Overview of the Atlantic Canada seafood industry: structure, markets, marketing

Moncton
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Atlantic seafood industry worth $3 billion

- New Brunswick production from capture fisheries and marine aquaculture worth about $1 billion, that’s 25% of the Canadian total.
Focus: how derive more value

- **Getting the structure right**: optimal harvesting and processing structure with a common aim of producing high quality products to diversified markets
- **Improving the terms of trade**: a more coordinated approach to limit the increasing market power of distributors
- **Getting to the right market**: product & market development to reduce exposure to commodity conditions
- **Establishing the brand**: healthy products/ clean environment/ sustainable harvesting practices
Topics

• **Industry overview**
• Global supply and demand
• Resource status
• Harvesting
• Production and markets
• Issues and options
• Sector performance & challenges
Crab: key statistics

- **Crab 2006**
  - $280 million landings
  - $400 million exports
  - 4,000 vessels
  - 82 plants
  - 22,000 employed

- **Trends**
  - Resource
  - Landings
  - Price
  - Export

- **Outlook 2007**
Shrimp: key statistics

• Shrimp 2005
  – $240 million landings
  – $485 million export
  – 470/13 vessels
  – 20 plants
  – 6,200 employed

• Trends
  – Resource
  – Landings
  – Price
  – Export
  – Outlook 2007

Outlook

Up

Down
Lobster: key statistics

- Lobster 2005
  - $600 million landings
  - $1,000 million export
  - 9,770 vessels
  - 50 plants
  - 35,000 employed

- Trends
  - Resource
  - Landings
  - Price
  - Export
  - Outlook 2007
Key species

- $1.6 billion total landed value
- Three species dominate: lobster, crab & shrimp
- Lobster: decline & recovery
- Crab: cyclical growth & price instability
- Shrimp: steady revenue decline

Atlantic fisheries, landed value by species ($000)

Source: DFO
Topics

- Industry overview
- **Global supply and demand**
- Resource status
- Harvesting
- Production and markets
- Issues and options
- Sector performance
Global supply and demand

- **Snow crab supply**
  - Steady at 150-170,000 t
  - Canada produces 65%
  - Five others produce 35%
  - Alaska source of instability
  - Substitutes influence prices

- **Snow crab demand**
  - Two markets: US & Japan
  - Food service & retail commodity in U.S.
  - Mainly food service in Japan (sushi & sections)
  - Demand price sensitive

- **Coldwater shrimp supply**
  - Up 50% to 450,000 t since ‘98
  - Canada produces 40%
  - Three others produce 45%
  - Competing with 65 species
  - 7% of global supply 6 MM t

- **Coldwater shrimp demand**
  - Two markets: US & EU (UK) for C&P - mainly retail
  - Japan & China for shell-on frozen - retail & restaurant
  - Demand not keeping up with supply
Global supply and demand: lobster and groundfish

- **Lobster supply**
  - Steady at 80-90,000 t
  - Canada produces 55%
  - U.S. produces 45%
  - High exploitation rate
  - Canada processes 50-70% of U.S. catch

- **Lobster demand**
  - U.S. consumes over 80% of total supply
  - Live & processed at 50% each
  - Demand is price sensitive

- **Groundfish supply**
  - Declined from 12 to 7 million tonnes
  - Cod/pollock main species
  - Farmed finfish has substituted (tilapia/salmon)

- **Groundfish demand**
  - U.S. & EU major markets
  - Limited growth in frozen
  - Fresh segment exhibits strongest growth
Global snow crab supply stable

Global supply of snow crab, 1990-2005

Source: FAO, GINR, NMFS, DFO
Coldwater shrimp supply increasing

Global supply of coldwater shrimp, 1990-2004

Source: FAO
Lobster landings fairly stable

Lobster landings: Canada and the U.S.
Farmed species substitute for reduced groundfish supply

Global "whitefish" supply

Source: Groundfish Forum 2005
Topics

- Industry overview
- Global supply and demand
- **Resource status**
- Harvesting
- Production and markets
- Issues and options
- Sector performance
Resource status: Canada

• **Snow crab**
  - Stocks declined most areas
  - No area has strong recruitment pulse

