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BEFORE THE
U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON NATURAL RESOURCES
SUBCOMMITTEE ON INSULAR AFFAIRS, OCEANS AND WILDLIFE
HEARING ON THE AMERICAN SAMOA PROTECTION OF INDUSTRY, RESOURCES, AND EMPLOYMENT ACT, HR 3583

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On behalf of the StarKist Company, I want to thank Chairwoman Bordallo, Ranking Member Brown, and the Members of the Subcommittee for inviting me to discuss the importance of the American Samoa Protection of Industry, Resources, and Employment ("ASPIRE") Act to our company and its employees in American Samoa. I also want to thank Representative Eni Faleomavaega for his dedication to American Samoa and his leadership in introducing this important economic stabilization proposal.

My name is Don Binotto, and I began my career in the tuna industry with StarKist more than twenty years ago as a member of the Company's finance department. Since then, I've worked in operations, marketing and sales for StarKist, and am proud to now lead a team of several thousand dedicated U.S. employees as President and CEO.

As you know, American Samoa was recently struck by an earthquake and subsequent tsunami, which devastated the island. I know and can speak to that devastation first hand because I traveled there less than a week later to offer StarKist's support and to assess the damage to our own facilities. The impact on our employees, their families and communities was immense; I saw first hand the lives and homes lost to this catastrophe. I will be forever moved by the plea of one of our workers asking to borrow money to bury her young children. But however destructive the tsunami was, this natural disaster is going to be quickly matched by a rapidly moving economic disaster that is already developing.

It is not hyperbole to say that when Chicken of the Sea closed its factory doors and took 2,000 jobs away on September 30th, leaving my company as the only remaining large employer in American Samoa, it was the economic equivalent of the earthquake that gave rise to the tsunami. And now, if we were to have to close our doors, it would be like another wave washing across the island to complete the economic devastation. Over eighty percent of the private employment would be wiped away, with no apparent replacement anywhere on the horizon.

American Samoa faces the imminent loss of what remains of its tuna industry — the island's economic engine — due to massive competition from low-wage countries and diminished incentives for fishing vessels to deliver whole fish to American Samoa. I believe ASPIRE's economic development framework will provide the modest assistance to the Territory that is necessary to address these issues. And I believe ASPIRE has the clear and achievable

goal of once again making American Samoa globally competitive. StarKist, therefore, wholeheartedly supports Congressman Faleomavaega's efforts to preserve a viable private sector economy in American Samoa.

About StarKist

StarKist is a leading manufacturer, distributor, and marketer of shelf-stable seafood products in the United States, best known for our tuna products and our beloved icon Charlie the Tuna. We are a U.S. corporation headquartered in Pittsburgh, Pennsylvania, we have more than 1,800 employees in the United States, and we pay U.S. taxes. StarKist is also a subsidiary of the Dongwon Group, a leader in the food, beverage and fisheries industries in South Korea. Our plant in Pago Pago, American Samoa is our largest processing facility.

Our biggest challenge to remaining in American Samoa is a supply chain profile that is no longer competitive on a global basis. Consequently, we continue to lose market share to low-cost, foreign-manufactured products that come in the form of private label tuna on U.S. store shelves. "Private labels" are the store-brand products you see at your grocery chains. In shelf-stable tuna, private label has grown more than any other brand over the past three years, and private label is the only brand with positive sales during that period. Private label's share in one of our core category segments (chunk light halves) is up 57 percent to date versus 2004. Private label competes mostly on one metric: price.

StarKist in American Samoa

Our company's long history in American Samoa provides some insight into why the island and its people are important to us, and why we are working hard to stay. Tuna canneries first arrived in American Samoa in the early 1950s. StarKist's facility was built in the early 1960s, and we have been there ever since. It was American Samoa's prime location in the heart of the most prolific fishing ground in the world that drew processors to the island initially. The advantages that come with being a U.S. territory also drew processors; specifically, the ability to send finished tuna product to the mainland U.S. duty-free. Because of these and other factors such as wages, American Samoa offered a favorable cost structure for many years.

