

# Alaska Seafood COVID-19 Briefing Paper

January 2021 Edition



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*Prepared on behalf of the Alaska Seafood Marketing Institute by McKinley Research Group (formerly 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.*

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## Second COVID Relief Bill Provides Additional Aid

Alaska communities received more than \$569 million in emergency COVID relief payments from the March 2020 CARES Act to offset tax revenue declines and pay for COVID-related expenses. The COVID-19 omnibus economic relief bill passed by the U.S. Congress in December 2020 did not include additional assistance to local governments to account for income losses in 2020, but did include support for local public health departments and school districts addressing COVID-related costs.

The December 2020 omnibus bill also included an additional \$300 million in funding for all U.S. commercial, recreational, and subsistence fishermen and seafood processors impacted by the pandemic that met the criteria of a 35% revenue loss due to COVID. Some portion of that will add to the \$50 million Alaska's industry received via the March 2020 CARES Act, which has yet to be distributed and uses the same criteria. The new appropriation includes \$30 million set aside for tribal recipients. In addition to the relief dollars, the legislation included \$1.5 billion for federal purchases of seafood and agriculture products, and funding for grants and loans to food processors who have incurred significant costs to modify protocols, undertake testing and quarantine procedures, and purchase tests and other equipment necessary to mitigate COVID risk. This latter need had not been addressed in earlier COVID-19 relief legislation.

## Seafood Processing More Challenging in 2021

As the Pollock A season opened in January 2021, COVID-19 outbreaks caused plant closures at some of Alaska's largest fish processing plants operating in the Bering Sea/Aleutian Islands region. These represent the largest COVID outbreaks at Alaska shore-based processing facilities since a cluster of cases at the peak of the processing season in July 2020. Full impacts on winter fisheries in the Bering Sea and Aleutian Islands (including crab, Pacific cod, and Alaska pollock) are as yet unknown.

Industry sources have consistently reported that containment of COVID-19 in the seafood industry, and particularly in seafood processing facilities, is likely to be more challenging in 2021 than in 2020. At the time that the disease was first identified in Alaska in early 2020, shore-based processing plants already had workforces in place in the state's whitefish and crab processing facilities. Companies were able to establish controls to limit outside exposure, and outbreak levels nationally and in Alaska were at far lower levels in the lead-up to the state's salmon season than is presently the case.

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*These briefings are informed by ongoing interviews with stakeholders and quantitative data when possible. The impacts of the pandemic are still unfolding. In some instances, the best available information may be anecdotal and subject to change. In addition, isolating pandemic-induced effects from other resource and market forces is not always possible. The authors welcome feedback at [seafood@mckinleyresearch.com](mailto:seafood@mckinleyresearch.com)*

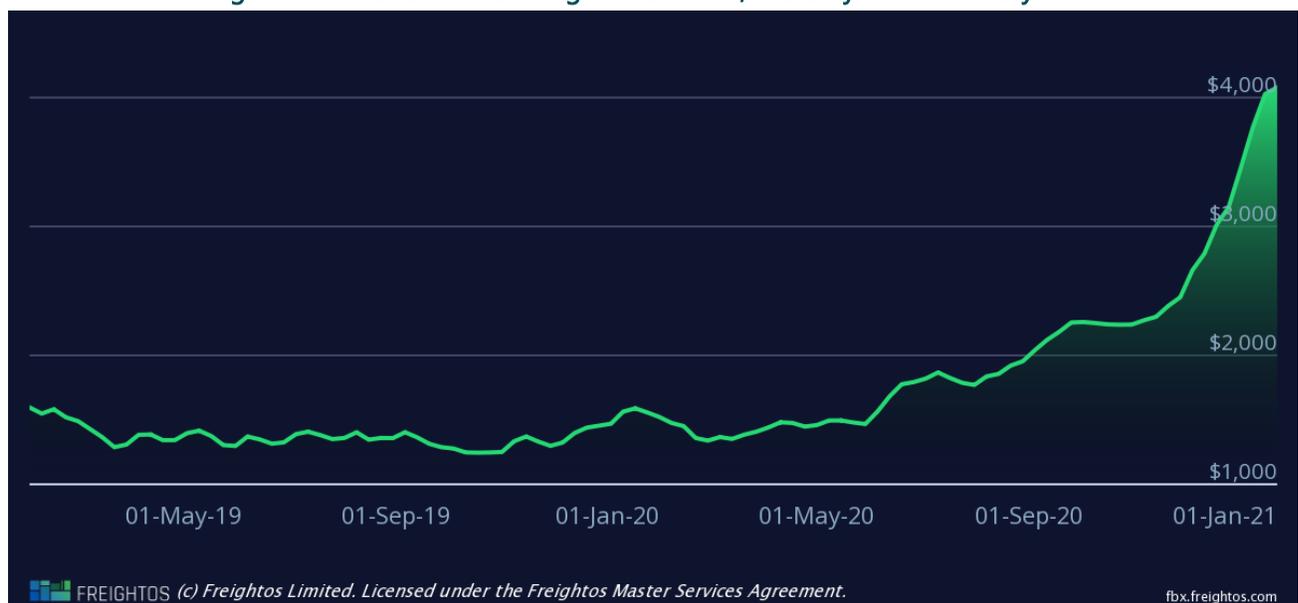
In 2021, the processing workforce (a mix of Alaska residents and non-residents) had to be newly introduced to plants in early January. Risks for exposure are generally higher this year as a result of higher caseloads in coastal communities and in the state, nation, and world more generally. Risks for exposure are also higher because most shorebased facilities employ people whose families work in or mix with the community. The recent outbreaks are evidence of the challenges likely to confront the industry this year.

