



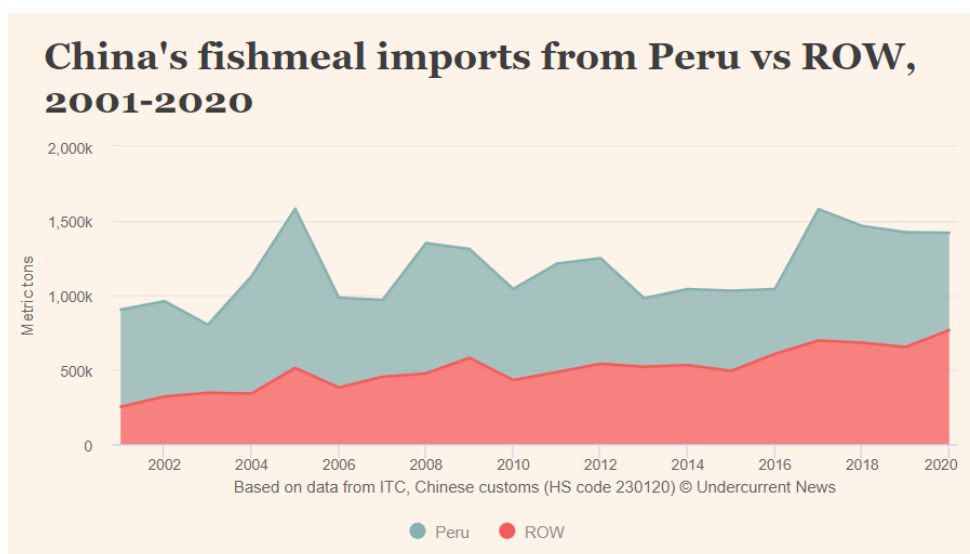
## China's annual fishmeal imports from beyond Peru top \$1bn

Chinese imports of fishmeal from outside Peru surpassed \$1 billion for the first time in 2020.

James Frank, managing director of MSICeres, a Peruvian fishmeal trading company, told Undercurrent News Chinese importers were being "smart" by broadening their fishmeal supplies beyond Peru, but said the Latin American country had little to fear.

"It's not because they [China] want to buy more from other origins necessarily, but because Peru didn't have enough," he said, referring, in particular, to the poor Peruvian anchovy fishing season of late 2019 which led to tight supply in early 2020.

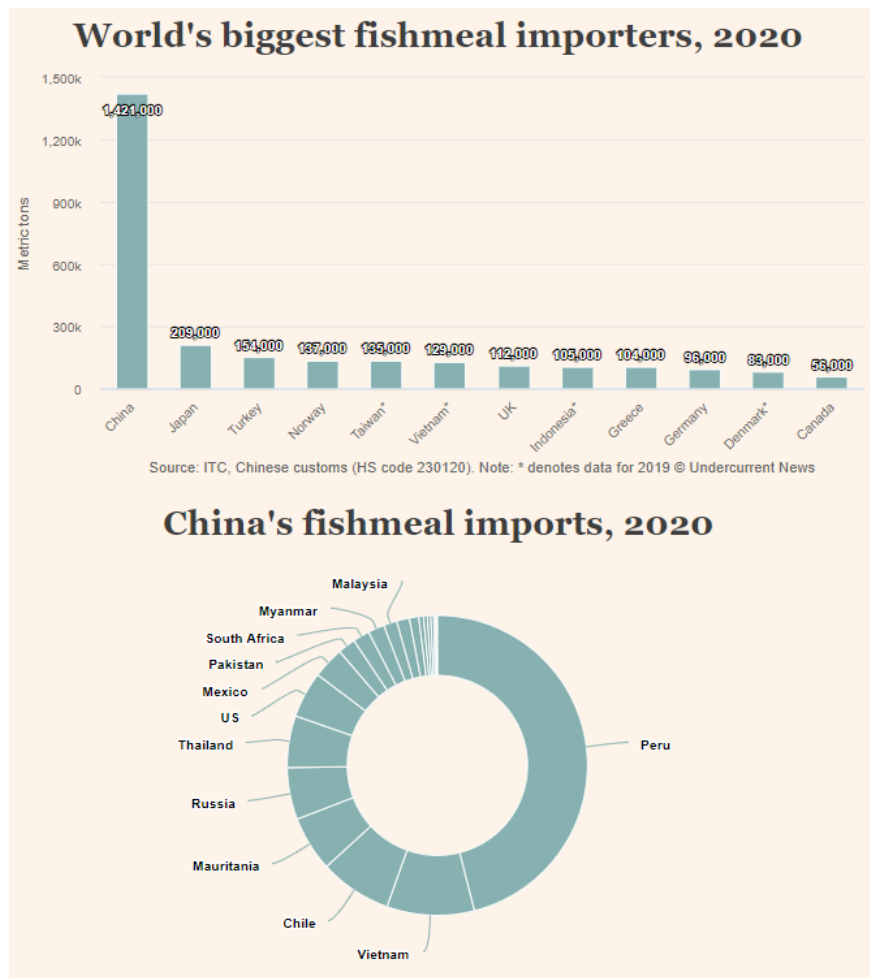
Chinese imports from origins excluding Peru (ROW) topped 767,000t last year, up 17% year-on-year, while the value of ROW imports grew 26% y-o-y to \$1.05bn, according to Chinese customs data.





