

COVID-19 and the Seafood Industry

April 16th Update

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Recent Developments

As of the April 16th, there are over two million confirmed cases of COVID-19 worldwide and 128,000 deaths. The USA currently has the highest case load with over 550,000 active cases and 26,000 deaths. Outside of a select few countries, case counts are increasing across the world. As most quarantine measures were not implemented until the middle of March, it will likely be several weeks before the positive effects of those measures will be noticeable in the statistics. This is due to the relatively long incubation period and infection time of the virus, which can exceed two weeks. This report provides an update to the overview provided to APC on April 2nd.

USA

Over a quarter of the US economy has shutdown due to the pandemic, according to data from Moody's Analytics published by The Wall Street Journal. According to this report, 8 in 10 US counties are currently enacting some form of lockdown, and more than 40 states have ordered varying degrees of temporary business shutdowns. California has reportedly lost 31.5% of its daily gross domestic product output. The analysis suggests that the US economy has seen a 29% decline from a month ago.

Moody projects the US GDP will decline an annualized rate of 30% in the second quarter. These losses are expected to be temporary as the economy reopens in the weeks ahead. This assumes that the US is experiencing the worst of the pandemic now and in the immediate few weeks to follow. If the current lockdown situation extends for two months the rate of decrease in GDP will spike to a disastrous 75%.

The current unemployment rate is between 12-13%, the highest level seen since the Great Depression. High-end estimates for near-future unemployment estimates are up to 20% of the US population. An additional 6.6 million people filed for unemployment in the US the week of March 30th. The US has begun issuing stimulus checks in an effort to mitigate the damage done by the economic turmoil.

There is evidence that the USA may have experienced the peak of the outbreak between April 6th and April 12th and may begin seeing the rate of new cases decline as the effects from the quarantine measures

become visible. Northeastern US states have begun discussing gradual re-opening measures. Dr. Fauci, the head of the US Center for Disease Control, said that the economy in parts of the country could have “rolling reentry” in May.

Canada

Canada has reported 903 deaths from COVID-19 as of April 15th. This has surpassed projected “best-case” scenarios and the case load may end up being higher than originally projected. Estimates range from 10% of the Canadian population being infected by the virus to 84.5% if physical distancing measures are relaxed too soon.

The International Monetary Fund projects Canada’s economy to contract by at least 6.2% this year. Six million Canadians have applied for emergency unemployment aid as of April 13. Canada’s labour force pre-pandemic was 19.2 million workers. A drop of 6 million results in the true unemployment rate in Canada at over 35%.

Prime Minister Justin Trudeau has stated that there will be a phased-in approach to reopening Canada’s economy. He stated that this was still weeks away, and that daily life might not completely return to pre-pandemic normality until a vaccine is developed. US-Canada travel restrictions are expected to remain in place for weeks to come.

Increasing numbers of seafood sector workers are advocating for fishing shutdowns. One lobster harvester explained that cruise ships and casinos, which buy “massive amounts” of product from crab and lobster harvesters, have shut down across the US. This has caused demand to collapse, and there is little demand for these ordinarily lucrative and highly demanded products. A small amount of seafood product is moving at reduced prices, often near fire sale price points, for use in retail and ready-to-cook meals. The Atlantic snow crab fisheries have been delayed until late April and early May, depending on the region. These delays are subject to extension. All inshore commercial fisheries in Newfoundland and Labrador have been delayed until after April 30th.

China

China is the first severely affected country to have halted the spread of the virus from non-travel related cases. The city of Wuhan, which is where the virus originated, has begun to open back up as quarantine restrictions have been lifted. The bus and subway systems in Wuhan have been reopened following their January 23rd closure. The final quarantine measures preventing people from leaving Wuhan ended April

8th. While businesses are re-opening, customer traffic and consumer activity has been sparse due to lingering fears concerning the virus. Recently, China has been accused of providing fraudulent or incomplete data on the extent of the outbreak by US intelligence services. There is increasing international scrutiny directed towards the Chinese government over the apparent suppression of vitally important information. This has been described as China's "Chernobyl Moment", and may have long-lasting implications on international relations.

