Alaska Seafood Export Market Analysis

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Export markets are critical to Alaska's seafood industry, as they typically purchase about two-thirds to three-quarters of the industry's production value. The value of the U.S. dollar relative to other currencies is a key variable contributing to export trends and overall value of Alaska seafood products. This bulletin summarizes Alaska seafood exports and production value over the past five calendar years, explains how currency valuations have changed during that time, and illustrates the composition of exports by market and key species group.

Alaska Seafood Export Performance

China is Alaska's largest seafood export market in terms of tonnage and value, accounting for 35 percent of tonnage and 27 percent of export value in 2015. However, it is estimated that approximately 80 to 90 percent of these exports are sold to secondary processors which re-export finished products to other global markets – primarily in Europe, the U.S., and Japan. Most of Alaska's exports to China consists of frozen H&G (headed/gutted) fish, which are then filleted in China where labor costs are considerably lower.

In terms of final consumption, Europe and Japan are by far Alaska's largest export markets. The two markets directly import similar volumes and values of Alaska seafood products, although the types of products sold into each market vary widely. European buyers primarily import frozen pollock fillets, frozen H&G cod, canned salmon, frozen H&G sockeye, and surimi from Alaska producers. Japanese buyers primarily import surimi, salmon/pollock/herring roe, black cod, frozen H&G sockeye, crab, Atka mackerel, and rockfish products.

South Korea and Canada are the next largest export markets, accounting for a combined 23 percent of the total export value over the past two years. These markets consume large quantities of Alaska seafood products but also re-export significant volumes of pollock roe (Korea), surimi (Korea), canned salmon (Canada), and frozen salmon (re-exported by both Korea and Canada).

Direct exports to all other markets totaled $217 million in 2015, equivalent to 7 percent of total export value. These other markets consist of many relatively small markets, compared to the aforementioned countries. Alaska seafood products were exported to 102 different countries in 2015.

Alaska Seafood Exports, by Market, 2011-2015

	2011	2012	2013	2014	2015	2015 Pct.
Export Volume (Metric Tons)						
China	358,997	358,609	388,122	408,988	384,140	35%
Japan	191,004	180,683	168,378	200,559	215,733	20%
Europe	228,279	213,518	234,103	234,792	211,430	19%
South Korea	110,428	119,503	138,071	130,478	161,368	15%
Canada	56,261	59,715	59,025	46,651	51,235	5%
Other Markets	52,998	47,289	70,425	65,954	66,898	6%
Total	**997,966**	**979,317**	**1,058,124**	**1,087,422**	**1,090,803**	-
Export Value ($Millions)						
China	$924	$939	$910	$946	$879	27%
Japan	682	646	606	671	768	23%
Europe	792	736	798	760	667	20%
South Korea	339	363	382	366	451	14%
Canada	288	337	323	275	295	9%
Other Markets	171	155	222	208	217	7%
Total Export Value	**$3,196**	**$3,175**	**$3,243**	**$3,226**	**$3,277**	-
First Wholesale Value	**$4,588**	**$4,505**	**$4,563**	**$4,273**	**N/A**	-

Note: Figures are in nominal terms. First wholesale and export value are comparable, though differ slightly in that export value refers to the value of product as it leaves U.S. ports (including transport costs) while first wholesale value generally describes the value of product as it is sold to unaffiliated buyers not including transport costs. Exports represent first order sales only, products are often re-exported from these markets after undergoing secondary processing.
Sources: ASMI Alaska Seafood Export Database (based on NMFS Export database, compiled by SMIS), ADF&G (COAR) and AKFIN.

Groundfish species, including pollock, Pacific cod, rockfish, sablefish, and Atka mackerel, accounted for 59 percent of Alaska's export tonnage in 2015 and 54 percent of export value. Pollock makes up the lion's share of groundfish exports, totaling 377,700 metric tons worth $1.04 billion (not including ancillary products). Salmon was the next largest category, accounting for 23 percent of export tonnage and 31 percent of export value. All other species accounted for a combined 18 percent of export volume and 15 percent of export value.

Alaska is fortunate to have a deep mix of commercial species. A dozen different Alaska species had export values in excess of $50 million in 2015, and five more species posted values between $10 and $50 million.

