

Alaska Bering Sea Fisheries in the Global Economy

What are threats to the value of Alaskan
Seafood

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Publisher Seafood.com News
SWAMC Annual Meeting
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Background



- Seafood market analyst since 1997
- Prepared Preseason price and market outlooks on shrimp and crab for 20 years – Atlantic Canada, Alaska, and US West Coast
- Non-Binding Price arbitrator for Alaska king crab, snow crab since 2005
- Publisher of Seafood.com News



The screenshot shows the Seafood.com website interface. At the top, there is a navigation bar with links for NEWS, COMPANIES, MARKET STORIES, SEARCH, MY ACCOUNT, ADVERTISING, and ABOUT. A search bar on the left shows results for 'lobster' from 3/21/2015 to 3/21/2016. The main content area features three news articles:

- Update on EU Lobster Issue Shows No Countries Have Banned Live Lobster Shipments** by John Sackton, March 14, 2016. The article discusses that numerous sources have confirmed that at this time, no countries in Europe have a ban on live lobster shipments. It references a previous report from March 8th about Sweden and Norway taking action based on reports from Norway, which is noted as incorrect. It also mentions Sweden's request to the EU to consider a ban on environmental grounds.
- Liberal MP Says Canada's Foreign Worker Exemption Fills Critical Need for Seafood Processors** by Paul Withers, March 18, 2016. The article reports that Central Nova MP Sean Fraser went to the North Nova Seafoods plant on the Northumberland Strait Thursday to defend his government's decision to remove temporary



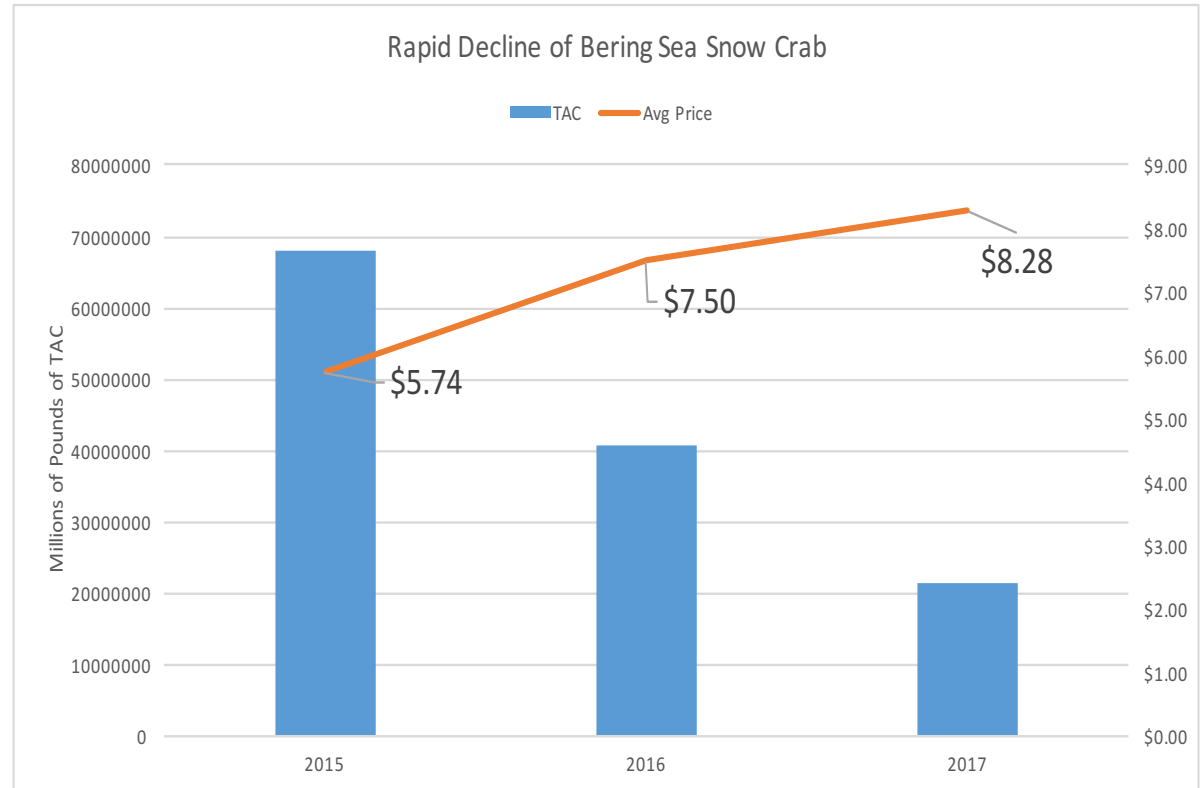
Introduction

- Where does seafood value come from?
- How is Seafood Sold?
- The Alaska Model
- Specific Species Issues
 - Pollock, salmon, crab, halibut, cod, herring
- Threats to Alaskan Seafood Value
- Protecting Alaska Seafood Value



What makes seafood valuable

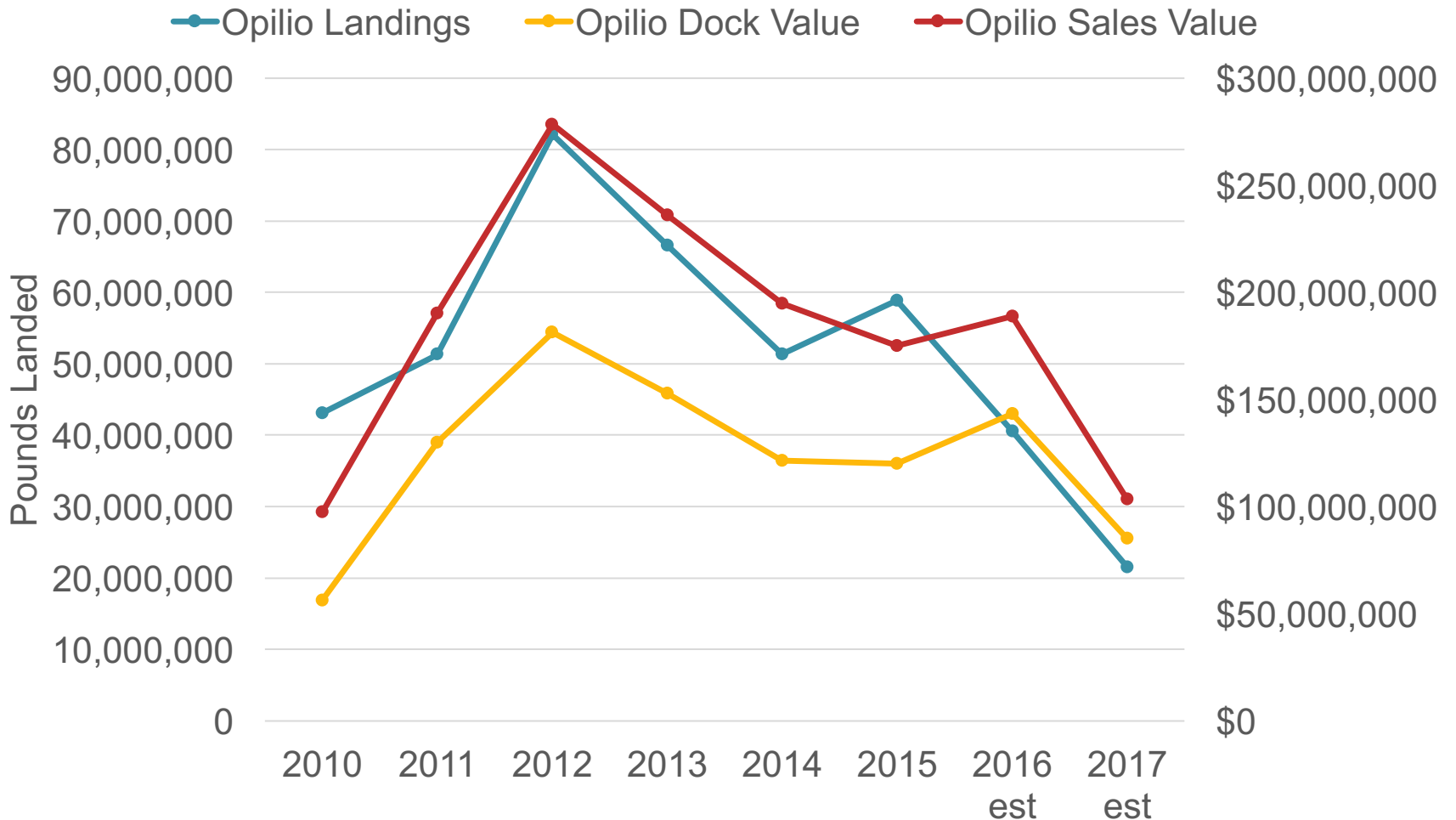
- It is not a Supply Shortage
- Its investment in management, production and marketing



Source: Seafood Datasearch



Decline in Value of Opilio Crab to Alaska



Source: Seafood Datasearch



At every level of seafood supply chain, partners invest money to promote seafood value:

- Harvesters – vessel and permit costs, operations
- Processors- labor and capital equipment, raw material costs, marketing costs
- Retailers and Foodservice: investment in advertising, marketing, labor, preparation



Lots of these investments are at risk due to external factors

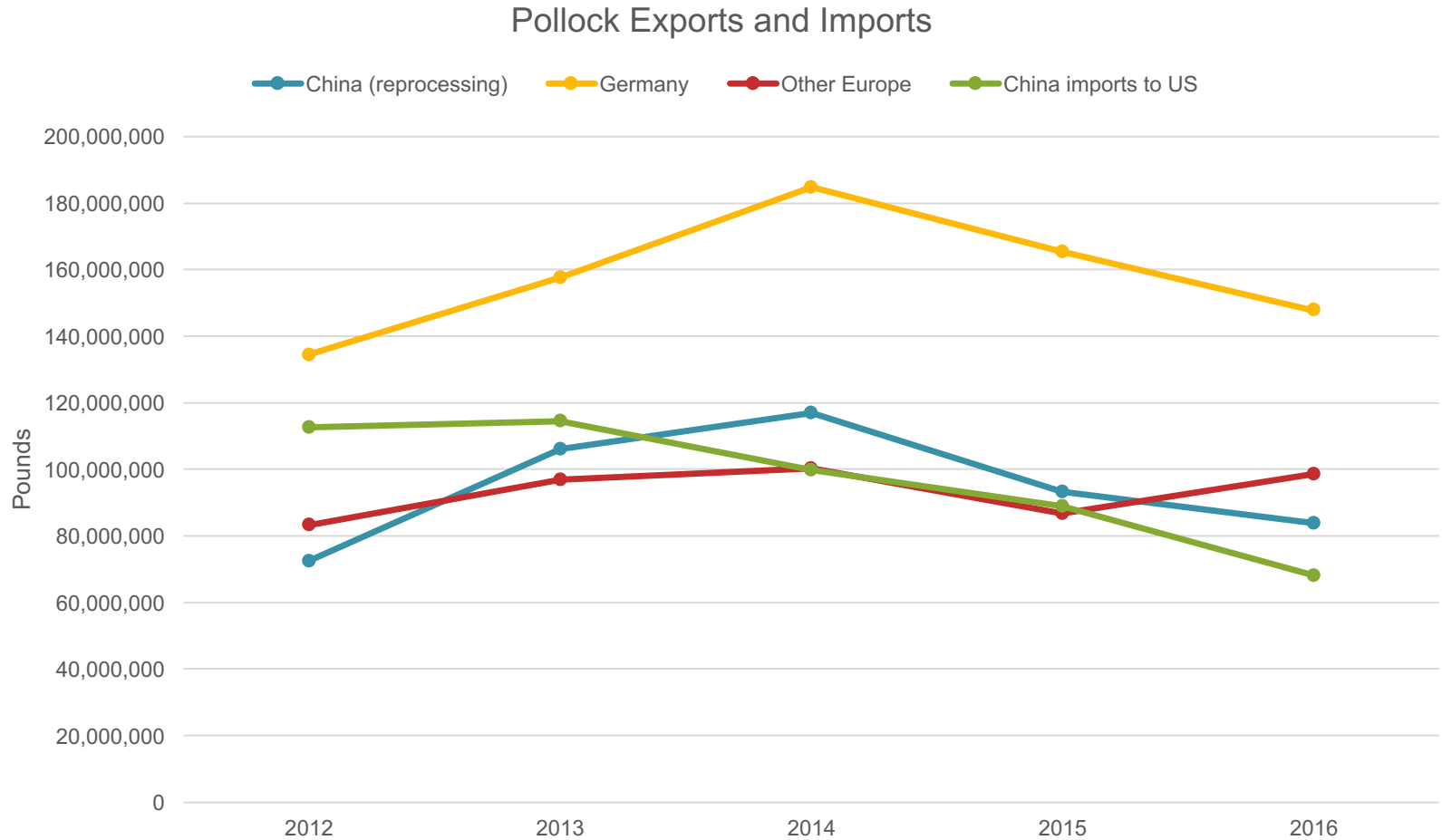
- Stock fluctuations
- Currency changes
- Changes in market demand
- Competing species and products



