



# Issues in the U.S. Market For Aquaculture Products

John Sackton



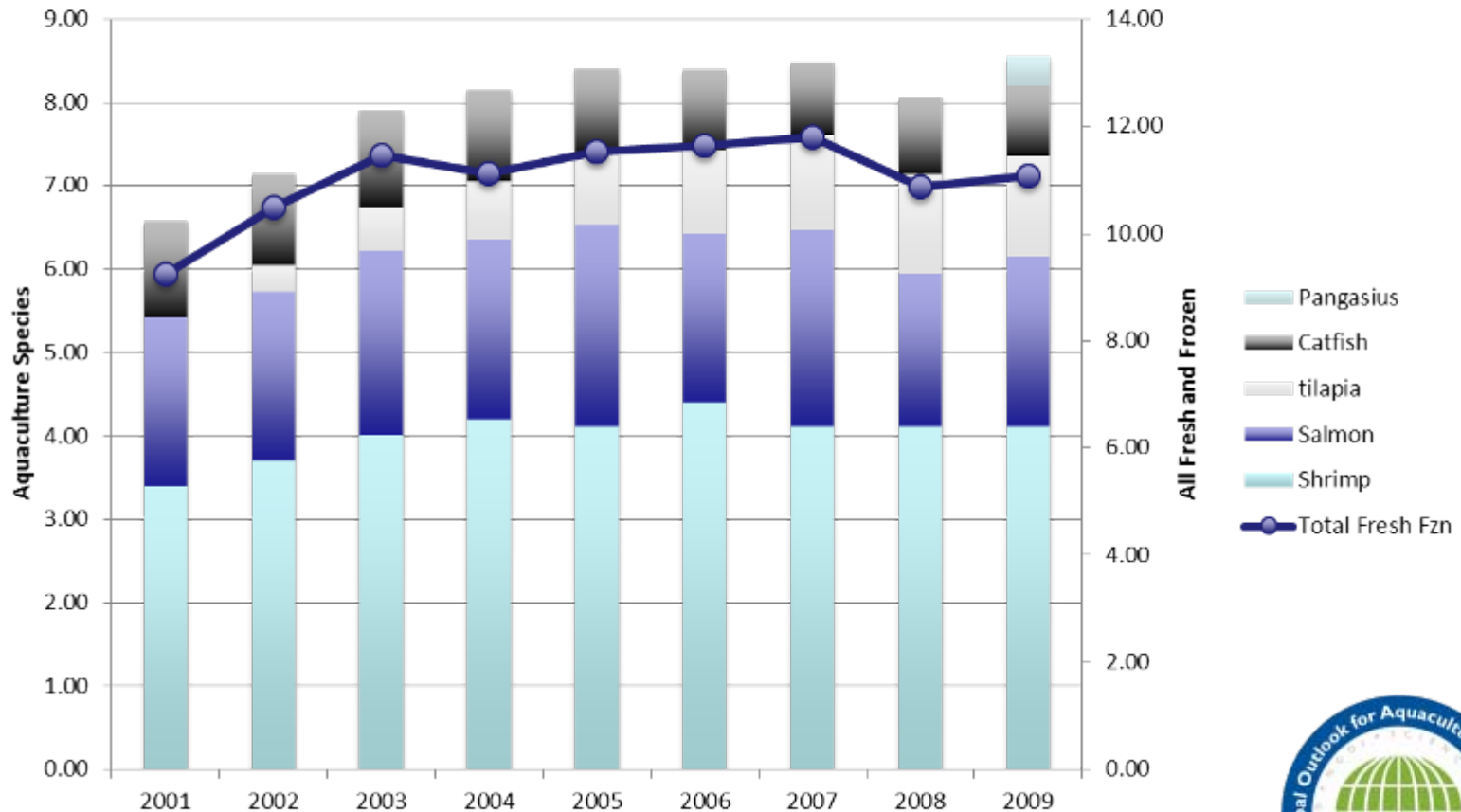
## **John Sackton**

Seafood.com, United States

- John Sackton is president of Seafood.com and publisher of Seafood.com News. He is recognized as one of the top seafood market analysts and researchers in the world.
- Sackton founded Seafood.com in 1994 to provide market data, foreign trade information and price forecasts to the seafood industry. In 1998, he founded Seafood.com News, the most widely read daily seafood industry news service in North America.
- Sackton has been active in the seafood industry for over 33 years. He has written extensively about the market impacts of the 2004 U.S. tariffs on warmwater shrimp and other shrimp market developments, including the impacts of the B.P. oil spill.

