

Import and Consumer Impacts of U.S. AntiDumping Tariffs: Freshwater Crawfish from China

Kenneth J. Roberts, Department of Agricultural Economics and Agribusiness, LSU Agricultural Center

Abstract. Few aquatic products of the United States have limited competition from imported supplies. This situation existed with the domestic supply of freshwater crawfish until 1994. The 52 thousand MT round weight domestic production from aquaculture and capture fisheries experienced major import competition at that point. Imports of value added crawfish products increased to the point that an antidumping petition (marketing at less than fair market value) was filed with the U.S. International Trade Commission. An investigation led to a finding of an industry being materially injured by reason of crawfish tail meat imports from China being sold in the U.S. at less than fair value (LTFV). Tariffs averaging 123% were established. The tariff remedy had limited impact. The competitive condition of the domestic crawfish processing industry was not restored during the first three years of the five-year tariff period. Severe domestic tail meat shortages resulted from two consecutive years of drought in producing areas. The increase in domestic tail meat prices was large enough to re-establish the pre-tariff import-domestic price difference.

Keywords: Trade, Crawfish, Tariffs, Impact

IMPORT AND CONSUMER IMPACTS OF U.S. ANTIDUMPING TARIFFS: FRESHWATER CRAWFISH FROM CHINA

Few aquatic food products in the United States have limited competition from imported supplies. For the last decade, imports of edible seafood were from 68 to 98 percent of domestic edible production levels (U.S.D.C., 1998). Crustaceans, such as shrimp, were particularly subject to import competition. Until 1994, domestically produced crawfish (*Procambrus clarkii*) had not met market challenges from imported products. For the first time, domestic production from aquaculture and capture sources (52,000 MT round weight) was supplemented by value-added tail meat from China. In one-year, tail meat from China attained a 58 percent market share. Within three years, the market share had increased to 87 percent. (ITC, 1997). This increase in import share prompted varied responses from crawfish producers and the public sector. These responses are part of the uniqueness of the case history. A brief explanation of some elements of domestic crawfish production and marketing will aid in understanding the response from Louisiana firms.

UNITED STATES PRODUCTION AND MARKETING CHARACTERISTICS

Production from Louisiana accounts for 90+ percent of domestic crawfish landings (ITC, 1997). Small quantities of crawfish are produced in Texas from culture and Oregon from natural systems. Occasionally some culture occurs in other southeast states. Initially, Louisiana production came from capture fisheries in seasonally flooded natural river systems. Aquaculture production techniques were successfully implemented in the 1970's. Approximately 1,500 producers operate crawfish aquaculture operations. These operations varied from 40 to 50,000 hectares (L.S.U., 1999).

Combined, the captive and culture harvests ranged from 27 to 56 thousand MT during the 1990's. The wide range in such a short time period reflects the production swings in the capture fishery. During this period, the range for capture supply was 8 to 32 thousand MT. Although varied, culture sources were more reliable, producing from 16 to 28 thousand MT annually. While variation in the capture supply is mostly rooted in fluctuating water levels in rivers, the culture supply variation is more reflective of the producers response to prices and conditions in the rice industry. Crawfish culture occurs in areas of high rice production. Crawfish can be grown in a rice rotation, double cropped with rice or as a specialty crop.

Overall, the crawfish industry lived in isolation with Louisiana oriented production and marketing sectors. As noted, the state producers had no domestic competitors. The firms processing crawfish into cooked tail meat products likewise competed among themselves for limited out-of-state markets (ITC, 1997). During the 1994-96 International Trade Commission period of review, the commission found that 95 percent of domestic tail meat was sold in Louisiana. Another four percent was marketed in the border states of Texas, Arkansas and Mississippi.

The situational characteristics which made the surge of crawfish tail meat from China such a negative to the United States industry were: 1) highly localized production and processing industries, 2) a seasonal business occurring in the first half of the year, 3) geographically small market easily targeted, 4) variation in domestic supply that invites alternative supplies, 5) numerous small firms producing undifferentiated tail meat products and 6) a south Louisiana Cajun French culture strongly linked to a heritage of crawfish as food. Collectively, these characteristics explain both why the industry was so susceptible to injury from imported product and why the response was so aggressive.

LOUISIANA INDUSTRY AND AGENCY RESPONSE

The increase in crawfish tail meat supply from China prompted aggressive responses from processors and public entities in Louisiana. The ITC (1997) reported that in 1994 imports totaled 1,700 MT followed by a 130 percent increase in 1995. By 1996 exporters in China sent 4,600 MT to the United States. Imported product market share rose to 87 percent by the end of 1996. Sixty-four percent of imports over the 1994 -1996 period had first sale destinations within Louisiana or its border states. The importance of these states to Louisiana product sales was previously noted. Imported product wholesale prices were approximately half the price of domestic tail meat. Faced with a huge increase of imported supply in traditionally domestic markets over a short period time forced processors to form a new organization.

