

**STATEMENT
OF
NIKOLAO I. PULA, JR.
DIRECTOR, OFFICE OF INSULAR AFFAIRS
DEPARTMENT OF THE INTERIOR**

**BEFORE THE
HOUSE SUBCOMMITTEE ON INSULAR AFFAIRS, OCEANS AND WILDLIFE**

**REGARDING
H.R. 3583 -- ASPIRE**

November 4, 2009

Madam Chair and members of the Subcommittee, thank you for the opportunity to discuss H.R. 3583, the “American Samoa Protection of Industry, Resources, and Employment Act.”

The prospects for the American Samoa economy have been of concern for some years now. For a substantial time, there have been predictions that the two tuna canneries would leave the territory. Now, Chicken of the Sea has left. ASPIRE, with its proposed aid for tuna processors and fishing vessels, is an attempt to strengthen conditions for retaining the other cannery, Star Kist. While we support the ultimate goal of preserving jobs and protecting the remaining economy of American Samoa, the Administration has significant concerns related to PAYGO requirements. Also, the United States is working to eliminate practices in ongoing World Trade Organization (WTO) negotiations that have for decades led to over-capacity and over-fishing, particularly with regard to the build-up of foreign fishing fleets. This legislation could have implications for that important effort.

BACKGROUND

Until this year, the two tuna canneries operating in American Samoa since the 1950s have shipped virtually all their finished product to the United States as if it were manufactured in the fifty states. The canneries have been the backbone of the territory’s private sector. In 2007, the two canneries employed 4,633 workers, 27.2 percent of total employment in the territory, according to American Samoa Statistical Yearbook 2007. The canneries also have supported a wide range of activities directly and indirectly, including most of the local trade and services sector. This includes retail stores, restaurants, car repair shops and other service providers. The two canneries have paid more than half of American Samoa’s corporate taxes, which, in turn, support a large number of American Samoa Government (ASG) workers, as well as benefitting the American Samoa Power Authority.

An unofficial GDP estimate for American Samoa was \$483.1 million for 2007. The value of manufacturing output in American Samoa, nearly all tuna, was 22.3 percent of total GDP. The American Samoa Government followed the canneries with a 19.8 percent share of GDP. Local

retail trade was in third place with 14.1 percent. Other important contributors were agriculture, including subsistence production, and information and business services with a 9.6 percent share each. In fifth place was wholesale trade, with 8.2 percent. These five sectors of the economy made up 83.8 percent of GDP.

Financial Viability of the Canneries

An important part of the financial mix that sustained the canneries over the decades has been tax and economic activity credits allowed under Federal tax rules. Other key factors contributing to financial viability of the canneries have been local financial incentives, duties on U.S. imports of canned tuna, and relatively low wages.

Ending years of speculation, one of the canneries, Chicken of the Sea Samoa Packing, announced in May 2009 that it would end its tuna canning operations in American Samoa at the end of September 2009. According to media accounts, the parent corporation of COS Samoa Packing, a Thai seafood conglomerate, has moved the labor-intensive part of its fish processing (cleaning) to Vietnam where the cost of labor is about 70 cents an hour. That wage contrasts with the roughly \$5.10 minimum wage paid in American Samoa today, after three consecutive 50-cent raises of the minimum wage rate since July 2007. The mechanical part of fish processing (sorting, canning and handling) of the American Samoa operations is being accommodated in Lyons, Georgia, with a highly automated plant that processes frozen fish arriving in pouches from Vietnam and delivers canned fish to U.S. consumers via American supermarkets.

It appears that the unique mix of factors (low-cost labor, duty-free export to the United States and tax and other credits from the Federal Government and ASG) that sustained the canneries for more than 50 years is no longer sufficient for financial viability. Also, in a larger context, moving the basic, labor intensive manufacturing activities to low-cost labor markets has been a trend in the United States and other industrial countries for years now. It is reasonable to say that American Samoa lost some comparative advantage in financial viability after it became subject to Federal minimum wage rules in July 2007.

It is important to note the losses the American Samoa economy is enduring and potential future losses it may further endure. There are economic, financial and social losses. What makes the loss of even one cannery so critical is the proportion of the economy that is eliminated. There is no economic activity on the horizon to replace a cannery's economic value.

Potential Wage and Work Losses

According to a letter the Governor of American Samoa wrote to the Secretary of the Interior on May 14, 2009, a total of 2,172 jobs were estimated to have been lost with the closing of COS Samoa Packing. The two canneries, according to the Governor, account for 60 percent of all economic activity in the territory. With the loss of 2,172 jobs or 12.7 percent of total employment, American Samoa will lose roughly \$21.7 million in annual wages. That would be 10.7 percent of the territory's total wage bill under normal conditions.