• **Variation by area**
  - NE NL: long-term prospects uncertain
  - S. Gulf: stock in declining phase
  - N. Gulf: biomass begins to decline in 2007
  - ENS: stocks down recovery possible in 2007

• **Shrimp**
  - Stocks stable with uncertainty
  - Outlook positive for major stocks

• **Variation by area**
  - NE NL: stocks stable with positive/uncertain outlook & some decline in average size
  - Gulf/Estuary: stocks strong but decline to long-term average biomass in 2006 & beyond
  - ENS: unstable with decline in average size and biomass
Resource status: Canada

- **Lobster**
  - Mostly stable, declines in some areas
  - No area shows strong growth

- **Variation by area**
  - Northern gulf: stable
  - Southern Gulf: decline
  - Newfoundland: stable
  - Nova Scotia: decline

- **Groundfish**
  - No recovery most areas
  - Science unable to predict when stocks may recover

- **Variation by area**
  - Some recovery in 3Ps cod, Georges Bank haddock
  - Small redfish fisheries off NL and NS
  - Turbot fisheries in Gulf and off NL
Topics

- Industry overview
- Global supply and demand
- Resource status
- Harvest
- Production and markets
- Issues and options
- Sector performance
Crab landings reflect stock status

- Total down to 94,000 t in 2005 from 2003 peak of 106,800 t
- NL lands 47%, down from peak of 73% in 1999
- Gulf lands 46%
- NS (SS) lands 7%

Source: DFO
Shrimp landings reflect stocks & market price

- 80% of catch in northeast NL waters
- NL landings up three-fold since 1997
- Other provinces remain steady or slight decline since 2003
- Low price make the shrimp fishery a marginal or losing proposition

Source: DFO
Lobster landings declining in most areas

- Landings down by 15% from 2001 peak
- QC fairly stable
- Major decline in Northumberland Strait

Lobster landings by province

Source: DFO
Crab shore prices at historic lows

- Peaked in 2004 with increase in Japanese & U.S. demand
- Dropped sharply in 2005 as customers resisted high distributor prices
- Stayed low in 2006 as inventories cleared

Source: DFO
Crab prices sensitive to supply

- Swings: high of US$4.50/lb and low of US$2.25/lb
- Drop in 2005 due to speculation
- By mid-2006 price down to US$2.75
- Upturn in Alaska landings may have played small role
Crab price down by 50% since 2004

- 35% due to price drop
- 15% due to exchange rate
- US$ price likely to strengthen in 2007, but could be partially offset by weakening economy

Monthly U.S. snow crab import price

Source: NMFS and Bank of Canada
Shrimp shore price at historic lows

- Shore price down by 50% over decade as global supply exceeds demand
- Shore price approaches break-even level for harvesters
- Larger shrimp and stronger competition explain higher Québec price

Inshore shrimp shore prices, 1990-2005

Source: DFO
Shrimp price drop worsened by exchange rate

- Price decline reflects supply > demand & availability of substitutes
- US$ price down 33% since 1995
- Stronger dollar means CDN$ price down 50% since 1995

Monthly export price of C&P shrimp to the U.S.

Source: NMFS
Lobster market weakening, exchange rate cuts revenues

- US$ price starting to show some weakness after several years of steady growth
- CAN$ price shows downward trend since 2003
Lobster shore price closely tracks U.S. market

- Price differences by province reflect mainly size and product form
- Strong competition in NS and QC means low margins for shippers

Average shore price of lobster by province

Source: MPO
Salmon market gains strength

- Salmon suffers long slide as supply exceeds demand
- Proximity to market and direct sales mean price premium for NB and BC
- Price began to turn the corner for Canadian producers in 2006 as suppliers to the U.S. shifted to EU in response to higher returns
Exchange rate cuts salmon prices

- Steady 1990s price decline offset by rising exchange rate
- Weakening U.S. dollar causes sharp drop in CAN $ price after 2002

Annual average price of U.S. imports of Canadian whole dressed salmon

- US $/kg
- CAN $/kg

[Graph showing the annual average price of U.S. imports of Canadian whole dressed salmon from 1991 to 2006.]
Topics

