

Global Markets for King Crab

Kirkenes, Norway

October 3, 2012

John Sackton Seafood.com



Background

- Crab and shrimp market analyst since 1997
- Price arbitrator for Alaska king crab, snow crab annually since 2005
- Publisher of Seafood.com News



A screenshot of the Seafood.com News website. The top navigation bar includes links for Home, News, Search, Market Stories, Advertising, and About Us. Below the navigation bar, there is a section titled "Seafood News" with a date "Monday, October 01, 2012". The main content area lists several news items: "China's animal rights activists ask Canada to stop exporting seal products", "Canada's legendary tall-masted schooner Bluenose sails once again", "Sanford and Sealord jointly buy North Island Mussel from receivers, over 200 jobs saved", "Joe's Crab Shack celebrates National Seafood Month with online survey", "Ocean acidification a clear threat to U.S. fisheries", and "Council Considers New Rules to Allow Fishing in the NE Groundfish Closed Areas". To the right of the text is a large image of a fishing boat with a net, and a smaller image of the Seafood.com News logo. Below the main content area, there is a "Seafood.com News Summary Friday September 28, 2012" section with a prominent headline: "Council Considers New Rules to Allow Fishing in the NE Groundfish Closed Areas".

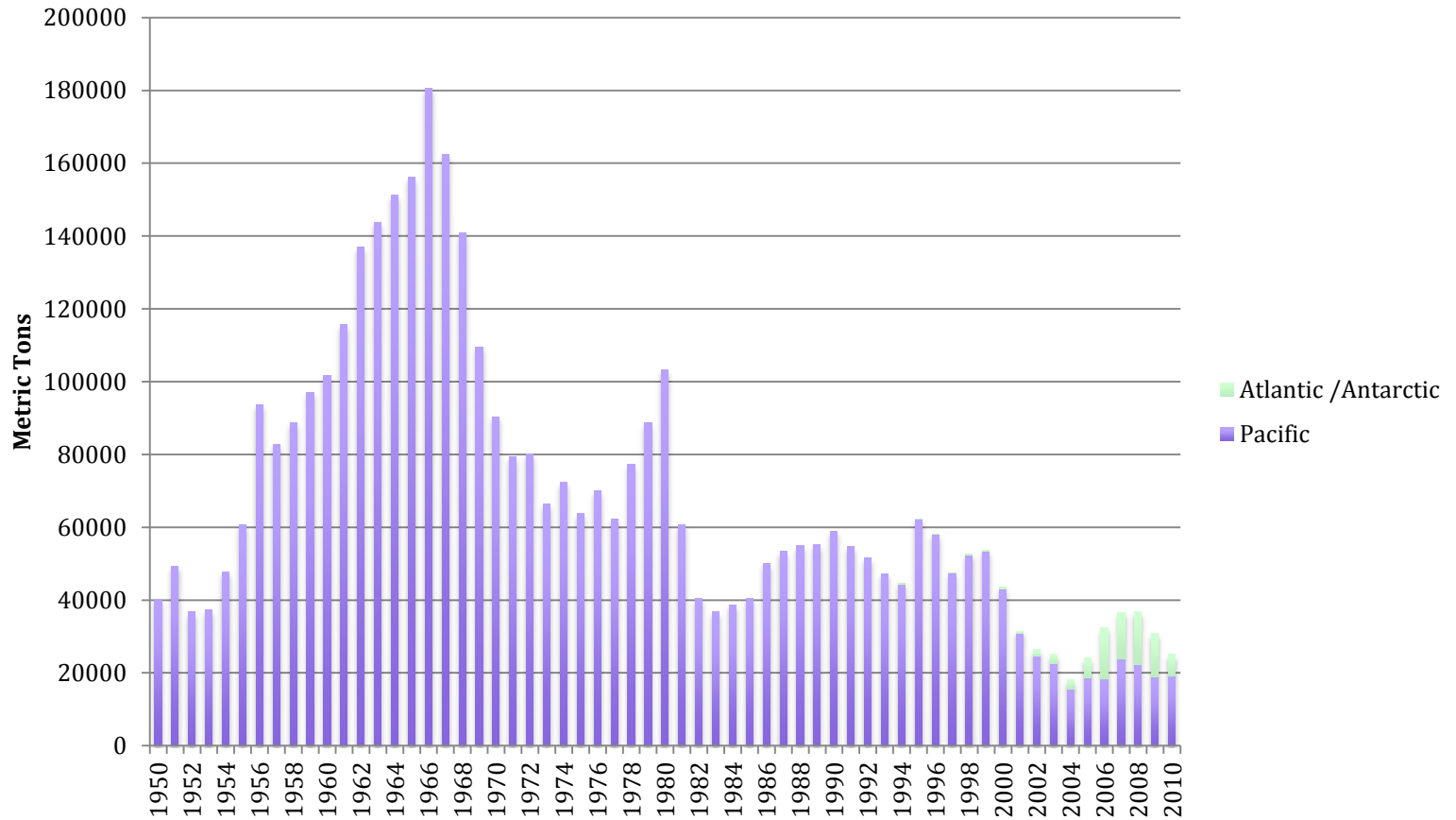


Outline

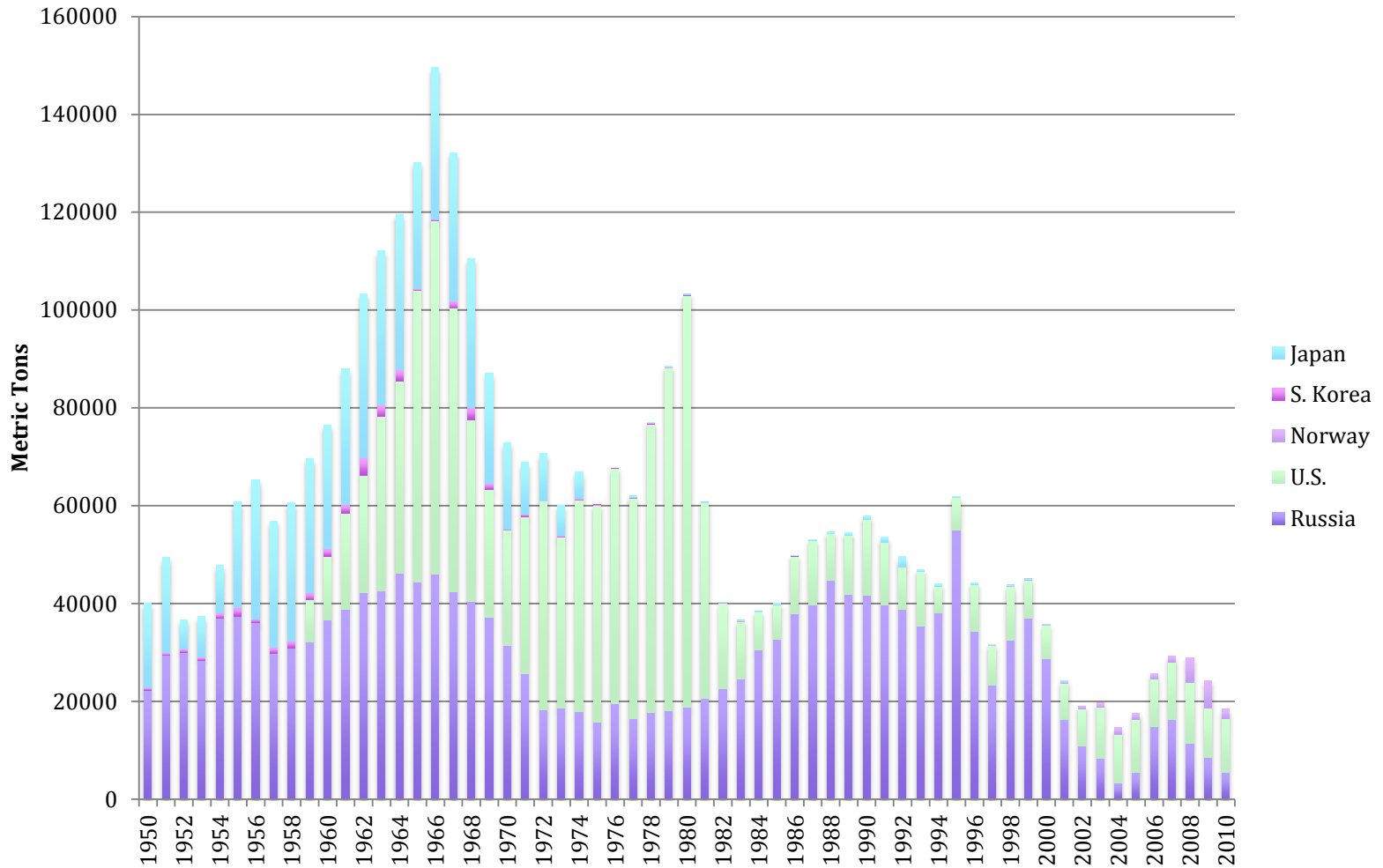
- Historical trends in abundance
- Types of king crab in global markets
- Major Markets
- Users within major markets
- Recent Supply History
- Price History: US & Japan
- China Market observations
- Outlook for 2012-13
 - US Harvest
 - Russian Harvest
 - Japan and US market demand



King crab harvest (FAO)

