

Recent Events in the Market for Canadian Snow Crab

Overview

The quantity of snow crab produced and exported by Canada increased dramatically through the late 1990s, but has levelled off and remained quite stable in recent years as production levels have stabilized. In the last two years, the dollar value of exports decreased as snow crab prices followed what appears to be a normal and fairly regular market cycle, and as the Canadian dollar strengthened against the currencies of its major seafood trading partners. However, prices appear to have hit a trough at the beginning of 2006, and ultimately increased during the latter part of the year.

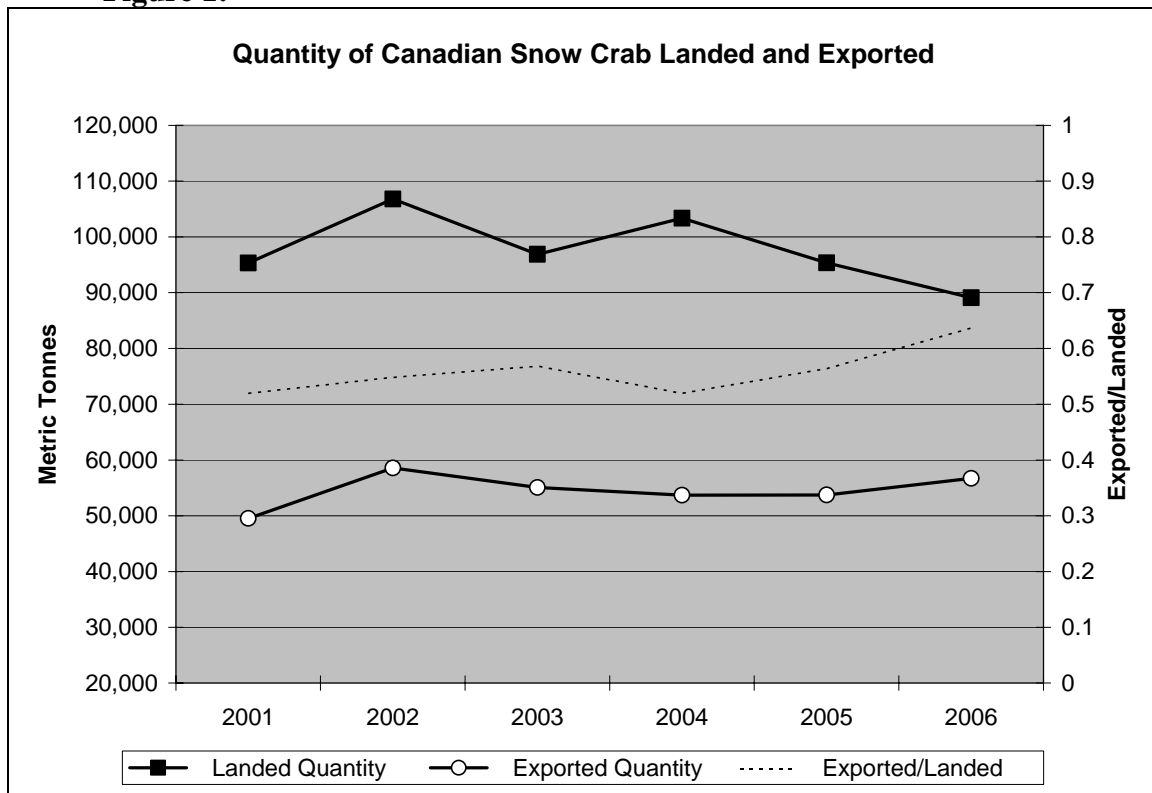
The Humane Society of the United States (HSUS) began a boycott of Canadian seafood on March 29, 2005, in protest of the Atlantic seal hunt. It should be noted that the HSUS originally called for a boycott of all Canadian seafood, but later focused media attention on snow crab in the U.S.A. - after the prevailing market cycle was clear.