- Industry overview
- Global supply and demand
- Resource status
- Crab & shrimp harvest
- **Production and markets**
- Issues and options
- Sector performance
Crab exported to two markets: United States & Japan

- $860 million industry in 2004 drops to $600 million in 2005 and about $400 million in 2006
- Exports to China are processed for re-export to Japan

Atlantic Canada total crab exports by market

Source: Statistics Canada
Crab: market and cash driven export

- Sold to distributors who take position in market
- Export pattern reflects commodity product & consumption pattern
- Low margins limit ability to inventory/brand and develop market

Crab landings and exports by month, 2005

Source: DFO and NMFS
C&P shrimp exports by country

- $136 million industry in 2005
- US is main market (55%) despite adverse exchange
- C&P shrimp faces 20% tariff entering EU

Source: Statistics Canada
Shrimp mainly a retail product

- Sold to customers on an as needed basis
- Demand far less seasonal than crab
- Imposes high carrying costs
- Competes with many other shrimp species

Shrimp landings and C&P exports by month, 2004 & 2005

Source: DFO and Statistics Canada
Lobster exports market and supply driven

- NB accounts for 60% of Canadian processed lobster exports
- Over 90% of NB exports goes to the U.S.
- Processing sector relies heavily on imports from U.S.
Topics

• Industry overview
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• Resource status
• Crab & shrimp harvest
• Production and markets

• Issues and options
• Sector performance
## Crab issues: control in hands of market

<table>
<thead>
<tr>
<th>Category</th>
<th>Issues</th>
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<tbody>
<tr>
<td>• Resource</td>
<td>• Cyclical abundance</td>
</tr>
<tr>
<td></td>
<td>• Low period in Gulf - long terms prospects uncertain</td>
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<tr>
<td></td>
<td>• Climate unknowns pose threat to sustainability</td>
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<tr>
<td>• Markets</td>
<td>• Dependent on distributors in just two markets</td>
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<tr>
<td></td>
<td>• Commodity demand: price highly sensitive to supply</td>
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<tr>
<td></td>
<td>• Threat of substitutes: Alaska/other crab species</td>
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<tr>
<td>• Harvest</td>
<td>• Structured for short seasons: biology/fleet/economics</td>
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<tr>
<td></td>
<td>• Poor handling practices, gluts and poor quality</td>
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<tr>
<td></td>
<td>• Fleet viability an issue in some areas</td>
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<tr>
<td>• Processing</td>
<td>• Structured to under-perform: capacity/competition</td>
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<tr>
<td></td>
<td>• Limited ability to influence harvest rate &amp; quality</td>
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<td></td>
<td>• Fragmented. Pressure to sell. Little scope to market</td>
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### Crab options: measures to enhance value

<table>
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<tr>
<th>Category</th>
<th>Action</th>
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<tr>
<td><strong>Resource</strong></td>
<td>• Improve scientific knowledge about the resource</td>
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<tr>
<td></td>
<td>• Resist pressure to increase exploitation rates &amp; TACs</td>
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<td></td>
<td>• Consider certification for eco-label</td>
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<tr>
<td><strong>Markets</strong></td>
<td>• Diversify into new market areas, eg, Europe</td>
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<td></td>
<td>• Promote alternatives to commodity consumption</td>
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<td></td>
<td>• Use consolidated/coordinated marketing approach</td>
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<td></td>
<td>• Consider regional branding</td>
</tr>
<tr>
<td><strong>Harvest</strong></td>
<td>• Stretch season to biological limits using price</td>
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<td></td>
<td>• Invest in quality: vessels/holding and education</td>
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<tr>
<td><strong>Processing</strong></td>
<td>• Eliminate/limit financial support to industry</td>
</tr>
<tr>
<td></td>
<td>• Promote quality ethic and price/quality relationship</td>
</tr>
<tr>
<td></td>
<td>• Assess merits of ISO 14000 certification</td>
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## Shrimp issues: market awash in shrimp

