

MARKETING CHALLENGES IN VIETNAMESE STRIPED CATFISH GLOBALIZATION

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Globalization of Vietnamese catfish and the ‘catfish war’

The growth of the catfish farming of tra catfish (*Pangasainodon hypophthalmus*), also referred to as striped catfish, is associated with the economic liberalization and adoption of free trade principles, (Cohen and Hiebert, 2001). The catfish farming in Viet Nam, essentially confined to the Mekong Delta in the South has recorded almost exponential growth in the last ten years, and in 2007 total production was estimated at 1.2 million tonnes, resulting in an export income of nearly one billion US\$. The sector employed almost a half of million, the bulk of being in the processing sector, of which nearly 80 % are women (Narog, 2003).

Catfish farming began to blossom in the Mekong Delta with the development of artificial propagation techniques (Cohen and Hiebert, 2001), followed by developments in seed production and other managerial inputs (Cohen and Hiebert, 2001; Sengupta, 2003) Vietnamese farmers have also adopted advanced feeding technologies to improve flesh quality, to meet requirements of US and EU consumers, and the processing sector has modernized to comply with quality control protocols of HACCP and Good Aquaculture Practice (GAP) recommended by US FDA and FAO.

In 1998 Viet Nam gained membership of APEC (Asia-Pacific Economic Cooperation), an organization of economic cooperation committed to reducing tariff and non-tariff barriers among its 21 member economies., Vietnamese fisheries export to US increased significantly, especially in catfish sales, from 0.6 million pounds in 1998 to 17 million pound in 2001 (Table 1). Although catfish was exported to the US even before 1995, when the official embargo on Vietnamese exports was lifted by the US, a spurt in exports to US occurred in 1999 when raw seafood tariffs dropped to zero and reached a volume of 18.3 million pound of catfish to the US, valued at \$55.1 million in 2002 (Sengupta, 2003) after the bilateral trade agreement between US and Vietnam was signed in December 2001.

With similarity of texture and taste but priced lower, the “most similar product in characteristics and uses” (US ITC, 2002), Vietnamese catfish was beginning to threaten the US catfish growers and wholesalers when 90% of the catfish imported by US in 2000 was from Vietnam (Cohen and Hiebert, 2001). Catfish production is the biggest aquaculture industry in the United State and frozen catfish fillets is the most important product of the US catfish processing industry (Harvey, 2005). In 2005, 124 million pounds of frozen catfish fillet was sold by domestic processors (Harvey, 2006). Catfish raised popularly in southern states of US are of the Ictaluridae family, mostly channel catfish (*Ictalurus punctatus*) and blue catfish (*Ictalurus furcatus*) farmed in closed ponds while Vietnamese catfishes are basa (*Pangasius bocourti*) and tra (*Pangasianodon hypophthalmus*) belong to the family Pangasidae.

In November 2002, the US Congress passed a labeling law, restricting the use of the word “catfish” except those of the Ictaluridae (Narog, 2003), and this was the first step for the “catfish war” (Kinnucan, 2003). The next step was lobbying for

renegotiation of the 2001 bilateral trade agreement between US and Vietnam to set limits on catfish imports (Cooper, 2001 cited by Kinnucan, 2003). The third was the antidumping suit filed by US producers that led to tariffs ranging from 44.66% to 63.88% levied on frozen fillet catfish imported from Vietnam. Considering Vietnamese economy is 'non-market' for antidumping investigation purpose, US Department of Commerce takes India as a proxy country for to identify the 'dumping margin' (Intrafish, 2003). The tariff is theoretically a 'dumping margin' which is the difference between price of subjected goods sold in the home market and in US market according to antidumping duty calculation suggested by US-DOC and ITC. Therefore, the initial tariff imposed on Vietnamese catfish is actually the gap between price of catfish frozen fillet sold in India and that in the US market, not between the Vietnamese and US markets. The 'catfish war' continued when four US southeastern states of Mississippi, Alabama, Georgia and Louisiana issued a ban on the sale of imported catfish. According to the "Farm Bill 2008", catfish products has to be strictly controlled and monitored in quality before imported into the US.

II. Trade impact of the catfish war between the US - Vietnam

Import tariffs were reduced and cancelled under the BTA signed between US and Vietnam in 2001. However, in the catfish war, alongside with the antidumping measures, non-tariff barriers were used to protect US domestic catfish production. All these events constrained and reduced the Vietnamese catfish export to the US. However, not all the protection tools benefited US catfish farmers. This part discusses some price effect of two main protection tools used in the "catfish war".