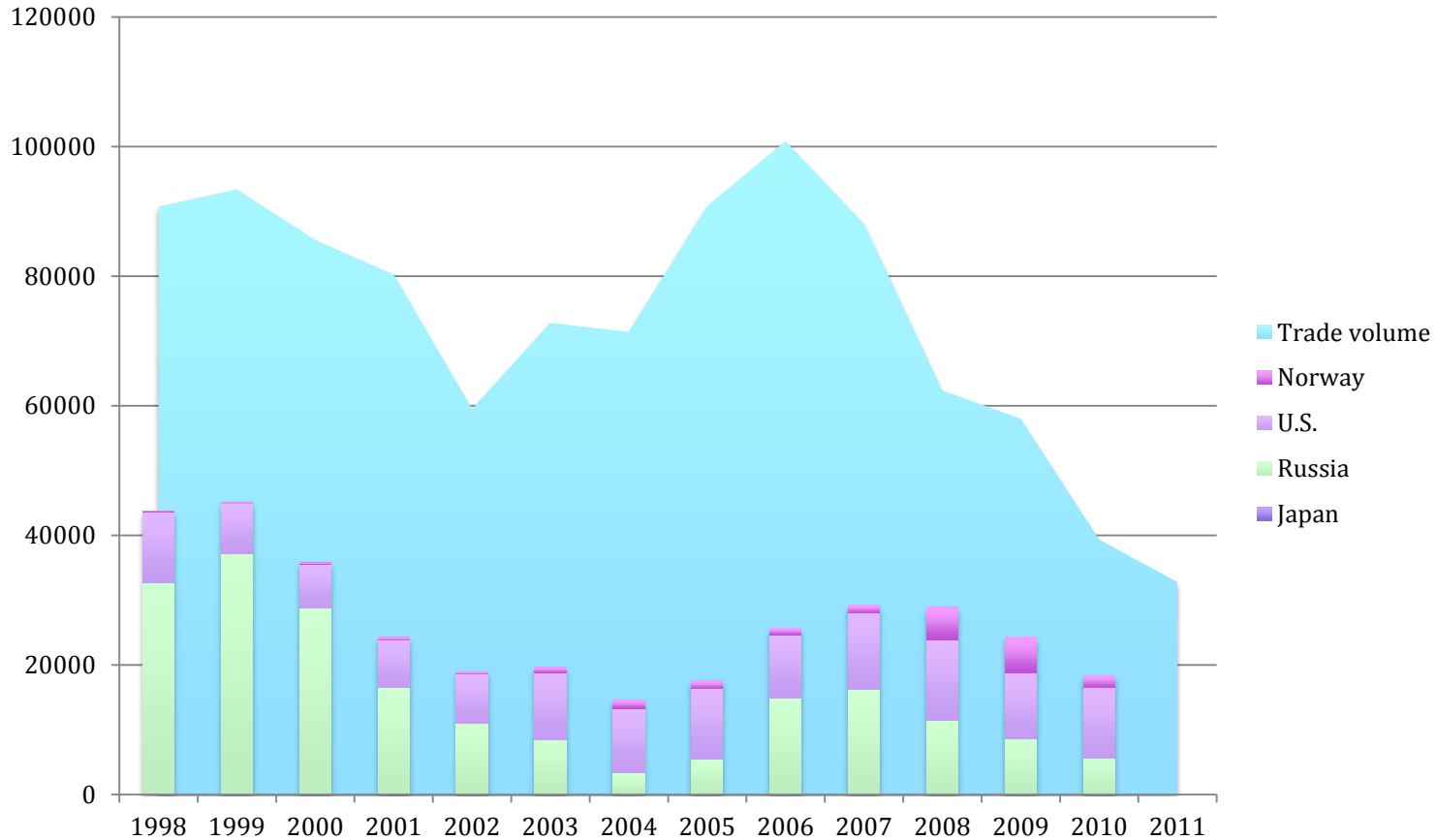


Red king crab harvests(FAO)



King crab landings vastly underreported

Reported Landings vs. Reported trade volume (live wgt)



Changes in Supply

- Legal landings down about 40% from peak in 2007
- Trade volumes down 68% from peak in 2006.
- Crackdown on illegal crab is primary reason for lower global supplies. This is virtually all Russian Far East illegal crab.
- Further reductions in illegal crab are likely



Major types of king crab



Attributes

	Meat Fill	Size	Color	Labeling US	Labeling Japan
Red	Good	Largest	Good	King crab	Red King Crab
Blue	uneven	large	Good	King Crab	Blue King Crab
Golden	lower	smaller	Moderate	King Crab	Not sold
Southern		smaller	Good	Sentola Crab	

Red king crab has highest value in all markets due to size, meat fill, color, market preference



Most king crab purchased in US and Japan



Japanese crab restaurant



Red lobster restaurant (US)



Japanese demand drives global prices

- Japan is losing its market setting ability for many products
 - Mackerel; herring roe; snow crab
 - Japan is still primary driver of king crab prices
 - Majority of Russian crab production goes to Japan
 - Strength of Japan demand determines Alaskan price

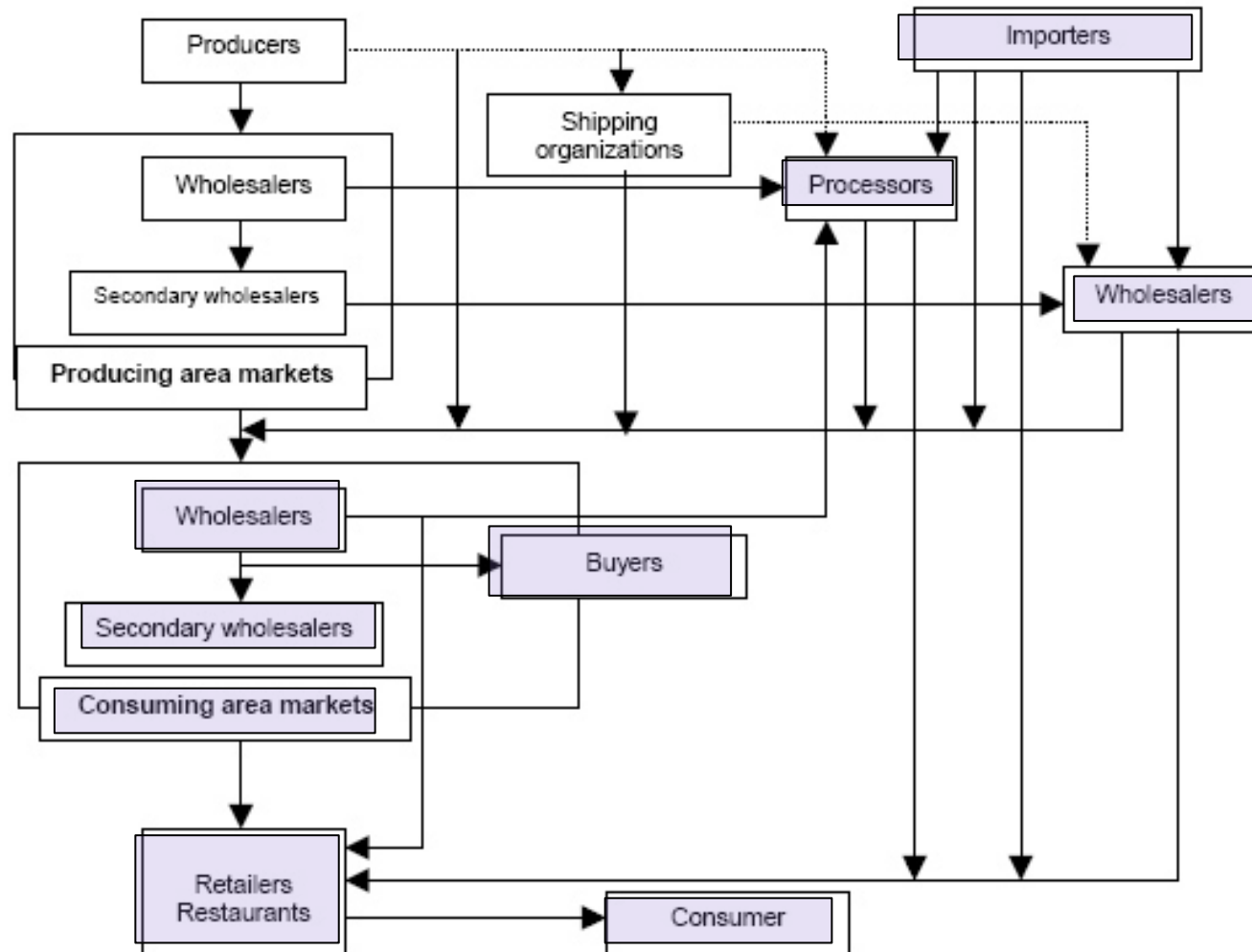


Japan's internal market is changing

- Retailers have gained market power over traders in Japan
 - More seafood is sold through large Department stores; less is sold in traditional markets
- Result is Japanese importers have become more price sensitive; cannot compete in global markets vs. new buyers