It was in this environment that the tuna industry thrived, growing to be the island's largest source of private sector employment by far. Until the closure of the Chicken of the Sea facility September 30th, tuna processing accounted for 80 percent of American Samoa's private sector employment. It is also important to note that most of the other private sector employers in American Samoa are dependent on the tuna industry, as their businesses consist of providing goods and services to us, the fishing vessels that come into port to supply us, and to our employees. StarKist alone employed 40 percent of the island's private sector workers. StarKist has employed generation after generation of American Samoans, and we value the dedication the island's people have demonstrated to StarKist for decades. We recognize that our success has in many ways been due to their hard work and commitment.

While these factors have historically combined to attract whole-fish processors to American Samoa, in today's global economy, the fierce foreign competition faced by U.S.-based

processors means that mere proximity to fish and a favorable trade status are no longer enough to make American Samoa competitive.

Changes in the Tuna Processing Business

Two Different Business Models

The increasingly global nature of the tuna business has enabled the industry to shift operations from one location to another, allowing producers to adjust more easily to supply and demand and the changes in input costs and prices. An example of this dynamic is the shift made by my competitors to outsource the most labor intensive aspects of tuna processing to low-wage countries, and then make final product and packaging from imported frozen tuna loins. The loin is the light, meaty, edible part of tuna.

In a full scale tuna cannery, such as the cannery we (and until recently, Chicken of the Sea) operate in American Samoa, the manufacturing process starts with a whole fish – known as a "round" fish – and ends with a consumer-ready product in a can. Upon delivery to our dock, the whole fish is cleaned, cooked, combined with other ingredients and packaged into cans by our American Samoan workforce. We then ship those cans directly to the U.S. mainland and distribute throughout the country for sale.

In contrast, the alternate business model adopted by my competitors is the use of outsourced foreign labor for nearly all of the tuna preparation and then a small domestic loinery for final product packaging. In their business model, they have outsourced the most labor intensive aspect of tuna processing to extremely low wage countries. In these mostly South Asian factories, workers making as little as sixty cents per hour clean, prepare, and cook the whole tuna fish and transform it into a tuna loin. That loin is then frozen and exported to the Unites States nearly duty free. Having removed nearly 80 percent of the labor expense, my competitors then take the frozen loin and use minimal U.S. employment to place the product into cans for consumers. To illustrate the impact, Chicken of the Sea was able to replace its 2,000 person workforce in American Samoa with fewer than 300 workers in Georgia.

As you can see, two different business models have emerged in the tuna industry. One model involves outsourcing the bulk of the labor-intensive work to low-wage countries, using as little U.S. labor as possible to create the finished product and avoid import duties. The other model — the model we are trying to preserve in American Samoa — uses more U.S. labor to manufacture a can of tuna. The owners of loineries in the United States have already maximized their competitive advantage by using an outsourced labor approach.

I have frequently been asked why StarKist simply does not do the same thing its competitors have done. The answer is simple — jobs. We prefer to not cut our personnel to the minimal number needed for processing frozen tuna loins, leaving the American Samoan people with two or three thousand fewer jobs than currently are available to them today. The citizens of American Samoa have been committed to us for more than fifty years, and we owe it to them not to give up on the island without working to preserve these jobs. In order to do this, however, we need a mechanism, such as has been outlined in ASPIRE, to level the competitive playing field

between American Samoa and the lower-wage frozen loin processing model that has already taken so many jobs away.

Imbalances Created by Transshipping Tuna to Foreign Ports

At the same time, the economics of the tuna fishing industry have evolved such that fishing vessels are finding that it benefits them to deliver their catch to huge, centralized transshipment carriers rather than come to port in Pago Pago and deliver the fish to a cannery there. By transshipping, the vessel spends less time at a port, more time out fishing, and is able to catch more fish. The unfortunate culmination of all of these changes is that boats do not have to come into American Samoa as often, or at all. Today, our direct deliveries of fish from U.S.-flagged vessels are less than one-third of what they were fifteen years ago. The decline in direct deliveries of course creates a ripple effect on American Samoa's economy, since it depends on fishing vessels to generate much of its economic activity.