The first COVID-19 vaccinations in Alaska were administered on December 15, 2020. Alaska's tiered plan for vaccine rollout impacts different coastal regions in different manners. Smaller communities in which Tribal health care providers play primary service roles have had access to greater amounts of vaccine per number of residents, relative to larger Alaska communities. As a result, vaccination has proceeded more quickly in these communities. Outside other individual eligibility characteristics (such as age, status as Alaska Native health care beneficiaries, or pre-existing conditions), Alaska's resident processing work force is eligible to access vaccines in the later tiers (2-4) of Alaska's Phase 1b, and Alaska's non-resident processing work force is hoping to be included in Phase 1c, eligibility for which has not yet been determined by the State of Alaska. Timing for the rest of Phase 1b and Phase 1c is as yet unknown.

## Accelerating Global Freight Cost Increases

The Freightos Baltic Index of global container freight prices has increased 80% since early November 2020 (Figure 1). In 2020, freight price increases were mainly limited to exports leaving East Asia, as the pandemic sharply increased demand for Chinese goods. Now prices are increasing on many other routes as well, including the West Coast of North America to China. A shortage of empty containers has arisen, incentivizing shippers to rush empty containers back to China rather than waiting for them to be filled with goods. The increase in freight costs comes on top of other issues in global seafood supply chains, including continued lengthy and costly inspection delays in the ports in Northern China where much of Alaska's H&G production is filleted. In 2019, 31% of Alaska's seafood exports by volume went to China – most of which was reprocessed and reexported to end markets in North America, Europe, and other regions.

Figure 1. Global Container Freight Price Index, February 2019 - January 2021



Source: Freightos Baltic Index.

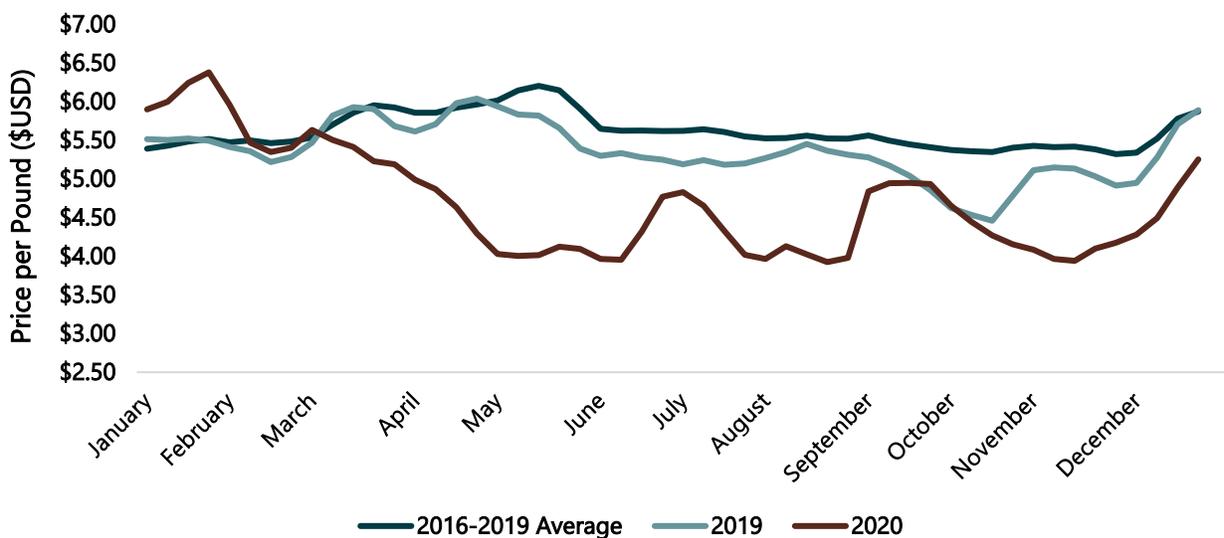
## Frozen Chilean Salmon Surplus Causes Uncertainty for Wild Salmon Market

