

COVID-19 and the Seafood Industry

December Update

Developed for: Atlantic Policy Congress of First Nation Chiefs Secretariat

Recent Developments

The first COVID-19 vaccinations have begun to be distributed and administered in countries such as the UK, the USA, and Canada. To date, there have been 68 million COVID-19 cases and 1.5 million deaths from the disease globally. There are currently 20 million active cases worldwide, with more than 500,000 new cases being diagnosed each day.

The Christmas and winter holiday seasons typically produce extra demand for certain seafood products, particularly shellfish such as lobster. With the increased restrictions on dine-in eating in Canada and the United States, it is likely that demand for seafood in restaurants will fall below what are already low levels. However, retail demand may increase as consumers look to make quality meals over the holidays

USA

The USA has to date recorded over 17 million cases of COVID-19 and 308,000 deaths. There are currently over 6 million active cases, with California, Florida, Illinois, and Arizona having over 300,000 active cases each. The US has begun administering vaccinations developed by Pfizer. It is anticipated that the Moderna vaccine will be approved for use in the coming week.

The US economic recovery has begun to plateau as the COVID-19 virus continues to spread aggressively. In November the US added just 245,000 jobs, while economists originally predicted a gain of 440,000. The unemployment rate has fallen to 6.7%. This is the fifth straight month of decelerating jobs gains, and the lowest monthly total since the economic recovery began. The US Congress is deliberating the approval of a \$900 billion relief package that would include stimulus checks of \$600.00 per individual. Some US senators have advocated for \$1,200.00 checks.

Canada

Canada has begun administering vaccines to front line health workers. Canada continues to see approximately 6,000 new cases per day, though the new case rate has seemingly plateaued over the last

week. Ontario, Quebec, and Alberta represent the majority of new cases within Canada, with these three provinces accounting for approximately 5,000 of the daily 6,000 cases per day over the past week. Notably, Quebec has instituted new restrictions that require all non-essential businesses to close for three weeks following Christmas.

Canada's economy gained 62,000 jobs in November, which slightly outperformed economists' expectations. However, this was the slowest month of labour market recovery since the economic recovery began in May. Notably, most of the added jobs were full-time, while part-time and seasonal jobs continue to feel the burden of the pandemic. For November, total full-time job gain was 99,000 jobs, which was partially offset by a loss of 37,000 part time positions. In total, Canada is approximately 575,000 jobs short of pre-pandemic levels. The unemployment rate has fallen to 8.5% in November, compared to 8.9% in October. Canada's dollar has strengthened compared to the USD over the past months and is currently trading at approximately \$0.78 CAD per \$1.00 USD.

Asia

China continues to claim that various imported products have been contaminated with COVID-19. Despite those concerns, the COVID-19 pandemic is seemingly well controlled in the eastern Asian countries, while nations further west such as India struggle to contain the disease. Asian economies have remained mixed with currents of optimism as the introduction of the vaccine to the US, Canada, and Europe could spur the recovery of major trading partners.

China's economy has recovered rapidly, though concerns exist that the fundamentals of the Chinese economy are not sound. Notably, China's workforce is expected to shrink by nearly 7% over the coming decades due to an aging demographic. China also remains an export and investment dominated economy, which account for 49% of the total Chinese economy. This is acceptable for a developing country building wealth but is unsustainable for country transitioning into a "developed nation", which Chinese officials have in past years acknowledged. As a result, the short-term positive performance of China following the COVID-19 pandemic should not be considered indicative of its longer-term prospects.

EU

The countries within the EU have managed to reverse the trend of rapidly rising infections that began in October and continued until early November. New case counts reached a maximum of nearly 300,000 per day, which has since dropped to under 200,000 per day as some lockdown measures were reinstated. Many of the countries in the EU are reliant on the tourism industry for revenue streams such as Portugal,

Greece, and Spain. These countries have experienced large declines in their economies, particularly among youth worker which has seen unemployment rise to over 40% in some countries.

