



WAVE THE FLAG: The European Union has had its hiccups but continues to grow as a seafood market.

PHOTO: EUP-IMAGES / ANNA-MARIA ROMANELLI

Europe now is the world's No. 1 seafood market

In the face of a declining U.S. economy and softening dollar, Europe is playing an increasingly dominant role in the global seafood industry.

BY KARL ERIK STROMSTA

One lasting impact of the credit crisis is the realization, perhaps belatedly, the United States' importance within the global economy is on the wane.

It's become obvious to businessmen and policymakers alike the era of U.S. economic dominance is giving way to a new era in which the European Union plays a far more crucial role, particularly as a consumer bloc.

What is true of the wider economy is even more true for the seafood industry.

As it's expanded its borders to include new member countries in Eastern Europe, the 27-member EU has become the world's largest and most important

seafood market. The EU is no slouch in production terms, cranking out nearly 13 million tons of wild-caught and farmed fish last year, putting it behind China and Peru.

Nevertheless, Europe doesn't come close to supplying the seafood its needs to meet its voracious demand.

Last year, the EU imported approximately four times more seafood than it exported, chalking up a negative fish trade balance of €13.8 billion (\$21.4 billion) in the process, according to Glitnir Bank.

If intra-EU trade is included, the EU last year accounted for 45 percent of the world's seafood imports.

As it's gained preeminence as the top-tier seafood market, the EU has reshaped the global seafood industry, vacuuming up product from around the world that would once have been destined for the United States, Japan or other markets.

With its tremendous buying power, Europe has assumed far more responsibilities as a leader of the global seafood industry – whether at the political, environmental or financial level.



AROUND THE WORLD: Eastern Europe's processing capabilities is drawing raw material from all corners of the globe. Pictured is Viciunai Lithuania's surimi factory in Plunge.

PHOTO: KARL-ERIK STROMSTA

There is every indication Europe's dominance of the seafood industry is set to continue in the future.

Here are four reasons why.

Keeps getting bigger

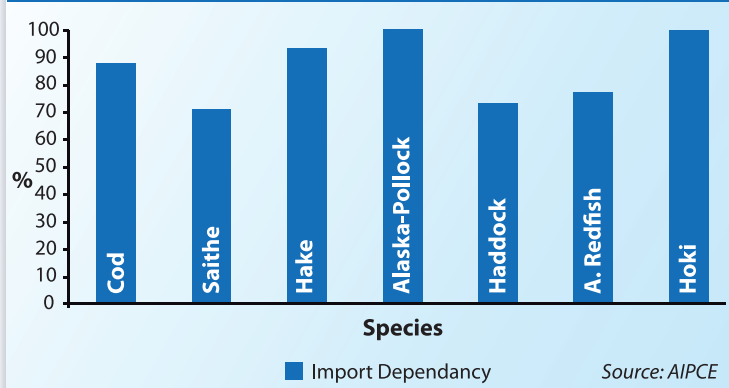
The first and most obvious reason for the snowballing importance of the European seafood market is the fact Europe, as de-

defined by the EU's borders, keeps getting bigger.

In 2007 the EU expanded to include Romania and Bulgaria, bringing its roster to a total of

I just can't get enough

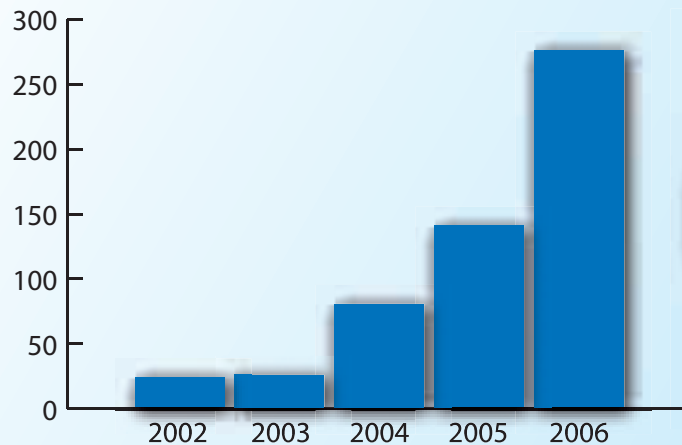
EU import dependency for key whitefish
(from 1995-2003 EU15, from 2004-2006 EU25)



