The Canadian Lobster Industry: Market Value, Trends and Issues

John Sackton
Seafood Datasearch
Moncton, Shediac, and Shippagan
March 27-28, 2019
• 40 Years in Seafood Industry
• Crab, shrimp, lobster and cod market analyst since 1997
• Preseason price and market outlooks on shrimp, crab, lobster and cod – Maritimes, Newfoundland, Alaska, US West Coast
• Price arbitrator for Alaska crab Fisheries 2005-2017
• Co-Founder of NFI’s Global Seafood Market Conference
• Shrimp, Crab, Lobster Analyst for US National Fisheries Institute
• Publisher of Seafood.com News
• Owner of Seafood Datasearch
Outline for Today

- Economic value of Canadian Lobster
- Where does this value come from?
- Strengths and Challenges of the Lobster Industry
- Current Market Issues
- Pricing
- Factors Pushing Industry Change
- Outlook for 2019
Lobster is by far the most valuable Canadian Seafood Export
Lobster supply remains near record levels

After 9 Years of Growth Total Lobster Landings Declined in 2017 and Came up Slightly in 2018

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<td>Canada</td>
<td>54,092</td>
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<td>58,137</td>
<td>57,066</td>
<td>86,988</td>
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<td>16,906</td>
<td>7,057</td>
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<td>4,316</td>
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Lobster Value has Grown as Landings Have Increased

![Chart showing the export value for live lobster (in dollars) from 2007 to 2018. The value has increased significantly over the years, especially from 2014 onwards.](chart-url)
For the Maritimes, Lobster represents 52% of export value; crab and shrimp are important also.

<table>
<thead>
<tr>
<th>Fish</th>
<th>Value 2017</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Lobster</td>
<td>$2,129,391.00</td>
<td>52%</td>
</tr>
<tr>
<td>Crab</td>
<td>$1,491,598.00</td>
<td>37%</td>
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<tr>
<td>Shrimp</td>
<td>$468,349.00</td>
<td>11%</td>
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</table>

By Product volume, Live represents about 57% (2017).
Despite Increasing Sales to China, the US is the dominant buyer of Canadian lobster
Live lobster price China vs. US by qtr

Live lobster export price per lb for US and China

China US tariff
The US and Canadian Markets are Deeply Tied Together

US and Canada Have a Deeply Integrated $US 4 Billion Reciprocal Seafood Trading System

- So far, this has not been disrupted by trade tensions
- Canada is gaining advantage over US by opening new trade markets
  - CETA
  - TPP
  - Expanding Trade with China
- US exports to Canada increased in 2018 year over 2017.
- But with US shut out of some export markets, excess US product could depress prices

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<thead>
<tr>
<th>Canada top exports to US</th>
<th>Value</th>
<th>Percent</th>
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<tbody>
<tr>
<td>snow crab</td>
<td>$594,413,989</td>
<td>18%</td>
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<tr>
<td>LOBSTER</td>
<td>1,066,662,765</td>
<td>32%</td>
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<tr>
<td>SALMON</td>
<td>651,560,477</td>
<td>20%</td>
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US to Canada:
$US .95 billion

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<tr>
<th>US TOP EXPORTS TO CANADA</th>
<th>Value</th>
<th>Percent</th>
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<tr>
<td>Lobster</td>
<td>233,117,642</td>
<td>25%</td>
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<td>salmon incl wild</td>
<td>84,354,788</td>
<td>9%</td>
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Yield is key to understanding Lobster pricing and why live lobster demand sets shore prices

Live - 100%
Whole Cooked - 86%
(average cook loss, can be reduced about 5% with treatments)
Claw knuckle leg meat:
9% to 13%
Tail - 20-24%

Calculations based on average of 22% for tails and 11% for meat
Breakdown of 500 lbs lobster by raw material pounds and cost at various shore prices

