Shrimp Antidumping Petition Would Jack Up Prices to Shrimp-Consuming Industries

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Executive Summary

U.S. shrimp producers and a small group of U.S. shrimp processors have charged that shrimp imports from six countries are "dumped" (sold in the United States at unfairly low prices), that those "dumped" imports have caused material injury to U.S. shrimpers and processors, and therefore that the U.S. government should impose penalty taxes (antidumping duties) on shrimp imports from those countries. The taxes they seek range up to 349 percent, and average between 62.9 percent and 117.43 percent.

If they are successful in having the government impose these taxes, The Trade Partnership estimates that the price of shrimp could increase by up to 44 percent. This represents a 28 percent increase in the price of U.S.-caught shrimp, an 84 percent increase in the price of shrimp imported from the targeted countries, and a 19 percent increase in the price of shrimp from other foreign sources.

In addition, we estimate that the higher cost of shrimp could reduce Americans' consumption of shrimp by as much as 338 million pounds, or by 32 percent.

Background

U.S. shrimp producers and a small group of U.S. shrimp processors have complained that imported shrimp, which is largely produced at lower cost on shrimp aquaculture farms, is preventing them from competing in the U.S. market, forcing thousands of shrimpers out of business. They charge that the imported shrimp is being "dumped" in the U.S. market at "unfairly low" prices.

On December 31, 2003, the producers and processors (organized into a group called the "Ad Hoc Shrimp Trade Action Committee") filed a petition with the U.S. government requesting it begin an antidumping investigation of imports from six countries: Brazil, China, Ecuador, India, Thailand, and Vietnam. They requested that antidumping duties be imposed on shrimp imported from these countries, which account for just over 70 percent of the total value of shrimp imported from all sources in 2002. Table 1 reports the value of the imports from the targeted countries in 2002, and the range of duties sought by the petitioners.

Table 1
Shrimp Imports Targeted for Antidumping Duties
(Percent and Millions of US Dollars, Customs Value)

	Range of Dumping Duties Sought	Value of U.S. Imports, 2002
Brazil	32% to 349%	$87.7
China	112.81% to 263.68%	285.3
Ecuador	85% to 166%	192.3
India	82.3% to 110.09%	354.4
Thailand	57.64%	956.4
Vietnam	25.76% to 93.13%	476.5
TOTAL-6	62.86 to 117.43%	$2,352.7
TOTAL, All Imports		$3,351.3

Source: U.S. Department of Commerce, Office of Public Affairs, "Fact Sheet: Initiation of Antidumping Duty Investigations: Certain Frozen and Canned Warmwater Shrimp from Brazil, Ecuador, India, the People's Republic of China, Thailand, and Vietnam," http://www.ita.doc.gov/media/FactSheet/0104/shrimp_012104.html.

If successful, preliminary penalty duties could be imposed as soon as July 2 for China and Vietnam, and July 28 for the remaining countries.[1] Final duties for China and Vietnam could be imposed by September 15; the rest by October 11. U.S. prices of both domestic as well as imported shrimp – from the six countries as well as from other countries – will rise if duties are imposed.[2] Some or all of that price increase will be passed on to shrimp-consuming industries – processors, grocery stores, restaurants, for example – and eventually to American consumers.

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1 U.S. Department of Commerce, Import Administration, "Postponement of Preliminary Determinations of Antidumping Duty Investigations: Certain Frozen and Canned Warmwater Shrimp From Brazil (A-353-838), Ecuador (A-331-802), India (A-533-840), Thailand (A-549-822), the People's Republic of China (A-570-893), and the Socialist Republic of Vietnam (A-503-822)," *Federal Register*, Vol. 69, No. 100, May 24, 2004, p. 29509.

2 The dumping duties, paid by the U.S. importers, raise the cost of importing shrimp from the six countries and consequently importers reduce their purchases of those shrimp. Importers shift some of their decline in purchases to other foreign sources, and increased demand from importers permits those suppliers to raise their prices. In addition, demand for U.S.-caught shrimp also increases, and U.S. producers raise their prices accordingly.

The CITAC/ASDA Shrimp Task Force asked The Trade Partnership to quantify the impact on shrimp prices of the duties sought by the Ad Hoc Shrimp Trade Action Committee. We were asked to analyze the impact of the full amount of the duties sought by the petitioners, and to use parameter estimates for the model that petitioners would likely use were they to do the analysis themselves. The aim of the analysis is to measure the degree of damage to consuming industries and American families that the petitioners believe is warranted, i.e., from the petitioners' viewpoint.[3]

The Model

The Trade Partnership employed a partial equilibrium model nearly identical to the partial equilibrium model used by the U.S. International Trade Commission to measure the impact of dumping on U.S. industries (the so-called "COMPAS" model, Francois and Hall, 1993). We used an updated imperfect substitutes (Armington) non-linear model detailed by Francois and Hall in Francois and Reinert (1997).[4]

We modeled two scenarios: the imposition of antidumping duties at the low end of the ranges sought by petitioners, and the imposition of antidumping duties at the high end of the ranges sought by petitioners.

