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Opportunities and challenges in the Atlantic cod markets

Kristján Hjaltason

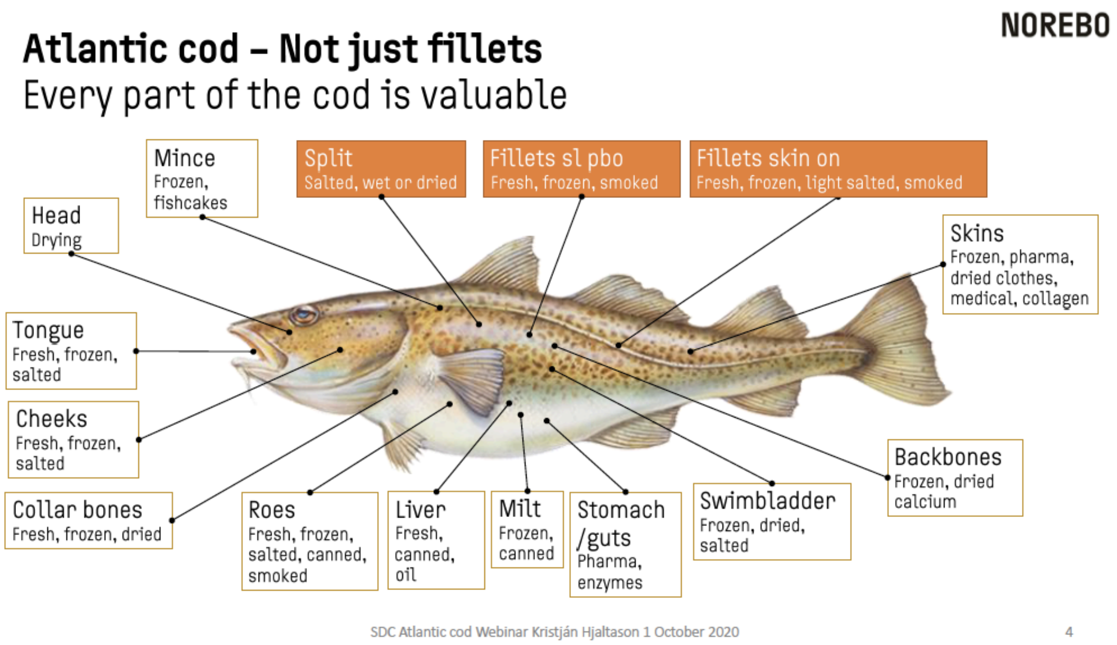
Market development and Outlook

The great variety of products will increase consumption of cod

On the webinar „Opportunities and challenges in the Atlantic cod markets" held by Sea Data Center and Maritech early October the author was asked to talk about the market for Atlantic cod and outlook the next 1-2 years. Here are the main points he talked about.

I. Consumption and value of cod

I think it is good to remind us all what cod can deliver. Everything in cod is used, for consumption in different forms or more recently for pharma or even medicin. The value of cod is much more than just the value of the meat.



Consumption of most seafood is based on preservation techniques and tradition. Atlantic cod is one of the oldest fish species being harvested and consumed in the western world.

Preservation methods, such as salting, drying and even smoking created cooking methods and meals that built up tradition for consuming cod many hundreds of years ago. Bacalao in Spain, Portugal or Italy is the best example.

As technology advanced, freezing became an important method to preserve, and as the cooling chain got better, fresh fish became available in more areas than before. Natural fish became available in good quality and all year round. And closeness of the fishing grounds to the main consuming countries makes it possible.

II. Corona year(s)

This is the year of the corona virus, and it is not over. We experienced a lockdown on most markets from March, with openings in June. The influence on seafood business has been good for some and bad for many.

Retail sales jumped during March, were very strong for many months and are still above last year. Canned almost doubled in sales and frozen was 20-30% above last year, while fresh was down due to closing of fresh fish counters in the UK and people staying away in other countries, e.g. Spain and France. In addition, Iceland could not export fresh fish by air like before.