1. Labeling law 2001

During 2001-2002, when the US Congress discussed and voted for the Farm Security and Investment Bill (HR 2646) stating that the “catfish” label was just only marked for catfish species belonging to *Ictaluridae* family raised in the US, US producers expected that Vietnamese tra and basa imports into their country would be limited and demand for US channel and blue catfish would increase, leading to a rise in prices of their products. However, the result did not support their expectation. Production of US frozen fillets had increase slightly but the price still decreased. One of the reasons was the fact that tra has been imported into the US through big importers before sold to domestic distributors, and not directly sold to customers. The labelling change failed to break the trade relationship maintained between US importers and Vietnamese exporters (Brambilla và ctv., 2008). The lower amount in the export of frozen fillets products was made-up by a rise in export price in this period (Table 1). In the studies by Duc (2007), Duc and Kinnucan (2007b, 2008), the labeling law appears to have had the unintended consequence of benefiting Vietnam producers, specifically, the labeling law resulting in an increase price of 5.7 percent, *ceteris paribus*.

After the label dispute, although the US catfish producers were the winners, to prevent Vietnamese tra and basa from the name “catfish”, an unexpected circumstance to both sides occurred. That is when the brand name tra and basa became well-known not only in the US market but also over the world through the frequent highlighting of the issue in the global mass media during the dispute time. Consequently, tra and basa began to reach other large markets such as EU, Japan and Australia. Vietnamese catfish producers had good opportunities to diversify their products with diversified markets. In contrast to Duval-Diop et al. (2005) who state that the US labelling law is an effective protection tool, Nalley (2007) confirmed that

the law has created new markets for tra and basa and limited market for US catfish over the world. An econometric study by Hong, Duc and Kinnucan (2008) also justifies that the US labelling law failed to change the structure of demand curves for fish imports and US catfish.

Table 1.1 Catfish Price and Quantity Data, United States, 1999-2005

Item	Unit	1999	2000	2001	2002	2003	2004	2005
Vietnam fillet price	\$/lb.	2.04	1.52	1.26	1.29	1.21	1.15	0.93
US fillet price	\$/lb.	2.76	2.83	2.61	2.39	2.41	2.62	2.67
US tariff	\$/lb.	--	--	--	--	0.64	0.61	0.49
US farm price	\$/lb.	0.74	0.75	0.65	0.57	0.58	0.70	0.72
Imports from Vietnam	mil. lbs.	2	7	17	10	4	7	17
US farm production	mil. lbs.	597	594	597	631	661	630	601
US fillet production	mil. lbs.	120	120	115	131	125	122	124

Note: fillets and imports are frozen; farm production is live-weight.

Source: Duc (2007).

2. Antidumping measurement 2002 – 2003

Through various GATT/WTO rounds, tariff barriers have decreased worldwide but anti-dumping measures have surged to play a crucial role as the most important non-tariff barrier (Zanardi, 2004). Antidumping duties have been recently used with increasing frequency, by more countries, and against more products (Prusa, 2005). Since the 1980's, the rise in international competition has led many U.S. firms to seek protection from foreign imports (Hansen and Prusa, 1996). With the Byrd Amendment in the US, petitions get compensation for a possible loss of their profit from collected tariff revenues. Antidumping measures are more favored in the US. From 1980 to 2004, US filed 1,092 antidumping tariff cases and 461 of them lead to an affirmative determination and antidumping duty imposed on targeted imports.

Money from disbursement by Byrd Amendment (Byrd money) was considered as a subsidy for filing US companies (Duc and Kinnucan, 2007a). During 2005-2006, Byrd money to the US catfish producers reached 9.2 million dollars, approximately 3% total revenue of frozen catfish fillets produced by US companies in 2005 (Duc, 2007). According to Jung and Lee (2003), Byrd Amendment had motivated US companies to file more antidumping cases against imported products and created an unfair competition between benefited companies and the ones that had insufficient resources (money or information) to lodge petition. Evenett (2006) found that Byrd Amendment has also raised the catfish US market price when foreign exporters raised their price to avoid or lower the antidumping duties. Byrd Amendment has been accused to violate WTO regulations (Jung and Lee, 2003) and create negative effects on the US economy such as lowering the competitive capacity of US products, raising

costs for US buyers (Markheim, 2005). Finally, the amendment was repealed in January 2006 but official died in October 2007.

