

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



UK Seafood Supply Chain Overview:

October-December 2021

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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 October to December 2021.

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

The main issue challenging the whole of the seafood supply chain during this period was a shortage of labour. Shortages in the lead up to the festive period were exacerbated by heightened seasonal demand and a rise in short-term absenteeism from Covid-19 self-isolation. These shortages were particularly problematic across the processing and logistics sectors.

New export paperwork requirements in place since the start of the year continued to challenge some businesses, particularly small exporters sending live product. The critical shortage of lorry drivers also continued to hamper trade.

Patterns observed in December 2020 were repeated in 2021 with the outbreak of another highly contagious Covid-19 variant which led many customers to cancel restaurant bookings and Christmas gatherings, opting to eat at home instead. This shift increased retail demand ahead of Christmas which raised logistics and raw material sourcing concerns. These issues led some businesses to reduce promotional activity for some products or simplify ranges to improve efficiency and retain stock levels.

Some of the catching sector benefited from rising raw material 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. All fishing businesses were impacted by increasing red diesel prices throughout this period with concern that further increases could make fishing financial unviable.

Due to slow Norwegian and Russian whitefish landings from the Barents Sea and total allowable catch reductions announced for key international demersal fisheries in 2022, average demersal import prices rose by 14% from £3,836/tonne in August to £4,369/tonne in December.

Markets

Key points

- The UK retail market for seafood fully reverted to pre-Covid trading patterns by the end of this period.
- Recovery in foodservice continued in October and November before stalling as the Omicron Covid-19 variant spread rapidly through the UK in December.
- UK exporters continued to face challenges with global trade to the end of the year. The critical shortage of lorry drivers continued to hamper trade.

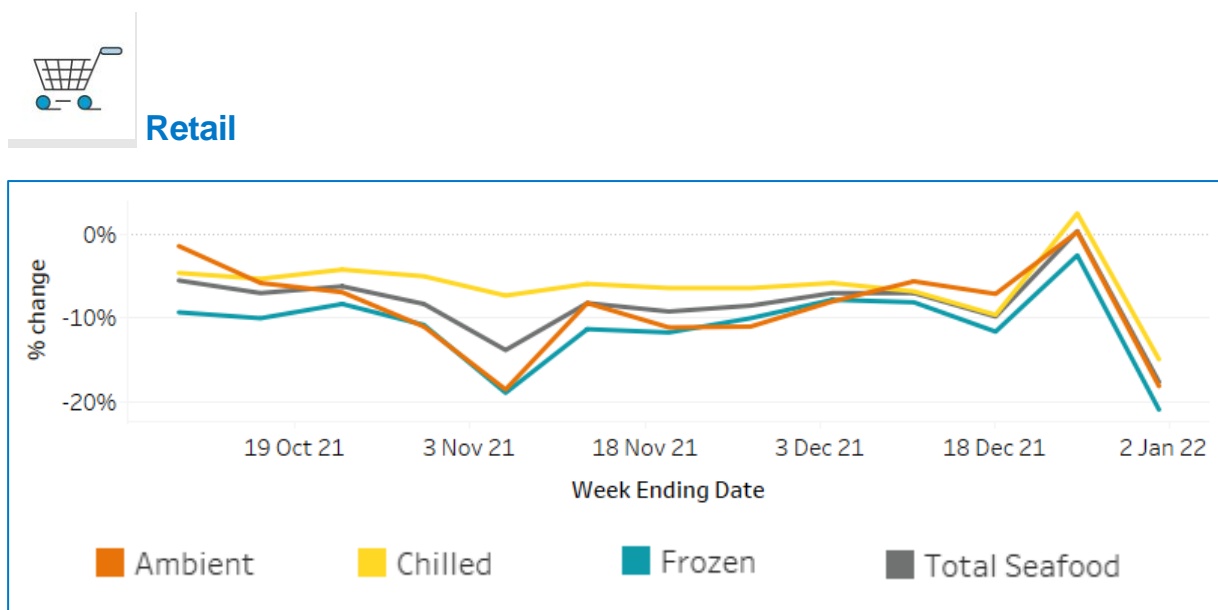
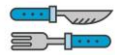


Figure 1. October-December 2021 weekly seafood volume sales in retail compared to previous year.

