

U.S. House Ways and Means Committee
Trade Subcommittee

Hearing on

Opportunities to Expand U.S. Trade Relationships in the Asia-Pacific Region

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Testimony of

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Chairman Reichert and Ranking Member Pascrell, on behalf of Trident Seafoods, I thank you for convening today's hearing on opportunities and challenges for U.S. trade relationships in the Asia-Pacific Region. My name is Stefanie Moreland, and I serve as the Director of Government Relations and Seafood Sustainability for Trident. Trident is the largest vertically integrated, privately held seafood company in North America, headquartered in Seattle, Washington. Trident owns and operates more than a dozen shore-based seafood processing facilities in remote fishing communities across coastal Alaska, as well as, a fleet of modern harvesting and at-sea processing vessels that fish and process within the U.S. 200-mile zone in the Bering Sea and off the coast of the Pacific Northwest. These platforms harvest and process hundreds of millions of pounds of U.S. seafood that ship directly to, or are reprocessed for distribution to markets in more than 50 countries.

Trident has value-added reprocessing facilities and research and product development innovation centers in Washington State, Minnesota, and Georgia, as well as overseas in Japan, China, and Germany. Trident employs nearly 10,000 people globally during peak production, approximately 8,000 men and women in the U.S.

Trident purchases and takes delivery of fish from hundreds of independent fishermen, mostly small businesses, and sells finished seafood products directly to restaurants, distributors, club stores, retail, and food service throughout North America, Asia, and Europe.

Two important new market opportunities for Trident are China and South Korea. In my testimony, I will address challenges and opportunities related to trade policy for each of these two markets, and touch on overall priority trade issues in the Asia-Pacific Region.

It is often reported that as much as 85% of seafood consumed in the U.S. is imported and that the U.S. runs a seafood trade deficit of nearly \$14 billion. To oversimplify, Americans like to eat shrimp, and we don't produce nearly enough domestically to meet consumer demand. Farmed salmon, tilapia, and pangasius also contribute to the U.S. seafood deficit. What is less often reported is that U.S. seafood producers export over \$5 billion worth of seafood products annually, representing approximately two-thirds of U.S. seafood production, by volume. The U.S. seafood industry can only thrive with strong export markets, particularly in the Pacific Northwest and Alaska where 70% of all U.S. seafood landings occur, by volume, and where 80% of all U.S. seafood exports originate.

Asia-Pacific markets, specifically China, Japan and Korea, are critically important to U.S. seafood exporters. In 2015, according to U.S. Commerce Department figures, U.S. seafood exports to China totaled \$1.12 billion, exports to Japan totaled \$847 million, and exports to Korea totaled \$513 million. U.S. seafood exports to those nations accounted for about half of all U.S. seafood exports.

As with other U.S. exporting sectors, several years of a strong U.S. dollar negatively impacted our ability to sell seafood products abroad in countries with relatively weaker currencies. At home, low cost imports undercut U.S. seafood products. Both circumstances

resulted in the global seafood market depressing prices for our products. In addition, we increasingly compete in a global market against foreign producers that have very low labor costs and much less rigorous fishery management, air and water quality, and food safety standards.

Notwithstanding the low production costs available to most of our foreign competitors, Trident supports a free market approach to trade over a protectionist approach. We cannot afford to risk becoming subject to retaliatory market restrictions that could result in reaction to protectionist U.S. trade policy. That said, more needs to be done to create a level playing field to ensure U.S. seafood producers remain competitive in the U.S. and in important export markets.

My testimony focuses primarily on four seafood sectors—Alaska pollock, Alaska salmon, Alaska groundfish and Pacific Northwest/Alaska crab fisheries. These four sectors alone account for 60% of all U.S. seafood exports, and, as I mentioned previously, Asia-Pacific markets are critically important.

The Alaska pollock fishery is the largest U.S. fishery. That fishery alone accounts for nearly one-third of all U.S. seafood landings annually. Consumers know Alaska pollock as the fillet in McDonald's Filet-O-Fish sandwich or as the imitation crab in a California roll. It is a \$1.0 billion dollar fishery at first processing. While it is one of the five most consumed fish species in the U.S., we export three-quarters of the Alaska pollock products produced.

