CLG bite-size. Changing dynamics of seafood supply chains. 12 April 2022.

The Russian invasion of Ukraine has had significant implications for the UK seafood supply chain. This Common Language Group bite-size meeting looked at the potential implication of global food-related trade sanctions against Russia on the UK seafood supply chain. It provided an overview of global whitefish supply, Russia's contribution to that supply, the UKs reliance on Russian raw material, and the direct implications to business from possible trade sanctions and inevitable business disruption.

Impact of Ukrainian - Russian conflict on the UK seafood sector. Arina Motova, Seafish

- This covered: UK imported seafood products; global supply of whitefish and Russian production; UK whitefish imports by country; main parts of the supply chain affected by Russian-Ukrainian conflict; and potential impacts of whitefish price increase on the processing sector.
- The UK is heavily reliant on the import of cod, haddock, and Alaska pollack. These species in 2020 represented around ¼ of UK import value. Cod, haddock and pollock are in the list of top 10 the most consumed species in UK. Pollock is the cheapest seafood species in the top 10 consumed products.
- The Russian fleet catches 28-29% of cods, hakes and haddocks globally making this country the main global supplier of whitefish species. UK fleets landings of the same group of species compared to the rest of world is around 2% in live weight.
- According to HMRC only 10% of cod, haddock, and Alaska pollock is originating from Russia, but China is the main exporter of whitefish species to UK market. 30% of whitefish imported originate from Russia.
- Processing sector is operating on very low margins. Demersal fish processors in 2018 had 2.9% operating profit margin, while their raw material costs compared to total income reached 72%. If raw material costs increased by 20-30% for demersal fish processors, their operating profit, net profit and GVA margins would drop to negative (margins in orange minus estimated impact on raw material costs in blue).

Discussion

- **Q. This has focussed on the price of fish. A lot of our trade is added value i.e., coated fish, fried etc. Have you looked at the price of commodities such as wheat flour and sunflower oil Have you looked at that as well? This will the challenge for value added producers.**
- **A.** Not specifically, but this is part of the raw material cost. So, they will be factored in as well.
- **Q. You have looked at the percentage of fish that is imported into the UK. I know this is complicated due to the impact of China and other hubs for materials passing into the UK. Looking at a figure of 30% of whitefish being imported from Russia. If Russia has 28 -29 % of the global whitefish market, and supplies around of 30% of UK whitefish supply, this seems to be pro rata i.e., is the UK is taking a share that is proportionated to global share? Are we under trading or over trading in a global Russian context?**
  A. It looks like Russia is the biggest supplier of whitefish into the global seafood market, and one of the biggest supplier of whitefish into the UK. We would seem to be importing a percentage that would seem to be proportionate to Russia's global share. we are importing
- **Q. Is there no way to capture the origin of seafood from the catch certificates?**
  A. This is complicated and need to be looked at.
- **Q. Over and above the trade statistics we are seeing turbulence re MSC product and ICES having data gaps - are we tracking any intel especially re the former? It seems that Russia is being excluded from the ICES Working Groups. That is the process that sets the Total Allowable catches for the future. If this then extends to them setting their own quotas, this could have a big impact on the market, and also on certification as the MSC requires scientific stock assessments?**

- **A.** This is constantly changing. Auditors have announced they are stopping audits in Russia. This is tricky. If anyone has any questions they can contact MSC directly.

Changing dynamics of seafood supply chains. Andrew Kuyk, Seafood Industry Alliance.

- The UK's seafood supply chains have already been seriously challenged by both Brexit and Covid over the last two years - and the effects of both are still with us. We now face significant further disruption due to events in Ukraine and consequent sanctions on Russia which accounts for some 40% of total global whitefish supplies. The compound effects of all of this are highly uncertain. Due to the UK import and export paradox it is mostly exports that have been affected by Brexit. The reality is that UK self-sufficiency in terms of seafood consumption is very low. We are largely a net importer of whitefish especially.
- There are many other inputs that have been impacted – raw materials, energy, additional materials – prices are going up for all. There are also big impacts on labour – we did employ a lot of Ukrainian workers. We have not yet seen the full effects because there are long processing timelines which have not yet filtered through. Rising fuel costs are already directly affecting fishing operations.
- **This is perfect storm** – a unique combination of challenging circumstances.
- Economic sanctions are being directed at Russia, aimed mostly at banking and high net wealth individuals to bring the maximum impact on Putin's war regime, whilst minimising the impact on the UK and UK businesses. That is a difficult balance especially with a very complicated and complex global seafood supply chain. The UK Government has introduced a 35% import tariff on key items. At the moment seafood has not been targeted. The EU has not chosen to introduce import bans or tariffs. There can be unintended consequences to all of this.
- **The big five**: British consumers consistently stick to the "big five" when buying fish and shellfish, in preference to species more readily available in UK waters; In 2020, the top five seafood species by sales were salmon, cod, tuna, warm-water prawns, and haddock, closely followed by Alaska pollock; Shoppers spent £1.2bn on salmon £600m on cod, £500m on tuna, £400m on warm-water prawns and £300m on haddock - and only £130,000 on mackerel in 2019; Up to now, some two-thirds of all seafood consumed in the UK is imported (often from outside the EU), while around 80% of UK catches are exported (mainly to the EU).