<table>
<thead>
<tr>
<th>Cost at Shore Price</th>
<th>Live lbs</th>
<th>Whole Cook cost</th>
<th>Tails cost</th>
<th>Meat cost</th>
<th>Processed (tails/meat) raw mat $</th>
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<tr>
<td>Pounds</td>
<td>500</td>
<td>430</td>
<td>110</td>
<td>55</td>
<td>165</td>
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<td>5.00</td>
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<td>81.82</td>
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With $9.00 shore price, processors $CA for tails and meat is $CA 27.27 (20.31 $US). Current US pricing is $20.00 for 4 oz tails, and $17.75 for lobster meat.
Lobster Landings by LFA

LOBSTER FISHING AREAS (LFA)

LFA Landings 2017

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<th>Tons</th>
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<td>38</td>
<td>3,915</td>
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Tons
US Live Exports to Canada support New Brunswick’s processing sector

LOBSTER (HOMARUS SPP.) LIVE/FRESH

Estimated use of US Imports, plus meat and tail export data
New Brunswick and PEI produce frozen lobster; Nova Scotia produces Live
Result is different industry structure in different provinces

- Nova Scotia: live landings in LFA 33 and 34 in December
- New Brunswick: landings for processing in spring and fall; live landings in bay of Fundy
- PEI: mostly processing frozen lobster May-June, Aug-Sept.
- Quebec: Both processing and live markets
- NL: mostly frozen processing
Structural problem

• Live products set market price
• When live market is strong processors are priced out of market by raw material costs
• Result is that processor margins in both NB and PEI are often underwater.
• Industry profits heavily favor harvest sector.
• Harvest sector has political clout
Yield issues make it important to “sell the shell”
Unique Strengths and Challenges for Lobster

- Employs 25,000 harvesters; 71% of all maritime fishers
- Widespread geographic distribution maintains economic viability of coastal towns
- Provides processing employment
- Strong export demand
- Sustainably fished

- Landings gluts reduce value
- High price volatility due to demand for live lobster
- Highly variable quality
- Highly fragmented buying structure with middlemen
- Cross border industry for both US and Canada
- Cash business heavily dependent on financing
Problems Encapsulated in Price volatility which kills markets

UB Lobster Tails, American, 4 oz.

Lobster meat 70%

Live: 80% April; July – Dec 7-8%

Tails 21%

Cod Loin 7%
Could lobster products be mis-matched with markets

- Trend in US market is to use more frozen lobster; this is growing area in foodservice and retail.
- Live shell on lobster is hard to eat; only 1% of US households buy lobster.
- Frozen and processed lobster more accessible. 50% US households by shrimp.
- Volatility of frozen prices prevents market expansion.
Current market conditions

• Lobster is a demand driven market
  • More in shell Canadian frozen product going to US
  • More live lobster going to China from Canada
  • This is driving up raw material price

• After contracting in 2017, lobster supply increased in 2018

• US lobster market remained strong due to economy

• US had limited live exports to China due to tariffs

• For 2019 a winter to spring shortfall expected on frozen lobster

• Industry is counting on China to consume lobster at current price levels
US domestic lobster supply slightly increased in 2018.
More frozen tails and whole cooks going to US

- Expansion of live markets has meant live demand sets wharf price
- More processed lobster (tails, meat, scored claw) going to US

CA Frozen Lobster Export Has Decreased to China, Increased to US
Expansion of demand for frozen lobster in US in 2018

- Frozen tails and other in-shell lobster increased in 2018
When converted to live weight, meat and tails are the largest volume to the US.
Frozen lobster showed 8% growth at Foodservice

MARKET SHARE PLUS GROWTH RATE IN 2018

- West South Central: -13.0%
- West North Central: +8.8%
- East South Central: +8.4%
- South Atlantic: +7.5%
- East North Central: +5.3%
- Middle Atlantic: +14.5%
- New England: +5.0%
- Mountain/Pacific: +15.1%