The following facts can be used to assess the boycotters' claims. The data are summarized in the first few pages, while data tables are provided at the end. The data suggest that the HSUS' claims about the success of the boycott are much inflated at best, but more likely they are simply deceptive and misleading.

Snow Crab Exports from Canada to the World

The quantity of snow crab exported from Canada to the rest of the world has remained stable in recent years, despite a modest decrease in the harvest since 2004 (Figure 1). It is not straightforward to determine precisely what proportion of total landings is exported from Canada (versus how much remains within the country), since landings are recorded in round (whole) weights, while exports are recorded in diverse product (processed) weights. Nonetheless, the value of exported weight over landed weight is also shown in Figure 1 (right hand axis). It has remained reasonably constant over time, hovering around 0.55.

Figure 1:

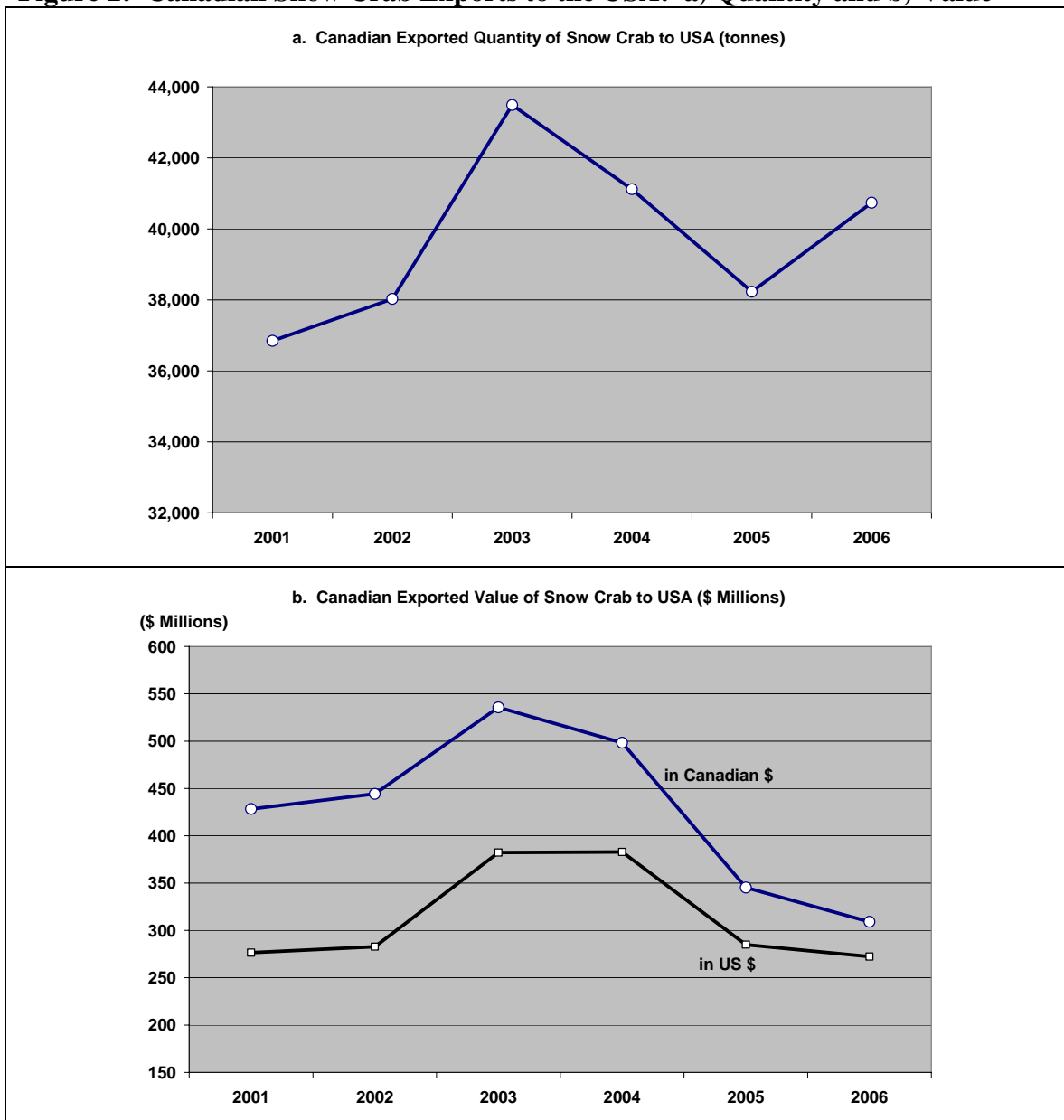


Note: crab exports prior to 2001 were not separated by species in Canadian data, and earlier data for snow crab are therefore not shown.

Canadian Snow Crab Exports to the USA