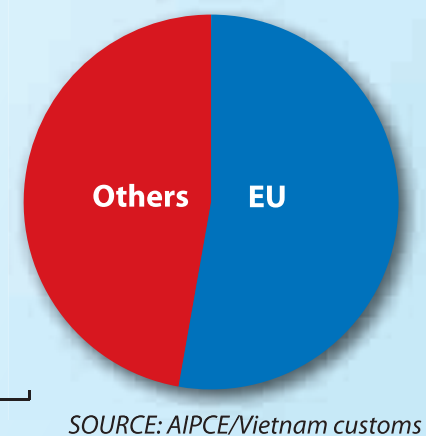
Case study: First to market

Pangasius exporters scrambled to find new buyers for its fish after being shut out of the U.S. market. Within a year, Europe had more than made up for the shortfall, and is today the top export destination for the fish.

Total global pangasius exports from Vietnam (000 tons)



Global export market for pangasius fillets (%)



27 countries. The vast majority of Europe's 500 million citizens are getting wealthier by the year, allowing them to upgrade their diet and lifestyle.

Of course, there are still gaping discrepancies between levels of income and productivity across EU countries.

In 2007, GDP per-capita stood at \$46,786 (€30,156) in Ireland – and just \$10,667 (€6,882) in Bulgaria.

Even – and some would say especially – in EU countries with the lowest levels of income, a consumer revolution is brewing.

Countries such as Poland, the Czech Republic and Hungary are witnessing the rise of a new consumer class that is reshaping the European economic landscape.

One of Europe's most consistently well performing seafood-related companies the past few years is Frosta.

Even as many food manufacturers have strained under the pressure of rising food and oil costs, the German frozen food

and ready-meals maker has seen its profits soar thanks to successfully tapping growing Eastern European markets.

"Eastern Europeans really value brand recognition and having lots of choices, an attitude formed during the communist days when everything was the same," said Felix Ahlers, the company's sales and marketing director.

Even as the global economy has soured in the face of the credit crisis, Eastern European consumers have continued their love affair with more expensive branded products.



Although the average income is lower in these countries, there is a huge demand for high-quality, top-shelf products.

– Frosta Sales and Marketing Director Felix Ahlers

Eighty percent of Frosta's sales in Eastern Europe were of branded products in 2007, compared to just 20 percent in wealthier Western Europe, he said.

"Although the average in-

come is lower in these countries, there is a huge demand for high-quality, top-shelf products. We are really benefiting from that," Ahlers said.

Dollar downer for Americans

A second reason for the growing importance of Europe as a seafood market is the soaring value of the euro, particularly compared to its primary competitors, the U.S. dollar and Japanese yen.

The euro has risen relentlessly against the dollar since first being adopted in 1999, making the European market far more attractive to seafood suppliers in the process.

Five years ago, \$1 bought €0.91. Today the same dollar fetches €0.62.

The euro is the official currency of 15 countries, including every major European economy except the United Kingdom.

Of course, the booming euro has caused plenty of headaches for Europe's homegrown seafood companies, particularly processors and exporters who have essentially seen the prices of their products grow steadily in the eyes of consumers outside the euro zone.

Whatever sting may have been taken out of its export industry, Europe has more than made up for in terms of expanding its domestic markets.

Put simply, Europe has never been a more lucrative destination for seafood producers than it is right now, and European consumers have never had a bigger appetite or deeper pockets for buying fish, according to

Leroy Seafoods CEO Ole-Eirik Leroy.

"Last year we saw strong growth across the EU, despite the fact it's supposed to be a mature market," Leroy said. "The strength of the euro certainly deserves some of the credit for that."

Whether the euro ever becomes the world's dominant currency is anyone's guess, but it's clear that seafood companies around the world are beginning to prefer being paid in the euro.

Protectionism gone wild

There are plenty of reasons why fish once sent to the United States now are being sent to Europe – most of them out of the Americans' control.

The United States has done an amazingly effective job of spurring the process along



CONSUMER SPENDING: European consumers continue to spend more at retail on seafood.

