

COVID-19 and the Seafood Industry

April 30th Update

Developed for: Atlantic Policy Congress of First Nation Chiefs Secretariat

Recent Developments

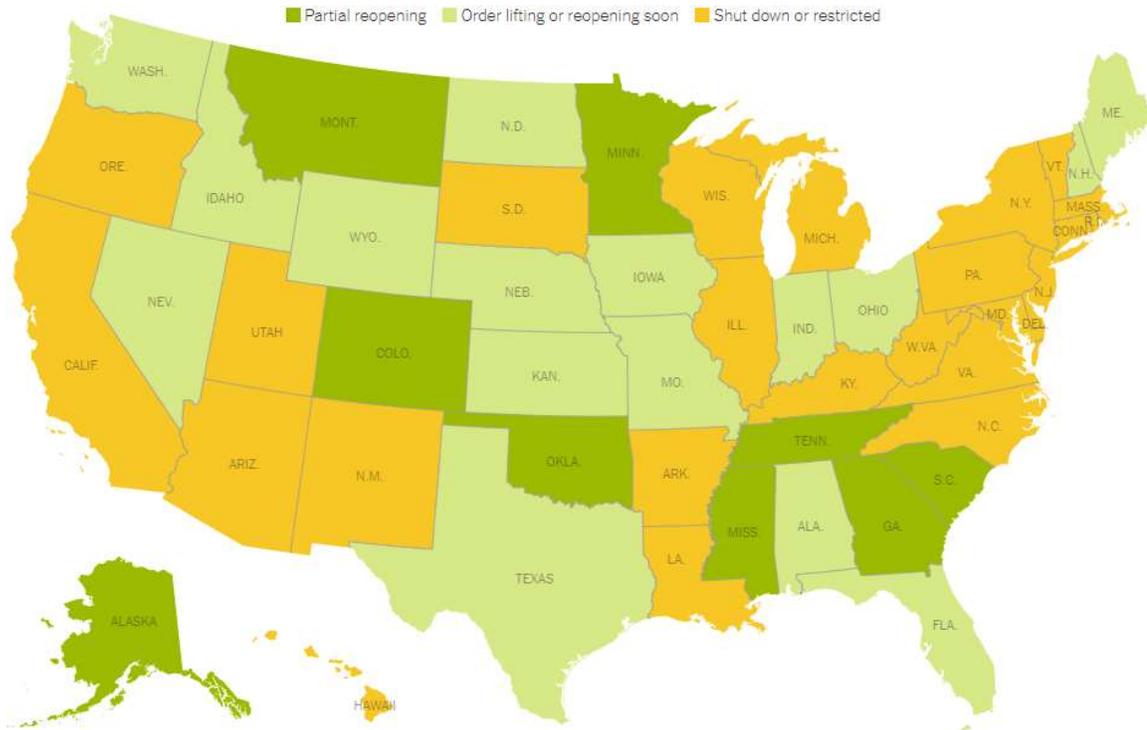
As of the April 30th, there are over 3.2 million confirmed cases of COVID-19 worldwide and 228,000 deaths. The USA currently has the highest case load with over 1 million active cases and 60,000 deaths. This report provides an update to the overview provided to APC on April 23rd.

USA

The current unemployment rate is between 12-13%, the highest level seen since the Great Depression. A White House economic advisor stated that the rate of unemployment will likely rise to 16% or more by the end of this month. Other economic experts have suggested a V-shaped recovery, meaning a dramatic spike in economic production post-pandemic, is unlikely. Approximately 25-30 million Americans have lost employment. The US has begun issuing stimulus checks of \$1,200 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 and may begin seeing the rate of new cases decline as the effects from the quarantine measures become visible. As of late-April, the incidence of new cases appears to have plateaued. US states have begun creating and implementing plans for re-opening. Texas will allow retail stores, restaurants, and movie theaters to re-open on Friday with limited capacity. Ohio and Colorado have also developed more measured and slower acting re-opening plans. Stay-at-home orders will expire in Maine on April 30th. With the exception of Maine and New Hampshire, the mid-Atlantic and Northeastern US remains under lockdown with no set reopening dates. The figure below, from the New York Times, illustrates which states have begun reopening, which are preparing to reopen, and which remain closed.

