

COVID-19 and the Seafood Industry

Brief Overview

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Background

In late December of 2019, news from China indicated a new pathogenic virus had emerged from the Wuhan province of China. The disease was considered noteworthy due to its habit of afflicting patients with pneumonia. By early January, China had identified the disease as a novel member of the Coronavirus family of viruses. Coronaviruses include a variety of diseases, from mild colds to dangerous diseases such as SARS and MERS. It became apparent that the disease was dangerous following the death of a Chinese citizen on January 7th, 2020. The disease quickly spread, and by February 9th, 2020 the death toll from the disease now known as COVID-19 had surpassed the entirety of deaths from the 2002-2003 SARS epidemic, with 811 deaths recorded. The disease accelerated within China and infected over 80,000 people by the end of February. China enacted severe quarantine measures to try and contain the spread of the disease including stay at home regulations – essentially shutting down the country.

Due to its highly infectious nature, the disease was able to spread outside of China and has now appeared in nearly every country on earth. As of March 26, 2020, there are a total of 351,818 active cases of COVID-19, 118,063 recoveries, and 22,175 deaths. The disease is currently spreading at an exponential rate and cases are expected to double approximately every three days. As a result of the situation and apparent severity of the disease, governments across the world are taking increasingly stringent measures to combat its spread. To date, these measures have included mandatory business closures, shelter-in-place orders, limits on gathering sizes, closures of outdoor parks and border closures. As of March 26, over one third of the entire human population on earth is subject to some form of mandatory quarantine, including citizens in India, China, France, Italy, New Zealand, Poland, the UK, Canada and some portions of the United States. These measures are having severe impacts on the global economy and consumer spending. At the same time as these country-wide shutdowns a price war in the oil industry has erupted between Russia and Saudi Arabia. This dispute has resulted in a nearly 66% loss in value in the price of crude oil – which is also having a severe impact on the global economy.

This report will describe the current status of the seafood market and industry as a result of the changes implemented to fight the spread of the corona virus, while also providing an overview of the potential scenarios for future recovery. It is important to note that the global economic situation is constantly changing, with new and expanding country wide regulations being implemented on a daily basis.

Current Status

This section of the report will discuss the current state of the seafood market by species as of March 26, 2020. As this situation is rapidly evolving, the state of the market and global economy can change on a day-to-day basis.

Shellfish

Lobster and snow crab are both considered to be a high-end seafood product, and are often consumed in restaurants, casinos, and cruise ships. These species comprise the two most lucrative fisheries in Atlantic Canada. Both species are restaurant favorites, typically marketed as a luxury item accompanied by high prices. The US is a major consumer of Canadian lobster and snow crab. Canada historically directs over 60% of its lobster exports to the US. Approximately 85% of all snow crab products from Canada are sold to US markets. Major sources of demand for both lobster and crab products have historically been casinos, restaurants, cruise ships, and all-you-can-eat buffets. These sources of demand are now drying up as State governments close sit-in restaurants and other places where people congregate. As of March 25, 26 states have ordered all restaurants to partially or completely close, including major population centers such as California, New York, Texas, Florida, and Pennsylvania. This has had a disastrous impact on demand for shellfish.

Cruise ship companies including Carnival, Costa, Celebrity, and others have suspended operations until the end of April, with these suspensions open to extension as conditions warrant. This may have a particularly large impact on the snow crab market, as individual cruise ships may make up 15% or more of a distributor's total business on an annual basis.

Similar to cruise ships, casinos are being shuttered throughout North America. Nevada and New York have ordered all casinos to shut down to prevent the spread of the virus. Casinos have historically been a major purchaser of lobster tails which they provided at low costs to attract new patrons. They are also major purchasers of snow crab, which is typically served at buffets. Individual casinos may spend over one million dollars on snow crab on an annual basis. As more States close casinos and other businesses associated with the hospitality industry, demand for snow crab and lobster will continue to decline.

Demand from individual consumers is also declining at a rapid clip. Prior to the pandemic and subsequent market crash, consumers had been the beneficiaries of low unemployment and had been driving the economy with their high levels of spending. Due to the perceived strength of the economy, consumers had a higher tolerance for debt. Following the market crash, unemployment has spiked in parallel with a sharp decline in consumer spending. The week of March 15th saw nearly 3.5 million applications for unemployment in the US and Canada combined. 44% of Canadians reported that they or someone in their household had lost work due to COVID-19 related layoffs, and another 18% said they expect to lose work in the near future. Over half of those laid off were not being compensated by their employer. These numbers are not unique to Canada and the US as many countries in the world are facing similar issues. This sudden freeze in income has severely curtailed desire for high-end products like lobster and crab, with consumers instead switching into a survival mindset and saving money for necessities such as rent, heat, and affordable groceries.

