

Here to give the UK seafood sector
the support it needs to thrive.



UK Seafood Supply Chain Overview:

April-June 2022

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November 2022

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Introduction

This report takes a high-level view of the whole of the seafood supply chain to explore factors impacting UK seafood markets, seafood business operations and consumer behaviour during April to June 2022.

In the UK, we export a large proportion of the seafood we catch and import much of the seafood we eat. Our seafood supply chain is heavily integrated into the global seafood supply chain. Therefore, both local and global changes have consequences for the UK's seafood supply chain.

We have drawn on qualitative and quantitative data available at the time of writing. This includes official statistics and industry insights. Links to data sources and other resources are provided at the end for further information.

Acknowledgements

A special thanks to those who have shared invaluable industry insights with Seafish. Our thanks also go to our regional, economics and insight teams and other colleagues across Seafish who have provided input and feedback on this report.

Industry Impacts Overview

April-June 2022: Rising prices and the cost of living crisis affected everyone across the UK supply chain during this period.

Rising prices and the cost-of-living crisis affected the whole UK seafood supply chain during this period. Prices, especially for food, energy and fuel, continued to rise at their fastest rate for 40 years. Inflationary pressure increased operating costs for businesses across the supply chain and squeezed consumer budgets, impacting both supply and demand for seafood.

During this period, many businesses faced increased raw material, food production, energy and transportation costs but had not yet passed these cost increases on to their customers. However, it is expected that these businesses will eventually need to raise prices to keep operations viable. With these rising costs also hitting consumer finances hard, businesses were concerned about the impacts of inflationary pressures on medium term seafood demand.

Alongside these domestic challenges, export demand for UK seafood remained strong during this period. However, regulatory changes related to EU Exit continued to impact businesses.

Labour shortages continued to hamper operations across the supply chain. Staff shortages in the hospitality sector led some businesses to reduce opening hours. Across the processing sector, some businesses were unable to fulfil orders and contracts due to staffing issues, causing them to lose income and customers. In the catching sector, some vessels reported sporadically tying up due to crewing issues. During this period, labour issues in the fishing fleet were also exacerbated by high fuel prices which reduced available crew share¹ (wages).

¹ Crew share is strongly linked with fishing income and costs. Many fishers are paid a share of the vessel earnings, usually after deducting some direct costs such as fuel.

Markets

Key points

- Consumers bought less meat and seafood in retail due to record inflation and historically high food prices.
- Foodservice businesses struggled with rising operating costs, but visits were up 31% compared to the same period in 2021.
- Export demand was strong with businesses feeling optimistic about markets continuing to re-open.



Retail

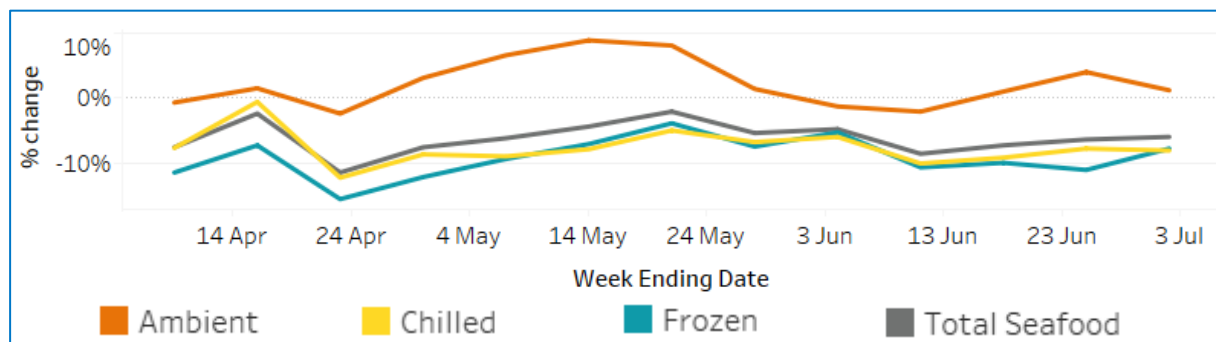


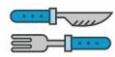
Figure 1. April-June 2022 weekly seafood volume sales in retail compared to previous year.