Figure 1. Map of US State closures, partial re-openings, and planned re-openings. Graphic taken from The New York Times.



There has been a surge in closures of meat processing plants in the US. The US red meat and dairy industry is highly concentrated, with four major companies producing over 65% of all US beef and pork. It is expected that the resulting supply squeeze will drive prices higher for these products. Seafood products have been trending in the opposite price direction, and consumers may switch to seafood if it becomes cheaper than other sources of protein.

Canada

Canada has reported 51,000 cases and 3,000 deaths from COVID-19 as of April 30th. This has surpassed projected “best-case” scenarios and the case load may end up being higher than originally projected.

Canada’s economy is projected to contract by at least 6% this year, according to the IMF. Concerns are mounting that a quick economic recovery may no longer be realistic expectation as unemployment has risen to over 30% and businesses begin to become insolvent. Canada is in the midst of the worst economic crisis since the Great Depression, though the potential longevity of this downturn is unknown.

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.

Ontario and Quebec have announced plans for the reopening of their respective economies. As of late April, Quebec has announced that select retail businesses outside of the Montreal area can reopen on May 4th. Stores in Montreal will be allowed to open a week later on the 11th. There has been no date given for the reopening of restaurants. New Brunswick and PEI have plans to begin or have begun easing public health measures, however the Premier of New Brunswick issued an indefinite ban on the entry of temporary foreign workers into the province. Newfoundland has closed its borders to non-essential travel, though temporary foreign workers are exempt. Restaurants remain closed to sit down customers in all of Atlantic Canada, and no plans explicitly detailing when they will be open have been released.

Seafood sector workers continue to advocate for shutdowns in some fisheries, however the federal government seems very averse to this line of action. Instead, DFO is primarily issuing season delays. New Brunswick Lobster fishing areas 36 and 37 were delayed until April 30th. The majority of the Gulf of St. Lawrence crab fisheries are now open. The snow crab fishery in NL has been delayed until at least May 11th. Prime Minister Trudeau is expected to announce a Federal Aid package for fish harvesters within the next few days, though there is no other information currently available about this package.

China

While Chinese factories have resumed operations, consumers in China have been significantly slower to resume normal consumption habits. Chinese unemployment is estimated to be as high as 20% if migrant workers from rural communities are factored in. The Chinese economy shrank by 6.8% in the quarter ending in March according to official sources. After an initial bounce that gave Chinese businesses optimism for a V-shaped economic rebound, the recovery activity has since slowed to a crawl. Data on exports, retail sales, and other sources have been painting a negative picture. Retail sales fell 19% in the first quarter compared to 2019, with March improving slightly to a decline of 15.8% compared to the previous year. Exports were down 6.6% in March, an improvement from the negative double-digit figure seen in January and February. This is expected to decline again however, as demand from Europe and America decreases.

EU

European countries are gradually beginning to ease lockdown measures. The Czech Republic, Italy, Denmark, Austria and Germany have all begun slowly removing restrictions, though the food service

industry remains shuttered. Other countries such as Iceland, Denmark, Finland, and Spain are also beginning to lift restrictions. Reopening dates for dine-in restaurants have not been announced for any of these countries.

The European restaurant industry has become concerned with the lack of officially announced opening dates specific to the foodservice industry. While other industries have been given prospective re-opening dates, restaurants in most countries have not. On April 20th, 18 of France's most famous chefs published a letter warning the French President Emmanuel Macron that the country's restaurants were in danger of closing. Austria is one of the few countries that has announced a conditional re-opening of restaurants on May 15th.

Seafood Market Status

This section of the report will discuss the current state of the seafood market by species as of April 30th 2020.

Lobster

The lobster industry is bracing for a surge in supply associated with the opening of the spring lobster fisheries that may be difficult to move through the market as demand remains weak. While demand from China has improved modestly, domestic and US demand remains low. Market prices for both live and frozen lobster continue to decrease – and seem to be heavily influenced by price and supply. The Premier of New Brunswick has voiced his support for the closure of the New Brunswick lobster fisheries, citing health risks and a lack of demand for product. There has been no indication that DFO will shut down entire seasons for lobster fisheries.