Data inputs into the model were taken from the Commission's staff report for this antidumping investigation,[5] as detailed in Table 2. The base year is 2002, the last full year for which the Commission reported data. We used elasticity inputs that are rough numeric estimates of what the petitioners might deem appropriate were they to do this analysis themselves.[6] For example, we assume that imported shrimp and U.S. caught

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3 The parameter estimates therefore are ones that presume that imported shrimp has the greatest possible impact on U.S. shrimpers (both in terms of price and quantity). Parties representing foreign suppliers have argued that imported shrimp differs from U.S.-caught shrimp to a greater degree than U.S. producers concede, and therefore parties representing foreign shrimp suppliers and purchasers are likely to use different parameters for similar modeling exercises.

4 The U.S. International Trade Commission has already compiled evidence that imported shrimp and U.S.-produced shrimp are not perfect substitutes for each other. Differences include seasonal availability, taste, color, size, uniformity and levels of processing, to name just a few. U.S. International Trade Commission, *Certain Frozen or Canned Warmwater Shrimp and Prawns From Brazil, China, Ecuador, India, Thailand, and Vietnam*, Inv. Nos. 731-TA-1063-1068 (Preliminary), Pub. No. 3672, Feb. 2004, pp. I-7, II-7 to II-8. The imperfect substitutes assumption has the effect of reducing the impact of imports on domestic production and, by extension, reducing the impact of imposing antidumping duties on prices.

5 *Ibid.*

6 We believe that estimates based on econometric analysis likely exist, particularly in U.S. Department of Agriculture research or from the Global Trade Analysis Project, which analysts may wish to use for more specific analysis during any final ITC investigation in this matter. However, those that we have reviewed to date are considerably smaller than the parameters used in this analysis. These alternative parameter estimates more closely approximate the foreign suppliers' and purchasers' views of the dynamics of the U.S. shrimp market.

shrimp are highly substitutable, when in fact they are likely less substitutable than the parameter estimates petitioners would favor suggest.

Nevertheless, we make two assumptions that are closer to the reality of the market place than petitioners have so far suggested. First, we assume that U.S. producers have a limited ability to respond to higher prices because nature limits the amount of shrimp they can pull from the ocean. Thus, our supply elasticity is quite low. In 2002, according to the Commission, U.S. shrimpers landed about 139 million pounds of shrimp. Over the last 20 years, landings have averaged about 200 million pounds.[7] So in the short term there is some room for expansion of the shrimp catch, but not much.

Second, to better reflect the immediate impact on consumers of the imposition of the duties sought by U.S. shrimpers and some processors, we have used a smaller import supply elasticity for non-subject imports than for subject imports because it will take some time for producers in non-subject countries to increase aquaculture production capacity to fill U.S. demand that is no longer supplied by subject imports. One source has estimated that it may take three to five years for suppliers in other countries to increase their exports to the U.S. market.[8]

Table 2
Data Used in Model

Value of domestic shrimp shipments, thousands, 2002	$663,549
Value of shrimp imports from countries subject to investigation, thousands, landed duty-paid, 2002	$2,432,553
Value of other shrimp imports, thousands, landed duty-paid, 2002	$975,411
Composite elasticity of demand	1.25
Elasticity of domestic supply	0.5
Elasticity of import supply, target imports	10
Elasticity of import supply, other imports	5
Elasticity of substitution	3
Trade-weighted average antidumping duty, scenario 1	62.86%
Trade-weighted average antidumping duty, scenario 2	117.43%

Sources: Value data, ITC Tables IV-2 and IV-4; elasticities, author's estimates.

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[7] Texas Cooperative Extension Sea Grant College Program, Texas A&M University, "Wild-Harvested Shrimp: Technical Assistance Curriculum," Trade Adjustment Assistance for Farmers, December 2003, Table 3, p. 11.

[8] John Sackton, Seafood.com, quoted in John McQuaid, Newhouse Washington Bureau, "Louisiana shrimpers say cheap imports flooding the U.S. market are eating away at profits and killing their businesses," March 14, 2004.

