

**Walter R. Keithly, Jr.**  
**Center for Natural Resource Economics and Policy**  
**Louisiana State University**  
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**Hearing on Chinese Seafood: Safety and Trade Issues**  
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**Opening Statement/Oral Presentation**

Vice Chairman Bartholomew, Commissioner Slane, and to the other members of this commission, thank you for this opportunity to participate in these hearings. My name is Walter Keithly and I am a resource economist at Louisiana State University. While my presentation will focus on only one component of the Gulf of Mexico seafood industry, the shrimp industry, and more particularly, the impacts related to the recent antidumping petition and ruling, I will be glad to entertain any questions that the Commission may wish to ask on other issues related to China and the Gulf of Mexico seafood industry.

**Introduction**

With landings valued at close to \$700 million at dockside<sup>1</sup>, and several hundred million more dollars added along the marketing chain, the contribution of the Gulf of Mexico commercial fishing industry to the U.S. or even the Gulf Region economy is but a “drop in the bucket.” However - and this is a strong however - the industry is of economic importance to many of the local towns and communities along the northern Gulf and is a “way of life” to many of the coastal residents. The financial viability of the Gulf of Mexico seafood industry – from harvesting through processing – has now been on the decline for more than a decade and there are no signs of any reversal in this trend. While the increasing import base is not the sole reason for this decline, it is a contributing factor. Furthermore, while China is a large exporter to the United States of certain seafood products that compete with product harvested from the Gulf of Mexico, depending upon the product being considered, China may be but one player in a much larger international arena.

When an “outsider” thinks of the Gulf of Mexico seafood industry, shrimp is the first product that comes to mind. Such a perception is only natural. Generally accounting for more than one-half of the Gulf of Mexico commercial landings by value, shrimp dominates edible seafood production from the Region. With the filing of an anti-dumping petition at the end of 2003, and the subsequent investigation, it is also the product that has received the majority of media attention in recent years. Finally, it is the product of which movies are made (Forrest Gump).

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<sup>1</sup> This figure excludes the value of two important farm-raised species: catfish and crawfish.

Of all the Gulf of Mexico commercial fisheries, the shrimp industry has been the most severely impacted from the increasing import base. The impact is wide in scope, ranging from a significant decline in the number of harvesters (probably in excess of fifty percent) to large consolidation in the processing industry. Vessels that have managed to cope with the significant decline in deflated dockside price are now forced to cope with rising fuel prices and, as noted, there is no sign of improvement in the foreseeable future.

### **Placing China Shrimp in Perspective**

U.S. imports of edible seafood from China increased from approximately 150 million pounds annually during the early 1990s to over a billion pounds since 2006. During this period, the U.S. share of edible seafood imports from China advanced from about five percent to more than 20%. While exports to the U.S. from China have increased significantly since the early 1990s, I would be remiss if I did not also mention that a “healthy” export market of edible seafood from the U.S. to China has also developed.

Shrimp is but one of many edible seafood products exported from China to the United States. In 1990, shrimp exports from China, equal to about 125 million pounds, represented more than three-quarters of all edible seafood exports to the United States from China. In 2003, U.S. shrimp imports from China peaked at about 180 million pounds. At the peak, the share of U.S. imports from China represented by shrimp was about 25%.<sup>2</sup> Since 2004, China’s exports of shrimp to the United States have averaged 125 million pounds annually with a corresponding share of less than 15%.

While much of the discussion of U.S. shrimp imports has focused on product from China, the total number of “larger” sources of shrimp to the U.S. market exceeds 25 and, over time, China has become a less significant supplier. In 1990, for example, China accounted for about one-quarter of the 500 million pounds of shrimp imported by the United States. Given problems with its own production systems and increased exports from other countries to the United States, China accounted for less than three percent of the 700 million pounds of shrimp exported to the United States in 1998. At its peak in 2003, China’s share of the 1.1 billion pounds of shrimp imported by the U.S. equaled only 16%.

### **The Shrimp Import Controversy**

#### ***(a) Increasing imports and impact on dockside price***

In 1990, U.S. shrimp imports, as noted, equaled about 500 million pounds and by 2000 had increased to 760 million pounds. While this represents a 50% increase in total imports, growth

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<sup>2</sup> While not discussed in great detail, shrimp exports to the United States from China have fluctuated widely over the 1990-2007 period. This fluctuation, to a large extent, reflects diseases in ponds that have resulted in high mortality of shrimp and a reduction in product destined for the export market.

in the U.S. demand for shrimp resulted in only a moderate decline in the deflated price of the product received by the harvesting sector.