Discussion

- **Q. This is a very difficult to talk about because of the very human cost that we are all aware of, but we are here to talk about the impact on trade and the UK seafood supply chain. With 30% whitefish supply coming from Russia – if that was no longer available what would be the cost to the UK seafood market. What would be the impact?**
- **A.** We don't really have that information and it would be difficult to determine. We need to think about the inflationary effects and the cost-of-living impact – this just adds to the complicated picture. The consensus view is that food cost inflation is going to run significantly ahead of other inflationary indexes, and this is on top of energy price increases. The two things that are going up will impact more heavily on those least able to afford it. In terms of the processors different businesses will have different models. Fish and chip shops are likely to be getting 60% of their supply from Russia, and this is likely to come more directly rather than through processing in China. This could be getting to a tipping point for many businesses. For bigger processors this will vary depending on what they process, where they process it, and how their factory is structured. There could be some big decisions needed.
- **Q. Is there any 'on the ground' reaction to importing Russian or Russian - Chinese fish? I think the consumer reaction to this situation might suddenly change if the press picks up on it.**

A. My impression is that most consumers are fairly unaware where the fish comes from. A pack could say Alaska or Northeast Atlantic, neither of which shouts Russian. With all the rhetoric around Brexit and fish from our waters, most consumer will assume they are buying and eating British fish. Retailers will be hyper-sensitive to all of this. They will be watching very carefully the consumer reaction. This will dictate their priority. This is all about judgement. Government needs to understand the full implication for all the decisions taken.

Matt Whittles, Defra.

- Tariffs – there is a UK Government plan for a 35% tariff on the impart of all Russian fish. This is in the pipeline. We are currently considering all the implications before we introduce this. The timing is up in the air.
- As background the EU ban does include crustacean and caviar – this is unlikely to impact the UK. The US ban on Russian imported seafood does exclude Russian fish processed in China.
- Public perception could change quickly, and this is a very pertinent point, and Government needs to be aware of this, and react accordingly. As a whole we need to think about the opportunities and what we need to do.

<u>Discussion</u>

- We need to think carefully about changes to policy, especially those with a public resonance, and the impact this might have. There is a fine line and the need to keep dialogue open. With strong anti-Russian sentiment in the public, shopping is one way the public can show those feelings. But this needs to be weighed against other impacts and we need to be fully aware of the unintended consequences.
- **Q. Is it realistically possible to take China processed Russian catch certificate stock from the supply chain?**
  A. Change will not happen in the short-term, it will be long-term, and we need to carefully think about what businesses do in the meantime. If we are going to process other products this will involve different production methods and investment. A lead time is needed, and this presents a capital investment challenge as well. Taking away a key element of raw material supply could have a very big economic impact. There is no short-term solution, and we will have to bridge the gap. This is about format as well as species.
- Industry needs to be given time to adjust. Businesses should not be punished unintentionally. These are not overnight changes that can be made. Rules of Origin is crucial.
- **Q. How are catch certificates checked in UK ports? Can we make sure Flag States have verified the Catch certificates? This used to be recorded and a report published every two years.**
  A. There is no means we can use catch certificates to determine that fish has been caught by Russian vessels. We are checking to make sure the fish is legally caught, not for the country of origin, and we are not recording this. This is not a trade related process. It is a compliance check. Simply identifying the Flag State is a very crude method of determining country of origin. This is governed by Rules of Origin.
- **Q. Are there any plans in the pipeline to stop Russia circumventing the tariffs by utilising 3rd party countries i.e., China? Considering that right now it is difficult to identify where fish was caught?**
  A. It is the UK that is deciding to use China for processing that fish. There is a degree of complexity about this.
- Today we have shared an up-to-date factual view on the current situation. There are very significant supply chain challenges that the seafood industry is facing on many fronts, but this has yet to fully play out and we will need to live with the consequences of this.