

Measures to Develop Vietnamese Seafood Industry

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I. FACTS OF THE VIETNAMESE SEAFOOD INDUSTRY

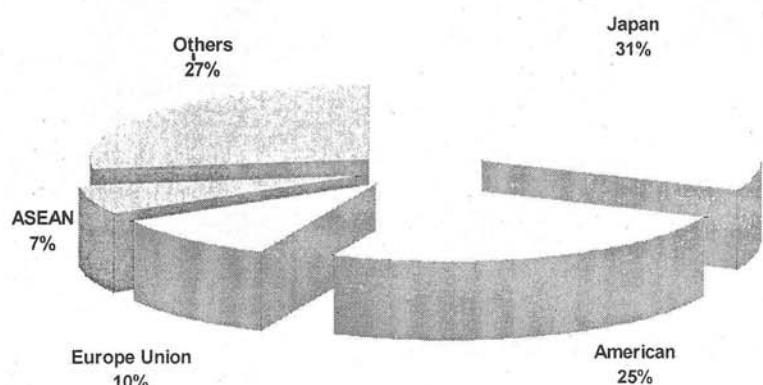
Being a product ranking the fourth of nine Vietnamese main export products, the export value of this product has continuously risen firmly year by year, from US\$1.87 billion in 2002 to US\$2.288 billion in 2003 (up by US\$0.418 billion or 22.35% in 2003 compared with 2002), and continued to rise up to US\$2.397 billion in 2004 (increasing by US\$0.109 billion or 4.76% compared with 2003). The average of export turnover of the whole industry in the 2002 – 2004 period was US\$2,185 billion USD, accounting for 10.45% of the total average export turnover. If compared with the Vietnamese third export product, footwear, the difference is not big (- US\$53 million or - 0.0026%). This is also a potentiality to lift the position of aquatic product in the structure of Vietnam main export products in the future.

At present, Vietnamese aquatic products are shipped to 77 countries and territories over the world, ranking the fourth on the world market behind Thailand, China and Canada. The biggest market share of Vietnam now is Japan taking 31.6%, followed by the US: 25%; EU: 10%; ASEAN: 6.5%, and others 26.9%.

1. The Japanese market

At the present time, Japan is still the major export market and takes the highest ratio of Vietnamese export seafood, representing 31.6% of export turnover in 2004 and bringing to Vietnam an earning of US\$757 million. Because of the influence of the lawsuit about dumping on the US market recently, many countries including Thailand, China, and India have shifted their export to Japan. This also caused much trouble to Vietnamese exporters in the competition in price, quality, and sorts of products... However, with prestige in export to this market for many years as well as good relationship between the two countries, Vietnamese aquatic products still gain a foothold on this market and have attracted more and more Japanese investors in many fields to Vietnam, especially in the condition of strained relation be-

Figure 1: The market share of Vietnamese aquatic products in 2004



tween Japan and China recently. (In more than 70 countries and territories investing in Vietnam, Japan tops the list of realized investment capital: US\$3.7 billion, ranking the third about registered capital behind Singapore and Taiwan.)

To maintain and expand this market, at this time, Vietnamese seafood exporters are trying to diversify and develop product quality more than ever before. Besides some frozen products including shrimp, cuttlefish which have many advantages on this market, in the near future, Vietnamese aquatic product processors will confidently approach this market with new and unique products which are more suitable with Japanese taste, for example, shrimp, live fish, canned shrimp, cuttlefish as well as processed products in

small packages and other mixed products ...

