



# The Dragon's changing appetite

*China's changing net trade position in seafood and implications*

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Reykjavik, November 2017



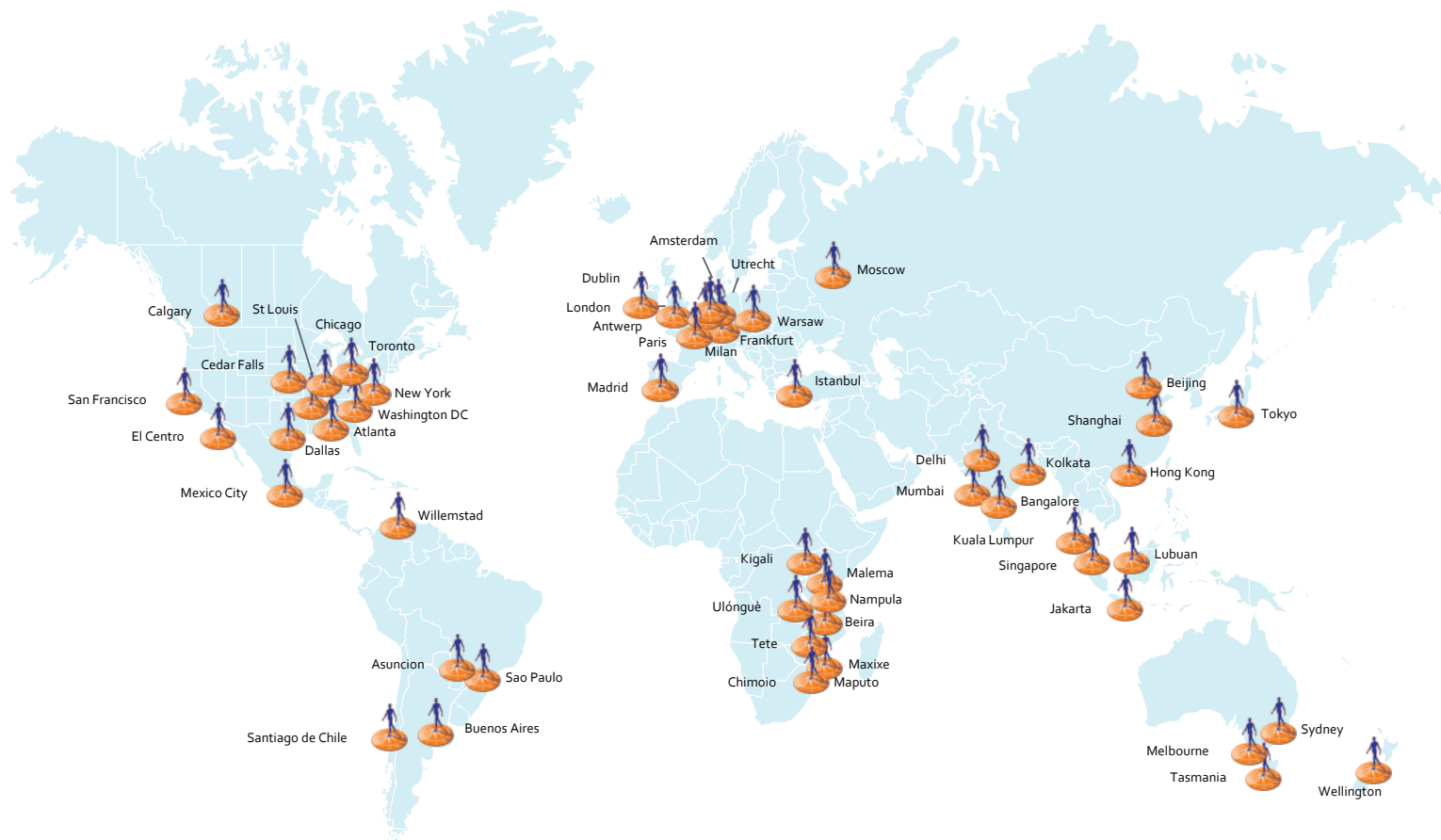
# Rabobank: Globally leading food and agribusiness lender and financial services provider



**46** Countries

Over **600** Offices

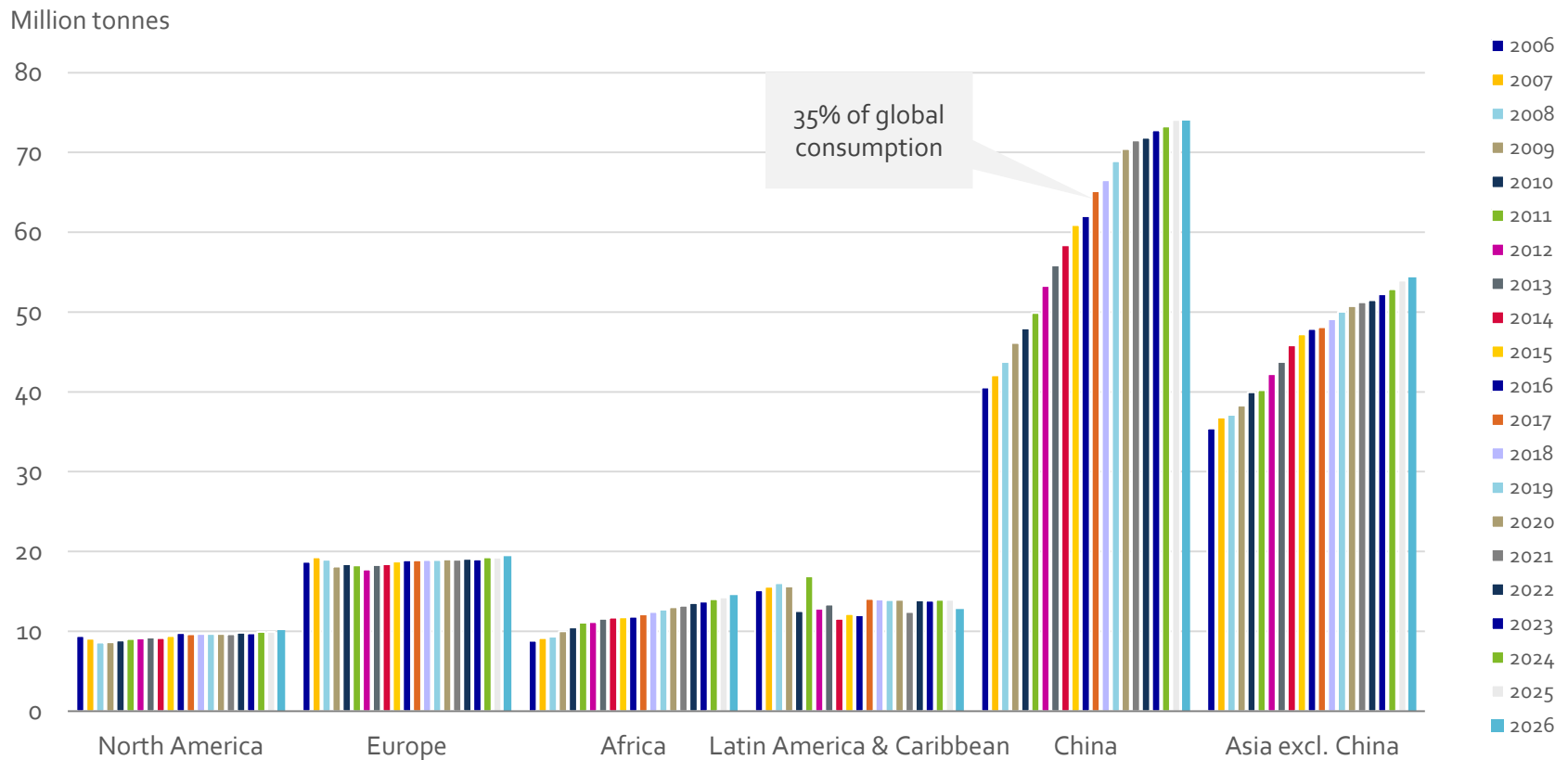
Over **55,000** Employees



# In volume terms China's seafood consumption dwarfs that of the western countries



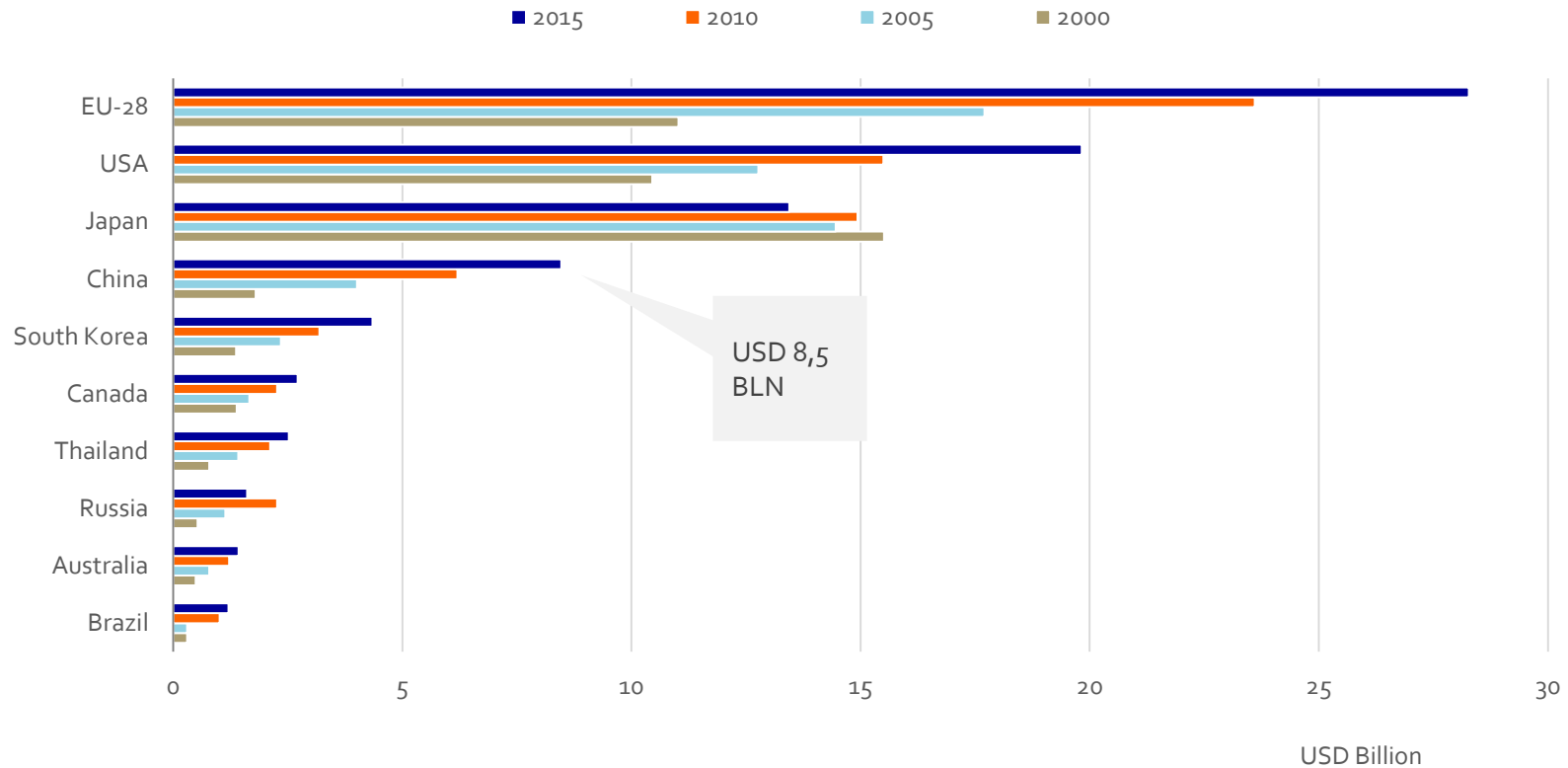
*China has a high seafood consumption, estimated at 44 kg per person, which is forecasted to reach 50 kg in 2026*



