Testimony to the U.S.-China Economic and Security Review Commission
Hearing on Chinese Seafood: Safety and Trade Issues

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On behalf of the Catfish Farmers of America, I would like to thank you for the opportunity to submit testimony related to the increase in imports of catfish from China into the United States. My background is in the economics and marketing of aquaculture. I will be providing testimony related to the extent of subsidies in catfish production in China, some food safety and contamination issues, and information on the effects that these imports are having on the U.S. farm-raised catfish industry.

The information on subsidies for catfish farmers and processors and food safety was obtained from a recent trip to China (October 17-28, 2007) to visit and tour catfish production farms, hatcheries, processing plants, and a pharmaceutical manufacturing company. I toured facilities in two provinces, Jiangsu Province along the coast north of Shanghai and Hubei Province in the interior, west of Shanghai. Facilities visited in both provinces included hatcheries, farms with ponds and farms raising catfish in cages, research institutions, processing facilities, and a pharmaceutical company. Along the way, I talked extensively with local government people, representatives of the provincial fisheries ministries, researchers, farmers, managers of government-operated hatcheries, and owners of processing plants.

Subsidies

One of the key points of this testimony is the extent of the subsidies provided by the government to farmers raising channel catfish and the processors who export them. While there are numerous different forms of subsidies in China, the most striking were those that provide capital in the form of grants to those who build and operate farms and for those who process and export the fillets. This capital is provided to both construct and operate facilities. Much of this capital is in the form of grants, not loans. Thus, these capital grants are interest free and do not have to be re-paid. I would like to describe the types of programs that were mentioned during this trip.

The Government of China continues to make "investment" or budget decisions based on multiple-year plans. Capital is made available to develop those sectors designated as high priority in each plan. Several years ago, China changed its priority (in terms of fish

supply) from capture fisheries to aquaculture. This switch was likely due to over fishing their wild populations of fish. Another priority area is the production of commodities targeted for export. Specific aquaculture crops that are targeted for export include catfish, shrimp, and tilapia. Individuals who develop businesses in prioritized programs are eligible for government funding. This funding includes both investment capital that can be used to construct production and processing facilities and operating capital to manage farms and processing plants. These funds are provided in the form of grants for which no interest is paid and that do not have to be re-paid.

China has a program for commercialization of new technologies (New Research Achievement Program). Since catfish farming is considered a new technology, farmers raising catfish are eligible for funding under the new technology program.

In addition to these broad programs, there are some specialized ones, like the following example from Jiangsu Province. In Jiangsu Province, channel catfish production occurs mostly in the northern part of the province and is targeted primarily for export. The Yangtze River, a large river that drains a substantial portion of central China, deposits sediments at its mouth in Jiangsu Province, thereby creating new land areas at a relatively rapid rate. Given the overcrowding in many Chinese cities, the government has initiated a resettlement program for the new land being created in Jiangsu Province. Through this program, the land created by sediment deposition from the Yangtze River is made available to farmers at no cost and is tax free for five years. This program is designed to encourage emigration from more densely populated areas to these new land areas.

Thus, farmers raising catfish for export are eligible for grants of capital to both construct and operate farms that are budgeted under the priority areas of: 1) aquaculture; 2) export production; 3) new technologies; and 4) catfish. In addition, land grants are available (at least in Jiangsu Province) under resettlement programs.

I would like to describe for you several details from specific farms that we visited. The farm that we visited in Jiangsu Province built ponds on land made available by the government. The headquarters of this farm is a building that resembled a large, upscale hotel. We were told that farms with large headquarters such as these are state financed. The ponds belong to an owner who constructed them and then rented them out to tenant farmers. His company is referred to as a unified management company because the owner standardizes the management strategies across all the tenant farmers. The tenant farmer I spoke with provides 30% of the working capital and 70% of the working capital is provided by the management company. The dollar amount received by the tenant farmer from the company was $100,000; however, the farmer paid no interest on this capital. The owner of this company was eligible for the types of subsidies mentioned above but would not answer specific questions about what percent of the capital was obtained in the form of grants from government sources and what percent was private capital.

Catfish are raised in cages in a number of different provinces in China, and we visited cage farms in Hubei Province, one in Jiayu County, and one in Huangpi County. There

are approximately 8,000 reservoirs in Hubei Province. Many of these were constructed as part of a national reservoir-building effort in China in the 1950s and 1960s. Large reservoirs are owned by the government, and the government does not charge for their use for cage culture. Individuals can rent small reservoirs, however, if they rent the entire water body.