Seafood sales in retail returned to pre-Covid trading patterns by the end of the year and many customers returned to in-store shopping (Figure 1). Chilled seafood remained the only format still in growth by the end of 2021, with sales volume of frozen and ambient products returning to decline. As is typical for the time of year, seafood sales increased in the lead up to Christmas. Salmon as well as shellfish species remained popular for the festive period.

As strict Covid-19 restrictions during Christmas 2020 had prevented people from spending the festive period with loved ones, many planned to make up for these missed visits in December 2021. However many plans were cancelled once again following government guidance to limit contact where possible in response to the rapid spread of the new Omicron Covid-19 variant in December 2021. As a result more people ended up planning at-home meal occasions, boosting retail demand. At the same time, retailers raised concerns about possible stock shortages in the run up to Christmas due to logistics and raw material sourcing issues. These concerns led some businesses to reduce promotional activity for some products or simplify ranges to improve efficiency and retain stock levels. Despite supply concerns, retailers managed to keep shelves stocked through the end of the year.



Foodservice

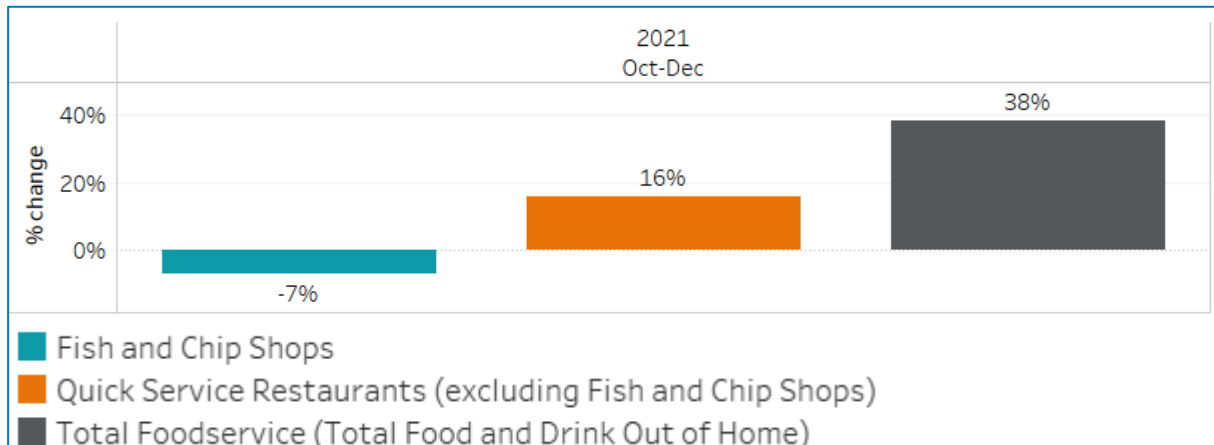


Figure 2. October-December 2021 foodservice visits compared to previous year.

Recovery in foodservice continued in October and November before stalling as the Omicron Covid-19 variant spread rapidly through the UK in December (Figure 2). Due to health concerns, customers were quick to cancel their restaurant bookings during the industry's busiest season. Visits to foodservice and to seafood in foodservice ended the quarter at 77% of pre-pandemic levels.

Despite concerns about the new Omicron variant, total consumer visits to foodservice outlets were up 38% in October-December 2021 compared to the same period in 2020. However, visits were still down 23% on 2019 levels. Seafood in foodservice also bounced back in October-December, up 30% on 2020 levels for the same period. Seafood-specific visits and servings reached 77% and 75% of 2019 levels respectively for the same period.