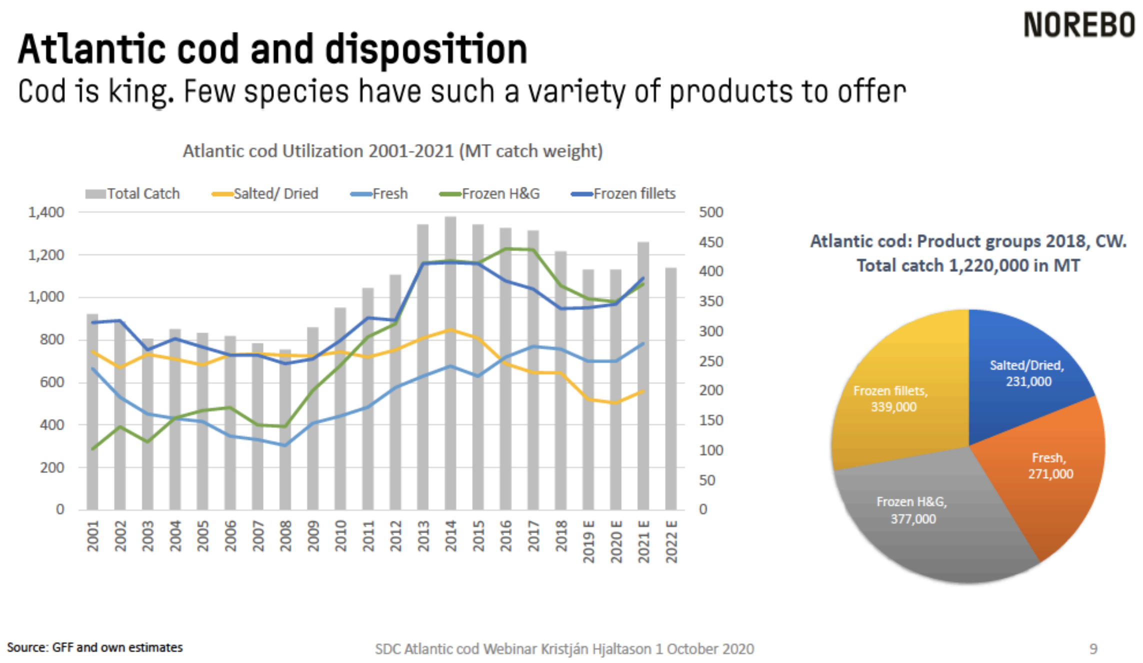
Food service sales fell in Europe and North America, often by 80% during March to May. Restaurants were closed, cruise liners stopped and workers did not eat in the canteens due to home office and factory closures.

Since June, out of home consumption has picked up, opening of restaurants and take-away has helped, so we see maybe 80-90% business compared to last year. In retail, fresh fish counters have opened.

Over the last weeks, the pandemic has gained speed and most countries in Europe have had to renew various restrictions in daily life of people. Winter is coming, and many expect that the situation will get worse.

III. Disposition – Products

The graph shows the development of the dispositon of Atlantic cod from 2001, broken down to 4 product groups. The grey pillars stand for the annual catch until 2018 and expected catch after that, linked to the left axis. The lines are for the processing categories, with the right side axis.



This graph is valuable, because it shows two important factors: Firstly, the production capacity for processing cod, and secondly, it shows what are the most profitable markets for the harvesters. If we look at invividual product groups, we see this pictures:

<u>Salted and dried</u> products were the second most important in 2001, the volume remained stable until 2012, but since then it has been falling and is now the smallest of these 4 groups. Consumers of salted fish are getting fewer and fewer.

<u>Fresh fish</u> was the third biggest product group in 2001, then mainly due to the export of whole fresh fish, the volume fell considerably until 2008, but since then we have seen a strong growth, partly due to increased quota in the Barents sea, and export of fresh cod from Norway, but also due to a constant increase of export of fresh fillets from Iceland. Last year Iceland exported almost 28.000 tons of fresh cod fillets and portions (product weight), but in 2007 the volume was 9,000 tons.