# Aquaculture species have dominated growth of U.S. seafood Consumption

Growth of US Sfd Consumption  
(Pounds per Capita)



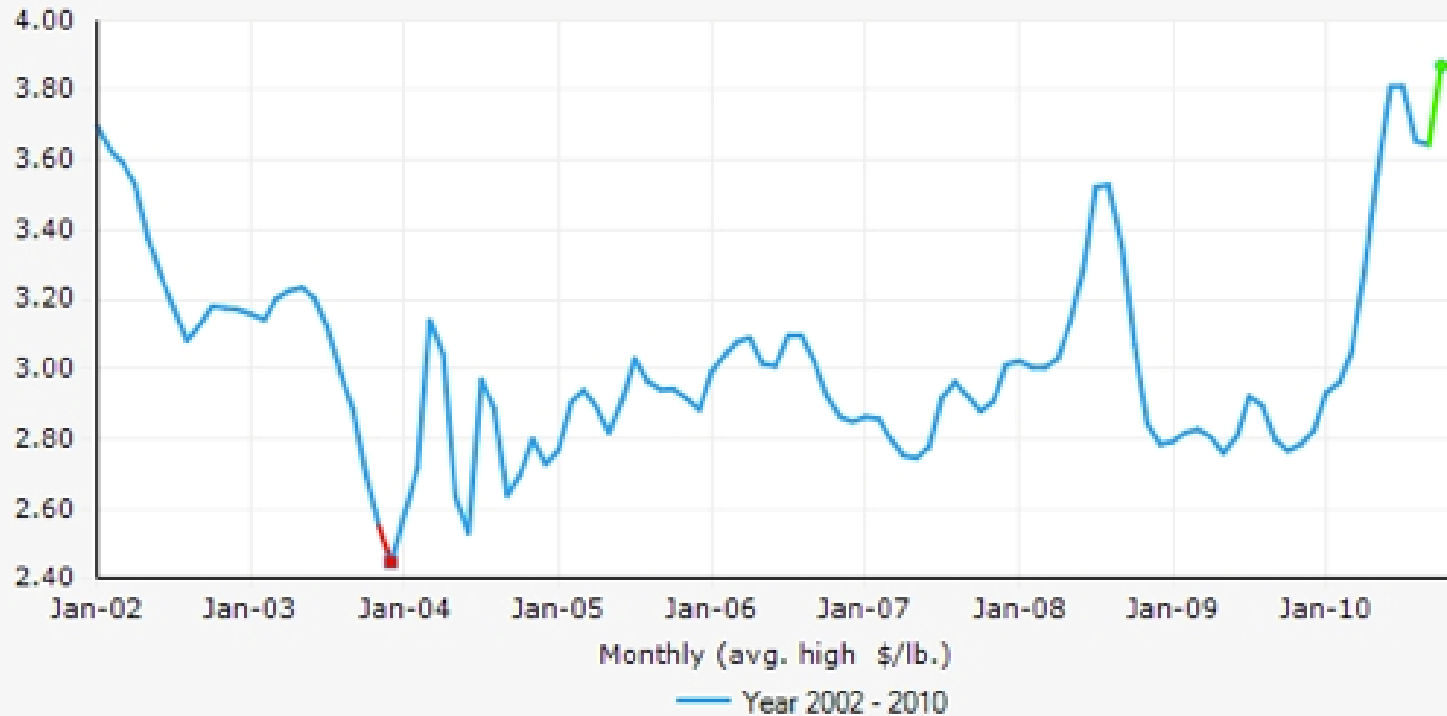
# Increased consumption now threatened by higher prices