Fish and Chip shops were the only channel to experience a decline in visits during this period, with visits 7% below 2020 levels for October-December. Total spend in October-December was 8% below the same period in 2020, but reached 92% of 2019 levels for the same period. Fish and chip shops also faced rising raw material costs for both seafood and packaging, with some of the cost increase expected to be passed on to consumers. Across foodservice, some businesses were forced to close temporarily or reduce menu options due to sourcing and supply chain limitations.

Quick Service Restaurants (QSR) remained an important channel and opportunity for seafood out of home consumption. QSR sales surpassed 2019 levels during this period while visits reached 78% of 2019 levels. Customer loyalty is expected to remain an important factor for people when choosing where they will eat out.

It is now hoped that the foodservice industry can fully recover from Covid-19 in 2022, a year sooner than was previously predicted. Seafood in foodservice is expected to recover in line with total foodservice.



Exports

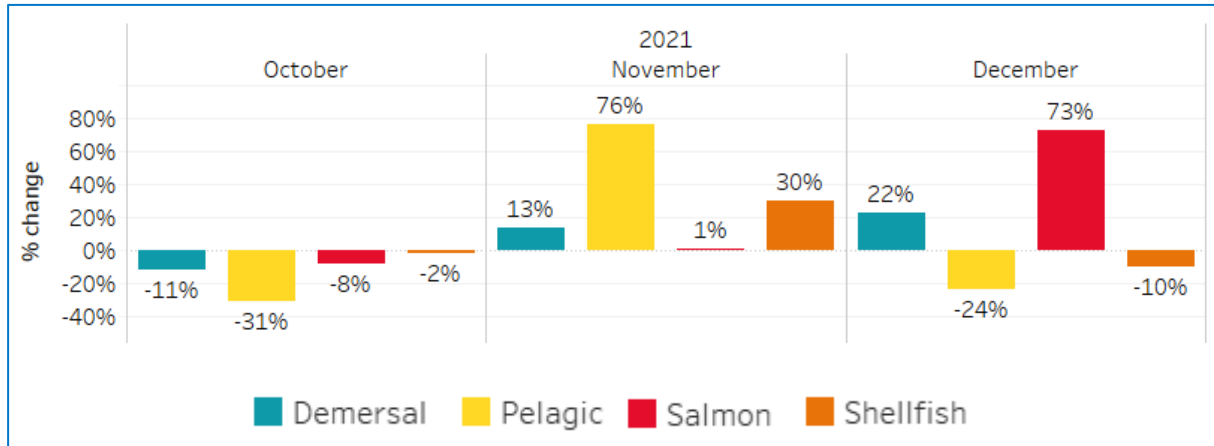


Figure 3. October-December 2021 seafood export value compared to previous year, by month.

UK exporters continued to face challenges with global trade to the end of the year. Some businesses faced short-term impacts from increased inspection requirements for cold chain seafood exported to China. Shanghai also introduced new labelling requirements in September, three months ahead of the anticipated implementation date (1 January 2022). This was as a result of the high number of Covid-19 cases amongst employees at Shanghai Pudong Airport as well as an increase in local Covid-19 cases and restrictions. As UK businesses were not yet expecting this change, some export consignments got held up at the border. High air freight costs and limited flights to East Asia also continued to make it difficult for UK exporters to reach critical markets.

Challenges closer to home also threatened UK exports during this period. As markets continued to open back up, the critical shortage of lorry drivers proved particularly problematic for fresh and live exports to the continent, with delays causing product to lose value. Difficulties with finding vets to sign off on live products for export challenged some exporters.

New export paperwork requirements in place since the start of the year continued to challenge some businesses, particularly small exporters sending live product. Some businesses exporting product to- or transiting it through Europe were also frustrated by whole transports being held up by seemingly immaterial inconsistencies in export paperwork. Such issues galvanised further support for a digital solution, like the Single Trade Window and e-certification system under development.