The United States is by far the main buyer of Canadian snow crab, purchasing 70-75% of Canada’s snow crab exports. Although the quantity exported to the USA has remained quite constant in recent years, the value declined significantly in 2005 and 2006 compared to 2003-2004, due to a cyclical price decline (to be discussed in the following section). Exported quantities and values for 2001 through 2006 are shown in Figure 2.

Figure 2: Canadian Snow Crab Exports to the USA: a) Quantity and b) Value



Quantities exported to the USA have declined since the peak in 2003, but remain higher than quantities in 2001 or 2002. The exported *value* is lower when measured in Canadian dollars, but is similar to 2001/2002 levels when measured in US dollars. The Canadian dollar has strengthened against the US dollar significantly in recent years, and owing to the importance of the US as a buyer of Canadian crab, the exchange rate itself has put significant downward pressure on prices in Canadian dollars. Exchange rates are shown in the following section on prices.

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The HSUS claims that the boycott has cost Canada \$350 million. It appears that they calculated (roughly):

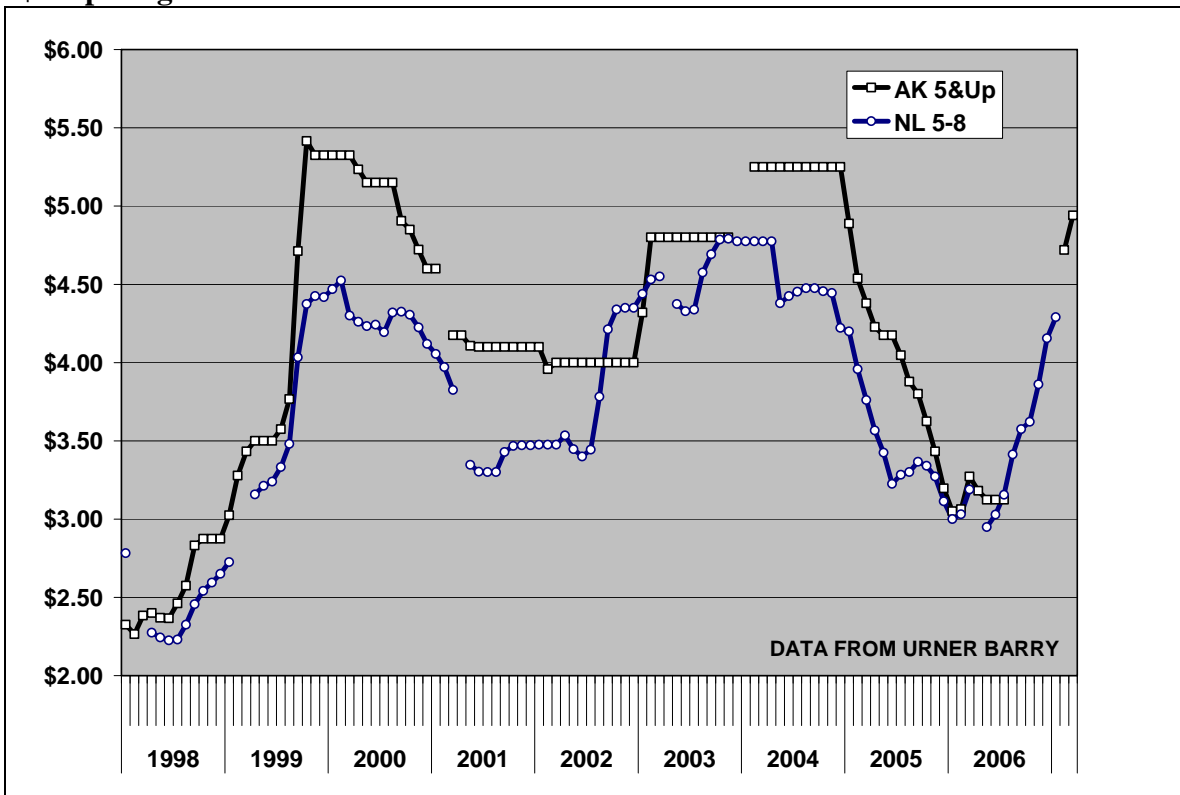
- the difference between exported value in 2004 and 2005, and
- the difference between 2004 and 2006, and then
- added them together.

