

CRISIS LOOMS IN CHILEAN SALMON FARMING INDUSTRY

At first glance, one might wonder at the current anxiety in the Chilean farmed salmon industry. The industry enjoyed its most profitable year in 2008, exporting some 445,000 metric tons (MT) of product for US\$2.4 billion, both records. Farmed salmon prices in the USA – one of Chile's two primary export markets, with Japan – rose to a record \$5.30/kg in January.

But those numbers mask a crisis that has grown since the industry reported its first outbreak of infectious salmon anemia (ISA) mid-2007, a crisis that now threatens several years of turmoil and uncertainty for the industry and the regions in Chile that depend on it.

ISA is a virus that causes a deficiency of hemoglobin in the red blood cells of Atlantic salmon. It survives in sea water and is easily transmitted by contact with an infected fish or equipment. It causes a variety of deaths, from liver and spleen failure to circulatory failure. Scientists know little enough about the virus' infections that the standard method of control remains to eradicate an infected population.

Since the first outbreak in mid-2007, Chilean farmers have destroyed large volumes of their stocks. For example a producer named Yadrán recently reported that its earnings fell from \$9.5 million in 2007 to a loss of \$17 million in 2008 due in large part to the destruction of \$11 million worth of fish. But how did the industry as a whole post a record profit in 2008?

Since ISA's transmission rate is so high and the only option is eradication once a stock is infected, many companies have tried to salvage some of their investments by harvesting immature fish before they become infected. This practice led to the record export figures in 2008 at the expense of future production. The industry group SalmonChile reported that January inventories were down a whopping 61% from the same point last year.

Further darkening future prospects, many companies have hesitated to seed new fish, worried that if the ISA outbreak continues, it will consume these investments as well. SalmonChile reported January seeding volumes were 83% lower than last year.

Farmed Atlantic salmon reach a mature weight of 4.5kg after 18-20 months, meaning the early harvesting of 2008 inventories and the small 2009 seeding volumes will cause a collapse in production volumes that will last until mid-2010 at the earliest. Though grim, that basic calculation represents an unlikely best case scenario in which the industry contains and eliminates the ISA outbreak in time to resume normal operations by the summer of 2009. More likely, the industry faces skeleton production volumes into 2011 and beyond.

The industry group SalmonChile predicts a mild downturn, with harvests of 320,000MT in 2009 and 2010, followed by a return to strength in 2011. Based on its own inventory and seeding figures, this forecast seems out of touch with reality.

More in line with the inventory and seeding figures was a forecast given by a Marine Harvest executive in a recent FIS article. He predicted a production drop of 50% from 2007 levels to approximately 220,000MT in 2009, followed by an even more severe drop of 70% to 100,000MT in 2010 and 2011. Another source predicted output will not return to 2008 levels until 2015.

If these production estimates transpire, many companies in the industry will be forced to close their doors. Already the industry has amassed some \$2.5 billion in bank debt to finance ISA losses. Confronting a minimum of three years of skeleton production and a frozen global credit market, the industry faces a painful period of attrition as less capitalized companies run out of cash.

The industry's workers stand to suffer even more than their employers. Even as companies were enjoying healthy profits in recent years, wages in the industry have only averaged \$330 per month. This places a single income family of four just shy of Chile's poverty line of \$83 per person per month and means laid off workers face an extended period of unemployment with little or no savings and often some debt.

By November 2008, the industry had already laid off 7,500 workers since the ISA outbreak began. With major production cuts looming in 2009 and beyond, some estimate a further 10,000 workers could lose their jobs.

Although the salmon farming industry is not a major employer on a national scale, it is the only large scale employer in Chile's southern regions X and XI. Without subsidies for retraining or relocation, laid off workers in these two regions have little prospect for other employment.

The Chilean government recognized the threat to the industry and the southern economy and authorized \$120 million in loan guarantees and \$450 million in infrastructure credits to improve sanitation and productivity. But the industry grumbles that the \$120 million loan package stalled in the bureaucracy for over a month and is still less than half the \$250 million in new loans it estimates it will need to undertake recovery plans. With global credit markets frozen and a poor production outlook, it is difficult to see where the industry will fill this credit shortfall if not from more government loans.

Workers also grumble about the government plan. They wonder why the government has offered millions of dollars to companies that will continue to lay off workers into the foreseeable future rather than investing in job creation, retraining and relocation of laid off workers.

Sources: Wikipedia, FIS, Patagonia Times, New York Times, Forbes

Implications for frozen seafood buyers:

- Chilean producers are the main suppliers of farmed Atlantic salmon to the USA.
- They are also the world's main source of frozen farmed salmon – producers in other countries supply mainly fresh product.
- Therefore North American buyers will have no obvious source of frozen farmed salmon to replace the impending cuts to Chilean supply.
- Frozen wild salmon is an alternative, but buying patterns may have to adjust to its seasonal pricing and availability.
- Whatever alternative North American buyers choose, it is likely to become a long-term demand shift, as Chilean supply will not be able to regain its place in the market for several years.

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