Market prices for lobster remained 10-year lows for April. According to Urner Barry, there has been a minor increase in sales of lobster tails, however at diminished quantities and discounted prices. The market for live lobster is experiencing tight supply and depressed prices. The lobster fishery in LFAs 31B and 32 opened on April 19th, with landings designated for the live market. Historically, the spring lobster fisheries in Canada have staggered opening dates to prevent oversupplying the market. The season delays have concentrated the opening dates of these seasons and will result in a greater number of LFAs opening at the same time. As a result, the market may see an exaggerated increase in supply compared to normal years. Furthermore, landings in the US lobster fishery have begun to trend upwards, further exacerbating the potential supply glut. With the increased supply under the reduced demand it is likely that the price for lobster will be forced downwards.

Crab

Supply for snow crab is nearly non-existent in the US. There is limited sales activity, primarily snow crab from Russia, and the market remains unsettled. Price for Russian snow crab has declined by \$0.68/lb (USD) in the past two weeks. 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. Retail sales are often driven by price, as consumers look to receive the greatest amount for what they spend. Under the circumstances associated with the pandemic, the amount of disposable income available for consumers to spend on seafood will be curtailed. The US foodservice industry has collapsed, and restaurants providing take-out are only operating at 10-15% of normal levels. This industry could 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. As casinos, cruise ships, and restaurants are a primary driver of demand for Maritime snow crab, the recovery of these industries is vital to the strength of the snow crab market. If these businesses remain restricted or closed, there may be inadequate demand to account for the supply levels, forcing distributors to send product to the retail market which is notably more price sensitive.

Nova Scotian harvesters have begun fishing for snow crab, it has been indicated that harvesters participating in the CFA 23 and 24 fishery are receiving \$3/lb. Greater detail and additional information will become available over the next week as the product landed makes its way through the market. As there is currently little inventory in the market, harvesters who sell their crab early could likely receive higher prices than those who sell later once market supply begins to spike considerably.

In Newfoundland, the Association of Seafood Processors (ASP) offered a \$3.00/lb (CAD) price to the Standing Fish Price Setting Panel which was countered by the Fish, Food and Allied Workers Union (FFAW) with a price of \$3.50/lb (CAD). The FFAW had previously offered a price of \$4.25/lb (CAD) before revising this to \$3.50/lb (CAD). The ASP offered a price point identical to what is being received in the Gulf and the Maritimes, which is unusual as NL crab generally sells at a discount due to smaller size and higher shipping costs. This is the first time in the history of the Standing Fish Price Setting Panel that the ASP has offered a price that is equivalent to what snow crab harvesters in other parts of Atlantic Canada are receiving. In 2019, NL harvesters received on average \$5.18/lb (CAD) while NS harvesters received approximately \$6.00/lb (CAD). If the dispute goes to arbitration, the Standing Fish Price Setting Panel will be required to pick either the ASP's given price or the one offered by the FFAW. It is anticipated that a decision will be made by early May.

Canadian wholesalers are diverting product to the retail market and selling at low prices. Grocery stores are hoping to sell large amounts of crab for Mothers' Day and Fathers' Day. Currently, crab is being sold at under \$7.00/lb (USD) to these grocers, which is over a dollar less than this time in 2019. Price to consumers has dropped from \$10.99/lb (USD) to \$8.99/lb (USD), creating thinner margins for grocers. It is possible that 25-30% of the approximately 60,000 MT quota for snow crab in Atlantic Canada will be left unharvested due to season delays and physical distancing measures in processing plants. Japanese demand, which typically accounts for 40% of the total supply, has fallen to half of 2019 levels. To account for this difference, US retail markets would need to buy 50% of Canadian crab instead of the normal 30%. Compounding problems for wholesalers, credit insurance companies have begun reducing the availability

of credit insurance. These insurance companies are cutting the amount of coverage offered by as much as 70-80%.

Shrimp

The market for shrimp remains weak, with eroding prices and light volumes. Harvesters in the Gulf of St. Lawrence are not currently fishing for shrimp due to ongoing price disputes with processors. As a result, there is little new information regarding Northern shrimp. The UK, which is a primary driver of demand for this product, remains under lockdown.