# But despite the large consumption, China is not the largest importer of seafood



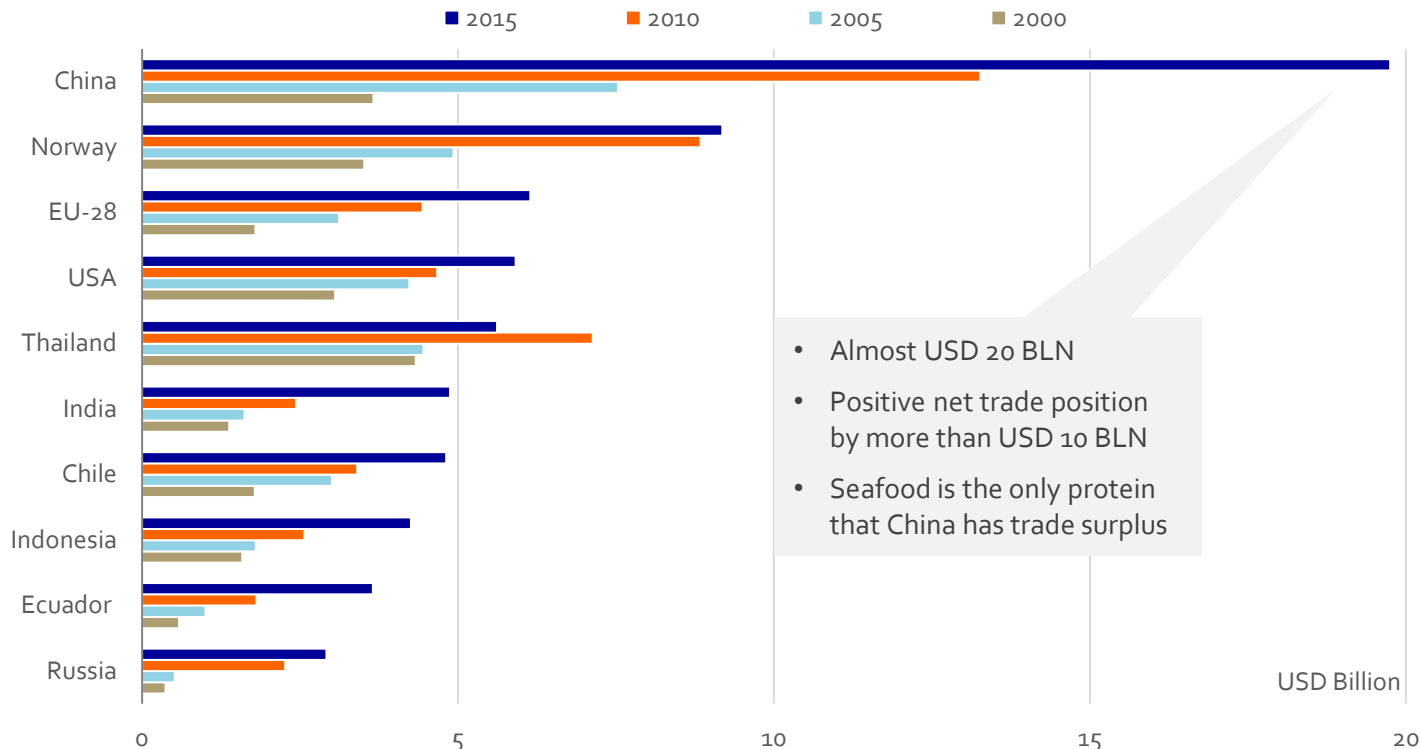
*...while paradoxically marine resource rich countries are the biggest seafood importers*



# In fact, China is the leading seafood exporter globally



*Relatively resource poor (marine EEZ and grains per capita) China is the world's leading seafood exporter*



# There are increasing constraints on the supply side in China ...

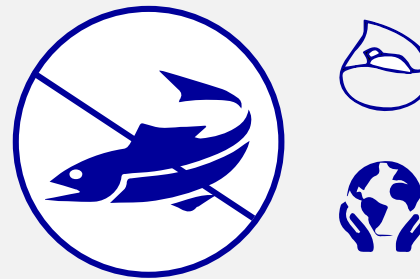


## Domestic supply dynamics



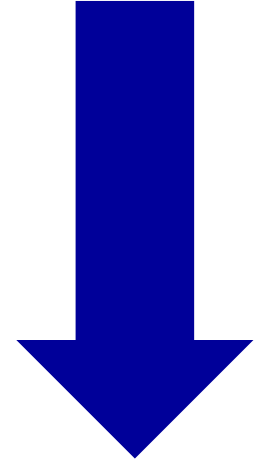
### Production cost drivers

1. Higher cost of labour / lower labour availability
2. Disease / pollution pressure in aquaculture



### Environmental regulations

1. Decommissioning of inland and coastal fleets
2. Limiting aquaculture close to urban areas



# ...while the drivers on the demand side accelerate import demand

## Import demand dynamics



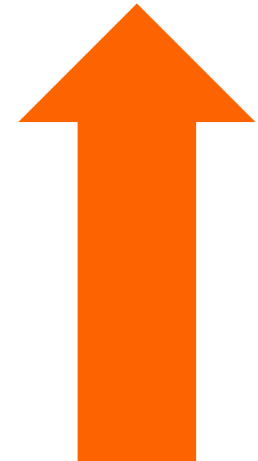
### Import demand drivers

1. Income growth and strong currency
2. Distrust of locally produced seafood (due to pollution and scandals)



### Import enablers

1. On-line seafood trade
2. Improving logistical infrastructure / urbanisation







*Domestic seafood supply to stagnate or contract*



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# Labor availability and labor cost especially in rural areas is eroding competitiveness of the seafood industry in China

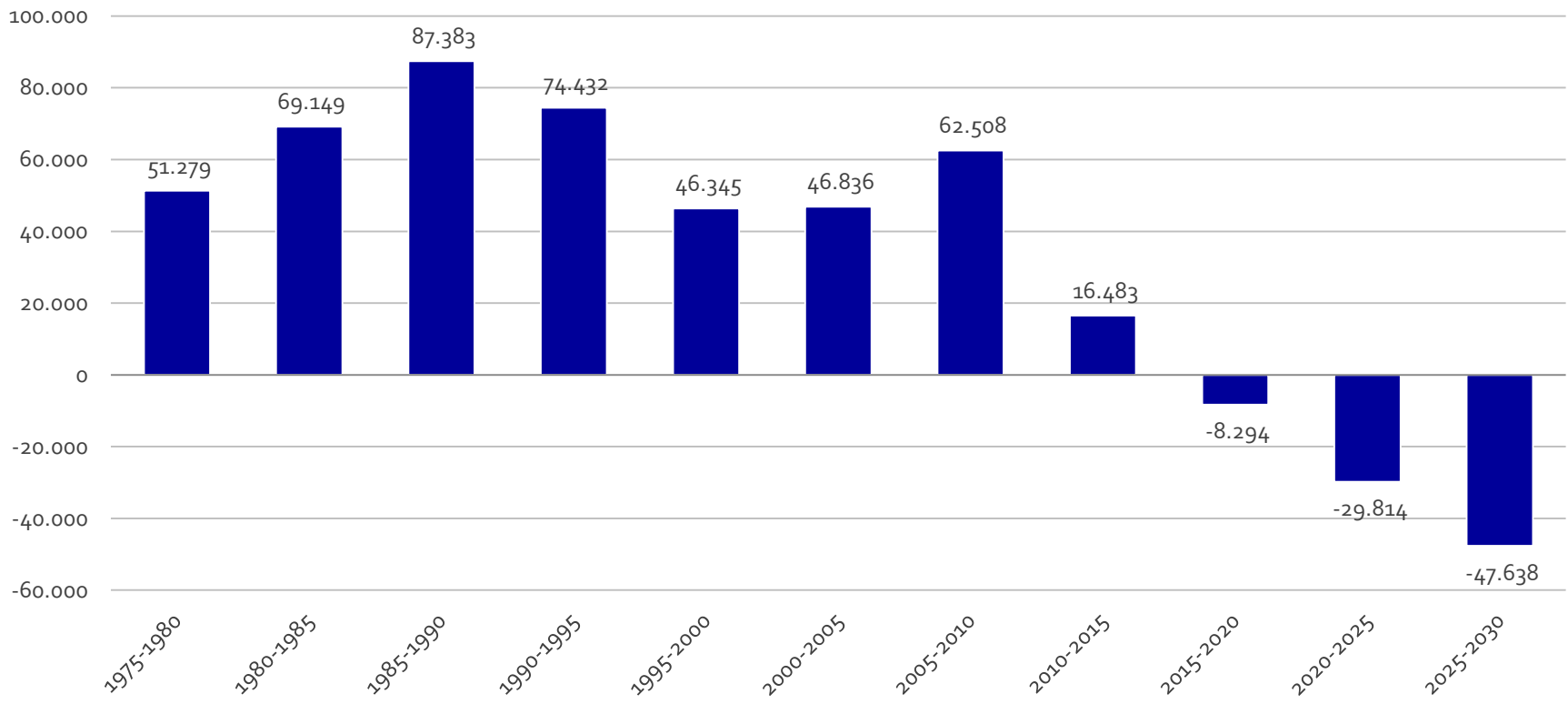


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*Total labor force in China changes per 5 year intervals, declining in 2015*

Thousands  
20-59 age group



# Gov. policy on fisheries: Prioritize environment, fleet and local fishing to shrink



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*13<sup>th</sup> National Five-year plan of China (2016-2020) emphasizes sustainable practices*



"...It has become increasingly difficult to develop fishery industry in an **environmental-friendly** and **sustainable** way."

