

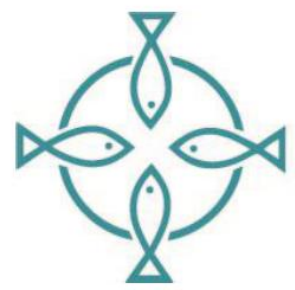


Trade Wars and Impact on the Global Seafood Industry

Rabobank Group

Rabo Research Food & Agribusiness

Gorjan Nikolic, October 2019



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46 Countries

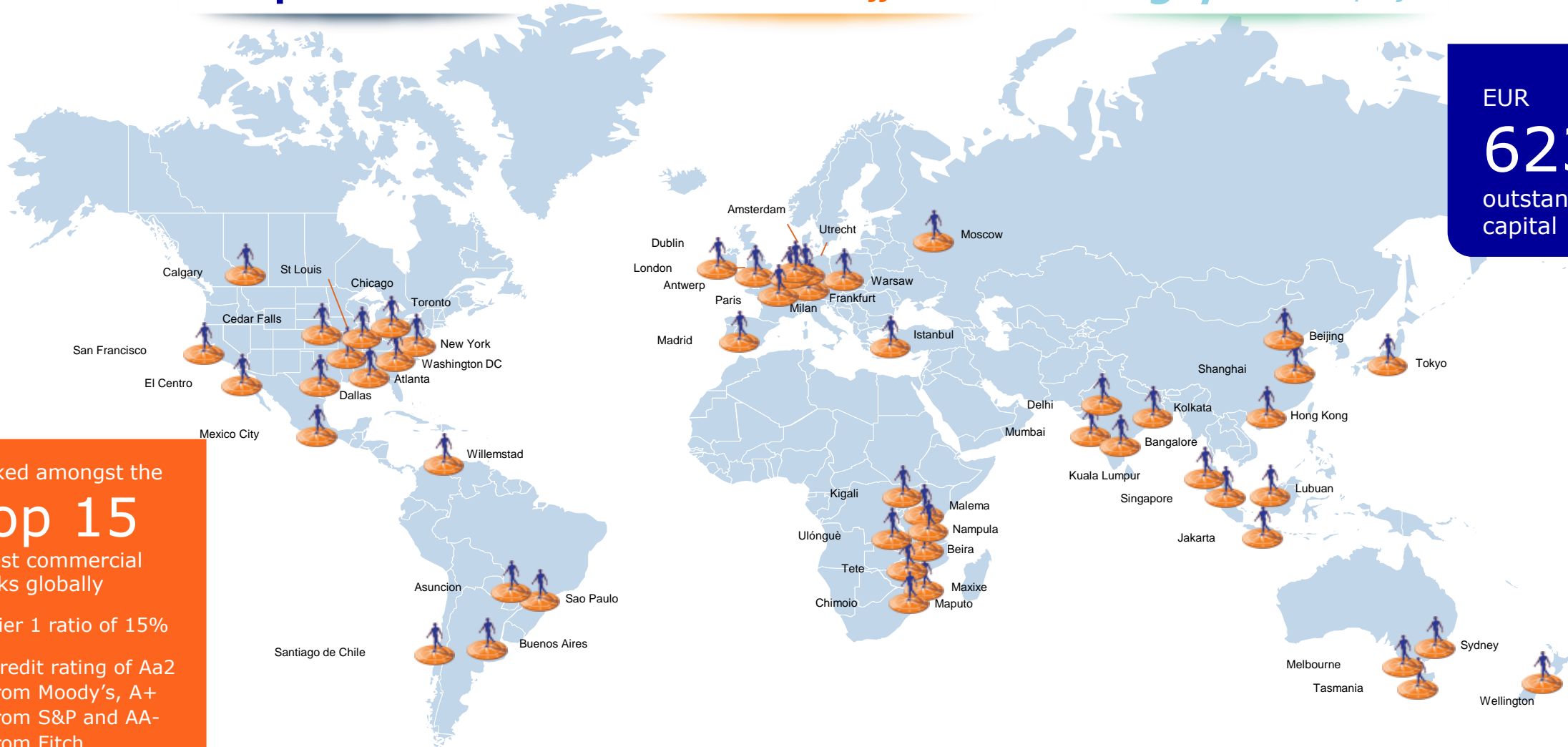
Over 600 Offices

Over 50,000 Employees

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outstanding
capital

ranked amongst the
Top 15
safest commercial
banks globally

- Tier 1 ratio of 15%
- Credit rating of Aa2 from Moody's, A+ from S&P and AA- from Fitch





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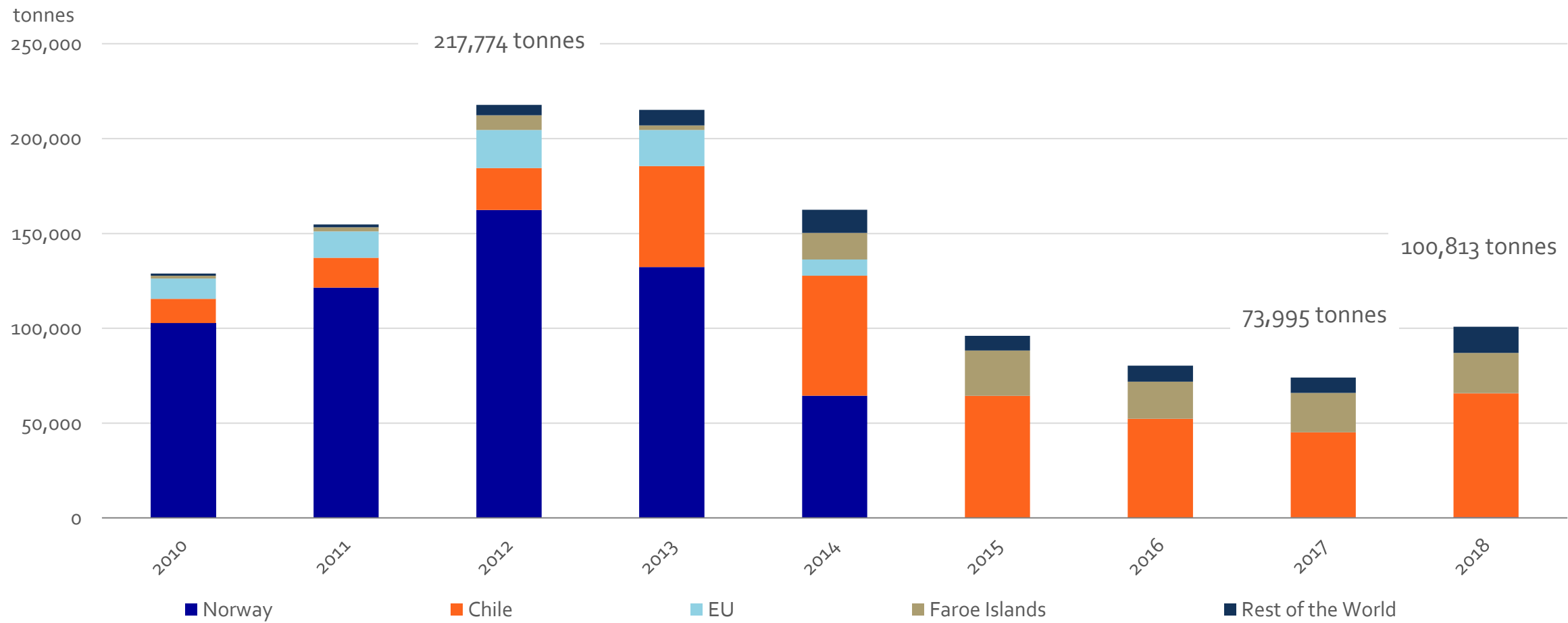


Update on the Russian Trade Embargo

In salmon, Russian imports dropped by half with Chilean and Faroe supply replacing Norway and EU