I also visited two hatcheries, one in Jiangsu Province (Taixing Aquatic Product Improved Variety Farm), and one in Hubei Province (the Jaiyu County Catfish Breeding Base). The hatcheries were both funded entirely by the government. Both construction and operating capital for these hatcheries were from government sources. The Taixing channel catfish hatchery budget was provided by the provincial government but had been provided by the federal government in previous years.

The preceding illustrates the extensive role of subsidies in the increase of Chinese exports of catfish to the United States. The following summarizes the specific subsidy programs that I heard about during the trip:

<u>Direct, No-interest Grants</u>

- Investment and operating grants (no interest; do not have to be re-paid)
  - Aquaculture projects
  - Production of export crops
  - Catfish
  - New Research Achievement program of the government. This program applies to fisheries and aquaculture. The government applies grants to implement new technologies. Funds are used to build new facilities that use new techniques. Individuals can apply for these funds through local government officials.
  - Jiangsu Province spent $1 billion Yuan to support 120 projects (enterprises) with the university, to implement new technologies.
  - Crawfish processors received 6-8 million Yuan from the government for facilities, to employ new techniques, and to disseminate new technologies. It is the crawfish processors who are also processing catfish for export. These companies process crawfish from March through September, and then switch to processing catfish from September through February.
  - Farmer (pond farm in Jiangsu Province) provided 30% of the working capital, and the company provided 70%. The farmer paid 0% interest to the company for the company's working capital. Thus, the farmer paid only 30% of the feed costs. The company paid for the rest of the feed. The company has a large headquarters that, according to my hosts, shows that it is a state-funded company. The owner would not tell me whether all of the capital was from the government or what percent was private versus government.
- Farms with large, hotel-like headquarters are state-financed.

- Fish haulers have a special license; they do not pay tolls on highways when transporting fish.

Land Grants

- Land near the coast in Jiangsu Province, created by deposition of sediments from the Yangtze River, is being made available to farmers at no cost and is tax free for five years, to encourage emigration from more densely populated areas.

Loan Subsidies

- Government subsidizes loans to banks to promote certain activities. Aquaculture has been an emphasis by the government.

Hatcheries

- Hubei Province Jaiyu County Catfish Breeding Base, funded by the county government.
- Taixing Channel Catfish Stock Farm (Jiangsu Province Hatchery) is under the direction of the Agriculture Ministry. Funding for the Stock Farm usually is from the province, but in 2007 it was provided by the national government.

Infrastructure Development

- Reservoirs built by the government. There is no charge for use by cage farmers to raise catfish, although they do pay for a permit.
- Processing plants are all located in industrial parks built by the government.
- For the pond farm in Jiangsu Province, the water supply was from the Yangtze River. There are government-constructed water control gates from the Yangtze River to allow water to be supplied. The water supply for all pond farms is from rivers through a vast system of irrigation canals constructed by the government.
- The government has seven specialized fisheries research institutes that conduct research, extension work, and inspections at no cost to the farms.
- Pharmaceutical companies are located in industrial parks and may receive subsidies for infrastructure development that might be reflected in cost of medicines for fish.

Services

- The Commercial Inspection Bureau of the government checks fish twice a year and tests for nine different substances, at no cost to farmers.
- The government assists businessmen to organize companies.

The above descriptions illustrate that the subsidies available for production of catfish in China are formal government programs. The mechanism to access these subsidies is through the local government officials. It is clearly important to businesses to maintain

good relationships with local government officials by inviting them to lavish meals. Local government officials are those that are aware of what the new programs are. Moreover, local government people are evaluated based on the increases to GDP in their counties. Thus, it is in the interest of local government officials to encourage farmers in their counties to seek funds from the various programs and move in the direction of producing the crops for which the funds are provided. It was clear throughout the trip that local government officials promote these funding and subsidy programs to businessmen in their counties.

One other aspect to the subsidies by the Chinese government for aquaculture production for export is that these same subsidies also apply to the production of tilapia for export. Frozen tilapia fillets from China sell for a low price that is likely to also be a subsidized price. These tilapia, as a low-cost frozen fillet may also be substituting for U.S. farm-raised catfish in the U.S. market.