This saw China import more fishmeal from the likes of Mauritania and Myanmar, countries that have seen fishmeal production skyrocket in recent years mainly to feed Chinese demand.

China's insatiable appetite -- the country imports more fishmeal than the next 12 largest fishmeal importers combined -- has seen buyers increasingly hedge against El Nino events and other factors that can disrupt supply from Peru, to ensure a stable supply.



Last year, China imported 654,000 metric tons of fishmeal from Peru, down 15% y-o-y, but overall imports stayed flat at 1.42 million metric tons, according to Chinese customs data. ROW imports of 113,000t

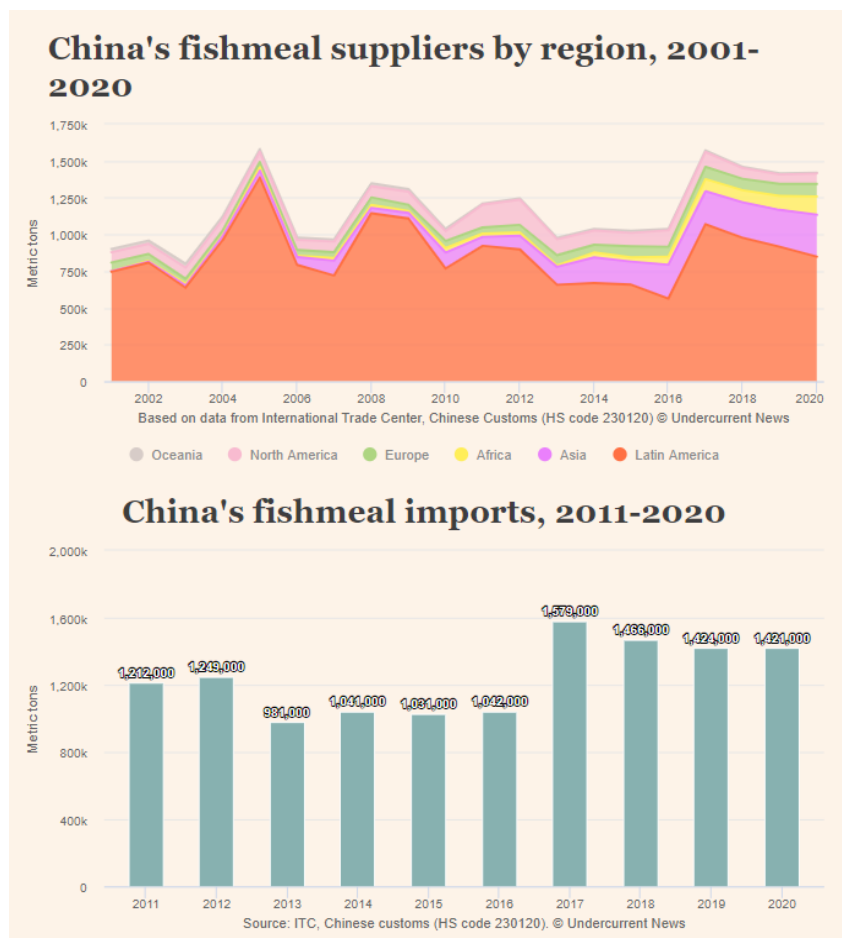




filled the gap, equivalent to total UK imports last year, the world's third-largest producer of farmed salmon.

The biggest absolute increase in volume was from Chile, with 110,000t of imports in 2020, up 73% y-o-y. Next came Mauritania, up 28% to 84,000t, followed by Thailand, up 40% y-o-y to 79,000t. Supplies also grew significantly from South Africa (up 398% to 25,000t), Myanmar (up 57% to 25,000t), and Malaysia (up 49% to 20,000t).

Overall, China's imports from Latin American countries excluding Peru increased by 33% y-o-y to 194,000t; from Asia, by 14% y-o-y to 286,000t; and from Africa, by 31% y-o-y to 125,000t. Largely thanks to a tariff exemption for imports from the US implemented in September of 2019, China's imports from North America increased 9% y-o-y to 71,000t.