Seafood Market Status

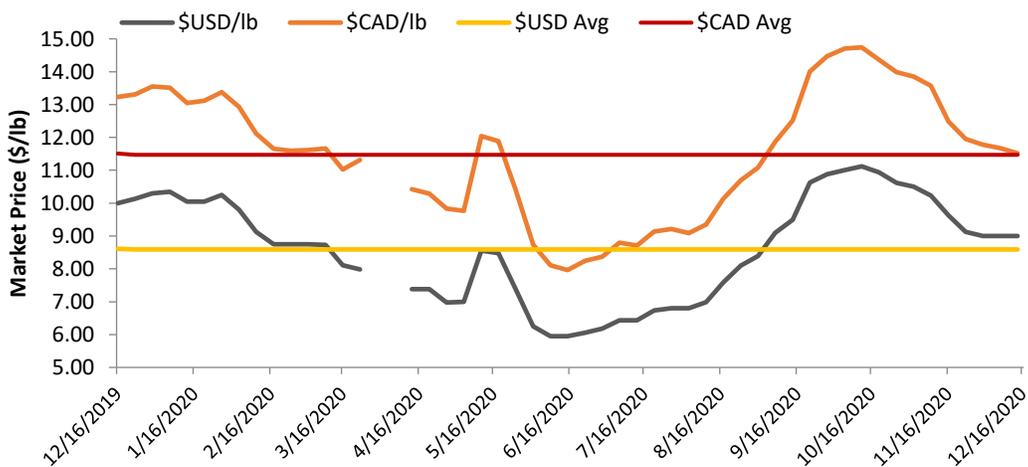
This section of the report will discuss the current state of the seafood market by species as of December 2020.

Lobster

The opening date for LFA 34 was delayed for an unprecedented eight days due to poor weather, while the adjacent LFA 33 was able to start on time. Historically, both LFA 33 and 34 experience their best fishing days near the beginning of the season, however this year landings had been lighter. Harvesters are receiving between \$7.00-7.50/lb at the wharf for lobster in LFA’s 33 and 34 and the prices are described as “unsettled”. At this time in 2019, prices were approximately \$9.00/lb (CAD).

Current market prices are similar to levels seen in February and early March of 2020, which was just prior to the collapse of the market due to the Pandemic (Figure 1). Prices have historically been higher in late December, January, and February than they are currently. It is likely that prices will follow historical trends and decline in the Spring and Summer of 2021. As a result, market prices are projected to be below recent normal levels for the majority of 2021, though prices may not decline to the extreme lows seen in the Summer of 2020.

Figure 1. YTD December 16 2020 weekly average prices for live 1 1/4 lobsters. Data Source: Urner Barry



Notably, the Canadian dollar has recently strengthened against the US dollar, increasing from \$0.75 CAD per USD to \$0.78-0.79 CAD per USD. As a result, the market price in \$CAD for lobster has declined despite the US price remaining the same over the past three weeks (Figure 1). This means that exporters from Canada are now receiving \$0.29/lb (CAD) less for lobster compared to four weeks ago once the USD are converted to CAD, despite US prices remaining steady. The weakening of the US dollar has been driven in large part by the widespread prevalence of COVID-19 in that country and the stalling economic recovery.

As of December 1st 2020, the European Union has officially eliminated all tariffs on US lobster. This deal is for five years and is retroactive through August of 2020, meaning that any company that imported lobster during the time between August and December will be reimbursed. This will effectively eliminate the advantage that the Canadian industry held through the Comprehensive Economic and Trade Agreement (CETA), which took effect in 2017. US lobster will now be able to compete on an even playing field with Canadian lobster in European markets.