"...The quality of aquatic products are questionable due to intensified **water contamination** and illegal drugs."

"...We **prioritize environment** and promote **green development**. ...We will focus on higher **quality** and **efficiency** instead of larger quantity"

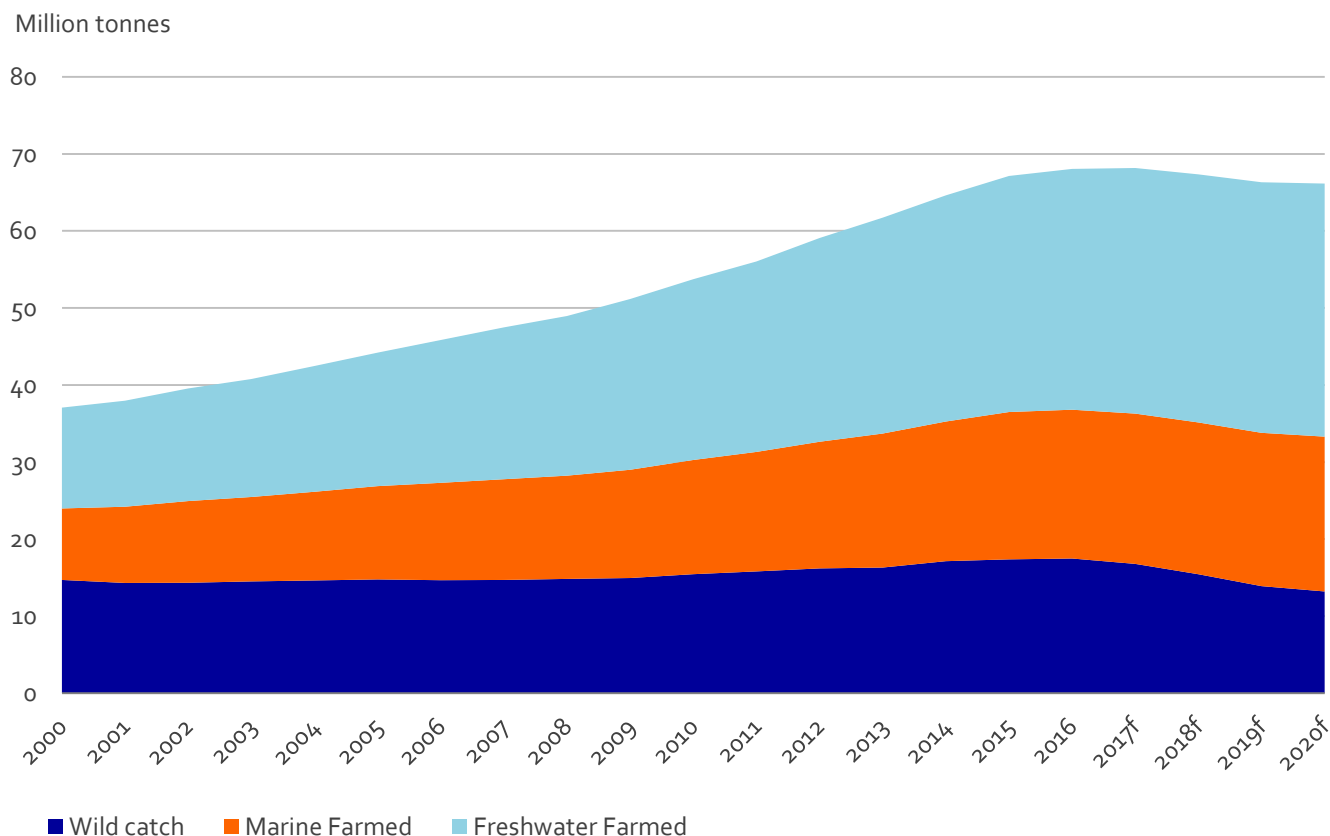
"... **Domestic fishing** goes through **negative growth**. ...national marine **fishing fleet** is **reduced**"

**China pledges to shrink its  
fishing fleet by 20,000  
vessels**

# Overall we expect Chinese seafood production to experience a gradual decline, after years of growth



*China's wild catch production is expected to decline as targeted in the latest fisheries policy*



- *Next five year plan targets a decrease in total seafood production from 67 million tonnes to 66 million.*
- *Domestic wild catch (inland and near coastal areas) to be decreased and aquaculture to be increased.*
- *By using modern technologies and intensive farming, aquaculture is targeted to be increased.*



*Import demand to grow faster than ever before*

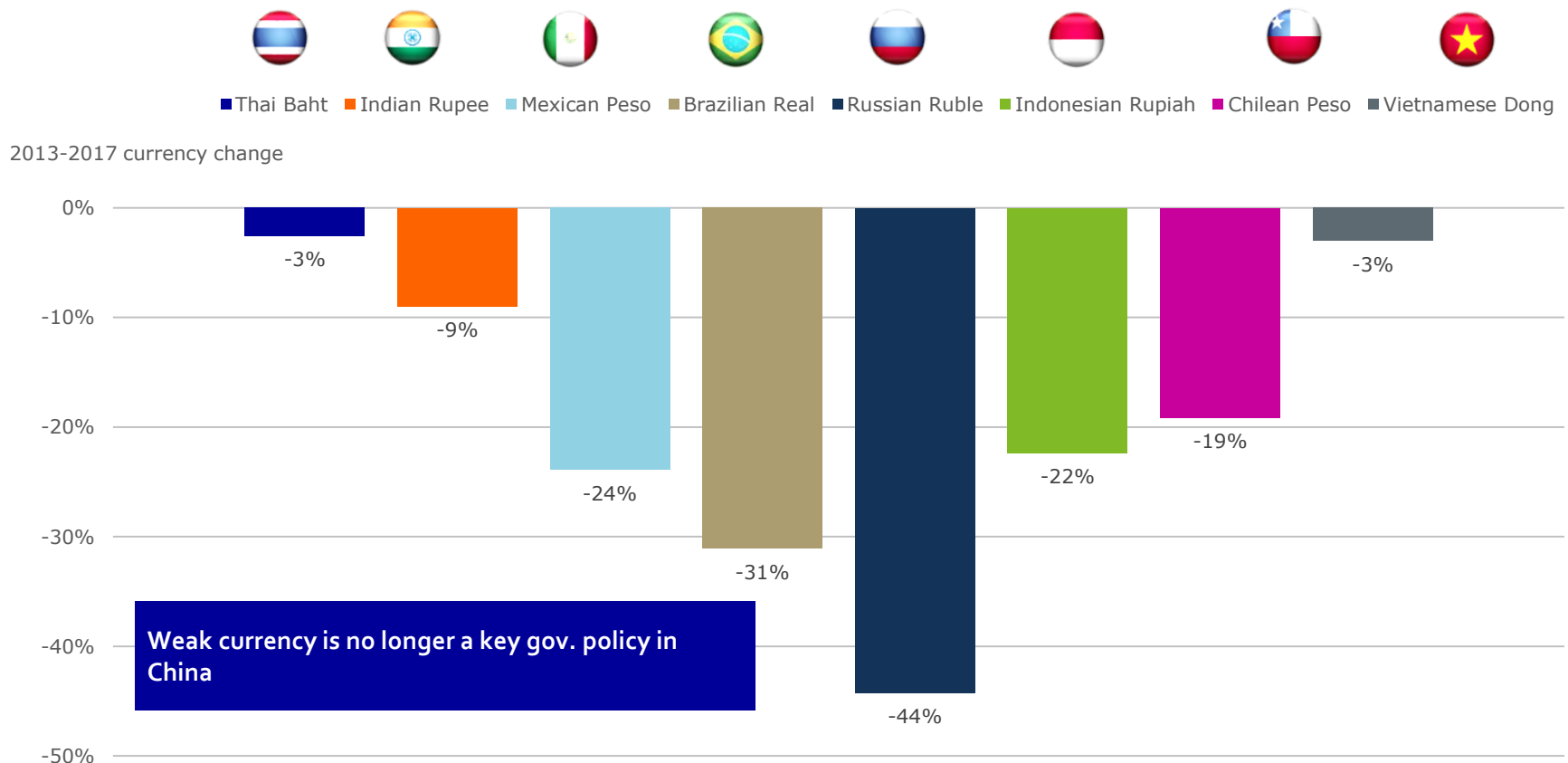


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# Nearly all developing countries have had devaluating currencies vs the Chinese Yuan, impacting competitiveness