During this period, consumers faced historically high global food prices. Food production costs, and especially raw material costs, continued to rise during this period due to historic and ongoing disruptions to global supply chains caused by Covid-19 restrictions, EU Exit and the war in Ukraine. These costs began to be reflected in retail prices faced by consumers at a time when pricing for other essential items like fuel and energy were also rising. This compounding financial pressure on consumer budgets led people to cut back on seafood purchases overall. Retailers also reported changes in consumer behaviour including switching to budget ranges, buying less food, or doing smaller, more frequent shops.

The number of shoppers buying seafood in retail fell strongly compared to 2021 and the 10% boost to seafood sales seen during the height of Covid-19 had disappeared by June 2022 (Figure 1). Chilled (fresh) seafood sales dropped nearly 6% during this period. However, the largest decline was in frozen seafood, down nearly 10% compared to the same period in 2021. Ambient (tinned) seafood was the exception, seeing sales growing during this period as consumers looked to save money. Pressure on personal finances negatively impacted on nearly all species sales. Only tuna sales were in growth, driven by sales of tinned tuna.

Consumer interest in sustainability credentials remained strong during this period. Kantar reported that this 'eco active' consumer group is expected to continue to grow in the coming years. Businesses throughout the UK seafood supply chain can expect these preferences to impact sourcing and food production requirements for products sold via retail.

Independent fishmongers also faced challenges during this period. Businesses faced rising raw material and energy costs, alongside ongoing staff shortages, making the operating environment increasingly difficult.



Foodservice

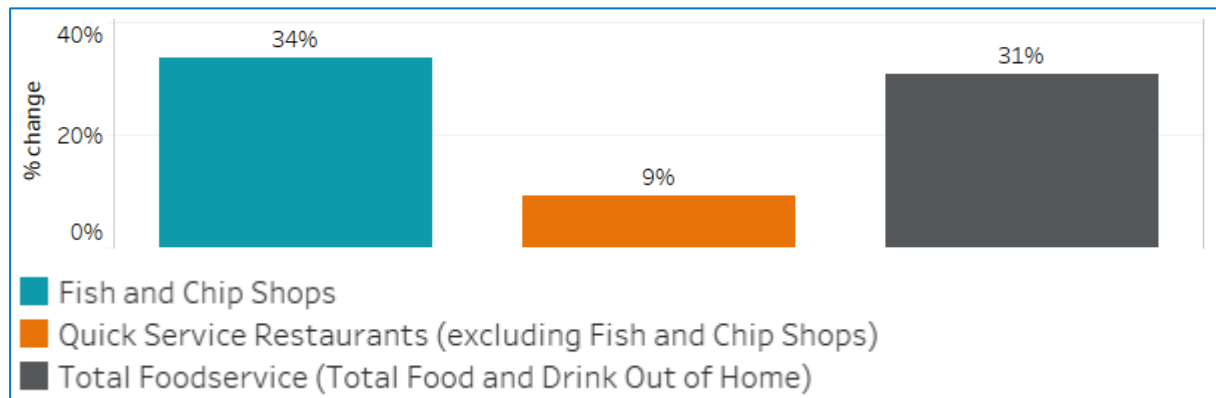


Figure 2. April-June 2022 foodservice visits compared to previous year.

Foodservice businesses faced a difficult operating environment during this period. Businesses struggled with rising energy costs and high raw material costs associated with inflation and the war in Ukraine. These unprecedented cost pressures came at a time when foodservice businesses were still finding their feet after losing business during Covid-19 shutdowns in 2020 and 2021. In the spring, the restaurant and hospitality industry asked the UK government for financial support to help with an increase in taxes and seafood prices.