Food Safety

Catfish imported from China have been found to contain the fluoroquinolones Enrofloxacin and Ciprofloxacin, crystal violet, melamine, and nitrofurans. These substances are not approved for use in catfish in the United States. In a visit to a pharmaceutical company, I observed Enrofloxacin on sale and labeled for use in fish production. Moreover, doxycycline (an antibiotic used to treat humans for malaria) and neomysin were also being sold for use in fish. These antibiotics are not approved for use in catfish or other fish in the United States. In addition, there are a number of products being sold as "herbal medicines" for fish. The content of these substances is unknown. In my conversations with a number of different people in China, it is clear that there is little understanding that ensuring a safe food supply requires zero tolerance for these types of antibiotics and compounds in our food supply. While the government initiated a testing program last year, the continued indiscriminate use of substances not allowed for fish in the United States continues to pose food safety questions about imported fish products from China. Most bothersome is the fact that testing in Canada and the U.S. continues to identify new types of adulterations with different antibiotics and other substances.

Effect on the U.S. Catfish Industry of Imports from China

The U.S. catfish industry is the largest and most successful component of aquaculture in the U.S. The catfish industry is a major source of employment and economic output in the most impoverished region of the U.S., the Mississippi River delta region. The growth in production and output has been one of the few economic success stories in the impoverished Delta region.

The per capita consumption of catfish increased steadily from the early years through 2003. The round weight of catfish processed reached 661.5 million pounds in 2003 (Figure 1). This represents an increase of 382% from 1983 through 2003 and an annual

rate of growth of 19% per year. There are few other examples of such rapid growth in a production sector in the U.S.

Imports of catfish from China began to appear in the U.S. in 2003 and increased rapidly through 2007. As the imports from China increased from 2004-2007, the total volume of U.S. catfish processed began to decline. The volume of U.S. catfish processed has now declined steadily for four consecutive years, from 2004 through 2007. The volume of processed catfish from U.S. farms in 2007 was 25% lower than the processing volume in 2003. The total volume of U.S. catfish processed in 2007 was the lowest in 10 years and will likely fall even lower in 2008.

The decreased volume of U.S. farm-raised catfish produced results in total economic losses of approximately $750,000 a year. These losses include lost revenue from the upstream and downstream industries that depend on the catfish farm industry. These industries include processing, feed manufacturing, supply, equipment suppliers, and the many other sectors of the economy that provide supplies and services to the catfish industry. The 25% decrease in catfish production has been accompanied by a loss of approximately 4,600 jobs in catfish farming areas.

Chinese catfish are being sold in the U.S. for approximately $1.00/lb less than for similar sized fillets of U.S. catfish. However, these lower prices are not due to differences in the cost of production. Feed price is the single largest cost in catfish, whether in the U.S. or China. Feed costs in China are two to three times higher than feed costs in the U.S. because China imports the majority of its soybean meal. These higher costs of feed result in production costs higher than the price paid for catfish in China. The cost analysis that I have developed based on the cost information collected in China shows that catfish production in China is not profitable. The only explanation for the substantially lower cost of imported catfish from China in the U.S. market is the subsidies, particularly the programs that provide grants of capital.

The decline in processed weight of catfish in the U.S. reflects the difficulty that the U.S. industry has in competing with the subsidized product from China. The result is downward pressure on farm prices. This, combined with rapidly-increasing feed prices is forcing catfish farms out of business. Figure 2 shows that feed prices in 2008 are 61% higher than the 20-year average. They also are the highest in 20 years. Lenders are questioning the financial viability of the industry and some are unwilling to renew operating loans. The downward spiral of the production sector is weakening the feed manufacturing, hatchery, supply, and equipment sectors. Given its position among U.S. aquaculture sectors, the downsizing of the U.S. catfish industry is reverberating throughout the U.S. aquaculture industry.

Other livestock industries are also struggling with high feed prices. However, the catfish industry faces a higher percentage of imported product than do other livestock sectors in the U.S. Figure 3 shows that the percentage of imported Chinese catfish as compared to total U.S. quantities sold is 14% higher than for poultry products, 10% higher than pork

products, and 5% higher than for beef products. Moreover, the market share of imported catfish is growing rapidly.

It should be noted that this testimony has only referred to the catfish raised and exported from China. The import statistics indicate that there are growing volumes of basa/tra (*Pangasius sp.*) being imported into the U.S. from China. However, during my trip to China, I was told repeatedly that basa/tra do not grow well in China. Moreover, during a visit to a seafood show in Vietnam in June, 2007, several Vietnamese exporters of basa/tra told me that they sold basa/tra to companies in China to sell to the U.S. Thus, it appears that there are Chinese companies engaged in circumvention of the antidumping ruling against Vietnamese exporters of basa/tra.

