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Approved For Release 2006/04/19 : CIA-RDP85T00875R001700040032-1

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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Peru's Fish Problem

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ER IM 72-149
October 1972

Copy No. **69**

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INTELLIGENCE MEMORANDUM

PERU'S FISH PROBLEM

Introduction

1. Warm water currents have driven the fish from Peru's coast this year, and the fishmeal industry is in grave difficulty. The problem is important because fishing and fish processing are major employers, and the processing industry is a major source of foreign exchange. This memorandum examines the fishmeal industry's plight and considers its economic implications.

Discussion

Basis of Peru's Fishmeal Industry

2. The excellent fishing off Peru is attributable to the strong and icy Humboldt current that sweeps up South America's west coast. Peru has a large, relatively modern fishing fleet and normally leads the world in total catch. In 1970, a record year, the country landed 12.6 million metric tons of fish, consisting primarily of anchovies, small silver-green fish from which 2.3 million tons of fishmeal and about 200,000 tons of fish oil were obtained. In 1971, when the government limited the fish catch, fishmeal output amounted to 1.9 million tons. Peru normally exports almost all of the meal for use as livestock and poultry feed.

3. Prospects for fishmeal output in 1972 at first appeared excellent because the initial anchovy catch was the best in many years. In September 1972, however, the Ministry of Fisheries announced that "Peru's fishmeal industry is now facing the worst crisis in its history." The reason for this turnabout is the reappearance of the mysterious Niño current.

Note: This memorandum was prepared by the Office of Economic Research and coordinated within the Directorate of Intelligence.

The Anchovies and the Niño

4. Warm currents originating in the equatorial waters off Colombia and Ecuador normally advance as far south as the northern tip of Peru at year's end. By March the north-moving Humboldt current normally pushes the warm water back. Every seven years or so, however, the warm currents push far south of their normal range. Peruvians call this phenomenon El Niño de Navidad (the Christmas Child) because it usually appears off their shores during the holiday season. The warm water drives the anchovies from their customary feeding grounds, concentrating them in remaining pockets of cold water or pushing them farther off shore beyond the reach of the Peruvian fleet. When the Niño last occurred in 1957 and 1965, catches fell sharply for a few months, but recovered when the Niño subsided.

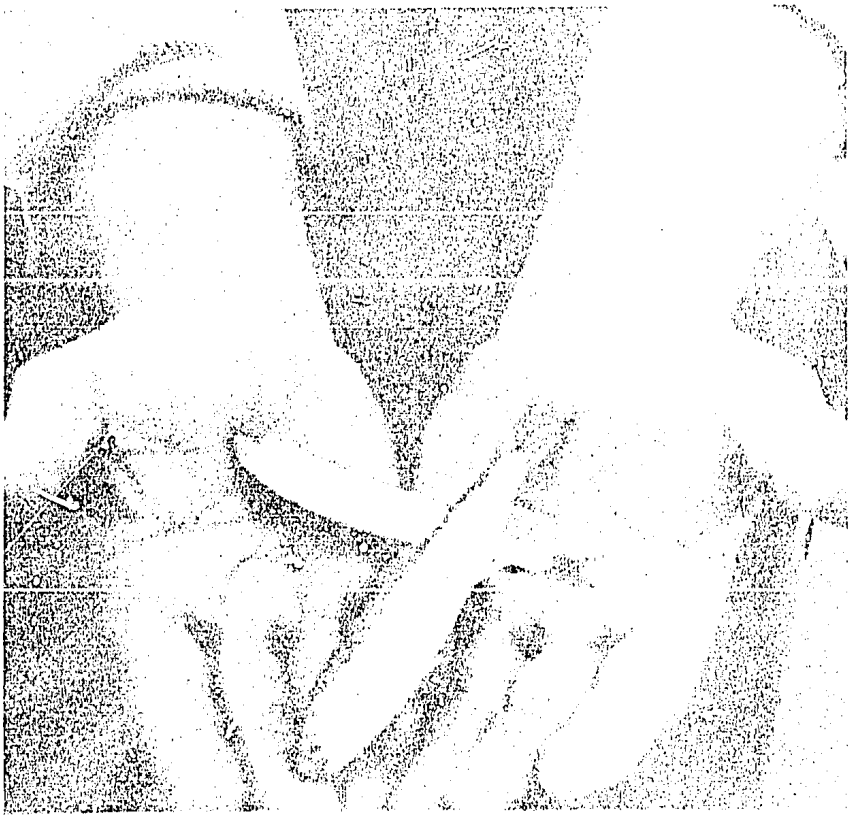
5. Three factors have intensified the problem this year. The Humboldt current is particularly weak, allowing the Niño to last longer than usual. In addition, spawning this year was particularly poor, and many of the young fish did not survive. Perhaps most important, the fishing fleet, aided by increased range and electronic fish finders, found the cold water pockets harboring the surviving anchovies and fished them so intensively from March to May that they were nearly wiped out. March's catch reached 1.8 million tons and prompted official predictions that 1972 might be a record year. The catch began to fall off in April, however, and was only one-third of normal in May. By June the catch had fallen to only about 10% of normal.

