May 21st, 2020

COVID-19 and the Seafood Industry

May 21st Update

Developed for: Atlantic Policy Congress of First Nation Chiefs Secretariat

Recent Developments

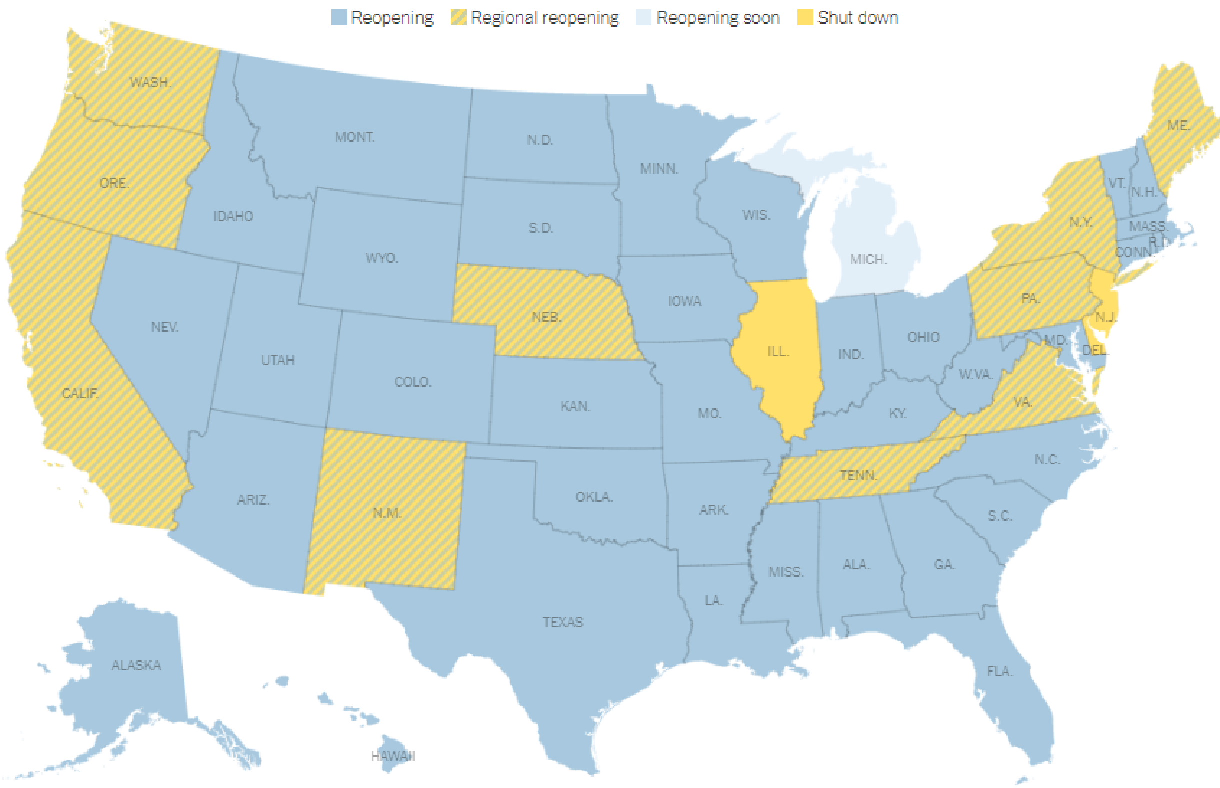
As of the 21st of May, there are over 5.1 million confirmed cases of COVID-19 worldwide and 330,000 deaths. The USA currently has the highest case load with over 1.5 million active cases and 95,000 deaths. This report is part of an ongoing series of weekly updates, the last of which was provided on May 14th.

USA

With a few exceptions, the majority of states in the US are either reopening or have plans to begin reopening within the next week (Figure 1 on the following page). Some states are beginning to allow bars and dine-in restaurants to operate at reduced capacity, such as Texas, North Carolina, Georgia, and others. Much of the Northeast and West Coast remain in the earlier stages of restrictions easing, and restaurants have not yet been given the green light to reopen.