Businesses were particularly worried about further increases in raw material prices that would result from the additional tariffs on Russian fish that were proposed in March. This was a major concern for the fish and chip sector, with businesses suggesting further increases in the price of whitefish raw material could make fish and chips too expensive to sell. In response to cost concerns, some businesses added both cheaper (e.g. hake) and more expensive (e.g. sea bass) options to their menus to contextualise cod and haddock prices for customers. Others changed their menus to offer cheaper or more readily accessible species, such as swapping cod for haddock.

Recovery of consumer demand for both home delivery and restaurant meals after Covid-19 stalled during this period as disposable income shrank. Though overall consumer visits to foodservice outlets were up 31% in April to June 2022 compared to the same period 2021 - when the industry was still affected by Covid-19 restrictions - visits to foodservice were still below pre-pandemic levels (Figure 2). Businesses expected a further drop-off in trade as the cost-of-living crisis became more acute toward the end of this quarter. The impact of further inflation on foodservice businesses, and options for businesses to adapt, is expected to vary depending on business location and customer demographics.

All foodservice channels experienced quarterly growth to visits in April to June 2022, with the strongest improvements seen in 'Workplace & Education' and 'Pubs' as more people returned to working in offices and eating on-premises. Along with 'Travel & Leisure' these were the channels hit hardest by Covid-19 restrictions. They therefore benefitted the most from the removal of Covid-19 restrictions by the end of March 2022. Meanwhile, 'Fish and Chip Shops' continue to lose visits and sales to other channels, compared to 2021.

As consumers returned to restaurants, delivery servings declining by 18% in April to June compared to the same period in 2021. Despite this reduction in delivery demand, it was still more popular in 2022 than pre-Covid, with delivery spend up 50% on 2019 levels.

Servings of seafood grew by 41% in the 12 months to June 2022 to represent 4% of the total foodservice market. Twelve-month spend for total seafood consumed through foodservice channels was up 46% compared to the year ending June 2021. However, seafood sales in foodservice remain below 2019 levels and recovery was still slightly behind that of the total foodservice market.

Looking ahead, the 'Quick Service Restaurants excluding Fish and Chip Shops' channel remains a major opportunity to improve the appeal of seafood as it attracts a younger, less affluent consumer demographic. Indeed, it is the largest channel in the foodservice market, accounting for 54% of all out of home visits. Currently almost one third of all seafood servings are sold through this channel, however there is room for further growth.

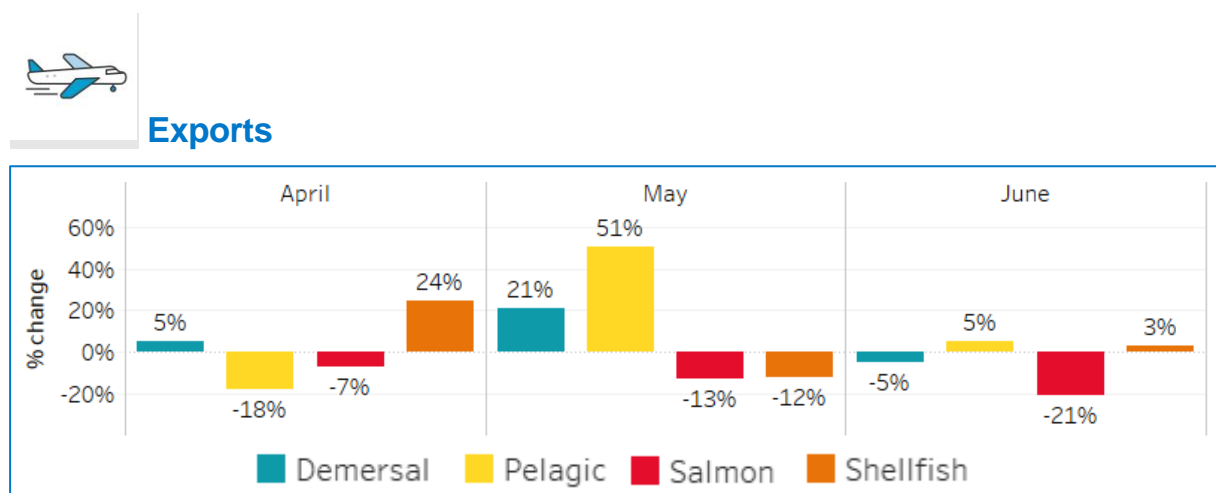


Figure 3. April-June 2022 seafood export value compared to previous year, by month.