2. The US market

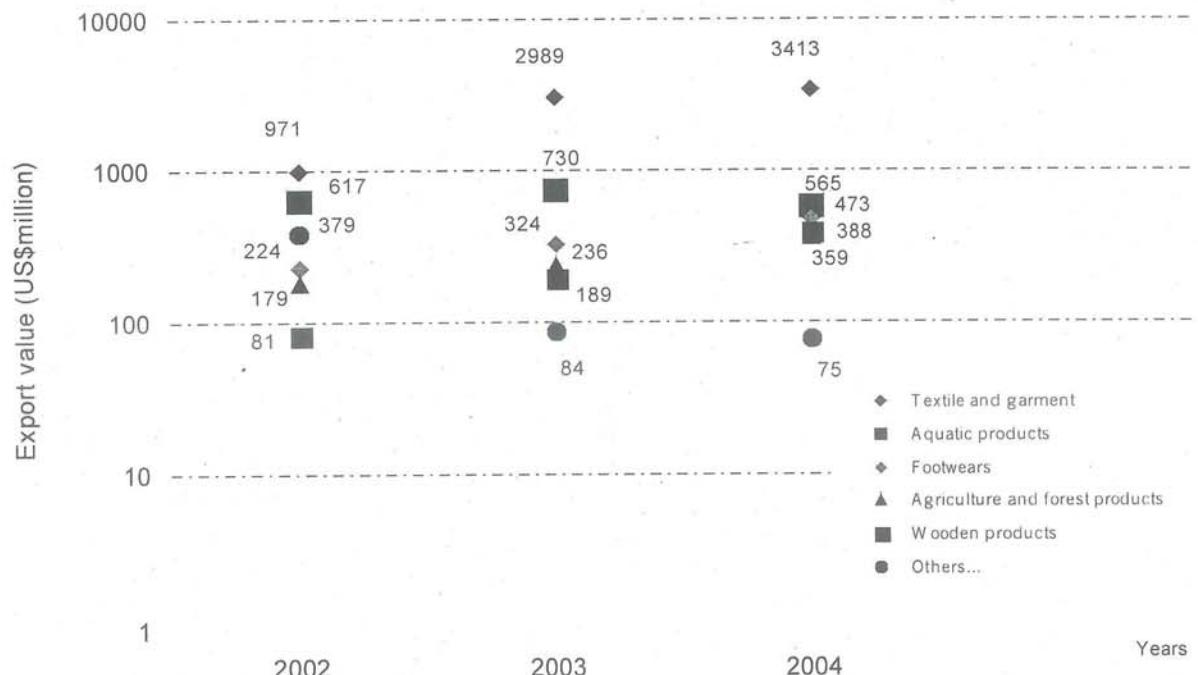
The US is the second biggest market of Vietnamese seafood exports, behind Japan. As a new market, it has been really thriving since the Vietnam - US Trade Agreement was signed on July 13, 2000. Within only 4 years since then, Vietnamese export revenue from this market reached US\$5.275 billion in 2004, this means increasing 6 times compared with 2000 (US\$821.3 million) in which aquatic products played a key role, taking the second position (behind textile and garment).

However, due to the shrimp lawsuit (2003 – 2004) and previously catfish lawsuit, Vietnamese aquatic exports to this market have faced some

Table 1: Five major export products of Vietnam to the US market (US\$ million)

Products	Year		
	2002	2003	2004
Textile and garment	971.34	2,989.00	3,413.00
Aquatic products	617.03	730.50	565.58
Footwear	224.20	324.80	473.40
Agricultural, forestry products	179.20	236.20	359.50
Wooden products	81.80	189.60	388.60
Others...	379.43	84.00	75.00
Total:	2,453.00	4,554.00	5,275.00

Figure 2: The export value of five major exports of Vietnam to the US market from 2002 to 2004



signs of slowdown, for example, in 2004 the export value of this item reduced about 30% (posting only US\$565.58 million) compared with US\$730.50 million in 2003. In the meantime, Thailand still took the lead in the seafood market in 2004, earning US\$145 billion or 14.6%, even surpassed China with US\$137 million or 13.8%.

Although the American policy of protectionism under the anti-dumping law has effects on the reduction of the seafood export value in 2004 compared with 2003, in general, the US is still the biggest market of Vietnam nowadays because it holds a lion share in major export markets of Vietnam. As a result, the demand from this market is an important factor to determine Vietnamese major exports over the past years. Concretely, in the group of five major products exported to the US market, there are three products from the nine main exports of Vietnam nowadays (textile, aquatic product, footwear).

Today, the most sensitive problem to the US market is the anti-dumping law. Under this law, the US states that six seafood exporters (accounting for 75% of its seafood market shares) have violated the regulations on export price calculation (selling at a lower price than the real price on the market thanks to sub-

sidization and support from their own governments), the standards of the market economy as well as some compulsory regulations on quality: containing the antibiotic chloramphenicol in shrimp, malachite green in fish more than allowed. This produced bad effects on local production and business. (These six countries include China, Vietnam, India, Brazil, Thailand, and Ecuador).