Russian salmon imports in volume

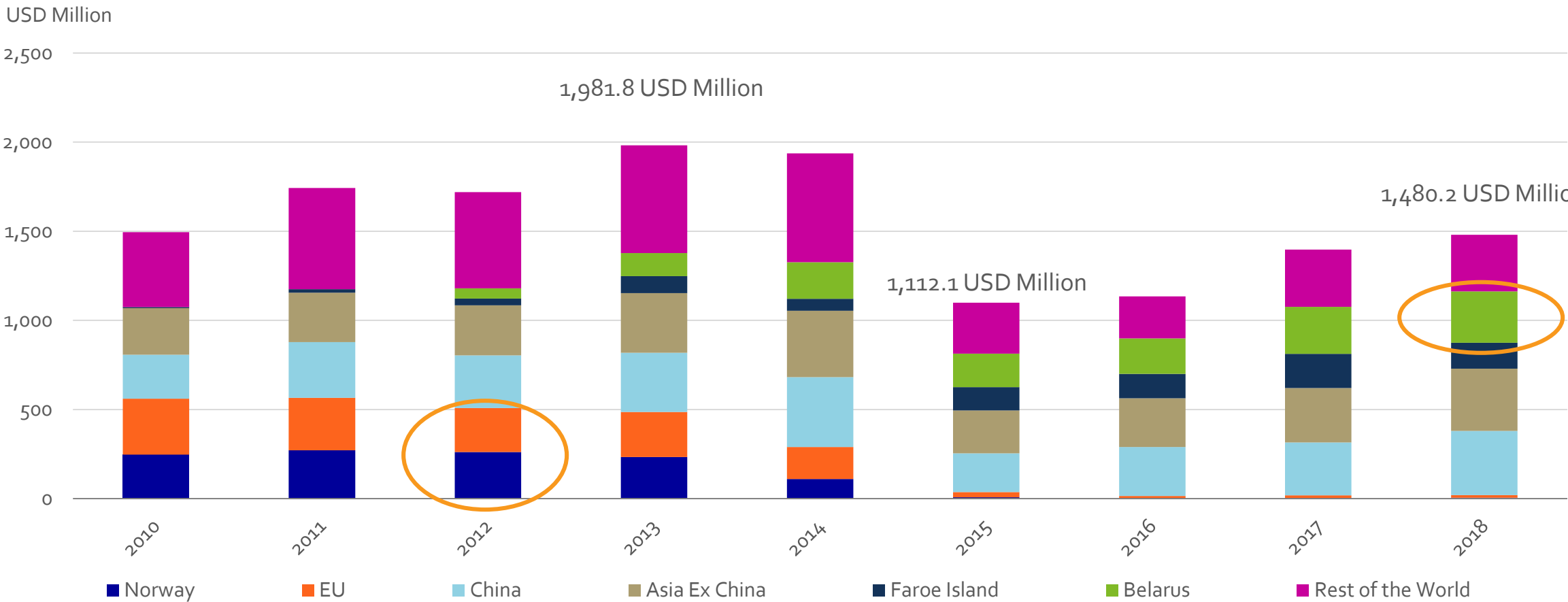


Source: Kepler Chevrax, Rabobank, 2019

In other seafood EU and Norway are out of the Russian market, with Belorussia is becoming a seafood exporter / transshipment region



Imports in value of all other seafood excluding salmon



Source: UN Comtrade, Rabobank, 2019

Russian now relies on non Western sourced seafood, with those that remain also declining

Russian top 10 suppliers of seafood, (Difference of 12 months, 08/18-07/19 to 08/17-07/18)

Supplier Country	Value (USD Million)	Change	Volume (tonnes)	Change
Chile	440	-0.7%	70,961	-2.6%
China	360	6.6%	106,658	6.5%
Belarus	291	-3.4%	75,154	3.7%
Faroe Islands	279	-26.4%	138,990	-7.3%
Vietnam	92	-15.1%	24,195	-14.5%
India	85	-7.6%	18,124	-10.0%
Turkey	84	37.1%	17,711	43.1%
Argentina	79	26.7%	20,484	24.9%
Greenland	51	-47.1%	18,271	-53.2%
Ecuador	47	20.6%	13,846	7.5%

But Russia still exports to the EU, albeit with a gradual decline recently and a refocus on China and Korea

Russia's top 10 export regions of seafood, (Difference of 12 months, 08/18-07/19 to 08/17-07/18)

Supplier Country	Value (USD Million)	Change	Volume (tonnes)	Change
China	1,767	44.5%	1,108,042	20.1%
South Korea	1,503	19.2%	423,378	5.2%
EU 28	868	0.5%	139,154	-11.9%
Japan	326	26.1%	53,111	5.8%
Belarus	93	31.6%	40,987	13.1%
Ukraine	50	15.3%	34,228	12.1%
Kazakhstan	40	66.3%	18,563	69.1%
Norway	29	5.7%	8,284	5.4%
Thailand	23	823.1%	9,912	918.3%
US	19	60.1%	2,513	23.0%

Russian embargo update: Still no access to this market for the West, except via grey channel, but a big win for the Russian industry



Who lost

- Norway and the EU have lost well over a 1,5 BLN euro of exports to Russia, but at least for the salmon part (c.2/3 of the value) the trade has been successfully diverted with only a temporary price impact
- Initially Chilean suppliers were highly negatively impacted due to price impact of Norwegian salmon diverted from Russia to their core markets such as US and Japan
- Russian consumers have no access to many seafood products from the West and face higher prices.



Who benefited

- The Russian domestic fishery and growing aquaculture industry are the key beneficiary as they have a protected domestic market but also remain exporters to the EU
- Belorussia is now a key exporter to Russia (\$300m in 2018 up from \$65m in 2012), part of this is processed or just transhipped western seafood
- Chilean and Faroe salmon exporters enjoy sole access to the Russian market
- China, Turkey, and Vietnam are the other non western regions increasing exports to Russia but these are not the same products which were lost due to the embargo

Update on Brexit

Brexit is 15 days away: “No ifs, no buts!”



On **March 29**, the MPs voted against Theresa May's Brexit withdrawal agreement for a third time

In a series of indicative votes it became clear that there was no majority for any sort of Brexit – apart from a majority against a no-deal Brexit

Theresa May handed over the keys to Downing Street 10 to Boris Johnson on **July 24**

Delivering Brexit is his top priority. The UK will be out of the EU by **October 31**, “no ifs, no buts”

But Boris Johnson faces the same political dynamics and the backstop remains unresolved...

The backstop... Is an if, and a but!



From December 2017!

*"In accordance with the principle that **nothing is agreed until everything is agreed**, individual items cannot be settled separately"*

The UK and the EU agreed in December 2017 that there should be a **legal guarantee** to avoid a hard border under all circumstances

This became known as the backstop: a temporary customs union that encompasses the whole of the UK, not just Northern Ireland

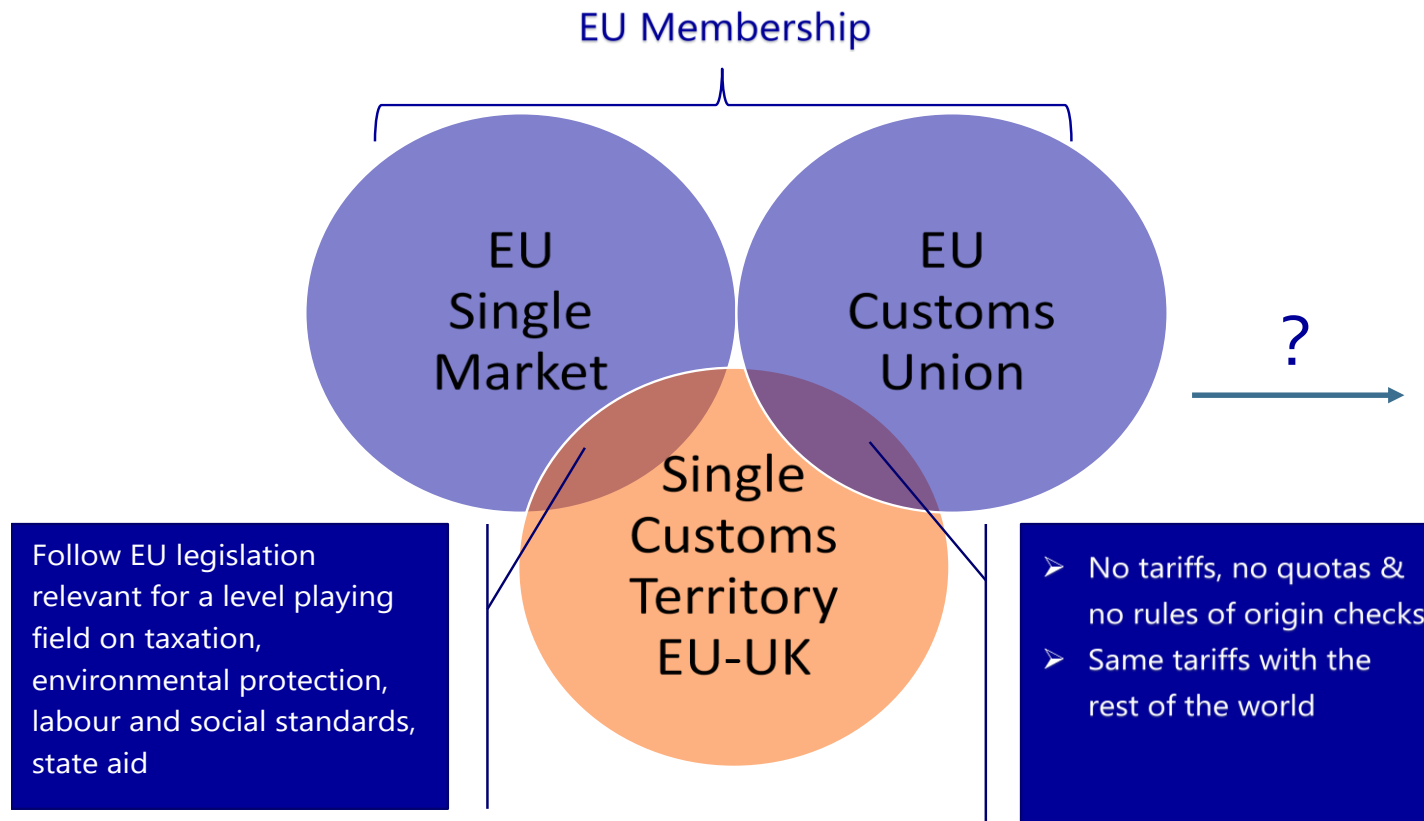
The backstop only ceases to apply if "the EU and the UK decide jointly" that it is no longer necessary, for instance when **alternative arrangements** supplant the need for it

