



The Shrimp e-Advocate

NEWSLETTER

SEPTEMBER 2009

The Southern Shrimp Alliance (SSA) is a non-profit alliance of members of the U.S. shrimp industry in eight states committed to preventing the continued deterioration of America's shrimp industry and to ensuring the industry's future viability. SSA serves as the national voice for the shrimp fishermen and processors in Alabama, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, and Texas.

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BREAKING NEWS

Louisiana Shrimpers Strike

Hundreds of shrimpers descended on the Louisiana state capitol in August to protest low shrimp prices. The shrimpers asked government officials to investigate the causes of the weak U.S. shrimp market and to take action against any market distorting behavior.

SSA provided the Louisiana delegation with possible actions the government can take to protect the industry from documented market distortions, such as (1) the circumvention of current anti-dumping regulations; (2) lax enforcement of anti-dumping duties; and, (3) the illegal use of Food and Drug Administration-banned antibiotics and pesticides by foreign-shrimp producers.

SSA is working with Representative Melancon's office to support the development of the announced Energy and Commerce Committee hearing on distortions in the U.S. shrimp market. SSA has also provided background information on the problems to Governor Jindal's and Senator Landrieu's offices. SSA's activity builds upon previous meetings with the U.S. Customs and Border Protection (CBP) and existing work to address circumvention of the antidumping duties, mislabeling, transshipment, and food safety violations.

ANALYSIS

Addressing Collapsing Prices at the Dock

Throughout the South Atlantic and Gulf coasts, shrimpers are appropriately asking what has caused dock prices to hit record lows. Although imports remain an overwhelming presence in the U.S. market, the antidumping duties successfully countered the twin trends of rapidly increasing imports volumes and declining import prices experienced between 2000 and 2003. Total import volume of shrimp in 2008 was below the total import volume of shrimp for 2006 and, through the first six months of 2009, import volumes have remained on par with the first six months of 2008. Similarly, import prices have remained relatively stable and have been so since the imposition of

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antidumping duties in February 2005.

Nevertheless, the antidumping duties are not functioning optimally - substantial quantities of shrimp, particularly Chinese-origin shrimp, are circumventing the antidumping orders and, during the last fiscal year, more antidumping duties on shrimp imports went uncollected than collected. Still, the antidumping duty orders continue to play an important role in the market.

Efforts to address the current collapse of prices at docks throughout the country must first begin with an understanding of the cause of the price declines based on facts. An objective review of the facts demonstrates that while shrimp fishermen have largely been denied the benefits of trade relief and the marketing efforts conducted on behalf of domestic wild-caught shrimp, shrimpers have been forced to disproportionately bear the burden of the current downturn in demand for domestic shrimp.

Prices for domestic shrimp at the wholesale level have fluctuated significantly. For nearly all count sizes, wholesale prices for domestic shrimp recovered significantly in 2008, before beginning to fall back to 2006-2007 levels this year. These price trends, however, are not what shrimpers have experienced at the docks.

- Although **wholesale** prices for headless, shell-on U15, 16-20, and 21-25 count shrimp increased by between **13 and 25** percent from 2007 to 2008, prices paid to shrimp fishermen **at the dock** for landed shrimp used to make those tails increased only by **2** percent during the same time period.
- Similarly, **wholesale** prices for headless shell-on 31-35, 36-40, and 41-50 count shrimp increased by between **20 and 30** percent from 2007 to 2008, prices paid to shrimpers **at the dock** for landed shrimp used to make those tails increased only by roughly **10** percent during the same time period.

At the same time, relatively small declines in wholesale prices for domestic shrimp have precipitated massive declines in dock prices.

- **Wholesale** prices for U15, 16-20, 21-25, and 26-30 count headless, shell-on shrimp fell by between **15 and 30** percent between 2008 and 2009. **Dock** prices for landed shrimp used to make those tails, however, have fallen by almost **50** percent over the same time period.
- An even more drastic divergence occurred with respect to medium-sized shrimp. **Wholesale** prices for 31-35, 36-40, and 41-50 count headless, shell-on shrimp fell by between **8 and 10** percent between 2008 and 2009. **Dock** prices for landed shrimp used to make those tails, however, have fallen

by almost **45** percent over the same time period.