This calculation inherently assumes that, without a boycott, exports would have remained at an historic high.

Snow Crab Prices

The snow crab market experiences regular, cyclical shifts in price. The recent downward trend, for which the HSUS opportunistically claimed responsibility, is within the normal oscillations of the market (Figure 3). Note that market prices are once again rising, and have been doing so since mid-2006. Furthermore, the price cycle is not confined to Canadian crab, but can be seen throughout the world market. In particular, note that **the price of Alaskan snow crab in the USA also declined significantly** from 2004 through mid-2006 (Fig. 3 - no data available for Alaskan snow crab after mid-2006). In fact, US prices dropped proportionately *more* than Canadian snow crab prices.

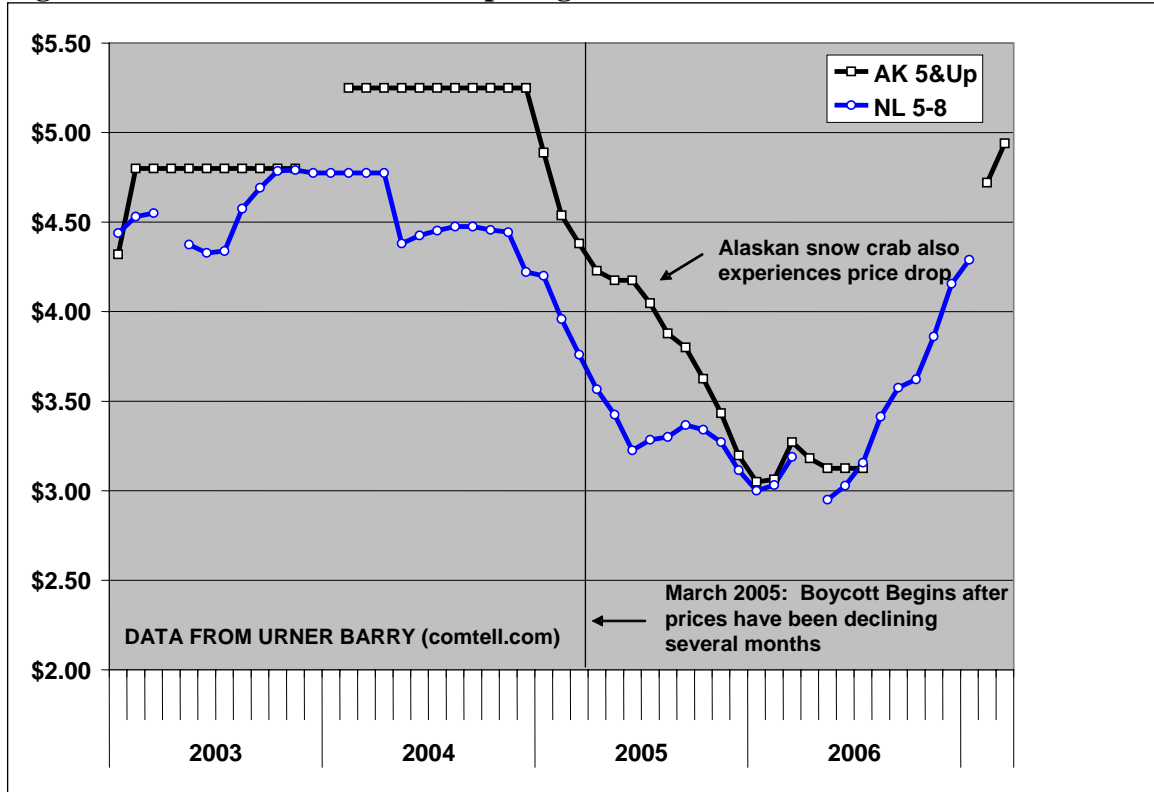
Figure 3: Snow Crab Price Cycles - January 1998 through January 2007. Prices in \$US per kg.