By the end of June 2022, cumulative export value for the year was up 15% on 2021 levels but 10% below pre-Covid levels (2017-2019 average). Meanwhile overall export volume was equal to 2021 levels by the end of June. This suggests that overall, although the amount of seafood being exported in the first half of the year was comparable to 2021, average export prices were higher overall in 2022.

Higher average export prices were driven by whitefish, pelagic and shellfish exports (Figure 3). Some pelagic trade that had been disrupted with the outbreak of the war in Ukraine in February was re-established during this period. Shellfish and whitefish exports both enjoyed strong demand from European markets as they headed into the summer tourist season. In contrast, cumulative salmon export value (-4%) and volume (-28%) were both down on 2021 levels. Live bivalve mollusc exports also continued to be limited during this period due to continued export restrictions for product from class B waters.

Regulatory changes related to EU Exit continue to impact businesses. Uncertainty around further changes to legislation and the Northern Ireland Protocol were raised during this period. Some businesses still faced issues with border control in the EU, in terms of inconsistency with the interpretation of documentation. In particular, new EU export health certificates (EHCs) created new and unforeseen problems for product processed in the UK, using non-UK raw materials, for re-export to the EU. UK/EU technical discussions on this and similar technical trade issues took place during April to June 2022, with some limited positive outcomes.

Businesses trialling the digital EHC system reported positive results in terms of efficiency and cost. While this feedback is positive, there is not yet an implementation date set for the digital system. Despite these challenges, exporters were generally optimistic about markets re-opening and opportunities for growth.

Production & Distribution

Key points

- **Processing businesses continued to face labour shortages and difficulties in recruitment and retention, while other costs including energy and seafood raw material rose further.**
- **Supply chain logistics were hampered by issues at the port of Dover, rail strikes and rising fuel costs.**
- **Labour shortages remained a challenge across the supply chain.**



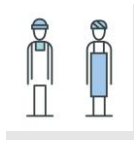
Processing, Transport & Logistics

Seafood processing businesses faced changes in regulation during this period. Though import checks from the EU were delayed further, a new plastic tax came into effect on 01 April. Under this legislation, any plastic packaging imported or manufactured in the UK that is composed of less than 30% recycled material is subject to an additional tax. This is a particular challenge for food manufacturers as there are few recycled plastic packaging alternatives available, which are approved for food grade use. Processing businesses therefore faced higher packaging costs either directly from the tax or indirectly due to limited supply and heightened demand for plastics not subject to the tax. These additional operating and administrative costs place a particular burden on small and medium enterprises (SMEs). As packaging for products exported after production is not subject to this tax, exporting businesses were proactive in working with packaging manufacturers on a rebate system that allows them to claim back the added cost of the tax.

Along with regulatory changes, businesses faced increased operating costs and tighter margins. Both energy costs and seafood raw material costs continued to rise during this period due to the compounding effects of Covid-19 disruptions, EU Exit and the war in Ukraine. China continued to implement strict lockdown restrictions on a regional level during this period making it more difficult for businesses to source raw materials from China. Then, due to the UK's reliance on Russia for imported whitefish, the war in Ukraine further compounded previous supply chain issues driving up both seafood raw material costs and costs of other, non-seafood raw materials such as flour, vegetable oils and aquaculture feed. Meanwhile, although fuel prices peaked during this period, gas and electricity costs continued to rise.

