

Alaska Seafood COVID-19 Briefing Paper

September 2020 Edition



Prepared on behalf of the Alaska Seafood Marketing Institute by McDowell Group, this series of briefing papers is intended to provide information on the depth and breadth of the pandemic's effects on Alaska's seafood industry.

Highlights

- Alaska's harvest volume has not been significantly impacted by the pandemic. While 2020 harvests have been significantly lower in some salmon fisheries than pre-season predictions, the declines are due to weak runs rather than reduced effort or other forces that might have some connection with the pandemic.
- The overall harvest value of Alaska seafood has declined from last year with the pandemic a primary reason for the weakness. A roughly 50% fall in the Bristol Bay base sockeye price is a prominent example, along with lower halibut values. Anecdotally, flatfish and Pacific cod harvest values have declined while pollock prices are stable. Key reasons for weaker harvest value include higher operating costs, less value-add production, reduced demand due to foodservice closures, and general market uncertainty.
- Markets for the state's seafood are mixed. Retail sales in the US are reportedly strong, particularly for frozen and shelf stable products as more consumers cook seafood at home. The US and global foodservice sector have been challenged by widespread disruption and closures. The loss of the foodservice market has been particularly harmful to market demand of many Alaska seafood species.
- All sectors of the industry report higher operating expenses directly related to reducing risk of COVID-19 transmission among local communities, fishermen, and the processing workforce. While no full accounting is available, interviews with processors indicate at least \$50 million has been spent so far, including inshore and offshore sectors. This total is expected to increase due to testing requirements and continuation of COVID-19 related protocols in 2020 and 2021. Harvesters, local government, and other stakeholders also report expenses directly attributable to maintaining operations during a pandemic.
- Interviewees report ongoing transportation issues attributable to the pandemic. Due to reduced passenger flights, air freight capacity was lower this summer, leading to challenges getting fresh salmon to the Lower 48. Exports into China have been delayed due to increased port inspections. The collapse of regional carrier Ravn Airlines has exacerbated difficulties associated with transporting processing workers, fishermen, and support personnel in Western Alaska communities.

These briefings are informed by ongoing interviews with stakeholders and quantitative data when possible. The impacts of the pandemic are still unfolding and little direct data is currently available to provide measures of those impacts. In some instances, the best available information may be anecdotal and subject to change. In addition, clearly isolating pandemic-induced effects from other resource and market forces is not always possible. The authors welcome feedback at seafood@mcdowellgroup.net

- The pandemic has impacted Bristol Bay salmon fishery product form volumes. Processors report not being able to produce as much fillet, portion, and roe products as desired. The combination of a significantly compressed harvest season, inefficiencies due to COVID-19 mitigation protocols, and a smaller labor force meant H&G production was necessary instead of more labor-intensive, higher value processes.

Economic Indicators

- For applications submitted through June 30, Alaska resident commercial fishermen had received approximately **\$15 million in Payroll Protection Program (PPP)** loans. While exact amounts are not available, the total loaned to smaller (less than 750 workers) Alaska and Washington based processors is **estimated at \$30 million**. Processors accounting for most of the production capacity in Alaska did not qualify for PPP loans due to the size of their workforce.
- Through the first half of 2020, total US grocery store sales for all products were up **\$43 billion** from the same period in 2019; restaurant sales were **\$65 billion** lower.
- US economic conditions have improved from the worst of the COVID-related economic collapse. The national **unemployment rate was 10.2% in July, compared to April's rate of 14.7%**. From April to July the number of unemployed Americans declined from 23 million to 15 million.
- 2nd quarter **GDP was down sharply across the globe**, including the US (-9.5%), Japan (-9.9%), and the Euro Area (-15.0%).