Salmon is second in volume and fourth in value among U.S. seafood landings, and U.S. producers earn nearly \$1.0 billion annually in export revenues. Non-pollock groundfish, including Pacific cod and Alaska flatfish, are individually top ten in volume and value for U.S. seafood landings annually. And Pacific Northwest and Alaska crab fisheries are also top ten in value.

Sustaining the success of U.S. seafood exporters and creating new market opportunities requires a focus on the critical Asia-Pacific region. My testimony covers the promising market growth in China and Korea, remaining competitive in the Japanese market, and the challenges we face from Russian Far East seafood producers.

U.S.-China Trade Policy. China produces the most seafood in the world and is the largest seafood exporting nation globally. However, China is also one of the three largest seafood importing nations. China's seafood imports are projected to rise from 7.6 million tons, currently, to 10 million tons by 2020, as global seafood suppliers increasingly partner with domestic e-commerce platforms.

In 2015, U.S. seafood exports to China from the Seattle and Anchorage Customs Districts alone totaled more than \$900 million. The vast majority of the U.S. exports of frozen seafood to China, however, are reprocessed in China and then re-exported to other nations because U.S. exports to China that are re-exported are not subject to Chinese duties or the Value Added Tax (VAT). U.S. seafood exports that are imported for consumption in China face stiff tariff rates. For example, frozen Alaska pollock, Alaska flatfish species, and other Alaska seafood exports to China that are consumed in China currently face a duty of 10% and are also subject to a 13% VAT.

The rapid expansion of the Chinese domestic market makes it the largest growth opportunity for U.S. seafood products. We could substantially increase U.S. seafood exports to China if U.S. trade negotiators can reduce, or eliminate tariff and VAT rates on U.S. seafood exports for consumption in China.

U.S.-Japan Trade Policy. The Trans-Pacific Partnership (TPP) contained favorable terms for U.S. seafood exports to Japan, and we urge U.S. trade officials to pursue the terms of the TPP accord either through a bilateral agreement with Japan or through a renegotiated TPP agreement. Trident, along with other U.S. seafood producers, were looking forward to the following benefits from TPP:

1. The TPP, as negotiated, would have eliminated Japanese tariffs of 3.5% for Alaska salmon products in all product forms (i.e., surimi, roe, fillet, etc.). The TPP deal promised to improve the U.S. industry's position in relation to non-TPP covered Russian salmon product exports to Japan. U.S. exporters of Atka mackerel and Pacific Ocean perch also face a 3.5% tariff on products into the Japanese market.
2. The TPP agreement also eliminated tariffs of 4.2% on U.S. Alaska pollock and Pacific whiting surimi products and pollock roe. Japan is the principal market for Alaska pollock roe and surimi products. If adopted as drafted, the TPP agreement would have markedly improved the position of U.S. pollock roe exporters to Japan in relation to Russian pollock roe producers. This is significant since the Russian pollock fishery is that nation's largest fishery. A TPP trade agreement that includes the U.S. would not only have improved our competitive position for pollock roe, but it would have also improved the competitive position of American surimi exporters to Japan where low cost, lower-quality Thai surimi exports already enjoy a zero to 2.0% tariff on sales into Japan (depending upon the fish species) under Japan's bilateral trade agreement with the Association of Southeast Asian Nations (ASEAN).
3. The TPP agreement eliminated a 10% Japanese tariff on Alaska pollock fillet products, as well. If this tariff elimination had gone through, it could have created an important new

market for U.S. fillet-type products, reducing the U.S. industry's reliance on the EU and U.S. fillet markets.

In addition, U.S. exporters of Alaska pollock, Pacific cod, and herring, among others, are subject to Japan's anachronistic Import Quota (IQ) system. Over time, Japan's markets have opened up, making quota accessible, but the process for obtaining such quota is needlessly time consuming and expensive. TPP did not address streamlining export processes by exempting U.S. exports from IQ requirements. U.S. trade negotiators are encouraged to explore such an option in future negotiations.