- Shrimp: White and BT prices at 9 year high
- Salmon: even with recent declines, salmon at 9 year high
- Catfish: US domestic, Chinese near 9 year high, Pangasius prices are low



# Shrimp

Urner Barry HLSO Farm-Raised White Shrimp Index

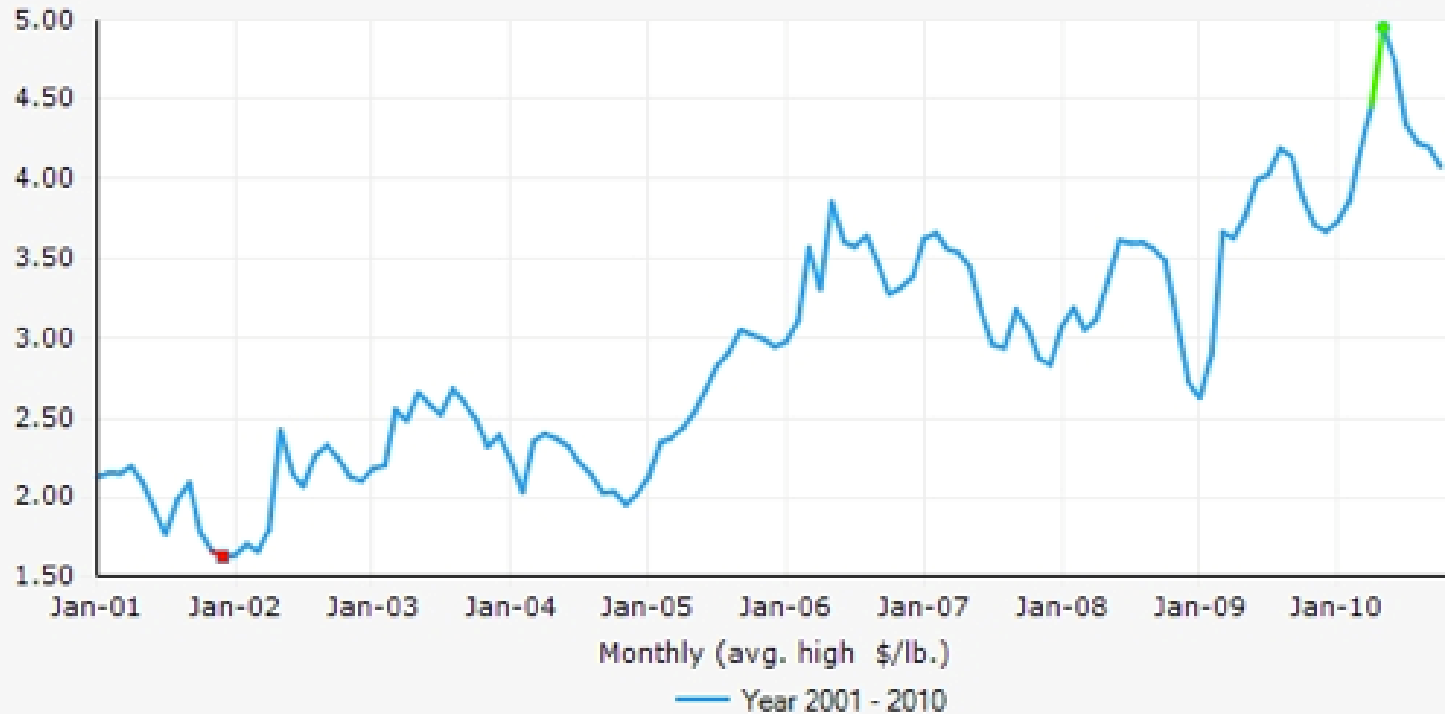


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# Salmon

## Urner Barry Fresh Farmed Salmon Index

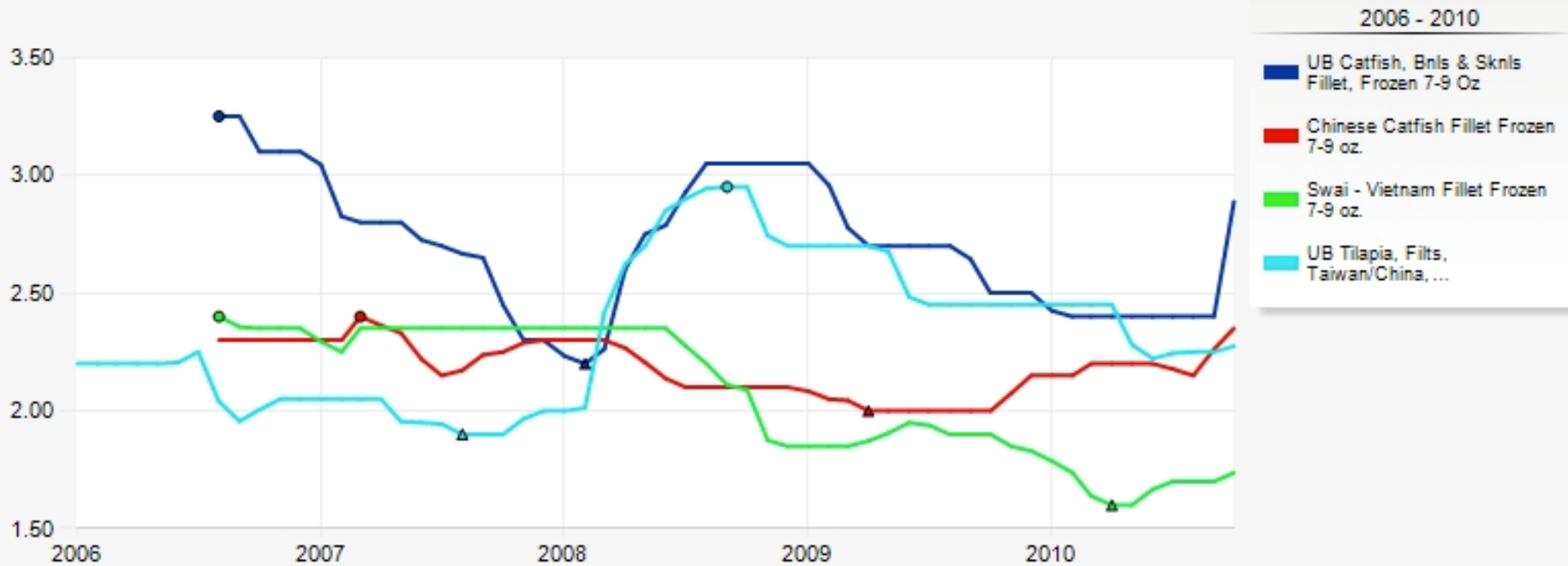


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# Catfish

Monthly - Low



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# Buyers have endured series of 'supply shocks'

- Shrimp
  - Fall in Thailand production, strong European demand led to price spike in 2008
  - This year:
    - Production problems in Thailand, Indonesia, Vietnam, Mexico
    - Shut down of wild shrimp in Gulf of Mexico due to Oil spill
    - Weak Dollar hurting Thai producers





# Salmon

- Chile total production down about 60% this year (including for Japan)
- Marine Harvest stated its production in 2010 will be 9000 t vs. 100,000 in 2006
- Result has been rapid run up in prices despite Norway, Canada increasing production



# Pangasius trade issues threaten real crisis

- Pangasius and tilapia have been success stories
- Aquaculture whitefish has remained lower priced, and has driven consumption gains
- These gains are under great threat due to trade actions against Pangasius