In one year, Euro price for Ak pollock blocks has risen 9%, or about 11 cents on an item that costs \$1.22



Currency Impacts Have Hurt Pollock Sales



Source: Seafood Datasearch

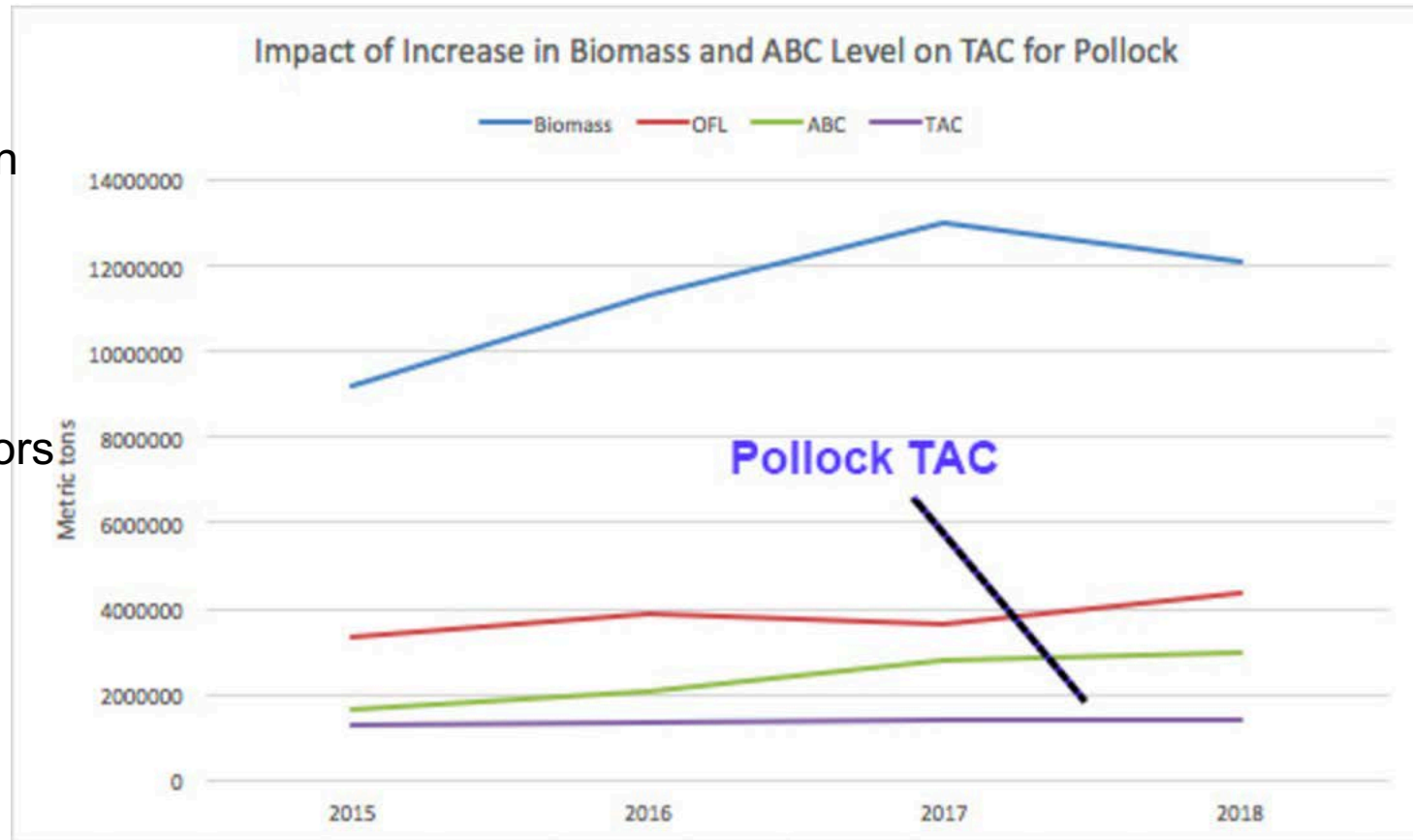


Alaska seafood has thrived because of its stability

Bering Sea 2 Million ton Cap

Strong Consistent Marketing – ASMI and Large processors

Sustainable and Professional Management



Source: Seafood Datasearch



In Last Few Years maintaining stability has gotten much more difficult

- Budget cuts have hit fish management (Salmon)
- Strong Dollar has hit exports (pollock and salmon)
- Stock Declines Have hurt Crab Fisheries (Lowest Opilio Harvest in decades)



ADF&G Salmon Sonar



How seafood is sold

- Not a mom and pop operation
- Large companies work to secure contracts with large buyers
 - True for pollock, salmon, crab
- This requires access to volume
- Foodservice Chains have to source for a national menu.
- Retail volume is mostly driven by Promotion



Retail accounts for 50% of volume, 30% of Value
Foodservice is 50% of volume but 70% of value



Seafood at retail

Margins

Fresh 25%-30%

Frozen 35%-40%

Ads Front page 0%-10%

Inside 10%-20%

Advertised items have lower margin



All shellfish products (crab lobster etc.) represent about 15% of retail seafood

Slide courtesy of Peter Chapman, former Loblaw's manager

Key to Seafood is Control of Supply

- Buyers will commit only to those companies that they trust to follow through with supply
- They also invest in species that are reliably available
- The combination of volume and stability has put Alaska in a unique position.
- Desire to control of supply also spurs consolidation
- Difficult to balance independent fisheries with market demands for consolidation
- IFQ system in pollock, crab, halibut has largely frozen further vessel consolidation
- Outside investment in processing mostly driven by desire to gain access to supply

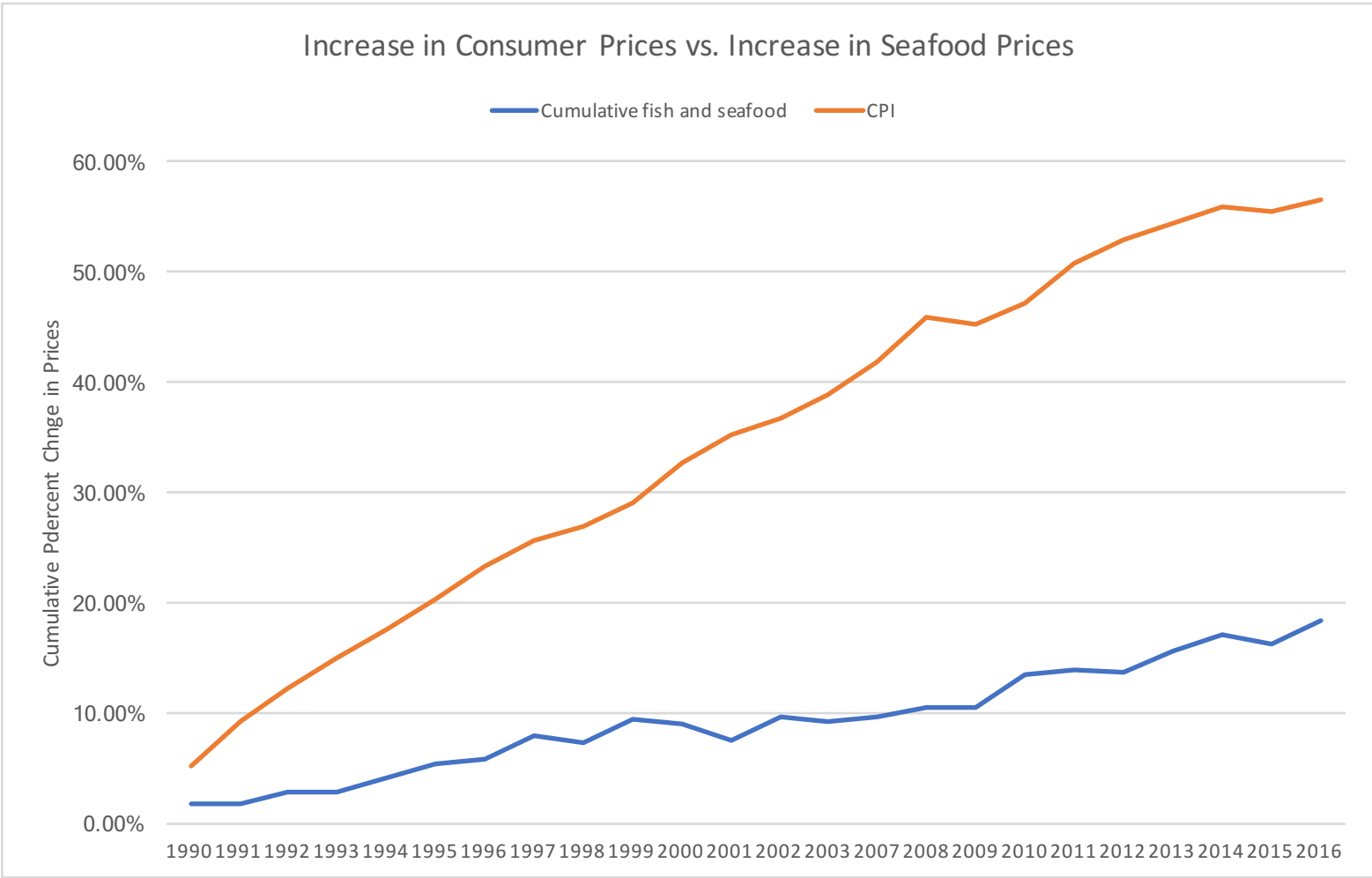


Why is there such pressure for consolidation

- Real value of seafood not keeping up with increase in costs; squeezing processing margins
- Pollock and Salmon have faced competition and changed markets due to aquaculture
- Selling multiple species to large buyers, such as pollock, salmon, crab together gives packers more market leverage



Long term value of seafood has not kept pace with other costs

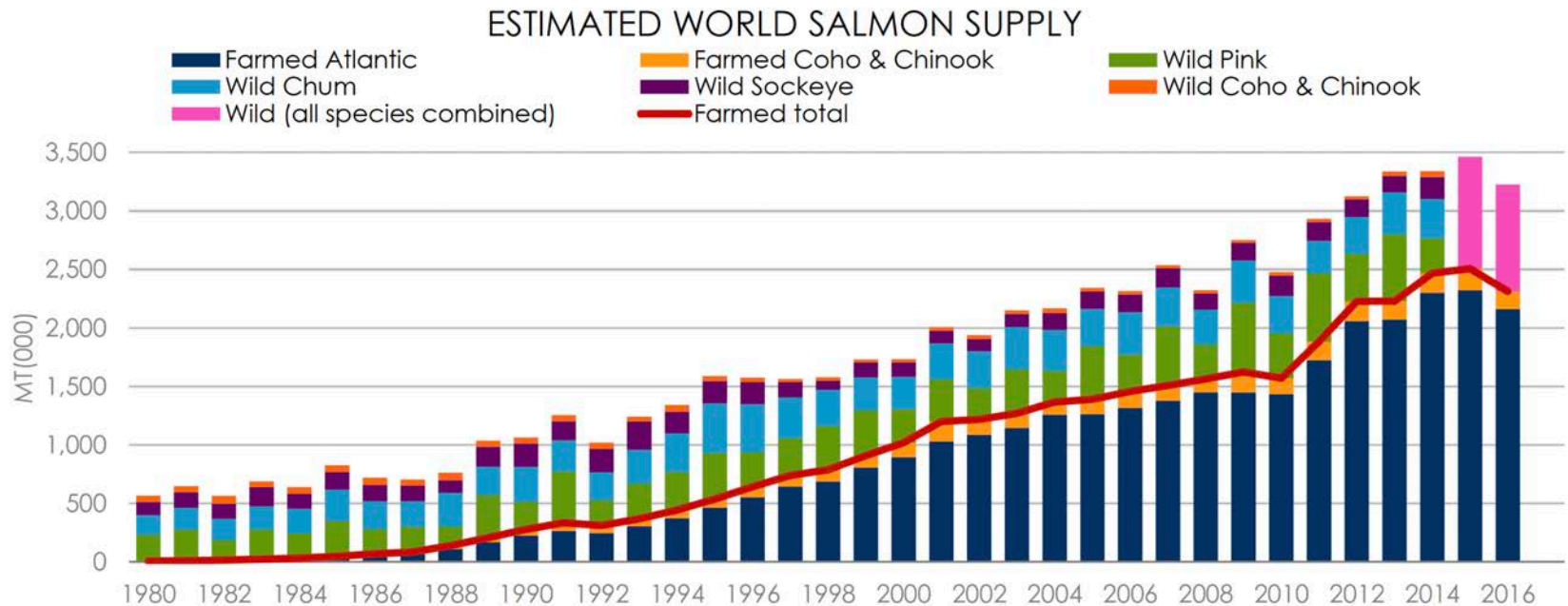


Data: US Bureau of Labor Statistics



Aquaculture competition impacts prices

World salmon markets are dominated by farmed Atlantic salmon



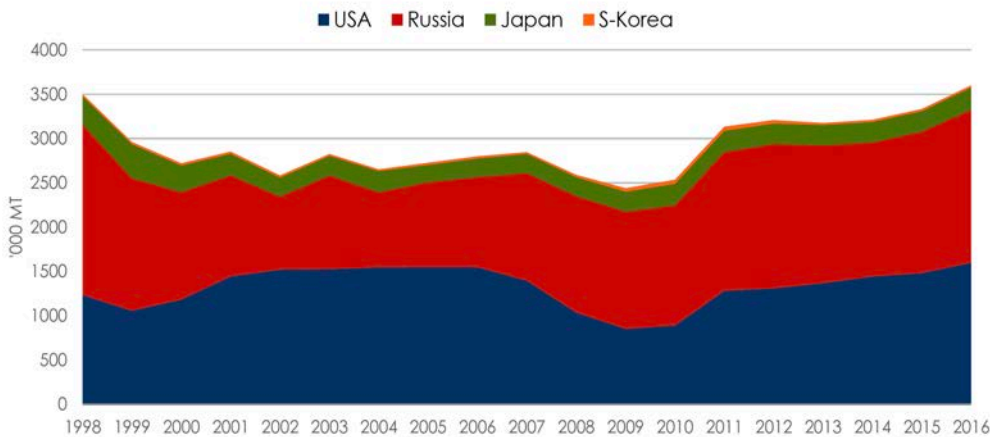
Courtesy Gunnar Knapp, NFI Global Seafood Market Conference



