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An Examination of the Vietnamese Catfish Trade Dispute

In the Harvard Business School case "The Delta Blues: U.S.-Vietnam Catfish Trade Dispute," scholar Regina Abrami unpacks the 2002 trade war between the United States and Vietnam. In the article Abrami explains the process that led the Catfish Farmers of America (CFA) to file a petition accusing Vietnamese firms of dumping "certain fish filets" into the U.S. market. Dumping occurs when a country exports a product at a price that is lower in the foreign importing market than the price in the exporter's domestic market. This case study proves that, by definition, Vietnam is guilty of dumping. Though, it is my belief that unfair and subjective processes and calculations by the International Trade Commission (ITC) and the United States Department of Commerce (DOC) have created distorted findings in this study.

Vietnamese frozen fish fillets made an appearance in the U.S. market beginning in the late 1990s. During that time 95% of the domestic catfish demand was met by U.S. producers; by 2001 Vietnamese products accounted for 20% of the U.S domestic frozen fish fillet market (Abrani 2). Imports of certain frozen fish filets had risen from 575,000 in 1998 to 20 million in 2002. With encroaching imports it is no surprise American catfish farmers feared this market competition.

In response to the growing number of imports, supporters of the American catfish industry pointed to "subsidies, mislabeling and low wages" to account for Vietnam's success in American markets. More specifically, they claimed Vietnamese firms purposely labeled their products to resemble U.S. raised catfish in order to manipulate consumers into purchasing Vietnamese catfish. Vietnamese products entered the U.S. markets under the names of "Delta Fresh," "Harvest Fresh," and "Farm Select." American catfish industry advocates argued the nomenclature purposely mimicked U.S brands such as "Delta Pride," "Harvest Select," and "Farm Fresh," (Abrami 6).

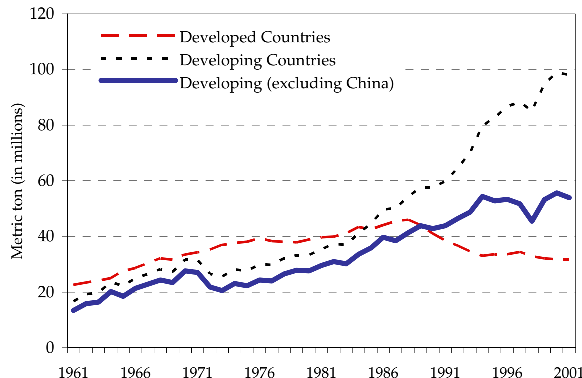
To settle the dispute, the CFA turned to the scientific community in an effort to determine the classification of an American catfish. After consulting with ichthyologist, Ed Wiley, it was concluded that regardless if a catfish was an Asian or North American catfish, it was a catfish nonetheless. Yet, CFA supporters argued that only American grown catfish belonging to the *Iclaluridae* family could be labeled and sold in the United States (Abrami 7). The claims were brought to Congress with an amendment to the 2002 Agriculture Appropriations Bill stating that any fish sold in the United States must belong to the *Iclaluridae* family (Abrami 7). From that point, Vietnamese catfish not under the classification "ceased to exist legally" in the United States.

Though despite the legal action, and a lower price on U.S. raised catfish, producers still faced challenges in raising their sales. As Abrami states, "The U.S. catfish industry

expected the new labeling policy to work to its advantage. It did not. U.S. market share instead continued to decline, despite the U.S. product's selling at increasingly lower prices," (Abrami 7). American producers were still unable to match low prices set by Vietnamese competitors. In the year leading up to the petition for antidumping protection, "Vietnamese catfish fillets sold for more than $1 a pound less than its US counter part," (Abrami 5).

One might ask, how were certain imported Vietnamese fish fillets able to sell for an even lower price with the presence of lawful restrictions? Because international competition is more competitive, firms are forced to offer price discounts in foreign markets in order to profit. This is nothing more than price discrimination: the action of selling the same product at different prices to different buyers to maximize sales and profits. As Dartmouth College economics professor Douglas Irwin describes, "The problem is that price discrimination, charging different prices in different markets, is a normal business practice and an accepted feature of domestic completion," (Irwin 181). The Vietnam Association of Seafood Exporters and Producers (VASEP) even determined that Vietnam had the comparative advantage over the U.S. in producing catfish, thereby giving Vietnam the ability to carry out catfish production more efficiently than the United States (Abrami 11). In addition, world fish production of developing countries experienced greater growth over developed countries during the time from 1990-2001 as seen in exhibit 5 of Abram's study. She states, "The trend was hardly unusual. Developing countries increasingly relied on aquaculture as a development strategy and source of export earnings," (Abrami 4).

