

Alaska Seafood COVID-19 Briefing Paper

March 2021 Edition



Prepared on behalf of the Alaska Seafood Marketing Institute by McKinley Research 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 currently leads the nation in the number of fully vaccinated residents per capita. As of March 10, vaccine eligibility is open to everyone age 16 and older who lives or works in the state. However, it is not yet clear how widespread vaccination will change seafood industry mitigation protocols in 2021. As of February 14, state health mandates changed to health advisories due to the expiration of the State emergency declaration. Many municipalities continue to maintain emergency declarations and mandates, including numerous coastal communities. Based on interviews with industry members, it appears likely that seafood processors will voluntarily keep most of the mitigation measures used in 2020 in place to protect their workers, communities, and ability to operate. The seafood industry is also awaiting new guidance from the State on if and how protocols should be modified based on vaccination status, as many shoreside processors and vessels are putting significant effort into vaccinating their workforce.
- The Alaska Department of Revenue's (DOR) spring revenue forecast estimates that fisheries business and resource landing tax revenues for FY2021 will total \$47.8 million – a 19% decrease from the \$58.8 million collected in FY2020. The DOR forecasts are preliminary and do not necessarily track declines in overall ex-vessel values due to varying tax rates by location and fishery and other factors. Ex-vessel values were down in 2020 because of a mix of biological factors and COVID-19 disruptions. Actual revenues may end up slightly higher than forecasted due to recent announcements of significant post-season adjustment payments to salmon harvesters. Many Bristol Bay salmon harvesters, for instance, received up to an additional \$0.45 per pound on top of the average base price of \$0.70 per pound received last year.
- Consumer food spending patterns remain different than pre-pandemic baselines but have moved closer to normal as the pandemic entered its second year. As of late February 2021, U.S. restaurant and hotel spending is down 22.3% compared to January 2020, according to Opportunity Insights data. At the peak of shutdowns in April 2020, this category was down 66.5% nationally. Grocery store spending remains 18.4% above the January 2020 baseline as of mid-February 2021.

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

Economic Indicators

- The U.S. economy **contracted by 3.4%** in 2020, about the same level of negative GDP growth experienced by the world economy. The IMF forecasts the U.S. GDP will increase by 5.1% in 2021 and the world economy will **grow by 5.5%**.
- After Alaska's unemployment rate spiked to **13.7%** during the height of COVID lockdowns in April 2020, the state unemployment rate dropped to **6.8%** by January 2021.
- The U.S. Dollar Index is **down 6.9%** one year into the pandemic, compared to its value at the start. A weaker dollar compared to the other major currencies in the index is generally good for seafood exporters because it makes U.S. products comparatively less expensive.
- Global shipping price increases were a consequence of COVID-19 that did not emerge until months into the pandemic. The Freightos Baltic Index global container index is up more than **200%** from early March 2020, with much of the increase coming since November. Spot prices on routes from the western U.S. to China — an important route for Alaska seafood — are **up 105%**, while Eastern Asia to Northern Europe routes are **up 450%** year-over-year.

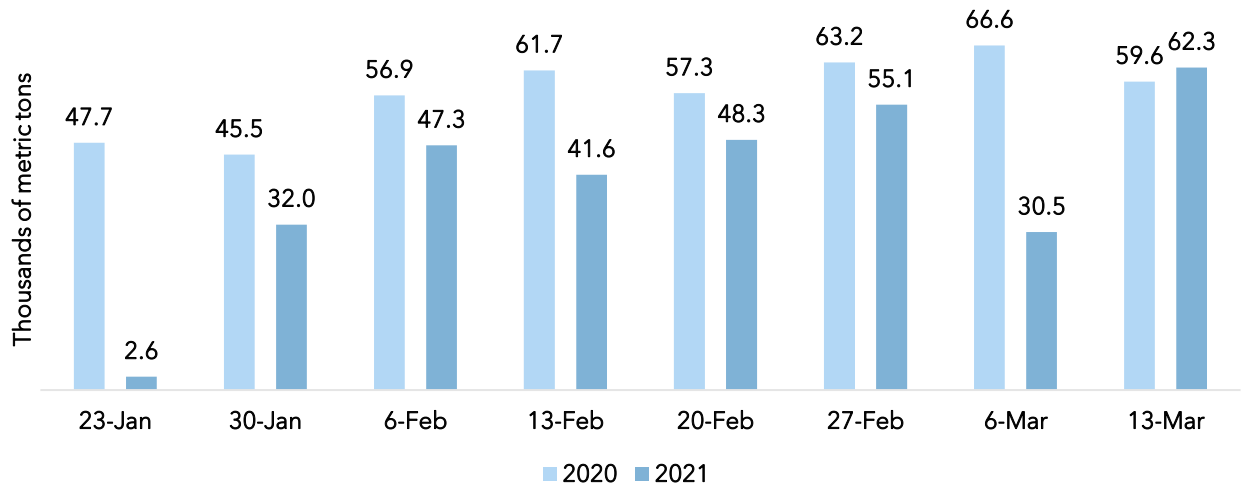
COVID Disrupts Alaska Pollock Production; Increases Prices

