

## **TESTIMONY OF DANNY WALKER**

Good morning. My name is Danny Walker, and I am the CEO of Heartland Catfish Company, a catfish processor located in Itta Bena, Mississippi. I have been in the catfish industry for 24 years and have been the CEO of Heartland Catfish since we started our operations in 1996.

When I testified before this Commission six years ago, I explained that, despite being one the largest, most modern, and most efficient processors in the industry, we could no longer maintain our profit margin due to the flood of low priced Vietnamese imports. I truly feared that Heartland Catfish and other U.S. processors would not survive without an Antidumping Order.

I have come to Washington today to let you know that, without a doubt, the Order has played a significant role in our industry's health and survival over the last six years. Our prices, profitability, and the pond bank prices paid to our farmers all increased as a result of the Order. The price of Vietnamese imports also increased somewhat. As critical to us as it was then, the Order is even more important to us today. During the investigation period, imports from Vietnam crippled our industry even though the industry in Vietnam was in its infancy. Since the investigation, the Vietnamese industry has grown exponentially, with its overall export volume exploding from 68 million pounds in 2002 to over 1.4 billion pounds in 2008. This growth rate has been stunning. Without the Order, the U.S. would have been the first market targeted with this volume. Instead, the Order was successful in limiting the growth of Vietnamese exports to the United States from 20 million pounds in 2003 to 53 million

pounds in 2008. While this was a huge increase, it is a fraction of the over 3,000% increase in Vietnamese exports to the EU during this same period, where exports grew from 15 million pounds in 2003 to 495 million pounds in 2008.

Now, I understand that there are some suggestions that the Order is not necessary because Vietnamese imports no longer compete with U.S. frozen catfish fillets. This is simply not true. We continue to face competition from Vietnamese imports everyday. The labeling laws have not changed that.

First, it is important to keep in mind that the first successful introduction of the Vietnamese product into the United States was as "catfish." Therefore, the market got to know the product as catfish and continues to associate it with catfish regardless of how it is now labeled. And, there has been no significant marketing of basa and tra as a species that would make it recognizable to the consumer as a menu item. Think about how often you have seen basa, tra, swai, or any other name for this fish on a menu over the last five years. In fact, quite recently one of our sales people brought back some marketing materials from a major U.S. importer and distributor of seafood at a trade show. It was part of their brand new campaign for Vietnamese basa and tra, and the catch phrase was "Pangasius: Never Heard of it? Well soon it will be on the tip of everyone's tongue." They are just now starting this campaign. This was within the last few weeks. This fish does not currently have its own market and is unlikely to for some time to come.

Second, the labeling laws restrict how basa and tra may be labeled as it is imported and sold to distributors, but they do not prohibit the product from being

marketed and sold as a substitute for U.S. catfish. Most U.S. frozen catfish fillets and Vietnamese frozen basa and tra fillets are sold through food service distributors. When these food service distributors sell to their customers, such as restaurants, they may not label the Vietnamese product as "catfish," but, in their sales discussions and promotional materials, they often characterize the product as catfish or, more often than not, Chinese catfish, even if it is basa. The result is that our catfish is ultimately displaced at the restaurant or institution level by the Vietnamese product regardless of how it is labeled when sold to the restaurant or institution. In many cases, we might not know which food service distributors' customers (such as restaurants and institutions) choose the Vietnamese product over our product. All we see is that our volumes to the food service distributors themselves are declining.

It is also important to keep in mind that frozen catfish fillets and frozen basa and tra fillets are highly price sensitive products. As long as certain quality standards are met, for most customers the issue will be price. The fact that the Vietnamese product continues to be sold at prices so far below ours means that customers who might not otherwise be tempted to move away from catfish will be inclined to do so. The bigger the spread, the larger the segment of customers who will switch.

Third, with the exception of a few states, the labeling laws do not effectively operate at the restaurant level. Vietnamese product continues to be used in place of catfish in dishes that were traditionally made only with catfish. This substitution has taken place at large restaurant chains such as Piccadilly's and Golden Corral, where the Vietnamese product may appear as "southern fried fish," as well as at casinos and

cafeterias. It has mostly occurred in non-traditional catfish states, resulting in reduced sales of catfish to food service distributors in those areas. For example, when comparing sales to Sysco in Jackson, Mississippi versus Sysco in Louisville, Kentucky, a greater percentage of the Sysco Kentucky purchases will be of Vietnamese product compared to that of Sysco Mississippi.

Because we continue to compete with the Vietnamese product, the huge increase in Vietnam's production and exports are very troubling to us. As it is, the 53 million pounds that entered the U.S. in 2008 is pressuring our prices, limiting our growth, and costing us market share. Our operations have been curtailed, and our employees are getting fewer hours. Since last November, we stopped processing fish on Wednesdays because of high inventory levels. Production levels for Heartland Catfish are still not at previous levels as the Vietnamese basa and tra imports and the new influx of Chinese catfish continue to affect our production and sales. Vietnamese imports are setting the market price, and the only way for any processor to move excess inventory levels is to bring our prices down to the same level as the Vietnamese product. This is extremely difficult given our rising costs, but at least the Order has placed a floor on the prices of the Vietnamese product. Without the Order, not only will prices fall, but we will also be faced with the same onslaught of basa and tra that has hit the EU, Russia, and other markets.

I also want to mention that, in September 2008, we acquired the operations of Southern Pride, which was another U.S. catfish processor located in Alabama. We purchased it when American Seafood, which had no previous experience with the

processing of aquaculture products, exited the business. Our board of directors has been considering significant capital improvements to the new Heartland Alabama assets, but has put the decision on hold pending the outcome of this sunset review and the resolution of economic and other market conditions. If the Order is revoked, it simply will not make sense to make those capital investments.

It is also important to note that Heartland Catfish is highly dependent upon and affected by the condition of U.S. catfish farmers. As I told the Commission six years ago, U.S. catfish farmers and processors are essentially two sides of the same coin and each depends on the other. Indeed, like most processors, Heartland is owned by farmers, and we purchase a large percentage of our live catfish from our related farm.

Unfortunately, times continue to be tough for catfish farmers. As Mr. Lowery already testified today, U.S. catfish pond acreage has continued to decline over the last few years, and feed costs have increased significantly, requiring a higher pond bank price. Some of the farmers have reacted to these higher feed costs by simply feeding their fish less, resulting in "thinner" fish. This, in turn, has negatively impacted processors because our yields have declined, resulting in higher production costs.

The Order has, however, helped us set higher prices for our catfish fillets, even in the face of imports from Vietnam. In our experience, some customers are willing to pay a premium for our product over Vietnamese imports. However, the price of Vietnamese fillets is setting the base price. With the Order in place, the price that we can charge for our product, which includes this premium, is higher than it would have been without the Order, which in turn allows us to pay the farmers a higher pond bank

price. If the Order is revoked, Vietnamese prices would fall dramatically to move volumes, and our prices would fall, leading to a drop in the corresponding pond bank price. If the pond bank price falls too low, the farmers will not be able to survive. Without the farmers, there will be no processors.

Overall, our industry continues to be negatively impacted by Vietnamese imports, but the Order has helped to significantly mitigate these effects. Given the exponential growth of the Vietnamese industry over the last few years, however, I believe that revocation of the Order will have a devastating effect on our industry. Therefore, on behalf of Heartland Catfish and U.S. catfish processors and farmers as a whole, I ask you to please keep this Antidumping Order in place.

Thank you for your time today.