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Shrimp Panel: Impact of EMS on the Global Shrimp Industry

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GOAL Paris 2013

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GOAL 2013

Picture source: Unima, Madagascar

Observation 1: EMS caused a trade flow shift from West to East

Trade flows change as there are differences to the sensitivity to prices in various regions

1 **China emerges as the key new net importer**

China's shrimp consumption is still growing and its shrimp market can absorb higher prices

Of course the fact that there is disease in China, means China needs to import just to make up the lost domestic production

Also there are less administrative and food safety issues in China then the other large export markets

2 **US and EU are the key regions where demand is contracting**

Stagnant or falling consumption has already been the case for at last a few years

Even though global supply contraction could be approximately 4-6% for 2013 (and less if wild shrimp is included) imports are falling much faster in the EU and US

Recession in the Mediterranean region combines with high prices to create a strong contraction in shrimp imports (above 20%)

CVDs issues, although now canceled were unfortunately timed to accelerate the shift of exports by affected countries, primarily Ecuador. Ecuador was the key country which could have maintained strong supply to the US. It is interesting to see if India remains focused on the US market

Observation 2: Demand contraction in the West to accelerate

Prices in the EU and US are absorbed by the retailers, food service and consumers which creates a demand shift away from shrimp

1 **Retailers and food service are experiencing a margin contraction on shrimp products**

In recent years shrimp products have had above average margins for retailers and food service producers

The decline in margins will cause menus to change and shelf space to contract.

2 **Consumers will change behavior**

As prices stay at high level for a prolonged period consumers will find alternatives

There are few close alternatives to vannamei , but still there are signs that wild shrimp, lobster, other shellfish are benefiting. Even fin fish and animal proteins are eventually potential substitutes

Substitution in demand takes time to reverse

Observation 3: Industry structure in Asia is not well suited for the high disease risk environment

Fragmented industry structure, with frequent outsourcing of farming to smallholders increases disease risk

Species diversified and fragmented is the key company structure (in Asia)

Nearly all of the large and mid size shrimp producers are also producers of other aquatic species or livestock, a natural evolution as being focused on shrimp only is too risky - but this makes consolidation of the shrimp faming industry more difficult

The rest of the industry is very fragmented with shall holders accounting for a dominant share of the faming part of the value chain

Consolidation or some form of closer cooperation is needed :

1 Consolidation across peers (regional and world wide)

Larger producers can invest more in bio-security

Still very hard to find a solution for small holder farmers

Regionally diversified producers could promote harmonization of best practices across regions

As long as there are large differences in bio security and business models across regions, disease risk will be high

If regions are distant enough not to be impacted by the same disease outbreak, performance could be relatively stable

2 Vertical integration

Could provide for mitigation of biological risk

Close coordination between genetics, feed, husbandry techniques and even processing and trade could limit vertical transmission of diseases

Easier to detect sources of outbreaks or weak points

Observation 4: Lack of quality information

Information is needed not just to improve investor confidence but also make better production decisions

Given the size and export focus of the industry there is little public information available

- Trade information is inaccurate due to large unrecorded trade
- Some production figures from local sources deviate by 30-40% from what is publically available from FAO or stated by government bodies

In the current turbulent period timely and accurate information is especially useful

- Monthly production figures per region
- Accurate trade figures, exports for producers and imports for key markets
- Production of PLs, feed sales, current farmed area, biomass estimates …..

What will happen when EMS is eventually solved?

Although impossible to predict exactly when a solution to EMS will be found within the next 1-3 years

1

Suppliers among unaffected producers are reacting to the high price environment

Indonesia, Ecuador, India, Bangladesh, Brazil and others have potential to increase production strongly

There are ample land resources which can be used for shrimp farming

Intensity of production can be increased

At least a part of the current earnings are likely to be reinvested back in production assets

We can expect a strong supply reaction, given the magnitude of the price increase

2

What happened after the Chilean salmon industry recovered from ISA? – prices crashed on huge supply growth

Supply increased by over 30% in less then 2 years, driven by both Chile but also Norway and other producers

Prices corrected to well below cost

Arguably shrimp production is more flexible to prices as there are fewer supply constraints and a shorter life cycle . A supply reaction could happen quicker then in salmon.