Given these rapidly rising operating costs and delays in supply chains, businesses were forced to consider alternative raw material sources and other ways to build resilience within their supply chains. Indeed, some businesses reported that they were preparing and stockpiling for Christmas earlier on in the year to help limit further inflationary pressure and manage the potential for further supply chain disruptions.

The logistics industry was also under pressure during this period. In April, issues at the port of Dover affected food supplies across the region. Wider logistics issues and staff shortages within this sector were a particular challenge around the Easter period. Rail strikes also became a concern for businesses that switched to rail transport in response to rising fuel costs and driver shortages.



Workforce

Labour shortages remained an issue across the UK seafood supply chain during this period. In the hospitality sector, businesses reported vacancies up 80% compared to the same period in 2019. In response, some businesses reported reducing their opening hours.

Labour shortages remained acute in some parts of the processing sector with many businesses unable to recruit and retain required levels of staff. Larger processors cited a limited labour pool and strong competition from other businesses and sectors for this labour. These challenges were particularly acute in remote regions where the available labour pool is most limited. These issues were expected to get worse through the summer for businesses that rely on seasonal workers.

The rising costs and inflationary pressures that businesses faced also limited their capacity to increase wages to attract and retain more staff. As a result of labour shortages, some processors were unable to fulfil orders and contracts, causing them to lose income and customers.

Businesses continued to lobby the government on labour issue throughout this period. Seafish also launched a labour survey toward the end of this period to help quantify the scale of the issue and support policy decisions around labour issues in the processing sector.

Crewing issues continued for some fishing businesses during this period. On the west coast of Scotland some vessels reported tying up due to lack of crew. This was partly linked to Border Force inspections of fishing vessels employing non-EEA crew on transit visas and suspected fishing within the UK's 12-mile territorial waters. Concerns about crew welfare in the catching sector were also brought to the forefront of conversations during this period in relation to the use of transit visas, raising reputational concerns along the supply chain.

Supply & Primary Production

Key points

- Even though the UK did not introduce additional tariffs on seafood imported from Russia during this period, importers still faced rising raw material costs and sourcing issues.
- Fuel costs peaked during this period, challenging some fishing businesses while others were kept afloat by high fish prices.
- The Scottish salmon sector continued to call for more immigration flexibility while shellfish farmers faced issues with water quality.

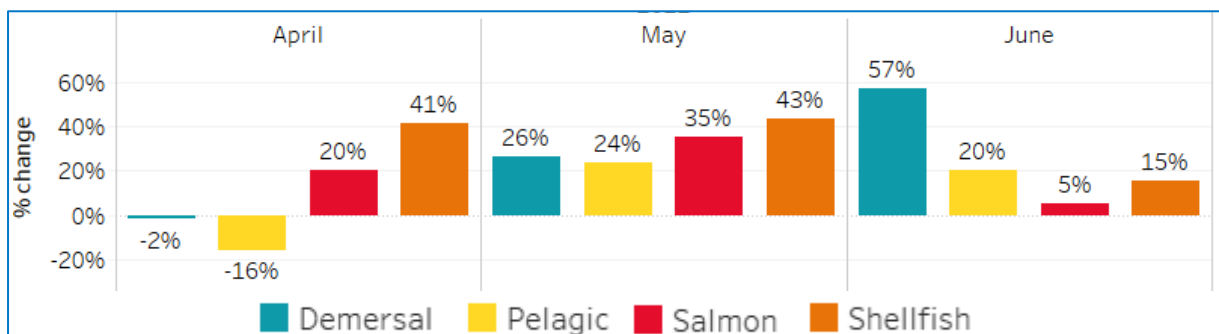


Figure 4. April-June 2022 seafood import value compared to previous year, by month.

Post-Brexit negotiations with the EU related to import requirements continued during this period, with discussions complicated by the Northern Ireland Protocol. Ultimately the new checks due to be introduced in Northern Ireland were delayed due to a standstill in discussions.

At the end of April, the Minister for Brexit Opportunities and Government Efficiency, announced that border controls on seafood from the EU would not be introduced in July 2022 as previously planned. Instead, a new regime of risk-based checks applicable to food imports from all countries is to be developed, with its introduction set for the end of 2023.