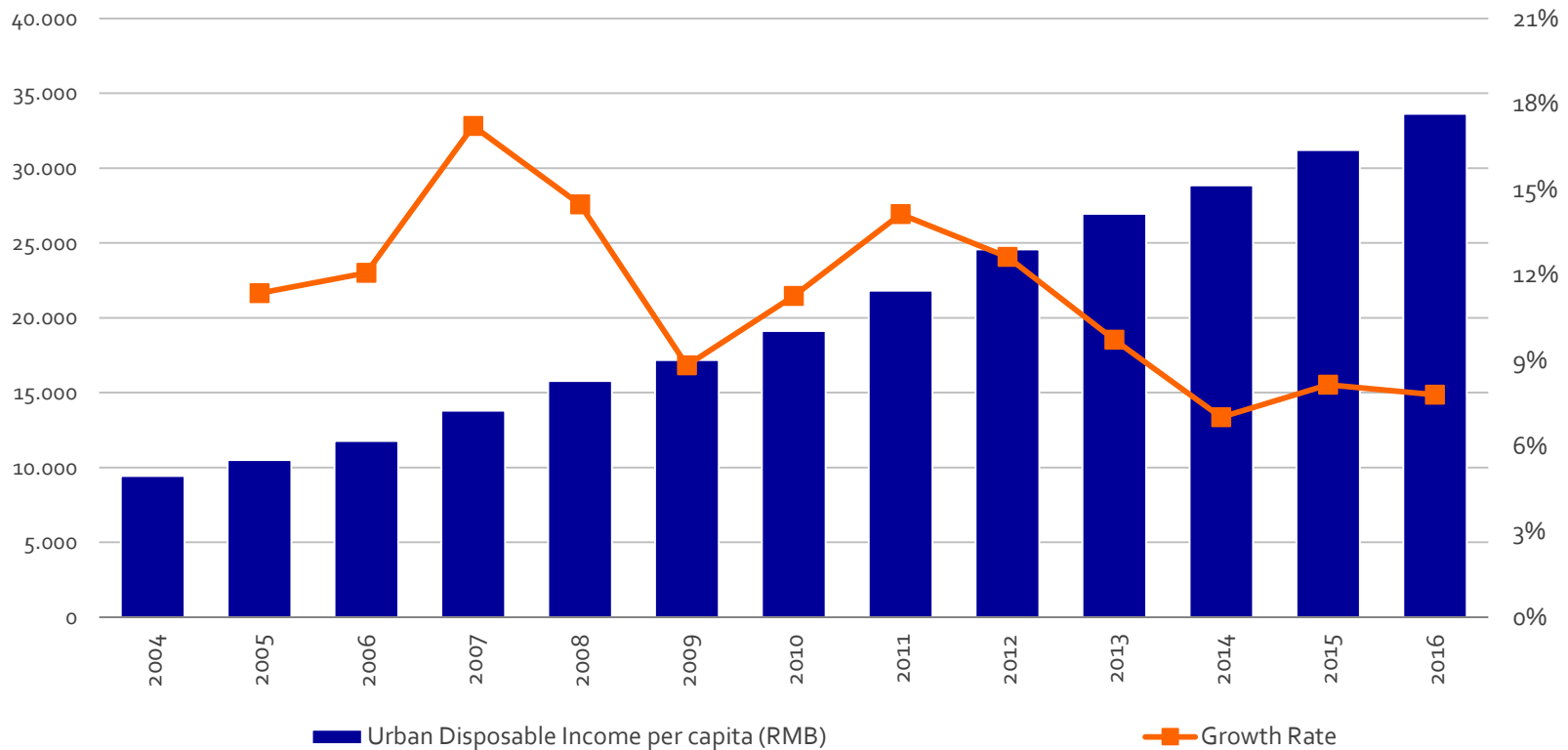
*Value of developing country currencies vs the Chinese Yuan 2013 September vs. 2017 September*



# Income growth is the basis for the Chinese demand growth in seafood



*Urban disposable income in China is still growing around 8% per annum*

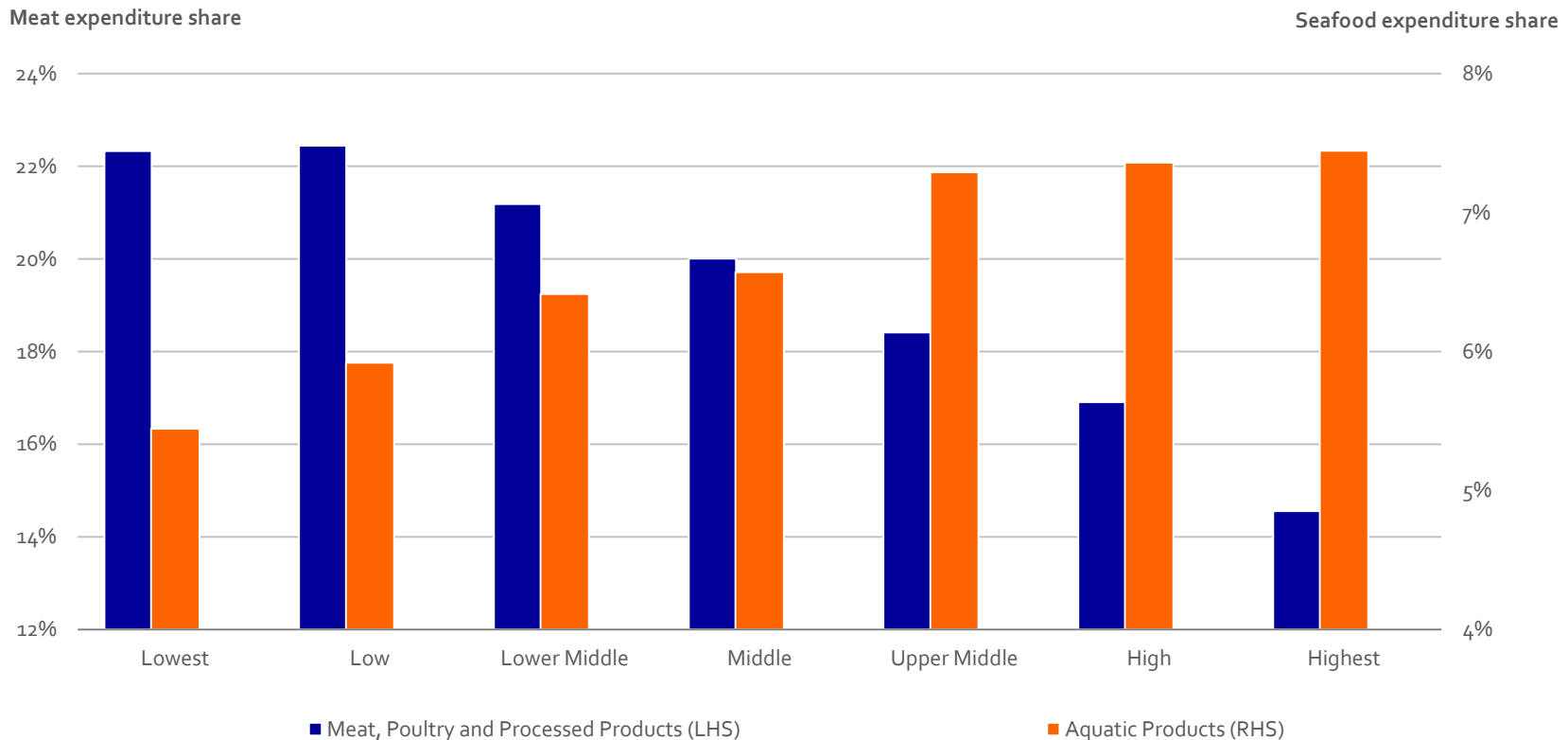




# The demand growth is accelerated by a high income elasticity of seafood demand in China



*Share of seafood (right) and meat (left) expenditure increases per income group*