6. Peru usually prohibits fishing during the December-February and July-August periods to prevent depletion of breeding stock and frequently has imposed brief bans in other months both to stabilize employment and conserve fish stocks. Because of the sudden, drastic drop in the catch this year, the government imposed a fishing ban in June – usually a good month for fishermen. Lima allowed fishing to resume off the southern coast in August, but few anchovies were found. A total ban was reimposed on 14 September, and research vessels have been testing ocean temperatures and searching for anchovy schools, so far with little success. It appears unlikely that fishing will be permitted until March 1973, at the earliest.

Impact on the Fishmeal Industry

7. Production of fishmeal and fish oil approached normal levels through April 1972 but then declined sharply. Early in the year, output of fishmeal for 1972 was estimated at nearly 2.0 million tons, and export commitments were made for that amount, mainly to the United States, Japan, Western Europe, and the Communist countries. Deliveries outpaced production for several months, and by 1 August stocks had fallen to only

A Normal Anchovy Harvest



Sum Total of Four Days Fishing in Early September

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325,000 tons, compared with 800,000 tons on 1 January. In September, Peruvian officials revealed that firm sales commitments exceeded available supplies by 400,000 tons. At the end of the month, they prohibited exports of fishmeal and fish oil, reserved remaining stocks – probably less than 100,000 tons – for domestic consumption, and promised that export commitments would be met in full when normal production resumed.

8. The Niño is severely damaging the country's largest manufacturing activity and a major source of employment in the coastal cities. More than 40,000 workers are employed on boats, in the fishmeal plants, or by firms servicing the industry. Fishmeal makes up 10% of manufacturing output, while fishing and fish processing together contribute about 5% of GNP. There are more than 100 fishmeal plants, with the 30 largest accounting for 80% of output. Plagued by heavy short-term debt obligations and excess capacity, the industry has long hovered near financial disaster. Although more than 20 companies have collapsed in the past few years, the remaining facilities could probably process the normal annual anchovy catch in three months of full-scale operations.

9. As a part of its revolutionary program, the government assumed direct control of the industry's financing and marketing in 1970 and has been promoting mergers and installation of modern equipment. Further intervention may be necessary, particularly if the anchovies do not return in quantity by next spring. With the continuing ban on fishing, the fleet and fishmeal plants will lie idle for many months and unemployment will swell. Many of the smaller firms will probably fail if not kept afloat by new government loans. Alternatively, the Velasco regime could allow the least efficient firms to go under while assuming their debts and offering other jobs to their workers. Neither option is attractive to government planners trying to channel Peru's limited funds into new manufacturing, mining, and petroleum ventures.

The Broader Economic Impact

10. Because of the long leadtimes needed for its new petroleum and copper ventures, Peru has been relying heavily on fishmeal sales to cover its rising import requirements under the five-year development plan. In recent years, fishmeal has contributed about 30% of foreign exchange earnings, compared with only 10% in 1960. Because Peru had record stocks on which to draw, 1972 shipments will probably fall short of 1971's performance by only about 250,000 tons, or nearly 15% (see the charts). Prices during late 1971 and early 1972, when this meal was sold, were substantially below the early 1971 peak price of $180 per ton, however. As a result, export proceeds from fishery products during 1972 will total