In 2020, COVID-related market and transportation disruptions led Chilean producers to freeze an unprecedented quantity of farmed Atlantic salmon, a product that is usually sold fresh. Across Chile, an estimated 55,000 to 65,000 metric tons of this frozen product remained in producers' inventories as of November, according to a widely cited estimate from major farmed-salmon producer Mowi. This inventory is equivalent to roughly one-quarter of Alaska's 2020 total salmon harvest.

Depending on timing and destination, the surplus farmed salmon supply waiting in cold storage has the potential to depress prices for wild and farmed salmon when it hits the market. Chile is the second largest farmed salmon producer in the world after Norway – and the main source of farmed salmon for the U.S. market.

As discussed in previous editions of this briefing paper series, farmed salmon prices hit six-year lows in 2020 as the (typically dominant) foodservice channel was shut down and product was redirected to retail outlets. While farmed and wild salmon are not direct substitutes for one another, lower prices for farmed salmon put downward pressure on wild salmon prices, especially those for sockeye salmon. Historically low wild salmon harvests in Russia and Alaska fisheries limited the impact of this competition in 2020, and wild salmon inventories are reported to be cleared out going in to 2021. However, farmed salmon price dynamics and competition – including the glut of frozen product accumulating in Chile – remains a significant source of potential volatility Alaska's processors will be tracking heading into the summer harvest season.

**Figure 2. Urner Barry Fresh Farmed Salmon Price Index, 2020, 2019, and 2016-2019 Average**



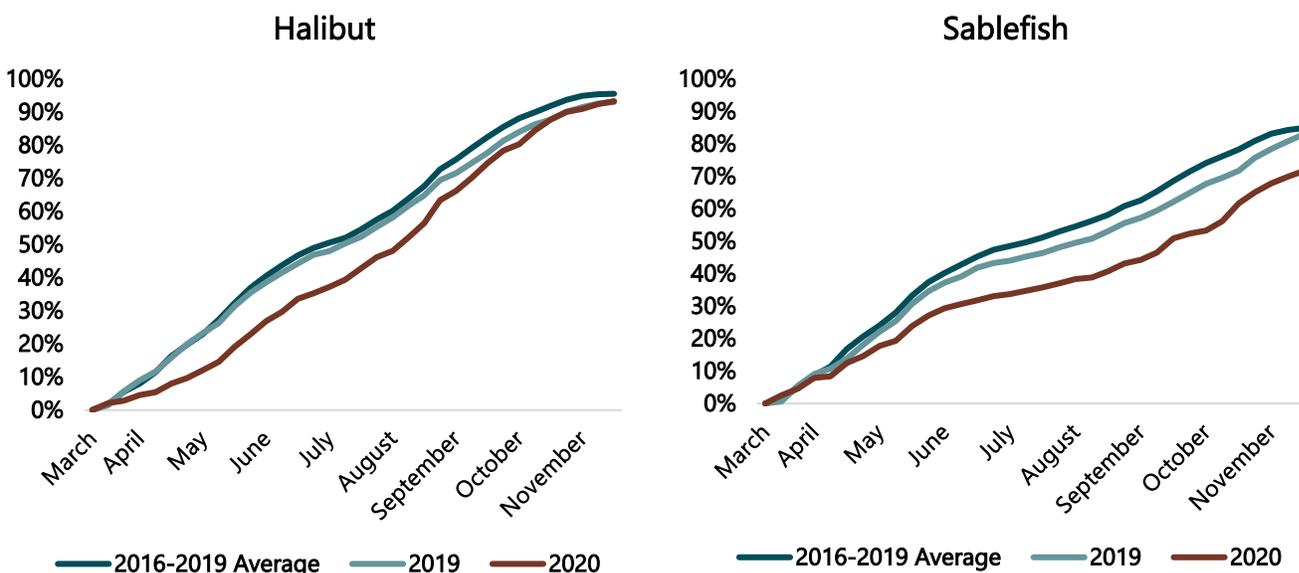
Source: Urner Barry.