Principal distribution channels for shrimp and crabs

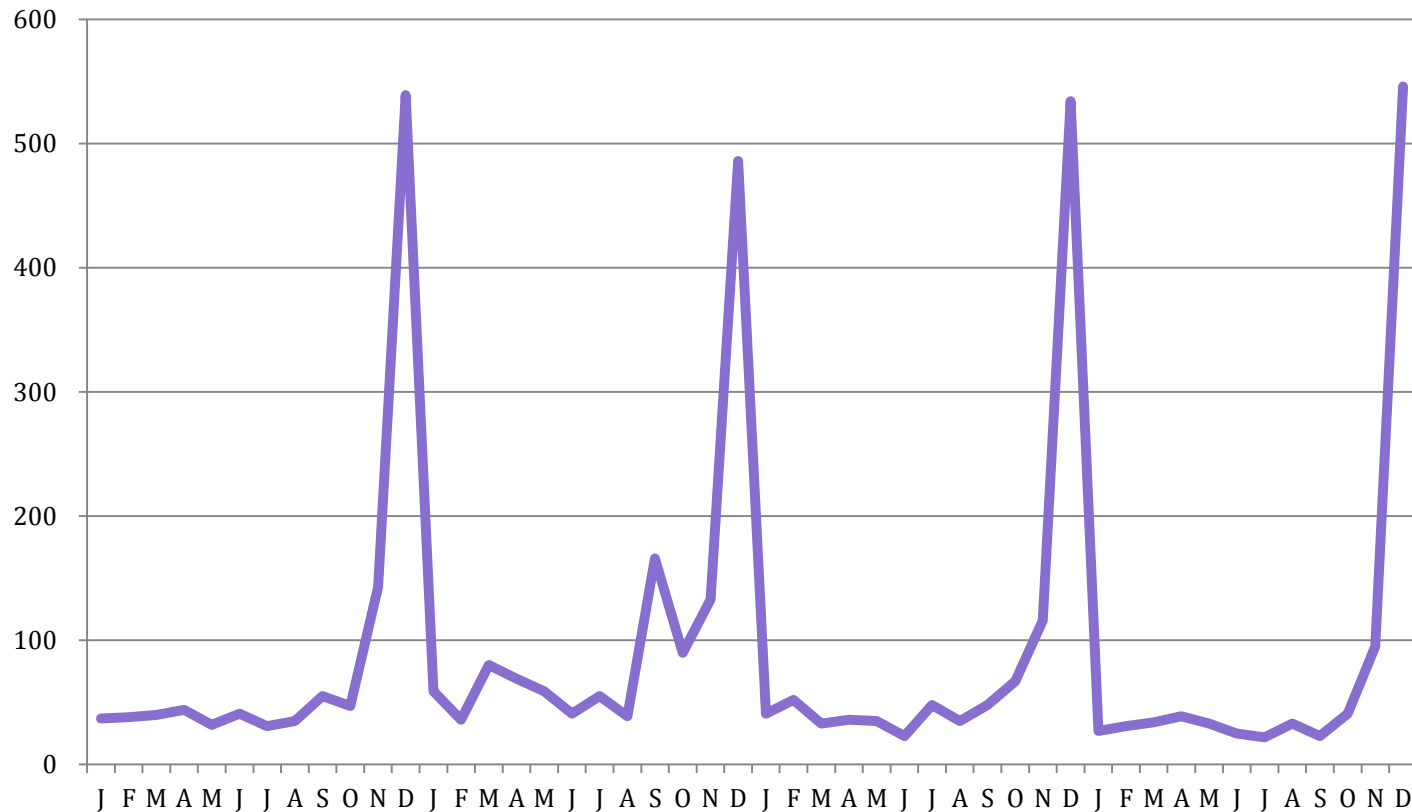


Notes:

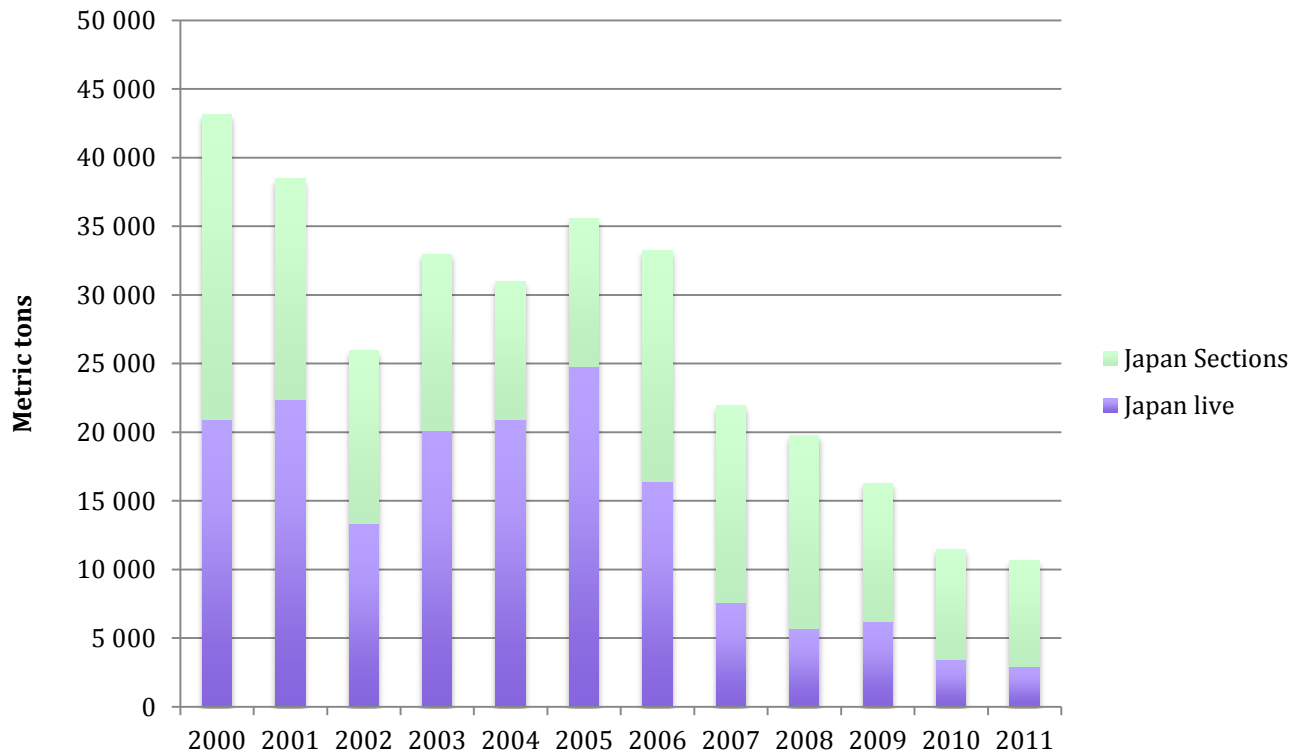
- 1) *Buyers; includes large-scale buyers, food processors, operators from outside the local area, trading company representatives.*
- 2) *Dotted lines indicate channels used only by domestic products; solid lines indicate channels used by imports.*
- 3) *Processors also include companies that import in bulk and simply repackage the merchandise for consumer sale or perform other comparable minor processing.*



Year end sales drive king crab market in Japan

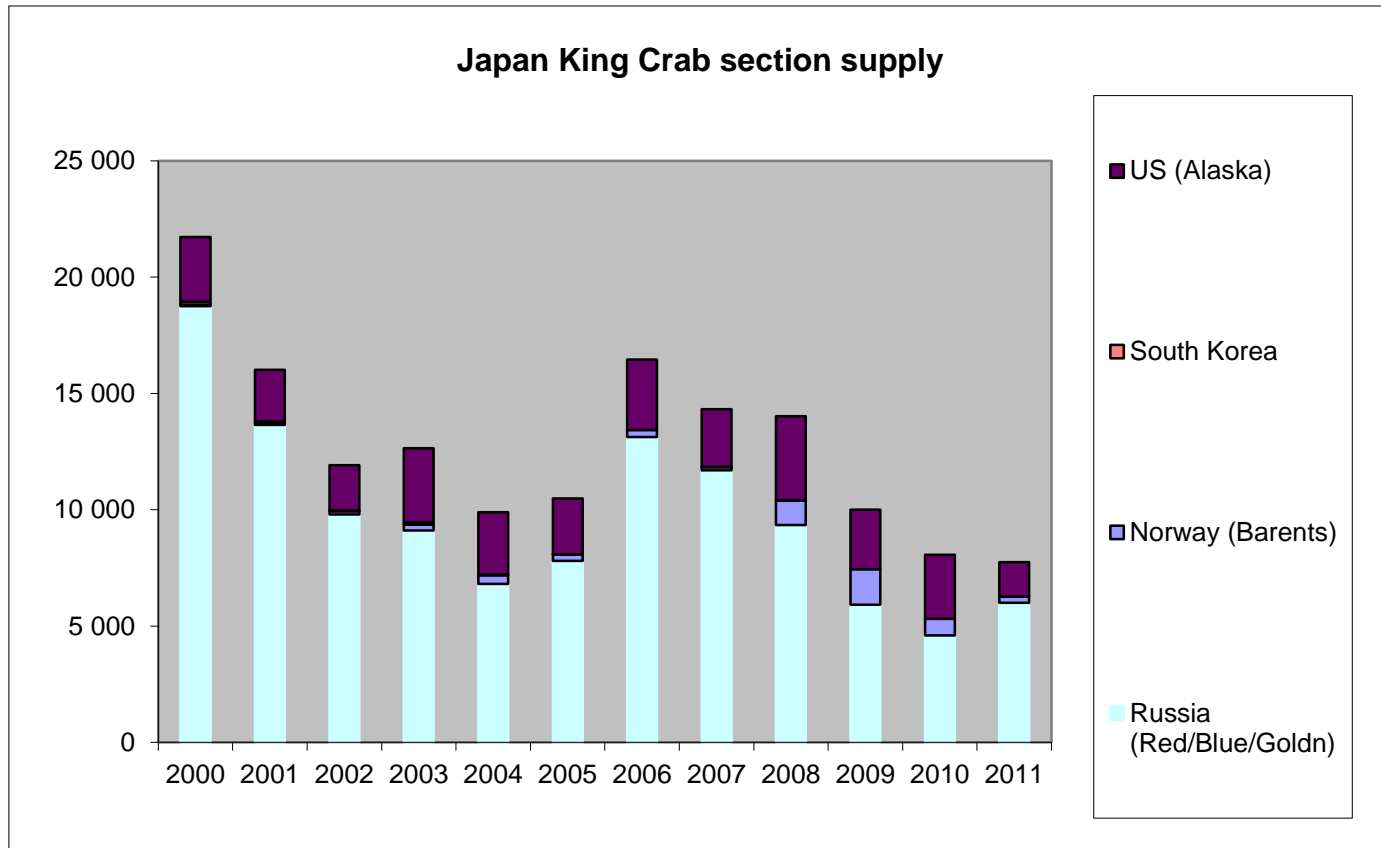


Japan experienced a 'Supply Shock': As live crab cut back, frozen sections increased