Beginning in the late 1990s, cultured shrimp production in Asia advanced rapidly. While much of the increased production would normally have been directed to all three of the primary export markets – the United States, Japan, and the European Union – Japan, like the U.S., was entering a recession in the early 2000's and Japan absorbed none of the increased production. Two factors in the European Union – Thailand's changing Generalized System of Preferences (GSP) in the EU and antibiotic concerns – also led to diversion of export product from Asia to the U.S. market. As a result, exports of shrimp to the United States advanced from 760 million pounds in 2000 to more than 1.1 billion pounds in 2003; an increase of almost 50%. The Southeast U.S. deflated dockside price fell 40% from \$2.10 per pound (headless shell-on weight) to \$1.26 per pound (based on the 1982-84 Consumer Price Index). Unable to rapidly adjust to the declining dockside price, a coalition Southeast U.S. shrimp producers and processors, on December 31, 2003, filed a petition with the U.S. Department of Commerce (USDOC) and the U.S. International Trade Commission (USITC) alleging that six countries – China, Vietnam, India, Thailand, Ecuador, and Brazil – were unfairly 'dumping' product on the U.S. market.

**(b) *The shrimp antidumping petition and outcome***

While other components of the U.S. seafood industry (e.g., catfish, salmon, and crawfish), have, in the past, requested relief from the perceived problems associated with the growing import base and the resulting suppression in dockside prices, these requests were relatively limited in scope when compared to the request brought forth by the shrimp industry. For example, previous U.S. seafood antidumping petitions targeted only one country whereas the shrimp antidumping petition targeted six countries. Similarly, while the number of different products included in previous petitions tended to be limited (e.g., catfish fillets from Vietnam, crawfish tail meat from China), the number of products included in the U.S. shrimp antidumping petition, while not all inclusive, was large in scope. Finally, with respect to the three previous investigations – catfish, crawfish, and salmon – the number of countries producing a product that might compete in the U.S. market with the country being targeted in the investigation was limited. Though six countries were targeted in the shrimp antidumping petition, there are at least 20 other countries which produced sizeable amounts of warm-water shrimp at the time of the investigation and much of the production from these countries entered the world trade market. Hence, product from these countries could, potentially, be diverted to the U.S. market if the trade flow to the U.S. among the six targeted countries was interrupted as a result of duties imposed on the six named countries.

After an initial finding of dumping by the USDOC, the USITC confirmed that dumping was occurring and set duties accordingly.<sup>3</sup> The scope of the order included certain warm-water shrimp and prawns, whether frozen, wild-caught or farm-raised, head-on or head-off, deveined or not deveined, cooked or raw, or otherwise processed in frozen form. The largest duties, by far, were imposed on product from China while relatively minor duties were imposed on product from Thailand and Ecuador.

***(c) Impacts on named countries***

U.S. imports from the six named countries increased rapidly from approximately 450 million pounds in 1999 to more than 800 million pounds in 2003. In association with the filing of the anti-dumping petition, U.S. imports from the named countries declined to approximately 700 million pounds in 2004 but by 2006 had returned to the pre-filing level.

While the fact that 2006 exports to the U.S. from named countries (851 million pounds) exceeded pre-investigation exports (i.e., 822 million pounds) might lead to a tentative conclusion that duties had little impact on aggregate exports among named countries, a somewhat different picture emerges when examination is given to the individual countries in the investigation. Relatively high average estimated duties, for example, were placed on subject imports from both China and Vietnam. During the two-year period prior to the investigation (i.e., 2002-2003), imports from China averaged 162 million pounds and imports from Vietnam averaged 113 million pounds. By comparison, China's exports averaged only 125 million pounds for the two-year period following the investigation (i.e., 2005-06) while Vietnam's exports averaged only 88 million pounds.

On the other hand, relatively low average estimated duties were imposed on subject merchandise from Ecuador and Thailand. Ecuador's exports to the U.S. during the period after the investigation averaged 120 million pounds compared to 70 million pounds for the two-year period prior to the investigation. Similarly, exports from Thailand to the U.S. averaged 391 million pounds during the two-year period after the investigation compared to 275 million pounds during the two-year period prior to the investigation.

Based upon this discussion, one can conclude that U.S. imports from those countries penalized with the higher dumping duties on subject merchandise did decline, at least to some extent, as a result of antidumping measures. However, U.S. imports from those countries penalized with relatively low duties (i.e., Ecuador and Thailand) exhibited no decline after duties were imposed on subject merchandise and, in fact, increased by a significant amount.

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<sup>3</sup> Details of this petition, including a chronology of events leading the USITC's findings, can be found in *Certain Frozen or Canned Warmwater Shrimp and Pawn From Brazil, China, Equador, India, Thailand, and Vietnam* (United States International Trade Commission , 2005).

**(d) *Trade diversion between named and non-named countries***

U.S. imports of shrimp from non-targeted countries consistently fell in the relatively narrow range of 250 million pounds to 300 million pounds during the nine-year period prior to the investigation. Expressed on a percentage basis, the share of total U.S. imports from non-targeted countries fell over time from a high of 44% in 1996 to only 26% in 2003. Given the relatively constant U.S. imports from these countries prior to the petition, the declining share reflects increased imports from named countries.

