- Enables the country to remain reasonably self-reliant in terms of food
- Contributes to agricultural and industrial production domestically and, hence, to GDP
- Supports the geographical spread of economic activity and employment opportunities, especially in rural areas.

Data from Statistics New Zealand show that, during the past 10 years, New Zealand's overall balance of trade has gradually deteriorated, although it has tended to fluctuate from surplus to deficit. However, the country's balance of trade in potatoes and potato products is positive. In the year ended March 2020, New Zealand's exports of these commodities were worth more than double the value of imports. In addition, the trends in the value of New Zealand's potatoes and potato products exports, and the balance of trade in the products, have been upwards since 2010.

The value of exports of potatoes and potato products from New Zealand grew from \$93 million in the year to March 2010 to \$128 million in 2020; an increase of 38 percent. During the same period, the value of imports of these products increased from \$47 million to \$60 million; an increase of 28 percent.



It is also important to note that potato farmers often grow onions as well. Dumping of frozen potato products is likely to reduce the viability of farm businesses, and some of the businesses may be forced to close down. If this happens, onion production and onion exports will also be lost. Some businesses are likely to be able to switch to the production of other crops, but a switch would be associated with a discontinuity in production and employment. As is shown in the next section, a switch in production might also be associated with increased environmental harms.

A trade surplus in potatoes and potato products implies that New Zealand is more than self-reliant in an important staple food. A good degree of self-reliance is highly desirable in times of crisis, such as now with the COVID-19 pandemic, during which patterns of international trade can easily be disrupted. Dumping of frozen potato products into New Zealand could, therefore, put New Zealand's food self-reliance at risk.

Apart from the trade data, there is a dearth of official statistics that can be used to illustrate the strategic importance of potato growing and processing. However, PNZ estimates that the total final value (New Zealand final sales plus FOB exports) of potatoes and frozen potato products grown and processed in New Zealand in 2018 was more than \$1 billion, up by 34 percent compared to 2013. The table below also indicates that there was a moderate increase in the production per hectare during the same period.

<b>The New Zealand potato industry</b>			
	<b>Area used for growing</b>	<b>Production</b>	<b>Total industry value</b>
2013	10,328 ha	493,872 tonnes	\$776.0 million
2018	10,344 ha	527,190 tonnes	\$1,040.6 million
Percentage change	0.2	6.7	34.1

Source: Potatoes New Zealand

### **Trade relations**

The imposition of an anti-dumping duty on dumped imports of frozen potato fries is unlikely to be disproportionately harmful to New Zealand's trade relationships. Frozen potato fries are not the dominant industry of any country, and they make up a small proportion of New Zealand's total imports and production locally.

An anti-dumping duty might be seen by New Zealand's trade partners as protectionist, and retaliatory measures might be imposed or threatened. However, this seems unlikely for four main reasons. Firstly, any measure would only be temporary. Secondly, the threat of dumping of frozen fries is not confined to New Zealand. Several other countries, including Australia, have signalled concern about the threat, and Colombia has already imposed duties to combat dumping by producers in Europe. Thirdly, New Zealand has an exemplary history of supporting free and fair trade, and it would be difficult to argue that the country is protectionist. And, fourthly, retaliatory measures are not permissible under international trade law.

### **Effects on broader wellbeing**

This section considers the importance of potato growing and processing to national and local community wellbeing, with particular reference to the Four Wellbeings (Economic, Social, Cultural and Environmental). It also examines how these wellbeings would be affected by dumping of frozen potato products into the New Zealand market. In doing so, it highlights how the imposition of an anti-dumping duty would safeguard different aspects of wellbeing.

**Economic wellbeing** is concerned with whether the economy can generate the employment and wealth necessary to provide many of the requirements that make for social wellbeing, such as health, financial security, and equity of opportunity.

Some of the economic effects of dumping of frozen potato products and a duty to combat the dumping have already been outlined above. However, there are more economic effects that should be noted. At national level, potato growing and processing is a relatively small industry, but it still directly and indirectly provides employment for almost 5,000 people. Horticulture New Zealand also notes that potatoes are one of the few crops grown outside that can be produced in most regions of New Zealand and harvested all year round. The industry is therefore an important provider of widely distributed and stable employment.

The fact that New Zealand's trade in potatoes and potato products is in surplus is also significant. This is because, in simple terms, a trade surplus in potatoes means that the economy is better able to afford imports of goods and services that cannot be produced, or cannot be produced competitively, domestically.