| **Resource**              | Stocks stable with some uncertainty  
|                          | Stocks benefit from ecosystem change |
| **Markets**              | Concentrated market dependence (C&P/Shell-on) |
|                          | Supply consistently running ahead of demand |
|                          | Price weakness will continue/ product characteristics |
| **Harvest**              | Quality: many vessels not designed for shrimp fishery |
|                          | Poor returns limit scope for fleet upgrading |
| **Processing**           | Overcapitalized/limited ability to influence harvest rate |
|                          | High inventory carrying costs - distress selling |
|                          | Weak financial position & limited scope for optimism |
Shrimp options: measures to enhance value

| • Resource                  | • Improve scientific knowledge about the resource  
|                            | • Resist pressure to increase exploitation rates & TACs  
|                            | • MSC/eco-label important for EU market  
| • Markets                  | • Target new market areas, eg, S. Europe/US/Far East  
|                            | • Continue action to eliminate EU tariff  
|                            | • Develop consolidated marketing/ regional branding  
| • Harvest                  | • Extend season to practical limits  
|                            | • Restructure fleet with fewer vessels, better technology  
| • Processing               | • Eliminate/limit financial support to industry  
|                            | • Cut capacity from sector, promote 8-month season  
|                            | • Promote product/market development  

# Lobster issues: Highly competitive industry

| Resource          | Overall abundance stable or declining slightly  
|-------------------|-------------------------------------------------
|                   | High exploitation rate in most areas a concern  
|                   | Unknowns pose threat to sustainability          
| Markets           | Dependent on one major market - U.S.            
|                   | Price sensitive to supply/state of economy      
|                   | Rising concern from animal rights activists     
| Harvest           | Structured for short seasons: fleet/economics   
|                   | Good handling practices but highly peaked supply 
|                   | Strong competition means high shore price       
| Processing/shipping | Generates low margins: capacity/competition     
|                   | Relies heavily on imports of U.S. lobster       
|                   | Need product development in processed sector    |
Lobster options measures to enhance value

| • Resource | • Improve scientific knowledge about the resource  
|            | • Reduce harvesting pressure/exploitation rate  
|            | • Introduce increased minimum legal size/Eco-label? |
| • Markets  | • Diversify into new market areas: EU & Far East  
|            | • Develop consolidated marketing approach  
|            | • Market the environment & and optimal quality |
| • Harvest  | • Ensure vessels have best holding methods  
|            | • Extend fishery over the season  
|            | • Remove any obstacles to competition at port market |
| • Processing | • Eliminate/limit financial support to industry  
|            | • Ensure adequate holding capacity to time the market  
|            | • Promote product-market development |
Topics

- Industry overview
- Global supply and demand
- Resource status
- Crab & shrimp harvest
- Production and markets
- Issues and options
- **Sector performance**
Crab short-term prospects

- Relatively stable harvest level for near term contributes to price strength
- Short season & glut/quality issues could be worse in 2007 as harvesters try to recover from two bad years
- Market outlook promising for 2007, full recovery may be held back by weak US economy
- Processors continue to be caught between supply-driven harvest and commodity-led demand
- Need to find a way to reduce cash flow pressures to allow focus on product and market development
Shrimp short-term prospects

- Limited prospects for price recovery in near term unless supply drops or markets expand
- Weak harvesting and processing returns unless costs are reduced & marketing enhanced
- Improvement in quality/yield tied to more appropriate harvesting technology - difficult to achieve given low prices & poor returns
- Improved returns tied to more disciplined marketing approach and market development in US, Far East and Europe
- Need to focus on optimizing industry structure/capacity to restore financial health to tackle marketing issues
Lobster: short-term prospects

- Decline in supply puts upward pressure on price
- Weakening U.S. economy puts downward pressure on price - key factor for 2007
- Processing sector relies heavily on U.S. landings, keeps upward pressure on price in live market
- Expect stable to lower U.S. prices, with some further weakening of U.S. dollar.
- Need to continue optimizing industry structure/capacity to restore financial health to tackle marketing issues
Challenges

- **Getting the structure right**: optimal harvesting and processing structure with a common aim of producing high quality products to diversified markets
- **Improving the terms of trade**: a more coordinated approach to limit the increasing market power of distributors
- **Getting to the right market**: product & market development to reduce exposure to commodity conditions
- **Establishing the brand**: healthy products/ clean environment/ sustainable harvesting practices