As many as one in four US restaurants may go out of business, according to Bloomberg News agency. Data compiled by OpenTable found that the number of reservations and walk-in customers were down 95% on 13 May compared to the same day last year. The National Restaurant Association estimates that the US restaurant industry has lost $30 billion in March and $50 billion in April. Many restaurants rely on full capacity during prime business hours on the weekend to remain profitable and cannot remain operation if restrictions limit capacity to under 75% of the maximum. As most restrictions have specified 50% of maximum capacity, a signification portion of US restaurants are unable to profitably conduct business even as the restrictions are eased.

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



Canada

Restaurants in BC could open at reduced capacity on 19 May, and in Ontario retail stores with street-facing entrances were allowed to reopen. Retail stores are expected to begin reopening in the greater Montreal area in Quebec by June. New Brunswick, Newfoundland and Labrador, and PEI have now had multiple consecutive days without new cases being diagnosed. The border closure between the US and Canada has been extended for at least another month for non-essential travel. Table 1 on the following page presents re-opening dates and status by province.

10% of Canadian restaurants have gone out of business permanently, according to the Industry Group Restaurants Canada. Previously, 50% of independent restaurants that participated in a survey by Restaurants Canada indicated that they would go out of business if late April conditions persisted for more than three months. Profit margins for small independent restaurants prior to the pandemic were razor thin at approximately 5%. This has left restaurants with little room to maneuver during the pandemic and takeout orders are not enough to cover the difference in many cases.

Table 1. List of opening dates for retail and restaurants by province.

Province	Retail/restaurant re-opening date
Alberta	Partially re-opened Restaurants: May 25
British Colombia	Retail: Partially reopened Restaurants: 50% capacity
Saskatchewan	Retail: Partially reopened Restaurant: TBD
Manitoba	Retail: Partially re-opened Restaurant: Patio – Partially re-opened Indoor – No earlier than June 1
Ontario	Retail: Partially reopened Restaurants: TBD
Quebec	Partially re-opened May 25 for Montreal
New Brunswick	Retail: Partially reopened Restaurants: Partially re-opened, social distancing measures required
Nova Scotia	None announced
P.E.I.	Retail: May 22 Restaurant: June 1
Newfoundland and Labrador	Retail: Partially re-opened Restaurants: Mid-June
Territories	Retail: Restaurants: TBD, no dates announced

China

The Chinese government has placed the city of Shulan, which is in Northeast China, under a Wuhan style lockdown after at least 34 new cases were diagnosed in the city. Businesses throughout China are asking the government to provide more stimulus funding as consumer activity significantly lags behind production activity. Demand for seafood within the country has returned to approximately 50% of current levels, though further outbreaks such as those seen in Shulan could disrupt this recovery. Tensions between the US and China have risen over allegations that China withheld vital information from the world during the early days of the pandemic. There are fears this could re-ignite a trade war, which could prove devastating to US lobster harvesters attempting to recover from the pandemic, though could prove to be a boon to Canadian harvesters. Countries such as Australia have joined in the criticism of China, which retaliated by placing a tariff on Australian barley.

EU

The easing of restrictions has begun in many European countries and new case rates fall to what are considered to be manageable levels. Italy, one of the first hard-hit countries, are opening bars and restaurants after nearly two months of total shutdown. The daily death toll in Spain fell below 100 for the first time since it imposed its lockdown measures. Restaurants are allowed to serve sit-down customers on outdoor patios only at 50% capacity in Spain. Poland and Portugal have reopened sit-in restaurants to 50% capacity.

Demand for seafood in Europe remains limited. Major economies such as France, the UK, and Spain have been slow to ease restrictions due to the severity of the outbreak in those countries. Nordic countries such as Sweden, Norway, Denmark and Finland have relaxed measures more swiftly, opening restaurants, cafes, and retail stores in mid-May. Russia continues to remain a hotspot for new cases and is the source of multiple exported cases in a variety of countries, prompting China to consider a travel ban.

Seafood Market Status

This section of the report will discuss the current state of the seafood market by species as of May 21st 2020.