The EU and the UK **won't have the unilateral right** to bring the backstop to an end. There is also **no time limit**

Johnson has pledged to ditch the backstop, ratcheting up talk that a **no-deal Brexit on Oct 31 is the inevitable alternative**

It is obvious that the UK and the EU/Ireland are **too entrenched** in their positions to climb out of this before the deadline

UK could establish a single customs territory with the EU but “the impossible trinity” remains an issue



Impossible trinity

- (1) frictionless border between Northern Ireland and Ireland
- (2) equal treatment Northern Ireland and rest of UK
- (3) UK can set independent trade policies with rest of world

Back to seafood: EU and the UK are major trading partners in seafood products with a large and diverse trade

2018

EU → UK	
Salmon	USD 505.4 million
EU → UK	
Whitefish	USD 254.0 million
EU → UK	
Shell fish	USD 199.9 million
EU → UK	
Pelagics	USD 108.2 million
EU → UK	
All Others*	USD 509.8 million
EU → UK	
Total	USD 1,577.3 million



UK → EU	
Salmon	USD 480.1 million
UK → EU	
Whitefish	USD 262.4 million
UK → EU	
Shell fish	USD 217.5 million
UK → EU	
Pelagics	USD 151.2 million
UK → EU	
All Others*	USD 651.0 million
UK → EU	
Total	USD 1,762.5 million

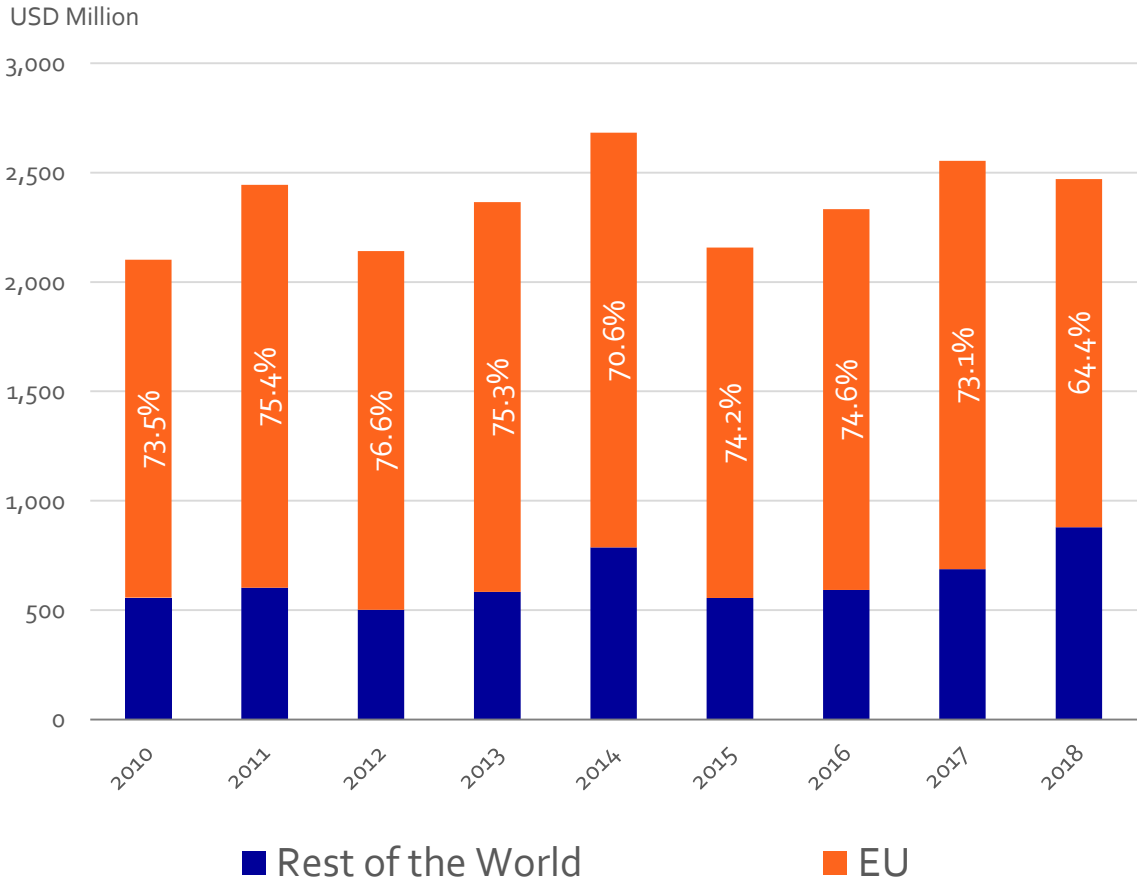
Source: UN Comtrade, Rabobank, 2019

Note 1: *All others include the following tuna, molluscs, cephalopods, fish meal & fish oil and others

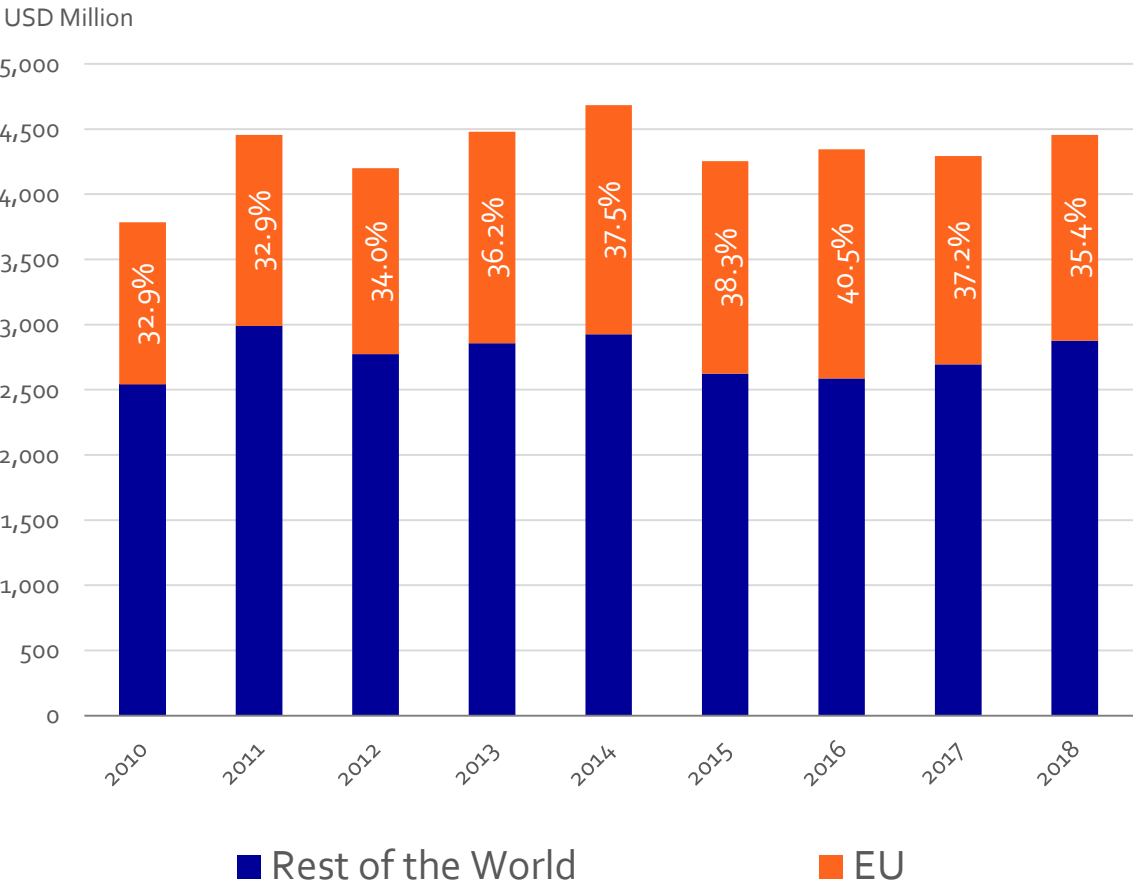
UK exporters are highly depended on the EU, although a shift towards non-EU markets is visible in 2018