Transshipping also creates a more fundamental imbalance. Fishing vessels that enjoy the advantages of flying a U.S. flag, and have access to waters secured by a U.S. treaty, send their catch to foreign countries, whose ports and labor force reap the benefits. In this scenario, the United States is not receiving the maximum benefit of its resources, especially when it comes to jobs. We believe it is more fair that the U.S. resources in American Samoa be directed toward a program that will result in maximum number of jobs and the strongest overall economic stimulus.

A Perfect Storm Affecting American Samoa's Tuna Industry

In light of the tsunami that struck American Samoa last month, to say that a "perfect storm" is affecting American Samoa is an unfortunate metaphor. Yet it aptly describes what has happened to the tuna industry on the island:

- First, because there is very little elasticity in what consumers will pay for canned tuna, processors confronted with comparatively high manufacturing costs in American Samoa are extremely limited in how much they can charge for their product. In contrast, our competitors who have adopted outsourcing as a business model simply lower their shelf price below our cost, making it very difficult for us to compete. In fact, it now costs us over $23 million more, after duties, to manufacture in American Samoa than if we were to adopt the same business model as our competitors.

- Second, the duty advantages that American Samoa historically enjoyed are gone. They have been more than offset by globalization and open trade policies. As markets continue to open, it has become easier for domestic processors to outsource labor-intensive work away from places like American Samoa and into low-wage countries such as Thailand.

- Third, the current trend in the tuna fishing industry is to have vessels transship their catch via carriers rather than coming into port to directly deliver it, stunting tuna

production on the island and igniting a downward economic cycle among supporting businesses, which then makes it even less attractive for boats to come to port.

These factors have combined to create an environment where it is too cost-prohibitive for processors of whole fish to operate in American Samoa without assistance, and where the boat owners are losing any incentives to deliver whole fish to the island. We have already seen Chicken of the Sea leave American Samoa. Under these conditions, it should come as no surprise that StarKist's operation in American Samoa is not viable, and that we have been forced to lay off nearly 1,000 workers in the last 18 months.

We continue to do everything in our power to make the economics work in American Samoa. If StarKist is forced to leave, there will be almost no private sector jobs left on the island. The tuna industry has already gone from employing almost 5,000 people in 2004 down to fewer than 1,700 today — more than 3,000 jobs lost.

With the loss of both processors and the boats that supplied us, American Samoa's tuna industry will be reduced from having contributed $80 million of the Territory's annual labor income, as the Department of Labor recently reported, to contributing almost nothing. The only resource that will remain to make up this $80 million shortfall will be direct assistance from the U.S. government. And American Samoa must now add the daunting task of dealing with the devastation from the tsunami to the list of tremendous challenges ahead.

How ASPIRE Addresses the Challenges We Face in American Samoa's Tuna Industry

ASPIRE's economic development framework will provide assistance to American Samoa's tuna industry to counteract the biggest challenges to the industry's existence — an uncompetitive cost structure and diminished incentives for fishing vessels to deliver whole fish to American Samoa.

Since American Samoa-based processors can no longer compete against those that are able to pay their workers substantially less for the most labor intensive phase of tuna processing, ASPIRE seeks to level this competitive playing field. ASPIRE would help us improve our cost structure by providing a grant for processing whole fish in American Samoa. It should be noted that the grant is specifically limited to processing whole fish rather than frozen tuna loins. This will ensure that the grant goes only to entities that carry out their most labor-intensive work, hence creating the greatest number of jobs, in American Samoa.

By providing some minimal income replacement grants for vessels willing to directly deliver to American Samoa rather than make more lucrative transshipment deliveries, ASPIRE also incentivizes a fishing practice that is more sustainable, while providing a huge economic boost to American Samoa as well. Each vessel delivering directly to American Samoa provides several hundred thousand dollars' worth of direct economic activity, setting off an important economic multiplier effect for related businesses.

We believe that with these incentives, and continued hard work on the part of our management and employees, we can help make the whole-fish processing business in American

Samoa globally competitive once again, and re-establish American Samoa as a hub for the tuna industry.

Conclusion

Starkist supports ASPIRE because we believe it gives American Samoa's fifty year "whole tuna" processing business a chance at survival. It benefits the entire island by creating jobs and a viable tax base. American Samoa has already experienced one natural disaster. And it is on the brink of suffering a complete economic disaster with the loss of the tuna processing industry. Therefore, we urge you to support ASPIRE as well.