Prices are shown for transactions in NL snow crab, 5-8 oz sections, and Alaskan snow crab, sections 5oz and up. Data from Urner Barry (Comtell.com).

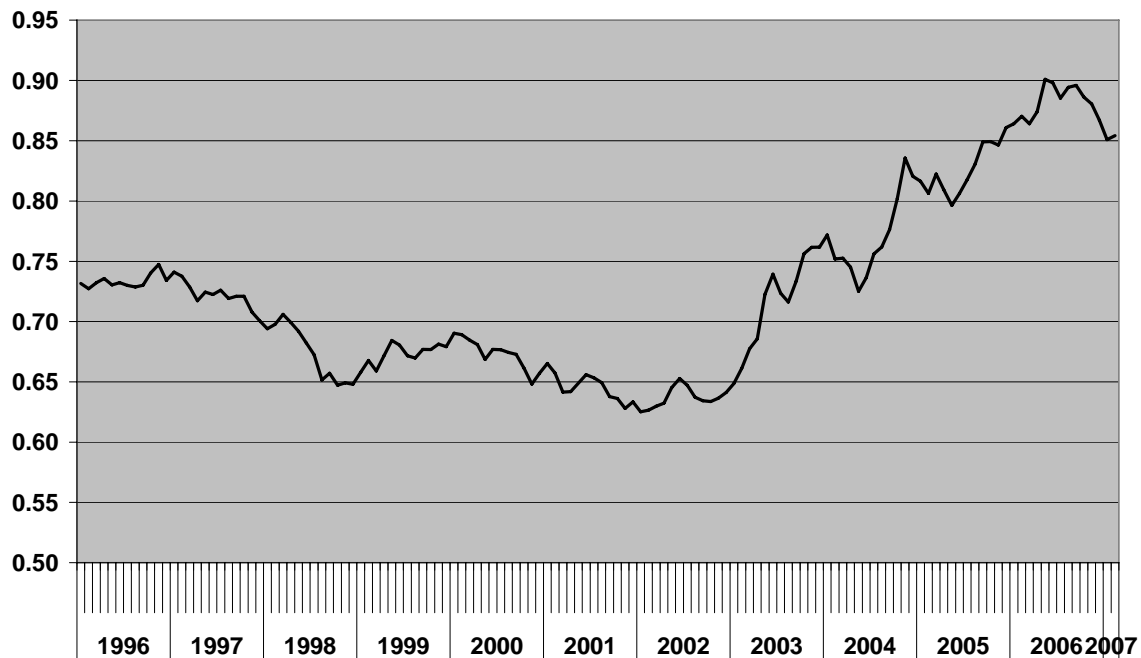
****A very important point to note is that Canadian snow crab prices in the U.S. began to decline in late 2004, several months before the start of the HSUS' boycott (Figure 4).**

Figure 4. Prices are shown in \$US per kg.