Lobster was initially hit hard by the pandemic and associated health regulations but has recovered somewhat as of year end 2020. Retail growth has driven much of this recovery; however lobster pricing is currently pushed by low inventories. This creates a risky environment for buyers, which is magnified by consumers being in an unfavorable position for accepting price increases. The overall size of the lobster market has declined, and the market is not expected to grow in 2021.

Crab

The Canadian snow crab season will not reopen until the spring/summer of 2021. Inventory of Canadian snow crab is virtually exhausted now, and the market is currently being supplied by Russian snow crab. Snow crab performed better than any other seafood commodity over the course of 2020, and US imports of snow crabs were the highest in 10 years. Retail has been the sector in which snow crab has performed the best, being an easy to cook protein that is flavorful and exciting to consumers. The US market remains under supplied, and the high demand from the US for snow crab is pricing the product out of the Japanese market, which has historically been a major importer of crab. The crab market is expected to experience growth in 2020.

Shrimp

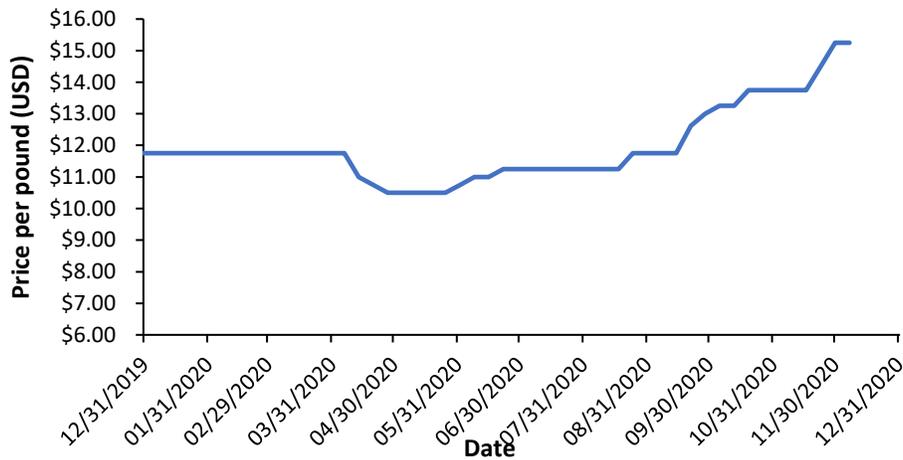
Market price has remained steady at \$5.83/lb (USD) since the summer. While there is demand within the UK for product, low demand in Asian markets has prevented price recovery from taking place.

Bivalves

There has been little change in the oyster market. Increasing restrictions on restaurants are continuing to negatively impact growers, harvesters, and distributors of fresh oyster. Unlike the lobster and crab industries, the oyster industry in North America does not have the capacity to shift predominantly to retail forms of product such as smoked oyster. Currently, the North American industry is almost entirely reliant on struggling restaurants for demand.

Scallops continue to perform well, with supply constraints on the coveted U-10 scallops driving prices higher. Prices for other scallop sizes such as the 20-30 ct. have risen as well. There is some concern that the increasing number of restaurant closures and public health regulations will begin to put downward pressure on market prices in the near future.

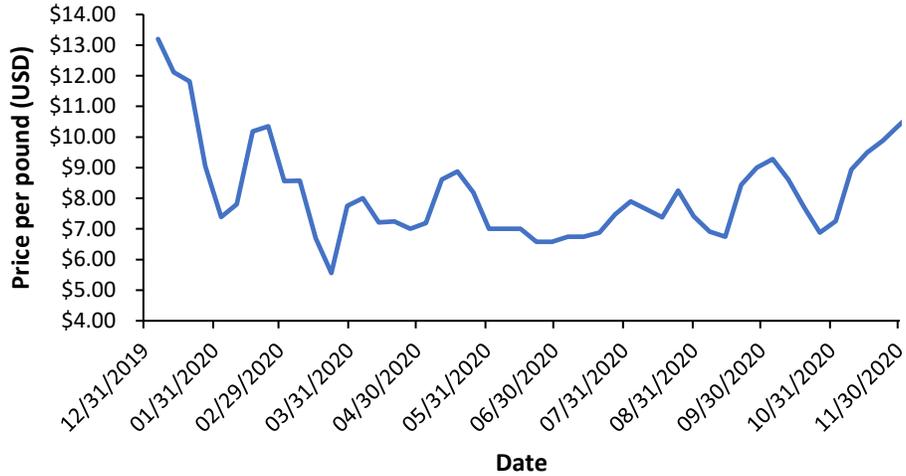
Figure 2. YTD December 15 2020 weekly average prices for fresh 10-20 ct. scallops. Data Source: Urner Barry



