



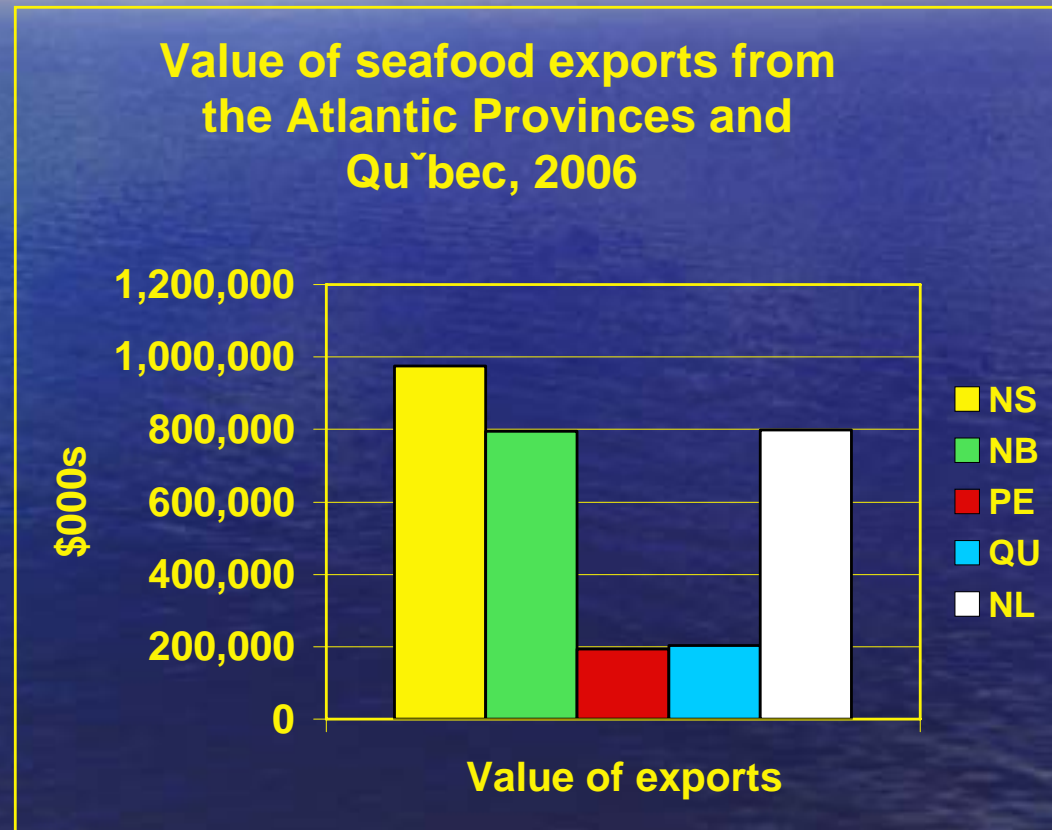
Overview of the Atlantic
Canada seafood industry:
structure, markets, marketing

Moncton

February 23, 2007

Atlantic seafood industry worth \$3 billion

- New Brunswick production from capture fisheries and marine aquaculture worth about \$1 billion, that's 25% of the Canadian total



Focus: how derive more value

- **Getting the structure right:** optimal harvesting and processing structure with a common aim of producing high quality products to diversified markets
- **Improving the terms of trade:** a more coordinated approach to limit the increasing market power of distributors
- **Getting to the right market:** product & market development to reduce exposure to commodity conditions
- **Establishing the brand:** healthy products/ clean environment/ sustainable harvesting practices

Topics

- **Industry overview**
- Global supply and demand
- Resource status
- Harvesting
- Production and markets
- Issues and options
- Sector performance & challenges

Crab: key statistics

- **Crab 2006**

- \$280 million landings
- \$400 million exports
- 4,000 vessels
- 82 plants
- 22,000 employed

- Trends

- Resource
- Landings
- Price
- Export

- Outlook 2007



Shrimp: key statistics

- **Shrimp 2005**

- \$240 million landings
- \$485 million export
- 470/13 vessels
- 20 plants
- 6,200 employed

- **Trends**

- Resource
- Landings
- Price
- Export
- Outlook 2007



Lobster: key statistics

- **Lobster 2005**

- \$600 million landings
- \$1,000 million export
- 9,770 vessels
- 50 plants
- 35,000 employed

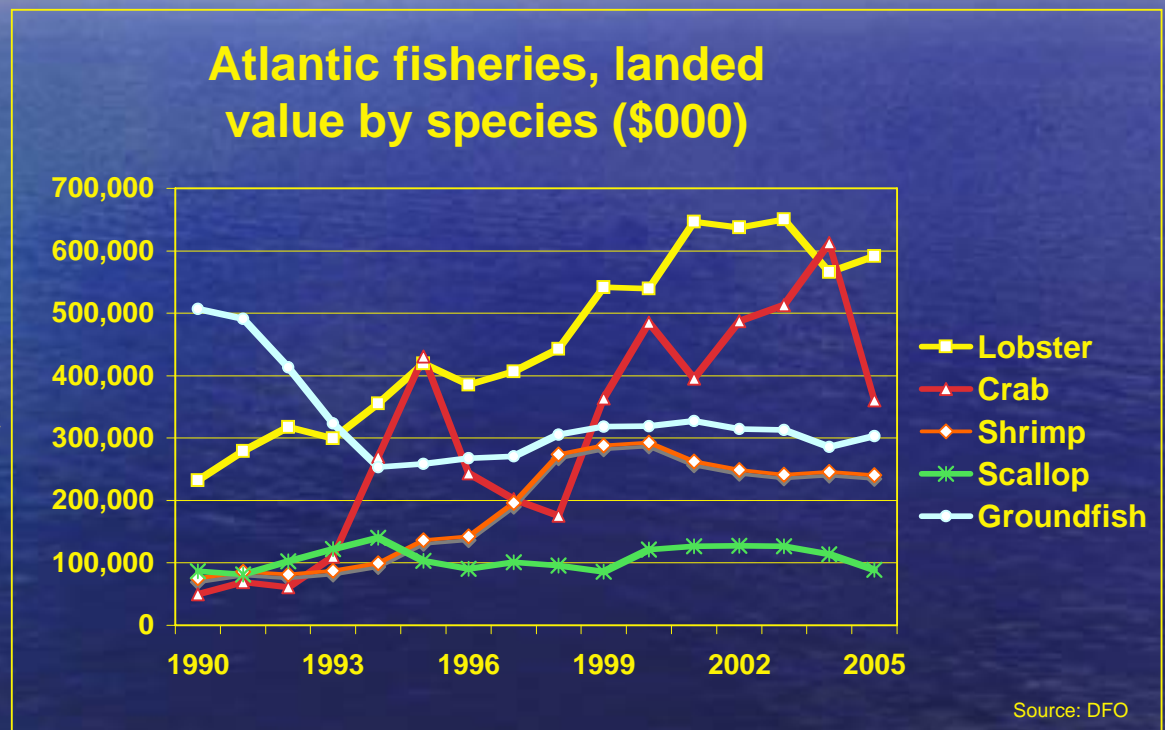
- **Trends**

- Resource
- Landings
- Price
- Export
- Outlook 2007



Key species

- \$1.6 billion total landed value
- Three species dominate: lobster, crab & shrimp
- Lobster: decline & recovery
- Crab: cyclical growth & price instability
- Shrimp: steady revenue decline



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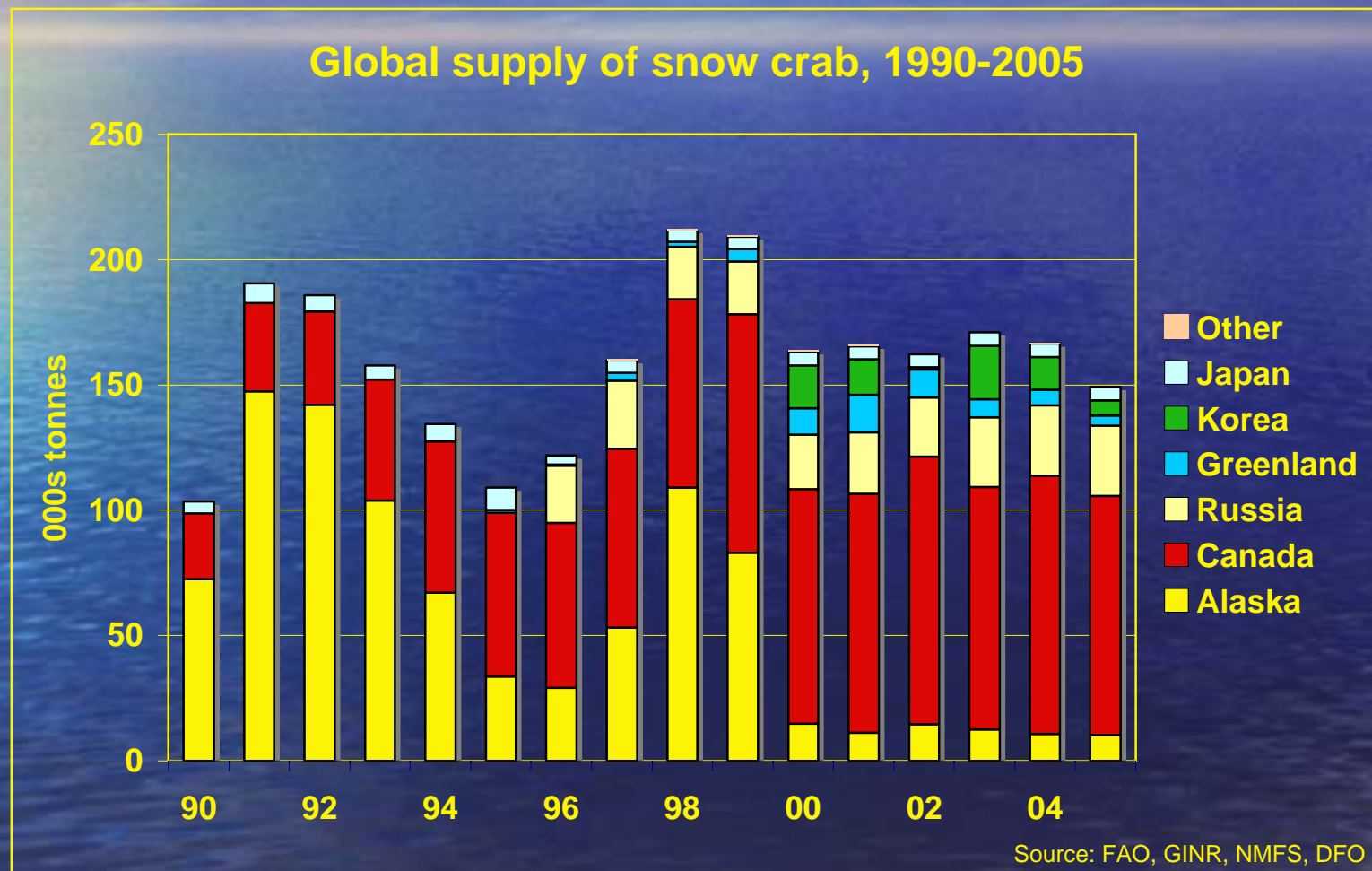
Global supply and demand