Bivalves

The shellfish market remains weak. Scallop prices have declined by \$0.75/lb (USD) compared to this time last year for 10/20 count scallop. Prices for 20/30 count scallops are over \$1.25/lb (USD) lower compared to this time in 2019. Prices for other bivalves have declined as well, and producers and harvesters are pursuing at-home deliveries as a way of compensating for decreased restaurant demand. Notably, many oyster farms are in the difficult position of having to lay off workers that are vital to the labor-intensive harvesting process, which creates space for new oyster to grow. Prices remain at 5-year record lows for choice and select oyster as producers are forced to sell product at discounted prices – if they can find buyers.

Finfish

Prices for finfish remain near or below 5-year record lows for April. Market activity for fresh fillets is sluggish, and species such as fluke, halibut, tuna and Canadian salmon have retreated. Salmon is trading for 20% below 5-year averages. Haddock, and pollock fillets recently experienced some recovery in price. Most 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.

Processing Sector

Concern remains in the processing sector over the potential spread of the coronavirus in processing facilities. To address some of these concerns, the Federal Government of Canada announced a \$62.5 million aid package to assist processing plants in providing personal protective equipment to employees, as well as adjusting protocols and providing money to expand freezer capacity. While this will help with storage, it will not address short term cash flow issues if holders are unable to sell the product in a timely manner. Further details to this program are expected to be announced soon.

Processors are having numerous disputes with harvesters as they offer lower prices for product in anticipation of a weak market. There have been disputes in both the crab and the shrimp fishing industries, particularly in Newfoundland and the Gulf of St. Lawrence. Processing plants are also concerned that social distancing measures will force them to operate at a capacity far below what is necessary to process the expected supply as the spring fisheries open. In the lobster fisheries, buyers and processors are placing limits on the amount of product they will buy from harvesters.

Potential Impacts on First Nations

Previously, harvesters in Northwest Nova Scotia asked for the lobster fisheries there to be shut down in return for an aid package. There have been no further updates regarding this request, as DFO seems averse to entirely shutting down fisheries. The Gulf lobster season has been delayed until May 15th, resulting in a loss of approximately 25% in the number of fishing days for the season.

Nearly half of all lobster caught in Canada is harvested in the months of May and June. Historically, these months have been associated with dropping prices as supply surges, even during normal seasons. Due to the lack of demand for lobster, and the availability of product in inventory these price declines are expected to be sharper than is normal. Notably, two thirds of the lobster licenses held by First Nation bands are associated with Spring and Summer fisheries. The Spring and Summer seasons will be the first to experience the full brunt of the impacts of the pandemic, as the winter fisheries had several months of strong prices prior to the pandemic. As mentioned previously, the seasons are opening nearly concurrently due to the season delays, which is a deviation from the normal staggered openings of the spring fisheries. An imminent supply glut is expected to have negative consequences on a weak market.

Figure 1 illustrates the potential loss in revenue for First Nation owned lobster licenses for 2020. This takes into account estimated earnings already achieved by the winter fisheries that received significantly higher prices prior to the onset of the pandemic. 2019 shore price was approximately \$7.00/lb (CAD), while 2020 shore price is assumed to be \$4.00/lb (CAD) for the remainder of 2020. It is important to note that the actual shore price could be lower as there is talk of the price decreasing to \$3.00/lb.

Figure 2. Revenue scenarios for First Nation-owned lobster licenses in 2020.



In the first scenario, with shore price at \$4.00/lb (CAD) and landings at 100% of 2019 levels, First Nations would lose \$23.1 million compared to 2019. In the second scenario with a 50% decline in landings and \$4.00/lb, First Nations will see a \$40.2 million decline in revenue. The table below presents includes a breakdown of revenues by lobster fishing area. Higher winter prices are accounted for in this table for LFAs 33-38.

Table 1. Landings and revenue data and scenarios for First Nation-owned lobster licenses.