Being in the group of these six countries, Vietnam, exactly the Southern Shrimp Association -SSA, was brought to court because of dumping frozen shrimp on the US market (December 31, 2003). After the investigation of the US Department of Commerce (DOC), the US International Trade Commission (USITC), on January 8, 2005, gave the last decision on the average import tax rate on frozen shrimp (issued on January 15, 2005) for the six countries as follows: China: 50%; Brazil: 36.9%; Vietnam: 16.11%; India: 14.2%; Ecuador: 7.3%; Thailand 6.39%. According to Mr. Michael Nguyễn, Director of the AA Provider Company, Ltd. in Connecticut, USA, before these events, importers just post a cash deposit of US\$50,000 and pay an import tax rate of 5% and costs of transport, loading, unloading, warehousing and delivering.

Along with such high import rate, the US Department of Commerce also requests import enterprises to

post a cash deposit (or bond) equivalent to their import value of the whole year and will be refunded only 3 years later, after DOC reviews the market price and purchasing price of each lot of products to determine the official duty rate. Based on this tax review, importers are refunded a part of their deposit or pay an addition if DOC discovers enterprises have violated the dumping law of the local authority.

From the above regulations, it's clear that nowadays, most of the US import enterprises want to push risks to foreign exporters in case of products subject to the anti-dumping law, especially frozen shrimp, and some of these exporters are Vietnamese enterprises. After the anti-dumping law became effective on January 15, 2005, the US importers have asked Vietnamese shrimp exporters to change into new mode of delivery and payment: DDP (Dumping Duty Paid- delivery and payment in the US) instead of CNF (Cost and freight) - delivery and payment in Vietnam as before. This means Vietnamese exporters must post a bond instead of their importers and must accept "dead capital" in 3 years until the US-Department of Commerce finished reviewing every problem relating to the anti-dumping law of this country. Besides tax rates and bonds as required by DOC, another reason for the loss of competitive advan-

tages of Vietnamese seafood industry is much lower duty rate of Thailand, only 6.9% as compared to 16.11% for Vietnamese counterparts.

Therefore, the decision of DOC caused much trouble to the Vietnamese seafood industry because shrimp is one of the country's important aquatic products, influencing a large working population (over 2 million involving in this industry). This is also a product taking the biggest share in export turnover to the US market in 2005 (more than 70.72% in 2004, shrimp exports alone gained US\$400 million).

Given the adverse commercial conditions, seafood exporters in many countries are trying to look for other markets to offset their loss in the US market. They target at potential markets including the EU and Japan. Therefore, the competition between exporters from Vietnam, Thailand, India, Bangladesh, and Indonesia has become increasingly harsh on these two markets in early 2005. (For example, on April 15, 2005 with the same species of sugpo prawn, Vietnam offered 15- 16 USD/kg while India offered only 9.6 USD/kg!).

Consequently, the anti-dumping law has caused a significant reduction of these products into the US, until the end of May 2005, the total volume of shrimp exported from the group of "dumping" countries had seen a dramatic fall: China 61%, India 47%, Brazil 56% and Vietnam 26%. There are currently no bright signs of recovery yet, if the US importers don't change the mode of payment and the US Department of Commerce does not make proper adjustments when imposing the anti-dumping law upon the above-mentioned countries.

3. The EU market

Being the third biggest export market of Vietnamese aquatic products, but in 2003, the EU only accounted for 7% of the industry's total export turnover, far lower than Japan (31.6%) and the US (25%). Influenced by the anti-dumping law of the US, Vietnam enterprises shifted their export to the EU market in order to increase the export ratio of aquatic products to this new market to 10% in 2004. In face of stagnation in seafood export to the US market, besides the Japan market, the EU is an important partner of Vietnam seafood exporters in the next years, especially the accession of 10 other countries to the European Community at the beginning of May 2004

(increasing the number of EU members to 25, with the population of over 450 million). It will be a necessary compensation to the loss of the export turnover from the US market.