- **Snow crab supply**
 - Steady at 150-170,000 t
 - Canada produces 65%
 - Five others produce 35%
 - Alaska source of instability
 - Substitutes influence prices
- **Snow crab demand**
 - Two markets: US & Japan
 - Food service & retail commodity in U.S.
 - Mainly food service in Japan (sushi & sections)
 - Demand price sensitive
- **Coldwater shrimp supply**
 - Up 50% to 450,000 t since '98
 - Canada produces 40%
 - Three others produce 45%
 - Competing with 65 species
 - 7% of global supply 6 MM t
- **Coldwater shrimp demand**
 - Two markets: US & EU (UK) for C&P - mainly retail
 - Japan & China for shell-on frozen - retail & restaurant
 - Demand not keeping up with supply

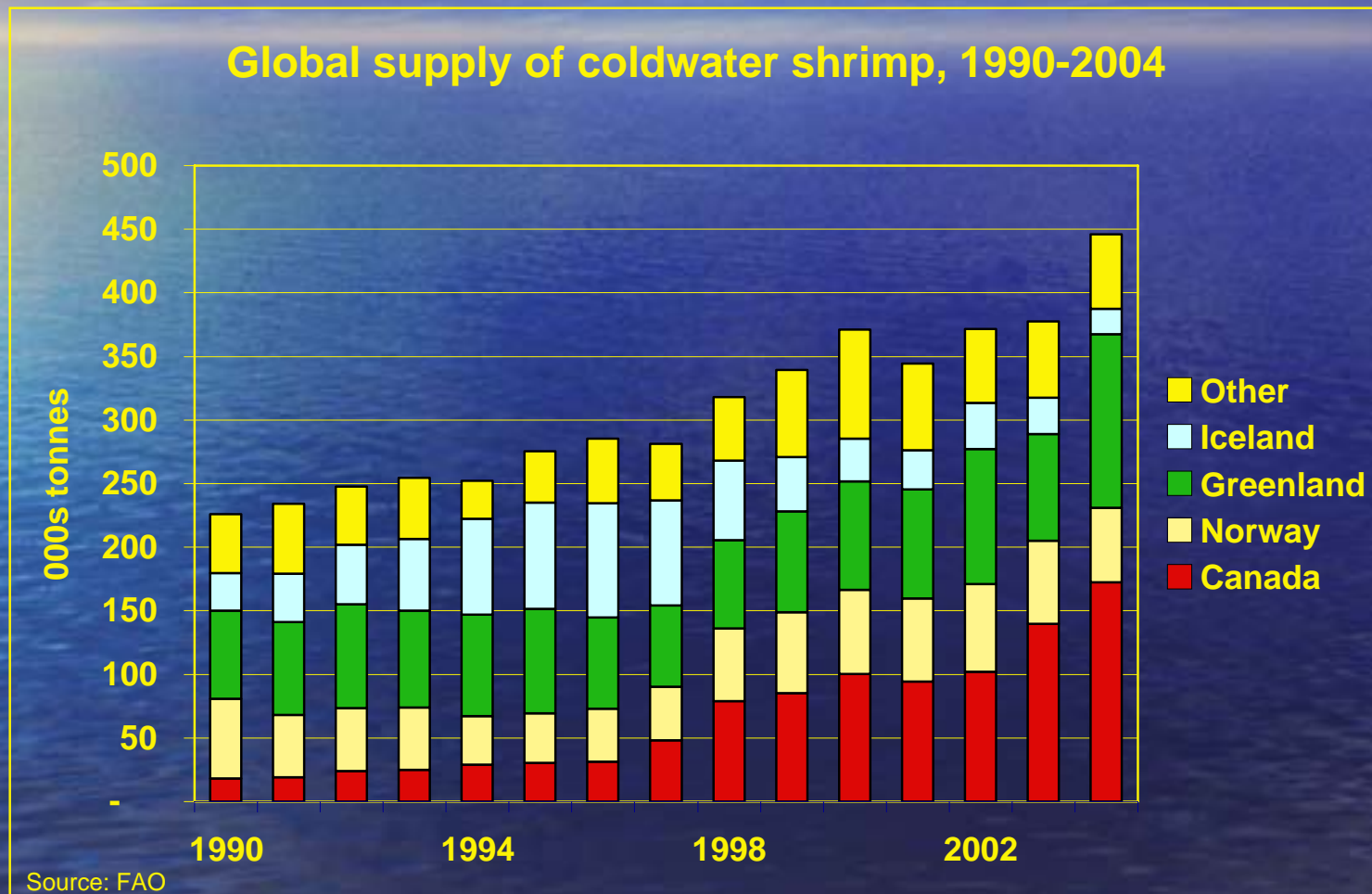
Global supply and demand: lobster and groundfish

- **Lobster supply**
 - Steady at 80-90,000 t
 - Canada produces 55%
 - U.S. produces 45%
 - High exploitation rate
 - Canada processes 50-70% of U.S. catch
- **Lobster demand**
 - U.S. consumes over 80% of total supply
 - Live & processed at 50% each
 - Demand is price sensitive
- **Groundfish supply**
 - Declined from 12 to 7 million tonnes
 - Cod/pollock main species
 - Farmed finfish has substituted (tilapia/salmon)
- **Groundfish demand**
 - U.S. & EU major markets
 - Limited growth in frozen
 - Fresh segment exhibits strongest growth