EU

Parts of the EU are very gradually beginning to ease lockdown measures. Spain and Austria allowed partial returns to work on April 14th, however France has extended lockdown measures until May 11th to combat the raging outbreak in that country. Spain reopened construction and manufacturing, while shops, bars, and public spaces remain closed until at least the 26th of April. Denmark reopened day care centers and schools for children in first to fifth grade on the 15th. The UK remains under lockdown due to severity of the situation there. Prime Minister Boris Johnson was admitted into intensive care with Coronavirus but has since begun recovering. Russian experts believe that the country may run out of hospital beds in the upcoming weeks, and President Putin may have to mobilize the army to address the crisis. Italy, so far the hardest hit European country in terms of death toll, has reopened some bookshops and children's clothing stores. New case rate in Italy has fallen to the lowest level since March 13th.

Seafood Market Status

This section of the report will discuss the current state of the seafood market by species as of April 16th 2020.

Lobster

The Canadian lobster industry is projecting that 70-100 million pounds of lobster will not be able to be sold into existing markets in 2020. In 2019, the total landings of Lobster were approximately 200 million pounds. This means that the economic potential of the lobster fishery for 2020 may be cut in half. Processors have requested that harvesters do not actively fish until the market recovers, and harvesters have been amenable to the idea. Currently, LFAs 36 and 37 around the Bay of Fundy have had their seasons delayed. Harvester groups are awaiting information from the Canadian government on aid packages to determine if they can afford to sit the harvesting season out. There are approximately 1 to 2 million pounds of live lobster in inventory and an unknown quantity of frozen product. Tail prices remain high, but the live market in the US and Canada remains stagnant. Live lobster is being bought for \$2-3.00/lb less than in February of 2020.

Demand for lobster in China has begun recovering, albeit at a very modest rate. During the peak of the outbreak in China, demand for lobster was effectively non-existent. As of early April, there has been an uptick in demand to approximately 10% of normal levels. While this is still far below a sustainably profitable level for exporters, it is an encouraging sign that the Chinese market for Canadian and US seafood may be recovering.

Market prices for lobster are at 10-year lows for April. According to Urner Barry, there has been a minor increase in sales of lobster tails, however at diminished qualities and discounted prices. The market for live lobster is experiencing tight supply and severely depressed prices. The lobster fishery in LFAs 31B and 32 are scheduled to open the 19th, with landings designated for the live market. This additional supply may further depress prices; however it is unknown how aggressively license holders in that region will fish.

Crab

Supply for snow crab is nearly non-existent. There is limited sales activity and the market remains unsettled. There appears to be some retail demand for seafood in the US, though it is unclear how this specifically relates to snow crab at this time due to the aforementioned lack of inventory. The US foodservice industry has collapsed, and restaurants providing take-out are only operating at 10-15% of

normal levels. This industry will rebound following the relaxation of quarantine measures, but it is unknown how long this recovery will take and if there will be any long-term changes in the market.

Nova Scotian harvesters have begun fishing for snow crab, but as the season has just started there is no information available regarding shore prices. That data will become available in the next several days. Snow crab areas 12C, 15, 16, and 16A have been delayed until May 1st. Area 12 will be open on the 24th and harvesters appear ready to fish.

Shrimp

The market for shrimp is weak. The foodservice industry is a major source of demand for shrimp and as previously mentioned is effectively crippled. The price for coldwater shrimp has not declined as precipitously as black tiger shrimp as it is more reliant on frozen retail sales and is a niche product. There is also limited supply of shrimp on the market as the new fishing season just began recently, and inshore fisheries in NL have been delayed. The depth of activity in the coldwater shrimp sector is unknown at this current time but will become more apparent as the fishery reopens in the near future.

Bivalves

The market for fresh shellfish and bivalves has collapsed. The foodservice industry is a major driver of demand for oysters, scallops, and clams, and remains shutdown in major metropolitan cities across the world. Scallops sold at the BASE seafood auction in Massachusetts are being purchased at very low prices, between \$4-5.00/lb less than the average for April. This may be the result of the season changing from 2019-2020 to 2020-2021 with an associated reset in fishing days. This has resulted in a flood of supply during a period of weak demand.