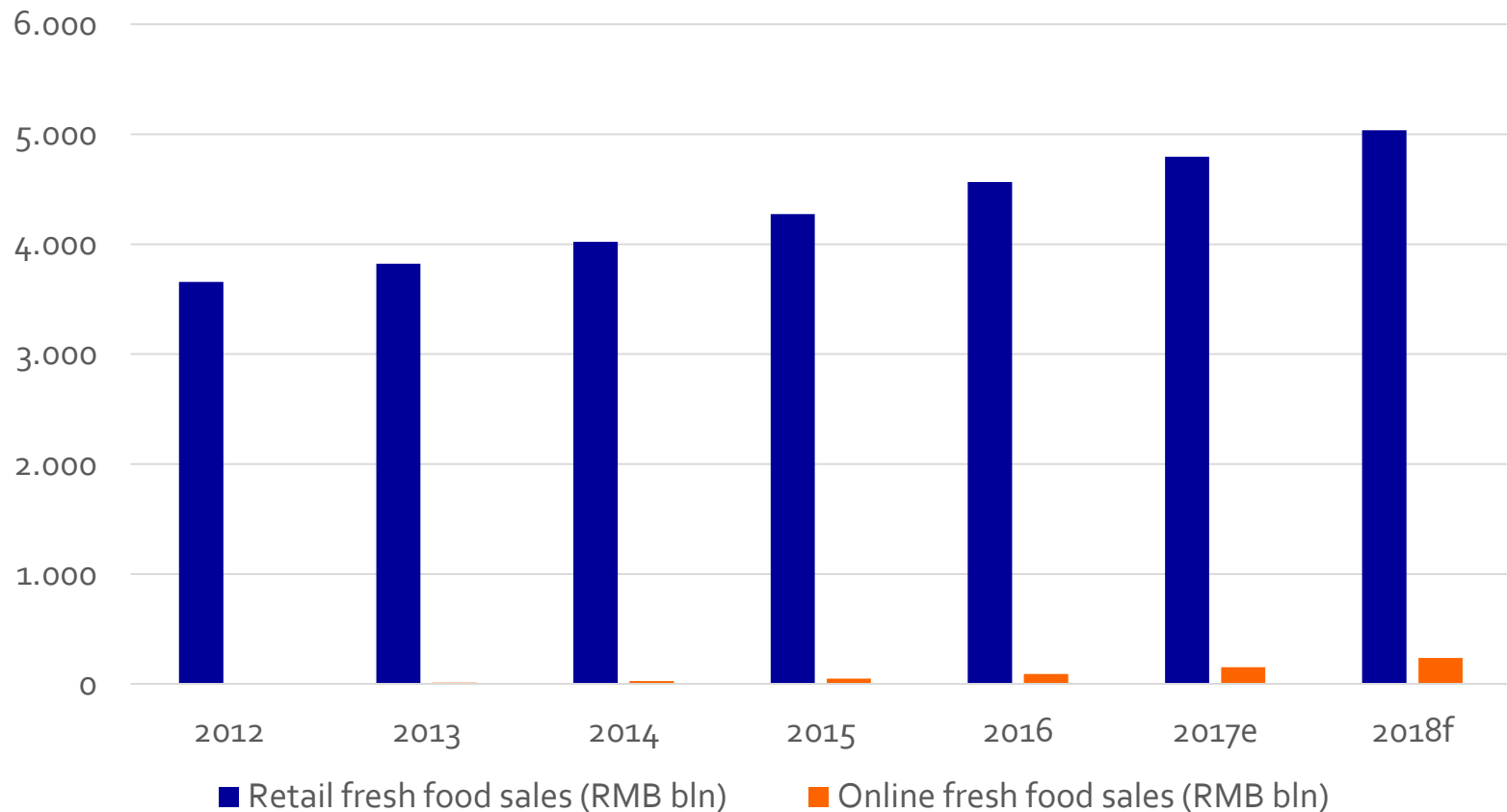


# Growing trend on premium products: online sales are increasing the choice and quality of product offer in China

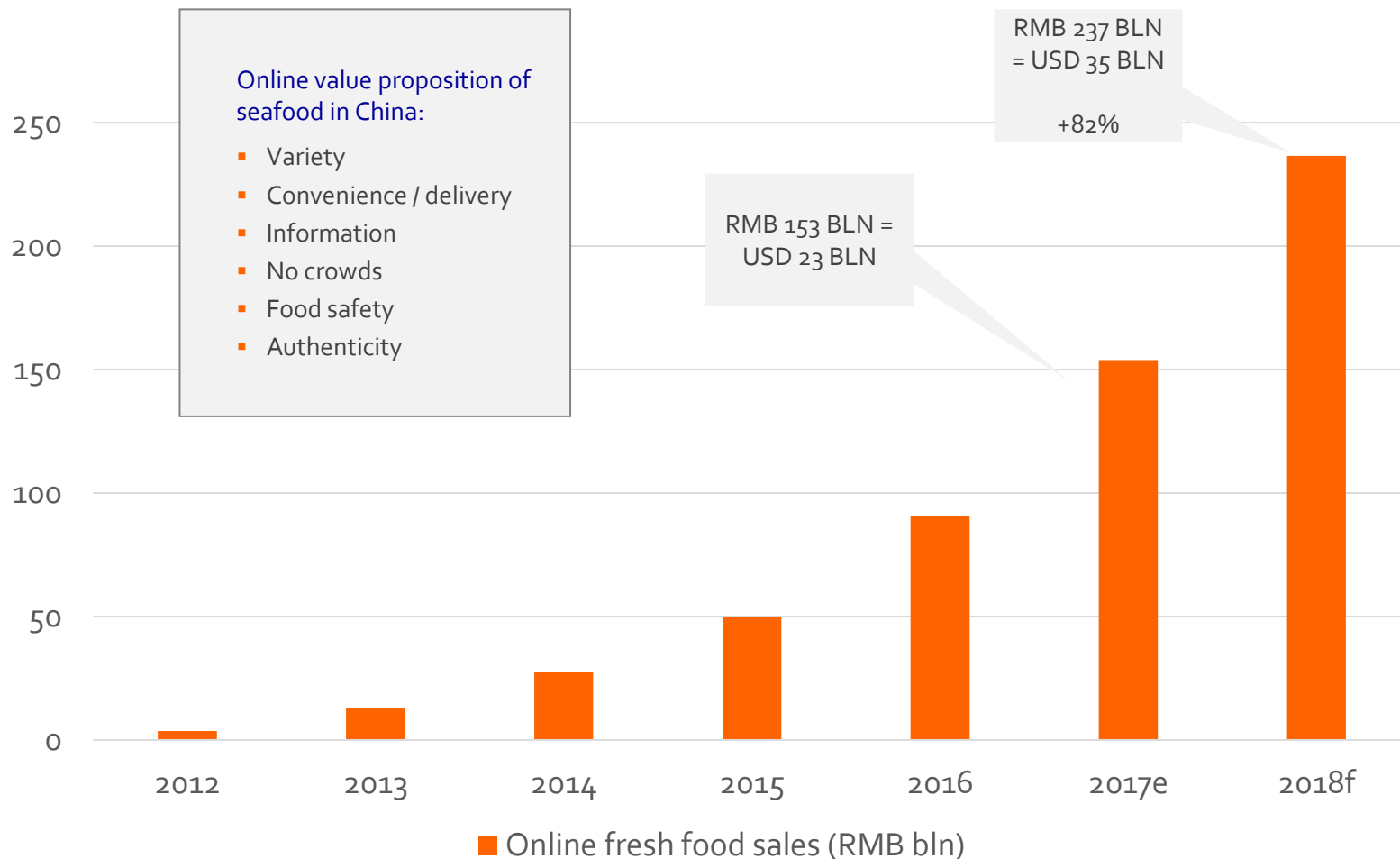


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*In the online platform products at all price points are sold*

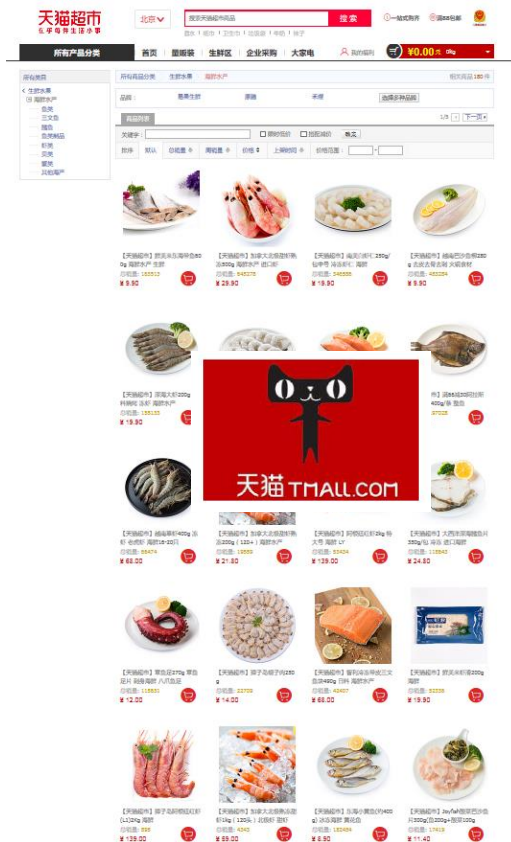


# Seafood is the second most sold food category on the online market after imported fruits



# Imported seafood sales are rapidly increasing through e-commerce

Tmall - largest B2C platform in China



JD has the largest e-commerce logistics infrastructure in China



- By November 8<sup>th</sup>, 263 pages with 60 seafood items per page
- New seafood listings everyday
- 198 million active users in 2016



ISO9001

是一类标准的统称，是由TC176 (TC176指质量管理体系技术委员会) 制定的，是企业发展与成长的根本。



MSC (Marine Stewardship Council)

水产品认证是一项已被认可的海洋渔业以及加工水产品的良好管理的供应链认证项目。



BRC (British Retail Consortium)

英国零售商协会是一个重要的贸易协会，其成员包括百货商场、城镇店铺、网络卖场等各类零售商，产品涉及种类非常多。



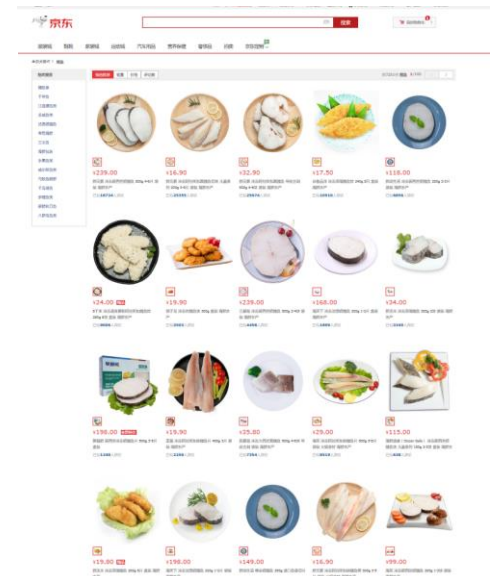
HACCP (Hazard Analysis and Critical Control Point)

表示危害分析的临界控制点，确保食品在消费的生产、加工、制造、准备和食用等过程中的安全，在危害识别、评价和控制方面是一种科学、合理和系统的方法。



低热量低脂肪

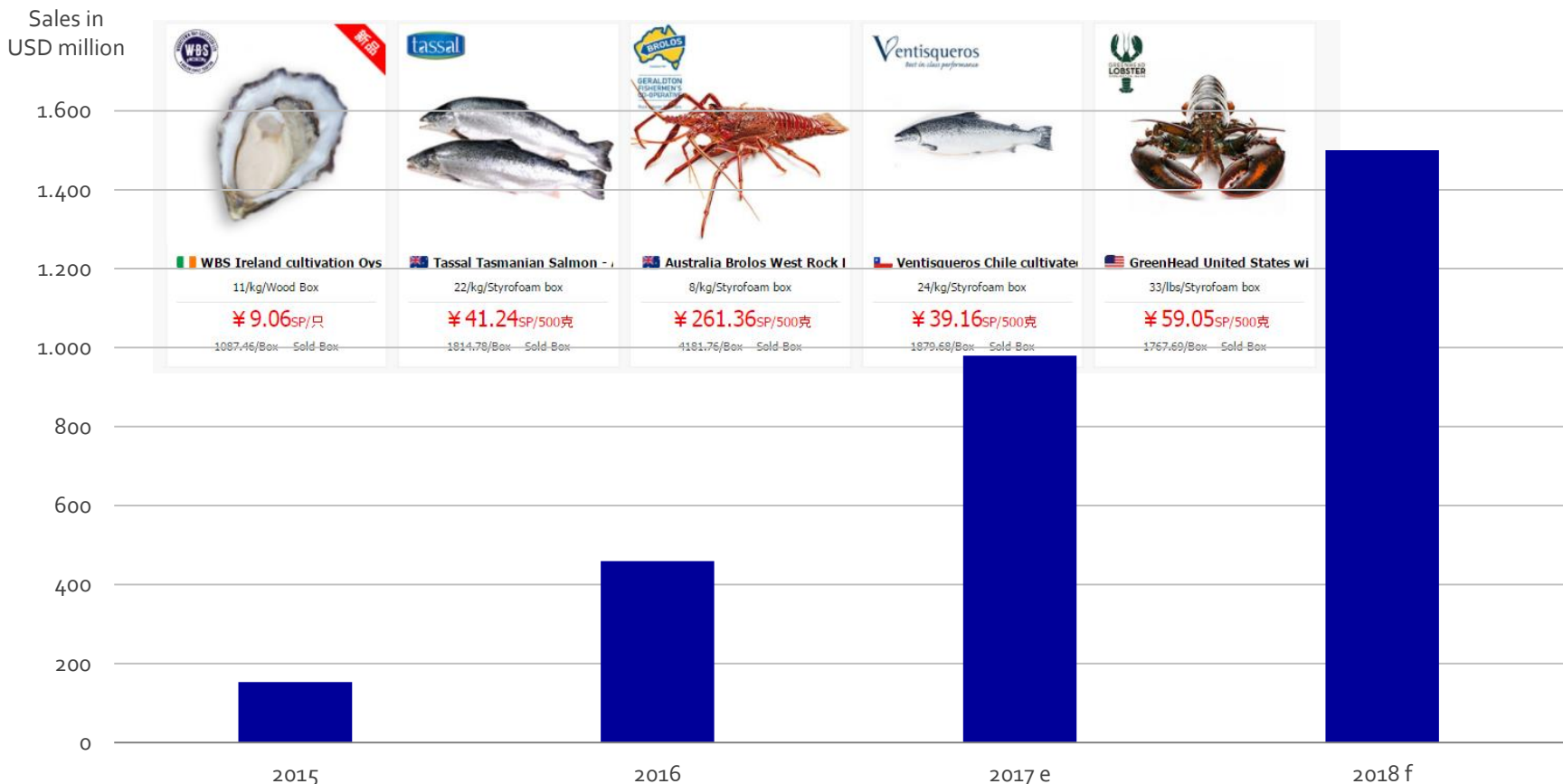
阿拉斯加真鳕为白身鱼品种的特点，肌肉比较结实，水分含量少，因此口感紧致，比较有嚼劲儿，建议烹饪时注意火候，保持在开锅5分钟内最好。