Frank said despite China's pursuit of other sources, importers will still pay a premium for Peru's high-quality fishmeal. Fishmeal from Asian origins is produced largely from multi-species fisheries, rendered into fishmeal from offcuts and discards, and so is of lower quality and price, he said.

However, with China importing 78% more fishmeal from the ROW in 2020 compared with 2010, and quadrupling imports from Africa over the period, the long-term trend is clear. "Everyone wants to market fishmeal to China nowadays," said Frank.

Frank reckons Peru will likely recover market share lost in 2021. Thanks to carryover from last year's bumper second season anchovy quota of 2.78m metric tons, first-quarter exports are set to be "fantastic", he said.

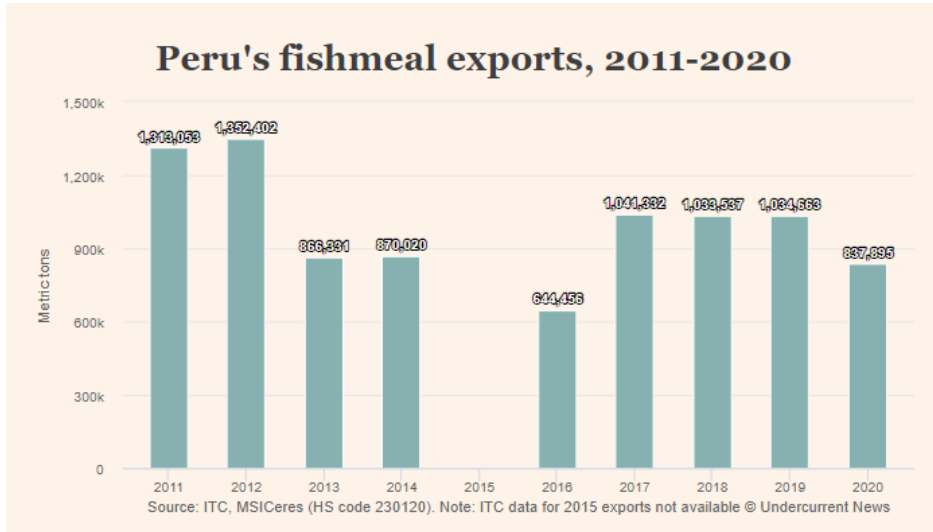
"We had a very nice carryover [of fishmeal] from the November, December 2020 production. We have a very good outlook for the April, May, June, and July production. And we will probably also have a very nice little quarter of fishing in November and December of this year," he said. "As the saying goes in Peru, as long we have fishmeal, we can sell it." He anticipates a first season anchovy quota of 2.5m-3.0m metric tons.

