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UK Seafood Supply Chain Overview:

January-March 2022

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Contents

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 January to March 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

January-March 2022: During this period, international and domestic operations were challenged by rapidly increasing inflationary pressures and supply chain issues related to sourcing from China. Operations were further complicated by the global impact of the Russian invasion of Ukraine.

Economic shocks from the war in Ukraine intensified existing issues in a fragile and reactive market. Seafood is one of the most heavily traded global commodities and the war in Ukraine affected businesses and consumers in the UK during this period. This included shortages of key ingredients and other inputs to production.

Though the UK did not legislate any tariffs on imports of Russian fish during this period, businesses still made anticipatory changes to their sourcing, where possible. Bans on Russian seafood imports announced by other countries including the United States also had knock on effects for global whitefish prices as demand for non-Russian sourced whitefish increased.

Labour shortages across the UK seafood supply chain continued to hamper business productivity and operations. These shortages were particularly problematic across the processing and logistics sectors, adding additional financial pressure.

Some of the catching sector continued to benefit from strong landings prices during this period. Others struggled to find buyers for lower value species that were labour intensive to process due to staff shortages in processing factories.

Increasing fuel and energy prices had a big impact across all sectors of the UK seafood industry, especially in relation to fishing, seafood processing and distribution. These rising costs also hit consumer finances hard, driving concerns about the impacts of inflationary pressures on medium term seafood demand.

Markets

Key points

- **Fear of inflation fuelled a decline in retail demand for seafood.**
- **Recovery to foodservice accelerated during the first quarter of 2022 as the final Covid-19 restrictions were lifted.**
- **Exports were up across all species groups compared to January to March 2021 but were still down on pre-Covid levels.**

Retail

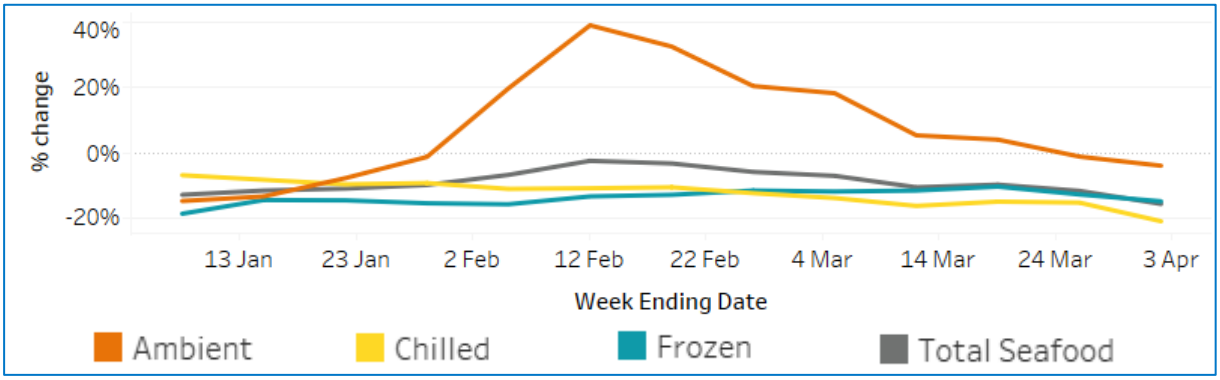


Figure 1. January-March 2022 weekly seafood volume sales in retail compared to previous year.

Heading into 2022, the Bank of England predicted that UK households would face the biggest cost of living squeeze in 30 years. This was before factoring in the rapid escalation of the war in Ukraine and the subsequent changes in commodity markets. Indeed, economists predicted the average household could be between £1,000 to £2,500 poorer in 2022, with a further fall in real incomes expected in future years.

As one of the highest priced proteins, seafood consumption typically falls when personal finances are under pressure. Most species were in decline during January to March, even salmon, seabass and basa which typically see strong retail sales. Cold water prawns and squid were the exception and continued in short term growth. In the immediate term, shoppers are expected to trade down to cheaper seafood options, but in the medium term, shoppers may trade out of seafood all together. As the cost of other animal proteins rise alongside seafood, more consumers may instead opt for non-animal proteins.

Despite relatively modest inflation during this period (+2.2%), seafood category decline accelerated in January to March, driven by a fall in sales of frozen and ambient seafood (Figure 1). Unusually for the category, chilled seafood was also in decline. Chilled sushi was the exception and continued to grow strongly (+57%) on 2021 levels as more people returned to office working.