# Example of Gfresh: Online seafood sales, surprisingly 1 BLN in the first 3 years of operation



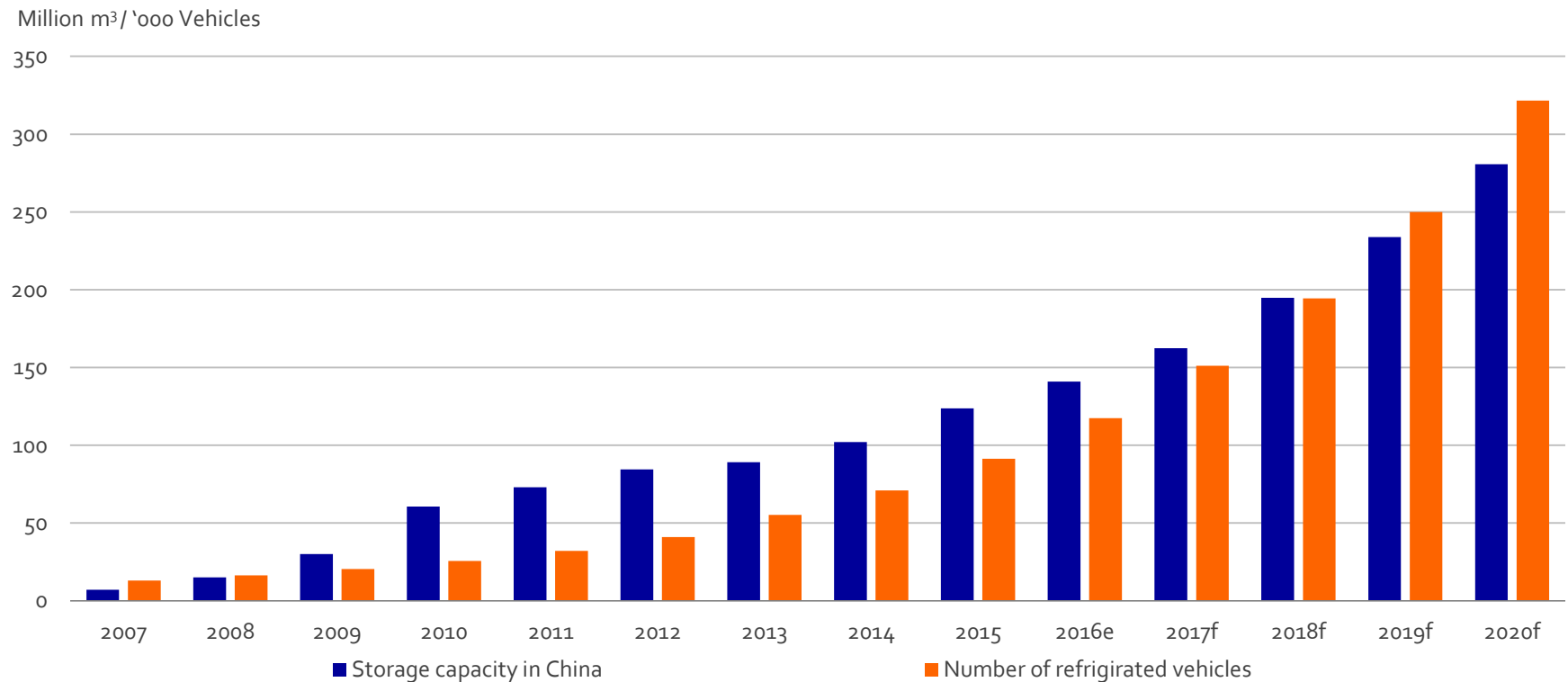
## Gfresh online seafood sales and expectations



# Still China can be very challenging especially for trade of frozen and chilled seafood



*Cold chain infrastructure is growing by 15-30% p.a. in China – major changes are occurring, partly driven by online retailers*







*Implications: New seafood consumers in China  
and perhaps new East-West partnerships*



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# Having at least one of these features seems to be the recipe for success in the Chinese seafood market (but there are exceptions)

## Wild Caught

- Wild seafood is perceived as healthier than farmed
- In China far less available than elsewhere in the world



## Marine

- Marine fish is perceived as healthier than fresh water fish
- China currently has relatively low availability of marine seafood



## Crustaceans

- Cultural preference for shell fish
- Huge range of products already known to Chinese consumers



## Premium

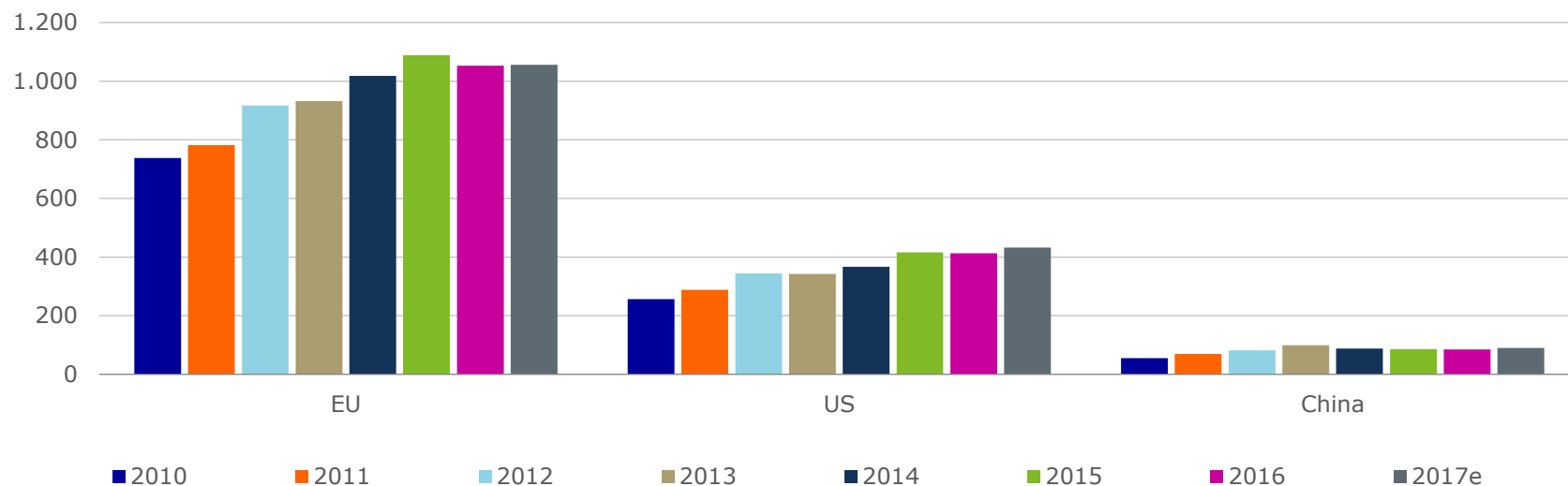
- Especially on-line and in modern retail premium products are ordered and are often imported
- Most locally produced products are sold on wet markets and are not premium



# China can become the new demand driver, equal to EU and the US in nominal growth, but from a much lower base

*Selected global Atlantic Salmon Markets in thousand MT*

tonnes

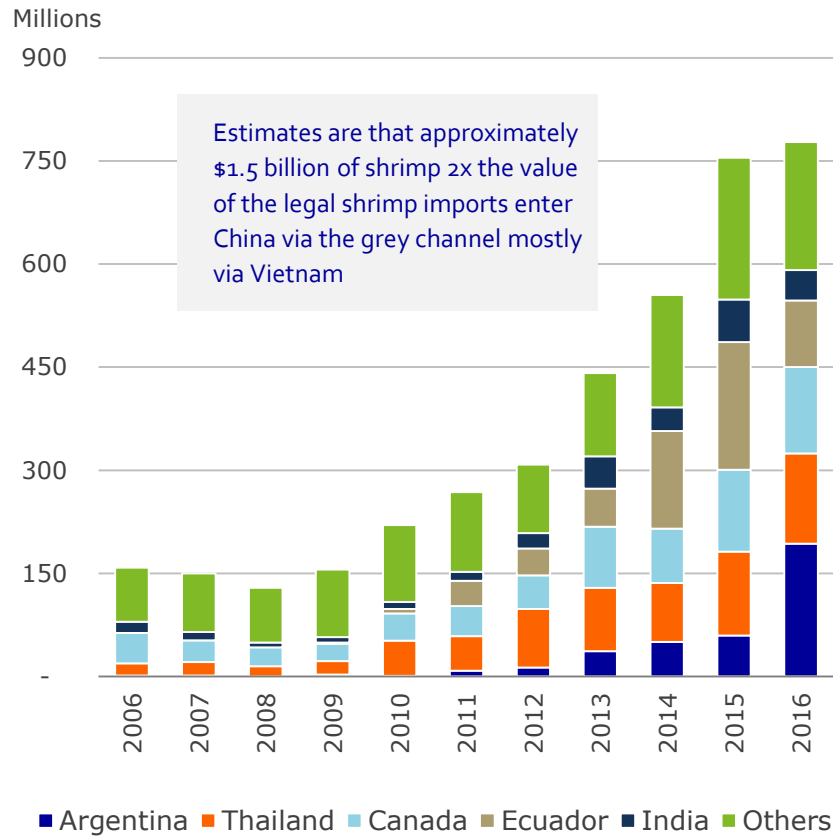


| Expected growth                          | EU     | US     | China  |
|--|--------|--------|--------|
| 2018-2022 CAGR                           | c.2,5% | c.5%   | c.25%  |
| Nominal expected per annum supply growth | 25K MT | 20K MT | 20K MT |