ORIGIN OF FZN LOBSTER

- Canada: 26%
- North Atlantic Not Specified: 49%
- Maine / US: 14%
- Spiny / Rock: 11%
- North Atlantic: 49%
- South Atlantic: 7.5%

NFI NPD Data
Lobster Pricing for live, meat, tails

UB Lobster, American Hard, 1 1/4 lbs. Quarters, FOB Mid-Atlantic

- **meat**
- **tails**
- **live**

Peak live prices with very low volume
Canadian Live Exports Increased to China but were down to US

Live lobster exports

Seafood Datasearch: Intracen customs data
CA Frozen lobster excluding meat

![Graph showing frozen lobster excluding meat](https://example.com/graph)

**Seafood Datasearch: customs data**
Meat exports

Lobster meat is shipped almost entirely to the US

Seafood Datasearch: customs data
Comparison of lobster meat vs. tail and frozen exports to US

Look at Longer history
Tail prices are higher than meat prices for first time in 10 years

Exports of Canadian meat and tails to US
Shore Prices
Shore Prices 2016 and 2017 and 2018

PEI CNR  
NB N. Shore CNR  
PEI  
NB N. Shore  
NS N. Shore  
Newfoundland

PEI Aug ‘18  
Price up  
$.25 over  
2017
In 2018, high demand for live lobster for China and the US pushed prices up to $9.00 at times. By end of year prices retreated somewhat to the $8.00 range. Result was that almost no lobster for processing was bought at $7.00. Landings should be comparable to past two years.
Canadian Export Price to China & US

Live Volume and Price to US and China ($CA)

China qty | US qty | China Val $CA | US Val $CA
--- | --- | --- | ---
2016 | 15,030,226 | 60,643,004 | 19.9%
2017 | 19,193,492 | 61,524,624 | 23.8%
2018 | 31,056,815 | 58,299,251 | 34.8%

Seafood Datasearch
China lobster demand is not slowing

Total live Homarus from US and Canada

US shipments exceeded prior year until July, when tariffs were imposed

Data: Intracen
US Trade War with China Risks

Risks for US
- Shut out of major export market
- Accept lower price in alternative markets
- Disrupt US seafood imports
- Cut sales of some items due to higher costs
- Lower values to US Harvesters

Risks for Canada
- Overheated demand for lobster at wharf
- Mismatch between Chinese prices and other major markets, especially US.
- Growth of ‘Gray Markets’ in Canada
- CA Industry overly depends on Chinese market

In worst case scenario, US Harvesters agitate to limit Canadian Seafood Imports to boost their incomes.
How China trade impacted lobster from Canada

- China demand now dominant factor in global live lobster prices
- Canadian trade shifted to:
  - More live lobster, less frozen tails, meat, whole cooks
  - More live shipments to China than the US

Live exports from US and Canada grew 7.6% over 2017

Frozen exports fell -6.7%

*Biggest drop was in fzn lobster to China. US fzn imports actually increased.*
Canada becoming live supplier to China

Flow of Live Lobster 2018

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<tr>
<th></th>
<th>2017</th>
<th>2018 Difference</th>
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<tbody>
<tr>
<td>us china</td>
<td>16,482,522</td>
<td>19,214,196</td>
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<td>us ca</td>
<td>52,914,148</td>
<td>62,334,869</td>
</tr>
<tr>
<td>ca china</td>
<td>18,973,764</td>
<td>30,535,006</td>
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<tr>
<td>ca us</td>
<td>61,800,425</td>
<td>58,299,251</td>
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</tbody>
</table>
Ecuador Experience vs Canada: Both become more dependent on Chinese Market

Ecuador Moves to China Market for Shrimp

Canada Live Lobster Exports
Overview of Live season

• US remains largest market but since July, China has been bigger importer

• Positive factors include:
  – Stable exchange rates
  – Strong US economy supports lobster sales
  – Retail markets can absorb live lobster

