

Winter 2015/2016 - Halibut & Blackcod Market Bulletin

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Pacific halibut and blackcod (i.e. sablefish) are two of Alaska's most prized species. Together these fish account for only 1 percent of Alaska's total harvest volume, but make up 10 percent of the state's total ex-vessel value. Commercial fisheries for halibut and blackcod are important economic engines in Alaska, providing income for small boat fishermen and support businesses in communities throughout Alaska. It is estimated these commercial fisheries create 7,500 FTE jobs and \$930 million of economic output, nationally (including multiplier effects).

The 2016 commercial fishing season for halibut and blackcod opens March 19 and runs through November 7. These fisheries are managed on a catch share basis, where fishermen own individual fishing quota (IFQ), entitling them to a specific share of the species quota in fishing areas where they hold IFQ. Halibut are harvested with longline (i.e. hook and line) fishing gear, while blackcod are caught with two gear types, longline in the Gulf of Alaska (GOA) and longline and pot gear in the Bering Sea and Aleutian Islands (BSAI).

GOA blackcod fishermen will soon have the option to use pot gear, a management response to increased sperm whale depredation in the fishery. The whales have learned to eat the hooked fish off longlines while fishermen are retrieving their catch, leading to reductions in allowable catch as managers cut back the quota to account for this removal from the biomass.

Pacific Halibut

Alaska produces the majority of the world's Pacific halibut. Alaska's commercial halibut TACs increased 2.4 percent in 2016 to 19.74 million pounds, marking the second consecutive year of modest TAC increase from the low point of 2014.

Halibut quota for the central Gulf of Alaska (GOA, Area 3A) was cut by 420,000 lbs (down 6 percent) but this was offset by modest increases in 2C (SE Alaska) and 3B (Western GOA) and by a 12 percent increase in halibut quotas for the BSAI areas. Total U.S. and Canada TACs are up 3.5 percent, meaning total market supply of Pacific halibut will increase by approximately one million pounds in 2016.



Although total Alaska halibut TACs are up, the area composition of the quota changes suggest that early-season market supply of halibut will remain tight. Quota in the BSAI areas is up by nearly 600,000 pounds but the combined quota in areas 2C and 3A (the state’s largest producing areas) is down slightly. This is relevant for timing of market supply, as 2C and 3A account for much of Alaska’s March and April landings while halibut fishermen in the Bering Sea must often wait until weather conditions improve later in the spring.

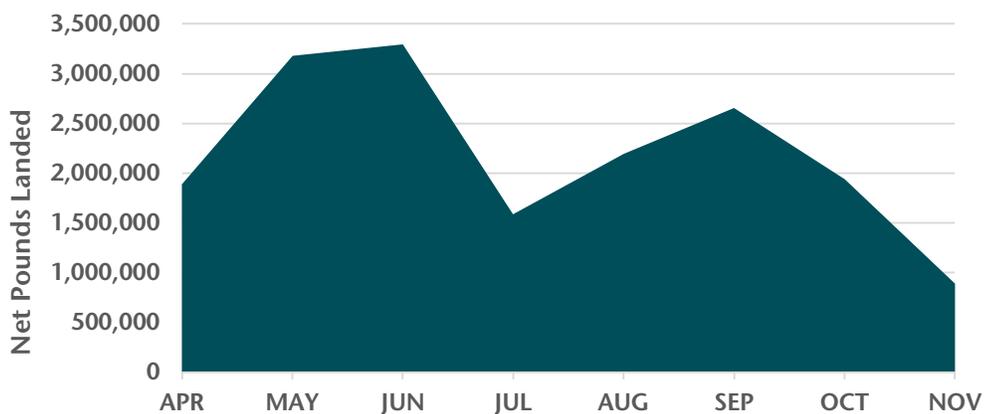
Commercial TACs for Pacific Halibut in U.S. & Canada, Millions lbs., 2010-2016

TACs by Regulatory Area	2010	2011	2012	2013	2014	2015	2016
Alaska							
Southeast (2C)	4.40	2.33	2.62	2.97	3.32	3.80	4.04
Central GOA (3A)	19.99	14.36	11.92	11.03	7.32	8.21	7.79
Western GOA (3B)	9.90	7.51	5.07	4.29	2.84	2.65	2.71
Eastern Aleutians (4A)	2.33	2.41	1.57	1.33	0.85	1.39	1.39
Central/West Aleutians (4B)	1.73	1.74	1.50	1.16	1.14	1.14	1.14
Other BSAI (4CDE)	1.95	2.03	1.33	1.03	1.29	1.29	1.66
Area 4CDE CDQ	2.06	2.13	1.10	1.24	0.80	0.80	1.01
Alaska Total	42.36	32.51	25.10	23.05	17.55	19.27	19.74
Other U.S.*	0.81	0.91	0.99	0.99	0.96	0.97	1.19
Canada*	7.50	7.65	7.04	7.04	6.85	7.04	7.30
Non-Alaska Total	8.3	8.6	8.0	8.0	7.8	8.0	8.5
U.S. & Canada Total	50.7	41.1	33.1	31.1	25.4	27.3	28.2

*Figures include sport and tribal TACs.
 Note: TACs figures represent net weight (i.e. headed/gutted weight).
 Sources: NMFS and IPHC.