Oyster growers are being forced to store thousands of tonnes of product as demand has for oyster has disappeared. Some companies have had demand fall to less than 5% of normal levels for this time of year. There are concerns that price wars will emerge as oyster farmers try to shed excess inventory while the oysters are still a desirable market size.

There is currently limited available information for the clam market. The geoduck clam market has collapsed largely due to the status of the Chinese market. One shellfish company operating in the Pacific Northwest has been forced to lay off 200 of its 700 employees. Companies are trying to stay afloat by offering direct-to-consumer sales at discounts of up to 30% of normal price.

Finfish

Prices for finfish remain near or below 5-year record lows for April. Public seafood markets, restaurants, and casinos continue to close which is greatly reducing the demand for fresh product. Seafood markets are nearly fully stocked; however, the biggest buyers are not purchasing product due to shutdowns. As most restaurants in the US or Canada have been forced to switch to take-out services, seafood sales have suffered due to being a less popular take-out item. Some distributors have lost 90% of their buyers ahead of the April busy season. Restaurants in New York have begun testing a new product in the form of ready-to-make meals containing salmon and instructions that can be delivered to customers. There appears to be demand for this product.

Tuna and halibut are experiencing 5-year record lows for market prices. The Japanese sushi market, the dominant driver of demand for bluefin tuna, has been hit hard by the pandemic and demand has vanished. Halibut is being sold for between \$6-7.00/lb (USD) in the US, while Tuna is going for between \$8-9.00/lb (USD). Swordfish price has demonstrated slightly more resiliency, though the level of volume moving through the market is unknown at this time.

Whitefish products have experienced drops in prices but are still moving in the frozen retail sector. There has been an increase in available product, but demand is weak. Canadian salmon and trout prices have declined as well, again due in large part to the struggles of the foodservice industry. Haddock, monkfish, and pollock fillets also experienced price declines.

Processing Sector

There is a high level of concern about the potential spread of coronavirus among members of the seafood processing industry. Typically, processing plants require employees to stand in near proximity to one another, which is conducive to the spread of the highly infectious virus. In order to maintain proper physical distancing measures, many plants that are planning to open will be operating at 50% capacity or less. Personal Protective Equipment (PPE) has become scarce due to high demand, and processing plants are having difficulty in acquiring PPE.

The processing sector has historically been reliant upon foreign workers to fully staff the facilities. It has become increasingly difficult to incentivize foreign workers to come to Canada to work in processing plants. Temporary foreign workers have been given exemptions allowing them to travel to Canada, but they are subject to 14 days of self-isolation upon arrival to the country. This two week delay represents an unproductive period that would accrue significant cost for either the worker or the sponsoring

employer. This, along with the prospect of separation from their families during an unsettled time, has created disincentives to working in Canada that employers are finding difficult to overcome.

Shutdowns have occurred in processing plants in the US and Canada after employees were diagnosed with the virus. A plant in Quebec has completely closed to one confirmed case. One of the largest pork production plants in the world was shut down in the US after cases were confirmed there. The average age of processing plant workers tends older, with some individual plant workforces averaging more than 60 years in age. As the virus has a significantly higher mortality rate among people ages 60 and up, processing plant workers have been vocal in the concerns they have for their own well-being. There have been calls to delay or cancel some fishing seasons as a method of preventing the virus from decimating the processing plant workforce.

Apart from the health and labor concerns, the seafood market itself is in poor condition. Demand is heavily depressed due to what amounts to a shutdown of the foodservice industry. Seafood plants rely on pushing heavy volume of product to achieve profitable margins. Plants are being forced to make difficult decisions regarding product acquisition levels and selling price. By either spreading out purchases or slashing prices, plants may be able to stay afloat in this abnormal market. A more prolonged period of lockdown would hamper the effectiveness of this short-term solution, and at that point processing plants may begin to fail.