# Summary of US trade actions

- 2003: Forbid Pangasius to be sold as “catfish” in U.S.
- 2004: imposed anti-dumping duty on catfish and pangasius
- 2008: Congress gave USDA power to impose beef and chicken “equivalent” standards on Pangasius, hoping to help US domestic producers
- 2010: Latest preliminary admin review proposed sharply higher duties – 100% on some producers
- 2010: Vietnam gov’t says exports have already been cut back since the announcement



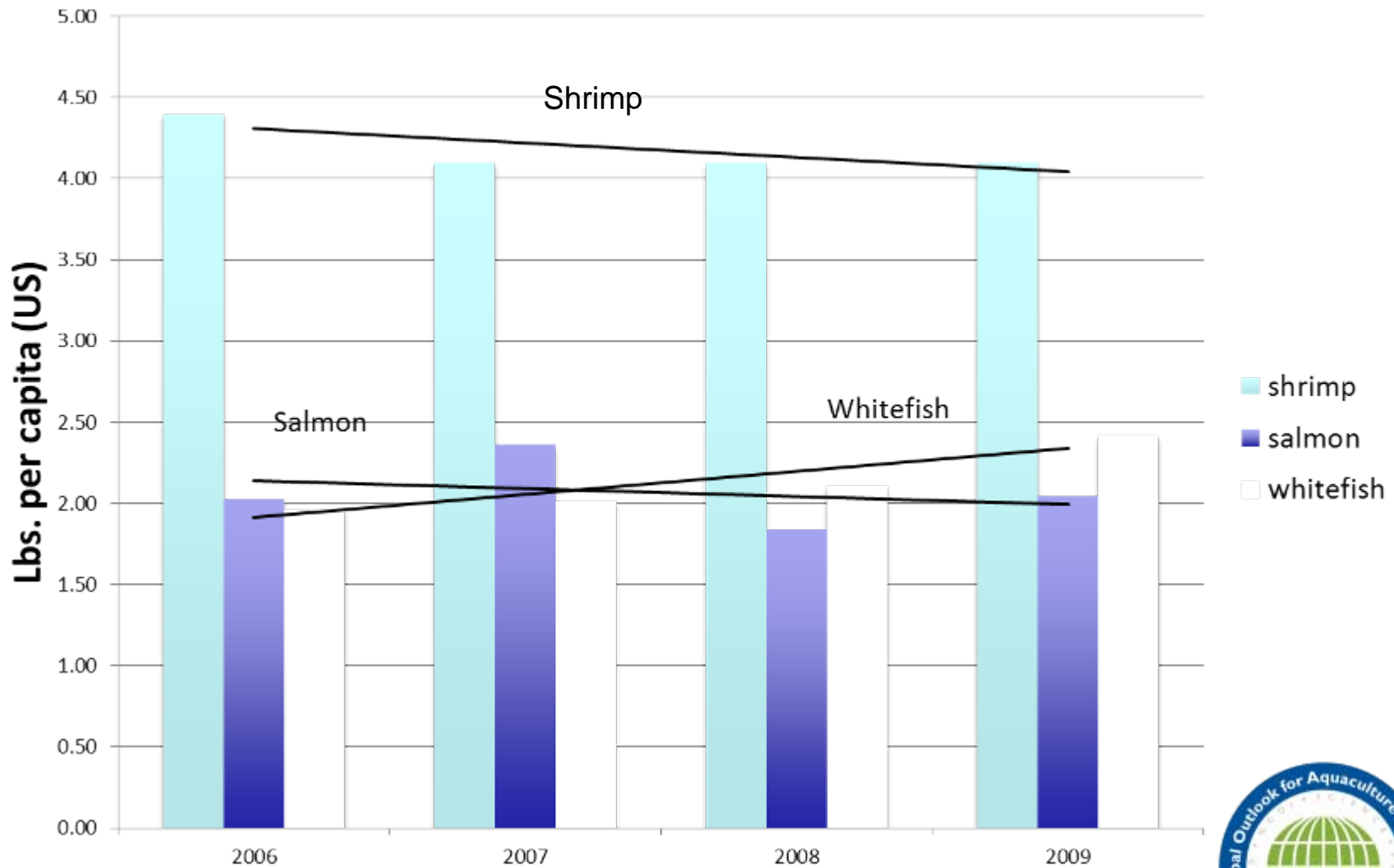
# Pangasius 'supply shock' is 3<sup>rd</sup> strike for buyers