Alaska pollock fishing and processing started late and faced numerous plant closures and other disruptions this winter due to the pandemic. As of mid-March, all of the processors that shut down intermittently because of COVID-19 outbreaks early in the season had re-opened. Despite catching up to 2020 harvest levels by the second week of March, cumulative Bering Sea pollock harvest volume in 2021 is down 30% compared to this time in 2020. As reported in a recent NOAA update, most of the decrease is from the inshore sector (58%), followed by the catcher-processor and CDQ sectors combined (35%) and the mothership sector (7%).¹

Pollock harvesters have multiple options to make up these harvests. Typically, A season pollock harvests by the inshore sector, for example, are wrapped up by the second week of April — though fishing can continue into June if vessels are not needed to operate in other fisheries. In addition, unharvested A season volumes can be carried over into the summer B season. Even if the harvests are made up, any increase in effort and season length will increase costs for the industry. In addition, peak roe conditions are in early A season, so loss of fishing time in February represents reduced opportunity for roe product that cannot be made up later in the year.

¹ NOAA NMFS Alaska Region Inseason Management. Fishery summary as of March 18, 2021. <https://s3.amazonaws.com/media.fisheries.noaa.gov/dam-migration/outlook.txt>

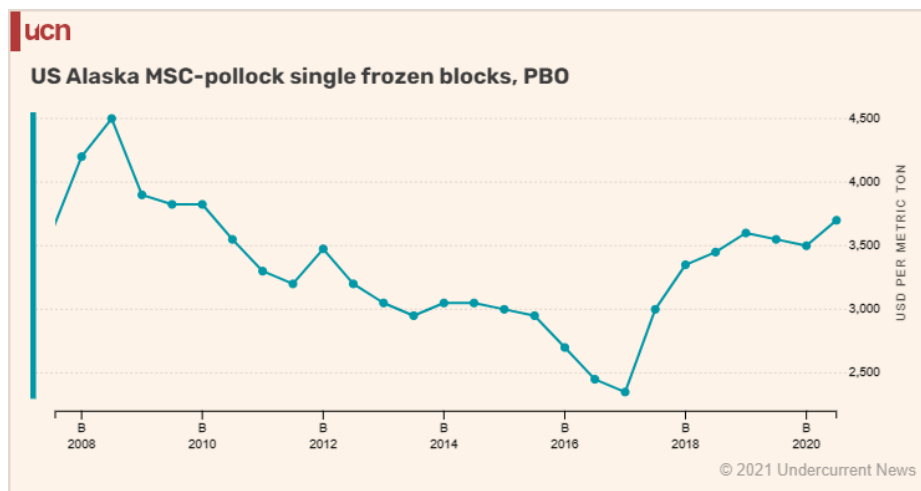
Figure 1: Bering Sea "A" Season Pollock Harvest Volume, by Week, 2021 and 2020 (thousands of metric tons)



Source: NOAA.

Although pollock volume is down sharply in 2021, value declines will be moderated somewhat by higher prices. The graph below from Undercurrent News shows that prices for pin bone out (PBO) fillet blocks from Alaska hit a 10-year high of \$3,700 per metric ton this season, continuing a general upward trend that predates the pandemic.

