CRAWFISH TAILMEAT FROM CHINA

The U.S. industry producing crawfish tail meat is centered in one state: Louisiana. Only one member of the Crawfish Processor's Alliance, the group filing the petition for trade relief, had a production facility outside of Louisiana as of 2002.[46] A significant amount of crawfish production is consumed in Louisiana and neighboring states,[47] where there are obvious locational advantages for local producers. The industry is largely comprised of small, family-owned businesses that operate seven–to-eight months per year and rely on crawfish sales for the majority of their business.[48] Sales revenues of these firms average from $300,000 to $800,000 per year.[49]

Crawfish processors obtain crawfish from unaffiliated harvesters who either catch wild crawfish or farm them.[50] After purchasing crawfish, processors either peel it or sell it on the live market.[51] End users who purchase live crawfish peel, prepare, and consume them. Whole boiled crawfish is typically frozen and then exported, though Chinese competition is reducing this market as well.[52] Approximately one-eighth of the crawfish harvest is further processed into tail meat, which is shipped either fresh or frozen.[53]

According to official statistics from Louisiana, the state's annual crawfish harvest from 1997 through 2002 ranged from 18.5 million pounds to 77.1 million pounds, the majority of production accounted for by farming. Commission data indicates that the tail meat industry accounted for $11.5 million in sales in

46 Crawfish Tail Meat from China, USITC Pub. 3614, Inv. No. 731-TA-752 (Review) (July 2003) at I-15 to I-16.
47 Id. at II-1.
48 Id. at I-13.
49 Id. at I-13.
50 Id. at I-9, II-2, and II-3.
51 Id. at I-9.
52 Id. at I-8 to I-9.
53 Id. at I-9.

1994.[54] The catch in Louisiana was dramatically reduced in 2000 and 2001 due to drought.[55]

Original investigation and determination

Despite the advantages of local production, crawfish processors saw the volume of frozen tail meat imported from China triple from 1994 to 1995.[56] On September 20, 1996, the Crawfish Processors Alliance of Breaux Bridge, Louisiana filed an antidumping petition alleging that the U.S. industry was materially injured by dumped crawfish tail meat from China.[57] In August 1997, the Department of Commerce announced its affirmative determinations indicating dumping margins in excess of 91 percent for all firms examined.[58] By a vote of 4-0, the Commission found that the domestic industry producing crawfish tail meat was materially injured by the dumped imports of Chinese tail meat.[59]

The Commission determination rested on the following factors.

- The increase in imports from China was extremely large. The value of imports increased from $9.0 million in 1994 to $35.8 million in 1995.[60]

- The sales and market share of domestic producers declined even though the U.S. market for crawfish was growing.[61] Moreover, the majority of dumped imports were sold to customers in Louisiana and contiguous states – the back yard of the domestic industry.

- Chinese tail meat undersold domestic tail meat by margins by 20 percent. With input prices rising, domestic producers were caught in a cost-price squeeze because the presence of low-priced imports prevented them from covering higher costs with higher prices.[62] In fact, the Commission found that domestic processors reduced prices of frozen domestic tail meat to Louisiana retailers.

- Due to the cost-price squeeze and the reduced shipments, the domestic industry suffered financial declines. Domestic producers also experienced declining production, sales volumes, capacity utilization, and employment.[63]

---

54 Id. at I-4.
55 Id. at I-8
56 Crawfish Tail Meat from China, USITC Pub. 3507, Inv. No. 731-TA-752 (Final) (August 1997) at 17.
57 Id. at I-1.
58 62 Fed. Reg. 41358 (August 1, 1997).
59 Id. at 3.
60 Id. at 17. Though import declined to $19 million in 1996, the Commission attributed this decline in part to the filing of the petition.
61 Id. at 17.
62 Id. at 21-24.
63 Id. at 26.

Certain indicators of injury in the Commission's report are shown in the table below. The table includes information from the original investigation, which covered 1994 to 1996, and for 1997 and 1998, the first two years after the order.