Special Topics

Exports

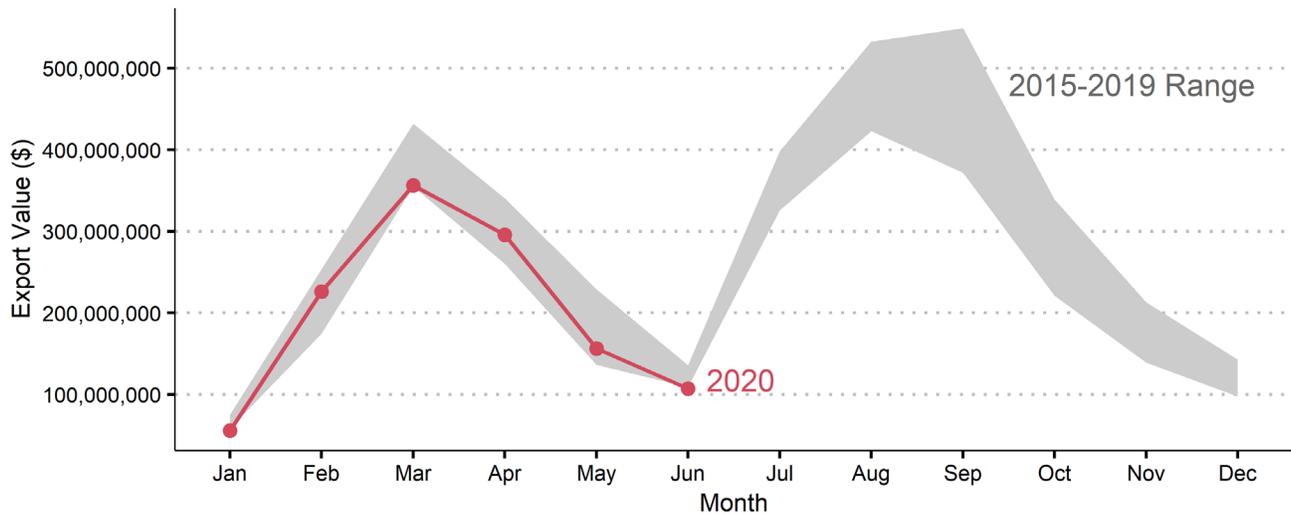
Through June 2020, export volume and value of Alaska seafood products are down slightly, but comparable to previous fluctuations observed before the pandemic. Because export activity is stronger in the second half of the year, a more comprehensive assessment of export markets will be available by late-2020.

- Through the first half of 2020, total export volume is down 3.4% against the same period in 2019 with export value 5.2% lower. Exports volume and value to China, Japan, Central Europe are lower while Northern, Eastern, and Western Europe are higher along with Southeast Asia.
- Over the past five years, export volume/value fluctuations year to year have ranged from -8% to 14%.
- Export prices (per metric ton) in the first half of 2020 are generally lower compared to 2019, with some exceptions. This decline is due to pandemic-related market disruptions in addition to other forces.

○ Sockeye cans, +14%	○ Pollock roe, +1%	○ Pacific cod H&G, -9%
○ Alaska pollock fillets, +4%	○ Pollock surimi, -5%	○ Sablefish H&G, -14%
○ Snow crab sections, +2%	○ Yellowfin Sole, -7%	○ Sockeye H&G, -14%

- August and September are the peak months for export of Alaska seafood, accounting for 31% of total annual value and 28% of total volume in 2018/2019. For salmon, about 75% of annual exports (by value) occur between July and October.
- Russian frozen pollock H&G export prices are 14% lower through the first half of 2020 than the same period in 2019, based on data from Trade Data Monitor.

Figure 1: Alaska Seafood Export Value by Month



Source: US Census Bureau; McDowell Group.

Seafood Processing Employment

Early data confirms reports that seafood processor employment is down in 2020. Many factors can contribute to year-to-year fluctuations in seafood processing employment—such as even-numbered years where salmon runs are usually smaller. However, efforts to manage and mitigate pandemic-related risks are believed to be the primary cause of a 13% overall decline reported for July 2020, a decline of 2,500 jobs from July 2019.

Table 1. Seafood Processing Employment in July by Alaska Region, 2016-2020

	2014	2015	2016	2017	2018	2019	2020
Southeast	4,800	4,800	3,300	3,300	2,800	2,900	2,200
Gulf Coast	4,600	5,000	5,100	4,800	4,500	4,900	4,100
Southwest	10,400	9,100	11,700	10,700	11,200	11,400	10,400
Total*	19,800	18,900	20,100	18,800	18,500	19,200	16,700

Note: July 2020 data is preliminary. *The total is a sum of the three regions reported. Processing employment outside of these regions is not reported in DOLWD's monthly employment estimates.

Source: Alaska Department of Labor and Workforce Development.