Live bivalve mollusc exports to the EU were also still extremely limited; however, 12 sites were successfully reclassified as class A waters in November following a review by the Food Standards Agency, allowing more product to be exported.

Political tensions with France related to fishing vessel licensing around the Channel Islands led to threats of blockading UK seafood exports from the French industry. Despite these tensions, massive action was averted.

Despite ongoing challenges, exporters continued to look for new opportunities during this period. Businesses showed interest in growing exports to the Middle East and Gulf States,

exploring markets for salmon, whitefish and shellfish species. The Scottish Agricultural Export Hub was also set up in November to help primary producers sell Scottish agricultural goods abroad, both by developing new opportunities and expanding existing export markets.

By the end of the year, cumulative pelagic export value was down 20% and cumulative export volume was down 42% compared to pre-Covid levels (2017-2019 average). Though cumulative demersal export value was still 17% below pre-Covid levels, cumulative demersal export volume was only 4% down on pre-Covid levels by the end of December. After ongoing disruption to shellfish exports, cumulative value was still 24% below pre-Covid levels by the end of December, while cumulative export volume was 28% below pre-Covid levels. Both demersal and shellfish exports were limited in the lead up to Christmas by the rapid spread of the Omicron Covid-19 variant, which restricted domestic processing capacity and reduced customer demand as many people cancelled foodservice bookings in December (Figure 3). Meanwhile, cumulative salmon exports recovered by the end of the year, returning both value and volume to pre-Covid levels.

Production & Distribution

Key points

- **Many processing businesses struggled with raw material sourcing, rising operating costs and labour shortages during this period.**
- **Staff shortages across the supply chain were exacerbated by high levels of short-term absenteeism from Covid-19 isolation in the lead up to Christmas.**



Processing, Transport & Logistics

Processing businesses continued to meet a number of challenges during October to December. Businesses faced longer lead times for all raw materials including packaging due to supply, shipping and haulage delays and rising prices driven by inflation.

Processors sourcing imported chilled whitefish material faced even higher raw material costs after a cut in the Barents Sea total allowable catch for 2022 was announced. This further reduction in an already constrained whitefish supply alongside heightened demand was expected to further drive up chilled whitefish prices in early 2022 as businesses are unable to build chilled stock. Frozen whitefish is also expected to be limited in the new year as China, a major whitefish primary processing hub, closes for its natural planned closure during Chinese New Year.

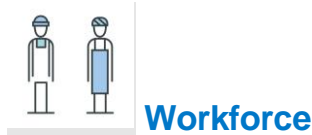
Businesses in Northern Ireland struggled to source Nephrops from the Northern Irish fleet during this period. The fleet was primarily fishing in Scottish waters and landing in Scottish ports. Many of these ports did not have access to vets to meet vet check requirements for catches to be sent back to Northern Ireland.

These factors in addition to rapidly rising energy costs and processors' already low margins, forced many processing businesses to consider price increases. However, the scope for processors to increase their prices is narrow as seafood is a relatively expensive protein and end consumers were already facing a sharp increase in the cost of living.

Labour shortages in the processing industry became more acute in the lead up to Christmas. Businesses reliant on securing additional staff during the festive period to help meet additional seasonal orders faced particular challenges. Track and trace self-isolation rules and the rapid rise in Covid-19 Omicron cases exacerbated ongoing labour shortages for some businesses, especially those operating with a small number of core staff. Some processors reported temporarily closing due to Covid-19 factory outbreaks. Some processors had to turn work down as demand continued to exceed supply in run up to Christmas, with labour supply acting as a limiting factor in production, resulting in loss of revenue for these businesses. Some businesses also responded to labour shortages by prioritising higher value species, like turbot and lemon sole, or Christmas favourites, like salmon and prawns, over lower value species to get better margins.

