

Worldwide: the unpredictable future of seafood prices

The rising costs of energy, metals, manpower, transport, and so on, have conspired with the unfavourable foreign exchange developments of the year to make it an altogether tough time for the global seafood industry. Still, despite many sector hardships, the picture is hardly consistent.

Although the price of seafood is rising globally, the increase in seafood product prices lags far behind the increase in production costs for most products. The global market price for certain species like herring and farmed salmon have even fallen of late. While an expanded quota is behind the price decline of herring, a number of complicated reasons explain that in case of farmed salmon - herring vessels are facing a combination of increased fuel costs with falling prices, while salmon farmers are paying more for feed, electricity and transport as salmon prices also fall.

However, what will happen if and when the global market for oil and other commodities normalises?

Rising energy costs and inflation

In Vietnam, shrimp and pangasius farmers are not only facing a 25 per cent inflation rate but a saturation in the global markets that makes the process of boosting export prices a slow one.

As most pangasius contracts are settled in US dollars, the industry's best hope right now is a surge in the American dollar.

The situation for Asian and American shrimp farmers is not any better. They are having trouble increasing prices in dollar-denominated contracts as fast as the dollar is diving.

A passed peak?

Just before this week the price of crude oil that had peaked at USD 135 per barrel in the second half of May dipped to around USD 120 per barrel - a drop of USD 15 between the two time periods, which marks a significant change. A falling demand for oil, rather than fisher protests around the world, explains the fall in crude prices. However, a drop in marine fuel consumption linked with cruise, fishing and other vessels focusing on economical operations, or even staying at harbour, should very quickly bring about an increase in fuel inventory and a fall in prices.

Any vessel can substantially save by adopting certain cost-cutting measures, such as spending more time cruising towards fishing sites, catching quota only in good weather conditions, keeping the hull clean, and properly maintaining the engine. Such methods should ultimately help in dampening fuel prices.

Corn and rice

Corn and rice prices seem to have peaked. In Thailand, the fall in rice prices last month provoked farmer threats to block the main roads to Bangkok if the government did not intervene to secure better prices.

Although the price paid for rice is considerably above last year's average prices, diesel, fertiliser, and machine rental costs are up as well. With few Thai farmers in direct ownership of tractors and harvest machines, their profits are now more dependent than ever on receiving prices higher than world market prices.

An apparent dip in the price of certain protein sources would be good news for fish farmers who must keep track of its price.

Agriculture and fisheries

The Thai farmers situation is interesting in that the global fisheries industry may soon face a similar situation as many experts believe the rise in industry costs will continue.

On Thursday recent, FIS.com cited an anticipated 25 per cent increase in the wholesale sushi-grade tuna price. But when an eventual fall in marine fuel costs comes about and boosts fisheries catches, will wholesale prices fall automatically as well? Will restaurants that have recently printed new menus be quick to do so again?

Naturally, every part of the chain from the fishing vessel, to makers of vessels and fishing gear, to processors, wholesalers and retailers will try to keep prices high as long as possible in order to recoup their losses from the period when they were unable to increase their prices as fast as those of their suppliers.

In the seafood sector, it appears there are winners and losers in what can accurately be described as a highly inconsistent situation.

Pelagic fishing, a complicated sector

The small pelagic sector is split into different segments that vary in energy use.

Fishmeal plants, for example, cannot afford to offer the same price paid by processors. Meanwhile, many of the traditional buyers of small cheap pelagic fish concentrate in developing countries and cannot increase their fish payouts in a situation where the cost of other foods is rising. Moreover, whether or not they offer higher or lower prices cannot halt the gradual decline in the prices of fish like herring and sardinella over time.

The uneconomical sandeel

The North Atlantic pelagic fleet, particularly the Norwegian, has had a fantastic season. However, paradoxically, the large volume of herring landed has forced prices of the fish down in all markets, which, when added to rising fuel costs, is making a lot of industry players nervous.

North Sea trawlers targeting sandeel were paid NOK 1,130 (EUR 142) per tonne this season against NOK 1,600 (EUR 201) per tonne last year. The fishery's operators are barely breaking even with the current price. But if they were to be paid more, salmon farmers would have to suffer a new elevated cost for feed. In the end, the increase will be passed on to the consumer.

Will consumers love salmon enough to accept paying more money for it?

Fuel more expensive than labour

In India, pelagic vessels are choosing to stay at harbour, it has been reported, as the combination of high fuel costs and low catch rates make fishing unprofitable.

For many vessel owners, fuel is a higher expense than crew salaries. But as the cost of transporting oil sardine and Indian mackerel increases, and the dollar continues to fall against the Indian rupee, the prospect of rising prices to cover higher fuel costs is increasingly a bleak one.

The substitution effect

A problem for small pelagic fish fleets, however, is the substitution of one species with another as often the same, or another highly similar species, is caught in a number of fisheries. A poor West African woman buying food for her family will base her decision more on price than whether the fish she buys is labelled sardinella, sardine or herring.

Tuna price increases

Most of the global tuna fleet is now staying at port while those hunting for tuna are cruising long distances to locate schools. It is expected that nearly a hundred of Japan's 400- vessel tuna fleet this year will remain at port when the season begins in July.

Taiwanese and Chinese vessels are also expected to cut back on their activities. Good, undoubtedly think most environmentalists, who would have most tuna fishing banned in the world, but for the thousands of fishers and workers who add value to the tuna caught, the situation is far from being a good one.

The Organisation for the Promotion of Responsible Tuna Fisheries (OPRT) met in Tokyo on 26 May to discuss options for coping with the difficulties they are facing as a result of the dramatic rise of fuel costs in recent years. They decided on the following:

In representing the owners of more than 1,100 tuna vessels, the association is an important player in the international tuna market, they pointed out. On this basis, they are appealing directly to the public with the following points.

1. OPRT members are global deep-sea tuna longline fishing operators. We have been conducting responsible fishing operations for the sake of ensuring a sustainable supply of tuna to consumers.
2. Almost all of us are now facing severe hardship in just continuing our fishing operations due to the dramatic rise of the fuel price in recent years.
3. We have been doing our utmost to reduce the cost of fishing operations but the current price of fuel has overridden our best efforts. In the meantime, it is difficult for us to pass on the cost increase of fuel to the retail price of tuna.
4. A large number of deep sea tuna longline fishing vessels in Taiwan and China have already opted to suspend their operations, with some already tied to port. Others, including Japan and Korea, are expected to follow soon.
5. We regret the reduction in supply of sashimi-grade wild tuna to consumers as a result of the suspension of tuna fishing activities. We sincerely hope consumers will understand our reasons for the forced suspension.

Ninety-five per cent of the global fleet that supplies frozen wild sashimi to the Japanese market are represented by the OPRT. If a large number of the OPRT's vessels opt to remain idle, the prices of sashimi-grade quality frozen tuna will escalate. It is probable the fleet will profit from reduced fishing for a time, as tuna prices take a while to go back down when the fleet resumes normal operations. Still, there is not enough sashimi-grade quality tuna to satisfy the global demand.

Unpredictable

The seafood market is becoming a complicated place to make money but opportunities still abound in the right segments. Many products will continue to face a contracting market until fuel prices settles and the American dollar gains ground again. Until then, it is difficult to predict who is going to profit from the current situation.

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