CHINA'S AD INVESTIGATION OF U.S. DRIED DISTILLER'S GRAINS EXPORTS

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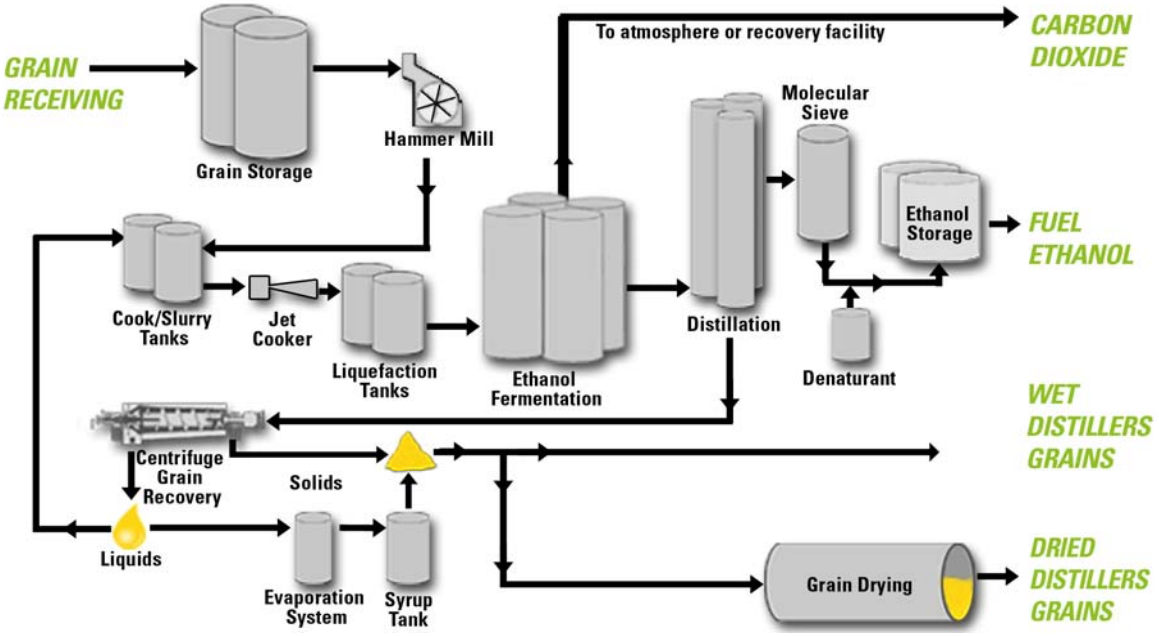
On December 27, 2010 China's Ministry of Commerce (MOFCOM) announced that it had begun an antidumping investigation into U.S. exports of dried distiller's grains with and without solubles (DDGS and DDG).[1] This latest trade dispute between the two countries follows a U.S. complaint about government support for China's wind-energy manufacturers, and trade disputes over tires and poultry.

What is DDGS?

DDGS is dried distiller's grains with solubles. DDGS is produced as a co-product of ethanol production from grain. The starch in the grain (mainly corn in the United States) is converted to sugar. Ethanol is produced from the sugar through fermentation and then distilled. The mixture remaining after the ethanol is removed is referred to as distiller's grains. One bushel of corn (56 pounds or 25.4 kg) used to produce ethanol produces approximately 2.7 gallons (11.8 liters) of ethanol and 18 pounds (7.7 kg) of DDGS. An illustration depicting the production of ethanol from grains is reprinted courtesy of ICM Inc.



U.S. production of DDGS is driven by production of ethanol from grain. The Energy Policy Act of 2005 established the ethanol consumption mandate and the Energy Independence and Security Act of 2007 substantially increased the mandate. For 2011, 13.95 billion gallons of renewable fuels must be used in transportation. The vast majority of this volume will be ethanol produced from grains, primarily corn.