Transportation costs remained high during this period due to a combination of Covid-19 and EU Exit factors, impacting operating costs for those sourcing raw materials or selling products internationally. UK road freight prices were up by one-third during this period due to unprecedented demand for drivers and lorries, and ongoing lorry driver shortages. Severe

storms during this period also caused short-term transport delays in some regions of the UK where road and train lines were affected by storm damage.



Throughout this period, staffing shortages and problems with recruitment and retention continued to plague businesses across the seafood supply chain. Employers across the UK economy reported trying to improve pay and benefits to attract new recruits. Despite recruitment efforts, a sharp rise in Covid-19 cases in December, along with Government self-isolation requirements for case contacts, drove a rise in short-term absenteeism which further exacerbated ongoing staff shortages.

As predicted earlier in the year, ongoing labour shortages in the processing sector in the lead up to Christmas limited production capacity for many businesses during a period of heightened demand. Many driving factors for staff shortages in factories pre-date Covid-19, including the reduced labour pool caused by new immigration controls and strong competition from other sectors, but during this period these issues were exacerbated by Covid-19 self-isolation requirements and rising Omicron cases. For example, Salmon Scotland reported that all processing facilities serving the Scottish salmon sector were at least 15-20% short on workers. As a result, some businesses were forced 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 lost orders, contracts and revenues.

Efforts to boost recruitment in the seafood sector continued during this period. A second Sea a Bright Future pilot campaign in Northeast Scotland ran in November 2021 in an effort to increase awareness of the variety and availability of opportunities in the processing sector during the busy pre-Christmas period. A new £100,000 scheme to upskill and train employees in the Scottish seafood sector also launched at the end of December.

Staff shortages also impacted the logistics, foodservice, aquaculture and catching sectors. The critical lorry driver shortage seen earlier in the year continued into this period, hampering seafood exports to- and through Europe and making it difficult for some UK processing businesses to source raw material. At the beginning of this period, one in six hospitality jobs lay vacant, with businesses struggling with recruitment. Fish and chip businesses also struggled with staff shortages. Aquaculture businesses reported 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 also 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. Despite challenges with recruitment and retention in the catching sector, training availability for existing staff recovered by the end of 2021, reaching 75% of 2019 levels.

Supply & Primary Production

Key points

- Residual global transportation and logistics issues from the initial wave of Covid-19 in 2020 continued to disrupt trade to the end of 2021. Covid-19 outbreaks around the world and the rapid spread of the Omicron variant at the end of 2021 further hampered imports to the UK.
- By the end of the year cumulative shellfish and demersal landings value and volume were still below pre-Covid levels (2017-2019 average), while pelagic landings value (+19%) and volume (+3%) surpassed pre-Covid levels.
- Aquaculture businesses continued to manage challenges arising in the post-EU Exit landscape, while seasonal storm events caused problems for some shellfish farmers.