Potential Impacts on First Nations

Lobster harvesters in Northwest Nova Scotia have requested that the federal government pay employment insurance benefits instead of forcing them to confront the dangers of coronavirus and weak market conditions. 88% of the roughly 500 harvesters belonging to the Gulf Nova Scotia Fishermen’s Coalition preferred receiving federal assistance compared to fishing at this current time. The details of the request have been kept confidential, and it is unknown at this time if First Nation groups would receive preferential access to this aid package.

The snow crab fishery in Nova Scotia has begun, and the Gulf of St. Lawrence fishery will be opening on the 24th of April. The NL snow crab fishery has been delayed until at least May 1st. In order to prevent a glut of supply from further crashing the crab market, processors will require harvesters to limit the length of their fishing trips. It was originally proposed that harvesters would fish set schedules and rotate, however this idea was rejected. The effects of shortened fishing trips will be tighter margins for harvesters as fixed operating costs will be the same regardless of trip length and potential landings will be limited. Processors have expressed concern over the difficulties of implementing necessary social distancing practices in cramped processing facilities, particularly because of the prevalence of older individuals who make up the majority of the workforce.

Several fisheries that have noteworthy levels of First Nation participation will open in the next several weeks. These fisheries are a highly important source of revenue for these communities and there are only limited streams of revenue from non-fishery sources for these communities. These fisheries provide employment and fund important community programs. As such, it is important to understand how the ongoing pandemic may affect the status of these fisheries. The table below lists the total number of licenses for the fishing areas opening in April, the number of licenses held by First Nation communities, total landings for the fishing region based upon most recent data, landings per license, and revenue per license

Species	Fishing Area	First Nation Licenses	Total Licenses	Most Recent Available Landings (lbs)	Landings per License (lbs)	2019 Shore Price	Revenue per License (2019)
Lobster	23	58	669	18,142,000	27,118	\$7.00/lb +	\$189,826
	24	31	635	18,680,000	29,417		\$205,919
	26A	14	714	16,561,000	23,195		\$162,365
	26B	6	227	3,703,766	16,316		\$114,212
	32	3	157	2,420,651	15,418		\$107,926
Crab	CFA 12	17	245	45,787,807	186,889	\$5.00/lb +	\$934,445

Shore price for lobster has severely declined compared to 2019 levels, and snow crab price is expected to decline as well. Lobster shore prices are hovering in the \$4.00/lb range. As an example, if landings per license are the same in 2020 assuming a shore price of \$4.00/lb for lobster, harvesters will average \$92,780 and \$65,264 in revenue for LFA 26A and 26B, respectively. This is significant decline in income. Note that these projections assume similar levels of lobster are landed.

There is currently limited availability surrounding current shore price of snow crab. As such, no projection could be made with confidence. This information should become more available in the next week as harvesters return from their first trips of the new fishing season.

The collapse in demand for lobster, and potentially weak demand for snow crab, has both harvesters and processors worried. Prices have either dropped precipitously or are expected to do so. Companies that are vertically integrated have the advantage of being able to spread expenses out. Individual harvesters or processors bear the full brunt of the revenue declines. Careful watch must be given to the state of the lobster and crab markets over the next several weeks as the spring and summer fishery seasons ramp up.

Closing Comments

While case load has yet to peak worldwide, there are signs that the severity of the pandemic is beginning to lessen in some countries as quarantine measures begin to demonstrate effectiveness. The number of new infections has stabilized or begun to drop in countries such as Italy, Spain, and the USA. Several EU countries have begun slowly reopening their economies, though it will be weeks or months before the global foodservice industry fully recovers.

The seafood market remains in dire straits. The majority of seafood restaurants in the Western Hemisphere remain closed, along with casinos and cruise ships. Prices have collapsed for a vast array of seafood products and this problem will likely be exacerbated by increasing supply as the spring and summer fishing seasons begin to open. Distributors are being forced to pivot to the retail market to move inventory, and this supply glut will cause falling prices. It is unlikely that strong recovery of the seafood market will occur until the pandemic is contained and lockdown measures eased, and even then the recovery will likely be slow as consumers exhibit caution in returning to public spaces and governments try to prevent second and third waves of the disease. Sectors that export to Asia may see recovery begin sooner as Chinese markets begin to re-open.