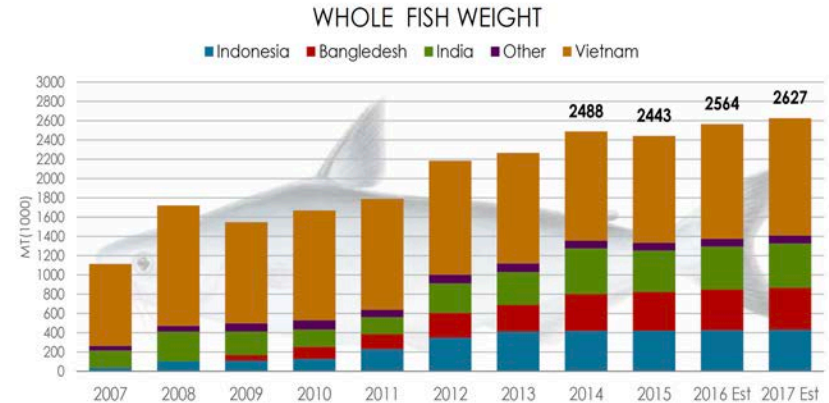
Growth of Farmed Whitefish has impacted pollock

Source: Seafood Datasearch

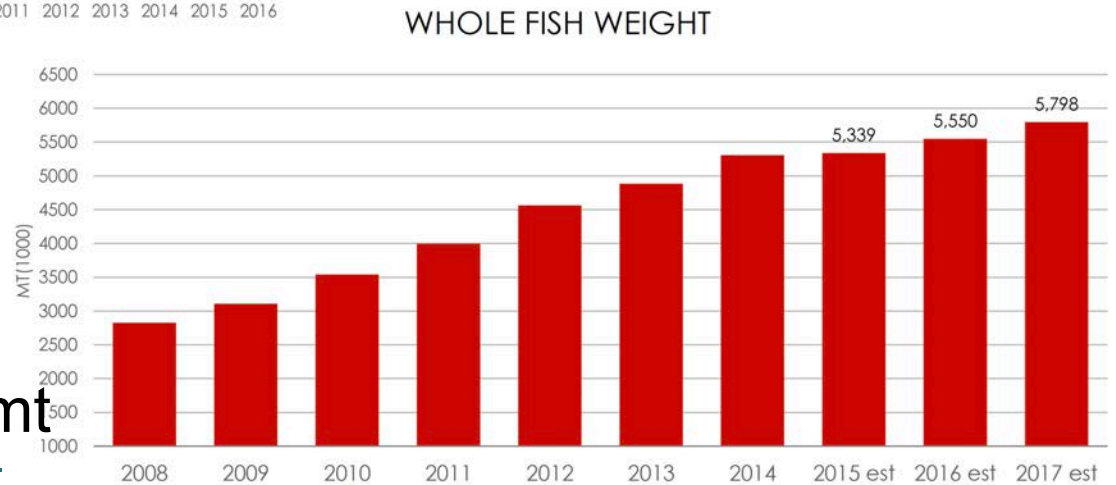
World Alaska Pollock Catches 1998-2016 Est



Pangasius World Harvest



Global Tilapia Harvest

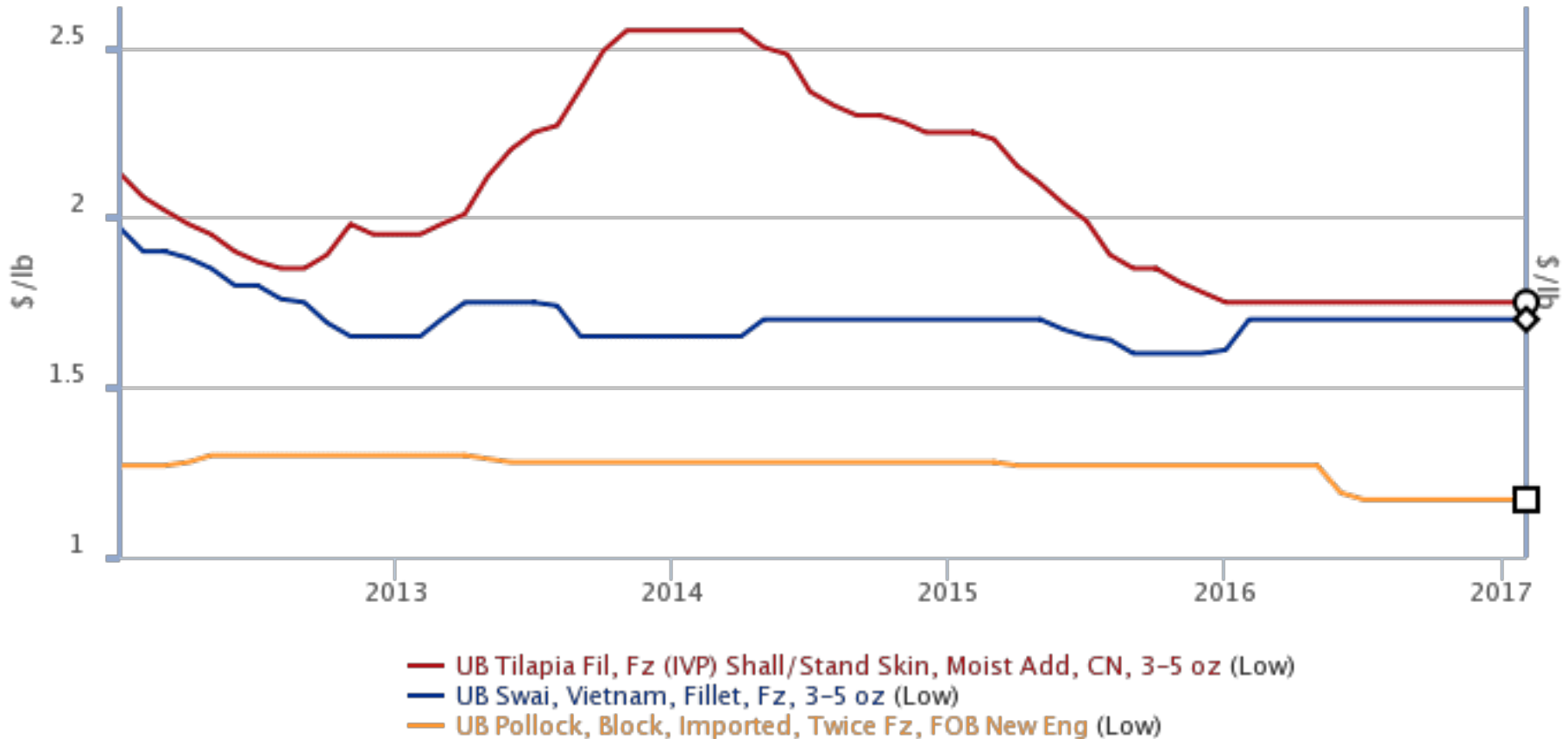


Since 2007 growth of pangasius and tilapia has exceeded entire global pollock catch: 4515 vs. 3500 mmt



All 3 products at lowest price point in ten years

UB Frozen (IVP) Shallow/Standard Skin Moisture Added, Tilapia, Fillet, China, 3-5



Source: Urner Barry Comtell

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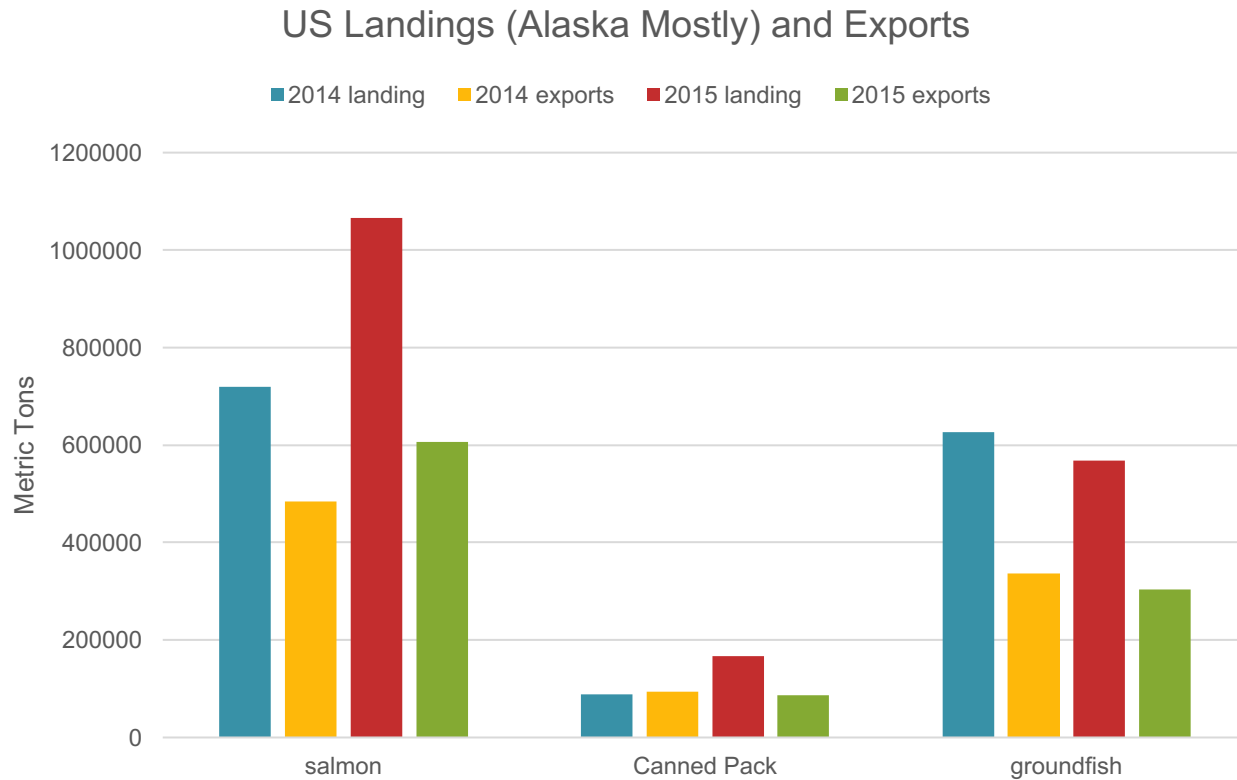


What has been reaction to competition and margin squeeze

- Rationalization – Crab Fisheries; reduce fleet, go to leasing model
- Halibut: increase in IFQ value despite current low harvest levels
- Salmon: push to develop new markets in US
- Processors and CDQ Owners: Buying up facilities, quota where possible to exert more control, improve margins
- Consolidation also occurring among retail chains & foodservice for same reason: to protect margins
- Net Impact is ‘bigger’ companies as both try and maintain market pricing power.
- This trend will continue