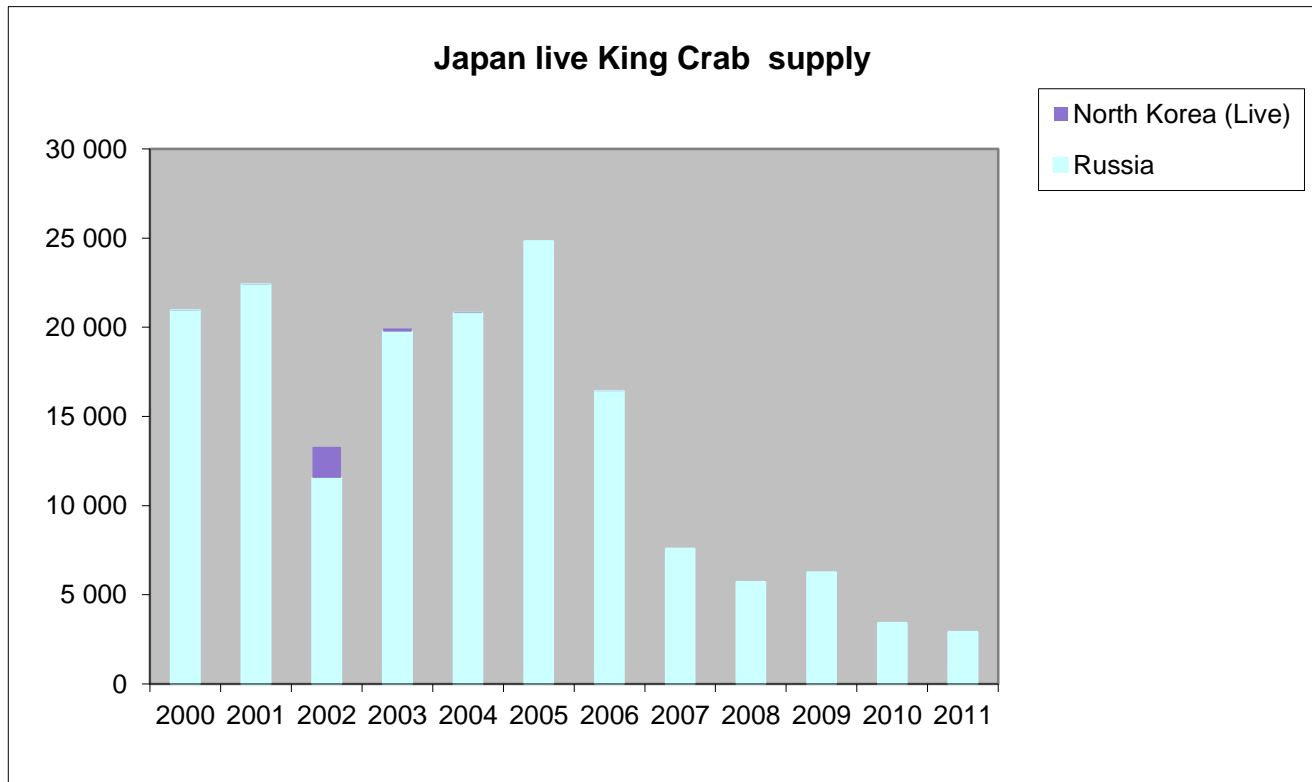


Japan Frozen sections:

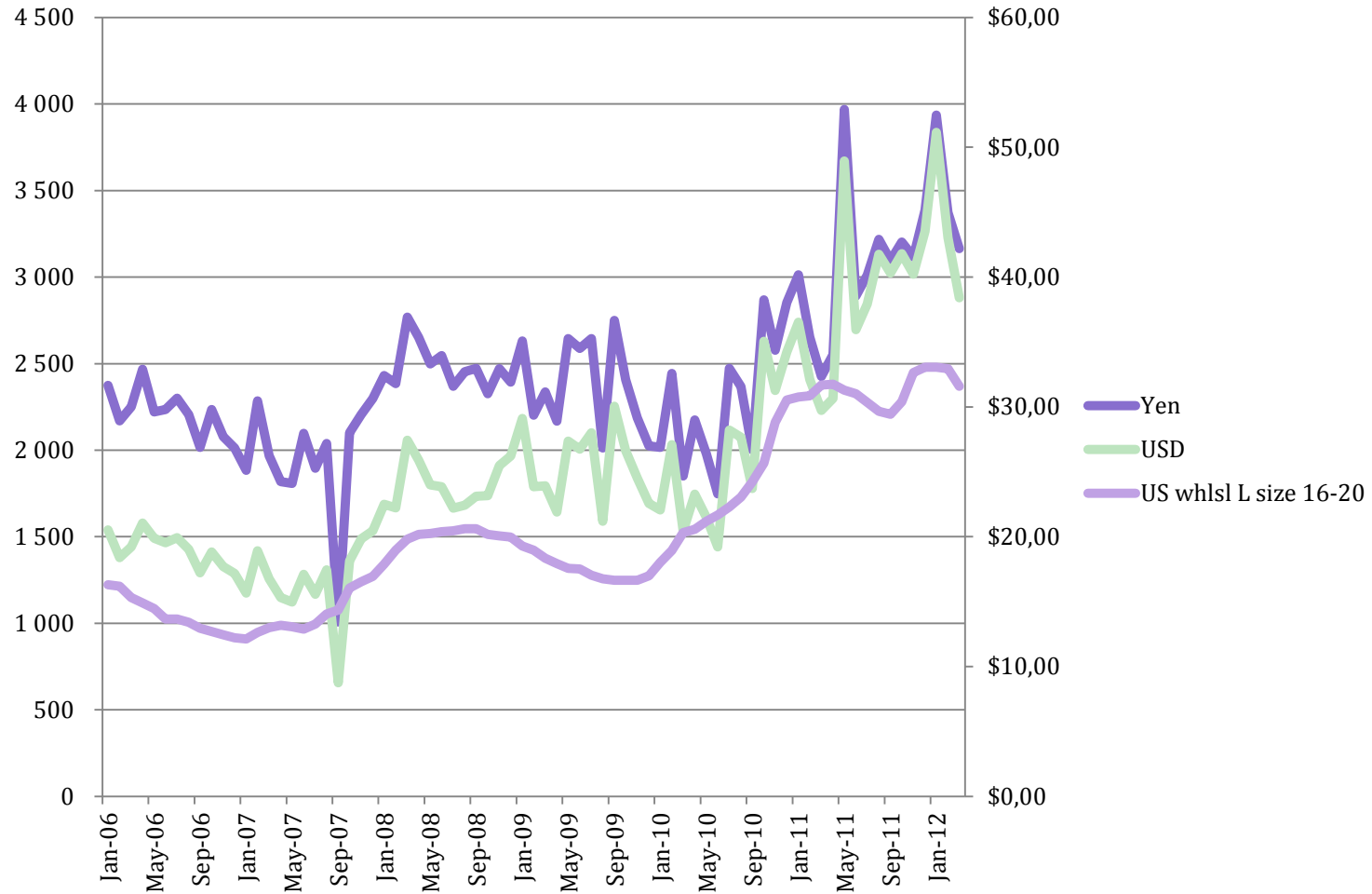
supply increased from Russia to make up for Alaska shortfall



Hokkaido processors hit hard by lack of supply



Move to frozen crab kept price high



King crab sizes

Japan	US	Weight
M	20-24, 20 ups	350-500 grams
L	16-20	500-750 grams
2L	14-17	750-900 grams
3L	12-14 and 9-12	900-1100 grams
4L	6-9, 9-12	>1100 grams



Japan supply now stabilizing

- King crab imports in 2012 are up through July by 150% to 4409 tons.
- High prices cut demand for king crab; inventory situation has improved
- Currency trend (strong yen) assisted Japanese buyers to bid for crab; now stabilizing



US market

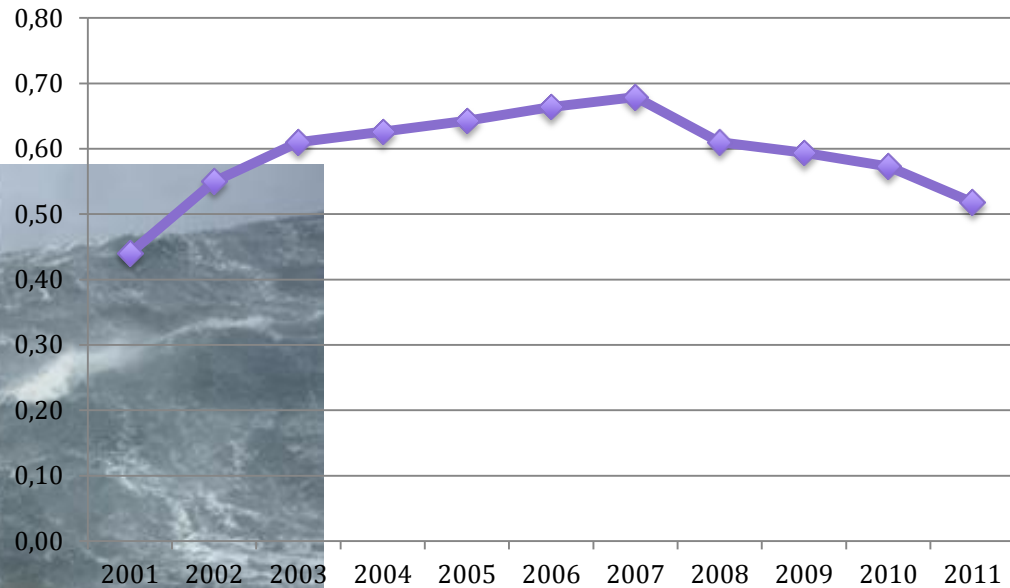
- Originally foodservice white tablecloth market with low volume
- The TV program 'deadliest catch' plus a surge in king crab imports from Russia helped boost consumption.
- Trend is now reversing



