Effects of Domestic Market Trends On Chinese Trade Of Aquaculture Species

Hai Yun, Chen Dan, Lucky Lu & Greg Brown
Andrew Kaelin & Liu Wei
Ragnar Tveteras & Peter Redmayne
China: Feeding the Beast
Many, Many Stomachs To Feed

- 1.3 billion (maybe 1.5)
- Taiwan 22 million, Japan 127 million
- China middle class forecast to reach 700 million by 2020
- Richest 10% of population has 40% of wealth

Source: Peter Redmayne
China Tops Seafood Consumption Study - Online News Article

Sept. 24 – China has overtaken Japan in another category, this time as the world’s leading consumer of seafood, according to a National Geographic study that uses a new model to gauge the impact of consumption on fisheries.

By studying the “seafood print,” researchers were able to gauge each country’s impact on the world’s fisheries based not only on how many fish were caught and consumed, but also on what type of fish were caught and consumed.

“A pound of tuna represents roughly a hundred times the footprint of a pound of sardines,” explains Daniel Pauly, the University of British Columbia Fisheries Center professor who conducted the study. The study emphasizes the fact that “every fish is different.”

“Anchovies are different from tuna in the same way that gazelles are different from lions (or rather field mice from lion-eating dragons, to account for the size difference),” Pauly said in an email to The Washington Post. “This should make obvious how illusory it is to think that the consumption of tuna by lots of people can ever be ‘sustainable.’”

Using this method, the study estimates China’s “seafood print” at roughly 694 million metric tons each year. Japan’s consumption levels are the world’s second highest at 582 million metric tons and the United States is third, consuming about 385 million metric tons of the ocean’s resources every year.

Japan was previously considered the top consumer of seafood mainly because of the country’s preference for fish like tuna and salmon, which are at the top of the food chain, while China tends to consume less high-value fish, the study said.

“Though the average Chinese consumer generally eats smaller fish than the average Japanese consumer does, China’s massive population gives it the world’s biggest seafood print,” National Geographic

Emerging Chinese Middle Class Drives Domestic Market Growth:

a) Although the Chinese middle class is small in percentage, approx 32% on average, they are very large in number (aprox. 400 million), - due to the sheer size of the overall Chinese population. Middle Class Chinese are private business men, management level employees, young professionals and government officials. Urbanization is the key to growth of the domestic market.

b) Urban Domestic Demand: Urban dwellers are still the main consumer. Urban residents in China has grown to over 400 million, meaning the rural population has decreased correspondingly. That does not include the 200 million migrant workers who are also in the mix. Central government has targeted a 50-50 split for rural versus city dwellers, to encourage reclamation of farmland (130 million hectares). Poverty population had been as high as 120 million people, but now it is only 60 million. Currently, the poverty line is set at 2500 Yuan, about 5% of the population.

c) Rural Domestic Demand: After 30 years, the farmers have become more successful; also the cancellation of agriculture tax makes a big difference. Rural demand has increased by 20%. Now people are having shrimp for farmer’s weddings, even in the farthest countryside. Actually, the shrimp price is currently almost equal to pork price.
Aquatic Foods Consumption

Large disparity between urban and rural

Kg Per Capita Edible Weight (includes seaweed)

Source: China Statistical Yearbook 2007
Emerging Chinese Middle Class Drives Domestic Market Growth:

A similar, consumer driven expansion of the domestic market is occurring in seafood, with the interesting addition of three new trends:

a) **Changes in eating habits:** Chinese traditionally bought only live or fresh head on shrimp, but can now accept cooked HOSO frozen.

b) **New products:** consumer packaged goods, ready to eat shelf stable. (raw frozen usually goes to HK or Taiwan).

c) **Expansion into inland areas:** (hotels & restaurant, wholesale & retail distribution, supermarkets, fresh markets). Each area or city has 1 or 2 brokers to manage distribution.
Shrimp boom in China - IntraFish article

Tom Seaman

Guangdong Evergreen Group, one of China's largest integrated aquaculture companies, is reducing exports of shrimp because of domestic demand.

The company, which farms and sells shrimp and tilapia through its aquatic products division, is able to get strong prices in China for shrimp as the middle class grows and demand for seafood increases, said Alpha Ding, sales manager for tilapia and shrimp with the company. “We are able to get better prices in China than we are for exports,” he told IntraFish during the World Food Moscow show in Russia on Aug. 14.