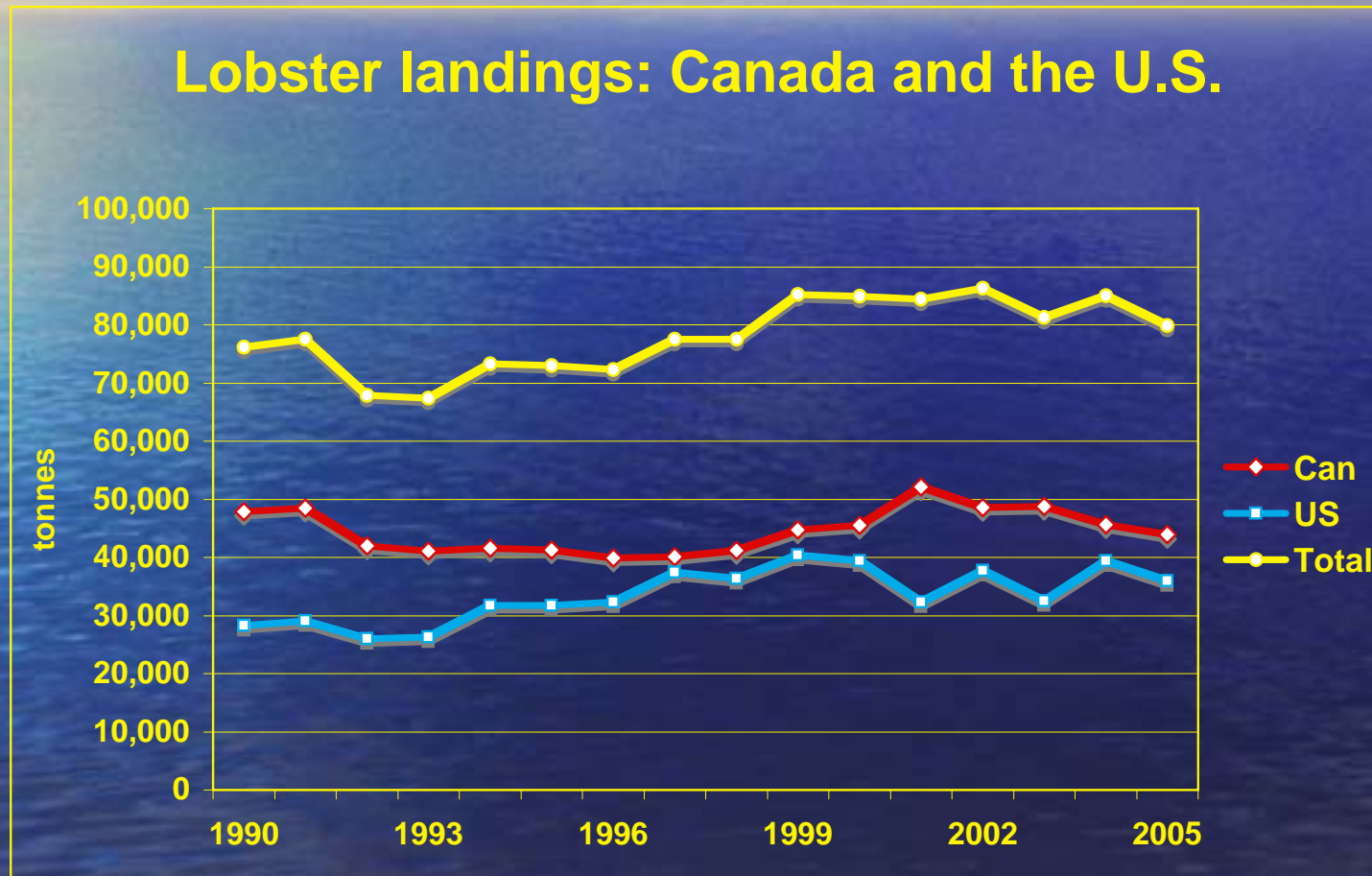
Global snow crab supply stable



Coldwater shrimp supply increasing

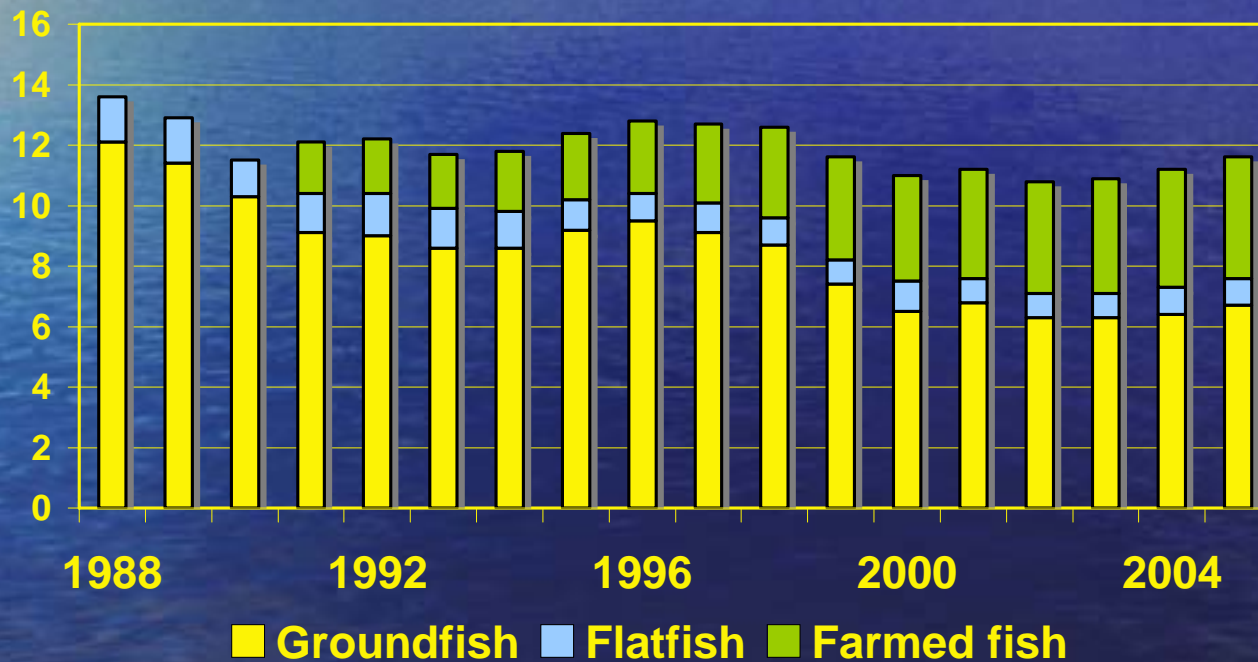


Lobster landings fairly stable



Farmed species substitute for reduced groundfish supply

Global "whitefish" supply



Source: Groundfish Forum 2005

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- Sector performance

Resource status: Canada

- **Snow crab**
 - Stocks declined most areas
 - No area has strong recruitment pulse
- **Variation by area**
 - NE NL: long-term prospects uncertain
 - S. Gulf: stock in declining phase
 - N. Gulf: biomass begins to decline in 2007
 - ENS: stocks down recovery possible in 2007
- **Shrimp**
 - Stocks stable with uncertainty
 - Outlook positive for major stocks
- **Variation by area**
 - NE NL: stocks stable with positive/uncertain outlook & some decline in average size
 - Gulf/Estuary: stocks strong but decline to long-term average biomass in 2006 & beyond
 - ENS: unstable with decline in average size and biomass

Resource status: Canada

- **Lobster**

- Mostly stable, declines in some areas
- No area shows strong growth

- **Variation by area**

- Northern gulf: stable
- Southern Gulf: decline
- Newfoundland: stable
- Nova Scotia: decline

- **Groundfish**

- No recovery most areas
- Science unable to predict when stocks may recover

- **Variation by area**

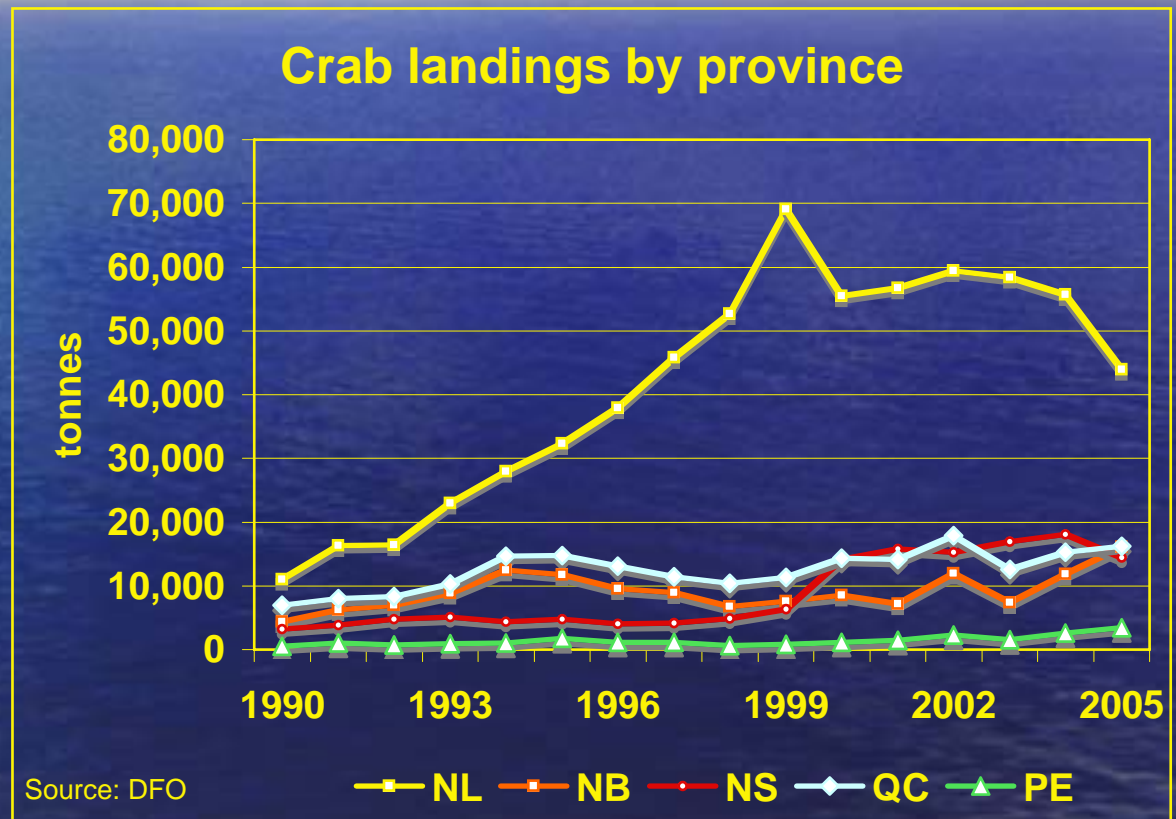
- Some recovery in 3Ps cod, Georges Bank haddock
- Small redfish fisheries off NL and NS
- Turbot fisheries in Gulf and off NL

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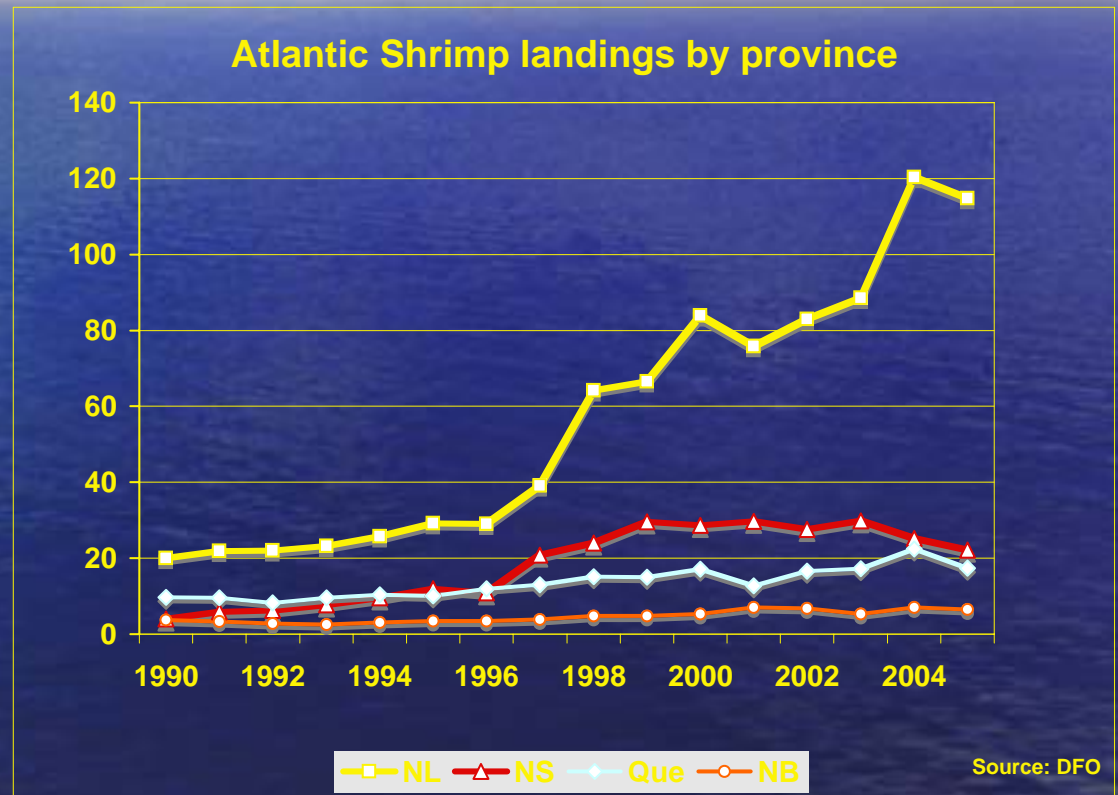
Crab landings reflect stock status