Fishing Area	First Nation Licenses	2020 Fishing season	Landings per License (lbs)	FN Total Landings (lbs)	FN Total Revenue 2019 @ \$7/lb	FN Total Revenue @ \$4/lb, 100% of 2019 landings	FN Total Revenue @ \$4/lb, 50% of 2019 landings
13A	4	April 18 - June 29	6,513	26,051	\$ 182,355	\$ 104,203	\$ 52,101
13B	7	April 22 - July 04	6,388	44,717	\$ 313,018	\$ 178,868	\$ 89,434
15	2	May 27 - August 18	1,403	2,806	\$ 19,641	\$ 11,223	\$ 5,612
16	4	May 16 - August 7	12,003	48,011	\$ 336,078	\$ 192,044	\$ 96,022
17	4	April 23 - July 15	77,712	310,849	\$ 2,175,940	\$ 1,243,394	\$ 621,697
18	2	May 13 - July 28	12,913	25,825	\$ 180,776	\$ 103,301	\$ 51,650
20A	4	May 4 - July 11	25,037	100,147	\$ 701,032	\$ 400,590	\$ 200,295
21	9	May 4 - July 11	28,490	256,411	\$ 1,794,880	\$ 1,025,646	\$ 512,823
23	58	May 15 - June 30	27,118	1,572,844	\$ 11,009,908	\$ 6,291,376	\$ 3,145,698
24	31	May 15 - June 29	29,417	911,927	\$ 6,383,489	\$ 3,647,708	\$ 1,823,874
25	2	Aug 8 - Oct 9	27,915	55,829	\$ 390,804	\$ 223,317	\$ 111,658
26A	14	May 15 - June 29	23,195	324,730	\$ 2,273,110	\$ 1,298,920	\$ 649,451
26B	6	April 29 - June 30	16,316	97,896	\$ 685,272	\$ 391,584	\$ 195,794
27	10	May 15 - July 15	22,547	225,472	\$ 1,578,307	\$ 901,890	\$ 450,945
28	7	April 30 - June 30	1,260	8,819	\$ 61,730	\$ 35,274	\$ 17,637
29	5	April 30 - June 30	39,298	196,489	\$ 1,375,426	\$ 785,957	\$ 392,979
32	3	April 19 - June 20	15,418	46,254	\$ 323,778	\$ 185,018	\$ 92,509
33	8	Nov 25- May 31	25,729	205,830	\$ 1,440,812	\$ 1,033,268	\$ 516,634
34	32	Nov 25- May 31	43,642	1,396,532	\$ 9,775,723	\$ 6,493,873	\$ 3,246,937
35	15	Oct 15 - Dec 31, March 1 - July 31	54,604	819,067	\$ 5,733,469	\$ 3,276,268	\$ 1,638,134
36	14	Nov 10 - Dec 31, March 31 - June 29	36,021	504,298	\$ 3,530,087	\$ 2,057,536	\$ 1,028,768
38	15	Nov 10 - June 29	66,576	998,645	\$ 6,990,518	\$ 4,314,148	\$ 2,157,074
TOTAL	256	-	27,251 (Avg)	8,179,451	\$ 57,256,151	\$ 34,195,405	\$ 17,097,725

The first scenario assumes 100% of 2019 landings at \$4.00/lb (CAD), while the second assumes 50% of 2019 landings at \$4.00/lb (CAD). As previously stated, these figures take into account the higher prices that were received at the beginning of the year. The first scenario would result in a \$23.1 million (CAD) loss compared to 2019, while the second would result in a \$40.2 million (CAD) loss compared to 2019. This represents a substantial loss to the First nation communities. It is possible that due to the increased

supply and weak markets that prices could decrease even further over the course of the season. The table below includes scenarios for First Nation revenue loss based upon declines of \$0.25/lb (CAD) increments. Note that the scenarios assume 50% landings levels compared to 2019. A drop to \$3.00/lb (CAD) would reduce First Nation revenue to less than 25% of 2019 levels, even when factoring in higher prices received during the winter seasons.

Table 2. Price decline scenarios for First Nation lobster operations.