- For small shrimp, **wholesale** prices for 51-60 headless, shell-on count shrimp fell by less than **8** percent between 2008 and 2009 (**wholesale** prices for 61-70 count shrimp actually **increased**), while **dock** prices for landed shrimp used to make those tails fell between **42 and 55** percent over the same time period.

In sum, price movements at the dock do not reflect price movements for domestic shrimp at the wholesale level and, as such, do not appear to be the result of market forces. Thus, the claim that the collapse in dock prices is due largely to a downturn in the market for domestic, wild-caught shrimp is unsupported by empirical data. Such a claim appears to be one of a number of myths regarding the current market situation that are unsupported by objective evidence.

Myth #1: Low demand and high supply of both domestic and imported shrimp have forced a worldwide decline in shrimp prices.

Available price information does not support this claim. For large shrimp, wholesale domestic prices have, in fact, dropped below the prices of comparable wholesale import prices. Indeed, for a number of products, imported prices have actually increased in 2009, while domestic wholesale prices have uniformly declined (although not to the same degree as dockside prices).

Myth #2: Shrimp processors are working at either slim or negative profit margins because low demand and low prices have forced processors to sell inventory purchased at higher prices last year below cost at a loss.

First, a review of available price information indicates that processors were able to sell shrimp purchased in 2007 at significantly higher prices in 2008. These increased prices and margins were not reflected in prices paid at the dock for landed shrimp in 2008.

Second, the relevant cost consideration for shrimp purchasers is not the cost of a single unit of shrimp but, instead, the average acquisition cost of shrimp used to produce merchandise held in inventory. Dockside prices have declined at orders of magnitude beyond declines experienced at the wholesale level. Pricing analysis indicates that operating margins have been retained largely by massive declines in prices paid at the dock for landed shrimp. Put simply, whatever losses might be experienced because of lower prices for tails sold this year from shrimp purchased last year is made up for

by replacing that inventory with shrimp purchased at extremely low prices this year.

In the original investigation of dumped shrimp conducted by the U.S. International Trade Commission ("ITC"), the agency noted that processors actually improved their financial performance when import volumes increased and prices declined by shifting the negative effects of import competition to fishermen. The ITC explained:

"Because fishermen's operating performance in interim 2004 **was worse** than it was in interim 2003, the **improved** financial performance processors experienced in interim 2004 are not indicative of improvements in the industry as a whole. Rather, **processors appear in interim 2004 to have shifted to fishermen a greater share of the impact of the subject imports.**" (emphases added).

Myth #3: The credit crunch has significantly reduced the volume of domestic shrimp that can be purchased from shrimp fishermen.

Difficulties with access to credit affect all shrimp purchasers, whether of imported or domestic shrimp. Yet, imported shrimp volumes and prices have remained comparably stable while dockside prices have plummeted.

Further, massive amounts of capital have been injected into the shrimp processing industry over the last three years. During this short time period, twenty-nine members of the American Shrimp Processors Association have received over \$80 million in distributions of collected antidumping duties. (In comparison, thousands of shrimp fishermen have received, collectively, less than half that amount in distributions). Over \$13.5 million of the \$81 million was distributed just a few months ago.

While there are undoubtedly anecdotal tales of expenditures designed to improve and enhance processing capacity, there is no objective evidence that these funds have been substantially reinvested in the industry in any meaningful way.

Myth #4: Dockside prices will recover if more funds are invested in domestic marketing campaigns and programs are developed to draw down inventory buildup.

No objective data exists with respect to the amount of either domestic or imported shrimp held in cold storage inventory. However, even if it is taken as a given that a significant amount of inventory overhang afflicts the domestic industry, drawing down that inventory through increasing demand at the wholesale level does not necessarily mean that shrimp fishermen will enjoy the benefits of that increased demand. Available pricing data indicates that the majority of the price increase enjoyed at the wholesale level in 2008 was not passed

on to fishermen in the form of higher dockside prices.