Deadliest Catch helped spark boom in US crab consumption

crab consumption

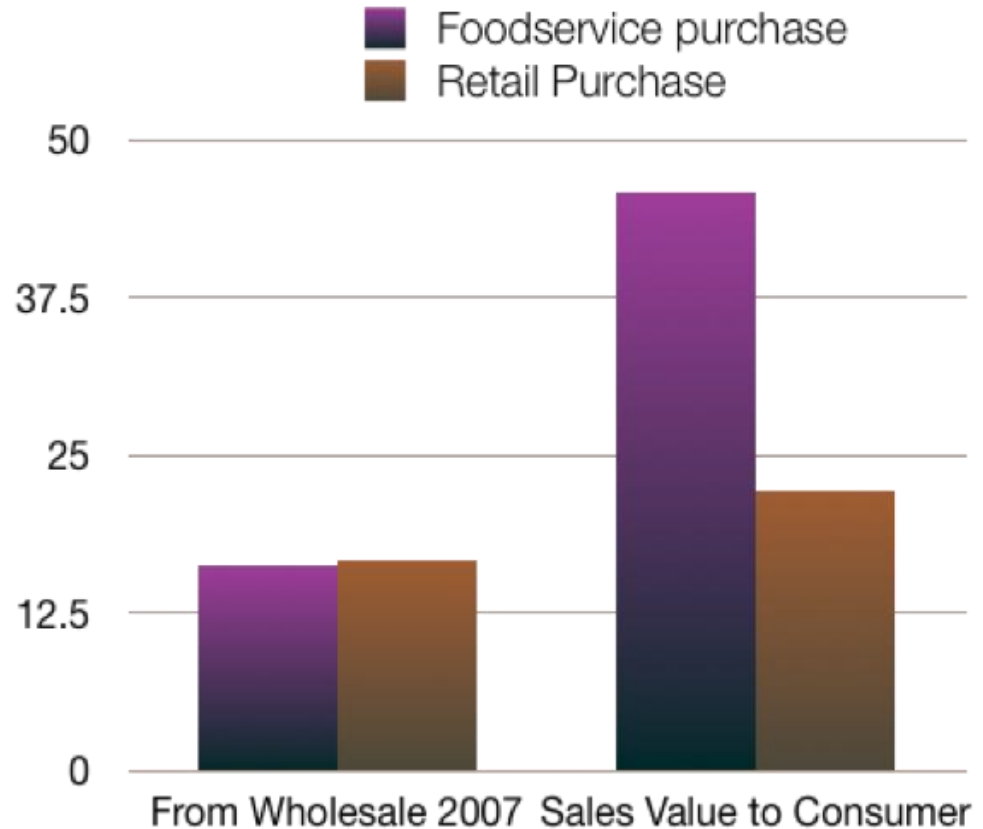
US Per capita consumption of crab
now declining



US Retail and foodservice purchase of seafood

Packers, wholesalers, importers and traders sell equal pounds to foodservice and retail : 50/50

Foodservice adds more value in meal preparation, leading to a larger share of total consumer seafood dollar: 67% Foodservice



Data from U.S. NMFS

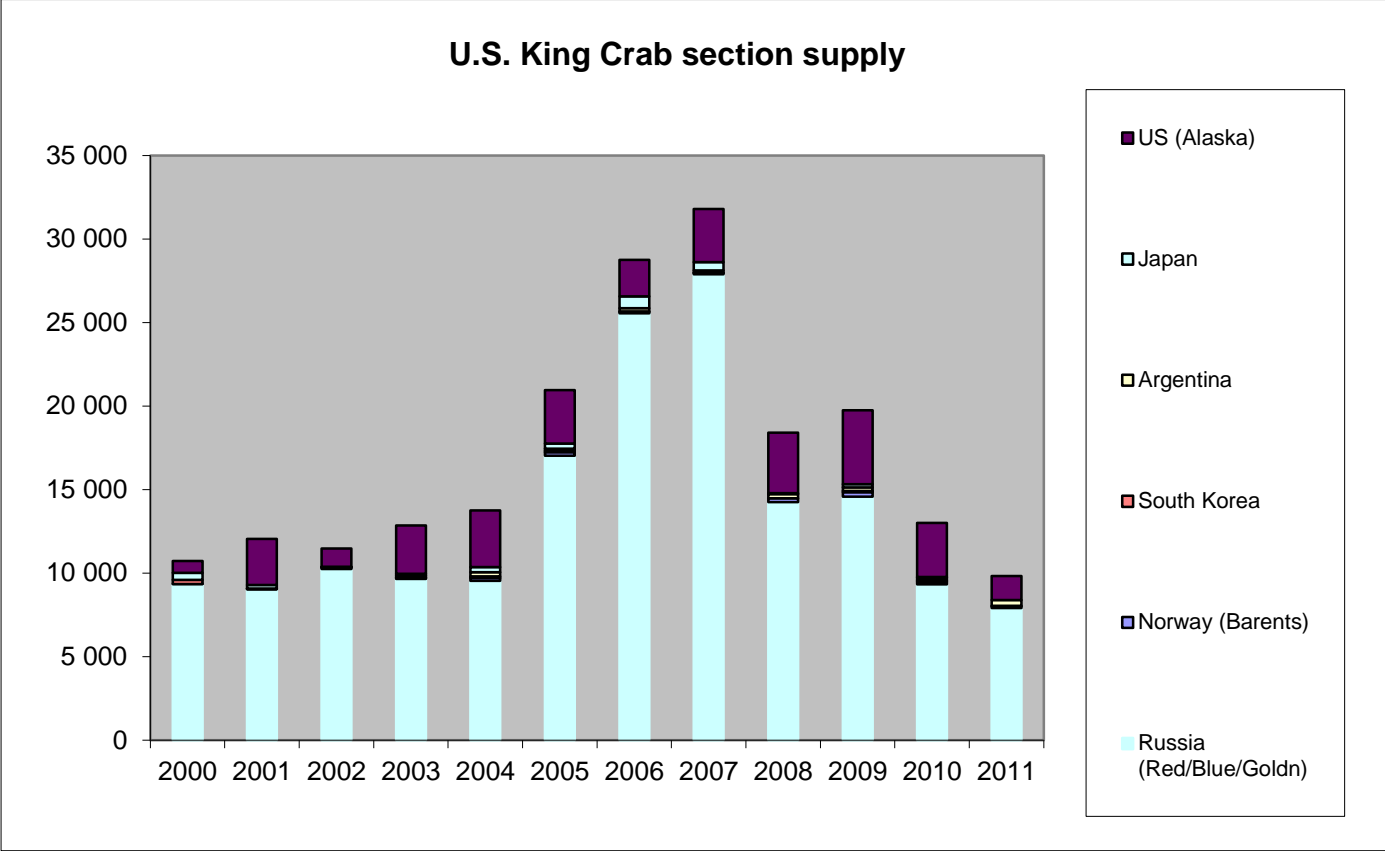


King crab used to be a Foodservice item

- High price made it a white tablecloth restaurant staple
- Used in casino's, resorts, expensive restaurants
- Explosion of supply plus popularity of crab led to surge in retail sales
- Retailers became primary buyers of king crab