The market prices presented above are wholesale spot prices collected by Urner Barry (Comtell.com), and are all measured in US dollars. When measured in Canadian dollars, there is the additional negative effect of the exchange rate. The Canadian dollar has strengthened significantly against the US dollar since the beginning of 2003 (Figure 5). The importance of the American market for Canadian snow crab is such that exchange rates alone would put a significant downward pressure on Canadian prices. The exchange rate effect should not have had an effect on Alaskan prices, and so the large drop in Alaska's prices is all the more significant for emphasizing the extent of the crab price cycle *beyond* Canadian crab.

Figure 5: Exchange Rate (US\$/CD\$), 1996 to Present



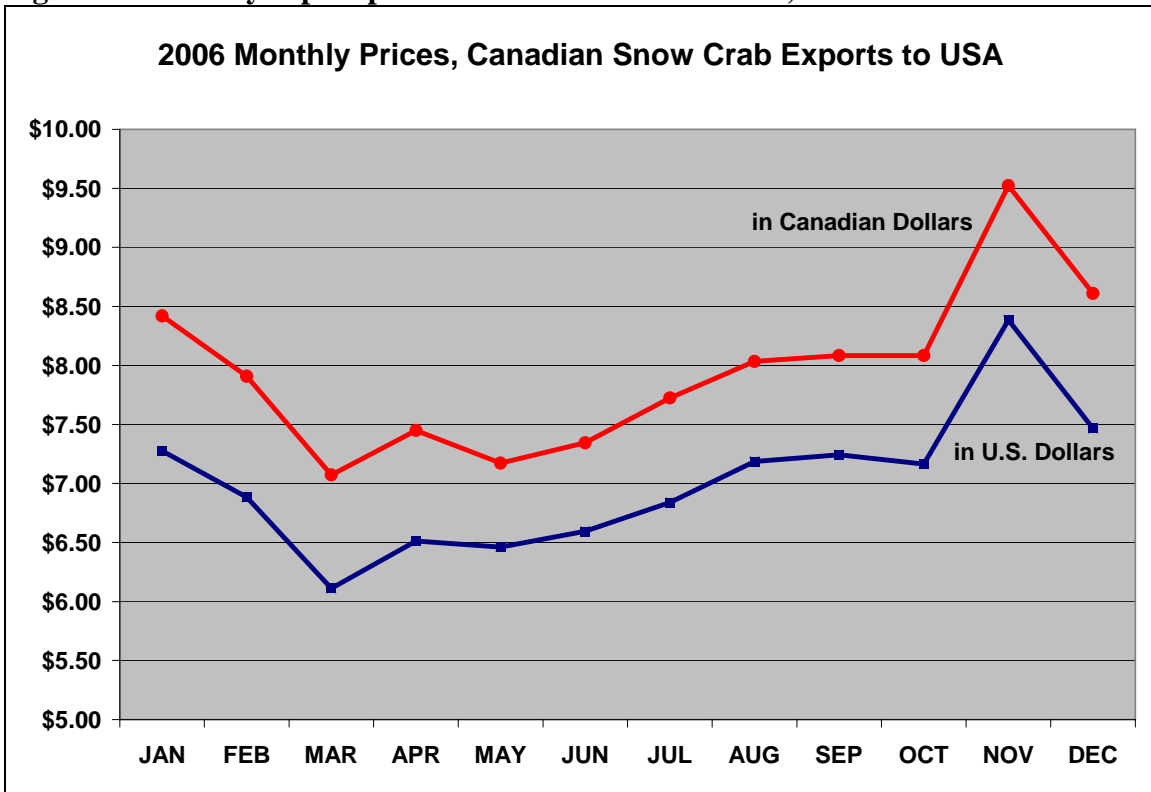
What caused the current crab market cycle? It can likely be attributed to several factors, but mainly:

- Unusually high crab prices in late 2003 and 2004 were triggered by strong demand from Asian importers, especially Japan. When prices overheat, subsequent price drops are frequently observed. Retailers find substitutes, and high-priced inventories held by wholesalers did not clear prior to the beginning of the 2005 season. Thus, a lower price would be expected in the 2005 market.
- Disruptions in important tourist markets in late 2004 and 2005 (for example, unusually destructive hurricanes in the Southern USA in both years) contributed to the inventory buildup that induced and maintained lower prices.

Throughout 2006, the best strategy for Canadian crab exporters was to maintain low prices to avoid inventory buildup, and to rebuild buyer confidence.

Indications that the cycle is turning are also showing up in export data. The 2006 Canadian snow crab export prices to the USA hit a low at the beginning of the season, but strengthened throughout the remainder of 2006 (Figure 6). Prices have risen regardless of the currency in which they are measured.

Figure 6: Monthly export prices for Canadian snow crab, 2006.

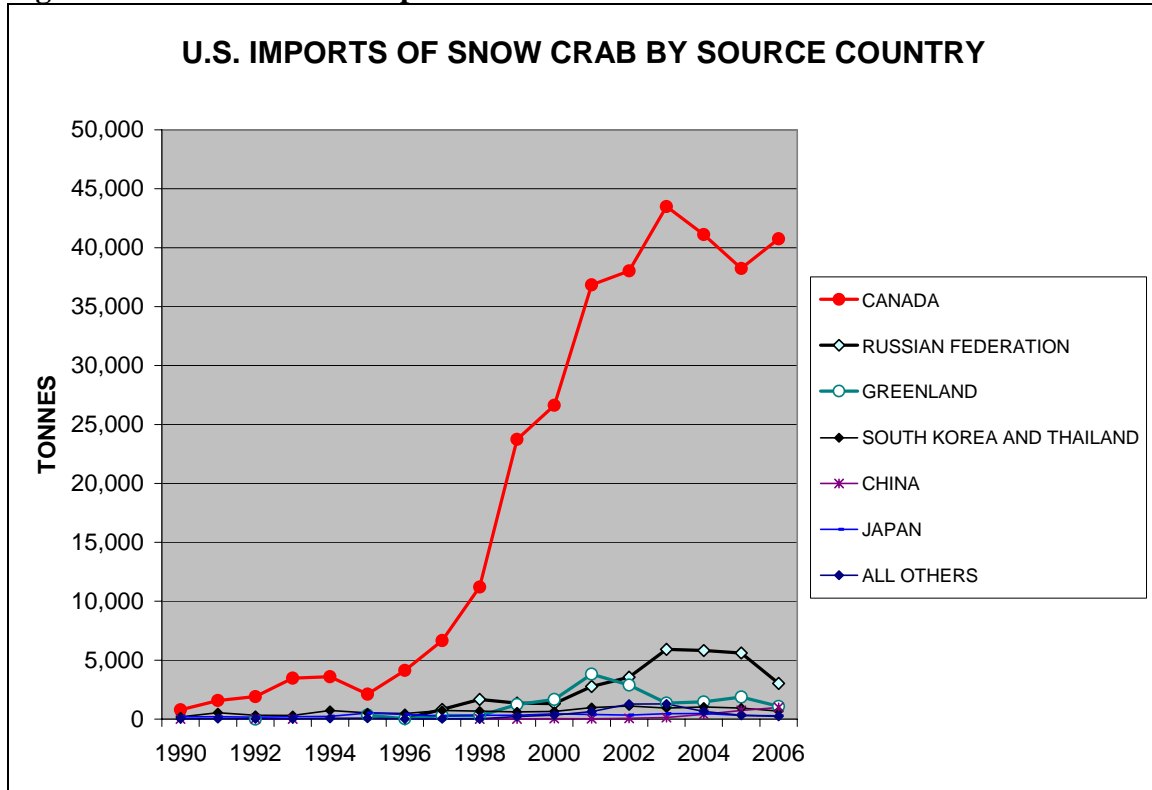


Given the data available at this point in time, it is difficult to believe the HSUS' claims that the boycott is responsible for the decline in the value of Canadian snow crab exports observed in 2005 and 2006.