In response to strong dollar US market taking precedence

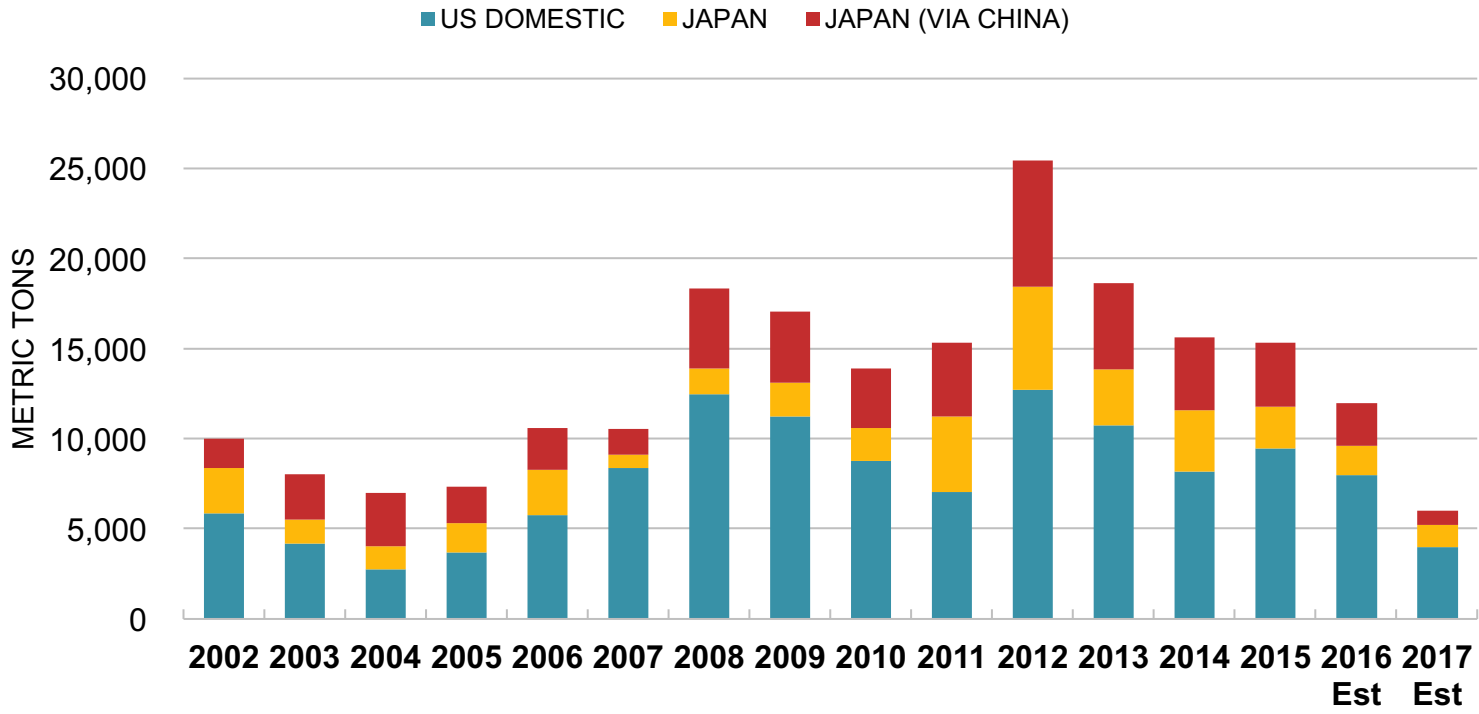


Source: NMFS



Strong US demand has helped crab markets

Disposition of Alaska Opilio Production Section Wgt

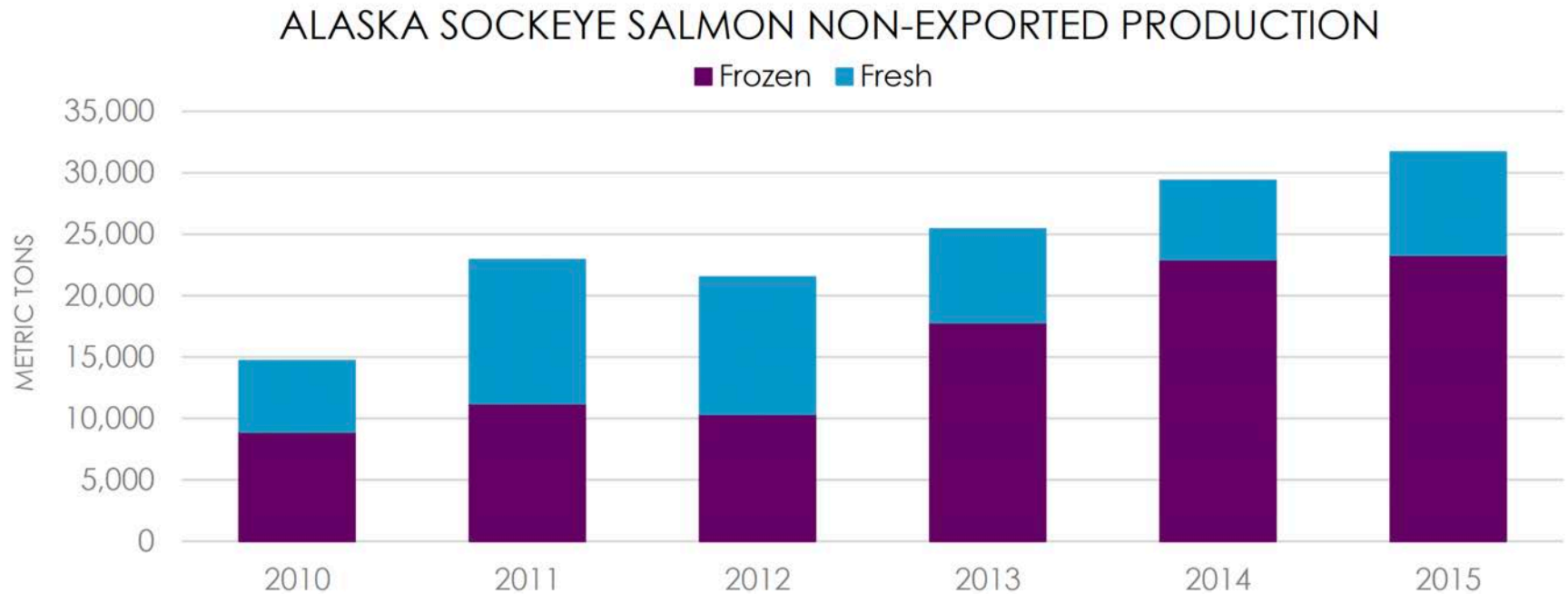


Source: Seafood Datasearch



Growth of domestic sales of sockeye and H&G cod has been spectacular

Non-exported Alaska frozen & fresh sockeye volume has been growing.



Courtesy of NFI Global Seafood Mkt Conference



Export markets remain key to profitability of some fisheries

- Export Markets remain key pillar of value for
 - Pollock:
 - single frozen block sales to EU
 - surimi Sales to Japan
 - H&G sales to China
 - Cod
 - H&G sales to Japan
 - Salmon
 - Canned Exports to UK
 - Frozen Sockeye Exports to EU
 - Pink Exports to China
 - Crab
 - Sales to Japan and China (for reprocessing for Japan)



All hurt by strong dollar

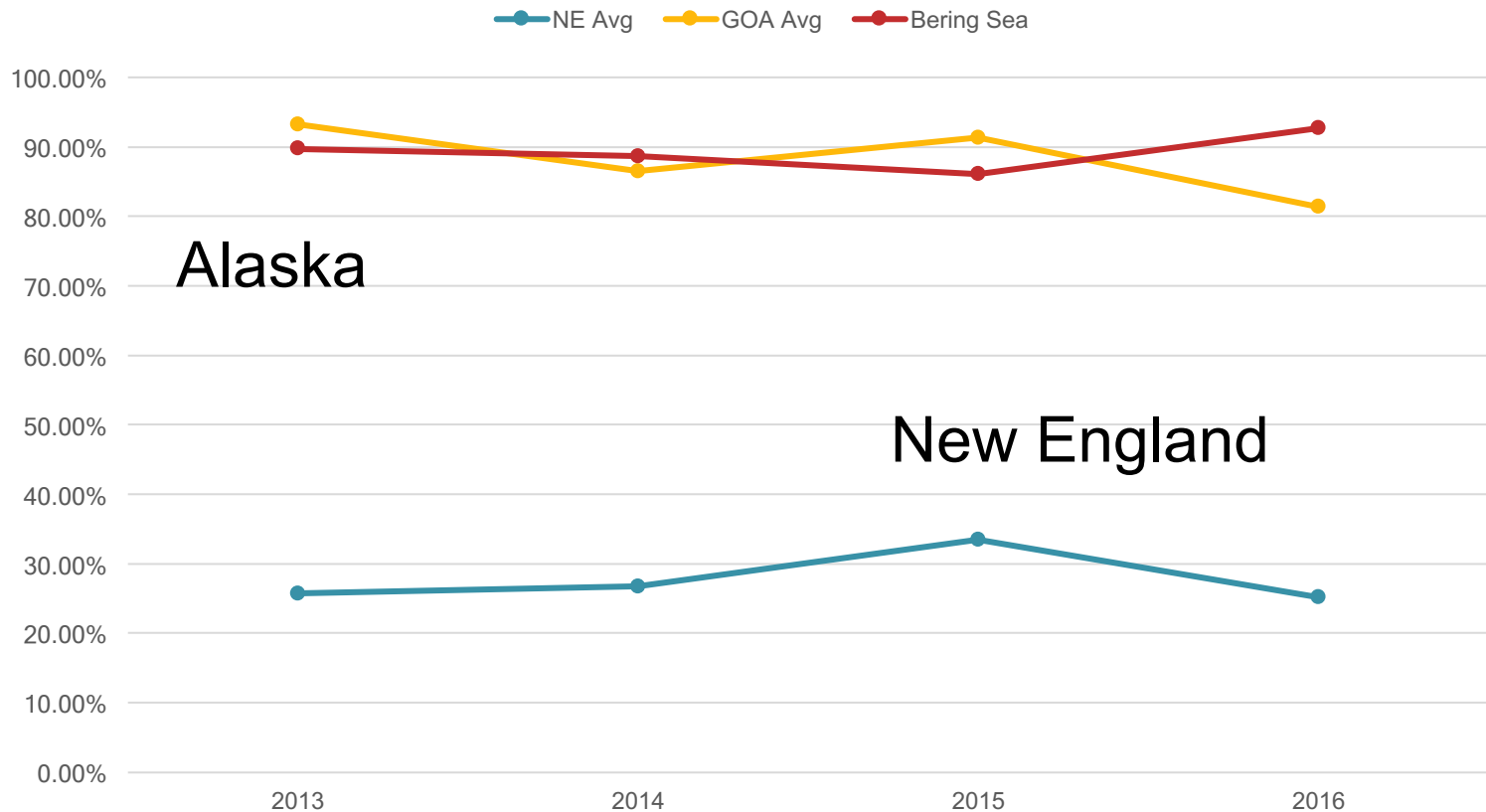


Alaska Bering Sea model is geared to high volume fisheries

- Large Processing plants; seasonal workforce; independent boats inshore, and a restricted offshore sector.
 - Amendment 80 fleet and cod longliners are consolidating further, and building some new vessels
- CDQ program is unique
- It has led to a large share of local ownership in major quota fisheries
- CDQ companies partner with major packers on some species; sell direct with other species
- Cod, Pollock, Salmon dominated by four major processors: Trident, Nissui, Maruha-Nichiro, and Icicle, now owned by Cooke.
- Other Processors also in Salmon: Ocean Beauty, Silver Bay
- Offshore shares of quota for pollock are set in the American Fisheries Act



Alaska Fisheries Catch a High Percentage of TAC



Share of groundfish TACs actually Harvested

Source: Seafood Datasearch



Keeping this efficient level of harvest is critical

- West Coast Groundfish has been crippled by inability to deal with choke species
- New England has an even worse problem.
- So far Alaska fisheries have avoided this because they have the tools and structure to avoid bycatch and fish more carefully.
- This structure must be protected and expanded, otherwise entire rationale of Alaska – fishing for the long term – will erode and become dominated by short term thinking



Global Models of other Major resource countries:

- Iceland: unionized fleet; very sophisticated processing sector, freedom for boats to land fresh fish in UK
- Norway: small boat centric with specific quotas for cod, king crab
 - Large vessels focus on herring, shrimp, and Barents sea cod and snow crab.. All require processing at sea
- New Zealand- two major companies, native ownership, lease out to foreign partners; operate with foreign crews.