With the onset of the investigation in 2004, exports from the non-named countries to the United States increased to more than 400 million pounds and the share represented by the non-named countries increased to almost 40%. The increase in U.S. imports from non-named sources was widespread and included many of the Asian countries not included in the investigation. Evidence suggests, furthermore, that much of the increase reflects trade diversion rather than other factors, such as increased cultured shrimp production in these countries.

**(e) *Trade diversion between subject and non-subject merchandise***

A number of shrimp products were not considered subject merchandise and, hence, excluded from duties. Two of these products that deserve some attention are breaded shrimp and dusted shrimp. Breaded shrimp was excluded from the scope of investigation because domestic breaders have, historically, not depended on domestic landings as a source of raw material in their processing activities. While included in the initial investigation, dusted shrimp was excluded from the final scope order at the discretion of the USDOC.

Prior to 2000, U.S. imports of breaded shrimp were negligible; generally less than one-million pounds annually. From 2000 to 2003, U.S. imports of this product increased from about four million pounds to 19 million pounds. This increase suggests that imports of this product would have continued to increase even in the absence of antidumping duties. However, there is little doubt that antidumping duties accelerated the growth of U.S. imports of breaded product. Specifically, by 2005 U.S. imports of breaded shrimp had increased to 98 million pounds and approached the 110 million pound mark in 2006. The overwhelming majority of increased imports of this product are of Chinese origin which now account for about 80% of the total.

Imports of dusted shrimp, according to SSA estimates, have increased from less than 100 thousand pounds in 2003 to more than 26 million pounds in 2006.<sup>4</sup> Virtually all of the dusted

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<sup>4</sup> There is no harmonized tariff code for dusted shrimp.

product is from China and it is the contention of the Southern Shrimp Alliance that much of the product is imported in this form simply to circumvent duties.<sup>5</sup>

**(f) *The effect of the antidumping investigation on dockside price***

As noted, the Southeast U.S. deflated dockside shrimp price fell by approximately 40% between 2000 and 2003. Since 2003, however, the deflated price has been relatively stable. Hence, one might argue that the antidumping investigation and subsequent duties, while not being the panacea as envisioned by the petitioners, at least prevented any additional deterioration in price. The validity of this argument, however, needs to be tempered by the fact that there are three large import markets for cultured shrimp products and changes in regulations and/or macroeconomic factors in any of the markets can alter trade flows and, hence, the Southeast U.S. dockside shrimp price. For example, the EU in 2001, as noted, imposed a temporary ban on shrimp products originating from some of the Southeast Asian countries (i.e., China and Vietnam). This ban resulted in a change in trade flows with much of the banned product being redirected to the U.S. market. As the ban was gradually relaxed, product that had previously been redirected to the U.S. market was subsequently shipped to the EU market. In short, without a more formal analysis it is difficult to assess whether post-2003 stability in Southeast U.S. dockside shrimp price reflects (a) effects associated with the antidumping order, (b) changes in regulatory and/or macroeconomic factors in the U.S. vis-à-vis other primary shrimp importing countries, or (c) some amalgam.

**Concluding Comments**

As stated, duties appear to have provided only marginal and probably only short-term relief to the domestic shrimp industry from the impacts of rising imports. In the absence of significant income growth in Asia, further increases in cultured shrimp production in the Asian Region will likely to result in further suppression of the domestic dockside price. How will shrimp fishermen survive? The simple answer is that many will not. As they leave the industry, however, the catch per unit effort (i.e., catch per trip) among the remaining participants. While possibly not totally making up for the decrease in price, the increased catch per unit effort will, at a minimum, offset a portion of the lost revenues brought about as a result of the price decline.

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<sup>5</sup> As evidence, the SSA states that while imports of dusted shrimp have dramatically increased during 2003-06, "...U.S. breeding production has experienced a dramatic decline during the same time period, indicating that 'dusted' shrimp are not being breaded as intended. It appears that the process is easily reversed and, as such, the product competes directly with the domestically produced shrimp intended for protection under the antidumping order (Southern Shrimp Alliance, 2007).

Finally, since this meeting is about U.S.-China relations, I think it is worthwhile to end this presentation on the subject of China, seafood, and impacts of China's exports on the U.S. fishing sector. Certainly, increasing seafood exports from China to the United States have negatively impacted various components of the domestic seafood industry throughout the country; not just in the Gulf of Mexico. At present, Gulf industry impacts from China product are relatively limited; primarily shrimp and crawfish. And with respect to shrimp, I would hypothesize that should China, for whatever reason, stop exporting shrimp to the U.S. market, China's share would be captured by other countries in relatively short order. As China and other countries further develop their respective seafood industries, however, impacts throughout the Gulf (and the rest of the nation) will become more wide-reaching. Consumers, on the other hand, will benefit from the increased supply of seafood provided at affordable prices.