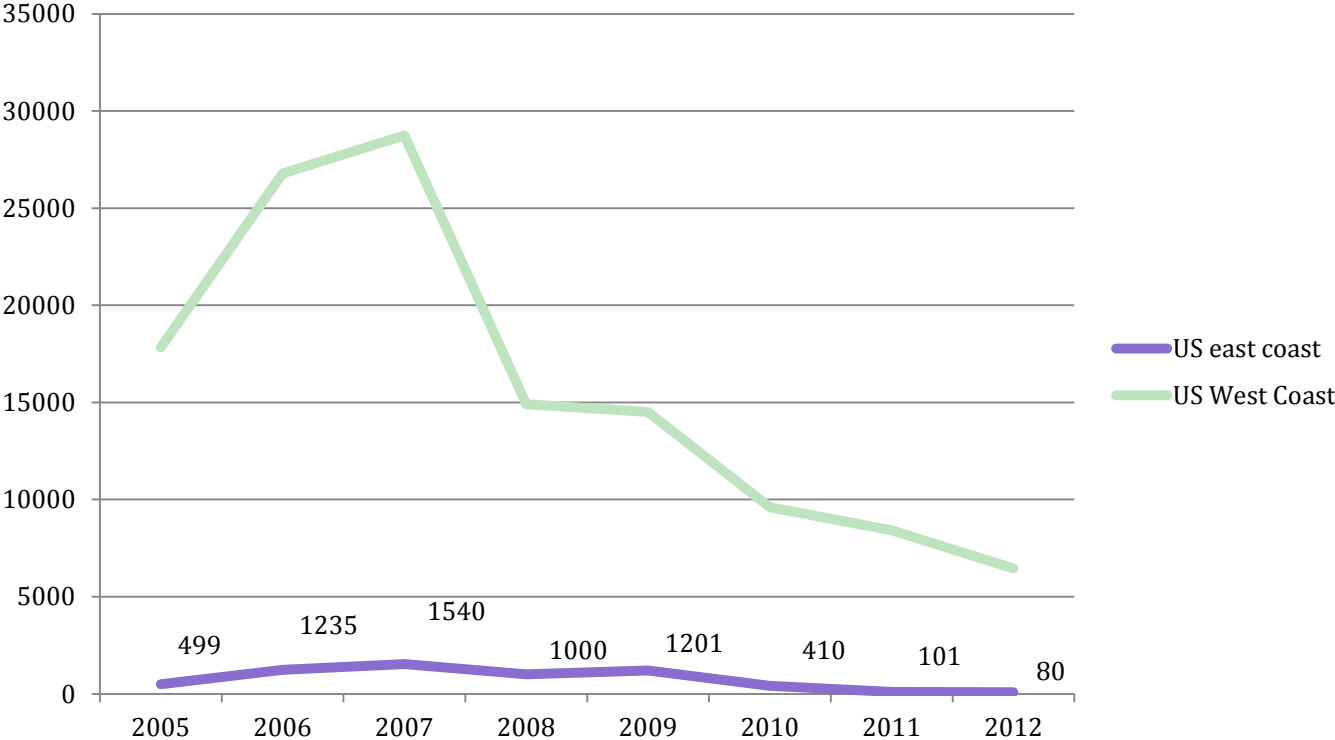


Surge in Russian illegal imports pushed prices to record low levels



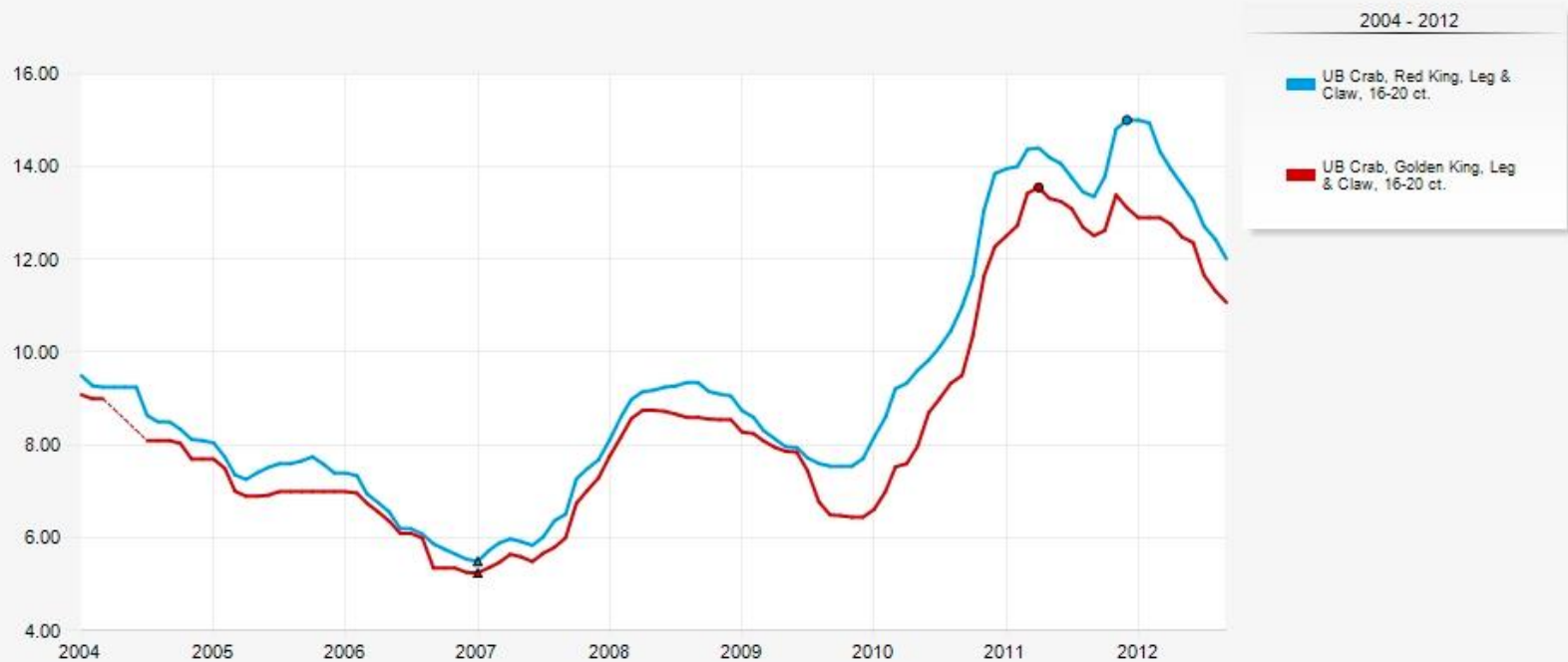
Surge was virtually all Russian Far East product

US Imports of King crab by Port



Prices dropped to record lows

Monthly - Low



Copyright © 2012 Urner Barry. All rights reserved.

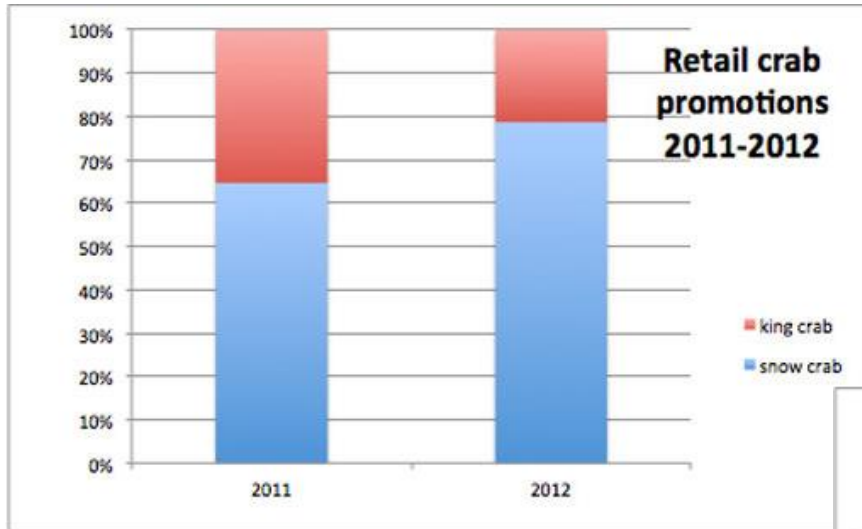


Retail demand has been major determinant of price

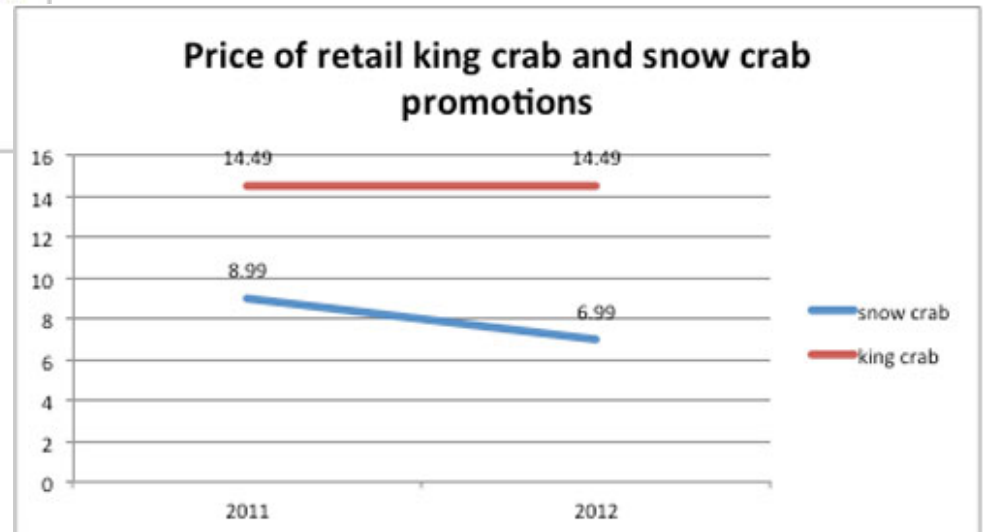
- Supermarkets responded to king crab opportunity; also marketed Barents sea large size crab (6-9 and larger)
- Expansion of demand began to lead to higher prices
- Economic crash in fall 2008 led to pullback
- In 2010 and 2011 Japan demand drove pricing



In 2011 Retailers abandon king crab

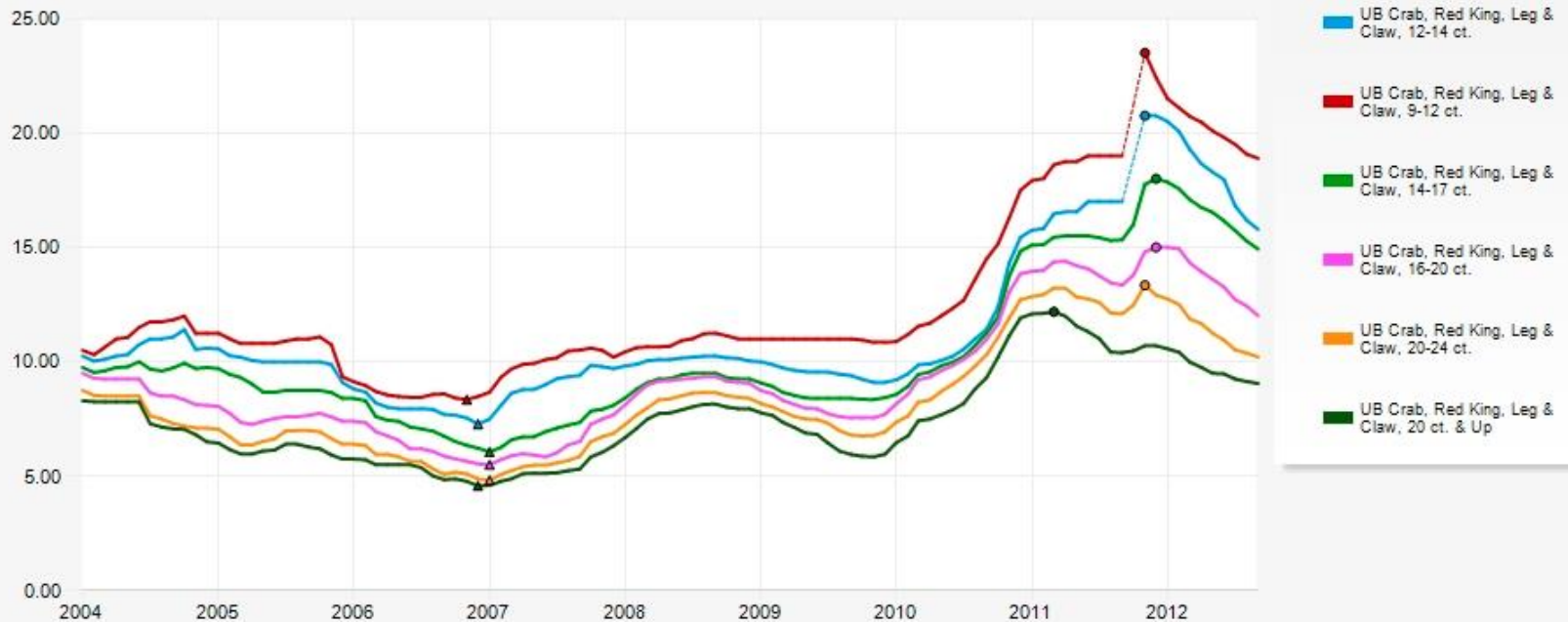


	count	Median Price
red crab clusters	76	\$9.99
king crab	158	\$15.99



Market now retreating especially on smaller sizes

Monthly - Low



Copyright © 2012 Urner Barry. All rights reserved.