## Market Disruptions Impact Sablefish Harvest Volumes, Halibut Less So

Halibut and sablefish fisheries were among the most impacted by the pandemic in 2020. With full-year data available, the result of the disruptions is now clearer. While halibut harvests were much lower in the early part of the season compared to previous years, by the end of the season in mid-November 93% of the TAC had been harvested. This is comparable to previous years, as shown in Figure 3.

On the other hand, sablefish harvests never caught up as the season progressed. The 2020 season ended with only 72% of the TAC harvested, compared to 81-88% in the previous four years. Even Southeast Alaska – where nearly all of the TAC is harvested in a typical year – saw a drop to only 81% of the TAC harvested, compared to 96% in 2019.

**Figure 3. IFQ Halibut and Sablefish Landings as a % of Annual TAC, 2020, 2019, and 2016-2019 Average**



Source: NOAA.

Both halibut and sablefish saw significant price declines in 2020, primarily attributable to COVID restrictions on foodservice operations. Downturns in the restaurant market disproportionately impact high-value species and products, especially larger sablefish and fresh halibut.

Ex-vessel prices compiled by NOAA and released in December 2020 show 40% and 23% declines in average ex-vessel prices for sablefish and halibut, respectively, over 2019.<sup>1</sup> Market participant interviews corroborated these findings and indicated that market weakness was most significant for the largest sized sablefish, which fetch the highest prices per pound and are the most dependent on foodservice markets. Sablefish is also experiencing three strong year-classes of sablefish, meaning smaller sablefish are a much larger component of the stock in the near-term.

### Shared Fisheries Tax Revenue Losses Kick in for Coastal Communities in 2021

Many of Alaska’s coastal communities receive tax revenues related to the seafood industry. While some COVID-related tax and fee revenue losses (such as decreased sales taxes) impacted communities quickly, shared fisheries taxes are based on the value of the previous year’s landings. As a result, revenue impacts from decreased values in 2020 fisheries will affect communities in 2021.

<sup>1</sup> <https://www.govinfo.gov/content/pkg/FR-2020-12-18/pdf/2020-27881.pdf>

The most recent report on the Economic Impact of Alaska’s Seafood Industry estimates that at least \$51 million in tax and fee revenue – including \$28 million from the State of Alaska shared fisheries tax programs – flowed from the Alaska seafood industry to local governments in 2018.<sup>2</sup>

COVID-related market impacts and disruptions – along with other factors such as depressed salmon runs and slower pollock fishing – resulted in lower overall values for Alaska’s harvested resource in 2020. Preliminary estimates suggest 2020 could represent a drop of as much as 20-25% in ex-vessel value compared to 2019.

The decline in shared fisheries tax revenue will not be felt evenly across Alaska coastal communities as local budget reliance on seafood taxes varies widely across the state. For example, shared fisheries taxes accounted for 19% of the City of Unalaska’s FY20 budgeted revenue. Shared fisheries taxes have a much smaller impact on the City and Borough of Sitka, where they represented about 2 percent of the local government’s total budgeted revenue in FY20.

**Table 1. Selected Coastal Community Shared Fisheries Tax Revenues as % of Total Income, FY20**

	Shared Fisheries Tax Revenue as % of Budgeted Income	Shared Fisheries Tax Revenue	Total General Fund Budgeted Income
Bristol Bay Borough	30%	\$3,195,031	\$10,561,712
City of Unalaska	19%	\$7,736,003	\$39,881,601
Kodiak Island Borough	17%	\$1,062,630	\$6,242,758
City of Cordova	11%	\$1,296,755	\$11,401,130
City of Kodiak	5%	\$1,017,673	\$20,841,216
Municipality of Sitka	2%	\$632,266	\$30,059,628
City of Seward	2%	\$180,728	\$11,928,592

Source: Alaska Department of Revenue, Municipal Budgets.

Note: Shared fisheries tax revenue includes receipts from both the Fisheries Business Tax and Fishery Resource Landings Tax.

The budget percentages presented in Table 1 include local shares of state fisheries business and fishery landing taxes, but do not reflect the entirety of local government reliance on the fishing industry because they do not include locally imposed seafood severance taxes and various other taxes and fees paid by the seafood industry such as local sales taxes, port and harbor fees, fuel taxes, and permit fees, among others.

<sup>2</sup> [https://uploads.alaskaseafood.org/2020/01/McDowell-Group\\_ASMI-Economic-Impacts-Report-JAN-2020.pdf](https://uploads.alaskaseafood.org/2020/01/McDowell-Group_ASMI-Economic-Impacts-Report-JAN-2020.pdf)