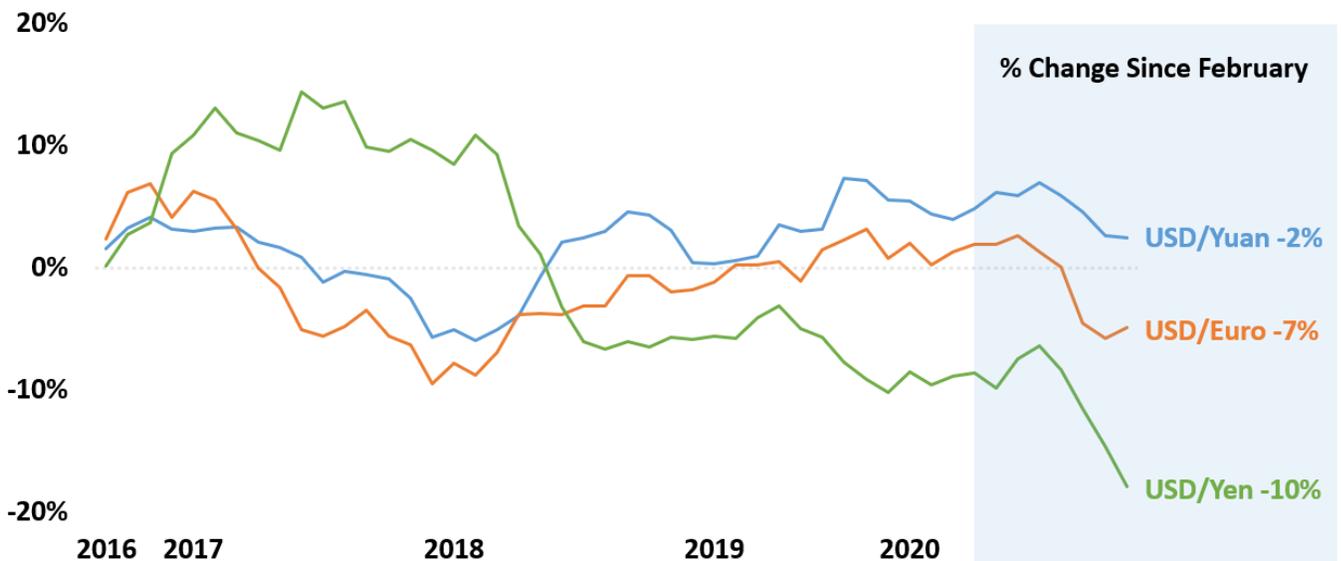
Currency Rates

Relative to pre-pandemic levels, currency rates have turned more favorable to Alaska seafood exports. From February to September of this year the dollar has weakened against the yen (-10%), euro (-7%), and yuan (-2%).

- A weaker US dollar increases the competitive position of Alaska seafood exports, holding other factors constant. For example, if the US dollar weakens 10% against the yen, Japanese buyers experience a 10% increase in buying power.

- The value of the dollar changed rapidly in February and March as markets grappled with uncertainty caused by the pandemic. While day to day volatility has since moderated, the dollar continues to trend weaker.
- Currency exchange rate trends for Alaska seafood's main competitors are mixed. Compared to February, the Russian ruble and Chilean peso are down 13% and 3%, respectively, against the Chinese yuan while the Norwegian kroner is up 1%.

Figure 2: Percent Change in Key Currencies vs. U.S. Dollar, Sep. 2016-Sep. 2020



Source: investing.com, compiled by McDowell Group.

Industry Insights

The following are paraphrased comments representative of interviews conducted with a broad range of stakeholders including harvesters, processors, shippers, community leaders, and major seafood buyers.

We did not know if there was going to be a Bristol Bay season. While 2020 was rough it did not go as badly as expected. We spent more to catch fish that were worth less, but it could have been worse.

-Bristol Bay Fisherman

The industry has spent tens of millions of dollars on expenses related to maintaining operations. We moved workers into Alaska early for quarantine, flew them on chartered planes, and did the best we could. And we are not done yet. I don't know how next year will be, but it won't be easy.

-Alaska Seafood Processor

We sell most of our products directly to customers online. Our sales really increased in March and have stayed strong. One of our customers purchased a few thousand dollars of fish, which is an unusually large order. I think the fact that we are domestic producers of fish harvested by Americans is resonating. People want to know where their food comes from.

-Small-scale Processor

The mix of products coming from Bristol Bay in 2020 will be less valuable than previous years. Because the run was so compressed and we were short on labor, we didn't have time to focus on value-added products like fillets or roe. Instead we produced mostly H&G.

-Bristol Bay Processor

When the halibut season opened in March to weak markets, I decided to not fish and see if prices would improve. My gamble is not paying off. Now I have to go catch 30,000 pounds of halibut that are worth less to pay off a loan I got to buy expensive IFQs.

-Southeast Fisherman

Getting product into China right now is a real challenge. They want to inspect everything for COVID-19 which is causing delays of 7 to 10 days. We can try moving product through Korea but then we have other costs like demurrage. It is particularly bad timing as August/September are typically our busiest months for exports.

-Alaska Seafood Processor

Availability of cheap and quick COVID-19 tests would help everything. We would be able to test much more frequently and catch a possible outbreak sooner. I am hopeful the industry can adopt this type of testing in our mitigation strategy as soon as the end of this year.

-Alaska Seafood Processor