Although total export volume trended up over the past five years, export volume growth has generally lagged behind increases in total harvest volume. Export value has also grown slightly, though a stronger U.S. dollar and the Russian trade embargo likely stunted the growth of export values in 2014 and 2015. This trend is evident in unit values, as the average value per ton exported is down over the last five years for most key products. Unit values for frozen H&G pink/chum salmon, flatfish, pollock roe, salmon roe, frozen H&G pollock, and herring were all down more than 15 percent over the past five years. However, there are exceptions. Unit values for sablefish, rockfish, Atka mackerel, and king crab increased significantly.

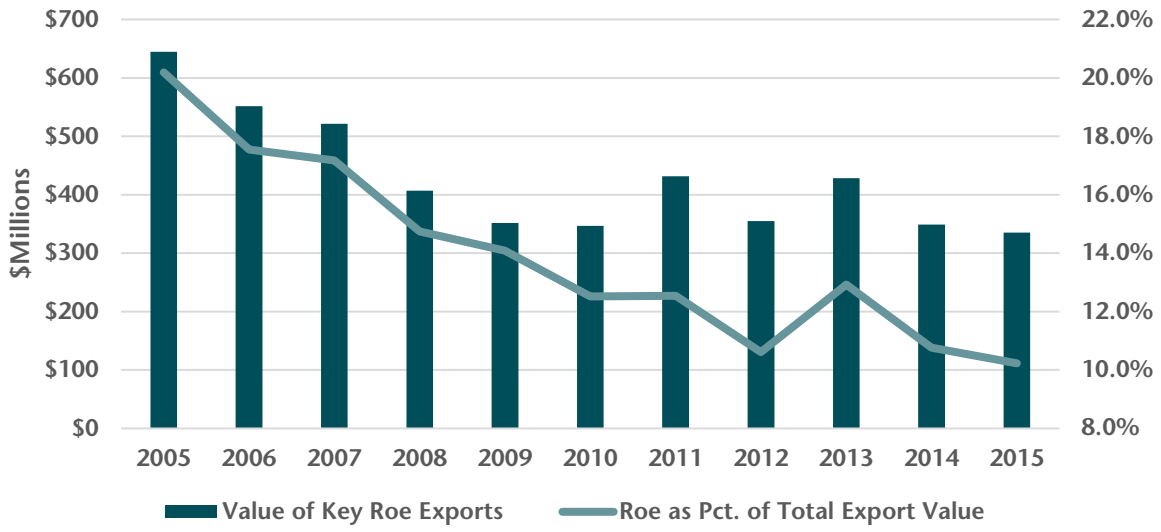
Alaska Seafood Exports, by Species Group, 2011-2015

	2011	2012	2013	2014	2015	2015 Pct.
Export Volume (Metric Tons)						
Pollock	303,514	314,703	360,706	395,040	377,694	35%
Salmon	220,662	163,932	237,308	203,012	253,432	23%
Cod	103,590	106,218	96,292	103,831	109,654	10%
Flatfish	89,093	83,725	125,564	130,817	118,504	11%
Crab	12,548	15,270	10,403	9,696	11,097	1%
Ancillary Products (e.g. Fishmeal)	84,665	92,205	87,630	96,473	93,626	9%
Other or Unknown Species	183,891	203,218	140,210	148,541	126,777	12%
Total	**997,963**	**979,271**	**1,058,113**	**1,087,410**	**1,090,783**	-
Export Value ($Millions)						
Pollock	$924	$938	$969	$1,082	$1,038	32%
Salmon	964	832	1,043	884	1,017	31%
Cod	351	349	291	303	322	10%
Flatfish	187	161	231	230	199	6%
Crab	170	184	138	141	141	4%
Ancillary Products (e.g. Fishmeal)	127	140	148	149	150	5%
Other or Unknown Species	473	571	423	437	411	13%
Total	**$3,196**	**$3,175**	**$3,243**	**$3,226**	**$3,277**	-

Note: Figures are in nominal terms. Exports represent first order sales only, products are often re-exported from these markets after undergoing secondary processing.
Source: ASMI Alaska Seafood Export Database (based on NMFS Export database, compiled by SMIS).

The declining value of roe products has had a significant effect on the bottom line of Alaska seafood producers over the past decade. Roe is a high-value product and is supplementary to flesh products. However, the inflation-adjusted value of roe product has declined and now makes up a much smaller percentage of total export value.