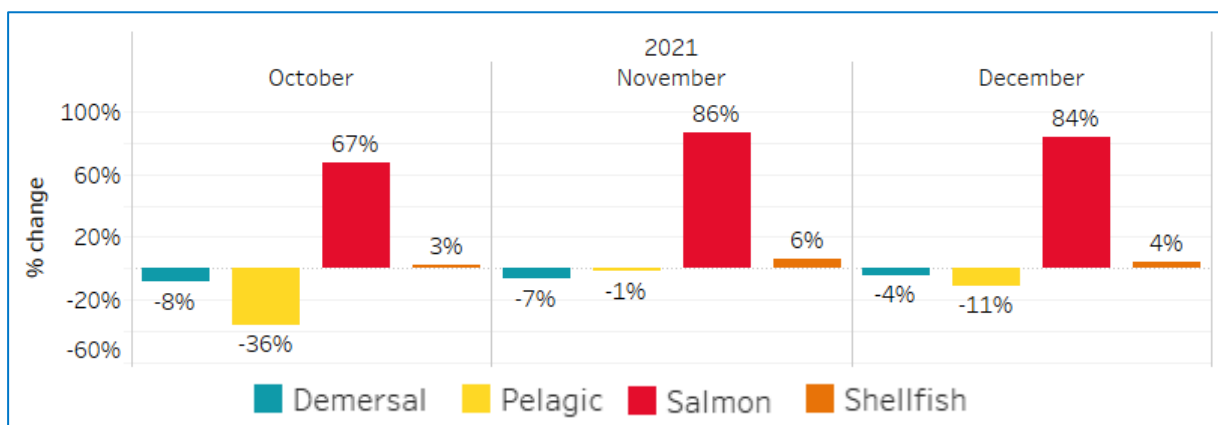


Figure 4. October-December 2021 seafood import value compared to previous year, by month.

While shellfish imports were on a par with 2020 levels, demersal and pelagic import values were below 2020 levels. Salmon import value was well above 2020 levels for October to December (Figure 4).

Ongoing Covid-19 outbreaks in China and southeast Asia during this period continued to restrict farm and factory production capabilities, impacting on seafood imports to the UK as well as access to packaging and other raw materials. Due to the long supply chains many UK seafood businesses rely on for seafood imports, disruptions earlier in the year were still being felt in addition to added disruptions caused by the rapid spread of the Omicron Covid-19 variant at the end of 2021. Increased Covid-19 restrictions in China at the end of the year in response to the Omicron variant were expected to further disrupt raw material imports into 2022.

Shipping imbalances, which have challenged global supply chains since the start of the pandemic, continued to the end of the year with prices spiking for containers sent between Europe and Asia. This ongoing imbalance also led to congestion at UK ports including Felixstowe with some ships having to wait days to unload cargo. Logistics issues were

further exacerbated by a shortage of lorry drivers causing delays to onward ground transportation in the UK.

Despite global supply chain challenges, some regulatory changes aimed at reducing import costs came into effect during this period. The first three UK freeports (Teesside, Humber, Thames) - special economic zones where normal tax and customs rules do not apply - came into operation in December. The impact of these freeports on seafood imports was not immediately clear. A free trade agreement between Iceland, Norway, Liechtenstein and the UK was also signed during this period and was hoped to help UK businesses avoid costly import tariffs.

By the end of the year, cumulative pelagic import value and volume were down 17% compared to pre-Covid levels (2017-2019 average). Both cumulative demersal import value (-13%) and volume (-16%) were still below pre-Covid levels by the end of December. However, due to slow Norwegian and Russian whitefish landings from the Barents Sea and total allowable catch reductions announced for key international demersal fisheries in 2022, average demersal import prices rose by 14% from £3,836/tonne in August to £4,369/tonne in December.

Ongoing disruption to shellfish imports caused by global Covid-19 outbreaks resulted in both cumulative shellfish import value and volume being 9% below pre-Covid levels by the end of December. Though most global shellfish production returned to growth by the end of 2021 after contracting in 2020, Covid-19 outbreaks continued to disrupt production, processing and transportation of product to the end of the year.

Cumulative salmon import value exceeded pre-Covid levels by the end of the year, with value up 30% and volume up 47% on 2017-2019 average values, reflecting strong and growing seasonal demand from UK consumers.



