

Unintended Effects: Antidumping Tariffs Could Increase China's Competitiveness

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High-tariff shrimp packers in China will likely shift their product mix toward seafood items that do not fall within the scope of the antidumping suit.

In today's political climate, any case for protecting jobs and industries in the United States will get a hearing, particularly when China is involved. The danger is that the U.S. government's unilateral and narrow approach to protection solutions may have unintended consequences for both U.S. industries and consumers.

The current shrimp antidumping case, for example, may make China an even more competitive shrimp exporter, while doing nothing to increase competitiveness, productivity, growth, or jobs in the U.S. shrimp industry.

The Problem

On July 6, the U.S. Department of Commerce (DOC) announced preliminary import tariff determinations for China with margins ranging 0-112.81%. The wide range in tariffs is the first indication that something may be amiss with the analytical model used to determine "damage." Processors sourcing from the same production area have received widely varying tariffs, despite facing the same costs for raw material.

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What is the basis for the tariff determinations? For China, DOC uses a surrogate country – in this case India – to determine costs of production, rather than analyzing the actual costs faced by producers in China. This practice is based on the argument that since China is a "nonmarket economy," its industry benefits from hidden government subsidies that cannot be quantified, but reduce costs and allow producers to compete unfairly.

Based on this approach, it is almost impossible to determine whether shrimp are exported to the U.S. below the domestic Chinese market price. There is a wide margin for interpretation by trade officials about what constitutes damage.

Is it possible to determine the real costs of production in nonmarket economies? The unequivocal answer is yes. The World Bank, which has operated in China since the late 1970s, has developed a methodology for analyzing production costs based on extensive knowledge of the sector, and national and local economic policies. There is no apparent reason why this model could not be used for analysis.

The Reality

What is the reality of the Chinese shrimp market? In 2003, China produced an estimated 370,000 mt of shrimp, with approximately 66% of the total consumed in the domestic market and the remaining 33% exported from China. A volume of 80,909 mt was exported to the United States in 2003.

The primary source of exported, farm-raised white shrimp in China

is small producers who generally have less than 5 ha in cultivation in the Guangdong, Hainan, and Guangxi provinces of China. These farmers generally sell through the regional wholesale market located in Zhangjiang, Guangdong. Prices rise and fall according to supply and demand for head-on shrimp. A domestic buyer in the market pays the same amount for 20/30 head-on shrimp as a processing plant that freezes the product for the export market.

Do Chinese producers benefit unfairly from government policies? More analysis is needed on this issue, but it is clear the policies can be both beneficial and detrimental.

For example, Chinese shrimp producers face an average 8% special products tax that must be paid to the local government. At the same time, according to some U.S. buyers, the majority of small shrimp farmers with which they do business do not have access to government loans, and frequently finance themselves or make arrangements through their families or communities at higher than market interest rates.

The Solution?

DOC's analytical model for determining production costs in China needs reconsideration. More information and analysis are necessary to establish a realistic and objective basis for making antidumping determinations for China. But even assuming they happen, does the proposed remedy – tariffs – truly address the problems faced by U.S. shrimpers?

Finding a solution to the chal-

allenges of the U.S. shrimp industry requires a proper definition of the problem, which the current process simply does not do. The DOC methodology is not only inaccurate, it does not target key competitive issues for the U.S. shrimp industry beyond potential dumping because it fails to take into account the practices of the industry itself.

Nor does it look at the collateral damage that tariffs on shrimp trade from China could have on other U.S. industries whose jobs depend on competitively priced shrimp supplies. And, of course, it ignores the impacts on consumers.

The disconnect between the problem (low productivity) and the “cure” (tariffs) was shown graphically in a recent report by Lou Dobbs, a Central Network News (CNN) reporter. The CNN reporter accompanied a shrimp boat captain on his diesel-powered shrimp trawler, whose nets repeatedly turned out few shrimp and an abundance of by-catch. In addition to these challenges, the report highlighted the competitive advantages of aquaculture in supplying the market with quantity and consistency.

With no ability to increase production due to the finite natural resource, no investment in domestic aquaculture, and no ability to reduce costs, will the U.S. shrimp industry really see growth and jobs from antidumping tariffs? Will U.S. shrimp farmers be able to increase their current market share of 10%?

The Reaction

How will the Chinese adjust to this new challenge? As Isaac Newton famously said, “To every action there exists an equal and opposite reaction.” Likely responses include the following.

- Low-tariff processors will continue to ship shrimp to the U.S.
- New packers will petition as respondents and attempt to secure low tariffs.
- Chinese businessmen, who operate throughout Southeast Asia, will invest in new production areas in nontariff Asian countries. Indonesia is already expanding its production and processing base with investment from China.
- High-tariff packers in China will diversify their product mix to other seafood or fisheries products, while investing in value-added prod-

ucts that do not fall within the scope of the antidumping suit.

In other words, the antidumping tariffs will cause the Chinese to become more competitive. No other country has a HACCP- and E.U.-certified shrimp industry that is better positioned to produce preprepared meals and other value-added products.

With higher shrimp prices in the U.S. and lower supplies as a result of the antidumping tariffs, U.S. value-added producers will find it harder to compete with new Chinese compe-

tion that previously did not exist in their markets. For example, products that are currently processed on automated lines in the U.S. using imported raw, shell-on, or peeled shrimp will now be produced in China.

So, while U.S. shrimpers use their limited resources to hire lawyers to win protection, the Chinese are using their resources to actively increase productivity, expand value-added capabilities, and improve competitiveness. Surely that is not the intention of U.S. trade policy.