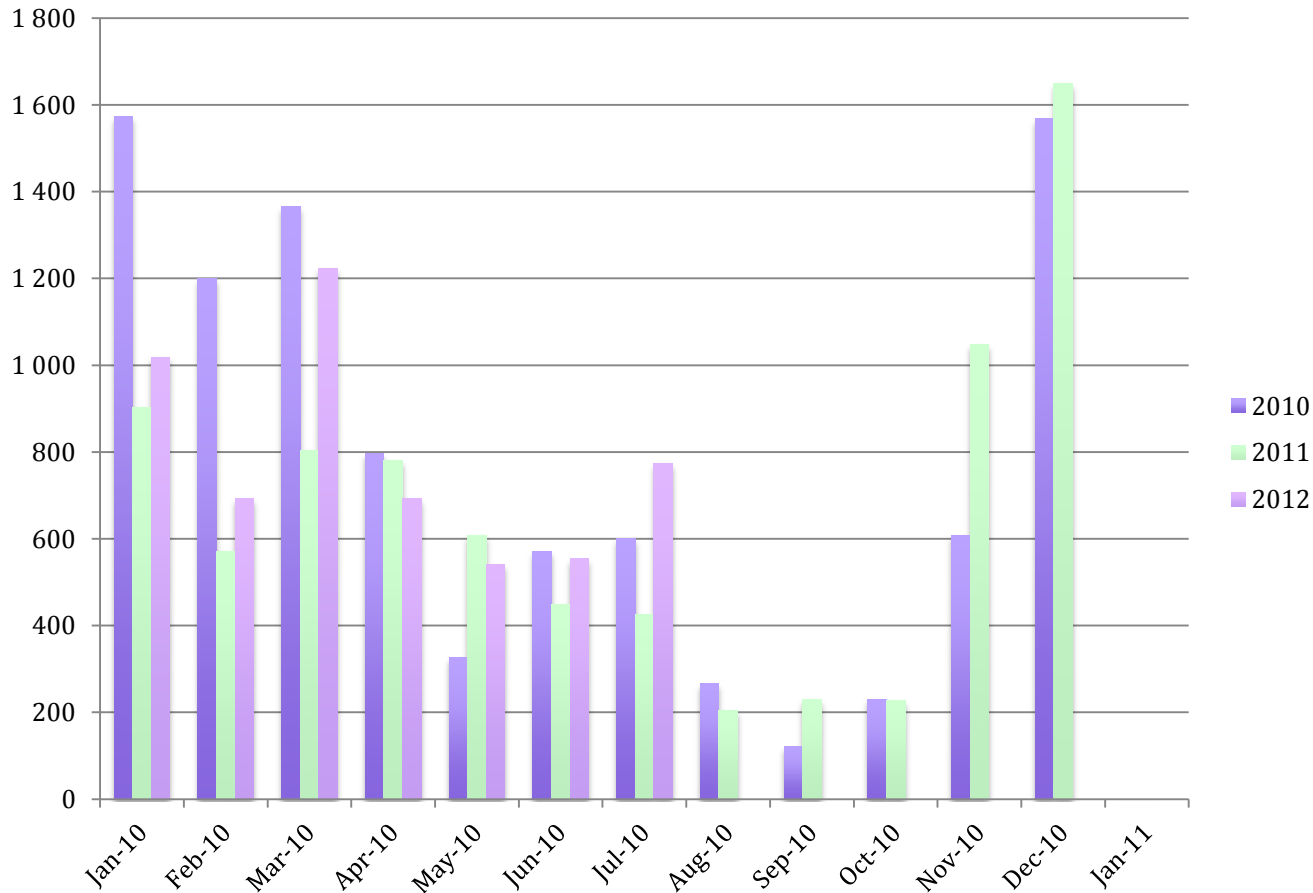


Foodservice not sufficient to absorb production

- King crab will have to go through further period of adjustment to attract US retail buyers.
- Currently they like Argentinean red crab (\$9.99 retail) and Canadian snow crab (\$6.99 retail)



US has seen increase in Russian shipments this year



Differentiated market

- Red King crab prices remain high for Alaska product due to high raw material cost
- Some unsold inventory at start of new season
- Golden king crab and Sentola crab (Argentina red crab) sell for \$1.00 to \$3.00 per lb. less than red king crab.



Highly concentrated production

- Alaska red king crab dominated by 4 companies: 2 Japanese, 2 US
- In no case is crab the major part of their business
- They use crab to leverage other products such as whitefish fillets. Japanese companies guarantee supply.
- Pricing mechanism gives no incentive to hold product for higher price.



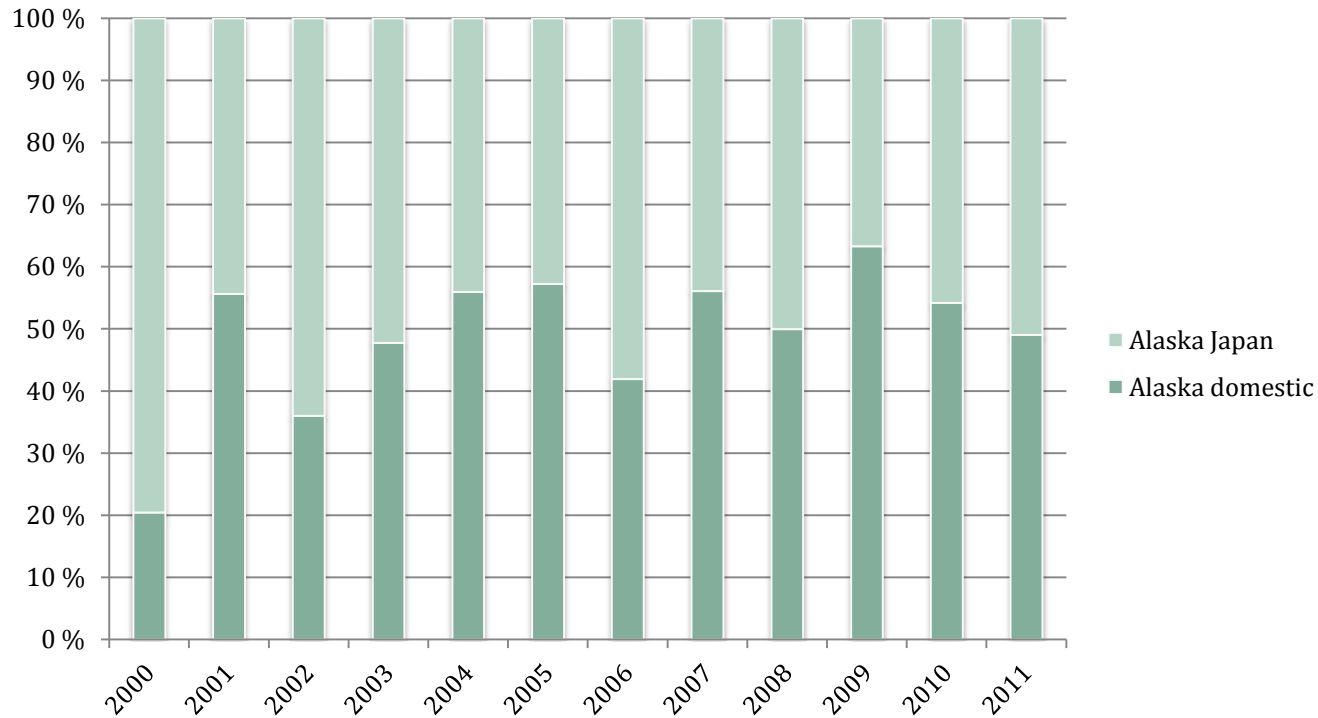
For 2012-13 Processors will take Japan price offers

- Due to US market weakness, processors will again try and set prices based on offers from Japan
- Prices in Yen should be lower this year; assuming production remains around the same level – 3500 tons of live crab.
- Normally about 50% of US production sold to Japan



Japan normally buys about 50% of US pack

Percent of King crab Pack going to Japan



King crab sellers need to look to other markets

- China
 - Growing market for live crab
- Russia
 - Has there been interest in keeping some production domestically? Will there be government support?
- Europe
 - Economic weakness suggests poor outlook



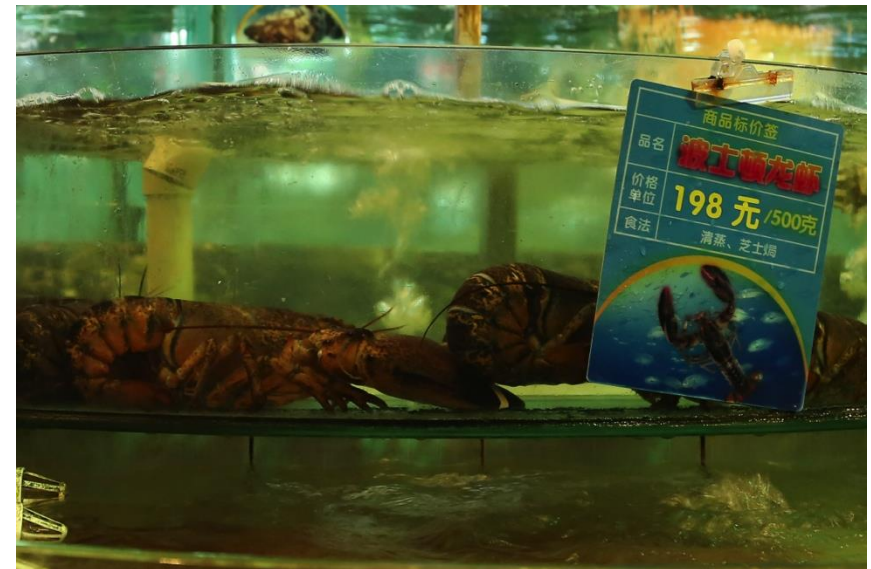
Experience of Lobsters

- Australian spiny lobster was the mainstay for Chinese Market
- Shortages pushed export prices to \$30 per lb. and higher (\$66.00 per kg)
- Opened the door in China for other types of lobsters – such as North American lobster
- Now new market being established



China Live Market

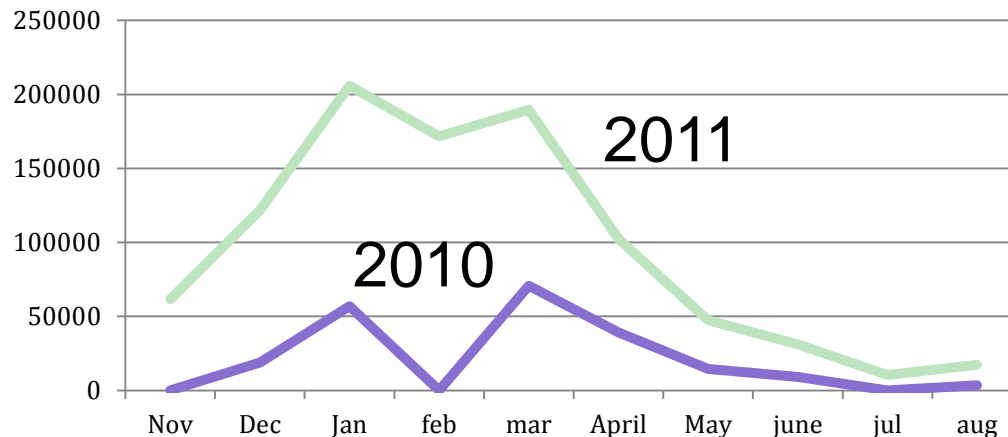
King crab \$63
Australian lobster \$45
American Lobster \$31
Unit is 500 jinn – about 1 kg



Experience of dungeness crab

- Landed on West Coast of US
- Live buyers pay highest price
- In last two years, live exports to China have become major factor in market

Live crab exports to China - Pacific Ports



Differentiation of king crab key to achieving value

- Alaska has disadvantage because of large volume
- Barents Sea King crab used to be differentiated by size – very large
- Small volumes allow for more diverse product form – live; specialty products (raw frozen) etc.