Exports from UK to EU and ROW in value



Imports in UK from the EU and ROW in value



Source: UN Comtrade, Rabobank, 2019

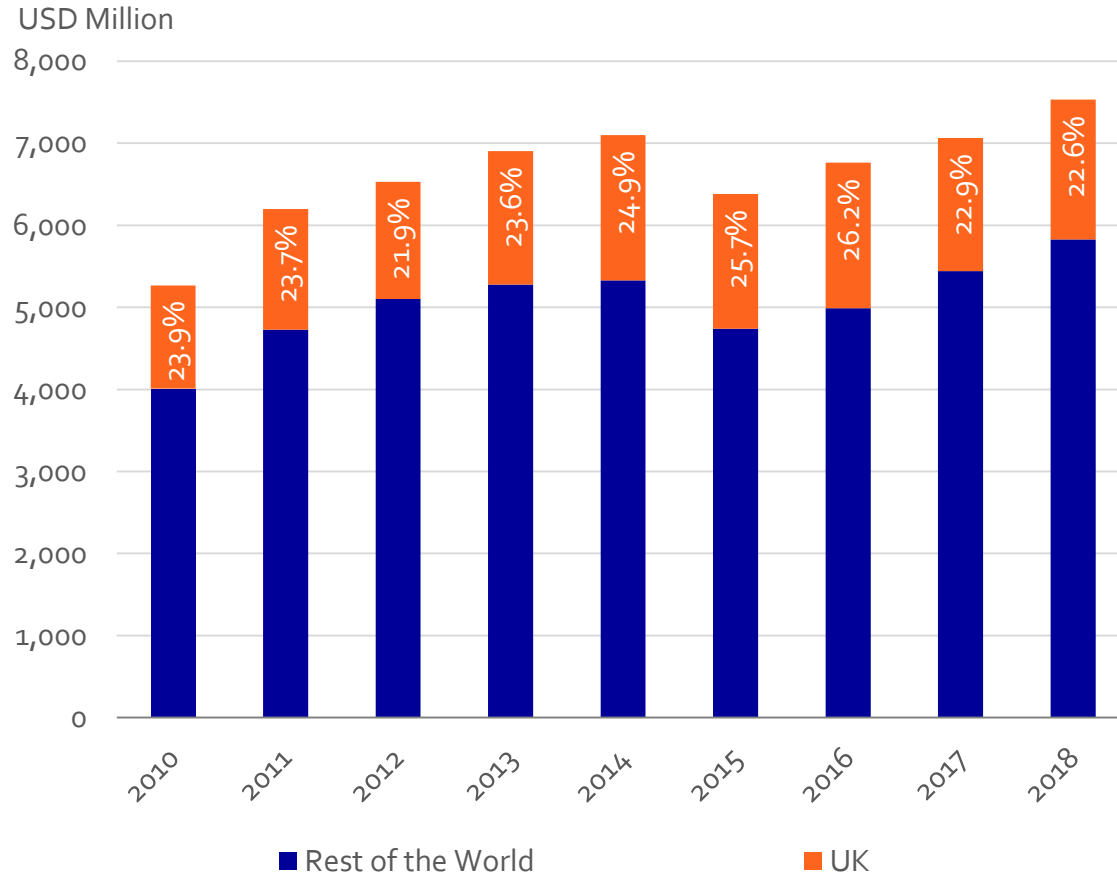
In 2018 UK seafood importers substituted EU seafood for other sources

UK's top 10 suppliers of seafood, (Difference of 12 months, 07/18-06/19 to 07/17-06/18)

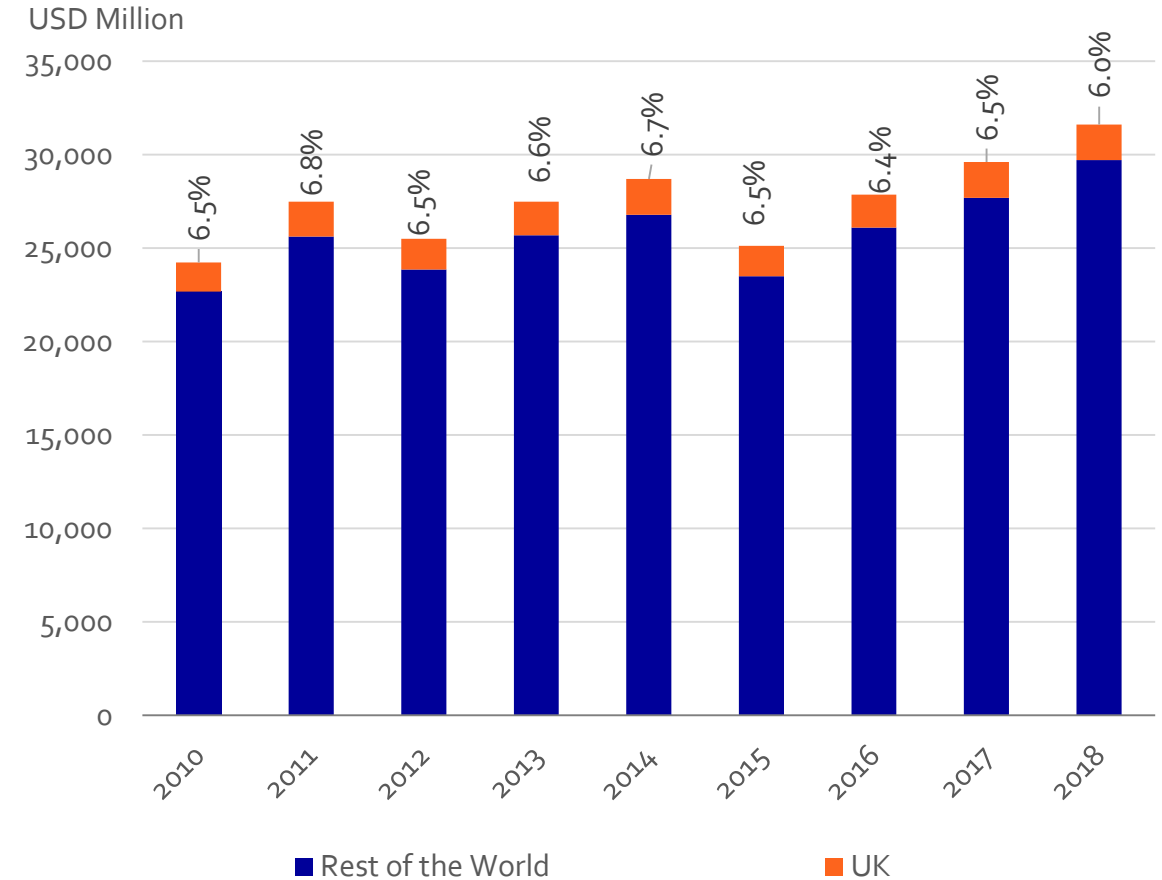
Supplier Country	Value (USD Million)	Change	Volume (tonnes)	Change
EU 26	1,458	0.4%	236,898	-30.0%
Iceland	406	10.4%	60,510	9.3%
Vietnam	320	11.4%	40,761	12.3%
China	312	6.8%	66,605	-3.7%
Faroe Islands	293	18.6%	38,693	20.5%
Norway	178	16.7%	33,195	3.9%
India	141	-20.5%	17,910	-10.3%
Canada	119	-20.2%	9,950	-28.8%
Russia	106	1.5%	16,828	-8.5%
Ecuador	100	-1.6%	18,087	-5.8%

For the EU the UK is less critical but still a very relevant seafood trade partner, primarily in terms of exports

Exports from the EU to UK and ROW in value



Imports in the EU from UK and ROW in value



And also from an EU perspective trade with the UK is declining recently

EU27's top 10 suppliers / export designations of seafood, (Difference of 12 months, 07/18-06/19 to 07/17-06/18)

Export Destination	Value (USD Million)	Change
UK	1,598	-4.9%
US	819	14.4%
China	778	22.9%
Norway	492	13.3%
Switzerland	443	-6.0%
Japan	427	24.3%
Nigeria	220	2.1%
Morocco	147	-18.0%
South Korea	128	-3.2%
Ukraine	121	10.5%

Supplier Country	Value (USD Million)	Change
Norway	8,885	-0.4%
China	2,061	5.9%
UK	1,886	-4.2%
Ecuador	1,490	-1.5%
Morocco	1,448	-1.3%
Iceland	1,358	8.4%
Vietnam	1,088	-9.9%
US	1,006	1.8%
Argentina	833	4.3%
India	828	-19.5%

Brexit: already a visible decline in EU-UK trade, as companies try to diversify the risk



Who loses

- EU exporters to the UK at the moment are losing the most, down 30% in value. Also EU fishermen will probably need to reduce the fishing they do in UK waters
- Also UK exporters are exporting less to the EU, down 4% in value and 13% in volume. If Brexit does happen with no deal UK exporters, such as Scottish salmon and fishermen will be the hardest hit
- Trade with RoW is gaining significance in for both regions
- This could be coincidence as trade has a natural volatility, but it is noteworthy that in the last decade the UK has never relied less on the EU as an export destination, now down from 74% to 63%. But it can also be strategic diversification of companies to mitigate risk. Or the products are re-routed to reach the final market directly e.g. Norwegian salmon which may have been exported via Denmark now goes directly to the UK



Who benefits

- Third countries can benefit, increasing their market shares in the UK and EU as trade declines.
- Impossible to entangle who exactly benefits but at least in the UK market Norway, Iceland, the Faroe Islands have increasing volumes of sales (but this is also supply side related)
- Could there be a grey channel such as Belorussia or Vietnam forming in Western Europe?