Excluded from these figures are the immediate, secondary and tertiary losses resulting from the shutdown. These would include goods and services provided to fishing fleets and crews and other suppliers of the canneries. After accounting for all wages, salaries and benefit losses directly connected to the cannery, the total loss is likely to be significantly higher than the \$21.7 million in lost wages.

Given the proportion of American Samoa's economic activity that depends on the canneries, indirect job losses resulting from the shutdown may also be substantial. The ASG Department of Commerce estimated in 2006 that that ASG would lose 700 "local government" workers following a closure of both canneries.

Wage losses in other economic activities will depend on the degree of their dependence on the canneries. While it is currently not known whether a shutdown of both canneries would lead to large losses in the retail trade sector, anecdotal evidence suggests that this area depends heavily on the canneries, and major losses may be incurred in the near future. This sector, according to the U.S. Department of Labor data, employed 964 workers in 2006. If the shutdown of one cannery causes the layoff of half of that total, wage losses to the retail sector could approach \$5.4 million a year. Also, one cannery's closure may eliminate half of the shipping and transport workers, and could eventually cause losses in a wide range of activities, from printing and publishing to construction. Altogether, the immediate losses in wages following a shutdown of one of the canneries may amount to an estimated \$31.5 million a year. This amount represents 15.6 percent of the territory's total estimated wages of \$202.5 million.

Unlike the loss of wages, the loss in the number of workers is likely to be greater as a percent of the total because most of these workers are in the lower-wage brackets. Still, the immediate loss in payroll employment directly and indirectly attributable to the cannery's closure could approach 2,954 workers, or 17.3 percent of total employment in the territory.

Whether it is the loss of workers or wages, loss of one of the canneries and activities it supports directly and indirectly is the equivalent of a major economic disaster. If the other cannery follows suit, it would mean at least double the economic and financial losses. In that case, the American Samoa economy would likely never recover to pre-closure levels in our lifetimes.

CANNERY CLOSURE AND FEDERAL OUTLAYS

For many years, observers have been predicting that the canneries in American Samoa will leave the territory, and that without the canneries, American Samoa would become even more dependent on Federal largesse than it is currently. By a substantial amount, the Federal budget outlays as a consequence of cannery closure would likely surpass, by a substantial amount, the \$25 million authorized in H.R. 3583 as aid for tuna canneries and vessels. For example, taking into consideration Federal aid for residents of American Samoa and their families, those who may move to Hawaii or the mainland United States, and Federal programs such as the Supplemental Nutrition Assistance Program (formerly food stamps), TANF, WIC and Medicaid, the Federal cost would likely surpass the amount contemplated in the bill.

While the bill involves costs for the Federal government, those costs could be less than Federal cost for remedial aid to the territory.

H.R. 3583

H.R. 3583 is intended to support to the remaining tuna cannery in American Samoa.

H.R. 3583 would amend the insular areas technical assistance program to provide:

- payments to canneries in the amount of \$200 per metric ton for whole tuna processed in American Samoa (which amount shall be adjusted annually according to the following ratio: increase in Federal minimum wage applicable to American Samoa over the Federal minimum wage applicable in American Samoa during the prior year),
- payments to specified fishing vessels in the amount of \$200 per metric ton of tuna delivered in American Samoa for processing,
- payments to such specified fishing vessels that are U.S.-documented in the amount of \$100 per metric ton of tuna delivered in American Samoa for processing,
- payment of an annual fee of \$250,000 by all such vessels to the United States treasury, which fee shall be waived if the vessel has made not less than three direct deliveries of whole tuna to processors in American Samoa during the year for which the fee is paid,
- payment of a fee by each U.S.-documented vessel in the amount of 6.25 percent per metric ton for each delivery it makes to another vessel or non-American Samoa location for the purposes of transshipment, which is expected to generate approximately \$15 million a year that can be used as aid for tuna canneries and vessels,
- deposit of all fees in an “American Samoa Economic Development Trust Fund” to be administered by the Office of Insular Affairs for the benefit of the territory of American Samoa, and
- authorization of \$25 million for fiscal year 2010 and such sums as may be necessary thereafter for the aid to the American Samoa canneries and vessels.

INTERIOR POSITION

The Administration is supportive of efforts to strengthen the economy of American Samoa, but has several concerns regarding the implementation of H.R. 3583. First, the Administration is actively working in the WTO to strengthen the rules regarding fisheries, and the proposed legislation may have implications for that effort.

Finally, the Administration notes that the bill increases mandatory spending, which would need to be fully paid for in this congressional session under the Administration’s pay as you go proposal as provided for in H.R. 2920.

The Obama Administration appreciates the magnitude of the current problems faced by American Samoa, including the potential departure of the tuna canneries and the impact of the Federal minimum wage requirements. The Administration would like to work with the bill's sponsors and the American Samoa government to address these significant economic problems in the future.