Results

For each of the scenarios, the model explains the immediate impact of the imposition of antidumping duties on the cost and consumption of domestic shrimp, shrimp imported from the six countries under investigation, and shrimp imported from other countries *to the first purchaser of that shrimp*. This is most likely a processor (e.g., a breader) or distributor who buys directly from U.S. shrimpers and/or imports shrimp directly from foreign sellers. This first purchaser marks up the shrimp to cover his costs and whatever profit he feels he can receive, and then sells the shrimp to grocery stores, restaurants, and other food retailers. Those purchasers in turn mark up the shrimp to cover their costs of sales to their customers, plus some amount for profit. Depending on the strength of the market at each step along the way, the seller may pass along 100 percent, or something less, of the increased cost of shrimp resulting from the duties. If 100 percent of the cost increase is passed along to each purchaser of the shrimp, the price increases noted in Table 3 are what each consumer along the way will see as a result of the antidumping duties.[9]

The model also estimates the impact of the duties on the volumes and values of domestic production, imports, and total consumption of shrimp. Higher prices cut consumption across the supply chain.

The results, presented in Table 3, show that imposition of the antidumping duties sought by petitioners would increase shrimp prices from all sources, and cut consumption of shrimp. On average, shrimp prices would increase between 30.0 and 44.0 percent. Domestic shrimpers could increase their prices by between 19.5 and 28.1 percent. The price of shrimp imported from the six countries that are the target of the investigation would jump from 47.8 percent (scenario 1) to 83.8 percent (scenario 2).[10] Even the price of imported shrimp on which no antidumping duty is imposed (e.g., shrimp from Bangladesh) would increase, by 13.0 percent to 18.5 percent, because demand for that shrimp would rise to replace reductions in demand for shrimp imported from the six countries under investigation.

The duties have a negative impact on the market for shrimp. Overall, the imposition of the duties would cause shrimp consumption to decline between 26.4 percent (or by 276.7 million pounds) and 32.3 percent (or by 338.3 million pounds).

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[9] It has been reported that some restaurants, for example, are moderating large price increases they are experiencing for meat across a range of their menu items. Thus, as beef prices rise, prices of seafood entrees rise a little too because the market will not support a full pass-through of the higher beef costs to beef menu items. It is reasonable to expect similar pricing practices to occur if high duties are imposed on shrimp imports: higher costs of shrimp will be partially "paid for" with higher prices for other menu items as well as by higher prices for shrimp menu items. Steven Gray, "Sign of the Times? Prices Rise for Paper, Eating Out," *The Wall Street Journal*, April; 13, 2004, p. B-1. This means that consumers of beef, poultry, and seafood items other than shrimp might see the costs of those items increase by some amount as well, as a result of higher shrimp costs.

[10] It does not increase by the full amount of the antidumping duty because the duty is so high that at some point purchasers stop buying the higher-cost imported shrimp.

Table 3
Estimated Impact of Imposing Proposed Antidumping Duties on Selected Imports

	Scenario 1: 62.86% Average Duty	Scenario 2: 117.43% Average Duty
Change in Aggregate Shrimp Price	+30.0%	+44.0%
- Change in domestic shrimp price	+19.5%	+28.1%
- Change in average price of shrimp from 6 countries	+47.8%	+83.8%
- Change in average price of shrimp from other countries	+13.0%	+18.5%
Impact on Shrimp Consumption (percent)	-26.4%	-32.3%
- Change in domestic supply	+9.3%	+13.2%
- Change in imports from 6 countries	-62.2%	-81.4%
- Change in imports from other countries	+44.3%	+66.6%
Impact on Shrimp Consumption (millions of pounds)	-276.7	-338.3
- Change in volume of domestic supply	+12.9	+18.3
- Change in volume of imports from 6 countries	-404.3	-528.8
- Change in volume of imports from other countries	+114.7	+172.2

Conclusion

The imposition of the antidumping duties sought by U.S. shrimpers would have a significant negative impact on shrimp prices and, consequently, shrimp consumption in the U.S. market place. Our analysis shows that the antidumping duties sought by the petitioners would jack up prices by 30-44 percent. Consumers would cut back on their shrimp purchases.

The results confirm the CITAC/ASDA Shrimp Task Force belief that imposition of duties would take shrimp off the tables of many middle- and low-income households, and turn it back into a luxury item.

REFERENCES

Joseph Francois and Keith Hall, "COMPAS: Commercial Policy Analysis System," U.S. International Trade Commission, May 1993.

Joseph F. Francois and H. Keith Hall, "Partial Equilibrium Modeling," Chapter 5 in Joseph F. Francois and Kenneth A. Reinert, ed., *Applied Methods for Trade Policy Analysis: A Handbook* (Cambridge: Cambridge University Press, 1997).