High Seafood Prices in 2007: Will They Last?

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Young Fishermen’s Summit

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Background

- Seafood.com is largest daily seafood industry news service in North America
- Non-binding price formula arbitrator and market analyst for Alaskan king crab, snow crab, tanner crab and brown crab (since 2005).
- John also consults on markets and pricing reporting on shrimp, crab, salmon, lobster, whitefish, catfish, and other shellfish.
Outline for today

- What’s behind the relatively high prices for many Alaskan Seafood Commodities
- Can these price levels be sustained
- Two Global forces pushing seafood prices down:
  - Growth of Aquaculture
  - Consolidation among buyers
- Strategies for Marketing Alaska products
Growth in demand is leading to higher prices

- Most dramatic examples of higher prices are
  - Crab
  - Salmon
  - Cod
  - Halibut
Snow crab 5-8 oz  2001-2007

- Last year’s market capitulation expanded the market
- Low inventories and strong sales led to higher prices
- Crab consumption increasing in U.S.
Head off King salmon 11-18 lbs

- Low salmon prices expanded demand
- Strong interest in wild seafood helped Alaska
- Cutbacks in Chilean production helped firm market

2002-2006
Bird Flu scare in Europe prompted big switch to fish; especially whitefish
Cutbacks in supply firming price
Huge influx of substitute species: catfish, tilapia
Halibut, dressed, 20-40 lbs

- Switch to fresh halibut helped increase demand
- Long season helps maintain demand
- Growth of farmed fish will drive down price

1998 - 2006
($1.75 to $5.60)
What’s behind the expansion of demand

- Europe: bird flu, expansion of value added products (ready meals).
- Consumers favorable to wild caught fish
- Retail has new interest in seafood
- Health benefits stronger, more publicized
- New purchasing regions
Seafood Demand is Growing in the U.S.

U.S. Seafood Supply and Demand: Past and Projected

- U.S. Demand = Per Capita Consumption x Population
- U.S. Harvest for Food
- U.S. Supply = Harvest - Exports

NOAA
And in Europe
(slide from Youngs Bluecrest in UK)
Aquaculture production is source of new growth

Floating Fish Farms
Vietnam
Exponential growth trend for Aquaculture

Source: FAO state of world aquaculture 2006
World aquaculture supply
major farmed finfish excl. carp

Source: FAO Fishery Statistics
Farmed tilapia

Source: FAO
Sea-ranched and farmed Atlantic cod

Source: NSEC, Norsk sjømatsenter, The Icelandic cod project
Emma Cardy-Brown of Rabobank gave this farmed cod prediction at the Aquavision conference:
Aquaculture products lower costs over time

- More efficiency of production
- Consolidation of sellers into larger units
- Genetic Improvements

- Counter Trend: increasing price of feed.
Alaska has felt impact of Aquaculture

- Salmon prices will likely never again reach the levels they were at in the 1980’s
  - Japan buys Chilean coho salmon, less sockeye
  - Wild salmon appeals to a large, but still niche market
  - Salmon products must continue to get differentiated
Aquaculture will impact future prices of cod and halibut

- Huge expansion in growth of farmed cod (rabobank)
- Growth in farmed halibut as well
Consolidation among buyers also pushing prices down

- Retail buyers have become stronger in Japan; U.S. and Europe
- For some items, they set the price: king crab in U.S. is good example
  - Their benchmark is not seafood -- it's everything
  - They heavily depend on promotions.
- Retail demand is a big factor in increasing sales of seafood
- Seafood sellers need to consolidate to be able to effectively sell to retailers
Retailers and Seafood

- Depend on promotions for some items like crab, shrimp
- Need consistent supply
- Always comparing seafood to other products they can sell for more profit
- Consumer interest in seafood driving some retail behavior; expansion of retail seafood sales.
Example of retail pricing power

- Retailers abandon crab when price was over $4.00 (in U.S. and Japan)
- Result: huge amounts of unsold crab from 2005 in Dec 2006 – panic on part of Ak sellers, crashed the price.
- Lower prices brought back retail buyers; in Japan began selling much more crab at retail. Used up inventory; helped firm prices.
All seafood subject to commodity cycles

- Retailers have major impact on seafood price cycles because they can turn to substitutes
- Long term growth of aquaculture means that real price value of seafood is eroding
15 year history of crab prices 1992-2007
Salmon cycle

US – Chile (East coast fillets, fob Miami, 3-4 lb)

Source: Panfish
Japan’s role is changing

- Japanese buyers priced out of market for some species
  - 30% decline in Japanese sockeye
- Declining household seafood consumption
- Retailers have growing influence on prices
- Japanese respond to lower prices with higher volume purchases (crab)
Some market strategies to maintain Alaska Seafood Value

- Consolidation among major players:
  - Trident / Ocean Beauty
  - Maruha / Nichiro (Westward/Alyeska and Peter Pan)
- Market wild Alaskan products (consumer preference for wild)
- Ecolabeling and MSC Certification
- Expand Marketing in new areas (Eastern Europe)

(All these are being done)
Embrace Aquaculture

- Very Controversial, I Know
- Among major world producing regions, only Alaska and Russia not seeing huge growth in Aquaculture
- Norway, Iceland, New Zealand, China, Thailand, Vietnam, Chile, Canada: all have significant aquaculture production as well as wild fish production
Aquaculture is dominating seafood supplies

- Alaska must have a pro-active, as well as defensive strategy to maintain Alaska’s market position
- Does promoting aquaculture conflict too much with Alaskan image in world market?
- Is there a choice?
Thank You

- Time for questions and discussion