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Update on US – China Trade War

Increase in import tariffs from US against China and vice versa (in billions of US dollars)

● = US against China

● = China against US

Trump levies import tariffs on steel (25%) and aluminium (10%)

The US implements tariffs on USD 50bn of Chinese export goods (mainly electrotechnical goods), in two tranches of USD 34bn and 16bn

The US ups the ante on 24 September, by raising tariffs on USD 200bn of Chinese export goods (e.g. electrotechnical products, rice, textiles)

Will all bilateral trade between China and the US be subject to higher tariffs?



* 10%-25%
* 15%-25%

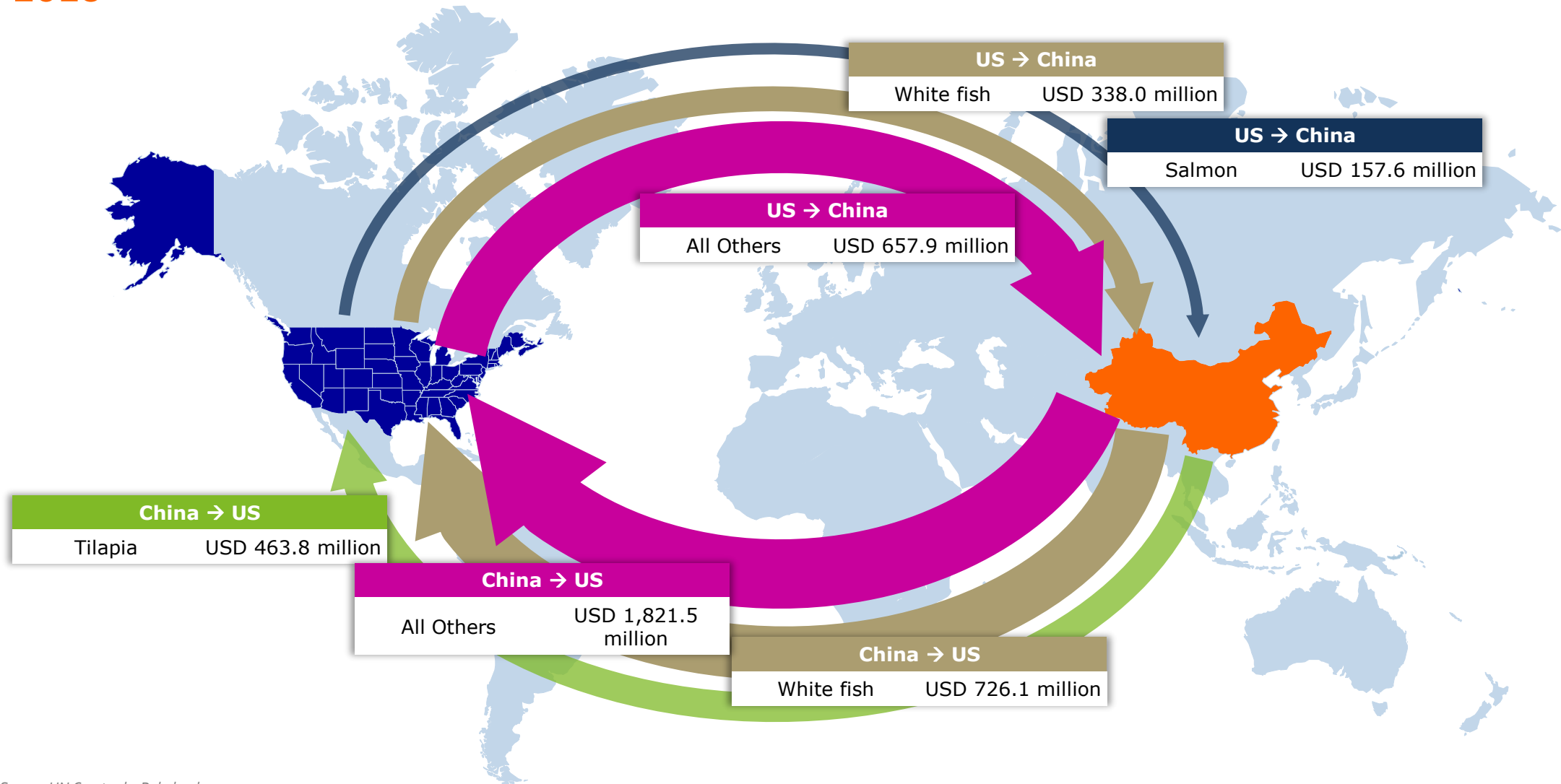
* 25%
* 25%



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US – China seafood trade flows, groundfish, wild salmon and tilapia are the main traded products