Table 5, Crawfish Tail Meat from China:
Selected Data Collected by the USITC

Item	1994	1995	1996	1997	1998
U.S. shipment ($1,000)	11,461	10,352	7,118	8,262	10,801
U.S. market share (percent, by value)	53.8	30.1	23.9	65.7	50.7
Subject imports ($1,000)(1)	9,032	35,845	19,308	4,309	9,769
Subject import unit value ($/lb)(1)	2.66	3.26	2.49	1.84	1.64
Wages paid ($1,000)	2,596	2,242	1,634	2,200	2,692

Notes:
(1) Import data for 1994 to 1996 was based on responses to the Commission's questionnaire, while data in 1997 and 1998 are based on official trade statistics. The two sets of import data are thus not comparable.
Sources: USITC Pub. 3614 at I-3 to I-4.

Estimated revenue impact of unfair trade

The lost revenue from dumping cannot be estimated by the model used for this study without making certain modifications to the elasticity estimates calculated by the Commission.[64] Specifically, a substitution elasticity of 1.75 was used, along with an aggregate elasticity of demand of 1.25.[65] Assuming that dumping of this magnitude occurred during the 1994-1996 period, the model indicates that crawfish dumping cost the industry a cumulative $5.9 million in revenue during the three-year period, with a range of $1.6 to $2.6 million per year. These losses are small in comparison with those experienced by the shrimp industry, but are somewhat larger relative to shipment value.

64 The USITC's COMPAS model, which the Commission used with frequency to estimate injury during the 1990s, was also not able to generate meaningful injury estimates. See USITC Pub. 3057 at II-16 to II-17, and fn. 60.
65 The Commission estimated a range 1 to 3 for the substitution elasticity in the original investigation, with the low end of the range applicable to sales in and near to Louisiana, and the high end applicable to sales outside the local area. Our methodology calls for a substitution elasticity at the midpoint range of the Commission's estimate, but the estimate of 1.75 is used to reflect the fact that the majority of the domestic market for tail meat is beyond Louisiana. An aggregate demand elasticity of 1.25 was used instead of the 2.25 amount implied by the Commission's estimates because the 2.25 value implies that the imported and domestic tail meat are complements, not substitutes. The losses by the domestic industry, even in their own local market, suggest that the imported and domestic products are substitutable.

Table 6. Crawfish Tail Meat from China:
Estimated Lost Revenue due to Dumping

Item	1994	1995	1996	Total
Estimated dumping margin (percent)	91.00	91.00	91.00	N/A
Lost revenue due to dumping ($1,000)	1,609	2,611	1,686	5,907
Sources: USITC Pub. 3614 at I-3 and author's calculations.				

Losses suffered by producers of crawfish tail meat have implications for other industry sectors. Based on the Department of Commerce's detailed benchmark estimates of industry-by-industry total output multipliers for the U.S. economy, the indirect effect of a one dollar change in output from the domestic crawfish tail meat industry has an indirect effect, on the economy of $1.57.[66] The borrowing required to purchase just one years worth of the unfairly traded imports is equal to the interest rate multiplied by the increase in imports resulting from the dumping. This interest can be viewed as a financial cost of the market distorting behavior. For crawfish tail meat, the annual financial costs range from approximately $0.1 million to $0.4 million during the 1994-to-1996 period. The indirect and interest estimates are shown in the table below.

Table 7. Crawfish Tail Meat from China:
Indirect Costs and Interest Costs due to Dumping

Item	1994	1995	1996	Total
Indirect industry output multiplier	1.57	1.57	1.57	N/A
1-year T-bill rate (percent)	5.31	5.95	5.51	N/A
Lost indirect activity ($1,000)	2,523	4,095	2,644	9,263
Interest on borrowed funds ($1,000)	137	438	230	805
Sources: Bureau of Economic Analysis at http://www.bea.gov/bea/dn2/i-o.htm#benchmark (data for multiplier); Federal Reserve Bank of St. Louis at http://www.research.stlouisfed.org/fred2/series/GS1/downloaddata (interest rates); and authors' calculations.				

The gains to consumers from increased consumption of dumped crawfish tail meat are relatively substantial because the magnitude of the dumping margin, 91 percent, is so large and because substitutability outside Louisiana and the surrounding area where most domestic crawfish is consumed is relatively low. The gains to consumers from the consumption of tail meat that otherwise would not have been consumed are shown in the table below, along with the estimated revenue, indirect, and financial losses from the dumping.

