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Shrimp Panel:
Impact of EMS on the Global Shrimp Industry

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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

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 farming industry more difficult.
The rest of the industry is very fragmented with shall holders accounting for a dominant share of the farming 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 publicly 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.