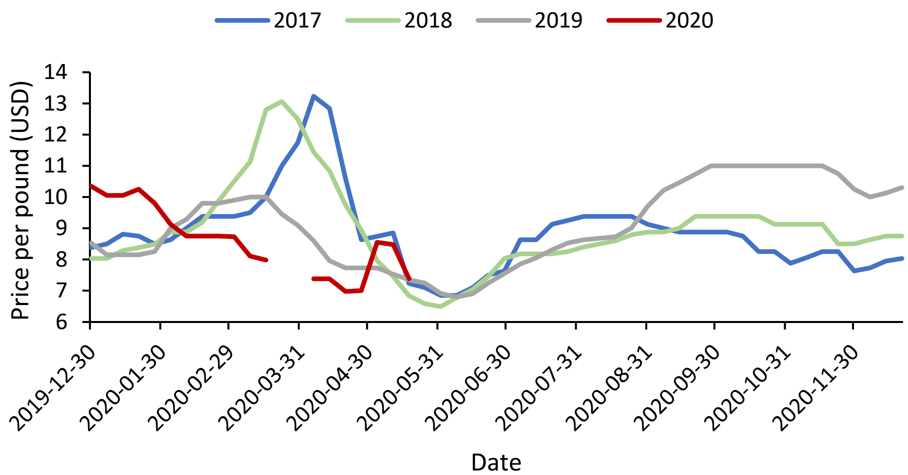
Lobster

Lobster catch has failed to reach the levels anticipated by groups such as the Lobster Council of Canada. Poor weather and limited effort have acted to depress landings. Prices for lobster at the wharf retreated from the gains seen over Mother's Day, dropping to between $3.50-4.50/lb (CAD) in the Gulf of St. Lawrence and approximately $5.25-6/lb (CAD) in Nova Scotia.

Vertically integrated lobster companies have faced challenges from the disruption in operating procedures. Due to reduced staff, erected barriers, and changes to operating procedures operational efficiency for some companies has dropped to 25%. This results in reduced revenue and increased costs, preventing the company from cutting the price to consumers, further dampening demand. Notably, most companies have just begun processing again and it is unknown if the reduced operations will be viable for anything more than a short period of time.

Prices retreated over the past week following the slump in demand following Mother's Day (Figure 2). Market prices are currently in line with historical norms, and the drop post-Mother's Day was not unusually large. This could be due to the fact that several LFAs were delayed and only just opened. The challenge will be to ensure that supply does not outpace demand resulting in larger price drops going forward. This could lead to further restrictions on landings as more LFAs open in the spring and summer. Lobster landings have been lower when compared with past years for this time of the year – which could be a result of the poor weather experienced thus far in the winter and spring.

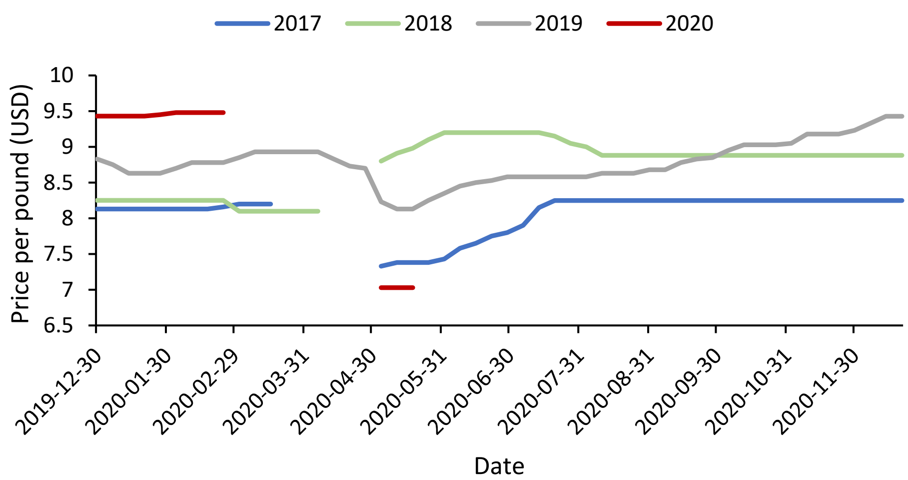
Figure 2. Weekly lobster prices since 2017 in $USD/lb. Data source: Urner Barry.