The biggest increase can be seen with frozen at sea <u>H&G</u> cod. It has grown strongly since 2009, when quota in Barents sea started to increase because this is an efficient and quick way to preserve quality. Russia is the largest producer but Norwegians have turned largely away from FAS fillets to H&G. While the main market has been SE-Asia, to produce fillet products for US and Europe, a constantly larger share has been sold in Europe for processing, either frozen products or refreshed sold as chilled portions in retail, but this has been growing strongly in recent years.

<u>Frozen fillets</u> was the largest product group in 2001 and it is still one of the two most important product group. Volume produced in 2001 was the same as in 2009, but since then we have seen strong growth. Fillets and various parts of the fillet are frozen at sea or on land, for variable use on many markets.

This graph is important, if you want to understand the development of consumption of cod.

IV. Outlook

What can we expect over the next 12 months?

I expect that the pandemic will still be affecting our daily life and our business. It is likely that the consumption outside of the home will not have reached pre-corona levels and that we need to rely on retail and home service for our business.

The share of retail varies a lot between countries, but I would think in West Europe we are looking at 50-70% but in North America it is probably the other way around, food service is much bigger. The challenge in the US is therefore much bigger than in Europe.

I am sure that all distributors will look for ways to sell and adapt to these changes. And in additon, we have internet sales. They are not strong for fresh or frozen fish, the supply chain for the last mile is difficult, but consumers will surely try to reduce going to shops, and restaurants offer take aways and home delivery of meals.

And we should not forget that the UK is leaving the EU in 3 months, and noone knows how. There is great uncertainty about what consequences it will have for seafood sales to the UK, an important market for cod, for export of seafood from the UK and for harvesters operating in UK and EU waters.

NOREBO

What influence will possible increase in TAC have?

Strong market for frozen, fresh and chilled products can absorb it.

MT´000 Product group	2018	2019	2020	2021	2022	What to expect 2021
Total MT´000	**1,220**	**1,130** ***-90***	**1,130** ***+/-***	**1,260** ***+130***	1,150 *-110*	Pacific cod: down Farmed: no increase
Frozen H&G	380	355	350	390	350	Europe: chilled fillets China: stable demand
Frozen fillets (SF)	340	340	350	380	370	Refreshed segment FAS/SF: strong markets Russia: increased SF
Fresh fish & fillets	270	250	250	280	250	Russia: fresh landings Fresh fillets: growth
Salted and dried	230	185	180	200	180	Production capacity

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Let us look at the big picture for what we can expect in the next 1-2 years. I base my analysis on the 4 main product groups and put forward my forecast for each of them.

We saw the forecast for total supply of Atlantic cod from Finn-Arne, my figures are similar. So more Atlantic cod next year, but most of it goes back to 2020 level in 2022.

If we look at competing species, we can expect more supply of some other groundfish species, such as Alaska pollock but reduction in catch of Pacific cod continues, and on the other hand, there will not be the strong increase in supply of farmed species we have seen in recent years.

My expectations for the main product groups are:

H&G will be 390,000 tons, in increase from this year. I expect demand in China to be stable but growth will be in Europe, for the refreshed market.

Single frozen fillets will grow, from this year and also 2018 level. Markets for frozen at sea fillets and landfrozen fillets and portions is and will be strong, with 90% sold in Europe and increasingly for refreshing. And Russia is increasing production of frozen fillets on land due to more landings of fresh fish in Murmansk.

Fresh fish and fillets will grow, Norway needs to export fresh fish and production in Europe has increased in recent years, based on H&G and fresh fish from Norway, and sometimes Iceland. Russia can also export fresh fillets.

I expect production of salted and dried fish will take part of the increase, Norwegians need to use this method in the first months of the year.

On the demand side, I expect that retail sales will continue to be strong in 2021, making up for most of lost sales in food service with normality coming second half of 2021.

Finally

The strength of Atlantic cod lies in the great variety of products that can be produced and offered, in the various sizes that give different opportunities and the long tradition of consuming cod. No other groundfish is like Atlantic cod.