About half of Alaska’s commercial halibut harvest usually occurs in April, May and June. Total halibut landings by month are shown below (averaged over the past three years). Halibut landings peak in May and June, then decline as many fishermen switch over to salmon fisheries. Landings typically increase again in September as fishermen catch unharvested quota before the season closure in November.

Average Halibut Landings by Month, 2013-2015

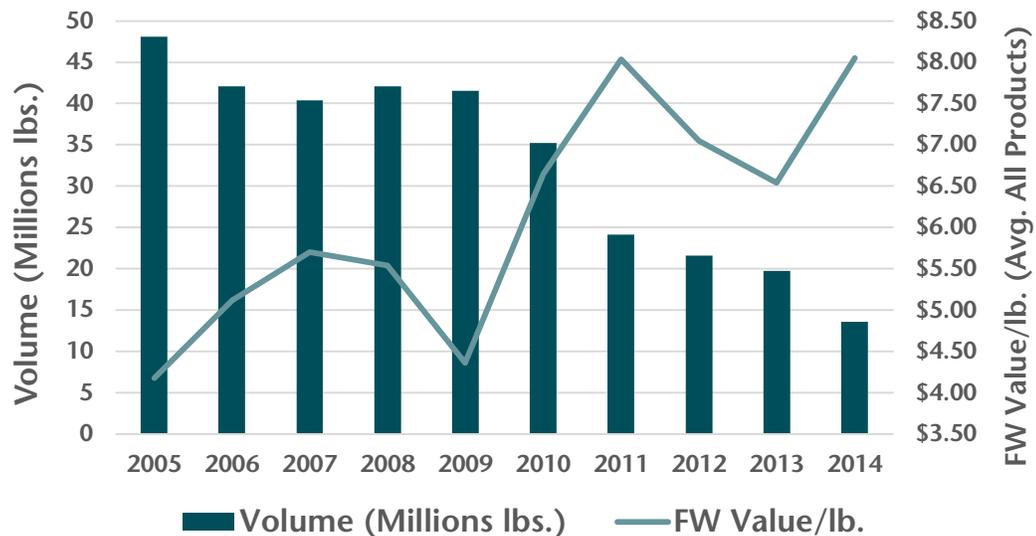


Source: NMFS.



First wholesale prices for Alaska halibut have roughly doubled over the past decade, yet due to declining harvest volumes the total value is only about half of what it was in 2005. ADF&G data is not yet available for 2015, but resource value likely increased slightly. Anecdotal reports and wholesale price activity suggest prices were flat or up slightly in 2015, while TACs for the largest harvest areas increased 8.8 percent in 2015.

First Wholesale Volume and Value for Alaska Halibut, 2005-2014



First Wholesale Value, \$Millions

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
\$200.5	\$215.3	\$230.2	\$233.0	\$181.0	\$234.2	\$194.1	\$152.0	\$128.9	\$109.2

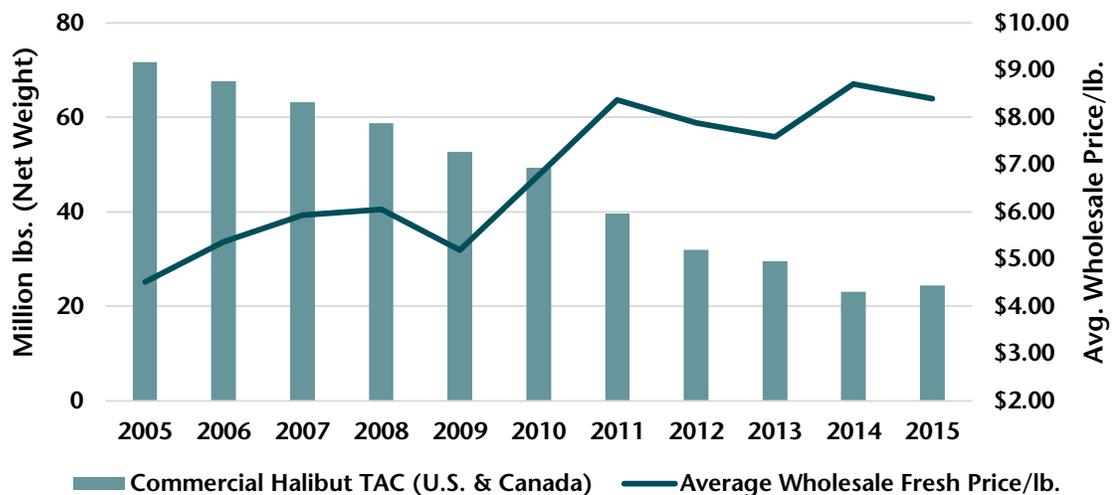
Source: ADF&G (COAR).