Even though additional tariffs didn't come into effect during this period, raw material costs continued to rise and the potential tariff on Russian fish remained a concern for industry throughout this period. By the end of June, cumulative import value and volume had surpassed 2021 levels for the same period, with total value up 20% and total volume up 2% (Figure 4). Compared to the first half of 2021, the species groups with a greater cumulative import value- and volume in the first half of 2022 were shellfish (+36% value, +21% volume) and pelagic (+7% value, +13% volume). In contrast, for both demersal species and salmon, cumulative import value was up on 2021 levels by the end of June, while cumulative import volume was down on 2021 levels, reflecting an overall increase in average import price for these species groups. The average import price of demersal (whitefish) grew steadily over the previous 12 months, rising from £3.66/kg in June 2021 to £5.61/kg in June 2022. This represents a 53% increase. Similarly, average salmon import prices increased by 47% between June 2021 (£5.73/kg) and June 2022 (£8.41), peaking at £8.79/kg in May 2022.

By June it was understood that the additional 35% tariff for fish imported directly from Russia would come into effect in July as part of a third tranche of tariffs. It was thought that this additional tariff would effectively remove Russian sourced fish from UK seafood supply chains, driving prices up further as businesses sought alternative raw material supplies. At the same time, other countries including the USA and EU member states had already placed their own restrictions on imports of Russian seafood, driving up global demand and prices for “non-Russian” seafood. The impact of these restrictions on raw material supply and prices led to additional concerns about raw material sourcing and potential food fraud.

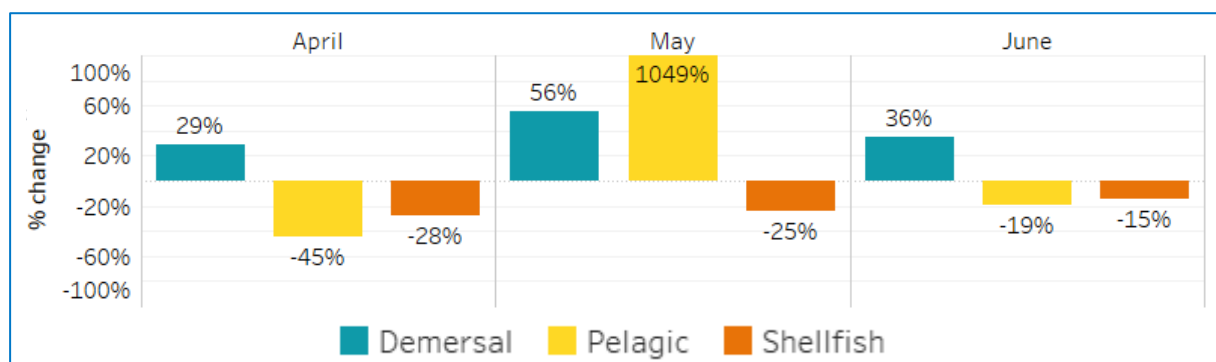


Figure 5. April-June 2022 UK vessel landings first sale value compared to previous year, by month.

Though total cumulative landing volume for 2022 was down 12% by the end of June compared to the first six months of 2021, landing value for the same period was up 3% reflecting an overall increase in landings price (Figure 5). The increase in landings value to the end of June was driven by a 29% increase in cumulative demersal landings value. Both cumulative pelagic- and shellfish landings value and volume were down on 2021 levels by the end of June. However, some pelagic trade was re-established with Ukraine during this period which improved demand for pelagic species.

Fuel costs remained a major issue for fishing businesses during this period with average UK prices peaking just below £1/litre in June. This rising cost also led to additional concerns about crew retention, with vessel owners concerned that with less income for crew share or agency worker salaries their employees would find alternative employment. These financial challenges also highlighted the possibility of an increased risk of vessel safety and crew welfare issues which were already being discussed within industry and government.