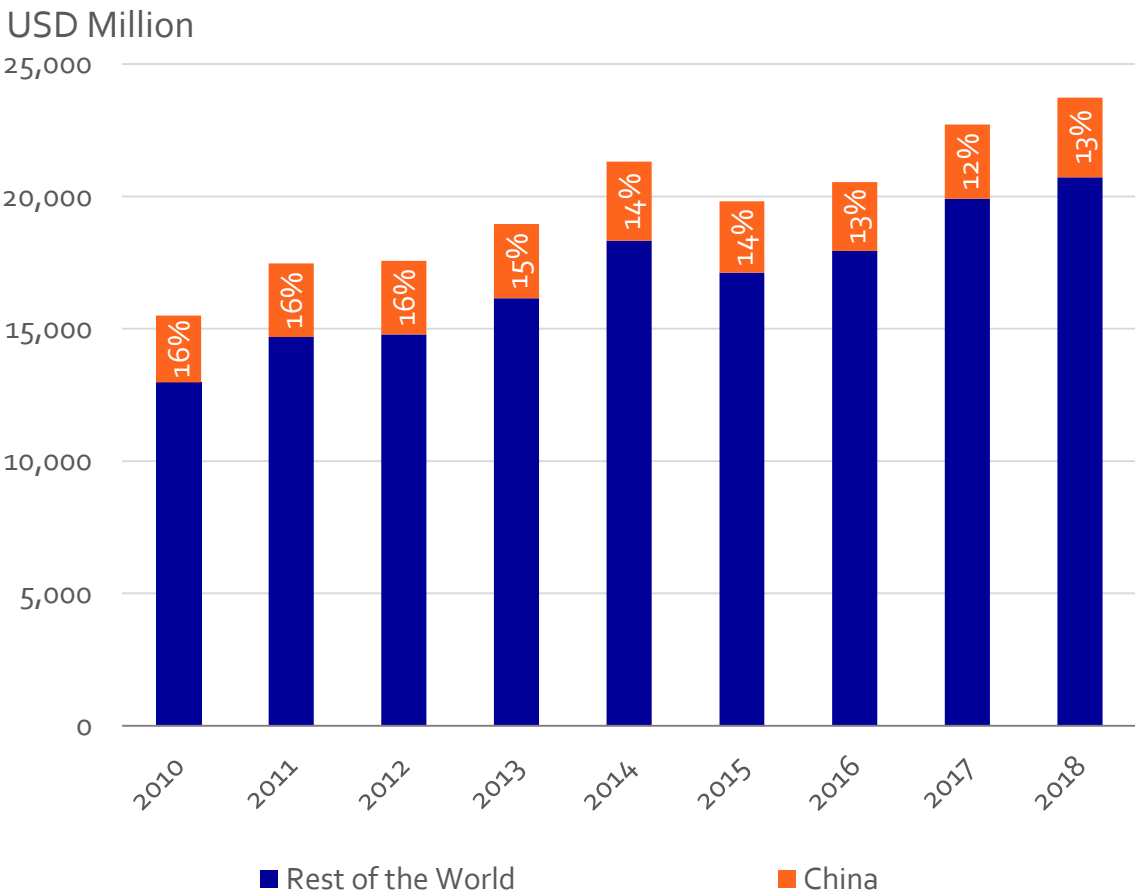
2018



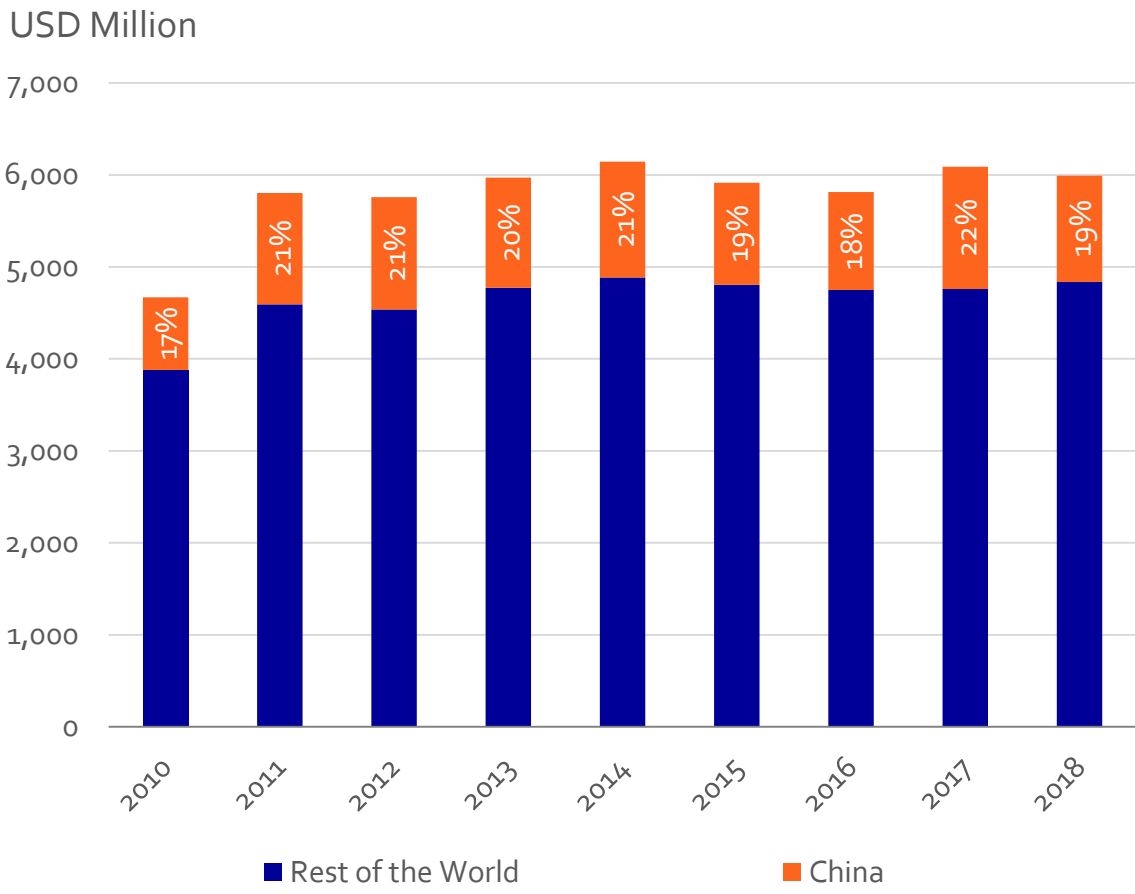
From a US seafood industry perspective: Significant but not critical dependence on China for imports and for exports



Imports in the US from China and ROW in value



Exports from the US to China and ROW in value

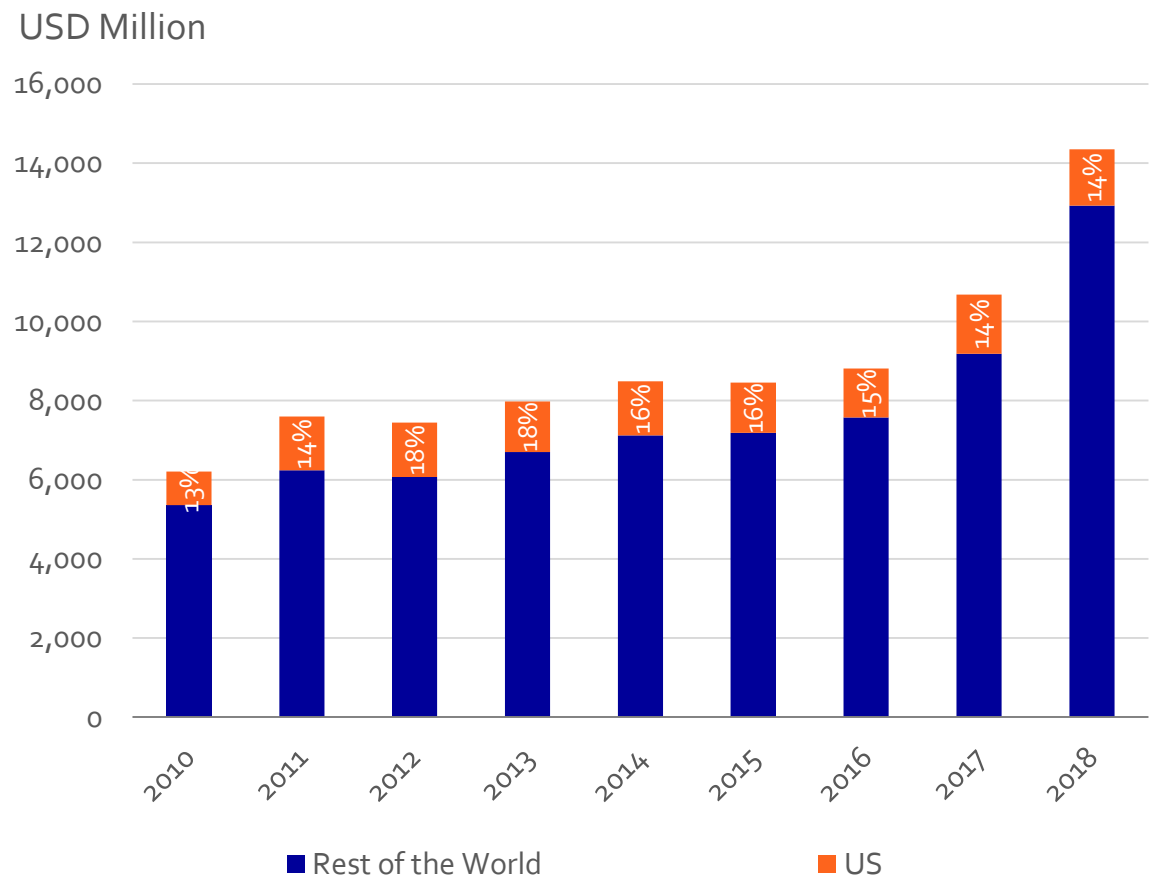


Source: ITC, Rabobank 2019

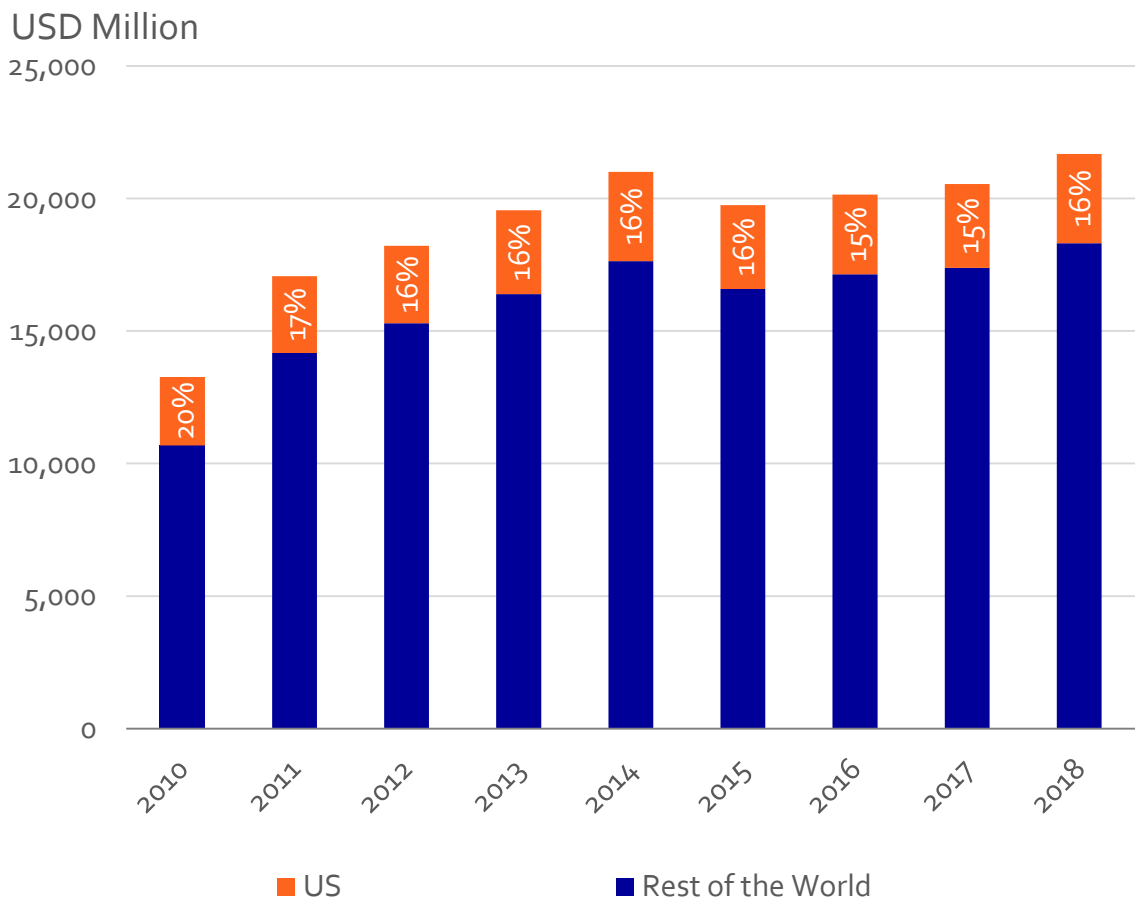
Same for China, trade with the US is significant but not critical as a source of import or a destination of exports



Imports in China from the US and ROW in value (grey channel not included)