### Europe woes

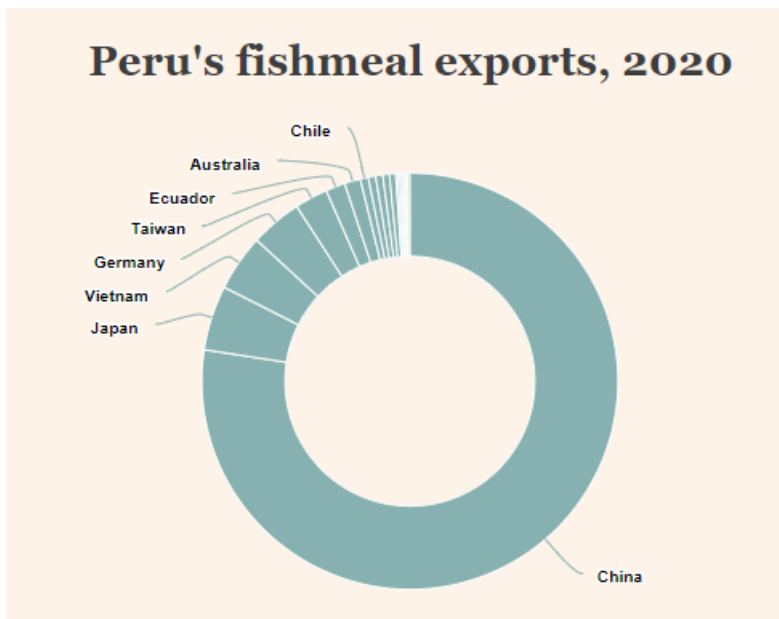
Looking more closely at Peru's exports, although China has diversified its supply, Peru's gaze remains firmly fixed on China.

Last year, due to the abovementioned poor catch in late 2019, Peruvian fishmeal exports contracted by 19% year-on-year to 838,000t. However, the share of exports to China rose by three percentage points to 77%, or 649,000t.





By comparison, Peru's exports to Europe contracted by 16% y-o-y to 43,000t, and stayed flat at 5% as an overall share. Exports to the Americas contracted by 41% to 27,000t, dropping one percentage point to 3% as an overall share.



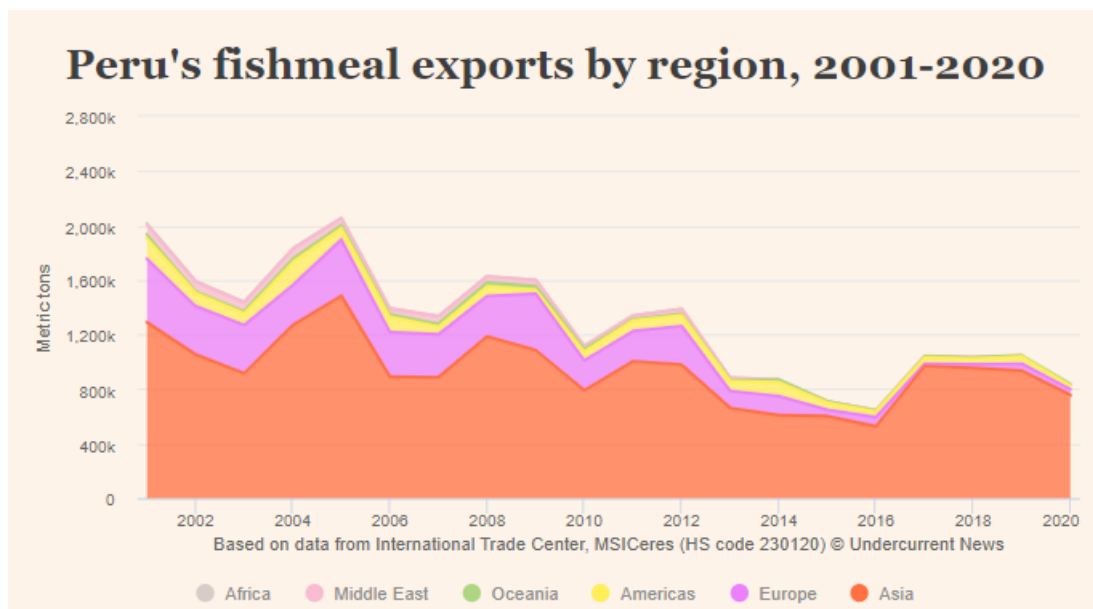
Frank worries Peru has become too dependent on the Chinese market. "Things used to be more balanced. The European market used to take 20% of Peru's exports, but then it started going down and down and down," he said.