Global Seafood Markets are Changing

- Alaska used to be heavily dependent on Japan
 - Japan has declining seafood consumption due to aging population
 - Weaker Yen and stagnating economy have meant Japan is now rarely the price setter for Alaskan products.
 - Exceptions are pollock roe, herring roe, and surimi

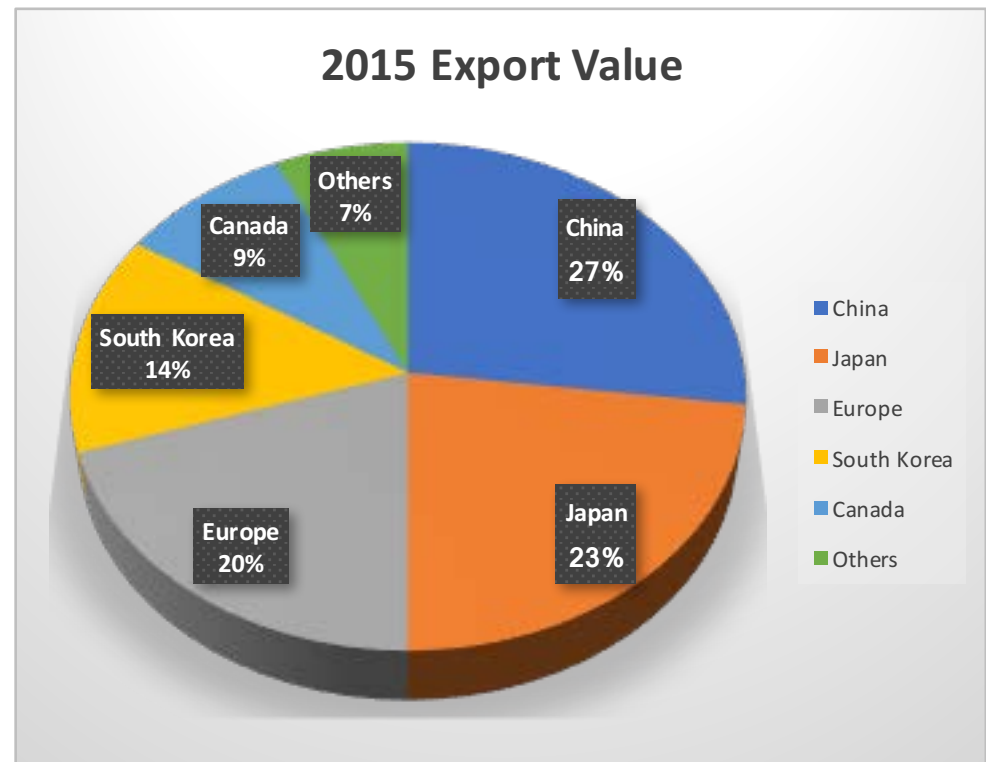


American Market is Taking More Alaskan Products

- Sockeye Salmon
- King crab and Snow Crab
- Pacific Cod

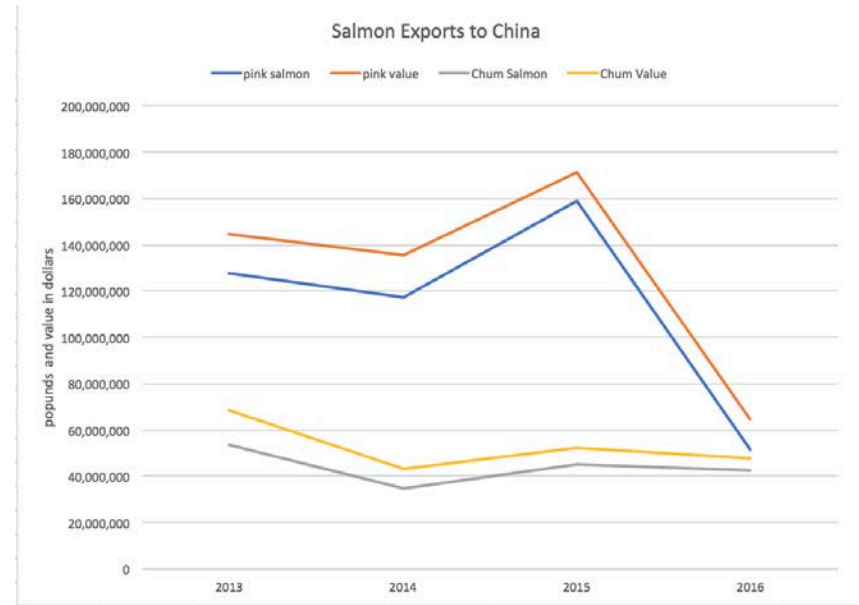
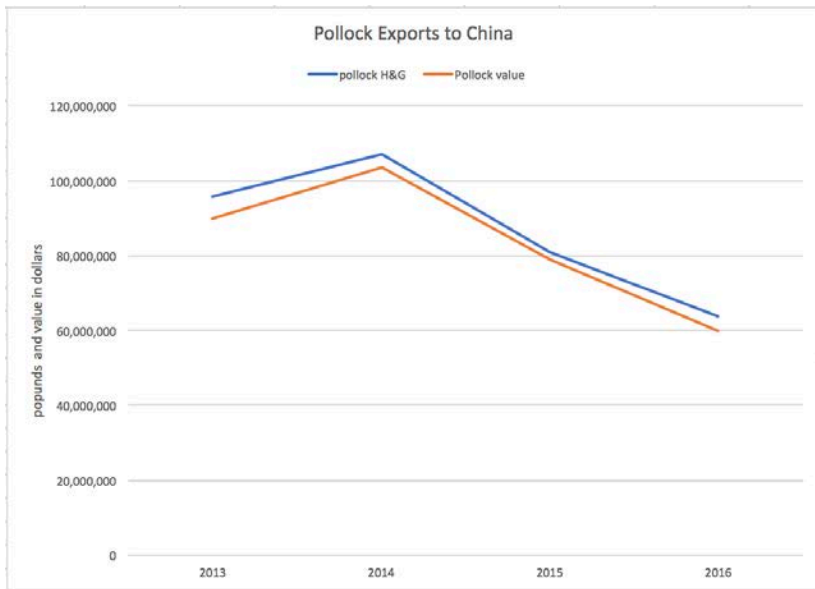
Alaska Fisheries need both domestic and foreign markets

But export markets take large share



Alaska and China

- Largest buyer of Alaska products; most still for reprocessing but that is changing

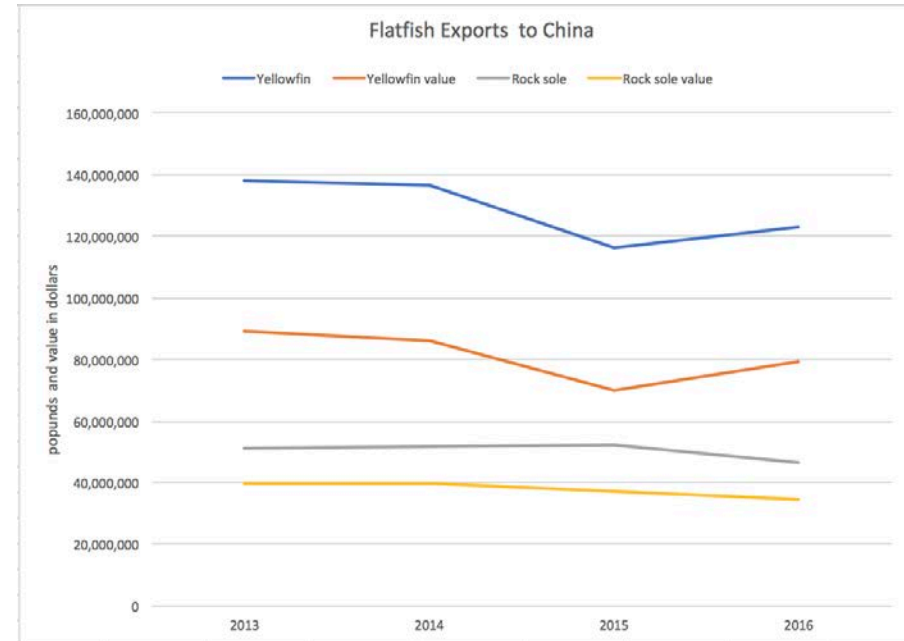
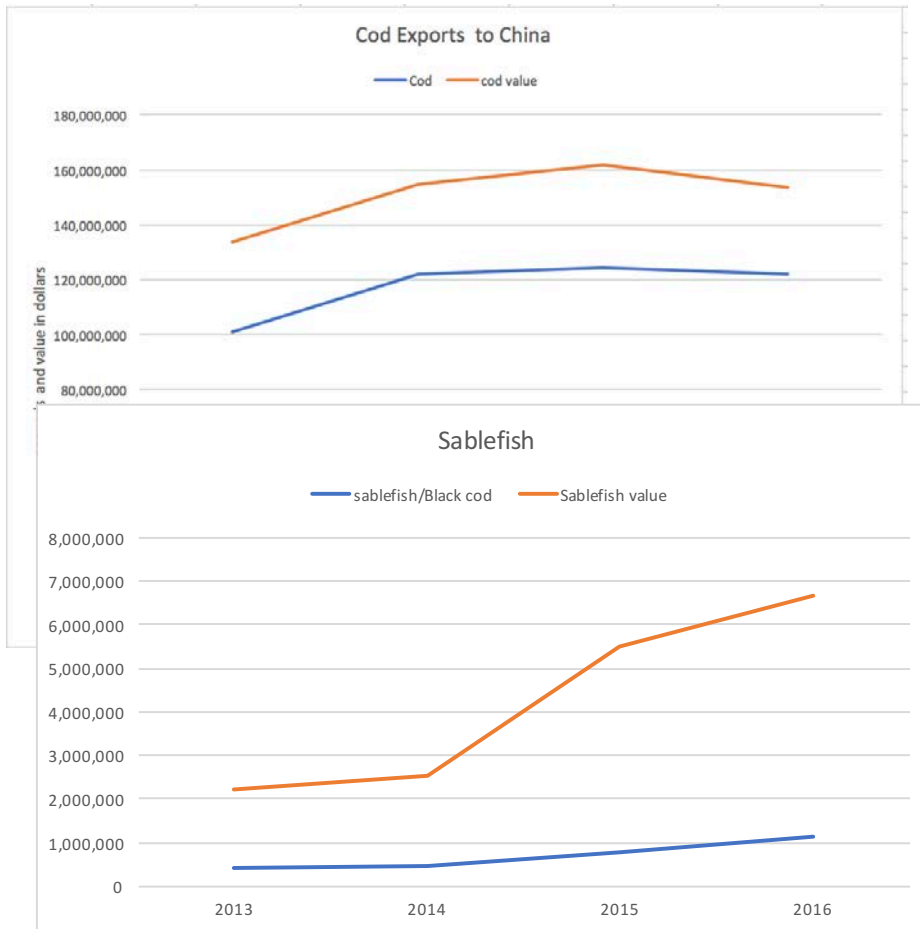


Seafood Datasearch with NMFS and Customs Data



China is becoming more than a reprocessing center

Seafood Datasearch with NMFS and Customs Data



China is buying more Sablefish and other expensive items for Domestic consumption



China is reshaping the Global Seafood Market

- As Chinese gain income, they spend more money on seafood
- Imported seafood from Alaska, Canada, Norway is preferred due to concerns about food safety, adulteration
- Big opportunity for live, fresh and high-end items like sablefish, live king crab
- China will have huge impact on salmon market in coming years as they shift to consuming Atlantic salmon



Specific species market stories



Pollock:

- H&G, Blocks and Surimi are major product forms
- Weak market for breaded fish
- Surimi consumption has declined
- IQF fillets compete with pangasius and tilapia
- Strong dollar hurts badly
- Major competition from Russia
- MSC equivalence eroding Alaska premium in EU
- Outlook: continued pressure on pollock prices due to unsold inventory, roe market very unsettled



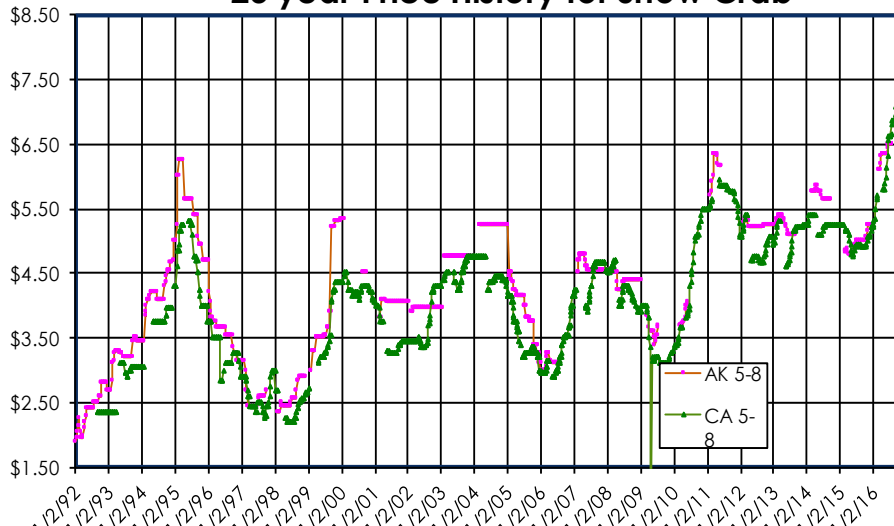
Crab

- Alaska achieved excellent pricing on both king crab and snow crab this fall and winter
- Market is cyclical and supply driven and is currently at a peak
- Decline in resource is supporting high prices
- The Deadliest Catch TV show has been a huge factor in increased US Crab Consumption
- US market sets pricing.