Crab

Snow crab continues to surprise industry experts as it remains an in-demand product at retail outlets. Market price remains below levels previously seen in the last three years, averaging approximately $7.00/lb (USD) at which level it can be moved. Harvesters in Newfoundland began fishing in earnest over the past week, and supply will increase over the coming days as these harvesters return from their first trips. Traditionally, when Newfoundland snow crab supply is available to the market the price declines. Shore price for both Gulf crab and NS crab remains near the $4.00/lb (CAD) price point. A retreat in both shore and market price may be upcomming as Newfoundland crab arrives on the market next week.

Figure 3. Weekly Gulf of St. Lawrence snow crab (5-8oz) prices since 2017 in $USD/lb. Data source: Urner Barry.



Shrimp

The northern shrimp market remains largely unchanged. Recently, harvesters and processors in the Gulf of St. Lawrence attempted to come to an agreement for price, but harvesters rejected the $0.75/lb (CAD) offer the processors presented. There has been no further news regarding these negotiations and shrimp fishing in Atlantic Canada remains non-existent.

Bivalves

Oyster growers and harvesters in Atlantic Canada have seen sales drop to non-existent levels over the past two months. Oysters are overwhelmingly dependent on restaurant sales, which have been shut down in the US and Canada, which are the primary markets for Canadian oyster. Growers are beginning to deliver oysters to consumers as an emergency source of revenue in an attempt to survive until the restaurant industry recovers. In New Brunswick, earnings from local delivery are unlikely to make up for the overall loss of revenue, as up to 90% of all oyster produced in New Brunswick is sold out-of-province. Market price for scallop remains low, though some recovery may become possible as restaurants in the US slowly reopen.

Finfish

Finfish has fared better to date than lobster and bivalves, particularly frozen fish. Retail sales of frozen fish products have increased, and a greater than 4% rise in the price of meat products has incentivized consumers to purchase more seafood. Online recipe searches have increased by over 100% on some recipe websites, with many of these being seafood related. Frozen fish sticks and canned salmon have also seen increased demand. Demand for fresh salmon remains light to moderate, with a recent uptick in demand being noted from restaurants as they begin reopening in some places in the US, Canada, and Europe.

Processing Sector

Adjusting operational protocols has resulted in a high level of inefficiency, and some processing plants are only operating at 25% of their normal efficiency. This results in high costs, which precludes the processor from lowering its prices to stimulate demand.

Federal Support

There has been no further information released regarding the harvester aid packages that were announced last week. It is unknown what agency will be administering these benefits, and the date that the money will become available remains unclear. There is still confusion surrounding the recently announced Seafood Stabilization Fund which was targeted towards seafood processors. Processors are unsure of the distribution of the funds between the provinces and are anxious to know when the money will begin to become available.

Closing Comments

The gradual reopening of the world economy has been pursued with a variety of strategies that vary from country to country. Given these differing approaches, it is difficult to predict how quickly the integrated global economy will recover. Restaurants have slowly begun to purchase seafood product, though this is largely anticipatory, and it remains to be seen how active consumer demand will be upon the lifting of some restrictions on restaurants.

The threat of second wave of infections has materialized in several countries, most notably China, which was forced to enact a Wuhan style lockdown on a city in the Northeastern portion of the country. France experienced 70 new cases diagnosed in students just days after reopening schools. Germany and North Korea have seen recent upticks in infection rates as restrictions ease. The balancing act of maintaining public health and restarting the economy has proven to be challenging in the absence of a vaccine.

Restaurants continue to suffer even despite the easing of coronavirus public health measures, as capacity restrictions below 75% prevent many independent restaurants from achieving profitable margins. Consumer wariness of public spaces remains high. Economic forecasters are no longer predicting a swift recovery but expect a recession with a much slower recovery as more businesses continue to go under, which will further harm long term unemployment figures.

The true impacts of COVID-19 on the seafood industry will become further apparent as more fishing seasons open and additional product becomes available to what appears to be a lean market.