Potatoes are grown in most regions of New Zealand, but they are especially important to the Pukekohe area of the Auckland Region and the Timaru District of the Canterbury Region. Pukekohe has around 30 growers and Timaru has 14. Together, these relatively small areas are home to around 25 percent of all potato growers in New Zealand. The Timaru area is also the location of two potato processors, and Pukekohe has one processor located nearby. We estimate that approximately 400 people are directly employed in potato growing in the Pukekohe area, and that the same number are employed in potato growing and processing in the Timaru area. At local level, therefore, the industry is a significant provider of livelihoods.

The effect of dumping of frozen potato products into the New Zealand market would, clearly, be harmful to economic wellbeing. At best, growing and processing of potatoes would be disrupted. Consequently, wealth and employment creation would be reduced. Less positively, businesses and jobs could be destroyed.

In the event of prolonged disruption to the market, some potato growers might be able to switch to the production of alternative crops, but this could be costly. In some areas with particular soil types and microclimates, it might also be the case that the alternative crops are not as commercially successful as potato growing. Potatoes are grown where they are because they are economically the best use of the land. Some growers would be able to focus more on onions, but a disadvantage with this is that potatoes are often grown under contract with a guaranteed price, while onions are generally sold at spot prices. Potatoes, therefore, often provide a more secure income.

For all these reasons, it is evident that dumping of frozen potato products into the New Zealand market would be harmful to economic wellbeing, and that the imposition of an anti-dumping duty would maintain economic wellbeing.

**Social wellbeing** involves individuals, their families, whanau, hapū, iwi, and a range of communities being able to set goals and achieve them, such as education, health, the strength of community networks, financial and personal security, equity of opportunity, and rights and freedoms.

At national level, the potato industry is crucial in terms of food supply and security. Potatoes are one of New Zealand's largest crops because New Zealanders love potatoes. Horticulture New Zealand estimates that, each year, New Zealanders consume an average of 66 kg of potatoes per head.

Horticulture New Zealand has also noted that, along with carrots, potatoes are less sensitive to weather extremes. Large production volumes, spread across the country, reduces the risk that supply of these crops will be impacted by extreme weather conditions.

Potato growing and processing also offer entry level employment opportunities. Especially in the Timaru area, these opportunities are important because there are fewer alternatives than in areas that have large urban areas with diverse economies. Potato growing in the Pukekohe area is noted for the significant presence of immigrant families, both as owners of businesses and as employers of new migrants.

Dumping of frozen potato products into the New Zealand market would jeopardise these social wellbeing benefits. Again, it might be argued that growers who have their sales opportunities disrupted or destroyed could switch to alternative crops, but it can also be argued that the alternative crops would not necessarily be associated with the same social wellbeing benefits as potatoes, even if it were commercially possible to switch to other crops.

**Cultural wellbeing** is about the shared beliefs, values, customs, behaviours and identities reflected through language, stories, visual and performing arts, ceremonies and heritage that make up our communities.

It would be difficult to claim that there are strong national level cultural wellbeing effects associated with potato growing and processing potatoes, apart from New Zealander's strong preference for potatoes as part of their diet. However, at local level, potato growing and processing are likely to have some cultural significance. In places like Pukekohe and Timaru, the industry is a way of life and, as such, it bonds communities.

Overall, it is likely that dumping of frozen potato products into the New Zealand market would have a relatively small adverse impact on cultural wellbeing nationally. Consequently, the imposition of an anti-dumping duty would have only a small positive effect on cultural wellbeing, except in some communities at local level where potato growing is important.

**Environmental wellbeing** considers whether the natural environment can sustainably support the activities that constitute healthy community life, such as air quality, fresh water, uncontaminated land, and control of pollution.

Virtually any economic activity will cause environmental harms, but potato growing and processing is less harmful than meat and fish farming. Research by Cranfield University in the United Kingdom, cited by Ausveg<sup>1</sup> also showed that potatoes have the lowest levels of greenhouse gas emissions when compared to both wheat and rice. This finding is supported by research reported in the academic journal, *Science*, which found that potatoes generate 0.2 kg of greenhouse gas emissions per 1,000 Kcal of energy they contain, whereas maize generated twice as much and wheat and rye three times as much, for the same amount of energy<sup>2</sup>.

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<sup>1</sup> <https://ausveg.com.au/media-releases/potatoes-more-environmentally-sustainable-than-pasta-rice/>

<sup>2</sup> Poore, Joseph, and Thomas Nemecek. "Reducing food's environmental impacts through producers and consumers." *Science* 360.6392 (2018): 987-992.

As was noted earlier, potatoes are grown outside and in most climatic conditions. This means they are also likely to be associated with lower emissions than many other vegetables types that are grown in greenhouses.