- Aquaculture whitefish prices have been island of relative stability
  - Increased volume of purchases
  - Gave foodservice and retail buyers versatility in adjusting to higher prices on other species
  - Major shortfall in Pangasius, if it happens, can potentially remove this last anchor against sustained price increases



# Higher prices have been curtailing demand

Whitefish only group showing increase in consumption



# Impact of supply shocks magnified by weak dollar

- Weaker dollar gives buyers in Europe / Japan bidding advantage
- Local producers exporting to US see less return in dollar sales – can chop 10% to 30% off margins
- Weaker dollar means higher prices for dollar denominated inputs: fishmeal, fish oil, grain



# \$USD vs. Euro: down 32%



# \$USD vs. Yen: down 28%





# \$USD weakening vs producer currencies

Country	6 mos	22 mos (since 2009)	10 years
Thailand	-6%	-12%	-30%
Malaysia	-5%	-10%	-20%
Chile	-5%	-22%	-8%
China	-2%	-2%	-20%

Result: producers need higher prices to survive



# Impact of currency

- Europe and Japan have bidding advantage when buying product; leads to setting higher prices.
- Producers must raise their returns to compensate for weak dollar; ability to sell to Japan and Europe provides leverage to do so
- Net result: long term rise in US imported seafood costs



# Oct 2010 price increases have averaged around 30% year over year

- Distributor “35% increase in overall inventory cost vs. Sept. 2009”
- Shrimp up 40% (UB white shrimp index)
- Salmon: up 5% yoy; up 33% since 2007
- US Catfish: up 19% year over year
- Pangasius: up 18% year over year



# It takes about 9 months for buyer and customer reaction to kick in

- Lead times for contracts, menu planning mean it normally takes about 9 months after a price shock for aggregate demand to react
- First half of 2011 will see problems with slumping demand
- Supply shortages have masked the extent of this problem



# 2011 Forecast for U.S. market



# Some factors favor increased demand and consumption

- Health Message very positive
  - New FDA guidelines to call for eating seafood twice a week
- Foodservice demand has been improving
- US is huge factor in global consumption that Europe/Japan/Asia cannot make up
- But customers most influenced by price
  - Both retail and foodservice see strong customer reaction against higher priced seafood



# Factors pushing US seafood prices higher are long term and entrenched

- Competitive bidding by EU / Japan masks demand weakness in U.S.
  - Snow Crab is perfect example
    - Japanese demand led to a 15% - 20% US supply shortfall which has made price artificially high
- Very destructive to long term markets to put buyers in a position where they have to pay higher prices in the face of weakening demand



# China's growing demand for imported seafood will exacerbate this problem

- China is rapidly becoming a more active importer for its own consumption
  - Huge impact on supply situation for species where Chinese interest develops
    - H & G cod and haddock are one example from a few years ago
    - Lobster prices this fall will be impacted by Chinese bidding for Live N. American lobster





# How can these problems be mitigated

- Increased emphasis on lower cost products such as tilapia and pangasius
- Producers will face pressure to bring down costs on all products to maintain existing markets
- Sellers will have to position seafood as a higher value item to consumers



# US seafood consumption faces a period of stagnation due to higher costs

- US seafood will become more expensive in dollar terms
- This will reduce consumption – in both 2010 and 2011
- Higher prices will put a premium on lower priced species for programs; marketing
- As happened with Japan, the US is going to become a less attractive market



# But long term outlook remains positive

- Slow economic recovery will help boost consumption
- Health message will resonate more strongly with affluent consumers
- Disruptions of the past two years will help buyers deal with and prepare for future supply shocks