PHOTO: DAG YNGLAND

Europe tackles fishmeal

Declining catches of fish and the rising price of raw materials are forcing salmon feed makers to look for substitutions. Are the replacements as effective as traditional feed ingredients?

Ultimately, it might not matter, as producers are left with little choice, according to Cermaq CFO Peter Williams.

"The price of raw materials is the major challenge for the salmon feed business right now," Williams said. "We have to find a way to substitute away from actual fish in fishmeal, even if that is the natural food for salmon. We simply have no choice."

In the case of Cermaq's feed business, EWOS, 48 percent of its meal came from actual fish in 2001. That figure has fallen to 27 percent and Cermaq is doing everything in its power to drive it lower.

"Is 100 percent substitution possible? Yes, it's possible," Williams said. "But I think we may see the cost curve is more favorable if you include a

small amount of marine products. What percentage that may be, we're not yet totally sure."

Of course, substituting vegetable protein or other ingredients into fish feed poses plenty of challenges, many of them unanswered.

To begin with, consumers are largely unhappy with the idea – particularly in Europe, where genetically modified agricultural crops are widely disdained.

From a farming standpoint, fish health could be compromised if substitution becomes too aggressive.

Williams said Cermaq believes the amount of marine products in fishmeal can be lowered to 15 percent without compromising growth.

Perhaps the most important factor is maintaining the taste and quality of salmon.

"Finding alternatives for meal is important, but the last thing anyone wants is for farmed salmon to start tasting like soya," Williams said.



NOT WHAT IT USED TO BE: Europe's storied seaports no longer bring in the raw material; imports are key growth drivers. PHOTO: VIBEKE MADSEN

through the dizzying array of antidumping tariffs it's slapped on seafood from India, Brazil, Vietnam, Thailand and many other countries over the past decade.

In the past, such tariffs often proved devastating to whatever country was unlucky enough to be on the receiving end.

These days, many developing world exporters are simply thumbing their nose at the United

States and retraining their sights on the EU.

Take India, which in 2004 was

States, in a move meant to protect domestic U.S. producers.

Indian exporters panicked in the wake of the tariffs, but their fear has largely proved unjustified, according to Pradeep Sane, director of Gadre Marine Exports.

"Without a doubt, [the duties] are still making things uncomfortable," Sane said. "But nearly everyone has managed to find other dis-

tribution channels, and Europe has been at the center of it all.

"Actually it has almost been a blessing, despite losing what was our biggest customer. [The U.S. duties] forced us to forge new relationships and invest in the European side of our business, which will pay dividends for years."

Cheap labor aplenty

If Eastern Europe is proving itself to be a powerful emerging market for seafood, it gives the EU another tremendous boost

as a relatively low-cost processing hub, further strengthening the supply heading into Europe.

For years Europe's processing industry has been pulling up stakes and relocating to Asian countries such as China and Vietnam, where workers are both cheap and skilled with their hands.

More recently, as carbon footprints have become a more salient issue, a number of European processors are choosing to head east – just not quite so far. The inclusion of Eastern European countries in the EU has granted access to a huge new pool of relatively low-cost workers, right in Europe's own backyard.

Danish company Espersen was one of the first Western European seafood companies to open processing facilities in Poland back in the mid-1990s, a move that has paid off hugely, according to CEO Klaus Nielsen.

"The cost of processing in Poland is a bit higher than in China, but there are tremendous advantages as well," Nielsen said. "Most important, we are so much closer to our primary market, which is Europe."

Two years from now the global economic picture could look very different.

Europe's economy could catch the flu and the United States could come roaring back. The dollar could very well spike against the euro, and U.S. antidumping duties could be rescinded in the face of declining imports.

Nevertheless, the seafood industry has undergone a sea change that is unlikely to be re-wound in any significant way. The European market is now top dog when it comes to buying seafood – and the smart odds are it won't be turning back.

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CEO of Espersen, Klaus Nielsen

slammed with hefty antidumping duties on all its shrimp exports heading to the United



STRONG STUFF: The strength of the Euro has helped importers bring in more of the world's seafood. PHOTO: REUTERS/STAFANO RELANDINI

EU's growing dependency problem

EU import dependency for key whitefish (from 1995-2003 EU15, from 2004-2006 EU25)



■ EU catch and self Sufficiency

Source: AIPCE