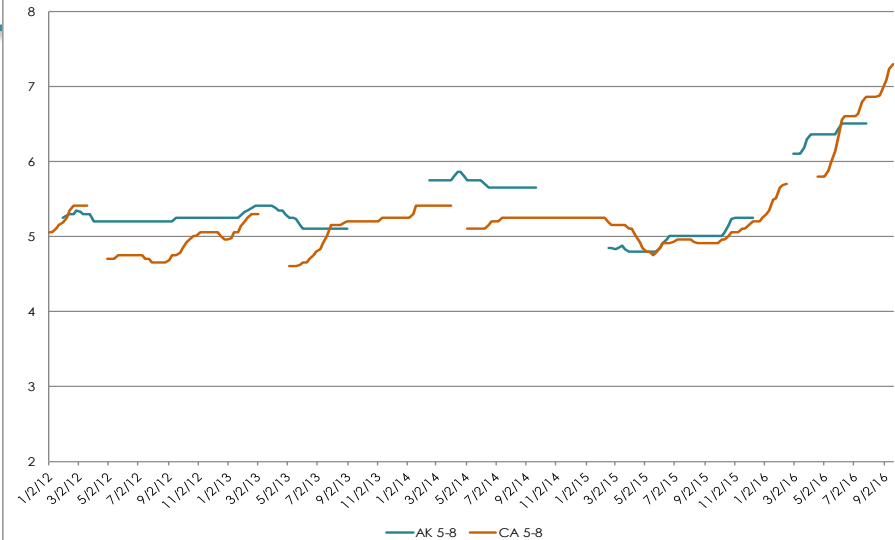


Crab Prices Have Never Traded at This Level

23 year Price History for Snow Crab



Crab Prices Again Break out of Trading Range

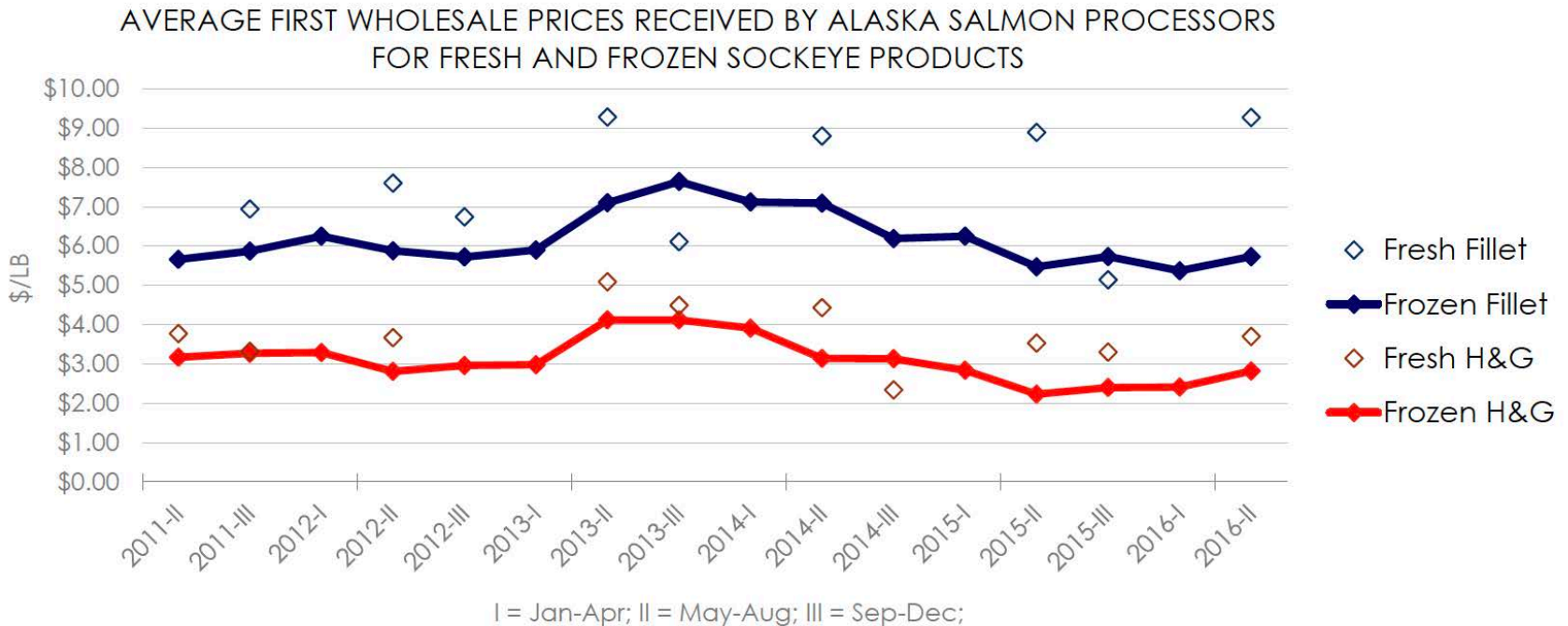


Seafood Datasearch



Salmon

Alaska frozen and fresh sockeye wholesale prices recovered significantly in 2016, but remain well below 2013-14 levels.

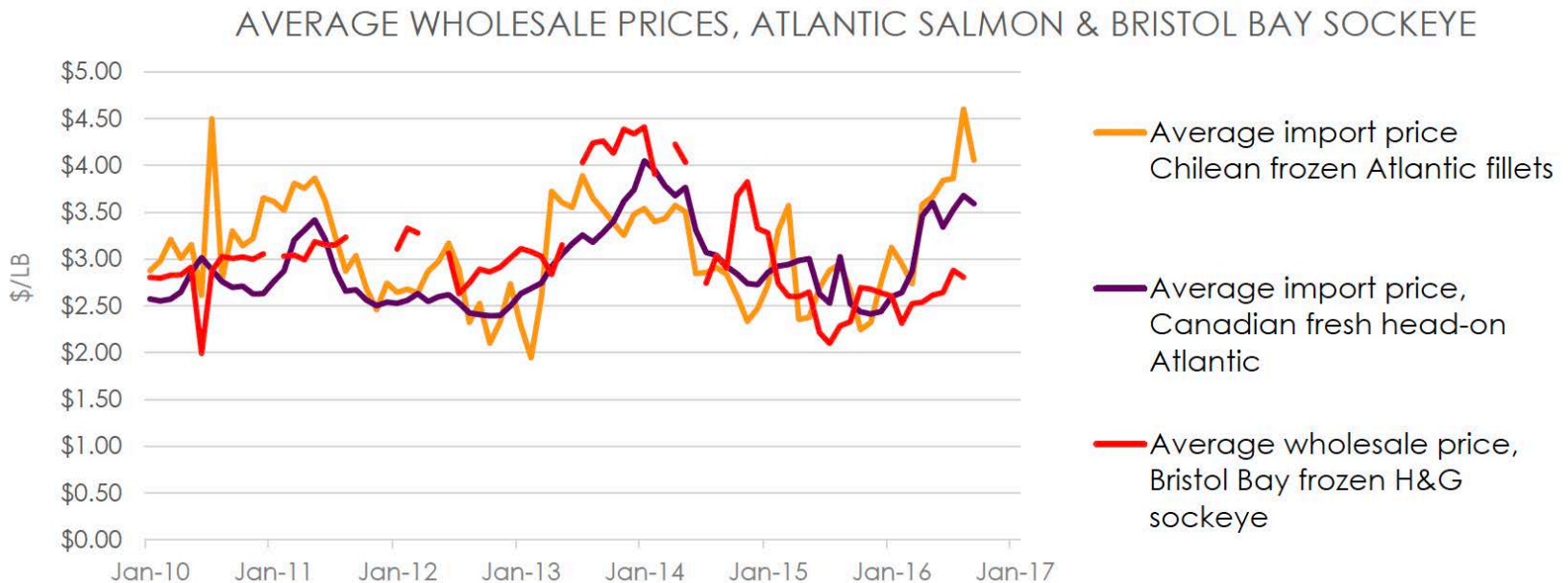


Source: Gunnar Knapp; Ak Salmon report



High Prices for Sockeye Partly due to High prices for Atlantic Salmon

Wild sockeye wholesale prices are correlated with farmed Atlantic wholesale prices.



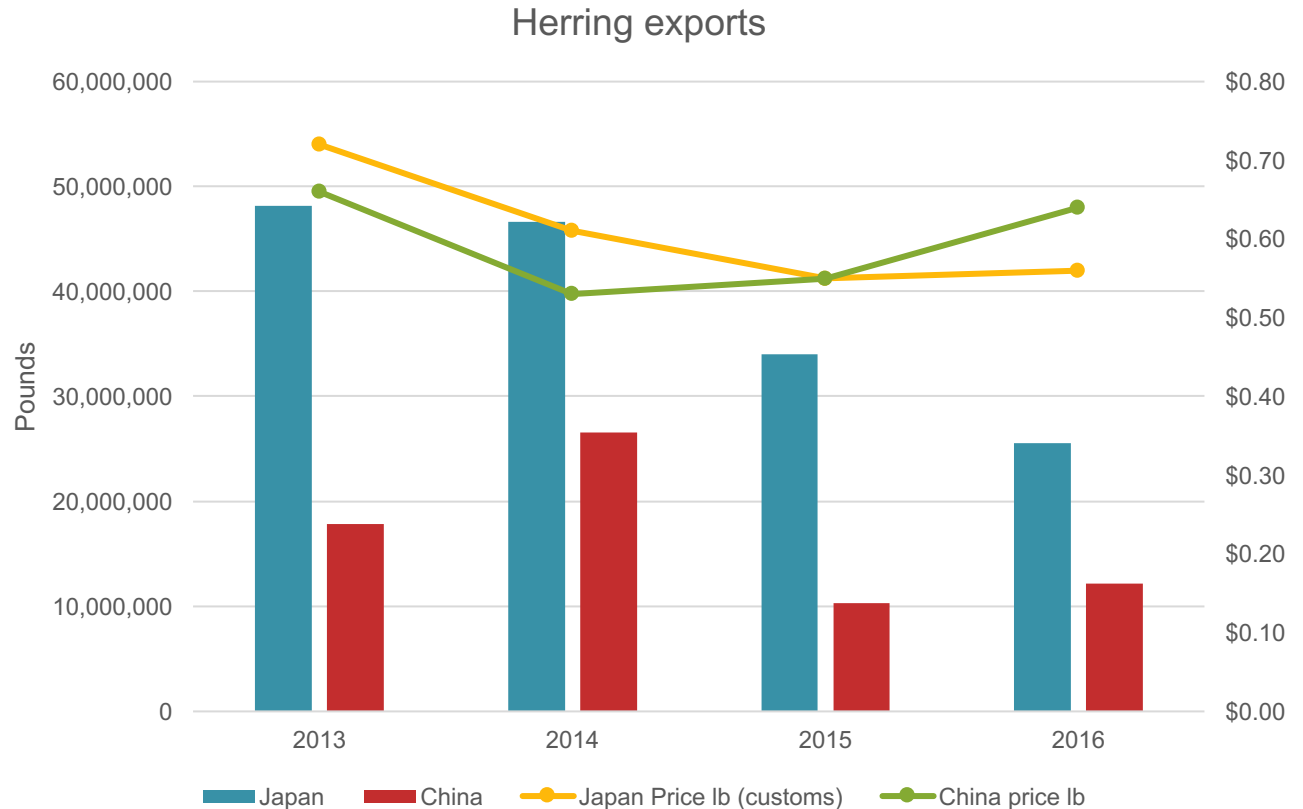
Courtesy Gunnar Knapp, NFI Global Seafood Market Conference

Farmed salmon production has been hit with series of problems that have spiked prices



Herring

- Kazunoko consumption in Japan around 20% of what it was in the 1990's
- Russian trade ban also hit herring and salmon roe products
- Outlook is for more BC herring in 2017, stable Sitka forecast.