The chart on the following page illustrates the trend of declining supply and increasing wholesale prices for halibut. Clearly there is an inverse correlation between supply and price; however, the data does suggest there is a maximum price that buyers are willing to pay regardless of supply changes.

Prices increased sharply between 2009 and 2011 as the U.S. came out of the global recession. Despite a recovering economy and declining halibut supplies between 2011 and 2014, wholesale prices remained relatively static, ranging from \$7.50 to \$8.50 per pound (head/gut basis). These data indicate there is price resistance for Pacific halibut above \$8.50 per pound (for head/gut wholesale product). It also suggests there may be limited potential for additional increase in ex-vessel or first wholesale price (which have been at record levels in recent years).



North American Pacific Halibut Supply and Wholesale Price, 2005-2015



Note: Wholesale price reflects average monthly fresh price of 20-40 lb. halibut, head/gut, boxed, FOB Seattle. 2015 price data reflects average wholesale price through mid-July.

Source: IPHC and Umer Barry.

CURRENT HALIBUT MARKET SUMMARY

Market participants are understandably tight-lipped about pricing heading into the 2016 season, but it is reasonable to expect early-season prices will be similar to those seen in recent years. The U.S. is the primary market for Alaska halibut and economic conditions continue to improve, which should support demand for modest halibut supplies. However, there are some headwinds that might limit potential for higher prices. Canada is the second-largest market for Alaska halibut and the Canadian dollar is down 10 percent versus the U.S. dollar (year-on-year). This makes Alaska halibut relatively more expensive from the perspective of Canadian consumers. In addition, some restaurateurs have switched to cod as a substitute for high-priced halibut dishes. Despite these developments, limited supply of a premium Alaska species should result in stable demand assuming U.S. economic conditions do not deteriorate.

Blackcod (Sablefish)

Federal fishery managers are recommending a 14 percent reduction in total allowable catch for Alaska blackcod in 2016. This marks the fourth consecutive year that Alaska's blackcod supply has declined. Federal fisheries (including the largest IFQ fishery) typically account for over 90 percent of Alaska production, while smaller state-managed fisheries contribute 6 to 7 percent of the harvest volume.

Blackcod fisheries in the Bering Sea and Aleutian Islands (BSAI) typically account for slightly over 20 percent of Alaska's total sablefish TAC, but make up a smaller proportion of the actual blackcod landings in the state. Fishing conditions are very difficult in the BSAI and a significant share of the BSAI sablefish TAC (half or more) goes unharvested. Accordingly, actual landings of Alaska sablefish are typically 2-3 million pounds lower than the statewide TAC.



Alaska Blackcod Supply, Millions lbs., 2010-2016

TACs by Regulatory Area*	2010	2011	2012	2013	2014	2015	2016E
Alaska							
Southeast (SE)	5.69	6.48	7.00	7.03	5.94	5.91	5.11
West Yakutat (WY)	3.57	4.39	4.95	4.48	3.78	3.77	3.25
Central GOA (CG)	9.94	10.45	12.70	12.21	10.32	10.27	8.87
Western GOA (WG)	3.66	3.57	3.92	3.86	3.26	3.25	2.80
Aleutian Islands (AI)	4.56	4.19	4.52	4.72	3.99	3.97	3.43
Bering Sea (BS)	6.15	6.28	4.92	3.48	2.95	2.94	2.54
Alaska Total TACs	33.58	35.36	38.01	35.78	30.25	30.11	26.00
Harvest by Area/Fishery	2010	2011	2012	2013	2014	2015	2016E
Federal Fisheries by Gear Type							
GOA Fixed (IFQ)	20.36	22.38	24.38	24.47	20.85	20.40	N/A
GOA Trawl	1.98	2.40	1.90	1.87	2.13	2.33	N/A
BSAI Fixed (IFQ)	2.75	2.82	2.93	2.47	1.66	1.34	N/A
BSAI Trawl	0.22	0.19	0.51	0.41	0.13	0.07	N/A
State Fisheries							
Southeast Alaska	1.61	1.42	1.49	1.48	1.25	N/A	N/A
Prince William Sound	0.21	0.22	0.20	0.16	0.10	N/A	N/A
Aleutian Islands	0.21	0.25	0.22	0.22	0.16	N/A	N/A
Cook Inlet	0.06	0.06	0.07	0.04	0.05	N/A	N/A
Alaska Total Harvest	27.41	29.74	31.70	31.11	26.33	25.65	N/A

*Includes IFQ and federal trawl TACs, does not include GHs for smaller state-managed fisheries.