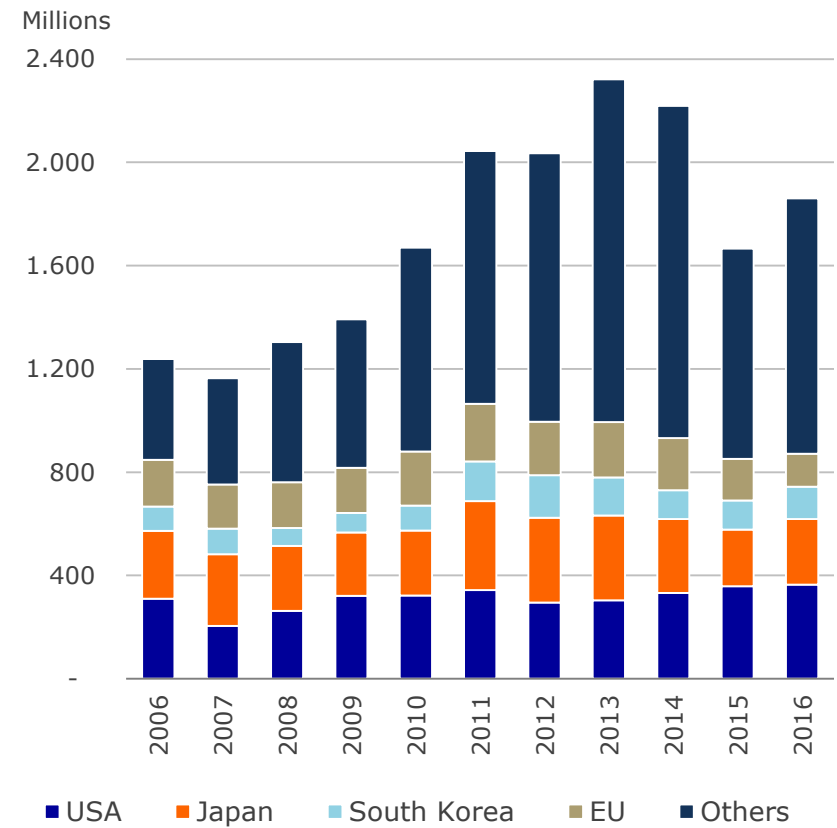
# In shrimp China is already a major importer, albeit only when the grey channel is considered



China shrimp imports 2006-2016 (USD)



China shrimp exports 2009-2016 (HK excluded), USD

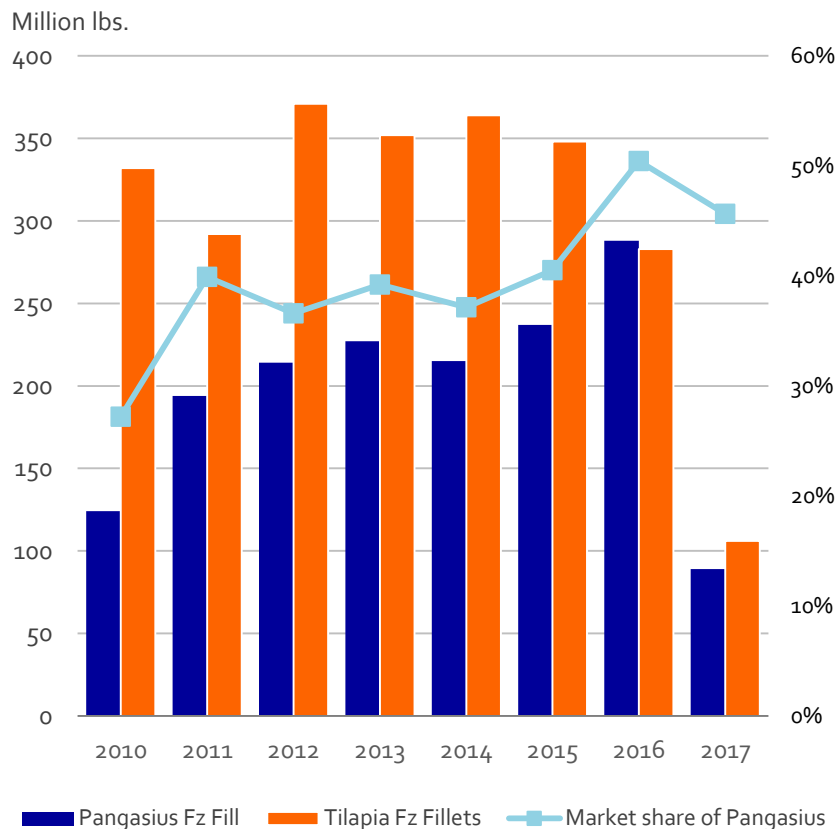




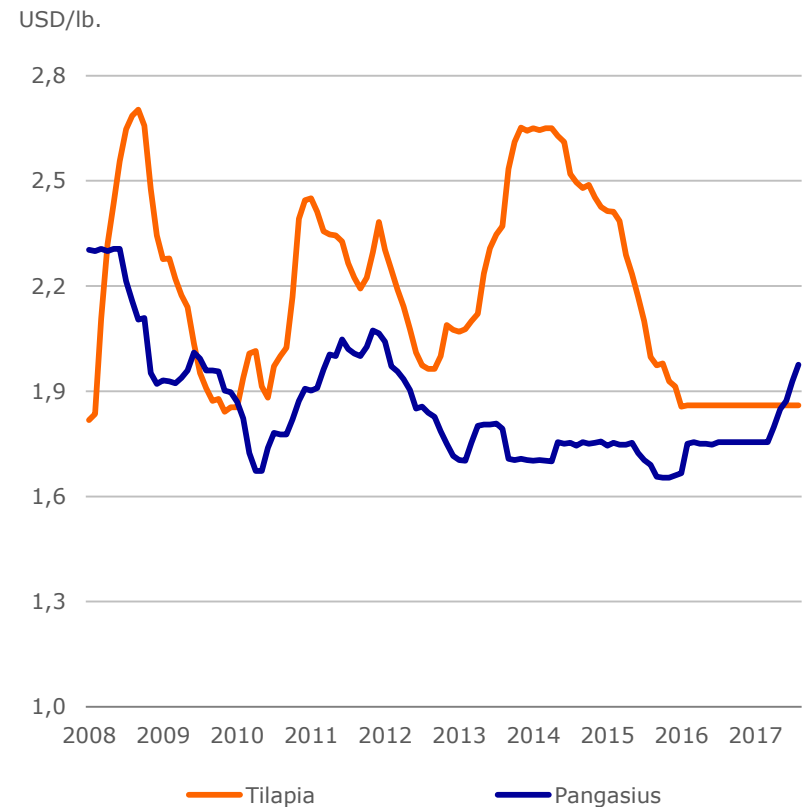
# But there is also loss of competitiveness in export makers: e.g. fresh water frozen fillets in the US