Exhibit 5 World Fish Production, Developed and Developing Countries, 1961–2001



Source: Food and Agriculture Organization, FAOSTAT (2005).

With disregard to these considerations, the investigation into Vietnam dumping catfish into U.S. markets proceeded in stages beginning with a petition made to the International Trade Commission (ITC). In the preliminary stage the ITC was responsible for deciding if there was "reasonable indication" of "material injury or threat of material injury." If found the investigation would continue. Prior to this ruling, the ITC had to determine the definition of a "like product" and "like industry" in order to establish if the products were comparable and could therefore could be sold at *less than fair value (or normal value* (Abrami 8).

After speculating the value of the two types of catfish, the ITC decided that all frozen fish fillets processed from Vietnamese *basa* and *tra* were "interchangeable with U.S. frozen fish fillets" (Abrami 8). This decision indicated that Vietnamese catfish were a like product. Additionally, the ITC found that the Vietnamese product was entering the country

at “depressing or suppressing” prices. Admittedly, the ITC claimed that indications of present material injury were weak by reason of Vietnamese imports.

The investigation progressed by way of the U.S. DOC. To begin commerce had to derive the net export price for the Vietnamese product. Second, and similar to measures taken by the ITC, the DOC had to determine the product’s *normal or fair value.* Combining the data, the DOC was able to calculate the dumping margin: “the percentage of difference between the normal value and the net export price divided by the net export price” (Abrami 9). Vietnam was an exception to the typical calculation considering they were a “nonmarket economy.” In this respect, the DOC used the surrogate market economy of India and Bangladesh to calculate the dumping margins of the Vietnamese catfish industry.

Abrami notes that countries like Vietnam were typically anxious under the pressure of these calculations since dumping margins determined antidumping duties. She explains, “A nonmarket economy classification was especially worrisome for an export oriented country such as Vietnam, as it tended to result in higher dumping margins through the use of constructed values,” (Abrami 10). After calculations, the margins were extremely high. The DOC ruled the dumping margins to be 147.3% under a market economy and 190.2% under nonmarket conditions. As mentioned in *Free Trade Under Fire,* Irwin states, “…in the case involving nonmarket economies, such as China and the former Soviet Union, the average margin was about 67%,” making numbers close to 200% appear skeptical (Irwin 179).

There are possible misrepresented cases of dumping due to calculations that use constructed value such as this. As Irwin explains, if the DOC is unable to collect adequate information on a country’s home market, it will use the constructed value method. Yet, constructed value calculations are estimations of a foreign exporter’s costs production, selling, administrative, and general expenses and profits. Therefore, “there is room for Commerce to use questionable numbers and thereby raise the dumping numbers,” (Irwin 174).

Motivations for distorting the margins arise from bias or partisan affiliations to a particular group of producers. Preference can also arise as the need to raise an industry’s profits lead domestic producers to abuse the common nature of accusing importers of dumping. For example, the profit loss experienced by American catfish producers can be linked to their engagement in price fixation in the 1980s. Many processors were found guilty of violating antitrust laws in the U.S. and producers were forced to pay over $30 million in damages to buyers in the 1990s (Abrami 11). It can be reasonably concluded that their loss supplied a need to eliminate their competition.

In conclusion, by the International Trade Commission and Department of Commerce Standards Vietnam is guilty of dumping into the U.S. markets, and antidumping duties will be posed on the country. However, policy makers should consider that the use of constructed value is misleading evidence for considering the severity of dumping. By using a proxy economy in the calculations, data in this study was inflated and the margins for dumping flawed.

Work Cited

Abrami, Regina. "Delta Blues: U.S.-Vietnam Catfish Trade Dispute (A)." *Harvard Business Review*, 22 Nov. 2005

Irwin, Douglas A. *Free Trade under Fire*. Princeton University Press, 2009.