Exports from China to US and ROW in value



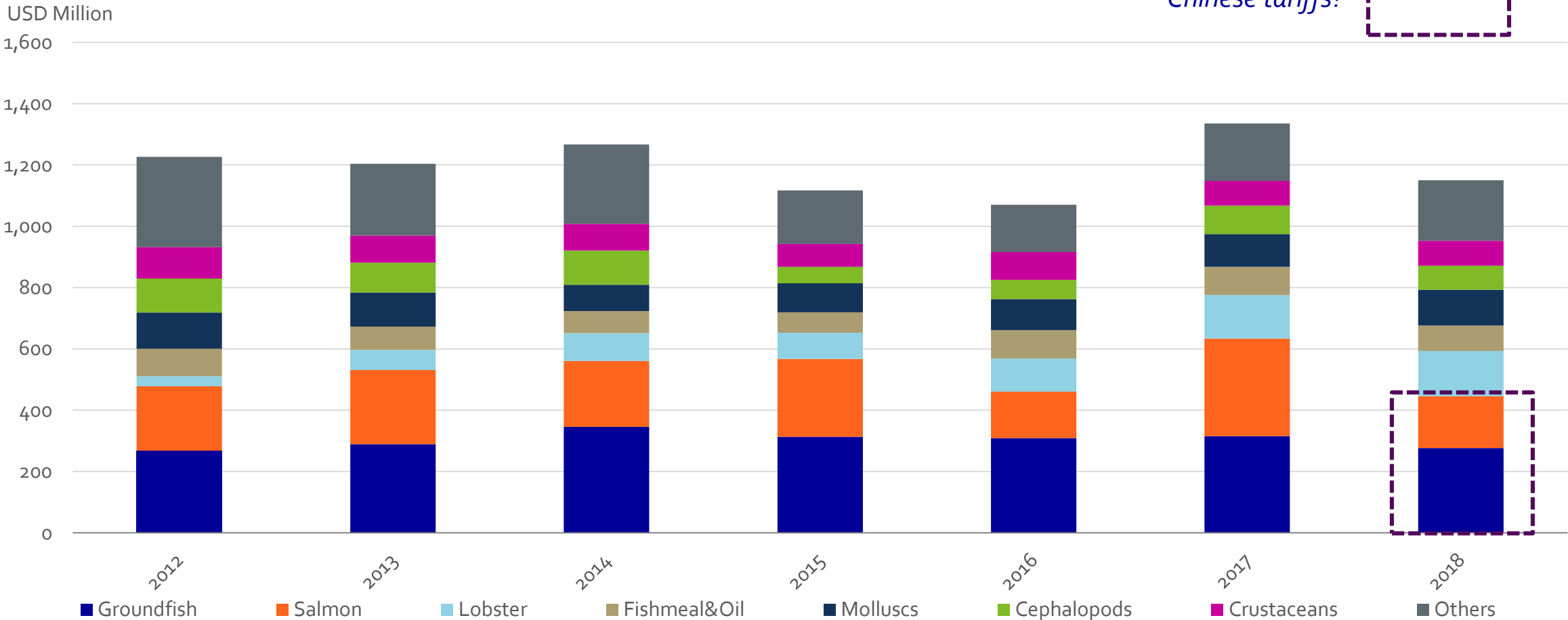
Source: ITC, Rabobank 2019

US to China exports are dominated by groundfish and salmon, a lot of this is for reprocessing and so far exempt from tariffs



US exports to China per species group in value

So far exempt from Chinese tariffs?



Source: NOAA, Rabobank, 2019

US- China trade war resulting in rapid decline of US exports to China

China's top 10 suppliers of seafood, (Difference of 12 months , 07/18-06/19 to 07/17-06/18)

Supplier Country	Value (USD Million)	Change	Volume (tonnes)	Change
Russia	2,319	42%	1,123,952	13%
Canada	1,100	26%	125,257	3%
Ecuador	993	283%	180,400	327%
US	989	-36%	319,987	-29%
India	777	358%	240,829	440%
Australia	690	31%	17,688	11%
Vietnam	653	68%	203,096	47%
Norway	617	9%	168,676	-16%
Indonesia	588	34%	202,676	29%
Chile	507	23%	55,251	5%

Zooming into the products China imports from the US, we see decline in key products for reprocessing

China's top 10 imports of US seafood, (Difference of 12 months , 07/18-06/19 to 07/17-06/18)

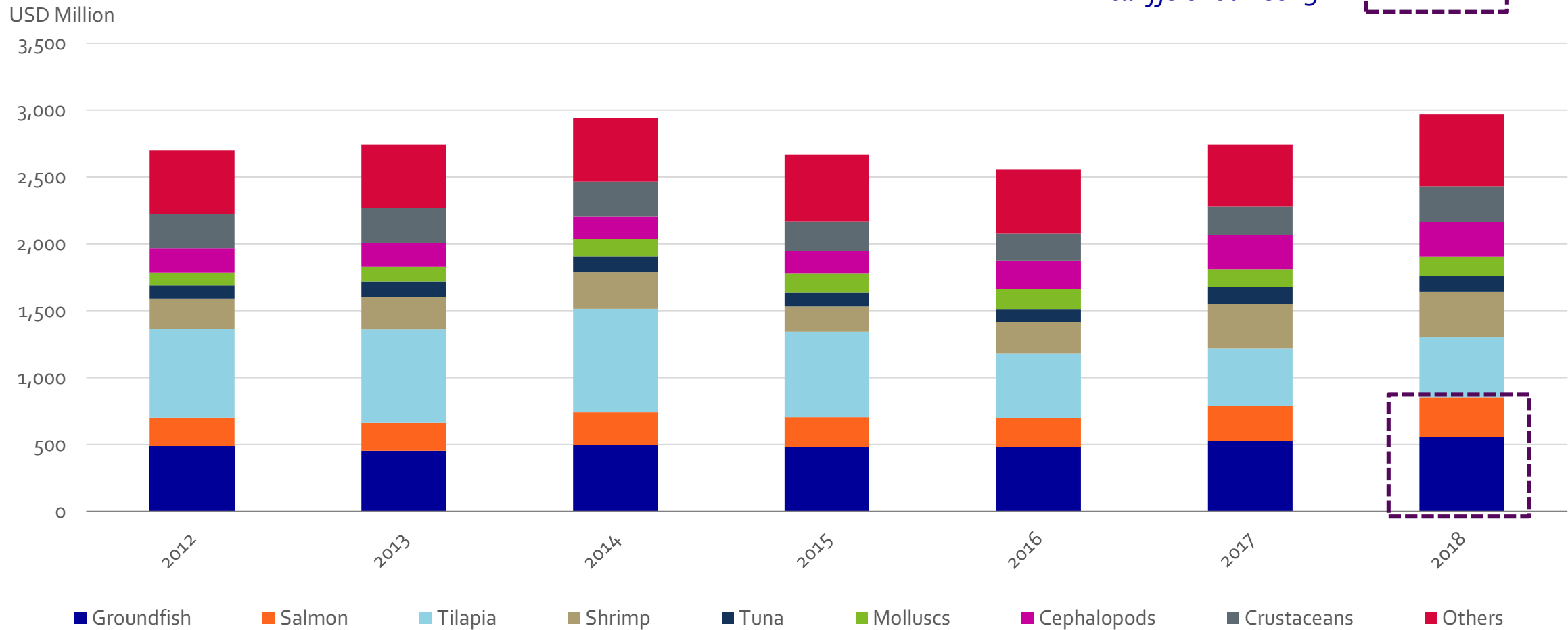
HS Code	Product	Value (USD Million)	Change	Volume (tonnes)	Change
03033900	Whole frozen flat fish	196	-3%	104,113	-6%
03031200	Whole frozen Pacific salmon	136	-56%	38,926	-62%
03036300	Whole frozen cod	91	-37%	24,261	-37%
03038990	Frozen fish, nes	89	-3%	34,506	6%
03036700	Frozen Alaska Pollack	66	12%	44,961	-8%
03079190	Live, fresh or chilled molluscs	65	-27%	1,930	-27%
03074310	Frozen cuttle fish and squid	60	-40%	22,175	-42%
03063399	Live, fresh or chilled crabs	60	-49%	3,787	-40%
03063190	Live, fresh or chilled rock lobster and other sea crawfish	47	2%	1,928	34%
03063290	Live, fresh or chilled rock lobsters	25	-86%	1,420	-84%

China exports 2,5 to 3 BLN to US , tilapia and re-processed white fish, wild salmon and shellfish



Chinese exports to US per species group in value

Part of this exempt from US tariffs until Dec 15th?



Source: NOAA, Rabobank, 2019

US imports from China show only a mild decline if seen on a full year but ...