Outside of the US and Canada, China had been an important source of demand for lobster. Canadian lobster exporters had been the beneficiary a protracted trade war between the US and China and were able to supply vast quantities of lobster to Chinese market as a result. This source of demand has collapsed, as China imposed extensive quarantine measures which have only recently been lifted. As the situation in Canada and the US continues to deteriorate, there are few exporters willing or able to supply the now re-opening Chinese markets. Currently, only trial shipments to China are occurring and it may take a significant amount of time to alleviate the backlog of product that has amassed. Chinese consumers are also worse off financially and over 40% small-to-medium sized businesses are still non-operational. This unemployment will keep demand for lobster low compared to previous months. Europe is a relatively minor source of demand for both lobster and snow crab, but currently those markets are closed entirely as the continent is currently the hardest hit region on earth in terms of death toll and number of cases.

The combined impact of these factors has seen the shore price for lobster drop from over \$10.00/lb to at or below \$4.00/lb in the span of a month. In fact, there are some lobster buyers who are refusing to purchase lobster due to the lack of markets. Compounding the existing issues is the large supply of lobster in storage. There are between 3-4 million pounds of live lobster in inventory. Because distributors must find consumers for these lobsters before they die within a few months, they are being forced to drop prices considerably and sell at a loss. Market prices have dropped from \$10.25/lb (USD) in January to under \$8.00/lb (USD) in mid-March. It is worth noting that while the price is quoted at approximately \$8.00/lb (USD), little if any lobster product is moving on the market as demand has evaporated.

Current snow crab prices are unavailable but are expected to face a steep decline similar to lobster. Prices for Newfoundland snow crab are expected to be released soon as the negotiations between the FFAW Union and the Association of Seafood Processors is ongoing. This may be delayed, however, as the opening of the snow crab fishery has been requested to be postponed until at least April 20th.

It has been difficult for processors to staff plants with workers due to several factors. An obvious issue is that potential workers are self-quarantining to avoid exposure to the virus. Beyond this, there was significant uncertainty regarding temporary foreign workers and whether seafood processing plants would be designated as essential services. Temporary foreign workers have since been exempted from travel restrictions, but the status of seafood processing plants as essential services is not yet known. Finally, any foreign workers coming into Canada must self-isolate for 14 days prior to beginning work. The combination of these factors has made staffing processing plants for crab and other species difficult.

Other shellfish species are facing or are expected to face similar declines. Oyster prices (Choice) have dropped from over \$100 per gallon in December to \$88 per gallon in March. This is the lowest price for March in over five years. Canadian shrimp have not yet seen a major price decline, but this will likely change as the UK, which is one of the most important markets for Canadian shrimp, has begun to enact significantly more restrictive measures to combat the virus. Scallop prices have remained steady at this time, but this is unlikely to continue.

Finfish

Finfish are experiencing similar negative impacts compared to the shellfish sector. Particularly hard hit are the higher-end markets such as the tuna, swordfish and halibut industries. Canadian bluefin tuna are a major target of Japanese sushi restaurants. Sushi restaurants in Japan have seen a 50% reduction in business since the onset of the outbreak as a result of consumers avoiding public places. While the government has not shut down businesses as Japan has largely avoided the mass outbreaks, economists in the country have described the self-isolating behaviors of consumers as a de facto economic shutdown. As a result of curtailed Japanese demand, Bluefin tuna prices have dropped from \$9.88/lb (USD) in January to \$4.50/lb (USD) as of March 23rd. There is a large supply of tuna in cold storage in the US that has not been able to be sold due to the collapse in demand.

Swordfish and halibut are higher end whitefish products that typically command high prices. They are often sold as expensive entrée options in fine dining establishments. Restaurant closures and absence of demand have resulted in major price declines for both species. Swordfish price declined from \$8.88/lb

on March 9th to \$5.25/lb on March 23rd. Halibut prices dropped from \$10.35/lb on February 23rd to \$5.25/lb on March 23rd. Similar to tuna, there is significant unsold inventory of swordfish and halibut due to the demand shock. It is worth noting that these species are typically sold fresh which limits shelf life. Distributors and buyers are now being forced to freeze their inventory due to the lack of demand, which will result in the fish receiving a lower price.

Salmonids including Atlantic salmon and trout are experiencing market declines as well. There is limited availability on prices of steelhead trout, but prices for the comparable Atlantic salmon have precipitously declined over the past week, with many product forms losing \$1.00/lb or more in price. This indicates that aquaculture operations and salmonids are not immune to negative impacts of the ongoing pandemic. Chile, which is a major producer of both salmon and steelhead, has seen salmonid producers begin to reduce their operations in response to the virus itself and the ongoing turmoil in the market. Media reports suggests Chilean producers are preparing to halt production if necessary.

Prices for whitefish such as cod, haddock, pollock, plaice, flounder, and redfish have experience price drops across the board. The price for whitefish is currently the lowest it has been in March in the past three years, regardless of species. The factors plaguing the shellfish industry apply here in much the same manner, with decreased demand and non-functional supply chains resulting in massive losses of revenue.