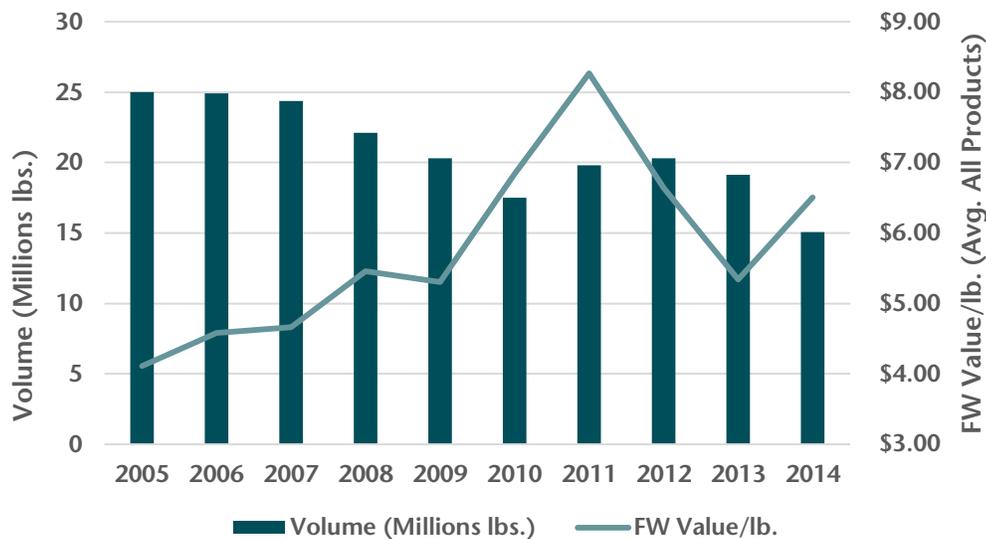
Note: 2016 TACs represent recommendations from the North Pacific Fishery Management Council.

Sources: NMFS, NPFMC, and ADF&G.

Japan is the primary market for Alaska sablefish. First wholesale value and prices for Alaska blackcod peaked in 2011. Not surprisingly, that same year coincides with the strongest yen/dollar exchange rate in recent memory. Alaska blackcod prices correlate strongly with both production volume and the yen/dollar exchange rate. A strong yen is beneficial for Japanese consumers and Alaska's blackcod fishermen because it makes the state's blackcod relatively less expensive from the Japanese consumer's point of view. All things being equal with regard to harvest volume, a stronger yen almost always results in higher prices for Alaska blackcod producers in dollar terms. A weak yen usually has the opposite effect. Unfortunately, the yen is currently trading at around 119 yen per U.S. dollar – a very weak level. This is a key factor limiting the potential for blackcod price growth.



First Wholesale Volume and Value for Alaska Blackcod, 2005-2014



First Wholesale Value (\$Millions) and Yen/USD Exchange Rate

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
FW Value	\$102.9	\$114.1	\$113.6	\$120.8	\$107.7	\$119.9	\$163.8	\$134.8	\$102.3	\$98.1
Yen/USD	110.1	116.3	117.8	103.4	93.6	87.8	79.7	79.8	97.6	105.8

Source: ADF&G (COAR) and OANDA.com.

CURRENT BLACKCOD MARKET SUMMARY

Blackcod is a unique species. Alaska comprises much of the global production and there are few if any direct substitutes in the marketplace (perhaps aside from Chilean sea bass). The majority of Alaska's blackcod production is exported to Japan as frozen H/G product, but China (including Hong Kong) and the U.S. are also notable markets. Japanese demand for blackcod peaks in late April through early May during the "Golden Week" holiday. A weaker Japanese yen coupled with lower blackcod harvests has led to significantly higher prices for Japanese consumers in recent years and resulted in declining market share.

While the exchange-rate situation is not particularly good news for Alaska producers, there are some positive indicators related to fish size. Traditionally Japan is the primary market for larger blackcod sizes (5-7s and 7+), but Japanese trade press reports that importers are increasingly looking to buy smaller sizes in an effort to contain costs. However, Chinese and U.S. customers are also active buyers for small-to-medium sized products. Wholesale prices for larger-sized blackcod in Japan generally ranged between 2,200 and 2,400 yen/kg during the past year, or roughly 60 percent higher than where they traded in late 2012.

Despite the weak yen, blackcod pricing is expected to be stronger in 2016 due to reduced supply and steady demand from numerous competing markets. Premiums for larger sizes might encounter some pressure due to the equivalent yen price, but overall demand for blackcod will likely outpace supply this coming year which should result in better prices for Alaska producers. What remains to be seen is whether any increases in ex-vessel price will be enough to offset lower quotas.