The war in Ukraine also factored into rising fuel prices, delays to sourcing retail products and increased competition for products in short supply. During this period, some retailers announced that they would withdraw Russian fish from their stores. Supermarket and supplier bosses also held emergency talks with the government around food labelling and ingredient laws due to shortages of key ingredients and concerns about the threat of food

shortages caused by the war in Ukraine. Retail businesses responded to rising costs by declining new business and by dropping promotional activity. Given the long lead times for products like frozen seafood, further increases in food prices are not expected to hit consumers until the summer.

Foodservice

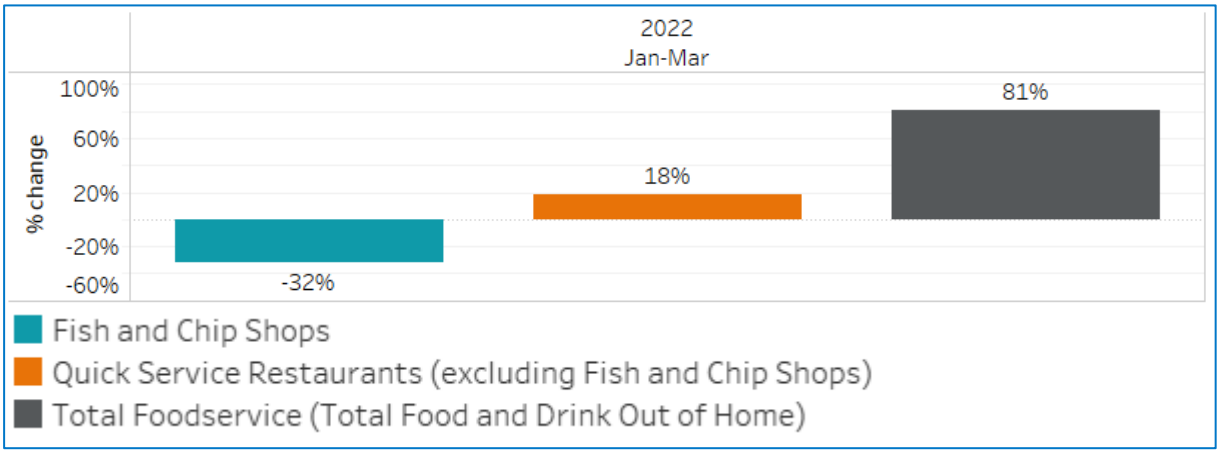


Figure 2. January-March 2022 foodservice visits compared to previous year.

Recovery to foodservice accelerated during the first quarter of 2022 as the final Covid-19 restrictions were lifted. Consumer visits to foodservice outlets were up 81% in January to March compared to the same period in 2021, reaching 85% of pre-pandemic levels (Figure 2).

Despite the improvement on 2021, foodservice visits in January to March 2022 were still 14% below 2020 levels for the same period. Except for Fish and Chip Shops, all foodservice channels experienced quarterly growth to visits during January to March 2022. In contrast, foodservice delivery in January to March 2022 was 9% lower than the same period in 2021 as consumers switched back to in-person visits. The strongest growth in foodservice visits was seen in Pubs, Workplace and Education, and Travel and Leisure. These channels had suffered the most from Covid-19 restrictions and benefitted from the continued return to workplaces and commuting seen during this period.

Seafood servings sold in foodservice were up 59% in January to March 2022 compared to the same period in 2021. Seafood in foodservice continues to recover well with all channels experiencing year on year growth in seafood visits and servings. Seafood sales in Pubs, Workplaces and Colleges continued to see strong growth, largely driven by younger, less affluent consumers. Businesses continue to appeal to this demographic by building on a unique foundation of enjoyment, health, quality credentials, choice and convenience.

Despite these promising signs of recovery, the war in Ukraine also drove up costs for foodservice businesses, particularly those reliant on frozen imported whitefish such as Fish and Chip Shops. Shortages of other key ingredients such as cooking oils and wheat further increased raw material costs. Businesses also began preparing for VAT to return to 20% at the beginning of April with some taking the decision to reduce opening hours or increase menu prices to manage rising costs.

While it was previously hoped that the foodservice industry could fully recover in 2022, this was revised to 2023 due to the additional economic shocks and rapidly rising prices in early 2022. Within this estimate, seafood is expected to recover in line with total foodservice.