The Crawfish Processors Alliance was a processor and distributor funded organization formed in 1996. Funds raised were sufficient to employ the technical expertise necessary to evaluate alternative remedies. The public awareness program of the Alliance essentially brought forth an appropriation from the Louisiana Legislature of several hundred thousand dollars and staff support from the Louisiana Department of Agriculture and Forestry (LDAF).

The Alliance, LDAF and its consultants evaluated two alternatives: 1) relief under Section 201 of the Trade Act of 1974, and 2) a Less Than Fair Value (LTFV) petition filed under the Trade Act of 1930. A "Buy Louisiana" crawfish tail meat advertising campaign by the Louisiana Crawfish Promotion and Research Board, while the legal alternatives were under review, was a popular undertaking of doubtful value.

Section 201 is an avenue not requiring proof of unfair trade practices such as product dumping or excessive subsidies. A domestic industry can file a 201 petition for protection on the basis of a surge in imports thought to cause serious injury. The use of Section 201 was not favored. The president has veto power over ITC Section 201 determinations. This risk was unacceptable given the critical stage of the debate over the permanent favored nation trade status for China. Preliminary preparation had also indicated that the Louisiana situation with respect to China's crawfish tail meat exports could be better portrayed as a LTFV case. The Alliance and Louisiana's Commissioner of Agriculture and Forestry filed a petition alleging that crawfish tail meat from China was imported at less than fair value prices. Filed on September 20, 1996 with the ITC, a period of data collection and site visits to domestic and Chinese processing firms followed.

A preliminary finding of injury from LTFV imports was reported six months later. Antidumping duties equal to the amount by which the normal value of the tail meat exceeded the export price were published on September 15, 1997. Approved duties were company specific and ranged from 92 to 123 percent. Companies not making

shipments during the period of investigation but subsequently exporting to the United States were subject to a China-wide rate of 201 percent. The anti-dumping order was to be in effect for five years from the March 1997 preliminary finding.

DETERMINATION OF MATERIAL INJURY

The ITC finding of material injury to the domestic crawfish processing industry led to LTFV duties for a five-year period. The author's experiences with petition development and providing supplemental information during the evaluation give insight into the reasons for the finding.

The product comparison between the United States and China led to the conclusion that identical products were involved. Species differentiation did not exist, nor was the technology of food processing at variance. Packaging in 0.45 kg poly bags with labels suitable for food service or retail sale was the only product form offered. The presence of a "domestic-like product" was undeniable. All focus could then be placed on the economic factors relevant to providing LTFV marketing of undifferentiated products. The existence of large price differences between the imported and domestic product could be used to refute this last point. Price differences may in fact exist because the products lack substitutability. To accept this conclusion it must be reasoned that fresh crawfish tail meat is substantially different from the frozen product form. So different that frozen imported product, the only product form, must be priced one half that of domestic product. In an acknowledged seasonal domestic business providing consumers frozen product in the off season at higher prices than seasonal fresh supplies, the argument has no merit.

The product of China is imported mostly from June to the following January. This time period is the period of domestic frozen supply. The availability of low priced frozen crawfish tail meat from China during the domestic off-season effectively eliminated the high margin market period. The ITC (1997) reported that one result was loss of market share and a large decrease in capacity utilization. Domestic market share decreased to 13 percent by 1996. Capacity utilization fell to 38 percent. The domestic supply elasticity had to be high under such circumstances. Thus, if duties were applied at appropriate levels, domestic processors could easily alter their supply of tail meat to match the demand increase.

The effect of a duty stimulated increase in the market price of tail meat could be determined from demand elasticity. The ITC found such limited reference material that the staff calculated their own range of -1.5 to -3.0. The low estimate was reasoned to be more applicable to tail meat demand in Louisiana and its border states. A higher demand elasticity would be appropriate for the non-traditional consuming areas. The reverse of such a finding would be expected with respect to consumer substitution elasticity. In fact the ITC found the substitution elasticity

between domestic and imported crawfish tail meat to be as expected. The range of one to three was found applicable to crawfish purchases. The higher part of the range would be characteristic of Louisiana markets. Relative prices are important in major consuming areas such as Louisiana regardless of industry promotions. Since Louisiana consumers do not confront a market price or a "Product of China" label on the 34 percent of tail meat used in food service, the consumer lacks the information necessary to make an informed purchase decision.