Figure 1

Peru: Fishmeal Production, Exports, and Year-End Stocks

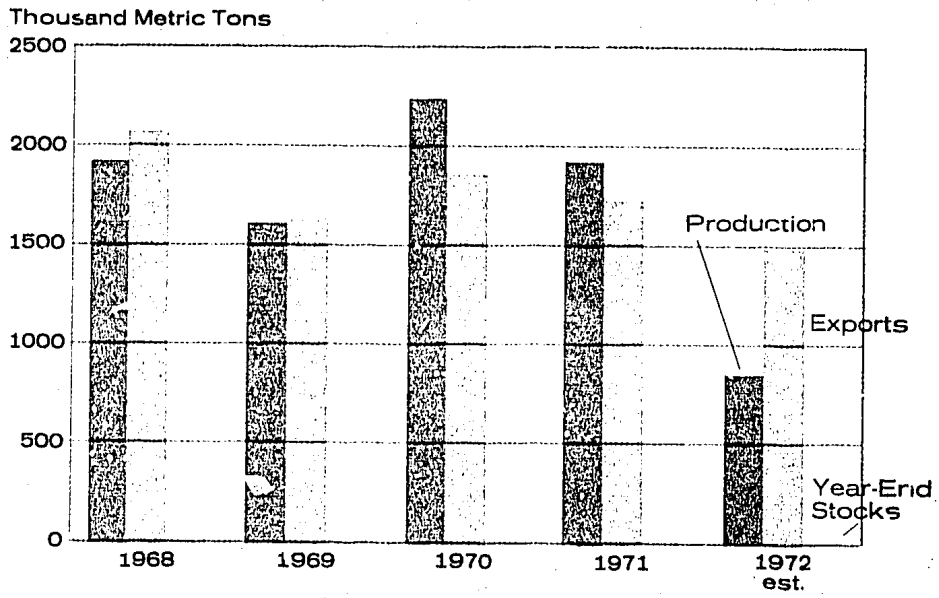
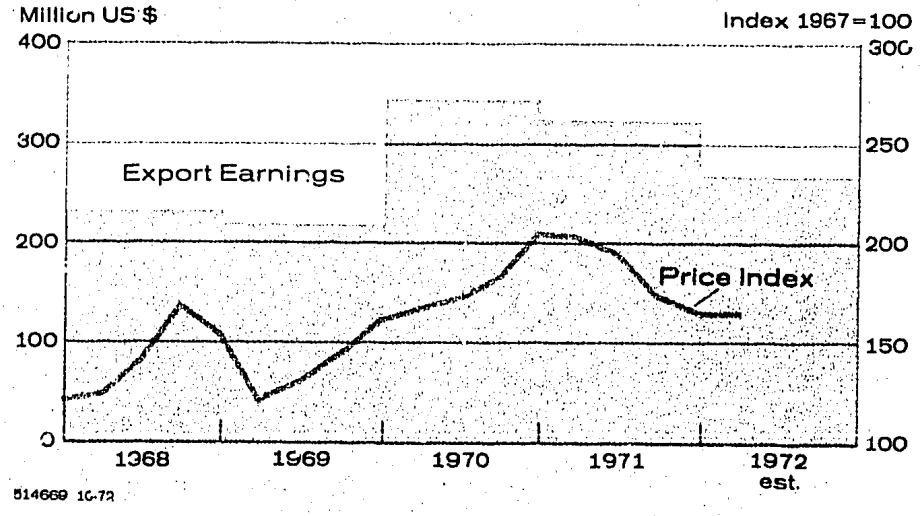


Figure 2

Peru: Export Earnings from Fishery Products and Index of Fishmeal Prices



at most $270 million, compared with some $330 million in 1971 and $350 million in 1970.

11. Despite reduced fishmeal earnings, Peru does not face severe balance-of-payments problems this year. A small trade surplus is still expected, and the prospective current account deficit – the first substantial one since 1967 – will be partly offset by capital inflows. Net foreign exchange reserves are likely to decline by about $50 million during 1972, but Peru has the advantage of a strong reserve position of about $340 million because of favorable trade balances in 1970-71.

Outlook for Peru's Economy and the World Fishmeal Market

12. The impact in 1973 depends on when the Humboldt current returns to the coast and how depleted the fish population proves to be. The combination of the Niño, a poor spawning season, and over-fishing early this year threatens to reduce considerably the number of anchovies that normally return to their feeding grounds off Peru after bouts with the Niño. Fishing should not resume until the fry mature, and, if replenishment of the anchovy stock looks like a serious problem, continuing fishing restrictions will be advisable.

13. If the ban has to be continued most of the year to replenish stocks by allowing the young fish to mature and spawn, there will be an appreciable economic impact. Economic growth probably would fall considerably short of the 6% rate originally planned for 1973. With no fishmeal deliveries during most of the year, total export earnings would drop by perhaps $250 million unless the loss were partly offset by higher mineral export prices. Peru thus would be forced to curtail imports and draw heavily upon its reserves. Even if the fish return early and in near-normal numbers, fishery exports in 1973 are unlikely to exceed $225 million, or about two-thirds of the 1970-71 average, because Peru will be forced to replenish stocks and make deliveries at previously contracted prices.

14. Slow recovery in the fish population could have adverse effects extending beyond 1973. A depressed fishing industry might require Lima to channel more resources into the coastal areas to alleviate unemployment and financial distress. Moreover, increased import constraints could force Peru to delay the start-up of major manufacturing and mining development projects that were expected to become major foreign exchange earners in the late 1970s.

15. Peru's fishmeal shortage has already tightened world markets for livestock feeds. Fishmeal prices have risen sharply since the Velasco regime

banned exports, and prices for other high-protein feeds such as soybean meal have also risen. This increase in feed prices will push up the costs of feeding livestock and poultry and, ultimately, their prices. In addition, commodity dealers in the United States and West Germany are being hurt by the export ban because they had already sold the fishmeal that Peru was slated to deliver and will be forced to cover their short position in the open market at higher prices. Although Peru has offered to make good on all contracts at agreed-upon prices once the fish return, some dealers may take legal action for non-delivery.