Figure 2: Undercurrent News Price Data for Alaska Pollock PBO Fillet Blocks, 2008-2021 (\$ per metric ton)



Source: Undercurrent News.

Notes: PBO = pin bone out. MSC = Marine Stewardship Council. Prices listed for A and B season each year.

Pollock prices have been fueled by limited supply due to smaller fish and slower fishing in the second half of 2020, COVID-19 plant shutdowns in both Alaska and Russia in 2021, and COVID-19 inspection delays hampering China's reprocessing sector. On the demand side, pollock has sold well in retail stores and is not as dependent on the foodservice sector as other groundfish.

Commercial Fishing Crew Numbers Down in 2020

ADF&G data indicate that 2020 saw a significant drop in the number of crew hired to support fishing operations, likely in large part due to COVID-19 risk and conditions. As detailed in Table 1, a total of 17,588 commercial

crew licenses of all types were sold in 2020, down 31% from the 25,378 sold in 2019. The total in 2020 was the lowest seen since at least 2009.

While all license types saw declines in 2020, Alaska residents were disproportionately impacted. Sales of annual resident crew licenses were down 39%, while sales of annual nonresident crew licenses were down 12%. In 2020, 50% of crew licenses were sold to Alaska residents, compared to 59% in 2019 and 57% in 2018.

Unfortunately, crew license sales data does not allow for analysis of trends by fishery type or harvest region.

Table 1: Alaska Commercial Fishing Crew License Sales, by Type, 2018-2020

License Type	2018	2019	2020	2019-2020 % Change
Nonresident 7-Day Crew License	876	886	444	-50%
Nonresident Child Crew License	22	18	10	-44%
Nonresident Crewmember License	9,453	9,459	8,279	-12%
Resident 7-Day Crew License	690	885	370	-58%
Resident Child Crew License	454	517	247	-52%
Resident Crewmember License	12,345	13,613	8,238	-39%
Total	23,841	25,378	17,588	-31%

Source: ADF&G.

More Fishing Industry Support Contained in Third Stimulus Package

The \$1.9 trillion American Rescue Plan — signed into law on March 11, 2021 — contains additional funding for relief programs established by previous COVID-19 stimulus bills as well as several new programs relevant to the Alaska fishing industry.

As detailed in Table 2, the American Rescue Plan’s major new provisions related to the seafood industry include:

- \$4 billion for the U.S. Department of Agriculture, to be used by the Agriculture Marketing Service. Like previous funding, this allocation includes money for the purchase of food commodities for distribution to food banks, schools, and households. New to this round of funding, USDA can also now provide grants and loans to pay for business expenses related to protecting agriculture and seafood workers from the virus. Different than seafood industry relief programs in the first two COVID-19 stimulus bill, this USDA funding does not come with a revenue loss requirement to qualify and is the first relief directly aligned with the need to cover direct costs associated with COVID-19 risk mitigation and protocols in the seafood industry.

It is not yet clear how much of this appropriation the USDA will allocate to food purchases, let alone seafood, and how much will go towards COVID-19 mitigation costs. The agency has broad discretion in how it distributes the funding between these two goals, as well as between the seafood and agriculture industries.

- \$28.6 billion for assistance to restaurants, which are key downstream users of Alaska seafood that were particularly impacted by the virus.

The new bill additionally contains more funding for existing programs from the first two COVID stimulus bills:

- \$7.25 billion in additional funding for the Paycheck Protection Program (PPP). The PPP was one of the largest sections of the first two stimulus bills but is a comparatively small part of the March 2021 stimulus. The program is limited to loans to small and medium businesses (larger companies with higher number of employees did not qualify) which in most cases can be forgiven if the business continues to employ its workforce.
- \$1.36 billion for aid to state and local governments in Alaska. Some Alaska coastal communities rely significantly on commercial fishing tax revenue, which dropped in 2020 because of a decline in the volume and value of Alaska’s commercial fishing catch.