EU worries about the health risks of ethoxyquin -- a petroleum-based chemical stabilizer used to prevent fishmeal from exploding while aboard bulk vessels -- mean importers in Norway and Germany demand Peruvian producers use more expensive butylated hydroxytoluene (BHT) as a fishmeal stabilizer. In contrast, China still allows ethoxyquin in fishmeal.

Freight costs to Europe are also higher at \$80/t compared with \$10-20/t to Asia, said Frank.



In the future, getting certified sustainable by the Marine Stewardship Council (MSC) could help. Last year, the Northeast Atlantic blue whiting fishery -- used to produce fishmeal for salmon feed -- lost its MSC status due to overfishing. Currently, Peru's anchovy fishery is certified sustainable by the MarinTrust, formerly IFFO RS.

However, Frank reckons MSC certification is some way off. "I believe the industrial fishing vessels could implement the [MSC] processes. But we have a lot of smaller wooden boats which makes it more difficult," Frank cautioned.





As long as prices remain firm, China will remain the main market for Peru; prices for superprime fishmeal have risen to \$1,650-\$1,700/t, up from \$1,400-\$1,450/t early last year, thanks largely to strong Chinese demand.

"For the first fishing season [of 2021] Peru has pre-sold about 210,000t [of fishmeal]. Europe has bought very little if any," he said.

### Peru's 'fishmeal menu'

When anchovy is caught, the race is on to get it to fishmeal plants. If a company doesn't have a plant nearby, it will instruct the vessel to land it at the plant of a third party. "There is a lot of trading between companies," said Frank.

Peruvian fishmeal producers market five main types of fishmeal. The main difference is protein content, but also total volatile nitrogen (TVN) -- representing freshness -- and histamines. A range of factors determines the quality of each grade.

'Superprime' is the highest quality, with a protein content of 68%, a low TVN of 100, and a histamine level of below 500. It is typically the freshest. Anchovy used should also be at least 12 centimeters in length.

Next is 'prime' fishmeal with 67% protein content, a TVN of 120, and histamine level below 1,000. 'Taiwan' prime and 'Thailand' prime follow with 67% protein content and TVN of 120 and 150 respectively. 'Standard' grade is last with a protein content of 65% and TVN of 150 or over. The last three grades have no guaranteed level of histamines.

Frank said when it comes to forward contracts, because neither buyer nor seller knows the quality of fish that will be caught each season, traders offer fishmeal "menus", mixing and matching different grades to suit different clients' needs. If more lower-grade fishmeal is produced in a season, buyers will receive a discount. Those who require superprime as a necessity -- Chinese



pig farmers prefer it for piglets as it is "as good as milk from a sow", said Frank -- are also assured of their supply.

For fish oil, forward contracts are more complicated, as oil and omega-three yields cannot be known until the fish is in the plant itself and the oil extracted, he said.

In a good year, 70% of fishmeal produced in Peru is either superprime or prime. "Every producer is trying to make superprime and prime because that is most cost-efficient in terms of production and efficiency for a plant," said Frank. This has led to the burgeoning science of fishmeal in Peru, as producers try to eke out most value.

"We've been doing this for 60 years. West Africa is just starting out. But they are also benefitting from everything the Peruvian industry has learned," he said..

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