Nowadays, England and Belgium are Vietnamese major prawn importers in the EU, taking 40% of the total export value to this market or US\$96 million (as compared to US\$240 million from the EU in 2004). In addition, other markets including Germany and France recently give many import orders of tuna, *basa* catfish to Vietnam. The new members of EU also started to pay attention to Vietnamese seafood, especially many kinds of freshwater fish, at medium import price and they don't require too high quality as the US or Japan.

With the EU's liberal market policies, high demand as well as market expansion, we can see that this is a potential market of Vietnamese products, in general and aquatic products, in particular. Vietnamese seafood exporters are trying to shift to this market to balance their export market structure and offset the loss caused by the US Department of Commerce's decisions in compliance with the anti-dumping law.

4. ASEAN and other countries

Besides the major markets of Vietnamese seafood exports today such as Japan:31.6%; the US: 25%, the EU:10%, the markets of ASEAN and other countries account for 33%, they thus play an important role to balance Vietnamese export system, and give local enterprises more initiative in the negotiation of signing contracts. They are also "protective" export markets of Vietnam when trade disputes arise in the same way as the dumping lawsuit in the US market recently. However, most of these export markets are countries in Asia and Africa whose association capacity is weak, market size small and export price low.

The Vietnamese seafood industry is required to assess the development potentiality of each market in the near future, hold on the current market share, shift to the EU market, and try to raise the export ratio to EU to 20% in the next five years. In the meantime, the industry should reduce the market share of export to the US to 15% (while 25% in 2004), and stabilize the market share of Japan, ASEAN, and other countries as present (31.6%; 6.5%; and 26.9% respectively) - These are considered to be the most suitable measures to restructure export markets, especially drawing lessons from the long

lawsuits in the United States recently.

II. MEASURES TO DEVELOP VIETNAMESE SEAFOOD INDUSTRY IN THE FUTURE

The most sensitive problem to the current seafood export which draws much attention in the world is the effects of the US anti-dumping law on its seafood exporters. Vietnamese exporters have incurred loss of their earnings from the US and market share. Nevertheless, thanks to the prolonged lawsuits, other countries have an occasion to know Vietnamese aquatic products. Local exporters should seize the new opportunity to approach other markets and shorten the time to do research on these markets.

1. Japanese market

This is a large traditional export market of Vietnam, in general and aquatic products in particular. In reality, in the past years, Japan is an important commercial partner of Vietnam. It always ranks the first in importing Vietnamese major exports including seafood, textile, footwear, handicraft, rubber ...

Marketing:

In the future, to ensure and increase the export revenue of seafood from this market, Vietnam must carry out comprehensive measures for quality, price, and standards of hygiene and food safety, environment. At the same time, companies must focus on marketing, advertising and promoting their products on the Japanese market, especially when Thailand, India, Bangladesh, and Indonesia rush to this market because of bad effects of the US anti-dumping law on these countries (effective from January 15, 2005).

Diversification of products:

To cope up with the consuming requirement of aquatic products in the hi-tech country as Japan, seafood companies must diversify the exports in this market, increase the ratio of processed products, and mixed products in small package and improve the quality of live shrimp, fresh tuna in package, frozen freshwater fish.

Enhancement of market research:

Seafood companies should provide new special aquatic products for this large market including turtle, python, and crocodile as well as inform consumers about medical use of these products, for example, protein-rich, calcium-rich, providing many active elements against the aging process of bones of elderly people...

Trade promotion:

To meet requirements of this demanding market, Vietnamese seafood companies should establish their representative offices in Japanese big cities including Tokyo, Osaka, Fukuoka, Nagoya, Oita,... to carry out the trade promotion and create competitive advantages in the competition with other rivals such as Thailand, India, Bangladesh, and Indonesia. The industry must make great efforts to increase the export earnings from the Japanese market to US\$1 billion in 2005 and account for 40% of total seafood export value, up 10% compared with 31.6% in 2004.