Exports

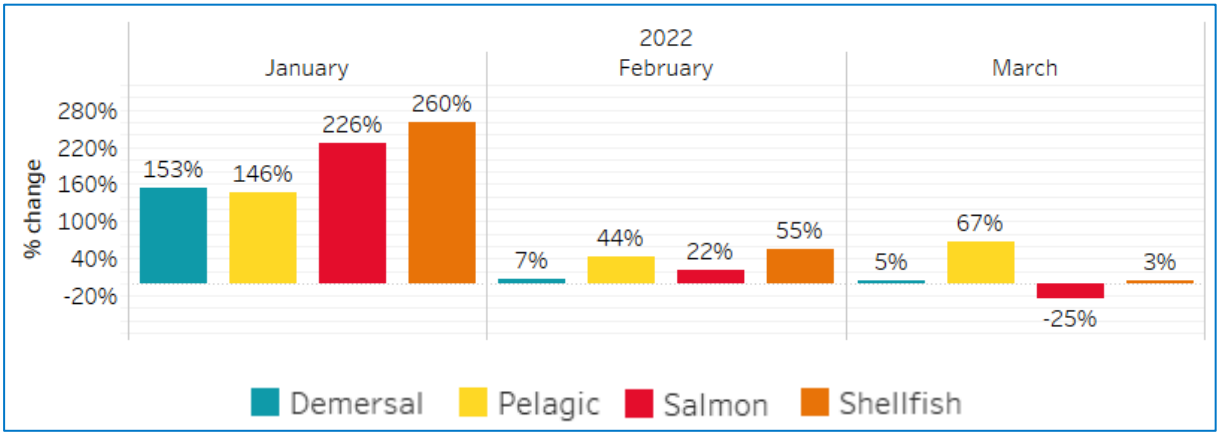


Figure 3. January-March 2022 seafood export value compared to previous year, by month.

Though there has been limited export trade to Russia following the trade ban in 2014, the war in Ukraine still impacted UK seafood exports during this period. Firstly, there is normally a sizeable pelagic trade between the UK and Ukraine. In 2020 the UK exported £25M worth of pelagic product to Ukraine as well as additional exports of salmon. With the outbreak of war in Ukraine in February, this product lost its market. Airfreight costs also doubled for fresh seafood sent to East Asia after Russia closed its airspace to European and Japanese airlines, forcing airlines to re-route flight paths. This primarily impacted shellfish and salmon exports to East Asia.

During this period, exports were up across all species groups compared to January to March 2021 but were still down on pre-Covid levels (Figure 3). By the end of March:

- cumulative pelagic export value was down 10% and cumulative export volume was down 42% compared to pre-Covid levels (2017-2019 average);
- cumulative demersal export value was still 21% below pre-Covid levels, while cumulative demersal export volume was 20% down on pre-Covid levels;
- cumulative shellfish export value was still 17% below pre-Covid levels, while cumulative export volume was 31% below pre-Covid levels;
- cumulative salmon exports were down on pre-Covid levels, with export value down 20% and volume down 34%.

In addition to the impacts of the war in Ukraine on global seafood trade, UK seafood exporters were also subject to new regulatory changes for exports to the EU that came into effect during this period. From 15 January 2022, the EU animal health rules changed, requiring different Export Health Certificates (EHCs). EHCs certify that goods meet the EU human and animal health requirements. The purpose is to protect human health and animal health from disease carried on imported foods. The new EU EHCs require certain listed and vector species that have been farmed and exported live to the EU to be signed by a vet (as opposed to the local authority). Most of the changes relate to information needed to improve

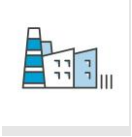
traceability and biosecurity. The changes are most significant for aquaculture businesses, adding extra costs to businesses exporting these species. The species mainly impacted are Pacific oysters, European flat oysters, Blue mussels and the common edible cockle. These changes triggered concerns about veterinary capacity and availability to meet the new requirements.

Changes to labelling requirements further afield also impacted UK exporters during this period. Shanghai officially introduced new labelling requirements on 1 January 2022 for imports. Under the new rules, 20% of newly added establishments must undergo a video inspection by the Chinese authorities, which is time consuming to organise and poses short term challenges to businesses looking to export product to China.