Inflation-Adjusted Value of Key Roe Exports vs. Percent of Total Export Value, 2005-2015



Note: Includes exports of salmon, pollock, and herring roe products. Inflation adjustments based on Anchorage CPI.
Source: ASMI Alaska Seafood Export Database (based on NMFS Export database, compiled by SMIS).

While Alaska processors have somewhat offset less roe revenue by increasing production of ancillary and value-added products, the impact of lower roe values cannot be understated. Unlike flesh products, there is no trade-off with roe. Processors do have the choice of how they process roe, but in general the price of roe products moves in unison regardless of how extensively it is processed (e.g. frozen, unsalted "green" roe vs. finished ikura or marinated roe products). Roe makes up about 10 percent of the industry's total first wholesale value (and a similar percentage of total export value). In recent years declining roe prices have had a particularly large impact on ex-vessel prices for pink salmon, pollock, and herring.

Implications of a Strong U.S. Dollar

The value of the U.S. dollar relative to other currencies has a profound effect on the value of Alaska seafood products. The majority of Alaska's seafood production is sold to export markets and virtually all of it competes against seafood products from other countries regardless of where it is sold. When the value of the U.S. dollar goes up, or becomes stronger, it takes more foreign currency to buy U.S. products. Therefore, all things equal, U.S. exports become more expensive from a foreigner's perspective but U.S. exporters do not receive any increase in U.S. dollar terms. A strong dollar is bad for U.S. exporters because it makes their goods relatively more expensive, and vice versa for a weak dollar.

Unfortunately, the foreign currencies of Alaska seafood buyers and competitors have lost a lot of value versus the U.S. dollar in recent years (see table below). The euro has lost 16.4 percent of its value versus the dollar since 2013 and the yen has dropped 19.4 percent. Again, this makes Alaska seafood products more expensive from the perspective of European and Japanese buyers. Currencies of key competitors are even weaker, as the Russian ruble is down 47.9 percent, and the Norwegian kroner and Chilean peso are down 27.1 percent and 24.2 percent, respectively, versus the U.S. dollar over the past two years.

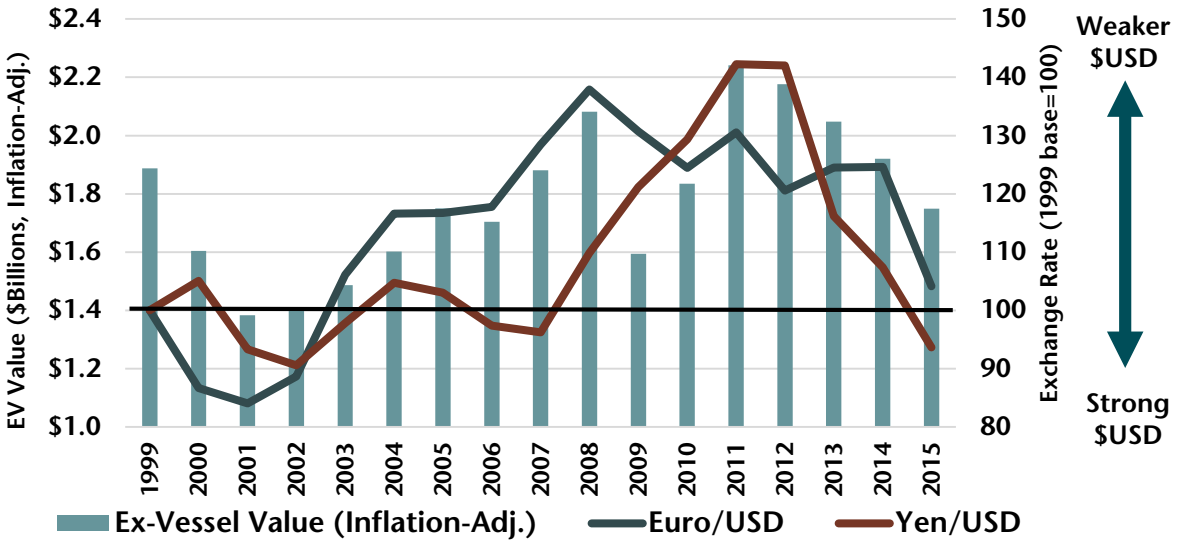
Monetary Exchange Rates, U.S. Dollar versus Other Currencies, 2011 to 2015