- Total down to 94,000 t in 2005 from 2003 peak of 106,800 t
- NL lands 47%, down from peak of 73% in 1999
- Gulf lands 46%
- NS (SS) lands 7%



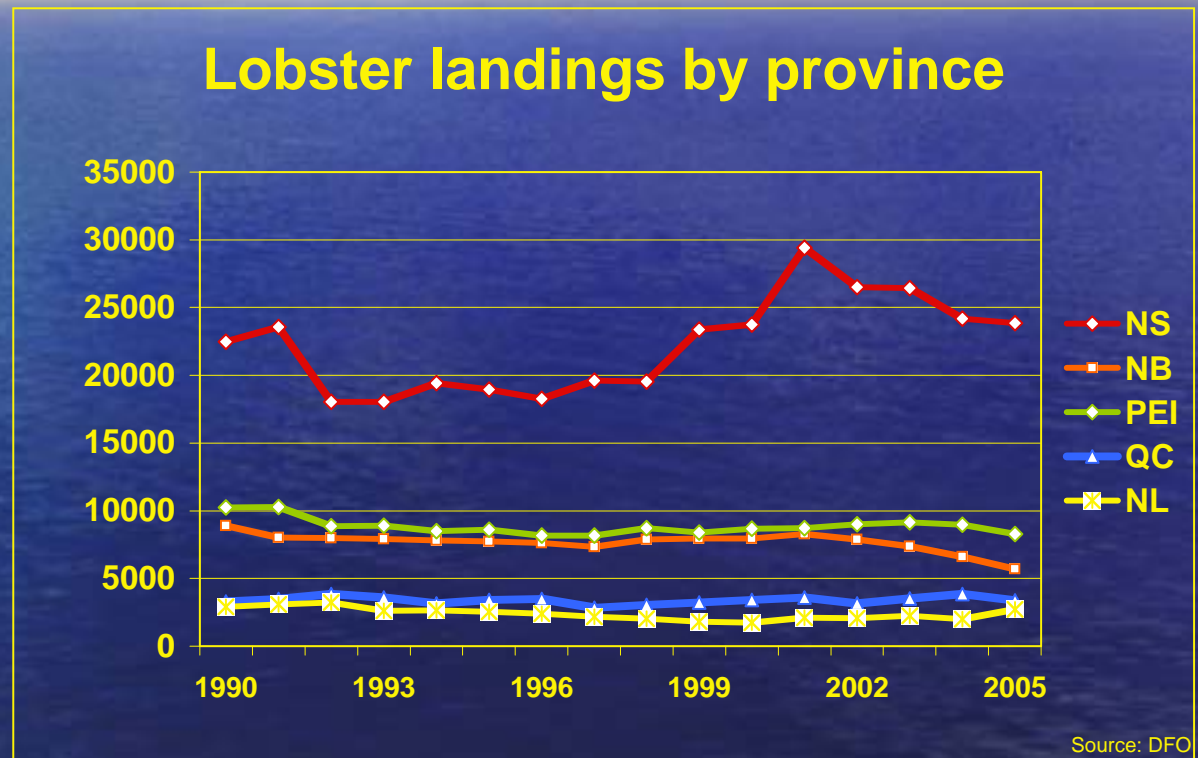
Shrimp landings reflect stocks & market price

- 80% of catch in northeast NL waters
- NL landings up three-fold since 1997
- Other provinces remain steady or slight decline since 2003
- Low price make the shrimp fishery a marginal or losing proposition



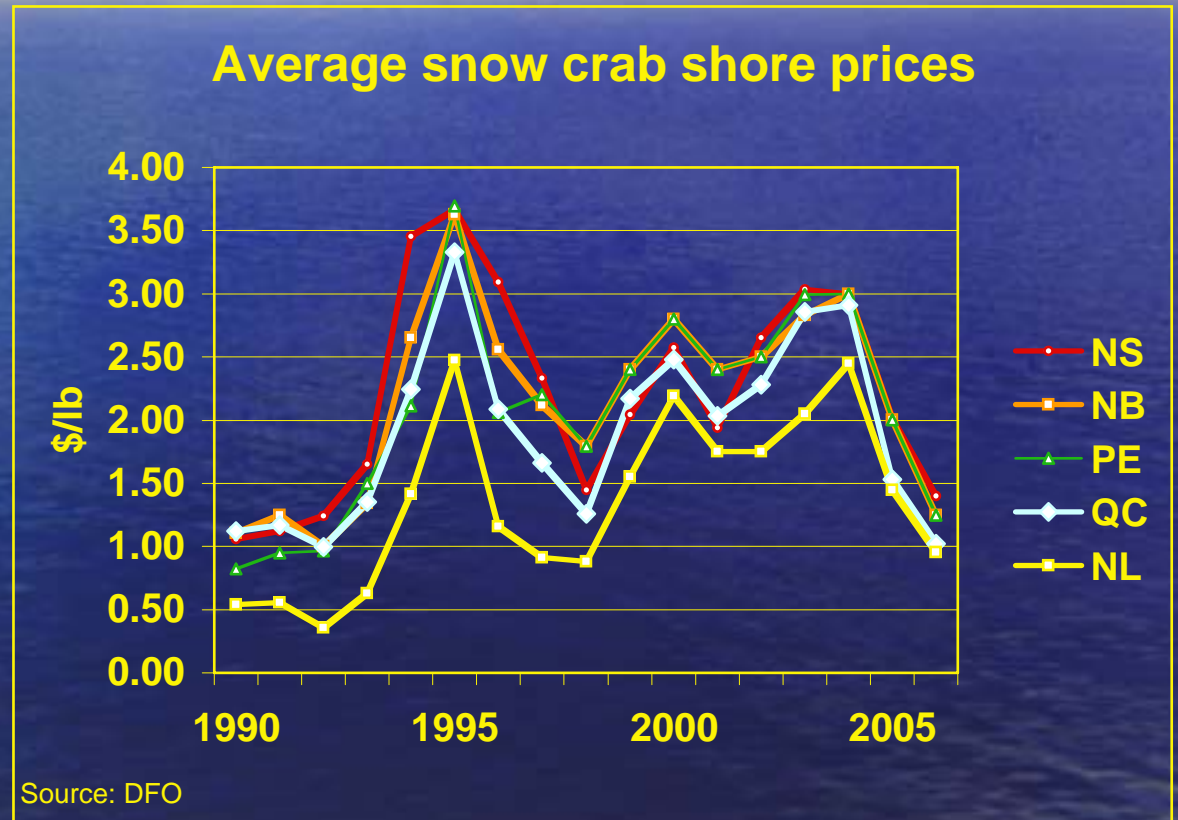
Lobster landings declining in most areas

- Landings down by 15% from 2001 peak
- QC fairly stable
- Major decline in Northumberland Strait



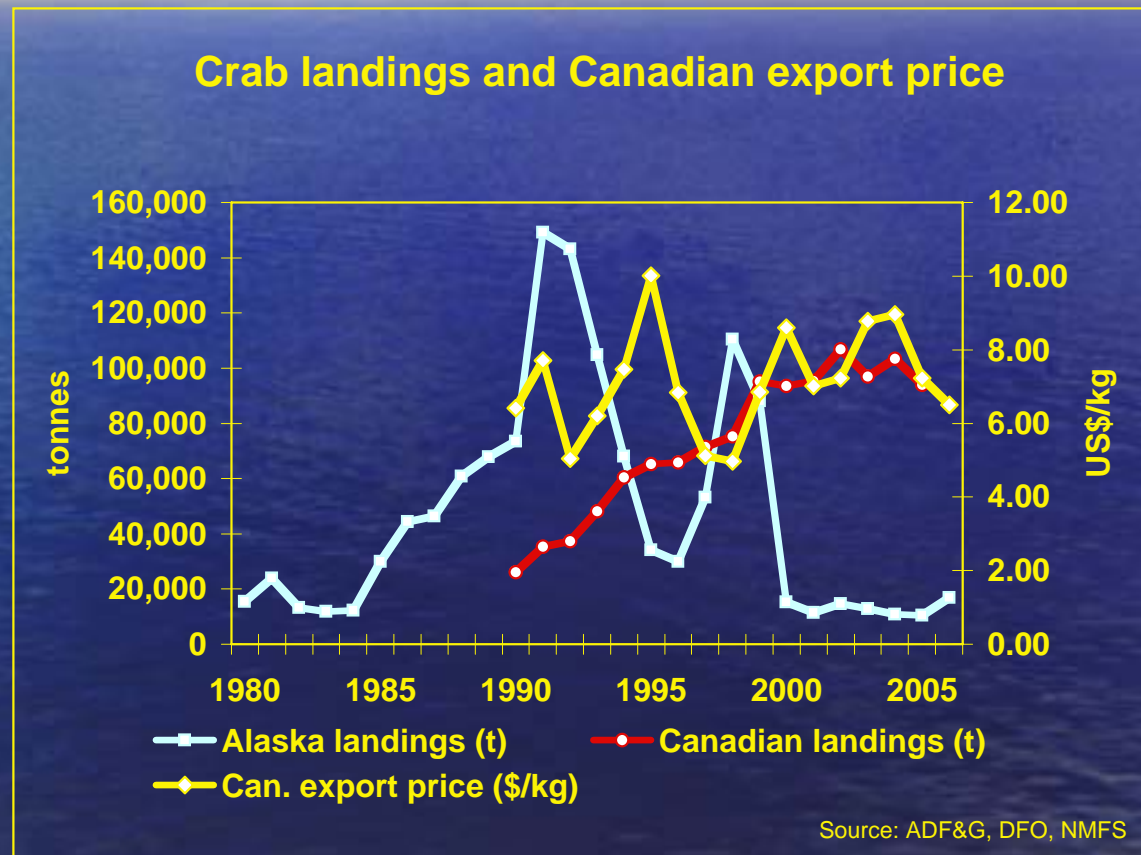
Crab shore prices at historic lows

- Peaked in 2004 with increase in Japanese & U.S. demand
- Dropped sharply in 2005 as customers resisted high distributor prices
- Stayed low in 2006 as inventories cleared