*Tilapia and Pangasius import in the US market (2017 YTD April)*



*Frozen fillet prices of Tilapia and Pangasius in the US market*

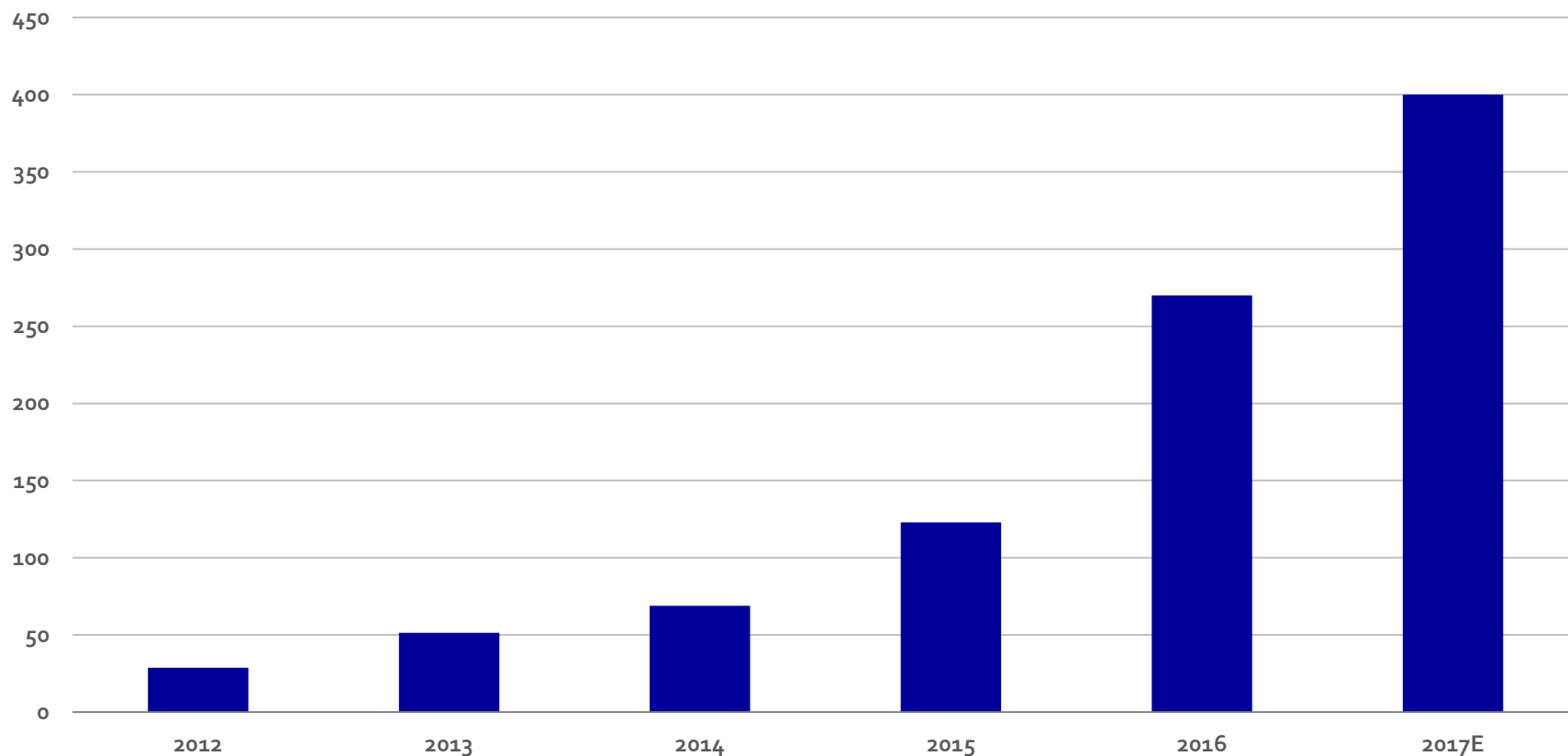


# And surpassingly in a few years China has become the No.1 market for Vietnamese pangasius



*Vietnamese pangasius exports to China in value*

Millions USD



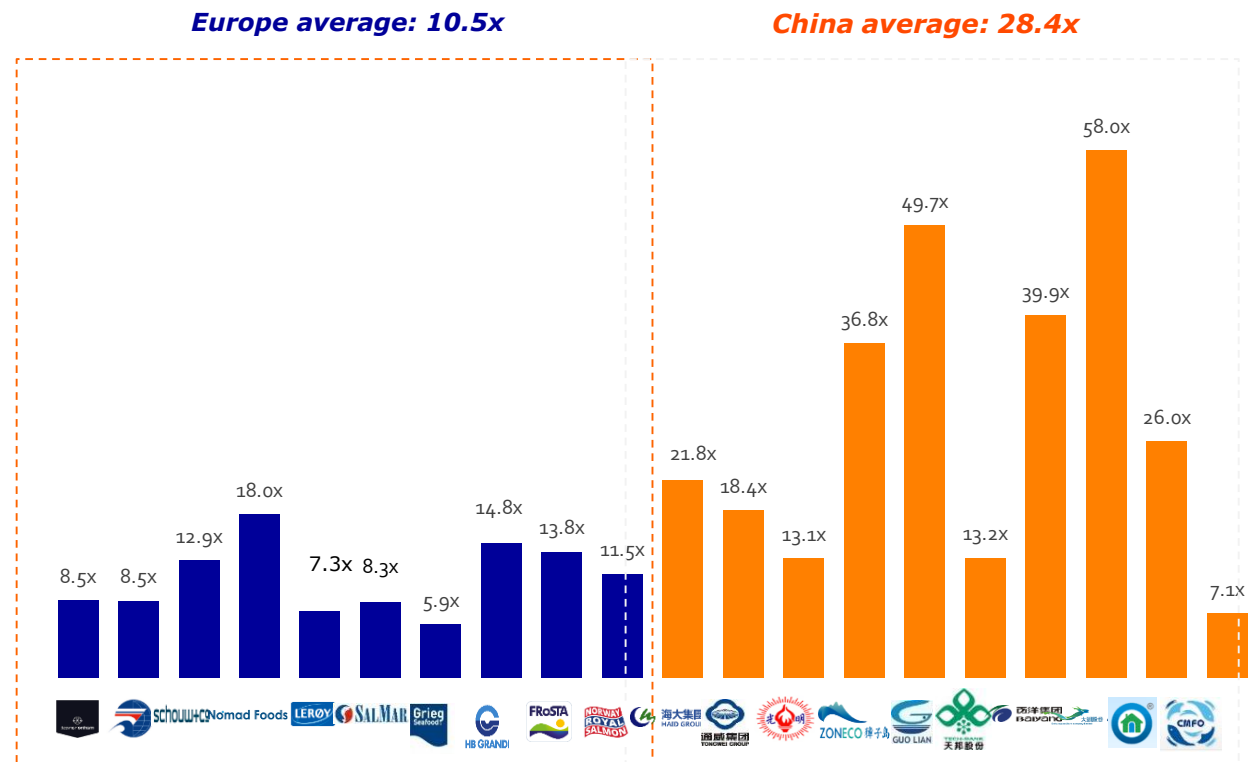


# M&A from West to China is not highly likely

## Why West to China M&A is not very likely

- Barriers: language, culture, business environment
- High Chinese value expectations
- Synergies are not always obvious
- JVs are the current choice for cooperation
- E.g. Western seafood companies and on-line retailers
- E.g. Western and local technology aquaculture companies (e.g. feed)

## EV/EBITDA multiples in European and Chinese listed seafood companies



# In general there are big expectations for Chinese out-bound M&A



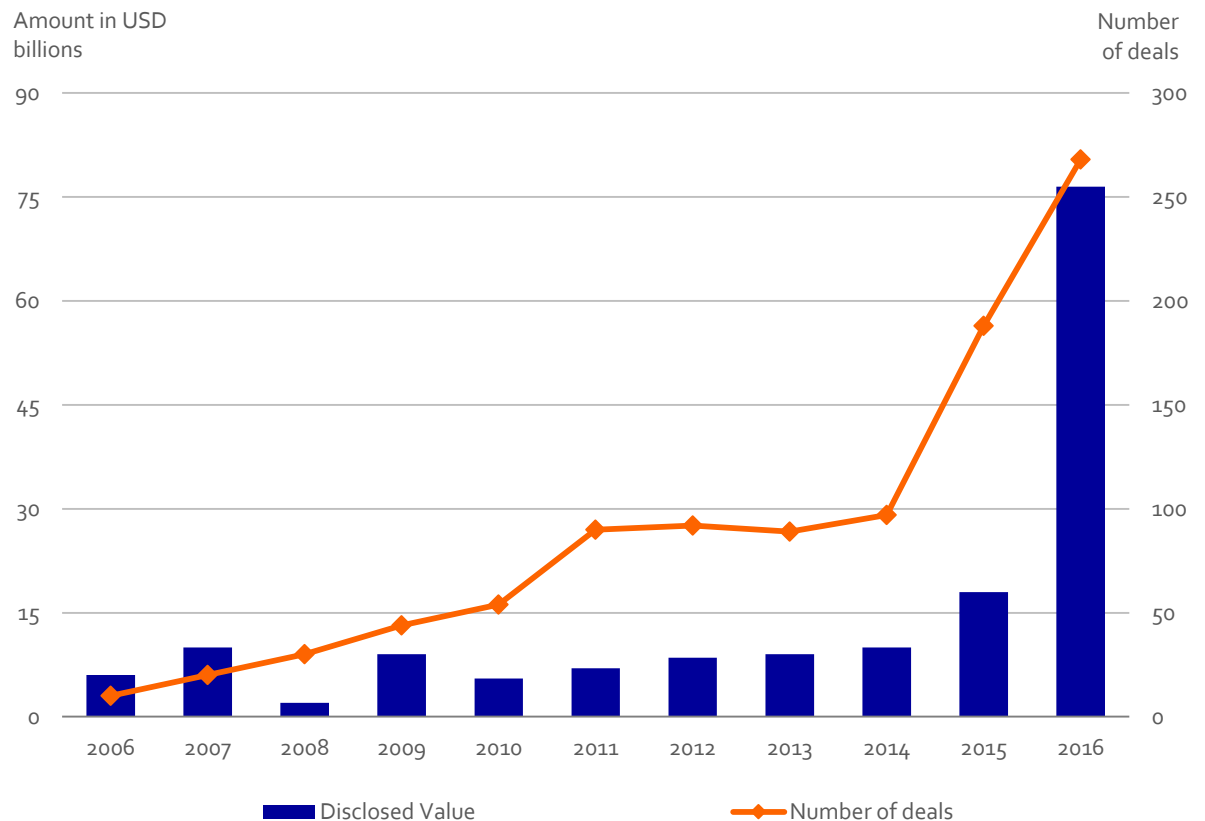
## High capital available

- 4 of the top ten largest banks are in China
- China has 3 trillion of foreign reserves

## Outbound M&A is booming

- High profile cases E.g. Syngenta – Chem China
- Outbound M&A from China has increased by 25% p.a. in the last 5 years

## Outbound M&A of Chinese listed companies



# ... but in the case of the seafood industry China-to-West M&A is more for the longer term



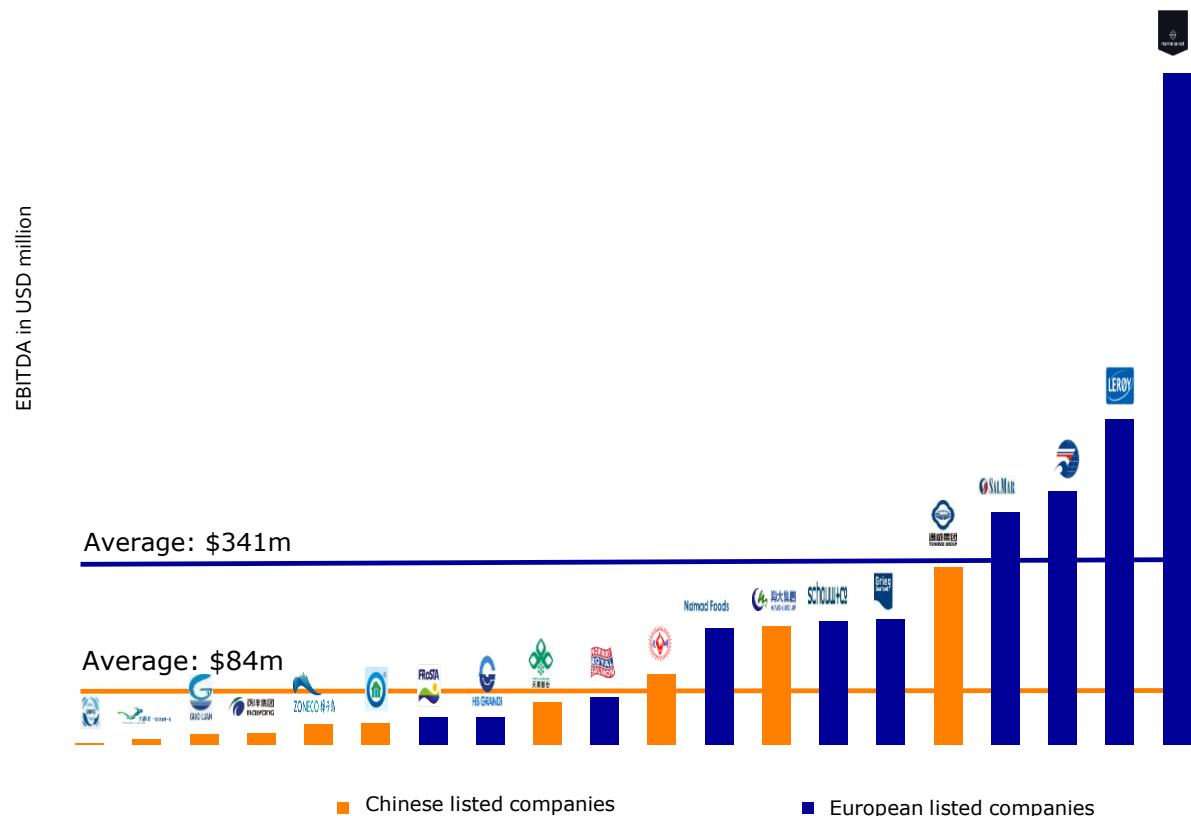
## Why China to West M&A is only for the long term

- Chinese seafood sector is still mostly artisanal, with few large companies, and volatile profitability

## But there are also the SOE and large conglomerates:

- Their priority is Energy, Technology, Industry, Pharmaceuticals
- Consumption products / brands and F&A are growing in relevance only recently, with seafood a subset of this
- A learning process is needed, possibly with minority investments in the next few years

## EBITDA of Top 10 Chinese and European seafood industry companies





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