2. The American market:

Nowadays, Vietnam export aquatic products fall into disadvantages on the US market because of the anti-dumping lawsuit recently as well as the average rate of tax levied on Vietnamese products higher than Thailand's (Vietnam: 16.11% while Thailand: 6.9%). This causes difficulties in exporting aquatic products to this market (Thailand has the same structure of products and export markets as Vietnam). It can be called "double trouble" for Vietnamese seafood, because the import tax rate is 2.5 times as high as Thailand and so is the cash deposit. As a result, if the interest from the bank during three years of the DOC's review for bond refundment is included, the market price of frozen shrimps imported from VN will be 3 times as high as Thailand (The bank interest rate is 8%/year).

"Hiding corner" strategy:

However, the industry should not underestimate its capability of exporting products to this market just because of temporary difficulties. Nowadays besides frozen shrimp and catfish, Vietnam can export to this market more than 30 species of aquatic products with 100 different items of processed food, from fresh, live, dried, frozen, salted, to smoked, canned, instant food. Although these products take a small ratio of export value, they can still survive and keep growing on the US market in the next years. Therefore, Vietnamese seafood industry should make the best use of the "hiding corner" strategy to raise the export volume of these processed products to the US market in order to offset the loss in export value from the dumping lawsuit recently. On the other hand, export of processed goods is also a suitable trend to the development of modern industries and more values are added in products. The real inter-

est will be also increased many times compared to raw products.

Product quality improvement:

The Vietnamese seafood industry must continue to improve its product quality so as to deal with the standard of import into the US market. This is an important factor to export aquatic products, especially processed seafood. The industry needs to examine all the stages of processing from collecting, classifying, choosing materials to canning, packing, and labeling. Because, according to the US customs, all of the lots of aquatic products, before being imported into this country, must be registered in advance at the Food and Drug Administration (FDA), this agency has the legal right to collect and keep the products if in the process of checking and testing it finds out the violation in food safety of local exporters.

Exploiting the advantages of Vietnamese living in the US:

To revive their golden age as in 2000-2001 is really impossible to local seafood exporters to the US market. However, with its huge import value up to US\$1,300 billion/year, in fact it remains an attractive market to any country in the world, especially those export-oriented economies like Vietnam nowadays. Discovering large potentiality of this market, Vietnamese seafood industry must know how to exploit the available advantages of Vietnamese community in the US. With about 1.5 million people living all over the country and over 5,000 Vietnamese-owned companies doing business in many fields, they are a good marketing force because they understand this market, have ability to be a useful contact, and shorten the time of studying products and consumers' taste. So they will help Vietnamese enterprises penetrate deeply into this market.

Trade name:

Recently, the US often imposes the anti-dumping law on some export products from other countries to this market, this can be also considered one of the most efficient device for protectionism in the US nowadays. On the other hand, it is a huge market, having the diversification of requirements for consumer goods imported from many countries in the world. For that reason, the need of forming a trade name for export products has become very important to such an easily prosecuting market.

Caring for the roles of laws in the US:

Vietnam export enterprises must pay full attention to and study the

US laws and regulations relating to the fields of production and business before establishing business relations with the US enterprises.

This is one of the shortcomings of Vietnamese exporters, in general and seafood companies, in particular. Vietnamese businesses not only cope with the problem of market competition but also fully care for commercial rules and regulations when doing business with the US partners, because the laws control business conditions. Enterprises often have a habit of prosecuting and the court is often a place to solve commercial disputes between the partners, while Vietnam enterprises often do business with habits and feelings, ... They pay less attention to rules and regulations relating to their own commercial contracts, these minor mistakes will become valuable advantages to partners when disputes arise and of course, at that time the risk will be surely fall into "the less understanding".

Contract making:

To reduce regrettable losses due to the lack of understanding laws on the US market, Vietnamese exporters should ask for help from the lawyer in making commercial contracts, especially for the sensitive products affecting the US domestic production.

When signing a commercial contract with American partners, Vietnam enterprises should sign short-term contracts which are assured to be re-continued and changed in articles; and clearly affirm the selection of applicable laws of and arbiter or court in case of disputes. They should choose the US court because the US companies find hard to implement judgments from Vietnamese courts.

Direct investment from the US:

The industry should attract more projects of direct investment from the US enterprises. These projects will build modern businesses with large scale production and low market price. Their competitiveness will increase high growth in export value; especially American partners take charge in exporting products to their home country. This will create favorable conditions for Vietnamese enterprises to penetrate the US market deeply and establish good reputation for their trade name.