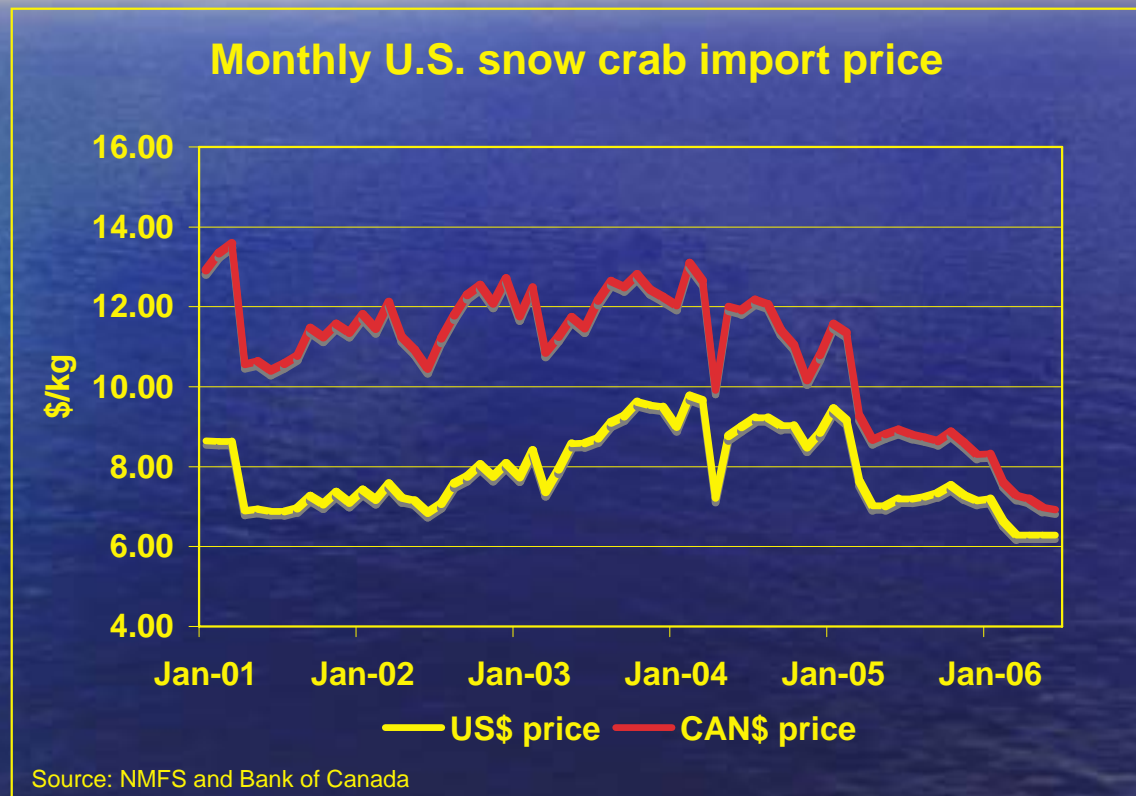
Crab prices sensitive to supply

- Swings: high of US\$4.50/lb and low of US\$2.25/lb
- Drop in 2005 due to speculation
- By mid-2006 price down to US\$2.75
- Upturn in Alaska landings may have played small role



Crab price down by 50% since 2004

- 35% due to price drop
- 15% due to exchange rate
- US\$ price likely to strengthen in 2007, but could be partially offset by weakening economy



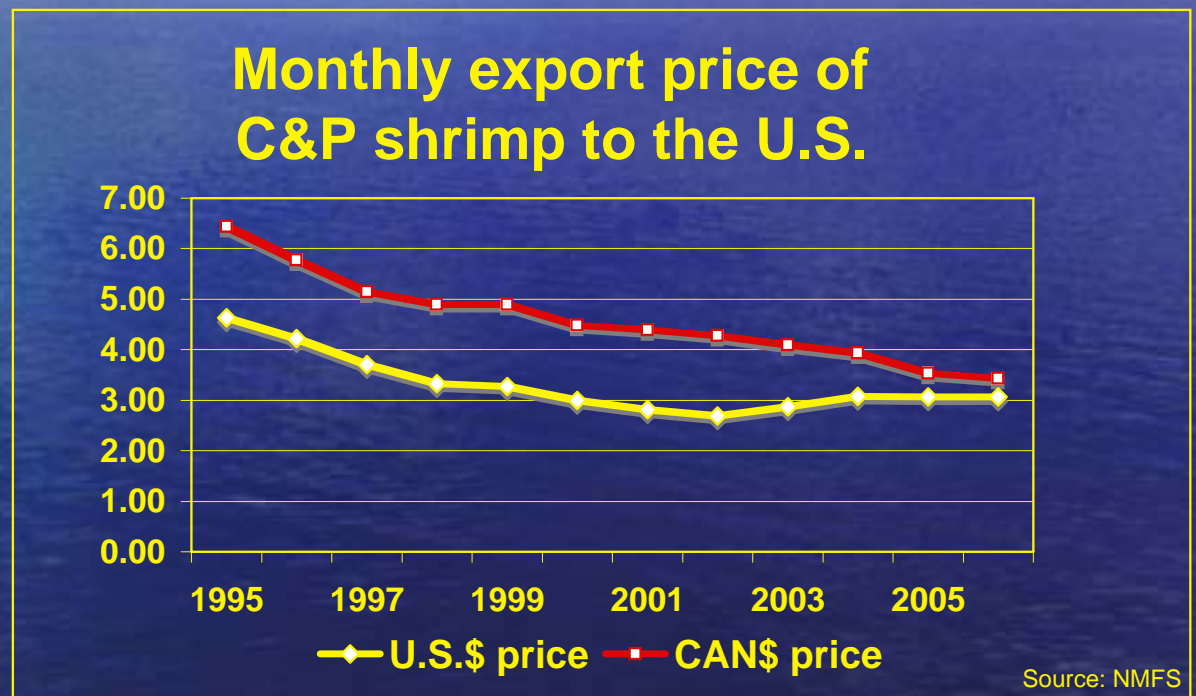
Shrimp shore price at historic lows

- Shore price down by 50% over decade as global supply exceeds demand
- Shore price approaches break-even level for harvesters
- Larger shrimp and stronger competition explain higher Québec price



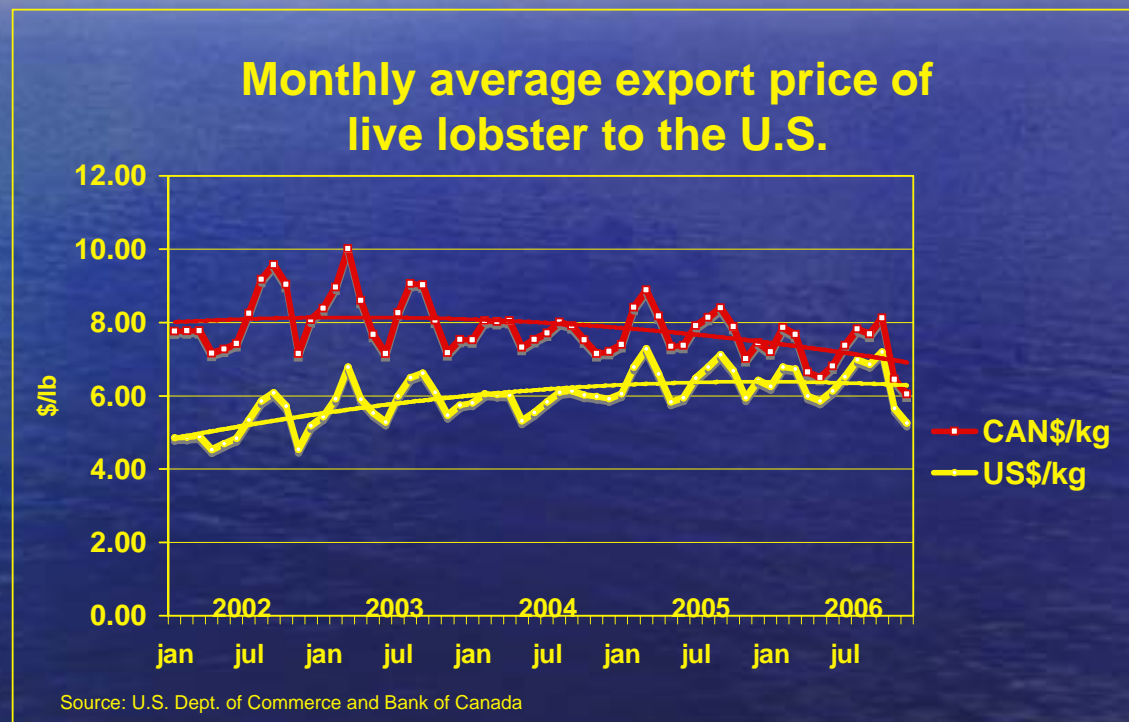
Shrimp price drop worsened by exchange rate

- Price decline reflects supply > demand & availability of substitutes
- US\$ price down 33% since 1995
- Stronger dollar means CDN\$ price down 50% since 1995