66 This estimate is based on detailed estimates from the U.S. 1997 Benchmark Input-Output industry-by-industry total requirements table. The total requirements multiplier for the seafood product and preparation and packaging industry is 2.61. The detailed data are available from http://www.bea.gov/bea/dn2/i-o.htm#benchmark.

Table 8. Crawfish Tail Meat from China:
Summary of Costs and Benefits of Dumping

Item	1994	1995	1996	Total
Lost revenue due to dumping ($1,000)	-1,609	-2,611	-1,686	-5,907
Lost indirect activity ($1,000)	-2,523	-4,095	-2,644	-9,263
Interest on borrowed funds ($1,000)	-137	-438	-230	-805
Consumption gains ($1,000)	1,456	7,486	4,746	13,687
Sources: Author's calculations.				

Unlike with shrimp, the gains from increased consumption of dumped tail meat are only somewhat lower than the sum of the various domestic effects shown above. This result is explained by the magnitude of the dumping margin and by the fact that the increase in domestic sales is much smaller than the decline in dumped imports in the fair trade scenario.

Long-term impact of the order

The order appeared to have been successful in its initial years. As shown in Table 5 above, U.S. shipments by the domestic industry rose significantly during 1997 and 1998, the first two years after the order. Commission data from the sunset review demonstrate that the improvement in revenue was driven by both increased volume of sales and higher prices.[67] Prices rose in each of the first four years after the order was issued.

However, the industry's profitability did not improve. Though sales recovered, the costs experienced by the industry rose even faster, preventing the domestic industry from reaching profitability not only in 1997 and 1998, but also in the following three years. Costs increases were exacerbated in 2000 and 2001 by a drought in Louisiana that drastically reduced the output and sales of the domestic industry. The employment picture was somewhat better in the aftermath of the order as production workers and wages improved in 1997 and 1998. But the drought that harmed profitability also damaged employment levels and wages. Furthermore, the Commission found that imports continued to expand more quickly than U.S. demand despite the order and the high margins.[68] It also appears that U.S. Customs had difficulty collecting the duties owed from Chinese producers.[69] The ability of exporters to avoid paying duties indicates that the deterrent effect of the order and the expected recovery of the industry were diluted by Chinese non-compliance.

In 2002, the first year after the drought, the level of subject imports experienced a major decline and the domestic industry returned to profitability. Wages and the number of workers in the industry rose, and prices received by

67 USITC Pub. 3614 at I-4.
68 Id. at 12.
69 Id. at 17.

the domestic industry remained well above those that prevailed before the order went into place.[70]

In its sunset review of the order in 2003, the Commission determined that the domestic industry remained vulnerable to an increase in imports from China if the order were revoked.[71] As a result, the order on tail meat from China was extended for an additional five years. Information from the LSU Agriculture Center gives a mixed picture of the industry. The crawfish harvest in 2005 was good – comparable to the harvest in 1997.[72] Unfortunately, there are indications that processing business is still under duress.[73]

While the impact of the order was at least partially diluted by non-compliance, U.S. tail meat producers appear to have benefited from the Countervailing Duty and Subsidy Offset Act. Customs initially had difficulty collecting duties, but official data indicate that by 2005, nearly $28 million in collected duties had been distributed to the domestic industry.[74] The combination of these funds and the orders have at the very least enabled the domestic industry to survive in the face of difficult economic conditions caused by dumping, drought, and natural disasters.

70 Id. at I-3 to I-4.

71 Id. at 1.

72 Louisiana State University Agricultural Center, *Aquaculture Factsheet: Louisiana Aquaculture as of 2005* (available on line at http://www.lsuagcenter.com/NR/rdonlyres/EFEF3DD2-416A-4573-9829-6377DAC3C353/24737/AquacultureFactsheet07.pdf)

73 Louisiana State University Agricultural Center, *Aquaculture Factsheet: Louisiana Aquaculture as of 2005* (available on line at http://www.lsuagcenter.com/NR/rdonlyres/0293E20C-509F-4013-941C-FF1A854203C7/17922/AquacultureFactsheet04.pdf

74 *See* http://www.cbp.gov/xp/cgov/import/add_cvd/cont_dump/.