Outlook

The outlook for the seafood industry is poor in the short-term. The virus is continuing to spread exponentially in many important countries such as the United States. The global economy has entered a recession as a result of forced business closures, employee layoffs, mandatory quarantines, self-isolating behaviors, and other measures enacted by governments and individuals. There is little reason to suspect that the economy will recover until the spread of the virus is brought under control. The most effective means of ending the pandemic is the development of a vaccine. To date, trials are being conducted but no vaccine is available at this time. Social distancing measures and strong government action has been effective in reducing the spread of the disease, but without a vaccine the possibility of a second wave of outbreaks is high. Uncertainty in the markets will likely remain a feature of the 2020 global economy until a vaccine is produced.

It is unknown at this time to what extent the market will recover once the pandemic is contained. As the pandemic is acting as a real shock to both supply and demand, it is likely that once the restrictive public health measures are lifted, there will be a significant bump in consumer spending activity, including spending on seafood products. Restaurants may see particularly large resurgences in business as previously quarantined consumers look to socialize with friends and family.

There are, however, concerns that the shocks the coronavirus have inflicted on the world economy will be long lasting. Governments are relying on large stimulus and bailout packages to prevent businesses from failing and individuals from becoming insolvent. Unemployment has massively increased as layoffs have occurred in many forms of business. It is unknown how many of these jobs will return. Consumers may also demonstrate preferences for cheaper products as a result of having to dip into their savings to pay for rent and groceries. Consumers in the US also have significant levels of debt and may have to divert their revenue to paying those debts off once work begins again. Stimulus and aid packages from the US government may alleviate some of these issues, but what the long-term impacts of these will be is unknown. There may also be long term shifts in consumer behaviors, such as avoiding crowded restaurants. This may result in a more prolonged reduction in demand for seafood products in restaurants.

Specific to seafood, it is likely that recovery for luxury items such as lobster and tuna may require more time than cheaper products such as haddock and redfish. A prolonged economic recession would have harsh impacts on high end seafood products, while a quick recovery may result in a boom for those same

products. Predicting the final impacts of the coronavirus pandemic on the global seafood market is difficult at this point in time, as new regulations are implemented daily that impact on different sectors of the economy. The most recent available relevant economic statistics are presented in the following table. Notably, unemployment claims have skyrocketed, retail sales have declined, and there are partial or total closures of dine-restaurants in each of the listed countries.

Table 1. Selected economic statistics for four countries with important seafood markets.

2020 Statistics	USA	China	Canada	UK
Unemployment	3.3 million+ UE claims*	6.2% as of February. 10% expected	1 million+ UE claims*	700,000 job losses expected
Retail sales	February: -0.5%	Jan-Feb: -20.5%	N/A	February: -0.3%
Mandatory Dine-In Restaurant Closures	22 States: Total closure 28 States: Partial or no closures	February: 35% of restaurants closed March: N/A	6 Provinces: Total closures 4 Provinces: Partial or no closures	All dine-in restaurants closed

*This information was for the week of March 15th.

It is possible that supply chains will be permanently affected by this event. Producers and distributors may look to diversify their supply base and end-market destinations in order to prevent future outbreaks in one country from devastating their businesses. China has historically been a major center for both, but due to being ground zero for the new virus, it may lose its preferred status among many businesses. One positive effect that may occur in Chinese markets may be a preference for foreign protein products, as the virus is suspected to have originated from Chinese bush meat. Products from countries with strict food safety regulations may be in high demand and receive a price premium.

The ultimate outcomes of the pandemic are unknown. There is currently too much uncertainty over the spread of the virus and the ability of health officials and governments to manage the pandemic. Short-term effects will be profoundly negative due to the lack of demand for seafood and disrupted supply. Opinions are varied as to whether the global economy will quickly recover from what will amount to a short-term shock, or if the pandemic was the tipping point for an economy that was already ailing. If the former is the case, it is likely that there will be a relatively quick recovery following the containment of the virus. If the latter scenario is more accurate, this recession could rival or surpass the Great Recession of 2008, and have long-lasting impacts on the seafood industry. As previously noted, the rapidly evolving nature of the pandemic and global economic situation make projecting future impacts extremely difficult. The long-term picture will become increasingly clear over the next few weeks and months as more countries face the full brunt of the pandemic and other countries begin to reduce the rate of new cases.

While the economic impacts resulting from the ongoing pandemic have been widespread, First Nation and Indigenous Communities are particularly vulnerable to the negative effects. The fishery is both an important cultural and economic driver for First Nation Communities in Atlantic Canada and represents the primary revenue source and provides a large proportion of the communities' employment. As such, the impacts from the ongoing pandemic are likely to severely affect First Nation Communities in Atlantic Canada. Within many communities there are little to no alternative revenue generating opportunities aside from the fishing industry. The disruption of the fisheries and seafood markets may result in longer-lasting, localized economic recessions in these communities. The more prolonged the pandemic, the greater the chance for extended negative impact on these communities.