The company has an annual processing capacity of 300,000 metric tons of shrimp and 24,000 metric tons of tilapia in its aquatic products division. Prices for tilapia have grown because more farmers in China have switched over to shrimp, because of the domestic demand. This means Chinese tilapia volumes are down, pushing prices up. Most of the company's tilapia is exported, with the United States a major market.
China: A Global Seafood Superpower Annual International Seafood Trade

USD (Billions)

- 1996
- 1998
- 2000
- 2002
- 2004
- 2006
A Taste for Imports

- Imports are higher quality and safer
- Consumption = "mianzi"
- New, trendy foods remain in fashion
- Domestic wild seafood production cannot meet increases in demand
China’s Reported Seafood Imports

Source: Ministry of Agriculture
Chinese Annual Seafood Import Volume and Unit Value

Note: The ratio of first six months to last six months is used to construct the 2010 figures.
Shifting From Global Seafood Exporter To Net Seafood Importer:

**Shrimp** -

- Chinese are importing more shrimp, especially from Thailand, Ecuador, Vietnam and Mexico. Large sized imports fill a void for them and fetch a higher prices in the market. Percentage of import for void fill is 50%, the other half is for processing. Inland consumption is growing at 20% per year - mainly head on cooked shrimp. Ecuador products are for peeling. This year, Chinese shrimp production dropped by 20%, due to weather, flood etc. Right now the domestic sales price is higher than the export price. There is no advantage any more except for the tax return benefit.

- The internal market for shrimp is very transparent, logistics have improved tremendously, railways, freeways, which opened up the internal market. Four channels to sell into the domestic market: wholesale market, super markets (both domestic and foreign), hotels and restaurants, fresh market. Every big city has agents who manage the allocation to the various groups. Value added products – shrimp burgers, consumer packaged goods are being developed, but not a significant factor yet.

- This year is a turning point because the shrimp import volume is greater than the export quantity. Shrimp importation is more active at the start and end of the season. Government statistics will not show this trend of increased importation because much of the imported shrimp is smuggled. Live shrimp importation is done in aerated tank boats. Almost 100% of live shrimp is smuggled in from Philippines, live grouper is smuggled in from Malaysia through Hong Kong.
Shifting From Global Seafood Exporter To Net Seafood Importer:

Shrimp -
China total production of shrimp is 1.2 million metric tonnes, but only 200,000 metric tonnes is exported. China has both High salinity (South) and Low salinity (North) areas for the production of shrimp (about 50-50 percent ratio between the two, about 600,000 metric tonnes each). In 2000, vanamei only grew in the high salinity (South) area, but Northern aquaculture companies started to use the old, large scale (extensive) chinesis ponds to grow vanamei too. High density ponds they are using SPF shrimp (previously from Hawaii, but this year coming more from Florida, i.e. SIS). However, in the North, they use Chinese brood stock (2nd generation) and poly culture.

There is disease this year in the high salinity shrimp production areas (not sure if it is viral or bacterial - hopefully by November they will know). This is the first year, even in peak season, domestic shrimp prices have been unattractive enough for producers to import shrimp throughout the season. Early season, big shrimp is imported from Mexico, then Vietnamese and Thai. Before, shrimp season for the export market was from May to early November...but now from May to July all the shrimp goes to domestic market, so export producers only have from July to early October to process domestic shrimp.

This year, due to the disease issue, domestic production could feasibly drop to 1 million metric tonnes, which would render China a net importer by the following year. Even if anti dumping duty were to be rescinded next year, we doubt it would increase the export of raw shrimp in any significant way, simply because the domestic market is so strong that only value-added products are profitable enough to export.
China’s Surging Seafood Exports: Is the Party Over?

Source: Ministry of Agriculture
Chinese Annual Seafood Export Volume and Unit Value

Note: The ratio of first six months to last six months is used to construct the 2010 figures.
Seafood Exports Are Being Reduced As More Is Being Imported:

**Scallops** -
Before 80% or more of scallop production was for export (raw IQF), but now, 60% is for the domestic market. Main non-export forms are sun dried (about 80%), then fresh and refreshed for domestic and frozen (soaked) for Hong Kong and Taiwan.

Because of increased difficulty to export (domestic competition & power shortages), all companies are looking for domestic market, which creates competition. Fresh sold in restaurants in northern China, dried for restaurants in southern China.

Liu Wei's company has changed its focus from previously 90% for export to 60% for export currently, and he continues to look for more domestic opportunities.

Still most scallops are exported, but now beginning to import more Hokaido scallops from Japan, because the domestic "Chokaido" (home grown Hokaido scallops) cannot grow to a large enough size.
Seafood Exports Are Being Reduced As More Is Being Imported:

**Shrimp** -
Most of the domestic market sales are in Head-on, i.e. first choice for raw material will be live, then HOSO live-cooked, next is heads off and value added for the intl. market, and finally low grade peeled for domestic market. Last year the supply was tight, but this year is the worst (so far). Raw material prices this year are higher than in 09 by 10 - 15%.

Guo Lian - Public Company and China's biggest Shrimp exporter, total sales to domestic market in ’07 were 1.74%, but in ’09 increased to 10.72%. For 2010, their press release says that the focus will shift more to the domestic market, i.e., Guo Lian is now starting to ship live shrimp to Hong Kong.