Production & Distribution

Key points

- **During this period many processing businesses were impacted by staff shortages, rising operating costs and issues sourcing raw material.**
- **Many businesses across the supply chain continued to struggle with staff recruitment and retention, due to a lack of labour supply and short-term Covid-19 absenteeism.**



Processing, Transport & Logistics

Processing businesses reliant on frozen whitefish raw material faced a number of challenges during this period. The global whitefish supply chain had already been under significant pressure in recent years due to Covid-19 and EU Exit. Whitefish supplies were also further restricted coming into 2022 after total allowable catches in the Barents Sea were cut. At the end of December 2021 and into January 2022 there were also constraints on production in parts of China as some key processing hubs re-entered strict Covid-19 lockdowns. These restrictions constrained the volume of processed seafood available at a critical time when UK seafood businesses usually build stock before production closes during Chinese New Year. The restrictions in China also impacted the distribution of global shipping containers, causing congestion, delays and an imbalance of empty containers. All of these supply constraints were then further compounded by the Russian invasion of Ukraine at the end of February.

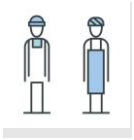
A large proportion of frozen whitefish is of Russian origin and there is no obvious or quick substitute for imported Russian whitefish. Whitefish is a highly competitive global commodity and most supply is already under contract. Though the UK did not impose additional tariffs on imported Russian whitefish during this period, businesses anticipating this imposition began to look for ways to transition away from Russian origin fish during 2022 to secure supply chains. Additionally, sanctions announced in other countries, including the US ban on Russian fish, increased demand for non-Russian whitefish, driving up global prices for this alternate raw material.

Further raw material price increases are expected by UK whitefish processing businesses in the coming months as a direct result of the Russia-Ukraine conflict. As one of the world's largest suppliers of cod, haddock, and pollock, the further imposition of global sanctions on Russia will continue to limit frozen whitefish supplies and keep raw material prices high.

Businesses raised concerns about their ability to increase prices to cover rising costs, with many worried that consumers could be priced out of buying their products. Margins are already tight across much of the seafood processing sector and many businesses, especially small and medium enterprises, struggled to absorb these costs.

The war in Ukraine also impacted other raw material supplies for production as well as disrupting supply chains more widely. Supplies of wheat and different vegetable oils from Russia and Ukraine were disrupted, driving up prices and causing problems with labelling for processors. Russia and Ukraine combined produce a quarter of global wheat supplies and 60% of global sunflower oil. Disruption to these supplies during this period affected the production of breaded and battered seafood and tinned mackerel and tuna. Global

disruptions to supply chains along with inflationary pressures also substantially increased lead times, adding further strain to production.



Workforce

Throughout this period, staffing shortages and problems with recruitment and retention continued to plague businesses across the seafood supply chain. Short-term absenteeism caused by high numbers of Omicron cases in January, along with Government self-isolation requirements for case contacts, continued to exacerbate ongoing staff shortages.

As in 2021, some processing businesses continued to have to make raw material purchasing decisions based on what could be processed most efficiently with the staff available, regardless of the orders they held. Such decisions resulted in further lost orders, contracts and revenues.

Staff shortages also impacted the logistics, foodservice, aquaculture and catching sectors. The critical lorry driver shortage seen throughout 2021 continued into this period, hampering seafood exports to and through Europe, making it difficult for some UK processing businesses to source sufficient raw material. Meanwhile, labour shortages in the foodservice sector forced some businesses to reduce opening hours. Aquaculture businesses also continued to report staffing issues, citing EU Exit, a lack of haulage drivers and a lack of suitable housing in remote production areas as key drivers.

Vessel owners from around the UK cited crewing issues, with some also impacted by lowered demand and prices from UK processors operating at reduced capacity due to their own labour shortages. However, for those already in the industry, face-to-face fishermen's training delivery returned to normal levels for first time since Covid-19.There was strong demand for courses as fishermen sought to catch up on requirements after Covid-19.

Supply & Primary Production

Key points

- **Compared to the same period in 2021, seafood imports were up across all species groups during January-March 2022. However, pelagic and demersal imports remained below pre-Covid levels.**
- **Shellfish landings value was below 2021 levels, while pelagic and demersal landings values surpassed January to March 2021 levels.**
- **Aquaculture businesses continued to manage challenges ongoing since EU Exit.**