3. The EU market

As a substitute market:

As an important substitute market for Vietnam export seafood recently, the EU has widely opened its import market to Vietnamese sea-

food. Therefore, it has made significant compensations to the loss in export value from the US, reduced the industry's damages due to product stockpiling, and helped to ease the deadlock condition of export businesses in the industry that badly affected the lives of over 2 million people involved in production of catfish and frozen shrimp for export.

Trade promotion:

This is a large market, including 25 countries with a combined population of more than 450 million, most of which are developing countries. Nevertheless, the ratio of Vietnamese export value to this market is only 10% of the total earnings from export aquatic products in 2004. To achieve the goal of compensation for the loss from the US market, Vietnamese seafood exporters should give top priority to the trade promotion in this market, especially in the period of enlarging EU nowadays.

Market investigation:

Market investigation should be strengthened. Because of difficulty in geography, and other objective reasons, Vietnamese businesses' market research in the European countries is very restricted. They just concentrated on annual international fairs in some old markets such as England, French, and Germany... Therefore, some markets, especially new members of EU at the beginning of 2005 are still too strange to Vietnamese export enterprises.

Export market classification:

The industry must carry out detailed studies to analyze the EU market into different groups of customers with distinct requirements for standard, quality, product price... As a result, it will plan production and business projects which are suitable with each target market and species of their own products.

At present, the EU can be divided into two groups of customers:

Group 1 includes developed countries such as England, France, Germany, Italy, etc. The group requires aquatic products having high quality, price and the production process must satisfy international standards of environment.

Group 2 includes developing countries, or less developed countries such as Slovakia, Slovenia, Litva, Latvia, Estonia, Malta, etc. These markets demand export aquatic products with medium quality and low price. The payments in commercial contracts can be made per year because the changes in price on this market are rather small.

Market share extension:

To enlarge the market share of export aquatic products to the EU countries, the government and exporters should cooperate to take synchronous measures:

As for traditional markets: there must be in-depth studies in order to diversify export products, improve quality, designs and packages and the market share and Vietnamese position on this market should be enhanced.

As for new markets: there must be detailed plans of market investigation to estimate the competence of penetrating deeply into the market of current Vietnamese seafood and introduce these products to spy out the market before establishing relations and signing high value contracts so as to avoid risks on payment, especially importers can't sell products.

Seafood market structure:

To balance the seafood market structure, the seafood industry needs to promote the ratio of seafood export to the EU from 12% to 16% (10% in 2004) of the total of export earnings from aquatic products, and try to increase the export earnings from this market from US\$400 million USD to US\$520 million in 2005 (in 2004: US\$240 million USD when the new ten members had not joined the community yet.)

4. Other countries markets

Important role of the export market system:

The remaining markets also account for quite a big ratio (33%) of the total export value of Vietnamese seafood. Most of the countries in this market share are Asian countries such as China, Mongolia, Nepal ... and some African countries: Kenya,

Sudan, Senegal ... This group of market is symbolized by products with medium price and not too high quality as compared to Japan. Their trading procedures are not as complicated as the US. This is a necessary and important factor in restructuring export markets, especially for limited seafood industry and production standard in Vietnam. Finished products are not at the same level, they have many different grades, so the market group helps exporters sell out their species that suitable with various standards and needs of markets in the world.

Commercial promotion:

In the next time, Vietnamese seafood industry must implement more commercial promotion in this group of markets and strengthen the force of professional market research and marketing in enterprises to maintain and consolidate the traditional market, especially China.

Besides, Vietnamese Ministry of Trade should start discussing with Chinese relevant authorities to come to an agreement on official mode of payment and enlarge the official import market of China, especially for the border provinces.

Product diversification:

At the same time, the industry should diversify processed aquatic products of Vietnam such as shrimp, fish, cuttle, canned food, smoked, and other mixed products ... that may be sold out in African countries including Kenya, Sudan, Senegal, etc. It also needs to lower the ratio of intermediary markets and tries to increase the market share of this group (African and Asian countries) to 35% of the total export value of Vietnamese export seafood in 2005. ■



Photo by Huynh Tho