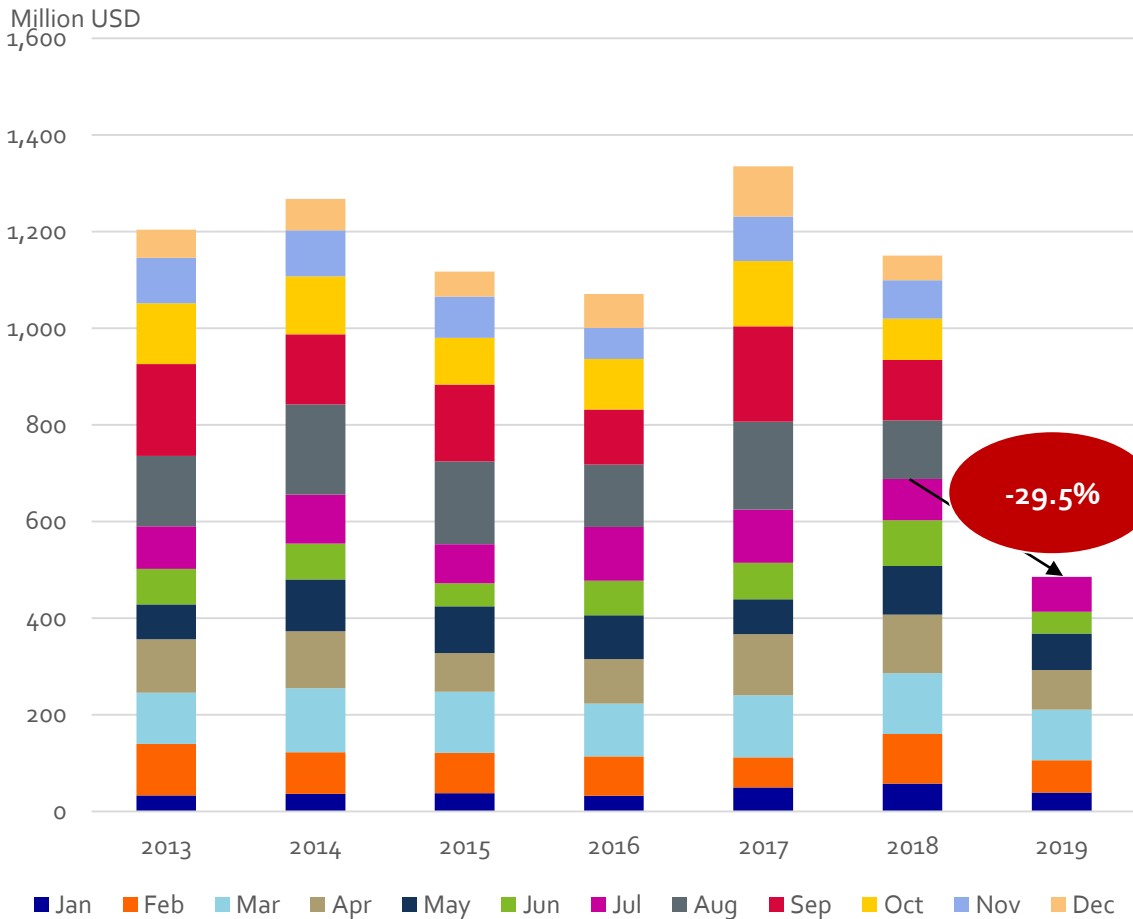
US's top 10 suppliers of seafood, (Difference of 12 months, 07/18-06/19 to 07/17-06/18)

Supplier Country	Value (USD Million)	Change	Volume (tonnes)	Change
Canada	3,283	-0.8%	270,114	-4.5%
China	2,665	-2.7%	522,891	-3.9%
India	2,426	-2.6%	281,785	13.8%
Chile	2,347	10.0%	198,838	10.3%
Indonesia	1,903	-5.2%	191,328	1.3%
Vietnam	1,695	16.9%	244,468	14.4%
Thailand	1,251	-15.1%	159,823	-13.8%
Norway	966	9.6%	84,275	1.8%
Ecuador	833	-1.0%	126,075	11.3%
Mexico	660	-2.6%	82,876	-0.9%

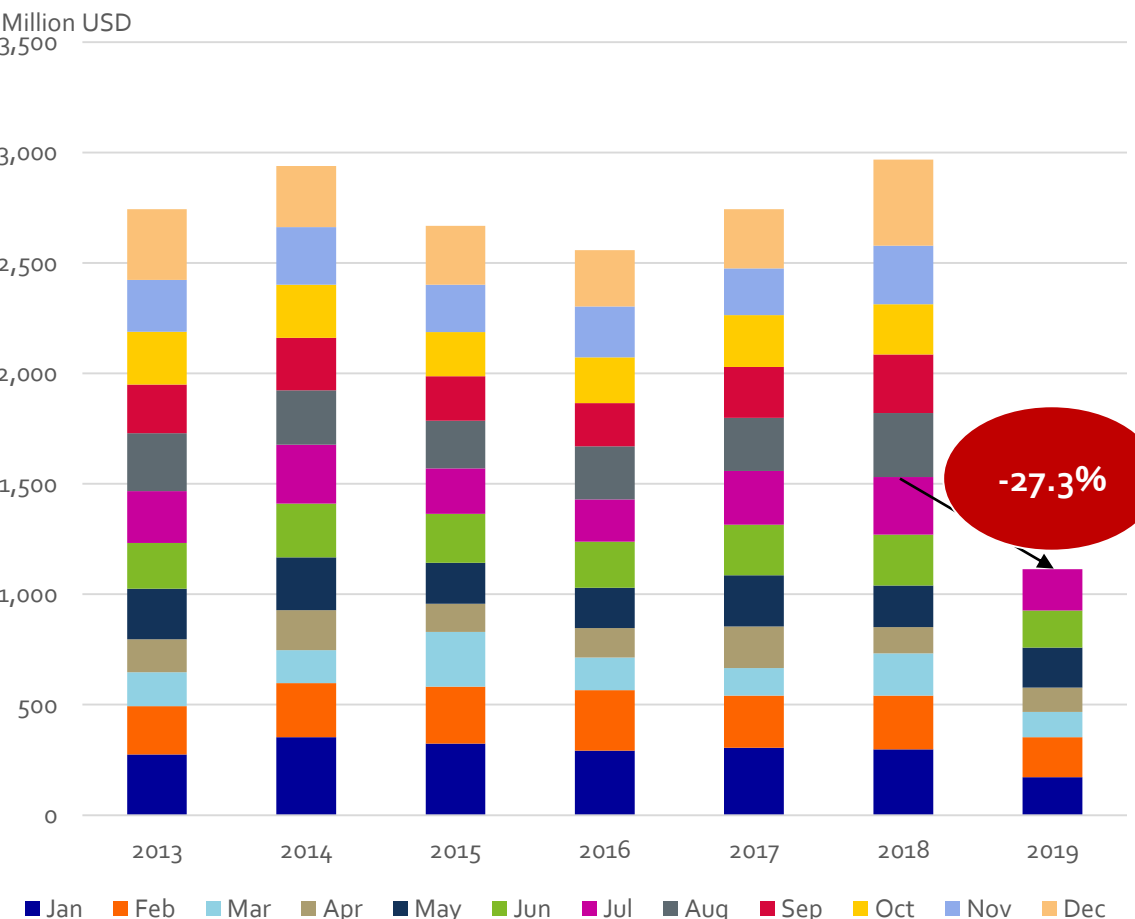
... the trade decline is much more pronounced in more recent months and we expect this to accelerate



US exports to China in Value



Chinese exports to US in Value



Source: NOAA, Rabobank, 2019

US-China trade war: Chinese seafood industry to suffer more than US, but there are global repercussions



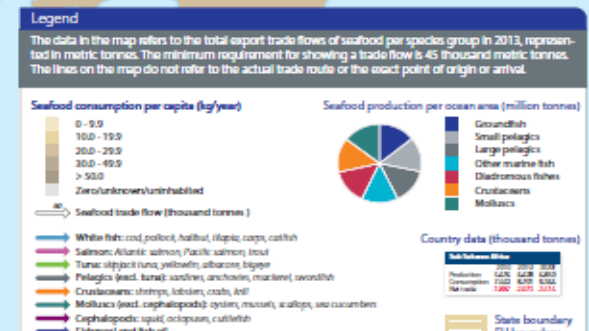
Who loses

- China should be impacted relatively more than the US due to:
 - Much higher dependence on US as a market, especially for Tilapia and a few other products such as breaded shrimp
 - Reprocessing sector (white fish, wild salmon, tuna) has US both as a customer and raw material supplier
- The reprocessing industry in China already started reducing trade with the US in 2018 with more declines occurring in 2019. US importing less from China only after the 25% tariff kicked in
- Currently seafood trade is down 30% on both sides. And we expect this number to become higher (unless there is a deal). A part of the US exports to China are for re-export while exempt for tariffs trade seems to be adjusting already
- Chinese exporters to US will need to find a new market, with the domestic market as the most obvious option, especially given the ASF crisis



Who benefits

- Competitors to the most affected Chinese exporting sectors for e.g. Vietnamese Pangasius, Indonesian Tuna exporters, Asian shrimp exporters
- Russia is an ever more important supplier to China. Also Canada, Australia and others replace US products in China
- Perhaps on the long term alternative re-processors of seafood from the US, could be domestic or other low cost regions
- China is closing the Vietnamese grey channel, but others will develop in view of the large trade tariffs.



The most traded protein, seafood, is under threat from trade wars

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