Imports

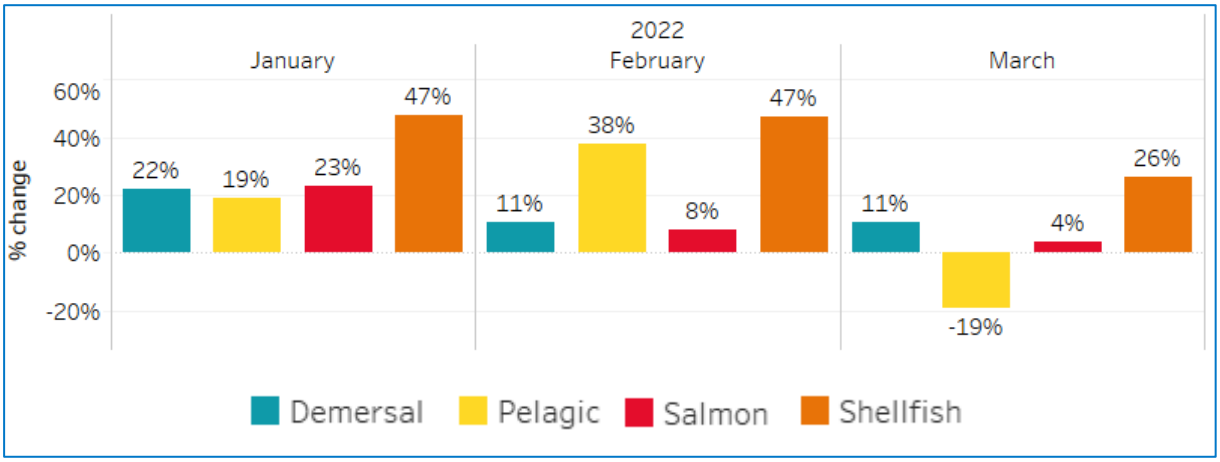


Figure 4. January-March 2022 seafood import value compared to previous year, by month.

Compared to the same period in 2021, seafood imports were up across all species groups during January-March 2022 (Figure 4). But while shellfish and salmon imports were strong during this period, pelagic and demersal imports remained below pre-Covid levels. By the end of March:

- cumulative pelagic import value was down 12% and import volume was down 9% compared to pre-Covid levels for the same period (2017-2019 average);
- cumulative shellfish import value was up 6% on pre-Covid levels while import volume returned to pre-Covid levels after recovering from disruptions to global shellfish production, processing and transportation caused by global Covid-19 outbreaks in 2020 and 2021;
- cumulative salmon import value continued to exceed pre-Covid levels, with value up 34% and volume up 27% on 2017-2019 average values for the period of January to March, reflecting continued strong demand from UK consumers;
- cumulative demersal import value (-5%) and volume (-22%) were still below pre-Covid levels.

Despite strong UK consumer demand for imported whitefish, demersal imports continued to be limited by global supply constraints. During this period the impacts of the Russian invasion of Ukraine on global whitefish supplies compounded pre-existing supply constraints caused by:

- slow Norwegian and Russian whitefish landings from the Barents Sea in 2021,

- total allowable catch reductions announced for key international demersal fisheries in 2022,
- backlogs in the supply chain caused by Covid-19 lockdowns in some areas of China at the end of 2021, and
- seasonal production closures in China in February during Chinese New Year.

Russia accounts for over 40% of global whitefish production, including over 30% of global Atlantic cod supply and 25% of haddock supply. Some is processed and exported directly from Russia while the rest is exported to China for processing. In response to the war in Ukraine, businesses, in line with their governments, sought to transition away from Russian sourced material, increasing demand and price for non-Russian origin whitefish. As a result, average demersal import prices rose by 15% from £4,369/tonne in December 2021 to £5,031 in March 2022. After rising throughout 2021, average prices in March 2022 were up 26% on average prices in March 2021.

After being postponed in September 2021, new requirements for pre-notification of seafood were expected to come into effect in January 2022. Pre-notification requires goods imported from the EU to have customs declarations before leaving the EU using the Import of Products, Animals, Food and Feed System (IPAFFS). Though businesses were getting ready for these additional requirements to come into effect during this period, they ended up being delayed to later in 2022.