Table 2: Major Federal Stimulus Programs Relevant to Alaska Seafood Industry Stakeholders

Bill	Funding Available to U.S. Harvesters and Processors	Funding Available to Alaska Governmental Entities
CARES Act (March 2020)	\$300 million - Section 12005 (specific seafood industry program)* \$659 billion Paycheck Protection Program (includes CARES Act and subsequent April legislation)**	\$1.25 billion total to state and local Alaska governments, including \$560 million to local governments
COVID-19 Omnibus (Dec. 2020)	\$300 million – Additional Section 12005 funding* \$284 billion – Additional PPP funding** \$1.5 billion USDA Farmers to Families Food Box commodity purchases (including seafood)	No direct funding to cities and states, but support for entities including school districts
American Rescue Plan (March 2021)	\$4 billion – USDA (commodity purchases and grants/loans to seafood and agriculture producers) \$7.25 billion – Additional PPP Funding** \$28.6 billion - Restaurant Revitalization Fund	\$1.36 billion total to Alaska state and local governments, including \$231 million to local governments

Source: SBA, USDA, Congressional Budget Office, House Committee on Oversight and Reform.

Notes: *A 35% revenue loss eligibility requirement prevented many Alaska seafood businesses from applying for Section 12005 funding. This aid supports commercial, sport, and other fishing industry sectors. Of the \$300 million in each bill, \$50 million went to Alaska.

**Alaska seafood businesses with more than 500 employees were ineligible for PPP funds as the program is directed to small businesses.

Government stimulus programs in times of economic crisis are generally designed to get money into the economy as fast as possible. In the case of COVID-relief and the fishing industry, some of the programs authorized last year have been spent, but others are still in the process of being distributed.

- PPP: At least \$35.5 million in PPP loans have been given to Alaska-based seafood industry businesses in 2020. Of these, \$28.7 million went to harvesters, and \$6.8 million went to processors. The program has given more than 1,100 loans to the industry in Alaska; most of the loans were for \$50,000 or less.
- Section 12005 (NOAA) funds: An application window for the CARES Act funding (\$50 million) is currently open through the Pacific States Marine Fisheries Commission website until April 30 for businesses in the commercial harvesting, sport fishing charter, seafood processing, and aquaculture sectors in Alaska. The application process for the second round of Section 12005 funding, authorized by the December omnibus bill has not yet been determined. \$40 million of the total of \$255 million slated for this second round was recently announced as allocated to Alaska.

- Seafood industry funding from the American Rescue Plan has not yet been awarded. The U.S. Department of Agriculture is currently soliciting written comments and conducting a series of listening sessions with agriculture and seafood industry stakeholders to inform their plans for these funds.

Industry Insights

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

When pollock roe auctions start in April, expect a good market for standard grades, because of limited supply due to few boats fishing in the early season due to the pandemic. Prices for off grades could be pretty devastating – there's too much of it.

-Pollock processor representative

We're seeing the worst hiring environment we have ever been in. Our vessels are perpetually running short of crew despite dramatically ramping up our recruitment efforts. We've hired additional recruiting teams and paid bonuses to incentivize our crews to work and extend their contracts to little effect.

-Pollock catcher-processor representative

We have previously been unable to access COVID relief funding because of program requirements. This USDA relief program is our last chance to recover unbudgeted COVID expenses. Every dollar will go to shore up our benefit plans and help vulnerable Alaska Native communities respond to the pandemic.

-CDQ group representative

The USDA has such a proud history as a great partner to America's food producers. The truth is that partnership has not always extended effectively to America's seafood industry. Part of that is on us. Our industry needs to do better at working with USDA, sharing detailed information about food production in our sector and building long-term partnerships.

-Processor trade group executive

If COVID is still around for the 2021 summer fishing season, the community will likely handle things the same. We will continue to follow state guidelines and ensure processor campuses are closed. But we're hopeful that the vaccine will be available to workers and 2021 will be a better year than 2020.

-Western Alaska municipal government leader

We were hit with a 25 percent tariff increase for reprocessed yellowfin sole entering the U.S. starting January 1 when an exemption expired. If we weren't dealing with COVID right now, this would be a big thing we'd be talking about.

-Flatfish catcher-processor representative