As with all LTFV evaluations there must be economic data from surrogate countries. Raw material, processing and marketing cost data serve as the basis of estimating a normal value. The difference between the easily determined export price and the normal price is a key aspect of the evaluation. A normal price could not be calculated from the non-market economy of China. Selection of India as the processing surrogate was not an issue. India is a market economy with a large seafood processing industry often utilizing hand labor in functions similar to Chinese tail meat production. The cost of raw material to serve as the basis of the processed cost estimate became an issue. Limited production and trade in live crawfish in countries other than the U.S. and China provided few choices.

The use of Spain's imported price for live crawfish from Portugal became a decision vigorously challenged by U.S. importers and representatives from China. Some U.S. production is graded with the result of higher prices for larger sizes. With larger sizes graded out of the supply destined for processing, the raw material cost of U.S. processors would be better reflected by a lower price. Size data were not available for Spain's live crawfish imports. Representatives of the Chinese argued for a lower raw material cost because the ungraded Spanish imports bring a higher price than graded U.S. crawfish. The use of a lower raw material cost results in a much lower normal value given the 6.25:1 ratio of whole crawfish to tail meat product. The ITC prevailed in its selection of India and Spain as surrogates. This was a significant part of the corrective action implemented for five years.

TARIFF AVOIDANCE ACTION

The preliminary ITC finding of LTFV activity by exporters from China became a point from which actions to avoid the antidumping duties began. Each of three avoidance strategies tried by processors, exporters and importers required unanticipated monitoring and enforcement actions. With Louisiana the vigilance of the LDAF proved critical to performing the costly work the industry organization and structure did not facilitate. The Crawfish Processors Alliance could not maintain sufficient funds and organization to perform an enforcement function. Finding and reacting to avoidance actions of companies involved overseas generally involved LDAF and ITC. The LTFV remedy had also come too late for many processors. The ITC (1997) reported approximately 80 processors in

the early 1990s, 47 processors in 1996 and 31 survey respondents in 1997.

The first avoidance instance involved repackaging of Chinese tail meat. Singapore became a major exporter of identical product to that cited in the LTFV ruling. Since the ruling applied only to China, U.S. imports from other countries were free of the stiff 123 percent duty. There being no crawfish culture or capture fisheries in Singapore the appearance of 674 MT of crawfish tail meat imports from the country signaled avoidance. Vigorous action to document the case and bring it to administrative review was successful. The Singapore company did not meet the substantial transformation test used by U.S. Customs to determine country of origin. Such shipments were subject to the duty. A similar increase of imports from Spain during 1999-2000 was identified. Review of the situation in Spain is being pursued by LDAF as a possible avoidance attempt.

In the April 19, 2000 Federal Register, the ITC published findings of an administrative review. Following the initial LTFV ruling of August, 1997, new companies were formed. Oversight indicated there may be significant ties to companies targeted for the duties. The April 2000 findings confirmed substantial connections between new shippers and parties to the original problem. The ITC imposed stiffer duties of 201 percent, and also levied them on past shipments. The Customs Service was instructed to require that most importers post cash deposits rather than posting a bond. Only one new shipper received a zero duty but it was assigned a high entry rate of \$ 13 per kg.

CONCLUSIONS

The initial finding of LTFV trading and the ITC actions in April 2000 provided many insights to trade observers. The ITC actions required the exporting country to pay higher duties with a cash deposit requirement. The United States must consider the effects of such a requirement against a country which may become a major trading partner in the future. A highly localized industry comprised of small firms producing one product for a geographically small market, successfully reduced marketing margins of competitors using imported product. A paucity of data on the domestic industry did not prevent the ITC from performing a thorough review. The annual review completed in 1999 worked as an effective monitoring tool that resulted in even stiffer conditions facing importers. The eventual success of the LTFV remedies with respect to allowing the domestic processors of crawfish tail meat to be competitive is unknown.

Two of three processing seasons since the remedies were imposed involved drought conditions in U.S. production areas. Louisiana processors faced raw material costs significantly higher than historical averages. Limited quantities of crawfish were available to processors at the high prices. The quantity of domestic crawfish tail meat was small and high priced. Thus, the effects of 201 percent

duties may not be observed until late 2001 assuming environmental conditions return to normal. This is the last full observation year prior to the five-year review of the remedies set to expire in 2002. Environmental induced domestic production shortages when worked through the cost structure of the Louisiana industry had the effect of preventing the elimination of marketing margin differences between imported and domestic sources. Thus, the economic benefits of establishing a remedy must await a more appropriate analysis period.

REFERENCES

International Trade Commission, Crawfish Tail Meat from China, Investigation no. 731-TA-752 (final), publication 3057, Washington, D.C., 1997

Louisiana State University Agricultural Center, Louisiana Summary: Agriculture and Natural Resources, Baton Rouge, LA, 320, 1999.

U.S. Department of Commerce, Fisheries of the United States National Marine Fisheries Service, 130, 1999.