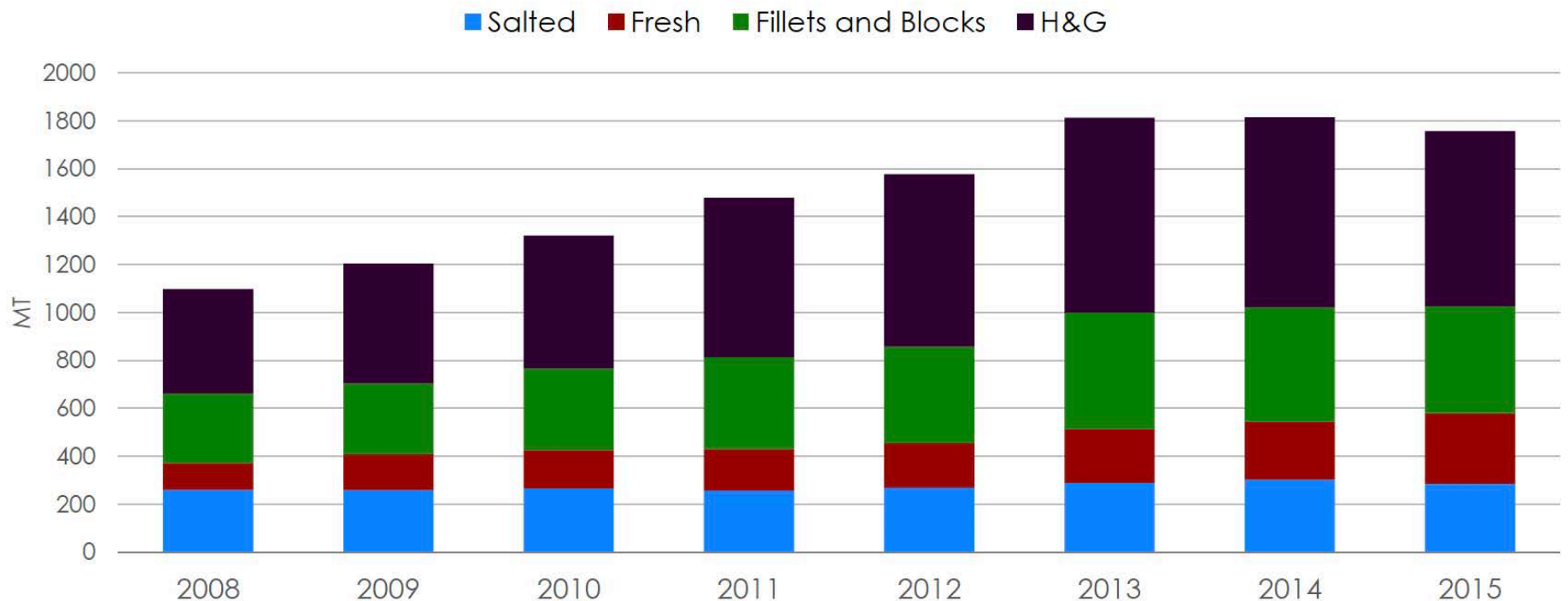


Seafood Datasearch with NMFS and Customs Data



Pacific Cod: Sold Mainly H&G

World Cod Disposition 2008-2015

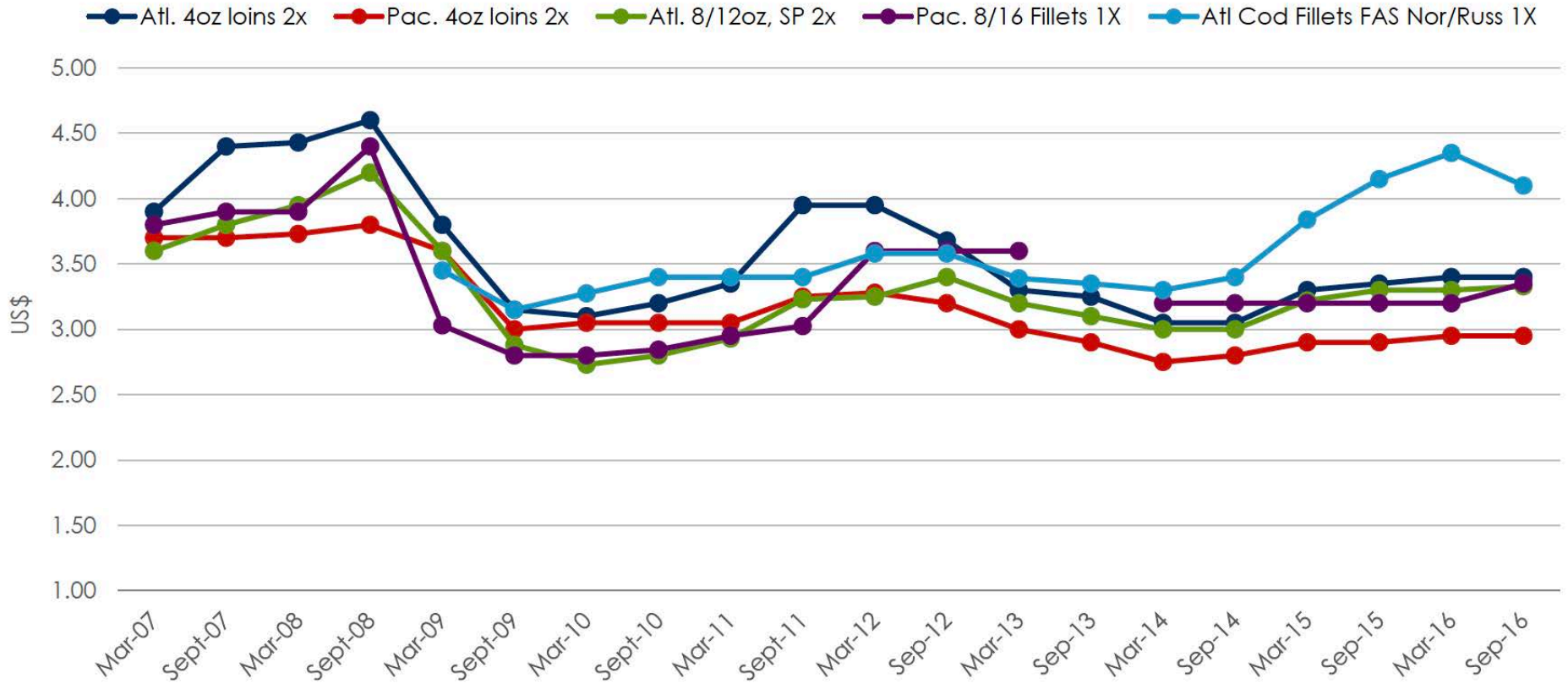


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Pacific Cod fillet price; and resource, very stable

COD PRICING



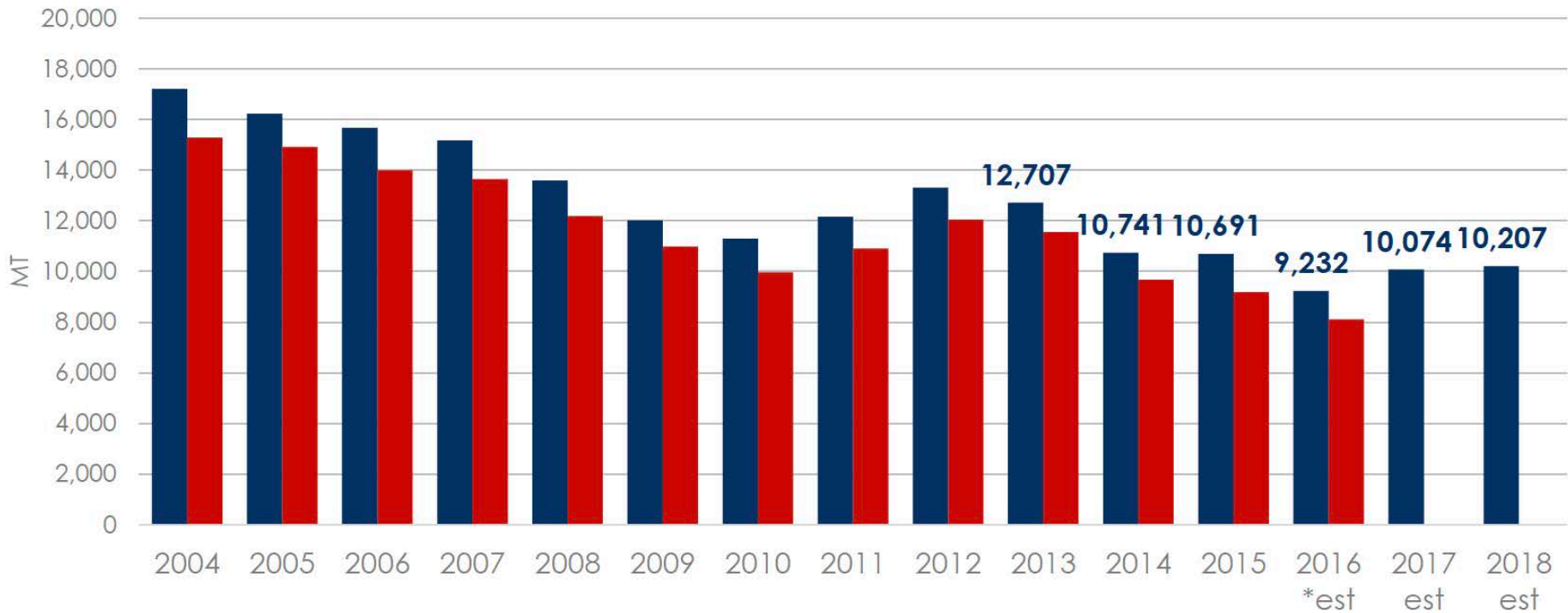
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Halibut and Sablefish

Gulf of Alaska Sablefish TAC

■ Total Allowable Catch ■ Total Catch

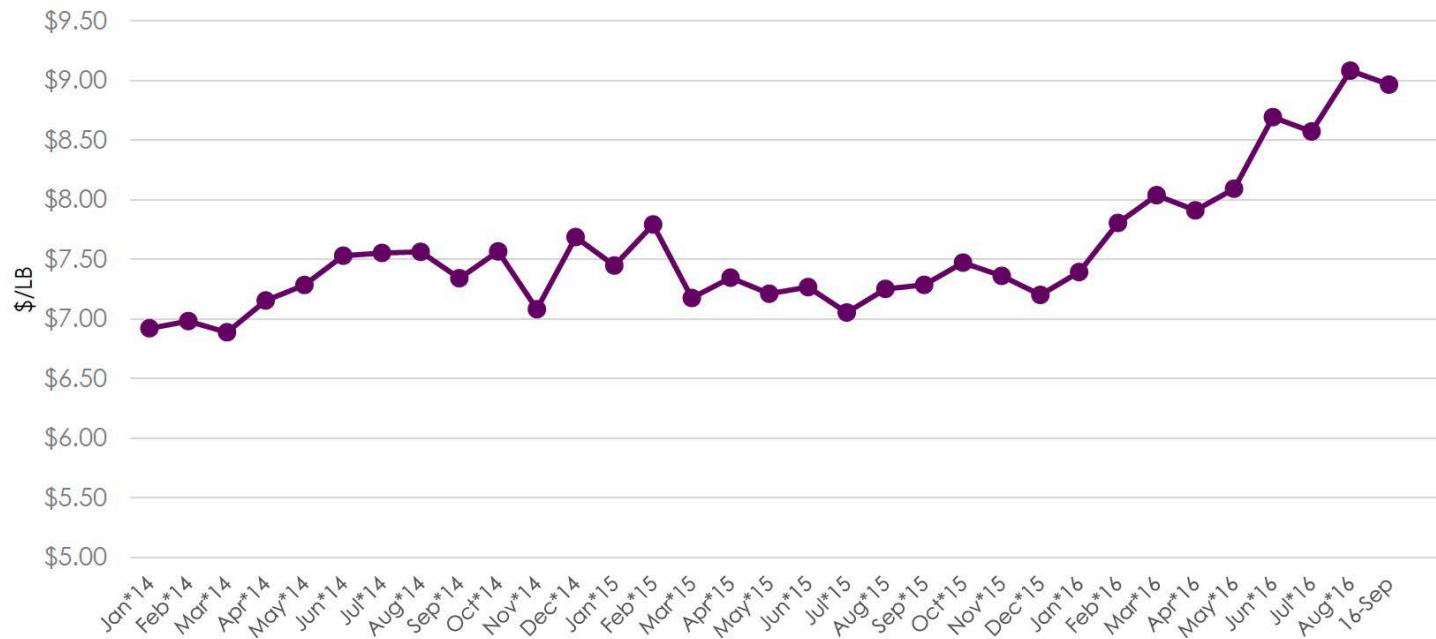


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Sablefish prices higher on lack of supply, China demand

Sablefish Tokyo Wholesale Price

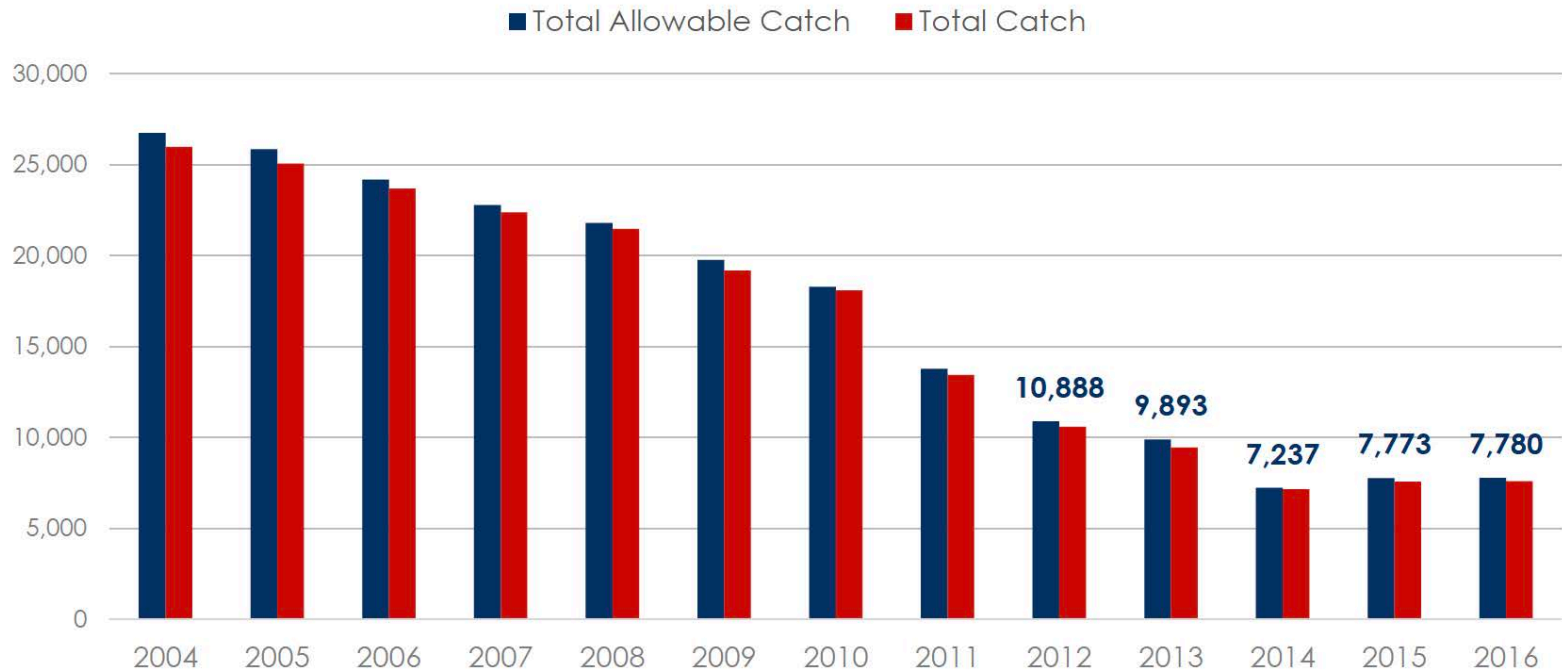


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Halibut TAC's marginally higher