The significant divergence between trends in wholesale and dockside prices for domestic shrimp underscores the necessity of insuring that any marketing campaign or government procurement program designed for wild-caught shrimp benefits the entire industry and does not simply boost the profits of one segment of the industry.

As the domestic industry and policymakers work to address the dire state of the shrimp fishing industry in the United States, industry unity is essential. Nevertheless, the need for industry unity must not result in a failure to identify and address important contributing factors to the current market environment. A number of factors have combined to exploit the vulnerable condition of shrimp fishermen throughout the country. If the prospects for commercial shrimp fishermen are to improve, each of these factors must be addressed in order to insure the survival of the industry.

LEGAL

UPDATE

Appeal of Final Results of Third Administrative Review of Indian Shrimp

On August 12, 2009, the Ad Hoc Shrimp Trade Action Committee ("AHSTAC") filed an appeal with the Court of International Trade challenging the U.S. Department of Commerce's ("Commerce's") final results regarding the third administrative review of Indian shrimp imports.

AHSTAC challenged two aspects of Commerce's determination. First, the complaint asserts that the agency improperly relied upon U.S. Customs and Border Protection ("CBP") data to select individual respondents for review without first establishing the reliability of that data. In previous administrative proceedings and in a parallel review of shrimp from China, Commerce had found that the CBP data contained significant defects. In result, it was inappropriate for the agency to employ such flawed information in lieu of data supplied directly by foreign shrimp producers/exporters which are also certified by those parties. Second, the complaint challenges the assignment of antidumping assessment rate assigned to all non-reviewed companies. The complaint notes that the proxy employed by Commerce to assign the assessment rate improperly understated the amount of duties to be collected by CBP.

The third administrative review covers U.S. imports of shrimp from India for several hundred Indian shrimp producers/exporters between February 1, 2007 and January 31, 2008.

Commerce Issues Third Administrative Review Results for China

On August 31, the Department of Commerce announced its final results for the third administrative review of the antidumping duty order on shrimp from China, which covered Chinese shrimp imports between February 1, 2007 and January 31, 2008. Commerce assigned a dumping rate of 9.08% to two Chinese exporters, Zhanjiang Regal and Shantou Longsheng. All other Chinese exporters subject to the antidumping duty order were assigned a final dumping rate of 112.81%.

SSA Meets with CBP on Circumvention of Shrimp Duties

Again in the FY 2009 Report to Congress on AD/CV Duty Enforcement Actions and Compliance, CBP indicated that it has been unable to collect over \$30 million in antidumping duties assessed on shrimp from China, while having collected only \$1.6 million in duties on such shrimp since the antidumping order was imposed in 2005.

The Report notes that, for fiscal year 2008, only \$56.00 in antidumping duties was deposited on \$38.5 million worth of shrimp from China - an effective duty deposit rate of 0.00015% despite actual duty rates that, for some Chinese companies, exceed 100%.

In early August, SSA asked CBP to take action against the widespread evasion of payment of shrimp antidumping duties to officials at U.S. Customs and Border Protection (CBP). The meeting provided information on trade patterns that suggest specific cases of circumvention. SSA also covered topics such as abuse of the "new shipper" review, where a "new" importing business is set up to avoid antidumping duty deposits and to protect established importers from liability.

The \$56 in antidumping duty deposits results from the manipulation of the "new shipper" review process. A "new shipper" engineers sales to obtain a 0% antidumping duty deposit rate and then exports substantial quantities of merchandise to an importer that need not deposit any funds as security for antidumping duties that might later be owed. These imports are subject to significant antidumping duties when actual sales are ultimately investigated for dumping by the U.S. Department of Commerce and when CBP goes to collect the duties from the new shell company, the new shipper goes out of business without payment of the antidumping duties.

LEGISLATIVE UPDATE

Hearing on Offshore Aquaculture Follows NOAA Announcement

On September 3, NOAA announced its intent to develop a comprehensive national policy for sustainable marine aquaculture in the coming months. The announcement is in response to a recommended plan submitted by the Gulf of Mexico Fisheries Management Council last year that was tacitly approved when NOAA failed to take action within a mandatory timeframe. The Gulf Council offshore aquaculture plan must undergo a rule making process before permits can or will be issued. NOAA has indicated that it intends to postpone the rule making process until a national policy for marine aquaculture is completed.