U.S. Imports and Production of Snow Crab

Canada is the USA’s main import supplier of snow crab. As previously seen in the Canadian export data, U.S. imports of Canadian snow crab fell in 2005, but increased again in 2006 (even though data for 2006 are still incomplete and do not yet include December’s trade data - Figure 7). This increase occurred despite claims by the HSUS that an increasing number of US businesses are joining the boycott.

Figure 7: US Sources for Imported Snow Crab

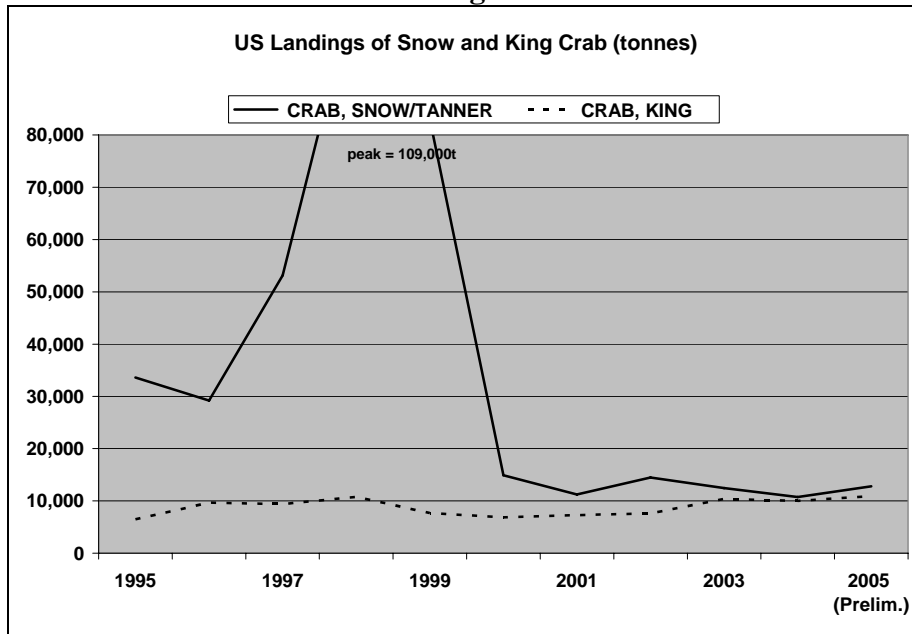


(2006 data available through November only)

Russia and Greenland are the next most important sources for snow crab imports to the USA, though all sources are far below Canada. The import prices for snow crab from these countries also declined between 2004 and 2006 (data can be obtained from the National Marine Fisheries Service web site at <http://www.st.nmfs.gov/st1/index.html>).

The extent to which the US supplies its own snow crab market is difficult to determine precisely, for the same reasons as for the Canadian market - the measures of landings (whole) and exports (processed) are not comparable weights. However, in recent years, the total snow and tanner crab landings in the USA are generally only 10%-15% of the amount landed in Canada (Figure 8), and therefore would not represent a large alternative source of supply.

Figure 8: US Production of Snow and King crab



Snow crab is likely a substitute for the more valued king crab. US production of king crab has been relatively constant for a decade, but US imports of king crab from Russia increased substantially in 2005 and 2006 (Figure 9). It is reported that Russian production of crab also increased in recent years, and there have been accusations in the international community that much of the Russian production is not legal. Regardless of the source, king crab may compete with snow crab in the international market, and may contribute to the market cycles for snow crab.