Landings

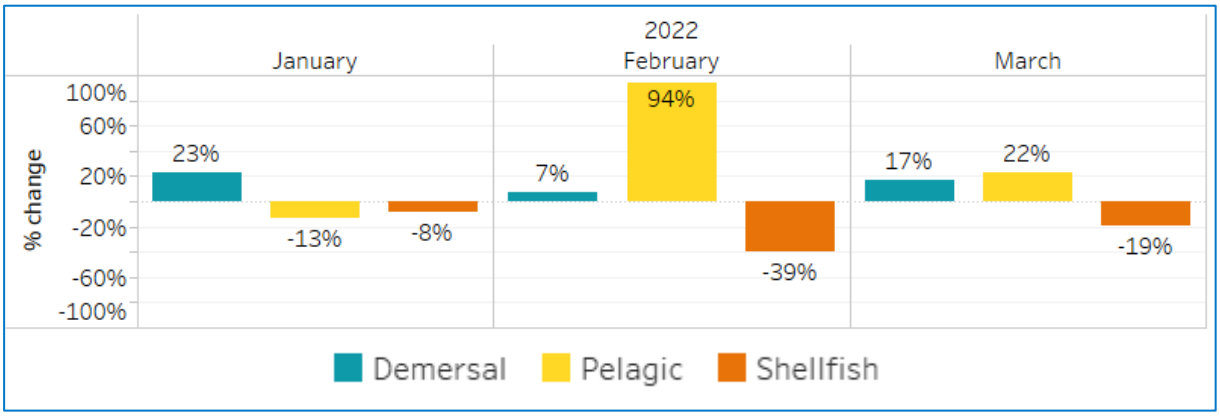


Figure 5. January-March 2022 UK vessel landings first sale value compared to previous year, by month.

Shellfish landings value was below 2021 levels, while pelagic and demersal landings values surpassed January to March 2021 levels (Figure 5).

Fishing businesses continued to be impacted by rising marine diesel fuel prices throughout this period. Average prices in the UK during January to March were 52% higher than they had been during the same period in 2021, with average prices in March up 77% on average prices in March 2021. These record fuel prices were offset by high landings prices for some fishing businesses targeting whitefish. These high prices were primarily driven by a combination of access restrictions and heightened demand during this period. However due to the seasonality of different whitefish fisheries it is not clear how much longer fishing will remain viable if fuel prices continue to rise in the coming months.

Despite high overall prices for whitefish, the market for small whitefish remained very sensitive during this period due to ongoing labour shortages in the processing sector. High landings volumes of small whitefish drove down demand and market price.

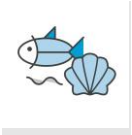
Some shellfish vessels were kept at sea by high prices for species including lobster. Other businesses, including some Scottish vessels targeting Nephrops, opted to tie up on an ad hoc basis during this period due to high fuel prices combined with a sporadic fishery. Meanwhile other Nephrops vessels were kept fishing by an increase in buying price agreed with processors.

Though access issues from 2021 had generally been resolved by this period, there were still some delays in the issuing of quota allocations to producer organisations, resulting in a level of uncertainty within the demersal fleet. Further fishing closures were also announced during this period, impacted businesses operating in fisheries like the Clyde. Finally, additional concerns about spatial squeeze and access to Scottish waters were raised during this period after 17 new offshore wind projects were awarded by the Crowne Estate through the ScotWind leasing process in January.

After first sightings in October 2021, shellfish deaths in northeast England continued to be a problem during this period, with thousands of dead crustaceans washing up on beaches from Hartlepool to Robin Hood's Bay. The local industry, primarily built on shellfish landings, remained under immediate financial pressure from the associated drop in landings alongside rising fuel prices. The long term health and economic viability of these fisheries is of serious concern given the scale of deaths.

During this period, fishing businesses continued to get to grips with new safety regulations that came into effect in the second half of 2021. A new Maritime and Coastguard Agency (MCA) safety code for under 15m vessels came into effect impacting both new builds and existing vessels. The MCA also continued its campaign of unscheduled inspections, in response to the high number of deaths at sea recorded in 2021. This resulted in some vessel non-compliances and vessel detentions. Fishermen also continued to catch up on their mandatory safety training after the MCA had relaxed training requirements during Covid-19 due to lockdown restrictions.

During this period, Wales also became the first nation in the UK to require all of its licensed commercial fishing boats to be fitted with a vessel monitoring system after adding the under 12m fleet (97% of Welsh registered vessels) to the regulation.



Aquaculture

Water quality issues continued to challenge shellfish aquaculture businesses seeking to export to Europe during this period. A new All Party Parliamentary Group (APPG) for Shellfish Aquaculture, facilitated by the Shellfish Association of Great Britain (SAGB), launched in February to help tackle these water quality issues along with other challenges facing the sector. A number of funds were also announced or opened during this period, including the UK Seafood Fund's Infrastructure- and Science and Innovation Schemes. These funds aim to offer seafood businesses, including aquaculture businesses, new opportunities for growth and diversification.

Staffing shortages continued to be a problem for many farm sites, particularly those located in relatively remote regions such as the Scottish Highlands and Islands. Salmon producers cited changes in labour and immigration laws following EU Exit as a key driver of their staffing issues for both onshore and offshore roles. Businesses also mentioned transport and logistics issues caused by the ongoing shortage of haulage drivers. With these challenges, salmon production and exports dropped below pre-Covid levels during this period following record export values in October-December 2021.

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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