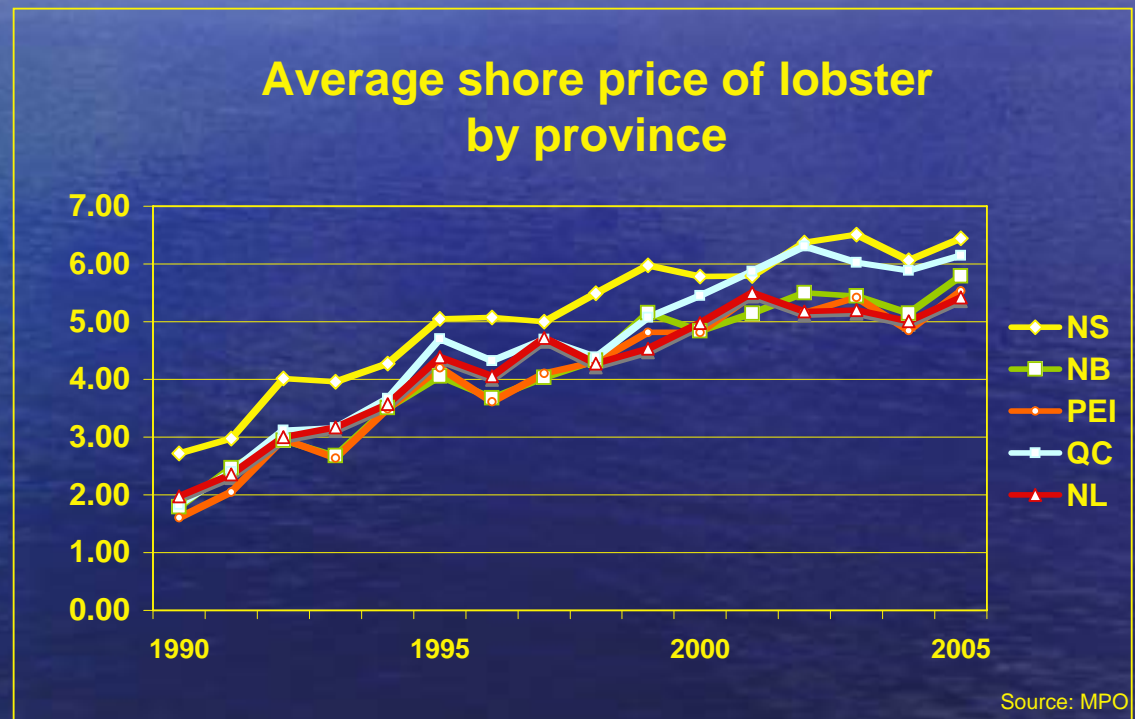
Lobster market weakening, exchange rate cuts revenues

- US\$ price starting to show some weakness after several years of steady growth
- CAN\$ price shows downward trend since 2003



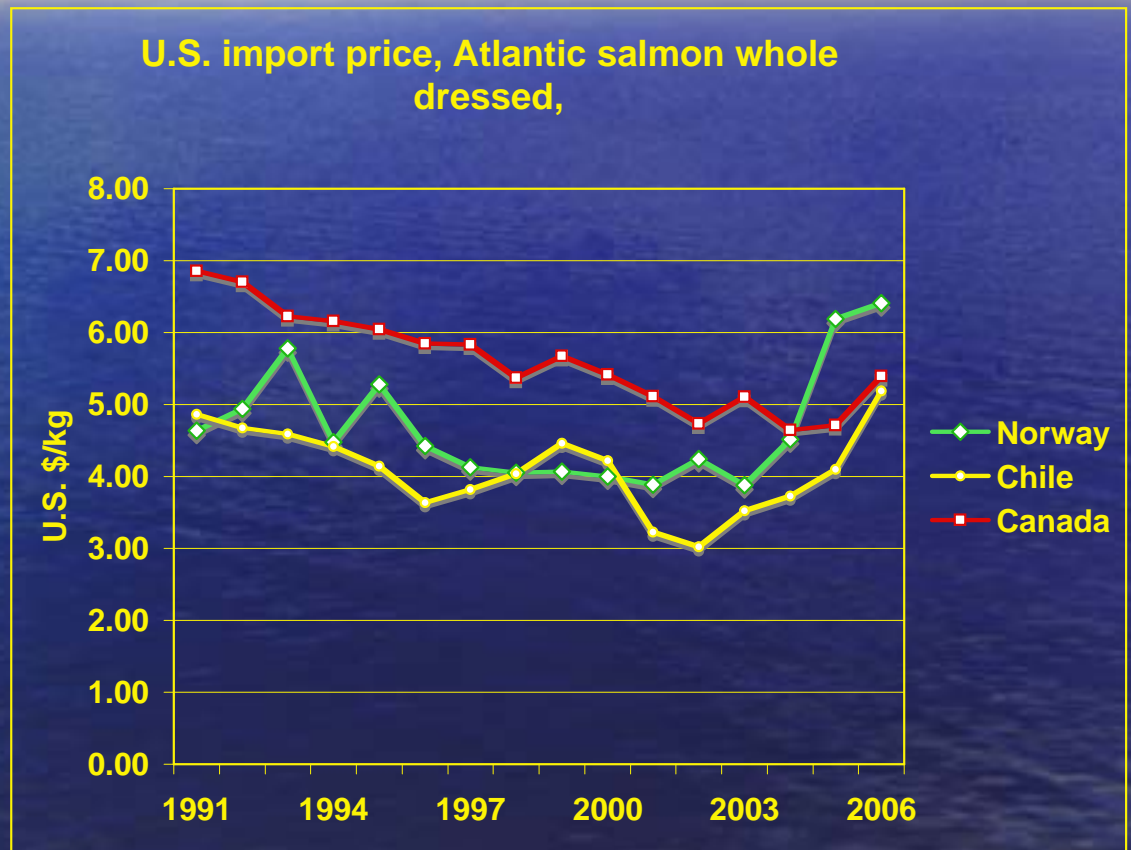
Lobster shore price closely tracks U.S. market

- Price differences by province reflect mainly size and product form
- Strong competition in NS and QC means low margins for shippers



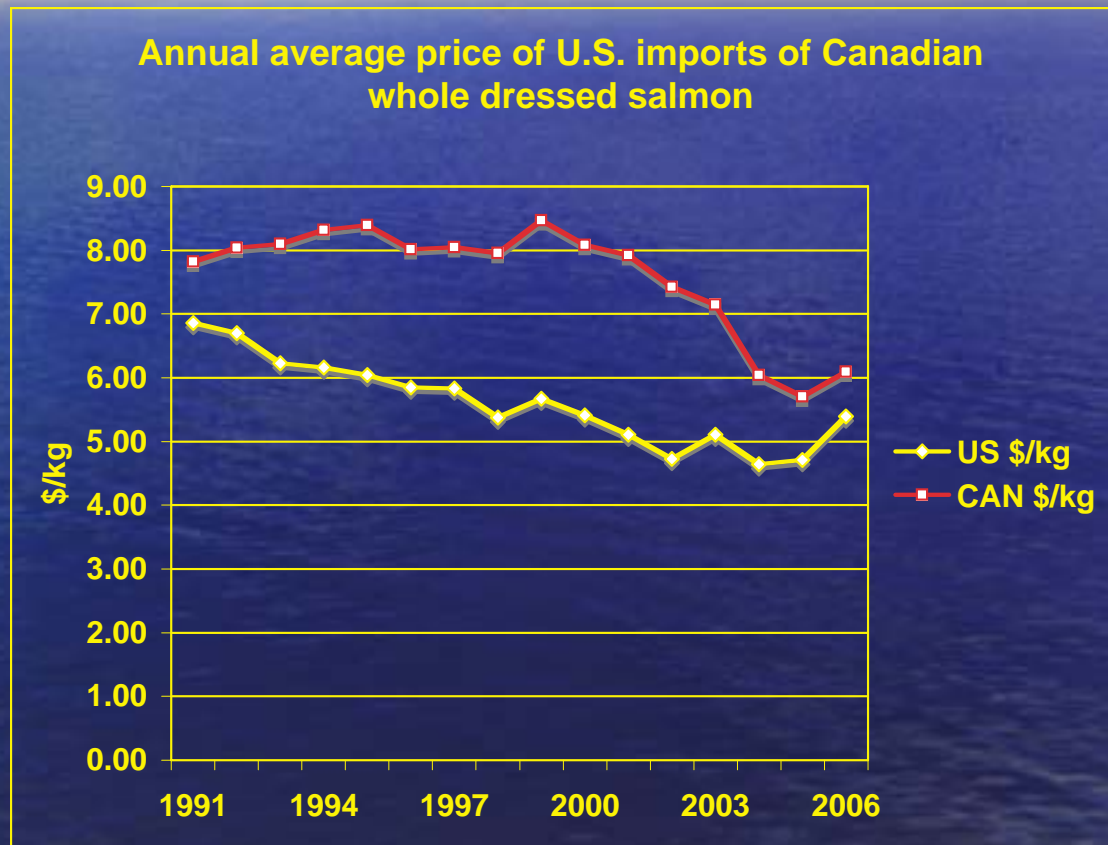
Salmon market gains strength

- Salmon suffers long slide as supply exceeds demand
- Proximity to market and direct sales mean price premium for NB and BC
- Price began to turn the corner for Canadian producers in 2006 as suppliers to the U.S. shifted to EU in response to higher returns



Exchange rate cuts salmon prices

- Steady 1990s price decline offset by rising exchange rate
- Weakening U.S. dollar causes sharp drop in CAN \$ price after 2002

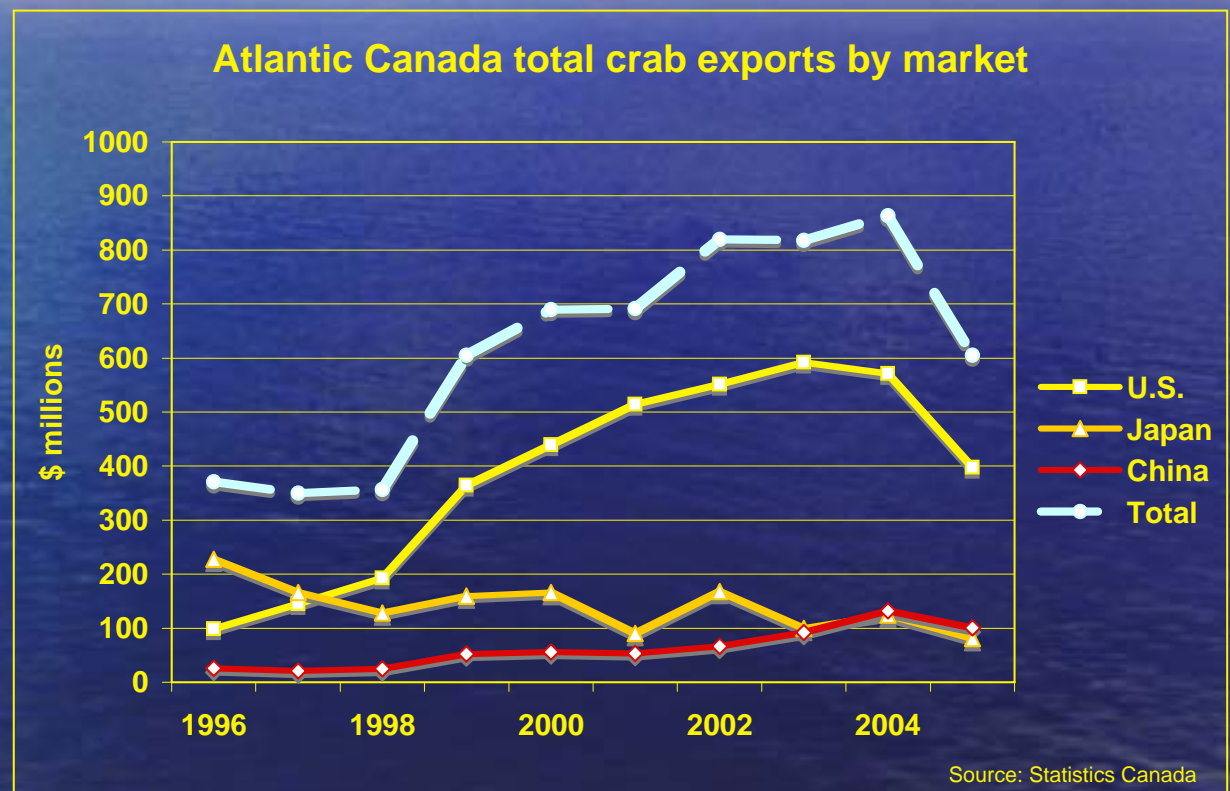


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- Crab & shrimp harvest
- **Production and markets**
- Issues and options
- Sector performance