TAC Halibut Catch Alaska

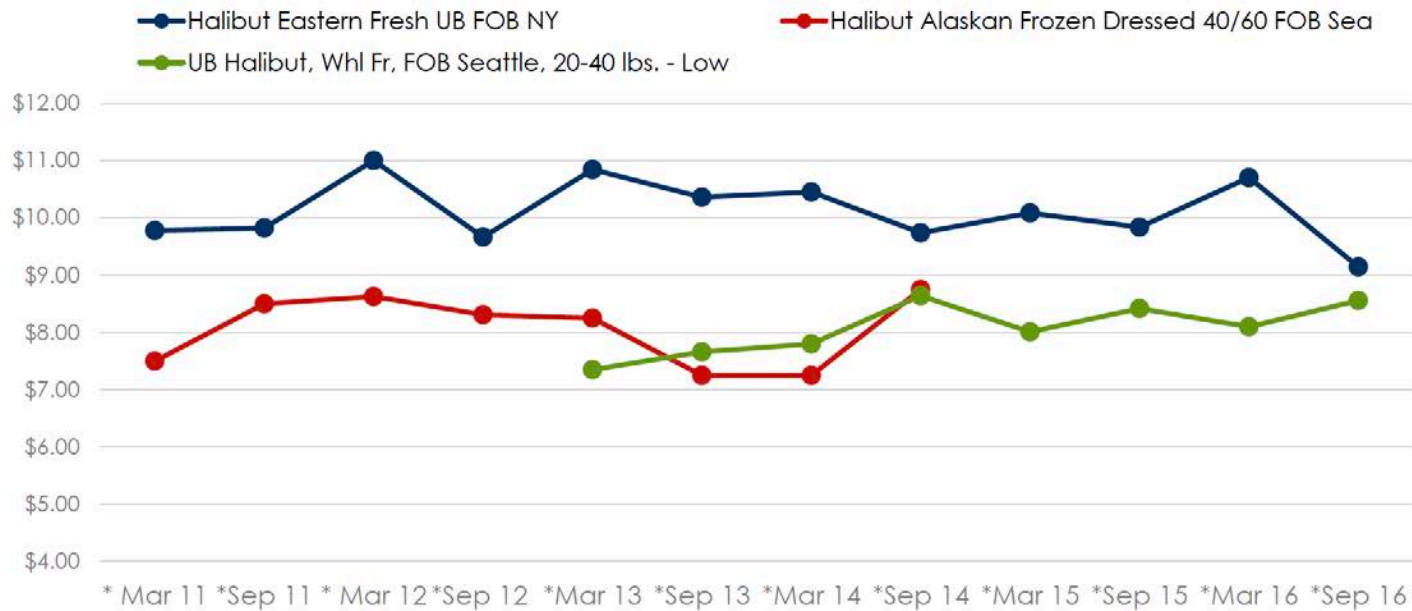


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Pricing stable; more competition from Atlantic Halibut on East Coast

Halibut Fillet Pricing



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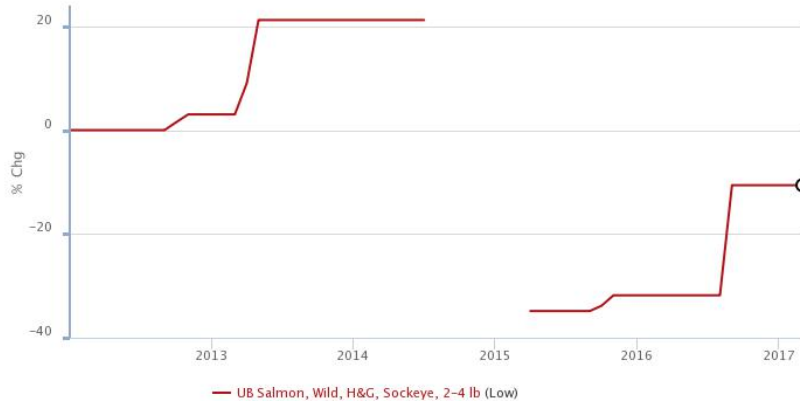
Some of these species have seen price volatility

UB Crab, Red King, Leg & Claw, 16-20 ct., Russian, FOB West Coast

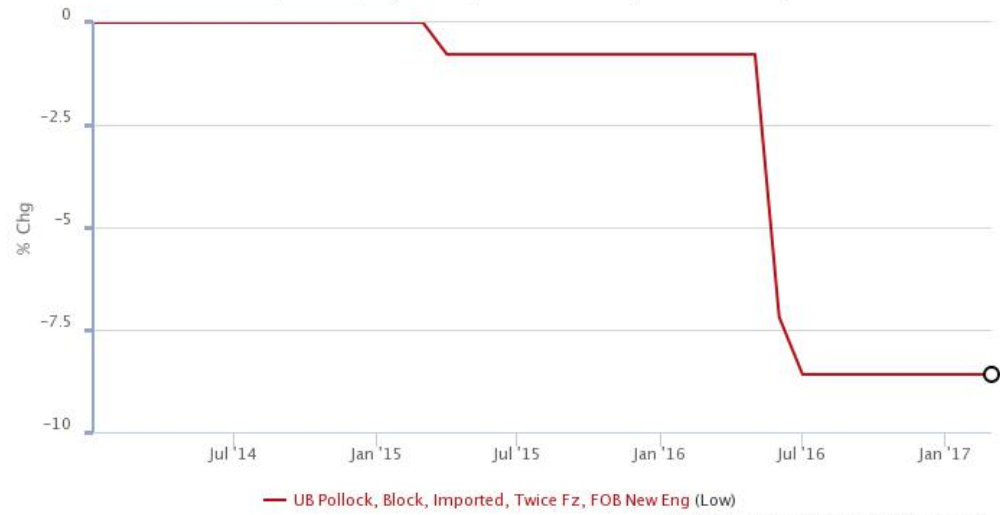


King crab +67% in 2 yrs
 Snow Crab +44% in 2 yrs
 Sockeye +20% then -35%
 Pollock -8%

UB Salmon, Wild, Frozen H&G, Sockeye, 2-4 lbs. FOB Seattle



UB Pollock, Block, Imported, Twice Frozen, FOB New England



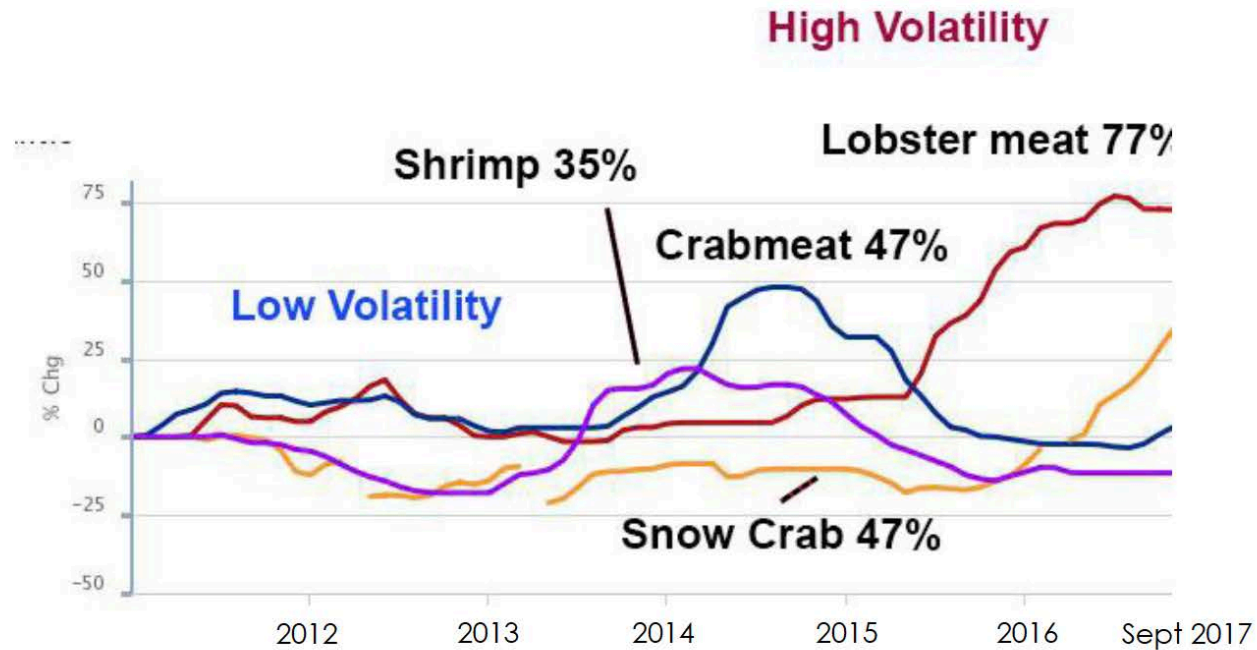
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Volatility degrades long term value: in US shellfish volatility is highest ever

Shellfish price volatility highest ever



Seafood Datasearch and Urner Barry



Harvesters see high prices as silver lining for lower supply;

- Most price volatility is in response to a change in supply
 - snow crab: large decline in Alaska production
 - salmon: Algae problem in Chile, Sea Lice problem in Norway;
 - Pollock blocks: strong dollar curtailed consumption in Europe; Increased Russian production
- When there is a shortage, Harvesters get some compensation through higher prices



But this has a cost in lost markets

- At each point in the supply chain, someone is investing in the product.
 - Harvesters have sunk costs; they must go fishing when they can.
 - Processors have sunk costs; once they open a plant, they need throughput; poor throughput means operating losses.
 - Users (foodservice and retail) have sunk costs, but not for a specific product. So they walk away if the product price changes too much



Higher Costs from Price Volatility Cannot be Recovered in marketplace

- Buyers like predictability for their own customers
- When prices and supply become unpredictable, they cut back on their purchase, promotion, and investing because they seek other options.
- The Harvesters and Processors in Alaska don't have other options.



When stocks recover, value is lower than what it would have been prices did not spike

- Users back away from a product they cannot get or pay for.
- When product returns, they demand discounts, contract guarantees or other value to again invest in that product themselves.
- Result is a lower overall average value.



Stability is an excellent economic goal as well as resource goal

- Alaska's premium seafood brand has largely been built on three pillars:
 - Stability of the resource
 - Quality and Sustainability
 - Infrastructure to deliver fish
- Current budget pressures that lead to less responsive management can erode all of these things
- Biggest danger is a reversion to short term thinking to just get through the bad patch.



Current conflicts should be resolved in a framework that values stability

- Threats:
 - Inability to pass on labor costs;
 - Low volume leads to fewer year round jobs
 - Turmoil in fisheries management can push parties to short term thinking eroding bycatch cooperation
 - Sustainability of some fisheries could be threatened



Alaskan Companies Face Global Competition

- Vertically integrated companies:
 - Clearwater in Canada
 - Marine harvest
 - HB Grandi in Iceland
 - Sealord and Sanford in New Zealand
- All these companies have supply access, harvesting and processing and marketing capability



Alaskan producers do not set prices for most products

- Most US king crab is from Russia
- Salmon prices are determined by farmed Atlantic Salmon
- The impact of a strong dollar on sales is obvious
- The price gap between seafood and most beef and poultry has expanded; making supermarkets nervous.
- For this reason, when things go wrong in Alaska, companies cannot compensate by raising prices elsewhere.



Conclusions

- All sectors must work together
- An Alaska vs Seattle Conflict will undermine the value of fisheries in Alaska
- Processing infrastructure is a critical asset
- The strong dollar, higher management standards, and less restricted competitors will continue to challenge Alaska marketers
- Keeping Alaska seafood as a premium brand and extracting a higher value depends on not undermining the processing, harvesting, and management that brought us there.