Scenario	Revenue	Loss vs. 2019
2019 Landings, \$7.00/lb	\$ 57,256,151	\$ -
\$4.00/lb	\$ 17,097,725	\$ (40,158,425)
\$3.75/lb	\$ 16,284,924	\$ (40,971,227)
\$3.50/lb	\$ 15,438,919	\$ (41,817,232)
\$3.25/lb	\$ 14,609,246	\$ (42,646,905)
\$3.00/lb	\$ 13,779,573	\$ (43,476,577)

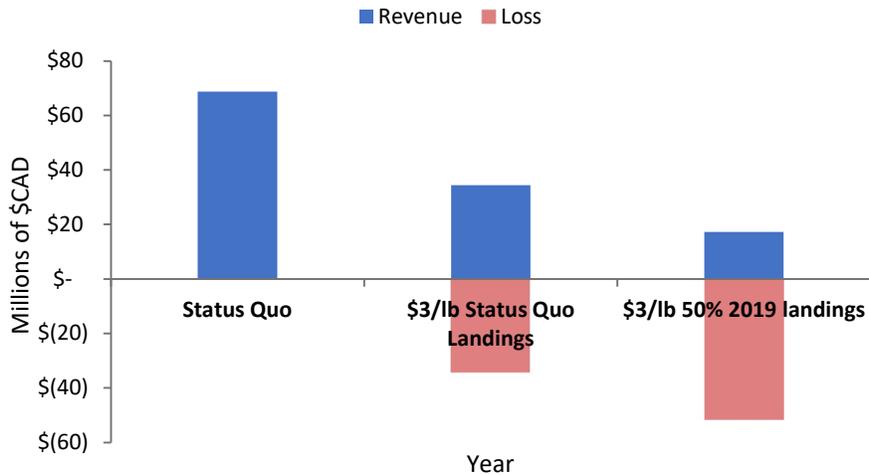
The snow crab fishery in the Maritimes has commenced whereas the NL snow crab fishery has been delayed until at least May 11th. In order to prevent a glut of supply from further crashing the crab market, processors will require harvesters to limit the length of their fishing trips. Processors have expressed 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 most of the workforce. Additionally, processors in New Brunswick may be facing an imminent labor shortage due to the recently announced provincial ban on temporary foreign workers who have historically been a major component of the processing industry.

Recent information suggests snow crab shore price is \$3.00/lb (CAD), which is a nearly 40% decrease from 2019 levels. As the seasons are just beginning, further increases in supply could drive prices further down. The current level of retail demand and price for snow crab is not yet well established. The market is currently considered unsettled and mixed, with prices trending lower for all species of crab. There is limited product available in US markets, though this is likely to change as the Newfoundland, and Maritime’s fisheries open in May. The majority of snow crab seasons are open in the Spring and Summer, and First Nation groups primarily hold these crab licenses.

The figure below presents two scenarios for snow crab in 2020, along with the revenues in 2019. The first scenario assumes a \$3.00/lb (CAD) shore price and status quo landings, while the second assumes a \$3.00/lb (CAD) shore price and a 50% reduction in landings due to shortened season and processor buying

limits. In the first scenario, First Nation licenses experience a loss of \$34.3 million (CAD) and in the second scenario experience a loss of \$51.6 million (CAD) compared to 2019 levels.

Figure 3. Revenue scenarios for First Nation-owned snow crab licenses for 2020.



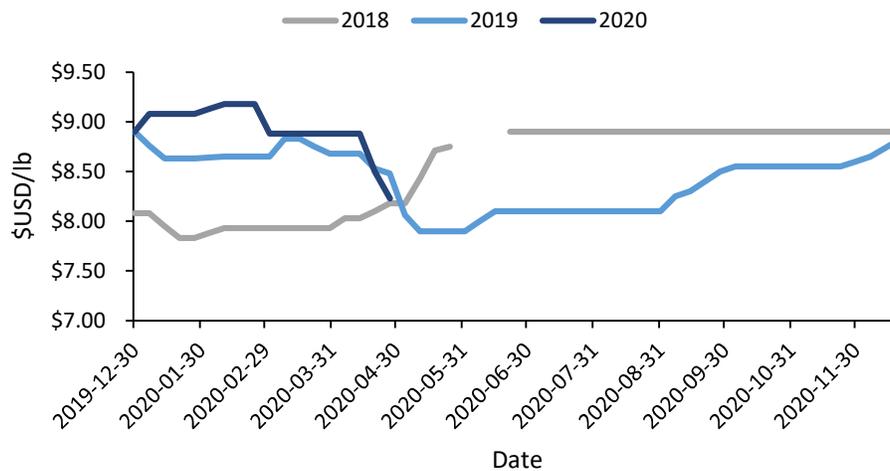
The data for the figure above is listed in the following table. This data is separated by crab fishing area and includes total FN fishing licenses and the landings per license.