In summary, I observed first hand a number of examples of government programs that subsidize production of channel catfish in China for export to the U.S. I also observed the sale of several antibiotics for fish production that are not approved for use in the U.S. The U.S. catfish industry is struggling to compete with subsidized, adulterated product from China at a time when feed prices are at an all-time high. The market share of imported Chinese catfish is already higher than that faced by other livestock industries in the U.S. Losses in the catfish industry have already been substantial, but if the current situation continues, even greater losses will occur. If the current trends continue, the catfish industry may lose its commodity markets and be relegated to niche marketing of specialty fresh products. U.S. consumers will not have the choice that it currently has and will become dependent on imported catfish and tilapia fillets of questionable safety.

On behalf of the U.S. Catfish Industry, I thank you for this unique opportunity to appear before this Commission and provide my expertise as you review the national security implications of trade and economic ties between the United States and the People's Republic of China. I am delighted to answer to the best of my ability any questions that you might have.

Figure 1. Round Weight Processed of U.S. Farm-raised Catfish

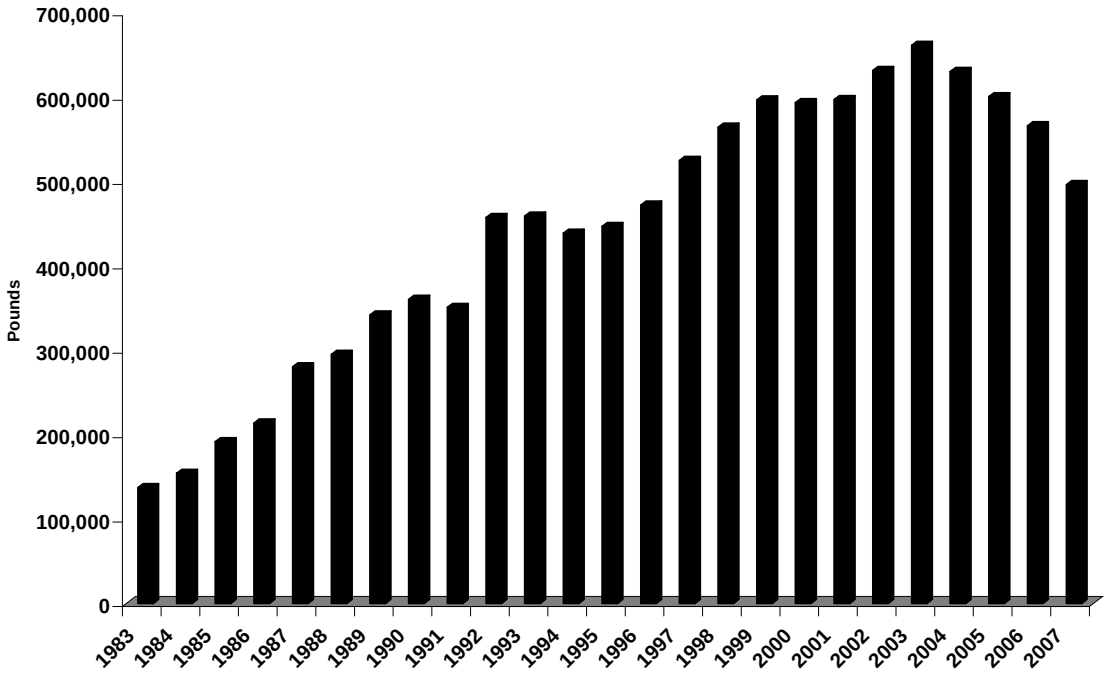


Figure 2. Feed prices1987-2008 ($/ton).