While demersal fishing remained economically viable due to exceptionally high market demand and prices, shellfish vessels towing heavy gear including scallop dredgers and nephrop trawlers struggled with rising fuel costs. Many of these vessel owners either sporadically tied up to balance fuel cost against expected earnings or skippers changed their fishing behaviour and effort to minimise fuel use. Many small vessels also struggled with rising operating costs.

Issues with small haddock in the North Sea continued during this period. While a higher proportion of small haddock have been caught by the demersal fleet in the North Sea, the problem seems to be worsening as fish appear to be growing more quickly and maturing at a

smaller size. These smaller fish were not making good prices on the market due to a lack of labour in the processing sector to hand fillet these catches. Haddock caught from the Rockall fishery also suffered a suspension to its MSC certification in June, raising concerns about ongoing sustainable sourcing of this raw material. More generally, whitefish supplies were better during April to June than during the same period in 2021.



Aquaculture

Compared to 2021, the Scottish salmon sector benefitted from higher export prices during this period, which helped counterbalance the reduced export volume (-24%). A reduction in salmon production, or exports, may have been due to labour shortages in the sector. Indeed, salmon producers continued to call for more immigration flexibility during this period to address shortages, particularly in remote regions of Scotland.

Issues with water quality continued to impact shellfish producers. Illegal sewage dumping was highlighted once more in the news during this period and live bivalve mollusc markets remained limited during April to June due to ongoing export restrictions from the EU for product from class B waters.

References and Data Sources

Retail

Data Source: Nielsen Scantrack UK.

Reference:

- Seafood in retail factsheets:
<https://www.seafish.org/insight-and-research/retail-data-and-insight/>

Foodservice

Data Source: The NPD Group. *Foodservice data are only available at the level of Great Britain, rather than United Kingdom.*

Reference:

- Seafood in foodservice factsheets:
<https://www.seafish.org/insight-and-research/foodservice-data-and-insight/>

Trade (Imports and Exports)

Data Source: HMRC monthly data via Business Trade Statistics (BTS), processed by Seafish.

Species groups are defined as follows:

- Pelagic includes: Anchovy, Blue Whiting, Herring, Horse mackerel, Mackerel, Misc. pelagic, Sardine, Sprat, Swordfish, Tuna
- Demersal includes: Alaska pollack, Cod, Coley, Dogfish, Grenadier, Haddock, Hake, Halibut, Ling, Megrim, Monkfish, Other flatfish, Other groundfish, Plaice, Pollack, Ray, Redfish, Seabass, Seabream, Shark, Sole, Toothfish, Turbot, Whiting
- Shellfish includes: Clam, Cold Water Shrimps & Prawns, Crabs, Crayfish, Cuttlefish, Lobster, Mussels, Nephrops, Octopus, Other cephalopods, Other crustaceans, Other molluscs and aquatic invertebrates, Oyster, Prepared and preserved shrimps & prawns, Rock lobster and sea crawfish, Scallops, Sea cucumber, Squid, Warm Water Shrimps & Prawns
- All Others includes: Carp, Catfish, Caviar, livers and roes, Cobia, Eels, Nile Perch, Other freshwater fish, Other marine fish, Other products, Other salmonids, Pink cusk-eel, Ray's Bream, Salmon, Surimi, Tilapia, Trout
- Overall excludes: Non-food

Reference:

- Seafish Trade and Tariff Tool:
<https://public.tableau.com/profile/seafish#!/vizhome/SeafishTradeandTariffTool/Overview>

Landings

Data Source: Marine Management Organisation.

Reference:

- MMO monthly landings statistics:
<https://www.gov.uk/government/collections/monthly-uk-sea-fisheries-statistics>

Real-time industry data

Data source: Seafish horizon intelligence. Real time intelligence on notable changes affecting the seafood industry sourced from the general media (media, newspaper articles and social media) and from industry and other stakeholder debates and conversations. <https://www.seafish.org/insight-and-research/current-and-future-trends/> .

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