Outlook for 2012-13

- Market will weaken further
- Retail not prepared to take on volumes
- Russian harvests increasing again –
- Japan has adjusted to lower volumes
- US retailers moved on to other products



King crab prices in 2012-13 likely to fall until it is perceived value again compared to other crab

- Both US and Japan buyers moved to snow crab as an alternative to high priced king crab.
- Argentinean red crab is attracting buyers in US – room for expansion as more vessels may be added
- Snow crab volumes likely to contract in 2013



Japan certificate of origin

- Japan will require certificate of origin for all crab starting in December 2012.
- This will further impact illegal Russian crab; will continue lower supply level.
- Current surge in US imports may be related to upcoming crackdown.
- US importers paid multi-million dollar fines for buying illegal crab
- Traceability has become very important to buyers

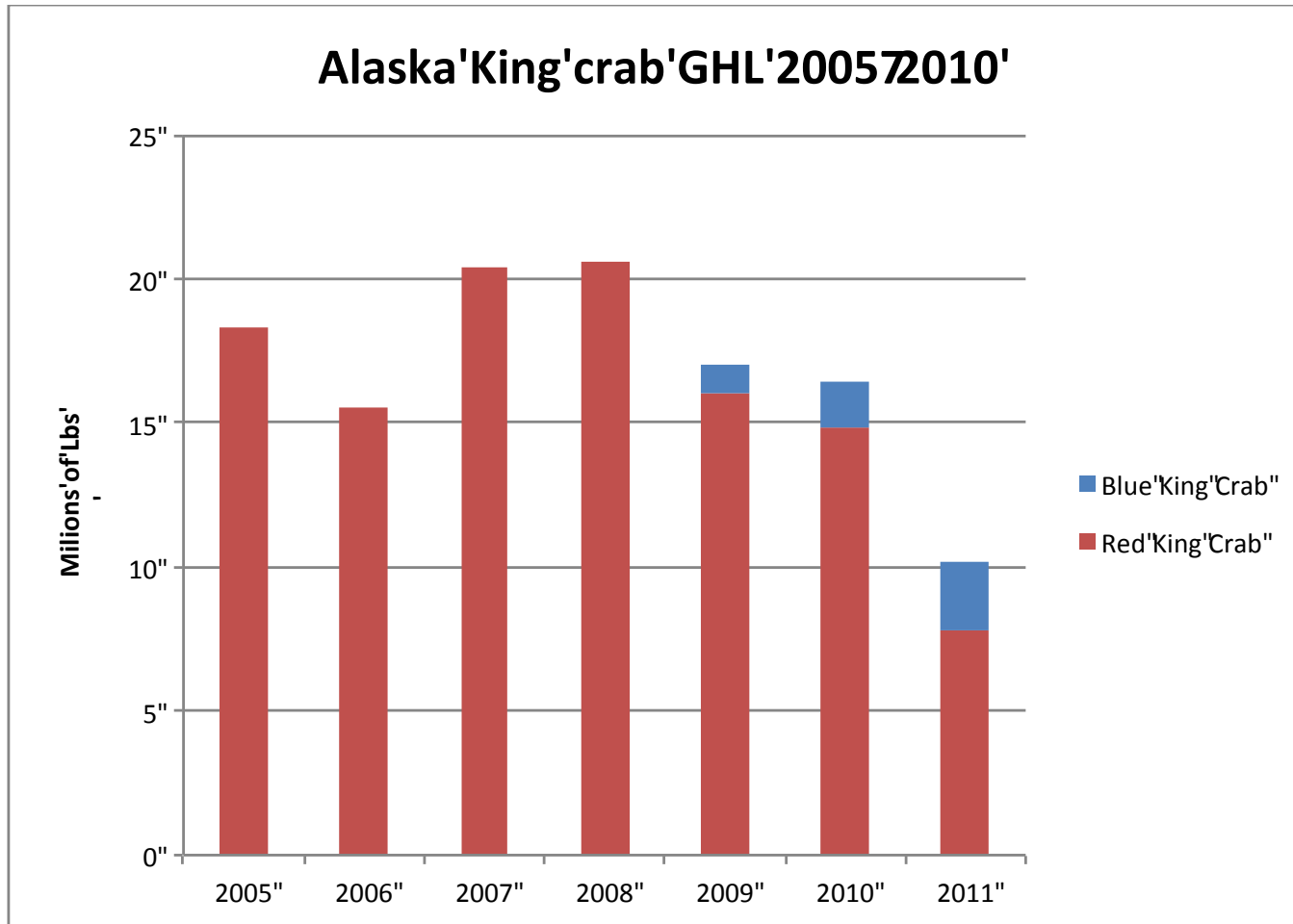


Alaska Outlook

- King and Snow crab quotas just announced
- Japan believes Alaska king crab represents highest quality
- Resource is currently in low productivity period, but overall seems healthy.



Alaska Harvest Guideline



Issues in Alaska Fishery

- Buying dominated by 4 major companies; harvesters have to sell 90% of crab to them
- Pricing is based on final wholesale price – approximately 52%.
- Buyers have little incentive to invest in better handling, new products
- Sell brine bulk and some raw frozen

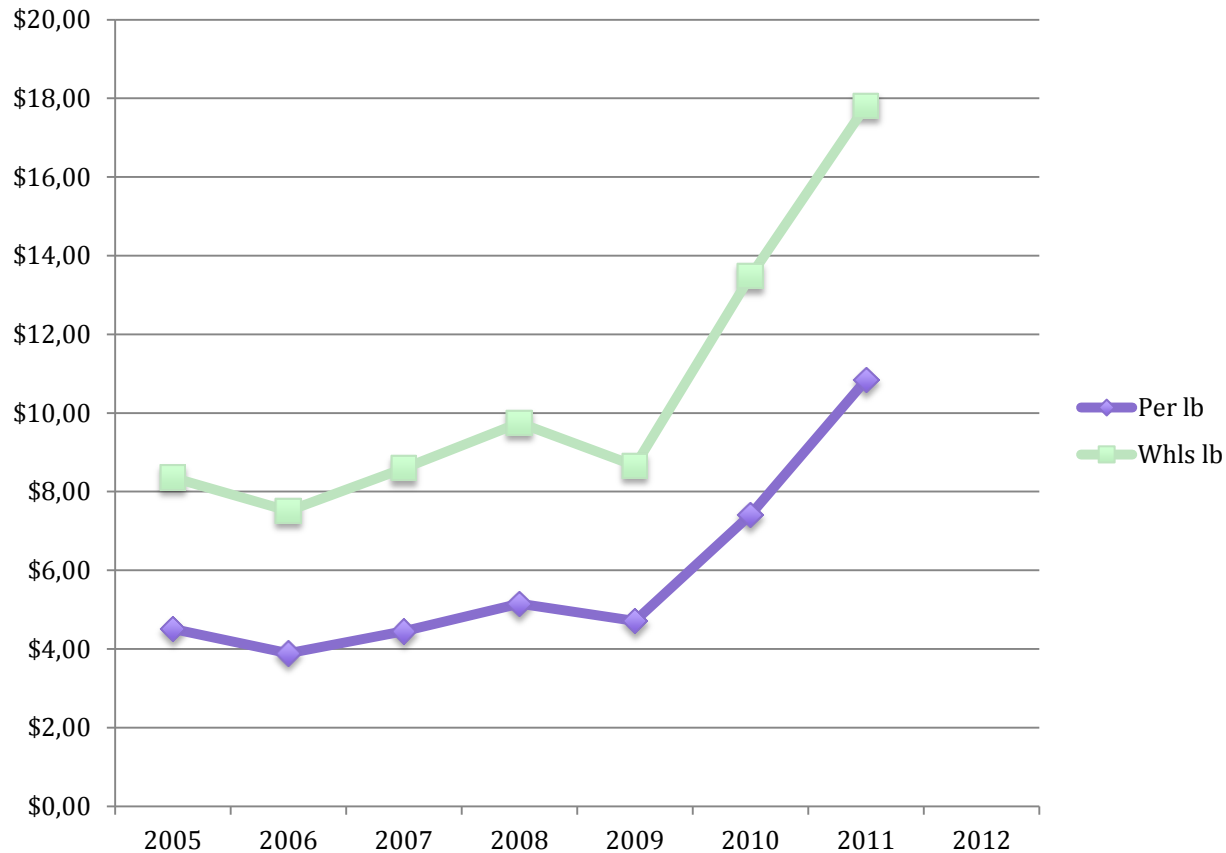


Ex-vessel price history in Alaska King Crab Fishery (\$US)

	2005	2006	2007	2008	2009	2010	2011	2012
Per lb	4.51	3.89	4.45	5.15	4.71	7.41	10.84	
Whls lb	8.36	7.51	8.59	9.75	8.66	13.48	17.81	
Vessel / Kg	9.94	8.58	9.81	11.35	10.38	17.00	39.26	
Volume (mt)	8300	7030	9253	9250	7257	6713	3538	



Graph of Alaska red king crab ex-vessel and wholesale prices



Thank You

- Time for questions