• Negative factors:
  – Unlike lobster meat, demand for live is hard to expand at foodservice.
  – Expanding at retail means lower prices
  – Live lobster is a niche seafood product for consumers outside of a few areas of the US.
  – Expansion will depend on Non-US markets
Canada has advantages as global supplier

- US Trade Policy Disaster has been gift to Canadian shippers:
  - Preferred supplier to China
  - Primary supplier to Europe
- Lack of American competition in China will help maintain prices
- In secondary markets (Korea, Singapore) US will discount price, undercutting Canadian Sellers

- Strong Tail market is only place processors can make money.
- Meat inventories finally appear to be cleaned up.
- Processors got burned with overproducing whole cooks, and tails in 2016.
- Since then they have remained cautious. Unlikely to speculate despite higher prices.
Tail Prices by Size

UB Lobster Tails, American, 3–4 oz.
Warm water tails
Lobster tail sales go with stronger economy and lower unemployment
Summary

- Meat and Tail market is very unstable
- Run-up in price in meat market classic example of destroying demand.
- Inversion of meat and tail pricing seems unlikely to last
- Frozen lobster raw material cost is being squeezed by expansion of live trade to China
- Yet by live weight, frozen lobster represents at least 40% of volume
- Issues for processors:
  - Risk in holding tails and meat if market price declines
- Frozen lobster could have an opportunity to expand market due to high price and lack of supply of snow crab.
- Harvester dilemma is that values may differ for live product and canners by a greater amount than usual.
- Also shippable vs. non-shippable lobsters could have variation in price
There have been many studies on whether the lobster industry is undervalued

- Buying structure leads to poor quality, no incentive to improve
- Price volatility reduces marketability of processed products
- Cash flow problems due to gluts force packers to take lower prices; industry is poorly financed
- Seasonality of LFA landings only partially addresses problem of soft shell (molting) lobsters
Why are major companies and Private Equity Investing in Lobster

• Major seafood companies like Thai Union/ Chicken of the Sea, Mazzetta, and Champlain Financial all investing in lobster industry.

• They see long term value in a luxury resource with growing global demand and steady supply

• This value can’t be realized by what happened to the meat market – boom and bust. Instead it has to develop over the longer term with a more gradual increase in value.
Thai Union also bought Red Lobster

- Red Lobster is a key buyer in the industry for many years.
- Largest user of lobster meat and tails.
- But Red Lobster customer is middle class, and very sensitive to price.
- How will company keep selling lobster if price continues to be above what customers can pay.
- Just because a market is here today does not mean it cannot be gone tomorrow
- Newfoundland used to produce millions of pounds of crabmeat, primarily for Red Lobster. Now that product is totally gone.
DFO Mandated changes to carapace size

- Changes to minimum size have increased value in LFA’s by changing mix of markets vs. canner lobster. This was DFO mandate.
- Efforts to change buying practices have not been welcomed.
- Other fisheries have totally changed their value equation through individual quotas.
- Lobster industry hates quotas; significant social fears of losing control.
Numerous industry studies and reports mostly focus on same issues

- Gluts in landings
- Poor quality and handling
- Inefficient buying network
- Lack of margins for lobster processors
- High Financing costs leads to companies to be price takers
- Vulnerable to race to bottom in value
- Price volatility discourages consumption
Lobster industry participates in seafood value chain roundtable

Goals for 2023:

- sustainability
- harvest (raw material quality and full utilization of catch)
- highest value of harvested products (making the best use of the catch)
- highest value markets
- maximum prices
- better coordination of efforts throughout the value chain.
Lobster industry is in transition

- Current market is very strong; but it is eroding demand for meat and tails.
- When crab sections got priced too high for packers to produce meat, they gave up the product to do sections only.
- Lobster quality is too variable for Canada to give up processing frozen lobster: it is necessary for lower quality and smaller lobster.
- Increased lobster processing in US will also be a challenge
Time for Questions