Landings

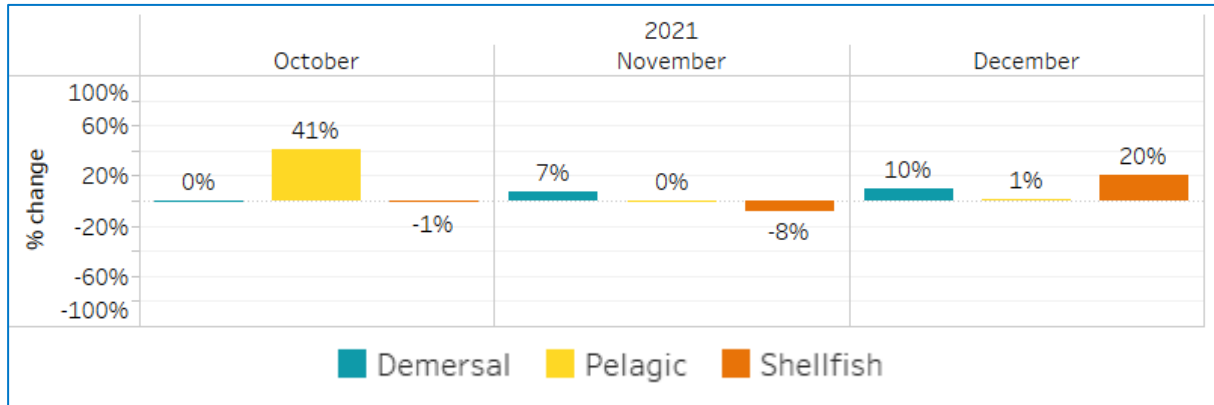


Figure 5. October-December 2021 UK vessel landings first sale value compared to previous year, by month.

Access issues that had plagued some of the demersal fleet earlier in the year improved by the end of the year. Previous quota swap issues continued to ease in this period after Producer Organisations began to facilitate trades in the summer. In December, Norway, the EU and the UK also signed a new tripartite agreement on the management of common stocks in the North Sea for 2022, providing more certainty about future fishing opportunities.

Labour shortages in the UK processing sector continued to impact demand and market price for certain catches, with some fishing businesses struggling to find buyers during this period. In Northeast Scotland, despite having available markets, prices for small whitefish stayed low because of the high labour requirement to process small fish. In Southwest England some of the fleet restricted their landings to align supply with the limited local processing capacity.

Vessels targeting higher value species were less impacted by labour shortages in the processing sector as these catches were prioritised by processors due to their higher margins, particularly in the lead up to Christmas. During this period, the strong price and demand for higher value demersal species resulted in overall demersal landings value above 2020 levels despite overall volume remaining below 2020 levels (Figure 5).

Shellfish demand remained strong through the end of the year, from both domestic and European foodservice markets. Overall shellfish prices were particularly strong in December compared to 2020 with landings value up 20% despite volume being down 5% (Figure 5). Some businesses on the west coast of Scotland that switched from supplying export to domestic foodservice markets in 2021 also reported strong demand and good prices for their fresh local products.

Fishermen targeting shellfish continued to track the progress of the Animal Welfare (Sentience) Bill through the houses of Parliament. The Bill recognises decapod crustaceans (including crab and lobster) and cephalopod molluscs (including octopus, squid, and cuttlefish) as sentient beings (e.g. capable of feeling pain and distress).

All fishing businesses were impacted by increasing red diesel prices throughout this period with concern that further increases could make fishing financial unviable. Those fishing with mobile gears with higher fuel requirements were particularly concerned.



Aquaculture

Combined Sewer Overflow spills from seasonal storm events (common at this time of year) resulted in increased Norovirus concerns in some coastal waters and subsequent loadings in farmed shellfish such as oysters. These concerns caused some producers to recall product as a precaution.

Live bivalve mollusc (LBM) producers operating in class B and C waters continued to face export restrictions. However, some businesses benefitted from the re-classification of 12 sites in November following a review by the Food Standards Agency which allowed slightly more product to be exported to the EU.

Also during this period, Crown Estate Scotland announced areas for growth and diversification for shellfish producers including UK retail and foodservice markets, nutraceuticals, carbon offsetting and green investment.

Meanwhile, staffing shortages were 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 lack of haulage drivers. Despite these challenges, salmon production and exports surpassed pre-Covid levels by the end of 2021. The strong seasonal demand from both UK and European consumers for smoked salmon in the run up to Christmas helped the sector end the year on a high.

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

The Seafish logo features the word "seafish" in a white, lowercase, sans-serif font. Above the letter "i" in "fish", there is a stylized graphic of a fish's head and scales, composed of several small, white, diamond-shaped elements arranged in a curved pattern.

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