Uses of DDGS:

The primary use of distiller's grain is as an ingredient in animal feed. Components such as protein, fiber, and oils are not consumed in the production of ethanol. Wet distiller's grain can be used in animal feed, but has a short shelf life and high transportation costs. Dried distiller's grain is less expensive to ship and has a shelf life of many months. DDGS can be substituted for some of the corn in animal feed, and because DDGS also contains approximately 30 percent crude protein, it can replace some protein sources such as soybean meal, particularly in dairy cattle feed. DDGS can comprise up to 20-30 percent of dry

[1] Grains can be dried after separation from the liquids, producing dried distiller's grains – DDG – or dried with the syrup, producing dried distiller's grains with solubles – DDGS.

matter in feed for beef and dairy cattle and is also used in swine and poultry feed. DDGS cannot be substituted for all of the grain in animal feeds because it contains too much of some nutrients for livestock and too little of others.

U.S. Production and Exports:
U.S. production of DDGS more than tripled between 2005 and 2009 but domestic usage has increased at a slower pace. U.S. exports of DDGS classified under 2303.30, "brewing or distilling dregs or waste" have increased rapidly in the past 5 years. The United States exports DDGS to many countries. Mexico was the largest export market through 2009, followed by Canada, but in interim 2010, U.S. exports of DDGS to China surpassed both and were nearly as large as exports to Mexico and Canada combined.

U.S. Production, Exports, and Average Unit Value of DDGS, 2005–09 and January-October 2009 and 2010, thousand metric tons

	2005	2006	2007	2008	2009	interim 2009	interim 2010
Production	**9,000**	**12,000**	**14,600**	**23,000**	**30,500**	NA	NA
Exports	**1,062**	**1,252**	**2,357**	**4,510**	**5,641**	**4,561**	**7,567**
Mexico	128	367	708	1,189	1,459	1,195	1,396
Canada	105	122	318	772	804	603	839
China	0	0	1	9	542	336	2,163
All other	828	763	1,330	2,541	2,836	2,426	3,170
	Average Unit Value, U.S. dollars per metric ton						
China	--	--	112	221	186	178	197
All other	106	129	166	217	170	171	168

Sources: Renewable Fuels Association, "Industry Resources," http://www.ethanolrfa.org/pages/industry-resources-coproducts; U.S. Department of Commerce and the U.S. International Trade Commission Data Web

Chinese producers allege injury from dumped U.S. DDG and claim that dumping has hindered development of China's DDG industry. MOFCOM announced on December 27, 2010 that it would investigate the allegations. Nearly 70 U.S. firms registered as interested parties by the January 17 deadline. There is some evidence that at times imported U.S. DDGS undersold Chinese domestic product.

Next Steps:
MOFCOM is responsible for both investigation and determination of dumping, and investigation and determination of injury to the domestic industry; but for investigations involving agricultural products, the injury investigation is conducted jointly by MOFCOM and the Ministry of Agriculture. MOFCOM determines the margin of dumping by comparing the export price to China to the normal value. Generally, the normal value is the value in the exporting country. If sales of the like product in the exporting country do not permit a fair comparison, MOFCOM may use the export price to a third country or calculate a normal value based on production cost. Preliminary duties could be assessed as early as June. Some industry sources anticipate antidumping duties in the range of 40–50 percent. Duties substantially higher than the current 5 percent tariff could effectively close the largest export market for U.S. DDGS.

Developing export markets for DDGS has become increasingly important because of the increasing volume produced in the United States due to the ethanol fuels mandate. In 2006, the USDA estimated that the entire potential U.S. market for DDGS, based on 100 percent adoption at recommended feeding rates, was 39 million tons. U.S. DDGS production will likely exceed this level in 2011.

Sources: Industry and association websites; Environmental Protection Agency factsheet "Renewable Fuel Standard (RFS)", October 13, 2010; U.S. Grains Council, *DDGS User Handbook*; Agricultural Marketing Resource Center, "Estimated Dried Distiller's Grains with Solubles (DDGS) Production and Use", November 29, 2010; Government of the PRC, Ministry of Commerce, "Anti-dumping Regulations of the People's Republic of China."