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## China processors downbeat on demand slowdown, labor shortage

Some trying to reduce Alaska pollock processing, as demand slows and labor costs continue to rise.

Tom Seaman

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Processors in China are experiencing the double blow of rising labor costs and slowing demand from U.S. and European buyers, with some looking to reduce volumes of lower margin species like Alaska pollock.

With the Chinese New Year approaching on Jan. 23, workers from plants will go home and companies are hoping most of them will return.

This is an issue for owners of processing plants in China that has been intensifying each year, but companies are now also faced with weak demand in Europe and the United States, sources based in China told **IntraFish**.

"I feel the demand for China seafood is slowing down. Some large importers in the European Union are postponing shipments of seafood from China," said Daniel Lin, a China-based executive with New Zealand-headquartered Oceanic Seafoods.

While the Japanese market is still strong, a China-based plant manager, who preferred not to be named, told **IntraFish**, "We have seen a slowdown from the European market. We are lucky in that we are not dependent on the European market or the U.S. market and our market, Japan, has been performing well."

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**PMI down**

Some markets are performing better than others and, as a result, so are the Chinese companies selling to those better-faring markets.

However, the macro trend is concerning for processors in China.

In Nov, China's Purchasing Managers' Index (PMI), dropped to 47.7 from 51 in Oct, which is the lowest number in 32 months, said Frank Zhou, an executive with salmon and whitefish processor Ocean One Enterprise.

"This is an indication for a general manufacturing slow down," Zhou told **IntraFish**.

Seafood plants are feeling this, with orders down considerably, he said.

This is seeing plants shift away from processing cheaper, lower margin species, such as Alaska pollock. "The biggest single item for Chinese plants is pollock, but sales are slow now, the price is low, and it is not profitable, so many plants have stopped pollock processing."



Although he does not see Chinese processors being able to stop Alaska pollock processing, Lin told **IntraFish** he sees processors "struggling in this low margin business and trying to decrease its volume."

Chinese companies cannot stop pollock processing before they develop new species' processing business, he said. "Pollock processing contributes a large order volume to make a processor run in full capacity, which is necessary to retain workers."

Workers in plants in China hate two things, said Lin. "Low wages, and no or few order to process, because their wage is based on how many pieces they process."

However, suppliers of pollock to China plants report demand is still strong.

Dmitry Fedotov, the Hong Kong-based founder of Super Ocean, a company linking Russian fishing firms to processors in Asia, said he is still seeing strong demand for pollock in China.

The prices remain stable as well – at about \$1,600 (€1,227) per metric ton in Qingdao. That is an indication of good demand, he said.

This was echoed by Andrey Buzin, deputy sales and marketing director with the largest Russian pollock fishing company Nakhodka Active Marine Fishery Base Public Joint Stock Company (NBAMR).

NBAMR has seen strong demand from China over 2011 and Buzin said it would remain a strong market, despite a perceived "slowdown."

**Not better for salmon**

The situation is not better for salmon, said Zhou. "Due to the low *Salmo salar* [Atlantic salmon] price, chum sales are very weak, just as I predicted at beginning of the season."

Japan still has big inventories on chum, and Japanese companies still expect high prices, he said. "I am afraid they will be disappointed this year."

Sales of pink salmon are going better. "Pink is still moving, but slower than before and many customers are hesitating, since they have received confused price indications from Chinese plants, because some plants are focused on trying to get rid of inventories and survive."

It's hard to see a light at the end of the tunnel, said Zhou.

"This is a very hard year for Chinese processors and they are not sure whether it is going to be better next year."

In reaction to this slowdown, Chinese processors are looking closer to home. "Many processors have shifted their business to import, and hope the big Chinese domestic market can fuel their future growth."



China-based processors selling higher value whitefish species than pollock, such as cod and haddock, are more positive.

Niclas Rydin, commercial director of Skandi-Seafoods, a China and Vietnam processing joint venture between A. Espersen and Ocean Trawlers, said demand is still strong.

“Customers for our main products, which are cod and haddock, are making commitments to buy the same, or slightly more, than they did last year.”

However, the company -- which operates two plants in Qingdao and another in Vietnam -- is anticipating paying higher wages.

It has also been installing more social features in its plants, to keep workers happy.

“It is not only about the money, you have to take care of this also. When we built a new office area in one of the plants in Qingdao, we used the area that was used for the office for a social center for the workers.”

There is also a difference for companies doing custom processing and companies doing more value-added processing, said the executive who was quoted under the agreement he wasn't named.

“For custom processing, a lot of your cost is the labor,” he said.

More value-added products are higher margin and less labor intensive, so are more viable, he said.

**Minimum wage rises**



Over the last three years, the Chinese government has increased the minimum wage substantially as part of a drive announced three years ago to double the minimum wage in five years.

This varies from province to province. In Shandong, the province in which seafood processing hubs Qingdao, Yantai and Weihai are all located, the wage was CNY 1,100 (€133/\$172.6) a month last year, from CNY 920 (€111.2/\$144.4) in 2010 and CNY 768 (€92.8/\$120.5) in 2009.

“The minimum wage has gone up 20 percent to 25 percent every year in the last two years,” the China-based executive told **IntraFish**. “This

year's minimum wage level will be announced sometime after Chinese New Year. Last year it was in May, the year before it was in March.”

Although it varies from company to company and province to province, he said the average wage at his company is around CNY 2,000 (€241.7/\$313.8) and upward, depending on experience, skill level and the amount of overtime worked.

Companies tend to have to increase wages in line with the minimum wage increase. “If the minimum wage goes up 22 percent, then companies will increase all wages 22 percent,” he said.

The fact companies are prepared for the labor problem does not make it any easier to deal with, said sources.

“I am not optimistic on the labor situation. Recruitment will still be the number one headache after the spring festival,” said Lin.

The overall labor shortage and inflation in China are two factors that are not going away, he said.

Zhou is more positive on this year, but only because of the tough situation seen already. “I think situation will not be worse than this year, since it is bad already, and factories know the situation and they are well prepared,” he said. “But one thing is clear: labor cost is on the way of increasing, and we expect another 10 percent to 15 percent increase next year.”

Plants will have to compete not only on salary, but also on working and living conditions in order to hire enough workers, he told **IntraFish**.

This next year is “crucial” for the industry in China, said the executive who asked not to be named, as some companies are eyeing moving more processing elsewhere.

Companies are looking at processing in other countries, such as Indonesia, Myanmar and Vietnam, he said.

Skandi Seafoods has set up a plant in Vietnam and Canadian processor High Liner Foods is also looking at Vietnam, its CEO Henry Demone told **IntraFish**.

Other companies such as Pacific Andes, which operates the largest seafood processing plant in China, plan to introduce more equipment, in an effort to automate part of its processing.

“If you look at the macro-economic factors, China has a demographic problem that cannot be solved,” said Fedotov.

“There is a lack of labor, because of the one child policy. In addition, the life expectancy of the Chinese is going up, so they have more and more people dependent on fewer workers.”

Plants are being hit by more costs than just labor and “margins are shrinking fast,” he told **IntraFish**. “Not only are the

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Chinese plants having to increase wages, they are also looking at medical assistance, entertainment for workers. These are all costs in addition to labor.”

This will drive Chinese companies into making acquisitions in Europe and the United States, in an effort to create profit further up the value chain, he said.

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