Finfish

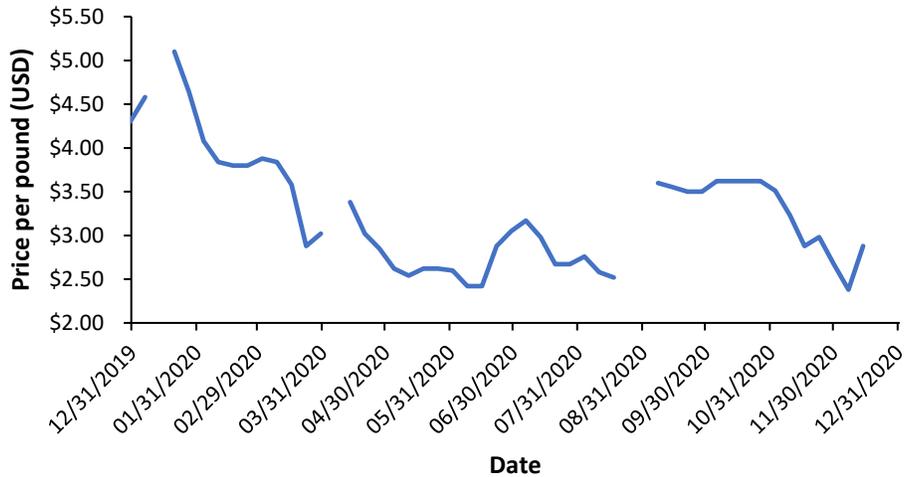
The finfish market has seen lower levels of trading activity in recent weeks. The possibility of further dine-in restrictions in the US and Canada is creating unease among potential buyers. Despite lower trade volumes, price for some finfish have increased due to lean inventories of product, as many of the finfish fisheries are either closed or are less productive during this time of year. Prices for halibut have continued to climb but remain at 5-year lows for December.

Figure 3. YTD November 2020 weekly average prices for fresh whole halibut. Data Source: Urner Barry



Salmon prices, which have been negatively affected by the pandemic, have trended upwards over the past week after having been in decline since October.

Figure 4. YTD November 2020 weekly average prices for fresh 6-8lb Canadian salmon Data Source: Urner Barry



Closing Comments

The largest lobster fishing areas in Canada have just opened and have done so during the peak of the “second-wave” of the pandemic. While demand through retail remains strong, it is unknown at this time if the market is capable of supporting strong prices at the levels of volume that LFA’s 33 and 34 will produce. Notably, the EU has lifted tariffs on US lobster which removes a competitive advantage that Canadian lobster has held since 2017. It is anticipated that the lobster market will experience negligible growth in 2021, while the crab market is expected to expand.

The major development since the previous update was provided to APC has been the distribution and administration of the COVID-19 vaccines. While it will take some time for this vaccine to be widely administered, there is now a firm expectation that the pandemic will be brought under control by some time in 2021. During the interim period, the foodservice industry is continuing to suffer as mounting case counts and increasing restrictions have dampened demand. Nearly 1 in 5 restaurants in the US has closed permanently, and this number will only increase in the absence of federal aid. At this point in time the foodservice industry is not being made a priority by the US or Canadian federal governments.