The news came a week before the House Natural Resources Committee, Subcommittee on Insular Affairs, Oceans and Wildlife held an oversight hearing on offshore aquaculture that questioned whether NOAA has the authority under U.S. law to regulate aquaculture in federal waters. Both Congress and NOAA appear to be developing separate national policies for offshore aquaculture at this time. SSA will be working with Congress on any legislation to develop a national offshore aquaculture policy.

Proposals submitted to NOAA last year to develop rules regarding offshore aquaculture in the Gulf of Mexico exclude brown, white, pink and royal red shrimp from the list of eligible species for offshore aquaculture because SSA argued that it would negatively impact U.S. shrimp stocks. Also in direct response to SSA's recommendations, the Council adopted two important improvements to their Offshore Aquaculture Plan. First, the Council added a new requirement to use Electronic Logbook data on the shrimp fishery under the criteria for siting aquaculture facilities. The second measure would require NMFS to provide written notice and a public comment period when considering offshore aquaculture permit and siting applications.

REGULATORY UPDATE

NMFS Approves Amendment 7

NOAA Fisheries Service approved Amendment 7 to the Fishery Management Plan for the Shrimp Fishery of the South Atlantic Region on August 21, 2009. SSA spearheaded the effort to revoke the "Use it or lose it" policies hindering the rock shrimp fishery. Amendment 7 plans to remove the 15,000-pound rock shrimp landing requirement, reinstate all endorsements lost due to not meeting the landing requirement of 15,000 pounds of rock shrimp in one of four consecutive calendar years, and reinstate all endorsements for those who renewed their permit in the year in which they failed to renew

their endorsement. The final rule is expected to be implemented by the end of the year, but no date has been set.

Protection of Coral May Affect Access to Shrimp Grounds

Last year, a Habitat Area of Particular Concern (HAPC) was developed to protect important coral. SSA's negotiations with the South Atlantic Fisheries Management Council (SAFMC), NMFS and other interest groups preserved the Royal Red shrimp fishery's traditional fishing grounds through the establishment of a Shrimp Fishery Access Area. New Amendments that build upon last year's creation of a HAPC may threaten access to shrimp once again.

SSA is actively advising the committees that develop management plans for coral areas that could affect the shrimp industry. Recently, John Williams participated in the SAFMC's Ecosystem and Habitat Advisory Panel and Richard Vendetti attended the Coral Advisory Panel (AP) in Charleston, SC. SSA is concerned that the development of new management options is based on a desire for activity rather than sound science and effective solutions to defined problems.

Red Snapper Stock Assessment Update

In August, Dr. Benny Gallaway presented his landmark research concerning density-dependent mortality of juvenile red snapper at the SEDAR stock assessment panel meeting. This new scientific information is likely to substantially improve the understanding of the status of the Gulf red snapper stock and the relative role of shrimp trawl bycatch mortality in the rebuilding of the red snapper stock. The NMFS Southeast Fisheries Science Center has indicated that his new scientific information will have an impact on the upcoming stock assessment. SSA will bring you more details on this issue in future updates.

MEMBERSHIP UPDATE

SSA Extends Condolences to Kennedy Family

Senator Ted Kennedy was a strong advocate for improvements to the U.S. food safety system. Through his position as Chair of the Senate Commerce Committee, the late Senator was in a position to influence reform of the Food and Drug Administration. His attention to critical problems, such as illegal contaminants in imported food, and service to the country is to be commended and remembered by the U.S. shrimp industry. SSA extends condolences to the Kennedy family, friends, and staff for their personal loss.

Before the August Congressional recess, the House passed a favorable bill regarding food safety that incorporated many elements of reform sought by SSA. It is uncertain when the Senate Commerce Committee is to consider action on a similar bill as the Committee goes through a leadership transition and addresses healthcare reform.

UPCOMING EVENTS

Atlantic Highly Migratory Species Advisory Panel Meeting

September 9-11, 2009

Crown Plaza Hotel, Silver Springs, MD

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