In any trade agreement—bilateral or otherwise—with Japan, the U.S. should push to end the application of the antiquated IQ system to U.S. seafood exports and to match the zero tariff rates negotiated under the TPP.

U.S.-South Korea Trade Policy. U.S. seafood exports to South Korean markets have increased by 20% since implementation of the U.S.-Korea Free Trade Agreement (FTA). Withdrawing from that agreement would erase positive gains already achieved under the FTA, and prevent future negotiated gains from coming into effect.

We do see potential benefits, however, from U.S. trade negotiators approaching their South Korean counterparts about accelerating tariff and quota reductions. For example, the current FTA provides duty-free opportunities for the export of Alaska pollock in a “whole round” and “headed and gutted” form, though the allotment of product subject to duty-free treatment is severely restricted. This is an issue for some Alaska pollock producers and other U.S. groundfish producers who incidentally catch Alaska pollock and export it minimally processed. South Korea's tariff-reduced quota (TRQ) for such products is only about 6,000 metric tons in 2017, which is insufficient. When the TRQ is reached, tariffs of 22% are applied.

While the FTA provides for a 9% annual increase in TRQ through 2025 when the TRQ expires (and slightly declining tariff rates over that time period), it will be a decade until U.S. producers can be competitive in the South Korean markets with these product forms. Before the implementation of US-Korea FTA in 2012, Alaska pollock was subject to 30% import tariff in South Korea, and this was a critical entry-barrier for Alaska pollock in the first place, yielding to Russian pollock that is imported into South Korea virtually duty-free through various bilateral joint-venture companies and Russian government-issued catching quota. Since the implementation of TRQ, however, awareness and availability of Alaska pollock quickly spread, and current TRQ was subsequently deemed too insufficient to meet the increasing demand. This is evidenced by how early TRQ is reached; by early May in 2016, and by early March in 2017. We urge U.S. trade negotiators to pursue an increase in the TRQ for Alaska pollock to at least 40,000 metric tons under the existing FTA.

U.S.-Russia Trade Policy. American and Russian seafood producers compete directly in the Chinese, Japanese, and South Korean markets. The U.S. and Russian Federation are the third and fifth largest seafood producers globally. Russian Far East fisheries landings are substantial and are comprised of most of the same species landed by American fishermen and processors operating within the U.S. 200-mile zone off Alaska, which as I've noted is the region which accounts for most seafood exports to the Asia-Pacific region. I've suggested trade priorities that can boost U.S. competitiveness in each of those key markets.

There remains an inequity in U.S.-Russia bilateral seafood trade policy that needs to be addressed. In 2014, the U.S. imposed certain trade sanctions on Russia in response to that nation's Ukraine aggression. None of the U.S. sanctions related to seafood products. However, Russia retaliated with sanctions against the U.S., and a host of nations, that included banning

seafood exports to Russia. Russia's import ban has been particularly harmful to U.S. exporters of Pacific whiting and Alaska salmon roe products. We ask our trade and diplomatic corps to prioritize regaining access to the Russian market.

The Russia sanctions also created a perverse situation domestically where a loophole in the National School Lunch Act's (NSLA) Buy American requirement has allowed the use of federal dollars to buy lower-cost, lower-quality Russian pollock for school lunches. The U.S. Alaska pollock sector cannot sell its products in Russia, but Russian pollock is being purchased with U.S. tax dollars for school lunches. Congress should tighten the NSLA's Buy American requirement. H.R. 1241, the American Foods for American Schools Act, introduced by Congressmen LaMalfa and Garamendi strengthens the Buy American requirement, and we urge Congress to pass this legislation.

In closing, I'm grateful for the opportunity to share Trident's input with you, and I applaud your efforts to examine opportunities and challenges related to Asia-Pacific trade policy that impact U.S. businesses, fishing communities, and the men and women dependent on access to global seafood markets. I look forward to your questions.