China has imported more shrimp in 2010, and the trend will continue because, even though the global downturn may have its effect on the export oriented businesses, their momentum is not as strong in the overall Chinese market as it used to be, with the internal trade is taking its place.

Source: Guo Lian website
# Shrimp Consumption By Country in 2008

<table>
<thead>
<tr>
<th>Country</th>
<th>Population ( million )</th>
<th>Domestic shrimp Consumption (MT/Yr)</th>
<th>Average shrimp consumption (Kg/person/year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>1,328</td>
<td>1,000,000</td>
<td>0.75</td>
</tr>
<tr>
<td>Cities in China</td>
<td>606</td>
<td>1,000,000</td>
<td>1.65</td>
</tr>
<tr>
<td>Thailand</td>
<td>65</td>
<td>132,000</td>
<td>2.03</td>
</tr>
<tr>
<td>US</td>
<td>304</td>
<td>620,000</td>
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<tr>
<td>Japan</td>
<td>129</td>
<td>330,000</td>
<td>2.56</td>
</tr>
</tbody>
</table>
Shifting From Global Seafood Exporter To Net Seafood Importer:

**Shrimp** - If shrimp consumption in the cities of China reaches 2 Kg/person/year, as in Thailand or the US, the total demand for shrimp in the China domestic market would actually be around 1.2 million MT, equal to the current production. This may happen next year. If the consumption of shrimp in the cities of China reaches 2.5 kg/person/year as in Japan, the total demand for shrimp in China domestic market will be around 1.5 million MT, exceeding the current production.

**Scallops** - Last year was the turning point, when the export market no longer set the scallop price through the season (crossed the fifty percent line last year). About seven or eight years ago, we first started seeing that the domestic (particularly the dried scallops) having occasional effect on the export pricing, and that trend has steadily increased ever since.
Tilapia, Catfish, Salmon and Other Aquaculture Domestic Market Trends:

**Tilapia** - Still about 95% export driven, as it is not a very popular fish in China because of the way they cook (steamed, broiled brings out the bland flavor or muddy taste). Beginning to be marketed now more as fillets or in value added applications, however, some Tilapia farmers are moving their ponds over to shrimp, to make more money.

**Catfish** - Catfish is mainly for domestic consumption - 80%. Catfish has steadily increased over the years to 80%, due to trade legislation and greater acceptance within the Chinese domestic market. If the USDA law comes into effect, all of the remaining catfish will easily be absorbed into the china market.

**Salmon** - Salmon has been very successfully marketed in China, over many years. It is available everywhere and is relatively reasonably priced. Please see import chart to follow.

**Spanish Mackerel & Flounder** (previously exported to Japan, now almost all for internal market)

**Mandarin Fish and Grouper** (for live sales in domestic market and Hong Kong)
Estimated Chinese Domestic Consumption of Farmed Salmonids

Source: Kontali
Current Economic Outlook

- Growth is above 7%
- Decoupled China will be stronger as domestic spending increases and China is less reliant on exports
- Chinese yuan strong and getting stronger, which increases purchasing power
China’s Future Seafood Demand
*Increase of 6 to 65 million metric tons*

*Source: Int’l Institute for Applied Systems Analysis*
Bottom Line?

- Develop a long-term China strategy
- Control over the fish is key
- Custom processing and sell to end users to improve margins
- Promote, promote, promote
Promotion Is Important

4 and 5 star hotels and supermarkets best markets for imports, but many ways to promote, as you will see in the next slides.
Canadian Coldwater Shrimp Promotion for China - SEABRIDGE MARKETING

夹子旗
Clip Flag

菜谱盒
Recipe Booklet Holder
北极虾零售包装
Retail Package

北极虾包装 1
尺寸：长200mmX高250mm

北极虾包装 2
尺寸：长200mmX高250mm
卖场生动化
Hypermarket Merchandising
上海大润发促销
RT-Mart Promotion, Shanghai
北京家乐福促销  Carrefour Promotion, Beijing
北京厨师培训
Chef Training, Beijing
上海酒店美食节
Restaurant Promotion, Shanghai
12月21日青蒜辣炒北极虾
http://blog.sina.com.cn/s/blog_54a625bf0100805q.html

分解图

2007年12月21日
新浪美食博客首页截图

2007年12月21日搜狐吃喝频道首页截图

文怡博客 (Popular Gastronomy Blog)
野生北极虾中文官方网站
www.coldwatershrimp.com.cn
Parting wisdom from our friend Chen Dan -
1. China will be the most dominant aquaculture seafood market in the world.
2. Chinese growth will be the most steady and consistent of all other markets.
3. China will be able to absorb a variety of species AT ALL LEVELS OF QUALITY.

Whoever can position in the Chinese market, do so EARLY AND DEEP.