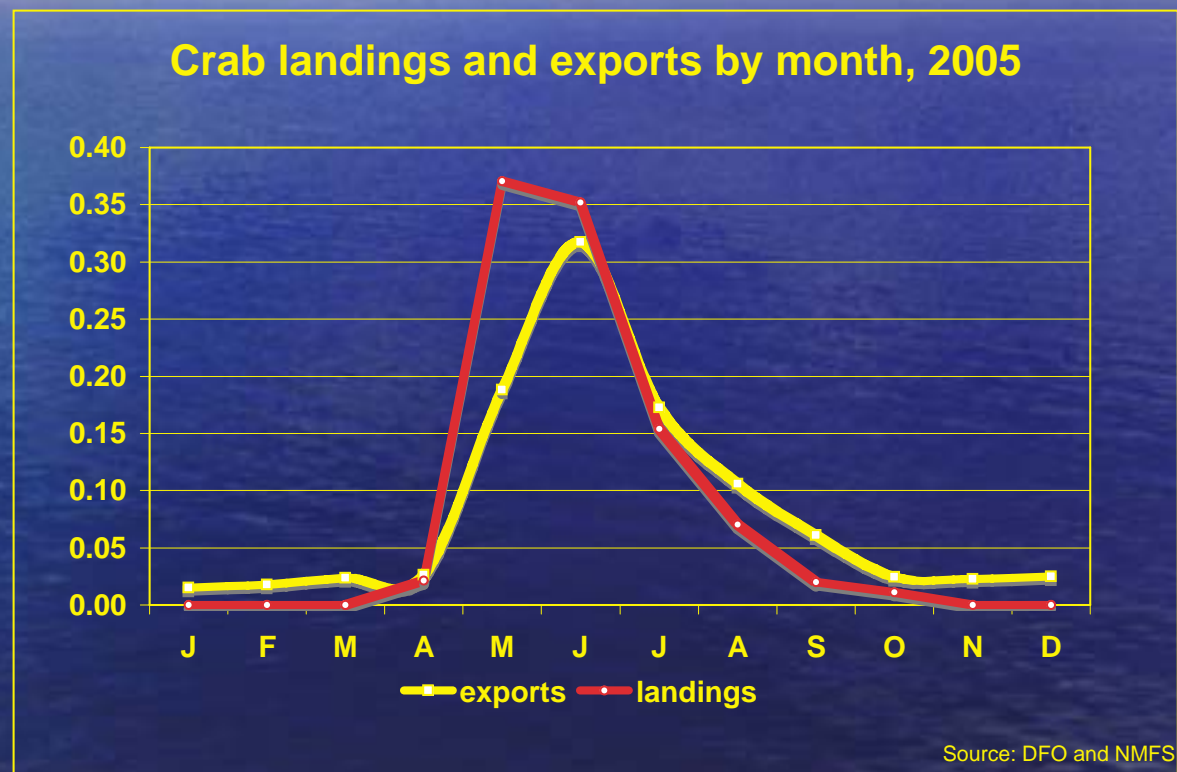
Crab exported to two markets: United States & Japan

- \$360 million industry in 2004 drops to \$600 million in 2005 and about \$400 million in 2006
- Exports to China are processed for re-export to Japan



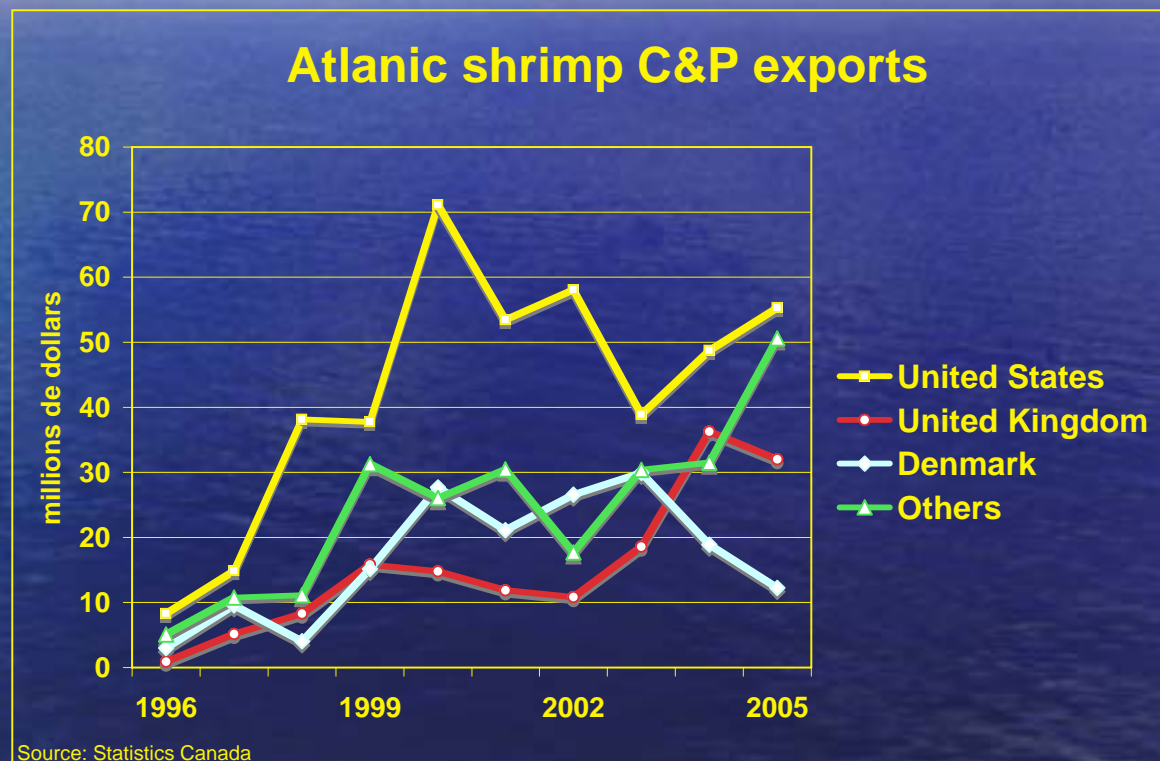
Crab: market and cash driven export

- Sold to distributors who take position in market
- Export pattern reflects commodity product & consumption pattern
- Low margins limit ability to inventory/brand and develop market



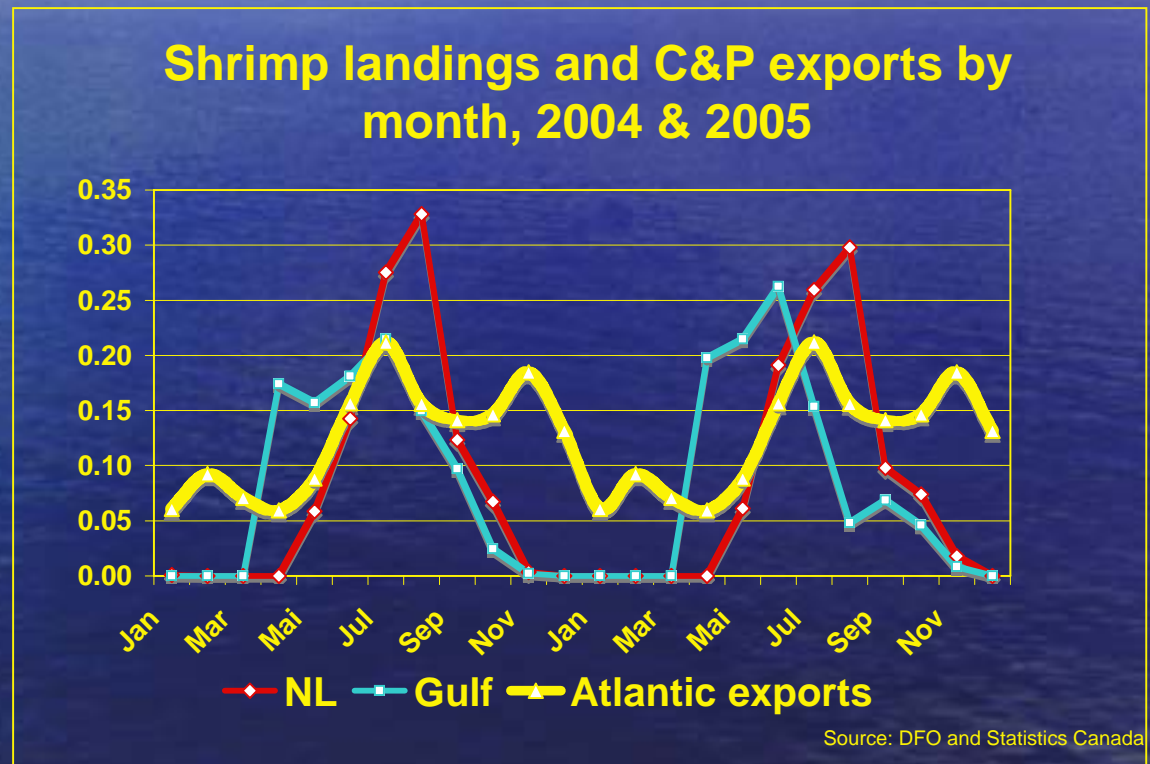
C&P shrimp exports by country

- \$136 million industry in 2005
- US is main market (55%) despite adverse exchange
- C&P shrimp faces 20% tariff entering EU