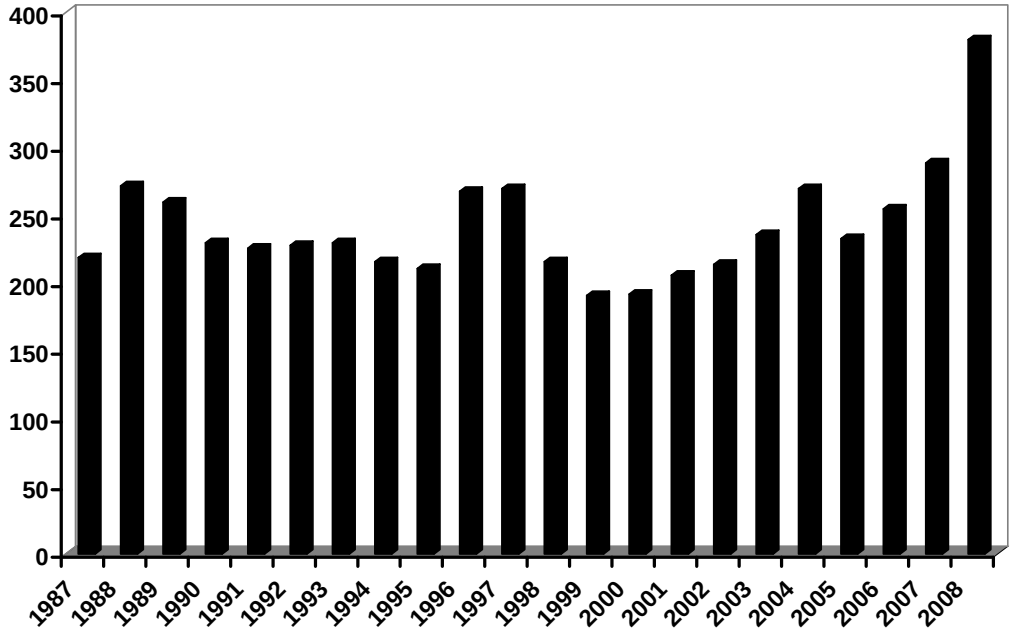
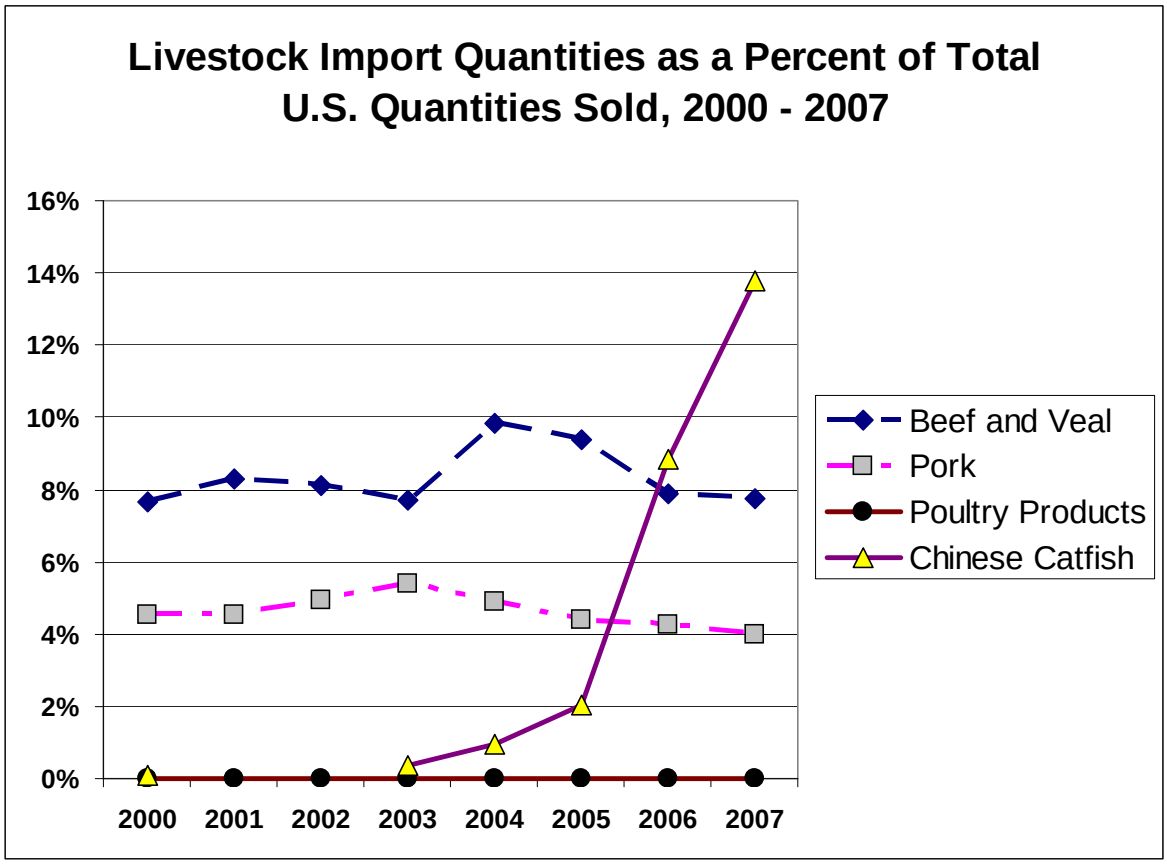


Figure 3


Livestock Import Quantities as a Percent of Total U.S. Quantities Sold, 2000 - 2007
16%
14%
12%
10%
8%
6%
4%
2%
0%
2000
2001
2002
2003
2004
2005
2006
2007
Beef and Veal
Pork
Poultry Products
Chinese Catfish