In addition, UNESCO data, cited by PNZ, indicates that potato growing is associated with significantly lower levels of overall water usage especially compared to the main grain crop types.

<b>Water needed to produce food (litres)</b>		
Product	Average water use per kg of product	Average water needed per 100 Kcal
Rice	1,111	80
Maize	870	25
Wheat	1,429	45
Potatoes	200	20
Apples	333	67
Olives	500	43
Beef	16,667	741

Source: UNESCO cited by Potatoes New Zealand

Dumping frozen potato products into the New Zealand market would undoubtedly be associated with a reduction in environmental wellbeing. Even assuming that potatoes can be grown and processed in Europe with the same level of water, energy and other inputs as in New Zealand, the transportation of frozen potato products half way round the world will generate additional greenhouse gas emissions, when compared to the relatively short distances New Zealand products are transported.

If the dumping compels New Zealand potato growers to switch to other crops, there are also likely to be additional environmental harms associated with the extra emissions the other types of farming generate, and with the higher levels of resource inputs other crops require.

The table on the next page summarises how we see the contribution of an anti-dumping duty to the Four Wellbeings in New Zealand.

## Principal wellbeing effects of an anti-dumping duty to prevent dumping of frozen potato produce

<b>Economic wellbeing</b>	<ul style="list-style-type: none"><li>✓ Potato growers and processors less likely to be driven out of business</li><li>✓ Employment in growing and processing safeguarded</li><li>✓ Good balance of trade maintained</li></ul>
<b>Social wellbeing</b>	<ul style="list-style-type: none"><li>✓ New Zealand's self-reliance in food production supported</li><li>✓ Good geographical spread of employment</li><li>✓ Entry level employment opportunities in growing and processing</li><li>✓ Growing and processing important to some communities</li></ul>
<b>Cultural wellbeing</b>	<ul style="list-style-type: none"><li>✓ Growing and processing part of the way of life in some communities</li></ul>
<b>Environmental wellbeing</b>	<ul style="list-style-type: none"><li>✓ Potato growing causes fewer greenhouse gas emissions than other staple crops</li><li>✓ Lower water and energy requirements than other crops</li><li>✓ Lower transport-related emissions than imported products</li></ul>

## Are there any good alternatives to an anti-dumping duty?

Finally, it is important to consider whether there are any feasible alternatives to the imposition of a duty, and whether a duty would actually work.

We envisage four possible alternatives to the imposition of a duty:

1. Doing nothing
2. Compensating potato processors and potato growers
3. Assisting New Zealand potato processors and growers to find alternative markets
4. Limiting imports, for example, by means of quotas.

We do not consider doing nothing to be a valid alternative because it would not prevent any harms to the public interest caused by dumping.

Compensating processors and growers would provide them with a degree of protection, but it would require either a subsidy to maintain production, or a financial transfer to replace lost earnings. We believe this would be undesirable, especially in the current financially stressful conditions related to COVID-19, because the cost of either response would fall on the Crown and ultimately the taxpayer.

Assisting New Zealand potato processors and growers to find alternative markets could work in theory, but the assistance would take time to be effective. Moreover, this sort of assistance might not work at all, given that producers and growers are already likely to be accustomed to seeking additional market opportunities.

A measure based on limits on the volume of importing the dumped goods might be difficult to administer. More importantly, it would not eradicate the problem because it would not completely prevent price under-cutting in the domestic market and the harms this would cause.



The imposition of a duty on dumped produce in accordance with the provisions of the Act would assist the potato processors by ensuring they do not face unfair competition in the domestic market place from imported produce. To provide adequate support, the duty would need to be sufficient to ensure that dumped produce cannot be sold at less than the price prevailing before the dumping occurred. A lower level of duty would provide only partially effective assistance.

For all these reasons, we believe that an anti-dumping duty to defend New Zealand potato processors against unfair competition, and to maintain a level playing field, is likely to be the best and most effective response to dumping. The growers who supply the potato processors would also be assisted because the domestic demand for their produce from the processors would remain unaffected. The growers would be able to operate as they would in normal market conditions.

### **Conclusions**

It is clear that dumping of frozen potato products into the New Zealand market would have a range of damaging effects. Steps should be taken to avoid these effects, and there is a compelling case for the introduction of an anti-dumping duty to combat the dumping. Possible alternatives to a safeguard measure have been considered, but it is judged that the most appropriate measure is an anti-dumping duty in direct response to the dumping. The introduction of a measure would also prevent losses of wellbeing that dumping would cause.