There were many reports on the price effect of the catfish antidumping. Kinnucan (2003) estimated that an imposition of antidumping tariffs on Vietnamese frozen catfish fillets would reduce the imports of tra, basa into the US and might raise market price of US catfish. However, with empirical econometric models, Duc (2007), Duc and Kinnucan (2007a, 2007b, 2008) showed that the antidumping measures were not an effective tool to protect the US catfish industry. According to Duc (2007), the antidumping tariff reduced the Vietnamese export price by 9.8 percent, much higher than an estimated increase in US price of 0.5 percent, which confirms the tariff did more to punish Vietnam producers than to reward US producers. The study also showed that although the catfish antidumping increased price and demand for US frozen catfish fillets but it gave no benefit to US farmers. The reasons is the fact that US catfish fillets are not a perfect substitute for fillets of tra, basa as price of the US catfish product were very high relative to that of the latter and have an own market niche. In constrast, tra and basa fillets are a substitute for US catfish fillets. When the price of US catfish increases, US consumers are likely to switch to use tra, basa while the reverse does not happen. Another study of Hong et al. (2008) confirmed a detrending in market share of US catfish and also in that of imported catfish relative to imported salmon and tilapia. Duc and Kinnucan (2007b) argued that the antidumping measures would create an opportunity to catfish imported from other countries into the US. In reality, the market shares of catfish imported from China and Thailand have increased rapidly after an antidumping tariff was imposed on imported frozen fillets of Vietnamese tra, basa. The circumstance would push US catfish producers to go on with other protection tools.

III. Comments

Products of tra, basa are produced in Vietnam mostly for export as the domestic market for them is very small. Some comments related to trade and market issues are presented for a sustainable growth of those products in future.

1. Knowledge Dissemination of International Trade Policy

Although Vietnamese exporters have put great efforts to expand the market over the world, they seem to encounter problems when facing international trade barriers. There are no comprehensive programs to disseminate knowledge over whole industry. The Vietnamese tra and basa producers know about antidumping measures, as one of important trade policies, when they were investigated for antidumping tariff. Number of economic researchers in fisheries is still limited in the country while aquacultural specialists have insufficient economic knowledge to be able to disseminate trade policy and its impact to fish farmers. A comprehensive and long term program to disseminate current international trade policies to Vietnamese tra, basa producers is necessary.

2. Marketing

Global marketing with a national brand for Vietnamese tra and basa are underdeveloped. Alongside with the dissemination of comprehensive knowledge in trade policy, Vietnamese tra and basa producers should build a national brand for their products with integrated marketing programs. The programs will help to popularize tra and basa products to potential customers. Global integration of Vietnam has created great opportunities for a strong growth of tra and basa industry but also faced challenges in a competitive market place . The integration requires an enhancement in

competitive capacity of Vietnamese producers to enter potential markets such as Arabian or African countries and maintain current markets in the US, EU, and Russia.

Domestic consumers are also a potential market for tra and basa products. In 2003, when the US were investigating an antidumping petition, a lot of Vietnamese catfish businesses launched some marketing programs to introduce processed products of tra and basa to domestic consumers. However, most of the programs were cut down when the foreign markets for the products regained. Why Vietnamese consumers still not get products of tra and basa in their daily meals while the products have a global market of 120 countries? The domestic market expects integrated marketing programs to give answers.

3. Integration for food quality assurance

Quality assurance is a concern of all Vietnamese fisheries producers. A vertical integration was suggested for a stabilized price of fresh tra and basa products, important inputs of processing factories and also to enhance competitive capacity of processors. However, because variation in price is the most important characteristic of agricultural products, vertical integration is yet to display an effective image as a break in contracts signed between processors and farmers still existed. One of the most important factors for a processor to decide to buy fish from farmers is the quality of the farmed fish. For unthorough knowledge of fish farmers in requirements for quality assurance from foreign buyers, they are yet to get enough concern from processors for a vertical integration and technical assistance.

To meet increasing requirements for quality assurance, Vietnamese producers of tra and basa should set up some models of vertical integration in which fish

processors play key roles based on well-known quality standards of HACCP, GAP or even BAP. In the models, quality of fish products would be monitored and controlled carefully from the stage of seed breeding until final products sold to foreign buyers. Fish processors/exporters could build private standards for each kind of their products and use the standards to train contracted fish farmers at the beginning of a fish crop. The processors would also set up extension teams who are equipped with knowledge not only in aquaculture but also in food safety and trade policy to assist their contracted farmers in using appropriate farming technology, applying right inputs to meet the quality standards. The processors/exporters would take responsibility to buy all of products qualified through the quality monitor and control process. Extension workers (working for private companies, non-government or state organizations) are also able to promote the integration alongside with the horizontal integration with models of farmer groups, co-operation,... Those integration types toward an assurance of fish products' quality not only assure the market for fish farmers but also guarantee sources of high quality fish inputs for processors of tra and basa products, leading a higher competitive capacity of the products in the world market.

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