	2011	2012	2013	2014	2015	Pct. Change 2013 vs. 2015
Buyers' Currencies						**Lost Value of Foreign Currency**
Euro	0.719	0.778	0.753	0.754	0.901	-16.4%
Japanese Yen	79.7	79.8	97.6	105.9	121.1	-19.4%
Canadian Dollar	0.99	1.00	1.03	1.10	1.28	-19.4%
Brazilian Real	1.68	1.96	2.16	2.36	3.34	-35.3%
Ukrainian Hryvnia	8.1	8.2	8.3	12.2	22.0	-62.3%
Competitors' Currencies						
Russian Ruble	29.4	31.2	31.9	38.6	61.2	-47.9%
Norwegian Kroner	5.6	5.8	5.9	6.3	8.1	-27.1%
Chilean Peso	485	488	496	571	654	-24.2%

Note: Increasing values represents a strengthening dollar and weakening foreign currency.
Source: OANDA.com (average annual interbank currency rates).

As the chart on the following page shows, ex-vessel value tends to be higher when the U.S. dollar is weak relative to the euro and yen. There are many other variables at play, but the correlation between historical values and exchange rates is undeniable.

Inflation-Adjusted Ex-Vessel Value vs. Euro and Yen Exchange Rates, 1999-2015



Note: 2015 data is preliminary.
Source: McDowell Group (ex-vessel value estimates based on ADF&G/NMFS) and OANDA.com (currency data).

Exchange rate conditions haven't been this bad for Alaska seafood producers since 2003. Despite lower prices and ex-vessel values in 2015, particularly for salmon, last year's total ex-vessel value is still well above the inflation-adjusted 2003 ex-vessel value. Another silver lining is that over the past several months, exchange rates have improved somewhat versus the euro and yen. However, most currency market prognosticators generally remain bullish on the U.S. dollar, believing it will stay strong versus major currencies.

ASMI International Promotions

The effects of unfavorable exchange rates can be mitigated to some extent by brand loyalty. The less willing consumers and major buyers are to switch products based on price, the less affected export prices will be by changing exchange rates. Conversely, commodity producers with little differentiation are highly affected by exchange rates as buyers chief concern is price. This is where Alaska Seafood marketing efforts come in.

Alaska's seafood producers and ASMI continue to work on promotions in the U.S. and around the world aimed at elevating demand for Alaska seafood products above that of a basic commodity producer. While much of Alaska's seafood production still functions as a commodity, brand loyalty and product differentiation based on quality, sustainability, and safety has shown encouraging gains. In fact, a recent study of foodservice professionals in Japan, China and Brazil, conducted by Rose Research in the fall of 2015, indicated that 98 percent of key contracts surveyed in China, 95 percent in Japan and 75 percent in Brazil see Alaska as "a source of premium seafood."

ASMI's International Program runs eight regional offices covering 21 countries in Asia, Europe and South America, conducting consumer, trade and foodservice promotions. ASMI and its international contractors coordinate hundreds of promotions per year, a brief sample of ASMI's international activities is provided below.

In China, e-commerce is a cost effective avenue to promote consumption of Alaska seafood. Recently, ASMI coordinated promotions with two large online retailers. The promotions achieved a combined sales volume of

over 70 tons, and were valued at more than $1 million. Promoted Alaska produced included: pollock fillets, pollock roe, salmon, crab, sea cucumber, geoduck, black cod, yellowfin sole, scallops, Pacific Ocean perch, rockfish, shrimp and Pacific cod. Alaska seafood sales continue to grow as other major online retailers have begun marketing Alaska seafood in China.

In Italy, ASMI worked with a retailer to sponsor 842 store days of Alaska cod promotions. Alaska cod ads were also placed in store flyers. These promotions generated $161,000 in sales of Alaska cod, a 31% increase in sales during the previous pre-Christmas campaign. Of equal importance, the promotion boosted awareness among retailers and consumers of cod from Alaska and of the promotional value of calling out Alaska origin on their Alaska cod products.

In Japan, ASMI supported the creation of new menus at Denny's motivating 380 restaurants in the chain to switch from farmed Chilean salmon to wild Alaska chum salmon. The new menus, unveiled in March of 2015, feature the ASMI logo, significantly branding the salmon as Alaskan. The first four months of the promotion saw a 14,300 percent return on investment and $324,000 in sales.