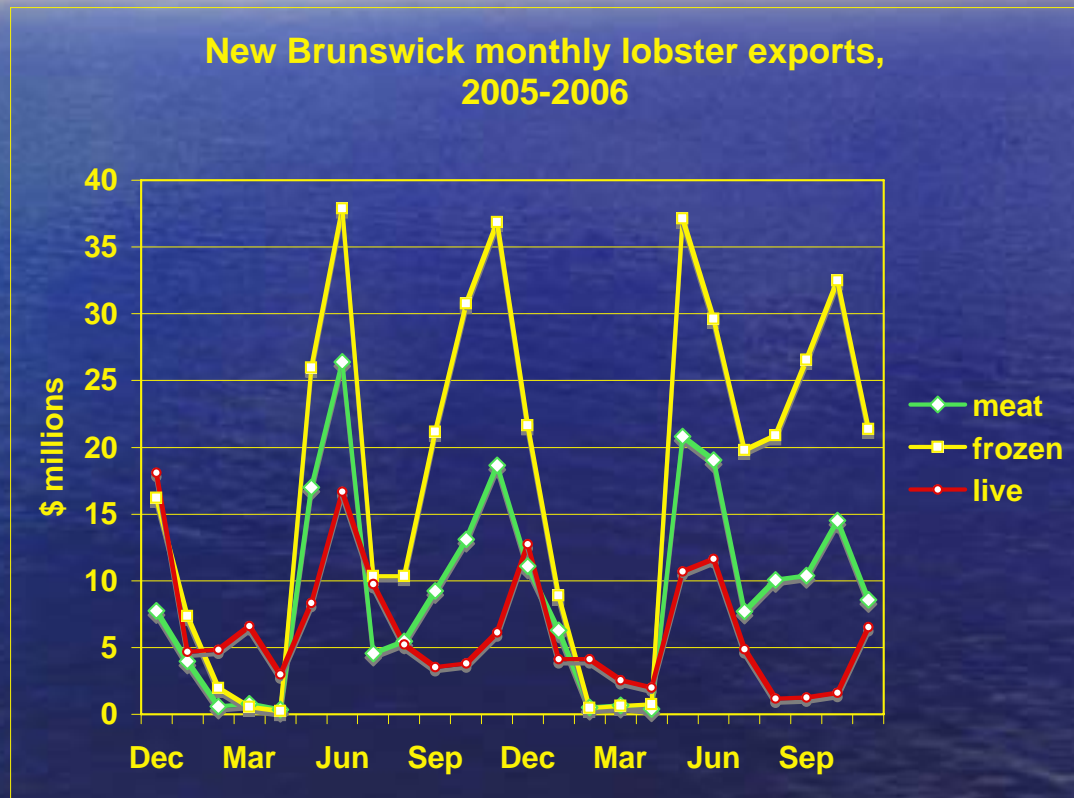
Shrimp mainly a retail product

- Sold to customers on as needed basis
- Demand far less seasonal than crab
- Imposes high carrying costs
- Competes with many other shrimp species



Lobster exports market and supply driven

- NB accounts for 60% of Canadian processed lobster exports
- Over 90% of NB exports goes to the U.S.
- Processing sector relies heavily on imports from U.S.



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Crab issues: control in hands of market

<ul style="list-style-type: none">• Resource	<ul style="list-style-type: none">• Cyclical abundance• Low period in Gulf - long terms prospects uncertain• Climate unknowns pose threat to sustainability
<ul style="list-style-type: none">• Markets	<ul style="list-style-type: none">• Dependent on distributors in just two markets• Commodity demand: price highly sensitive to supply• Threat of substitutes: Alaska/other crab species
<ul style="list-style-type: none">• Harvest	<ul style="list-style-type: none">• Structured for short seasons: biology/fleet/economics• Poor handling practices, gluts and poor quality• Fleet viability an issue in some areas
<ul style="list-style-type: none">• Processing	<ul style="list-style-type: none">• Structured to under-perform: capacity/competition• Limited ability to influence harvest rate & quality• Fragmented. Pressure to sell. Little scope to market

Crab options: measures to enhance value

<ul style="list-style-type: none">• Resource	<ul style="list-style-type: none">• Improve scientific knowledge about the resource• Resist pressure to increase exploitation rates & TACs• Consider certification for eco-label
<ul style="list-style-type: none">• Markets	<ul style="list-style-type: none">• Diversify into new market areas, eg, Europe• Promote alternatives to commodity consumption• Use consolidated/coordinated marketing approach• Consider regional branding
<ul style="list-style-type: none">• Harvest	<ul style="list-style-type: none">• Stretch season to biological limits using price• Invest in quality: vessels/holding and education
<ul style="list-style-type: none">• Processing	<ul style="list-style-type: none">• Eliminate/limit financial support to industry• Promote quality ethic and price/quality relationship• Assess merits of ISO 14000 certification

Shrimp issues: market awash in shrimp

<ul style="list-style-type: none">• Resource	<ul style="list-style-type: none">• Stocks stable with some uncertainty• Stocks benefit from ecosystem change
<ul style="list-style-type: none">• Markets	<ul style="list-style-type: none">• Concentrated market dependence (C&P/Shell-on)• Supply consistently running ahead of demand• Price weakness will continue/ product characteristics
<ul style="list-style-type: none">• Harvest	<ul style="list-style-type: none">• Quality: many vessels not designed for shrimp fishery• Poor returns limit scope for fleet upgrading
<ul style="list-style-type: none">• Processing	<ul style="list-style-type: none">• Overcapitalized/limited ability to influence harvest rate• High inventory carrying costs - distress selling• Weak financial position & limited scope for optimism

Shrimp options: measures to enhance value

<ul style="list-style-type: none">• Resource	<ul style="list-style-type: none">• Improve scientific knowledge about the resource• Resist pressure to increase exploitation rates & TACs• MSC/eco-label important for EU market
<ul style="list-style-type: none">• Markets	<ul style="list-style-type: none">• Target new market areas, eg, S. Europe/US/Far East• Continue action to eliminate EU tariff• Develop consolidated marketing/ regional branding
<ul style="list-style-type: none">• Harvest	<ul style="list-style-type: none">• Extend season to practical limits• Restructure fleet with fewer vessels, better technology
<ul style="list-style-type: none">• Processing	<ul style="list-style-type: none">• Eliminate/limit financial support to industry• Cut capacity from sector, promote 8-month season• Promote product/market development

Lobster issues:

Highly competitive industry

<ul style="list-style-type: none">• Resource	<ul style="list-style-type: none">• Overall abundance stable or declining slightly• High exploitation rate in most areas a concern• Unknowns pose threat to sustainability
<ul style="list-style-type: none">• Markets	<ul style="list-style-type: none">• Dependent on one major market - U.S.• Price sensitive to supply/state of economy• Rising concern from animal rights activists
<ul style="list-style-type: none">• Harvest	<ul style="list-style-type: none">• Structured for short seasons: fleet/economics• Good handling practices but highly peaked supply• Strong competition means high shore price
<ul style="list-style-type: none">• Processing/ shipping	<ul style="list-style-type: none">• Generates low margins: capacity/competition• Relies heavily on imports of U.S. lobster• Need product development in processed sector

Lobster options measures to enhance value

<ul style="list-style-type: none">• Resource	<ul style="list-style-type: none">• Improve scientific knowledge about the resource• Reduce harvesting pressure/exploitation rate• Introduce increased minimum legal size/Eco-label?
<ul style="list-style-type: none">• Markets	<ul style="list-style-type: none">• Diversify into new market areas: EU & Far East• Develop consolidated marketing approach• Market the environment & and optimal quality
<ul style="list-style-type: none">• Harvest	<ul style="list-style-type: none">• Ensure vessels have best holding methods• Extend fishery over the season• Remove any obstacles to competition at port market
<ul style="list-style-type: none">• Processing	<ul style="list-style-type: none">• Eliminate/limit financial support to industry• Ensure adequate holding capacity to time the market• Promote product/market development

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- **Sector performance**

Crab short-term prospects

- Relatively stable harvest level for near term contributes to price strength
- Short season & glut/quality issues could be worse in 2007 as harvesters try to recover from two bad years
- Market outlook promising for 2007, full recovery may be held back by weak US economy
- Processors continue to be caught between supply-driven harvest and commodity-led demand
- Need to find a way to reduce cash flow pressures to allow focus on product and market development

Shrimp short-term prospects

- Limited prospects for price recovery in near term unless supply drops or markets expand
- Weak harvesting and processing returns unless costs are reduced & marketing enhanced
- Improvement in quality/yield tied to more appropriate harvesting technology - difficult to achieve given low prices & poor returns
- Improved returns tied to more disciplined marketing approach and market development in US, Far East and Europe
- Need to focus on optimizing industry structure/capacity to restore financial health to tackle marketing issues

Lobster: short-term prospects

- Decline in supply puts upward pressure on price
- Weakening U.S. economy puts downward pressure on price - key factor for 2007
- Processing sector relies heavily on U.S. landings, keeps upward pressure on price in live market
- Expect stable to lower U.S. prices, with some further weakening of U.S. dollar.
- Need to continue optimizing industry structure/capacity to restore financial health to tackle marketing issues

Challenges

- **Getting the structure right:** optimal harvesting and processing structure with a common aim of producing high quality products to diversified markets
- **Improving the terms of trade:** a more coordinated approach to limit the increasing market power of distributors
- **Getting to the right market:** product & market development to reduce exposure to commodity conditions
- **Establishing the brand:** healthy products/ clean environment/ sustainable harvesting practices