Table 3. Data and revenue scenarios for First Nation-owned snow crab licenses for 2020.

Fishing Area	First Nation Licenses	Landings per License (lbs)	FN Total Landings	FN Total Revenue 2019	FN Total Revenue \$3/lb @ 100% 2019 landings	FN Total Revenue \$3/lb @ 50% 2019 landings
12	15	186,887	2,803,306	\$ 16,819,838	\$ 8,409,919	\$ 4,204,960
12b	1	34,447	34,447	\$ 206,681	\$ 103,340	\$ 51,670
12F	2	19,090	38,180	\$ 229,078	\$ 114,538	\$ 57,269
15	1	217,429	217,429	\$ 1,304,572	\$ 652,285	\$ 326,143
16	8	151,743	1,213,944	\$ 7,283,666	\$ 3,641,832	\$ 1,820,916
17	5	90,442	452,212	\$ 2,713,271	\$ 1,356,635	\$ 678,318
19	19	28,576	542,946	\$ 3,257,673	\$ 1,628,836	\$ 814,418
4X	2	13,473	26,945	\$ 161,671	\$ 80,835	\$ 40,418
S-ENS	53	115,684	6,131,278	\$ 36,787,666	\$ 18,393,832	\$ 9,196,916
Total	106	95,308	11,460,686	\$ 68,764,115	\$ 34,382,057	\$ 17,191,029

Prices for Russian snow crab (which is some of the only product available in the US market at this time) have declined steeply from \$8.88/lb (USD) to \$8.23/lb (USD) in the past two weeks, however a similar price decline occurred in 2019 (Figure 4). This makes it difficult to determine the cause of the price drop, as this may be more related to the opening of the Atlantic Canadian snow crab fisheries than the pandemic. The extent of the impact of the pandemic on snow crab will become apparent over the next few weeks.

Figure 4. Weekly prices for 5-8 oz. Russian snow crab since 2018. Data source: Urner Barry.



The collapse in demand for lobster, and potentially weak demand for snow crab, has both harvesters and processors worried. Prices have dropped precipitously for both species. 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.

Federal Aid Packages

Prime Minister Trudeau recently announced that the Federal Government would be providing \$62.5 million for seafood processors to purchase personal protective equipment, adapt health protocols, and increase freezer storage space. Details on this plan are expected to be released within the next week or two. Previously announced Federal Aid packages for First Nation-owned businesses included exclusions for Band-owned enterprises and are therefore no longer considered to be relevant. There are indications that the Prime Minister will announce a Federal Aid package for fish harvesters within the next several days.

Closing Comments

The economic outlook for the post-pandemic world continues to deteriorate as unemployment rises and businesses close their doors permanently. While many countries have begun to see the pandemic begin to abate, there is fear that re-opening will allow a second surge of the disease to occur. While re-opening efforts have begun in many countries, provinces, and states, the foodservice industry has seen little indication from governments worldwide that they will be allowed to open to full capacity dine-in services anytime in the near future. It is unknown how quickly consumers will return to eating at dine-in restaurants, and early surveys from China indicate that former restaurant customers plan to increase their consumption of food cooked at home. Chinese restaurants are struggling to attract customers as a result. Other recreational industries such as casinos remain closed as well, and concern is mounting that the cruise ship industry may be permanently impacted by the potential changes in consumer behavior as a result of the virus.

The seafood industry remains vulnerable worldwide, with luxury items such as crab and lobster facing severe drops in price. The shellfish market is bracing for a surge of both lobster and crab as the spring and summer fisheries all begin to open at the same time. It is unlikely that market demand will be adequate to address this supply glut and prices are likely to further decline. A mitigating factor for exporters in Canada is the favorable exchange rate between the US and Canadian dollar. The Canadian dollar has weakened considerably from \$0.75 CAD in per USD to \$0.72. This could help to diminish some of the losses, though it is important to note that this exchange rate change is a reflection of a deteriorating economy. Seafood distributors with heavy presence in Asia may benefit from lightly recovering demand in those regions, but the hoped-for economic bounce back in the region has not yet materialized. For now, the global seafood market, and global economy as a whole, remain in poor condition.