Alaska Seafood COVID-19 Impacts

PREPARED FOR:
ASMI Board of Directors Spring Budget Meeting

Dan Lesh
McKinley Research Group, LLC

- Formerly McDowell Group
- Research and consulting since 1972
- Offices in Alaska and Washington State
- Economic analysis, business development, market research, public opinion research . . .
- McKinley Management family
  - McKinley Capital Management
  - McKinley Research Group
  - McKinley Alaska Private Investment
COVID-19 Impact Tracking

• Five briefing papers
• Six presentations
• One page overview
• Processor and harvester online surveys
• alaskaseafood.org/covid-19-impact-reports/
COVID-19 Impacts

- Increased operating costs
  - ~$70 million for seafood processors
- Dramatic, rapid demand shifts
  - Food among the most impacted
- Transportation/logistics challenges
  - Reduced air travel
  - Delays into China, demurrage fees
- 20-25% lower ex-vessel values in 2020
  - biological issues in key fisheries
- Fisheries still operated
COVID-19 Harvester Survey

What impact did COVID-19 have on the following aspects of your fishing business?

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Major negative impact</th>
<th>Minor negative impact</th>
<th>No impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ex-vessel price</td>
<td>79%</td>
<td>16%</td>
<td>5%</td>
</tr>
<tr>
<td>Planning and logistics</td>
<td>47%</td>
<td>44%</td>
<td>9%</td>
</tr>
<tr>
<td>Your fishing schedule/timing</td>
<td>33%</td>
<td>38%</td>
<td>29%</td>
</tr>
<tr>
<td>The volume of fish you harvested</td>
<td>30%</td>
<td>29%</td>
<td>41%</td>
</tr>
<tr>
<td>Number of crew hired</td>
<td>23%</td>
<td>27%</td>
<td>50%</td>
</tr>
<tr>
<td>Number of permits fished</td>
<td>8%</td>
<td>12%</td>
<td>80%</td>
</tr>
</tbody>
</table>

n=173 to 195
Did you receive any COVID-19 relief payments (excluding PPP)?

- Yes: 49%
- No: 49%
- Don't know: 2%

If yes, did it cover your losses?

- Yes: 36%
- No: 51%
- Don't know: 13%

If no, why not?

- Lack of awareness: 21%
- Lack of time/busy fishing: 15%
- Not eligible: 15%
- Chose not to apply: 11%
- Applied but rejected: 10%
- Lack of access to internet: 7%

n=94
COVID-19 Processor Survey

- Costs above and beyond those normally incurred
- ~$70 million in 2020
- >$100 million expected in 2021
  - Most expect an increase
- Mostly travel/quarantine related

Mitigation cost categories:

- Travel and quarantine: 54%
- Plant modifications: 11%
- Testing and screening: 9%
- PPE/medical: 7%
- All Other Expenses: 19%

n=15
COVID-19 Processor Survey

• Two-thirds received COVID relief
  • Average 24% of costs covered
• 50% saw changes in product form
• Workforce changes
  • 21% increased
  • 50% decreased
  • Reduced employee morale

What impact did changes in product form have on the value of your production?

(Base: those that reported a change in product form)

- Value increased: 43%
- No change in value: 43%
- Value declined: 14%
Economic Indicators

• -3.4% U.S. GDP growth in 2020
  • similar for world economy
• Dollar index down 5.6% since pandemic
• Alaska’s unemployment now at 6.6%, down from 13.7% in April
• Record levels of personal income
Economic Indicators

Monthly Sales (USD Billions)

+36%, e-commerce
+12%, grocery
-5%, foodservice

Source: U.S. Census Bureau. Seasonally adjusted.
Alaska Seafood Industry, 2017/2018

- 29,000 fishermen
- 26,000 processing workers
- Harvest
  - 2.6 million metric tons (mt)
  - $2.0 Billion
- Wholesale Production
  - 1.26 million metric tons
  - $4.7 Billion
- $5.9 billion economic output into Alaska economy
- $172 million annually in taxes/fee revenue
Alaska Seafood Industry, 2020

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-21% from 2019 for crew licenses
peak employment -31% from 2019
-20-25% from 2019 to ~ $1.5 Billion (estimated)
?? (-16% in export value and volume from 2019)
Alaska Seafood Markets

• About 75% of AK seafood production exported
• 84 countries in 2020
• >$3 billion for a decade, $2.6 billion in 2020
• U.S. largest market, 25-30% and growing
Alaska Seafood Markets

Source: NOAA, compiled by McKinley Research.
Species Updates
Salmon

• Disaster declaration proposed for eight salmon fisheries in 2020
• One of the worst years since the 1970s
• Bristol Bay a bright spot for volumes but ~30% drop in ex-vessel prices w/ retros
• Low inventory/strong markets going into 2021
• Forecasts are mixed; odd-year supports increased pink volume
Salmon

Average Size (pounds per fish)
Alaska Pollock

• ~5% of TAC left in the water
• Smaller fish changing product mix
• 2021 behind schedule due to plant closures
  • Longer A season for in-shore sector
  • Bad timing for roe
• Lower supply and strong demand supporting high prices
• Russia experiencing similar COVID-related challenges
Halibut and Sablefish

• COVID hit as fisheries started in 2020
• Best prices dependent on fine dining
  • Fresh halibut, large sablefish
• Ex-vessel price declines in 2020
• Only 72% of sablefish TAC harvested in 2020
• Longer season, TACs up in 2021. Prices stronger
• Canadian Atlantic halibut supply a challenge. Also farmed halibut.
Pacific Cod

• TAC down 56% from 2016
• Disaster declaration proposed for 2020 GOA fishery
• Return of directed fishery in the Gulf in 2021, but another 20% drop in BSAI TAC
• Food service significant part of demand
• Incredible value to consumers
Flatfish

- Harvest volumes steady in 2020 (500 million pounds)
- Export volumes up 3% in volume but down 8% in value
- Lengthy delays getting into China, especially for trampers
  - No alternative reprocessing markets
- 25% tariff exemption expired in January 2021
- 33% increase in yellowfin sole TAC in 2021
- Potential to have years with more flatfish production than salmon
Outlook

- COVID more challenging for industry in 2021
- Trade disputes, Climate change
- Increased competition, fish size, plant-based foods

- Seafood in demand during pandemic
  - new consumers; bigger freezers
- Growth in direct-to-consumer sales exciting
- Alaska brand strong and increasingly relevant
Questions? Thank you.

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# Alaska Salmon Harvest by Species, 2011-Projected 2021 (*millions of fish*)

<table>
<thead>
<tr>
<th></th>
<th>2011-2020 average</th>
<th>2020 harvest</th>
<th>2021 projection</th>
<th>2021 vs. Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pink*</td>
<td>159</td>
<td>61</td>
<td>124</td>
<td>-22%</td>
</tr>
<tr>
<td>Sockeye</td>
<td>46</td>
<td>46</td>
<td>47</td>
<td>1%</td>
</tr>
<tr>
<td>Keta</td>
<td>18</td>
<td>9</td>
<td>15</td>
<td>-13%</td>
</tr>
<tr>
<td>Coho</td>
<td>4</td>
<td>2</td>
<td>4</td>
<td>-8%</td>
</tr>
<tr>
<td>Chinook</td>
<td>0.36</td>
<td>0.27</td>
<td>0.27</td>
<td>-25%</td>
</tr>
<tr>
<td>Total</td>
<td>227</td>
<td>118</td>
<td>190</td>
<td>-16%</td>
</tr>
</tbody>
</table>