

Southern Gulf snow crab processing sector

Moncton
January 2008

Issues

- Resource and raw material supply
- Fishery-driven industry
- Market structure/competition/prices
- Challenges facing processors
 - Regional raw material demand
 - Regional processing capacity
 - Exchange rates
 - Cash requirements & low margins
 - Attracting plant workers

Atlantic snow crab - key statistics

	2004	2006	2007p	Change '04-'07
Landings (000t)	103.4	89.4	79.4	-23%
Shore price (\$/kg)	5.90	2.35	4.25	-28%
Landed value (Can\$million)	612.9	208.7	337.5	-45%
Export price (US\$/kg)	9.00	6.30	8.60	-4%
Ex-rate (Can\$/US\$)	1.30	1.15	1.07	-18%
Export price (Can\$/kg)	11.70	7.20	9.20	-21%
Export value (Can\$million)	863.0	483.0	580.0	-33%
Source: DFO quota reports; NMFS: export price; Statcan, export value				

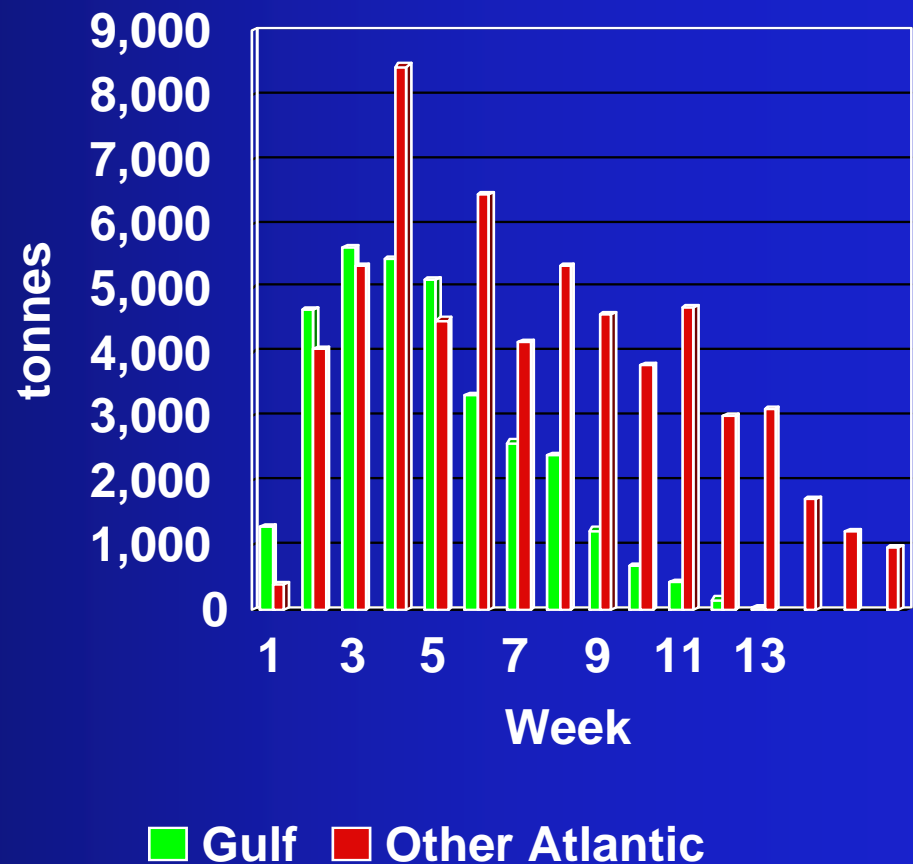
Short-term resource trends

- Newfoundland: poor prospects relative to late 1990s
- Eastern Scotian Shelf: **decreasing**
- Southern Gulf: **decreasing**
- Northern Gulf: variable

> **Implication: increasing competition for raw material in Southern Gulf in 2008**

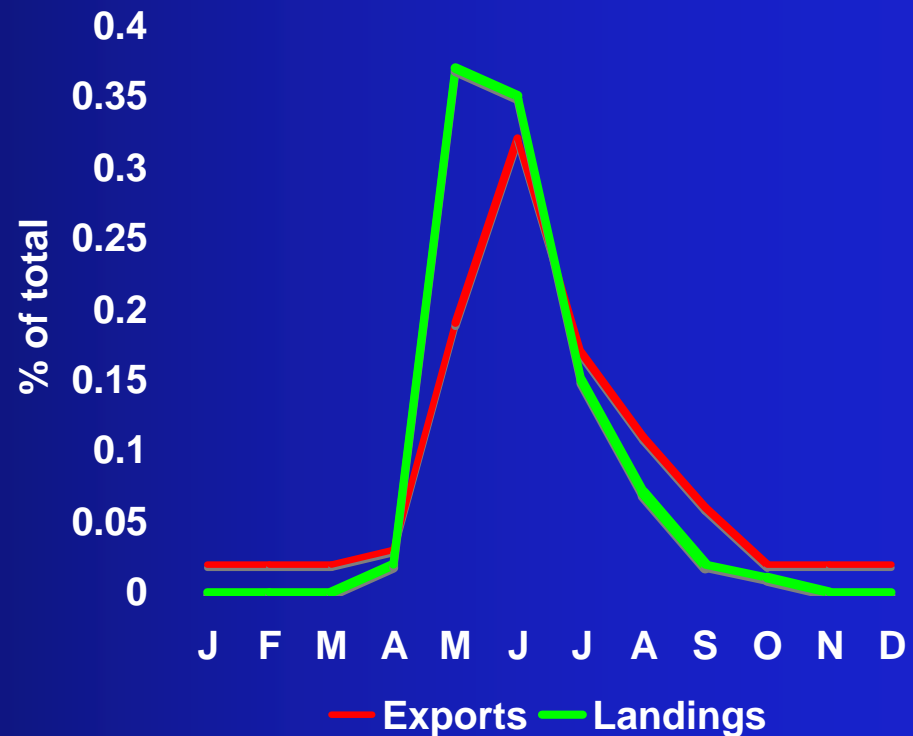
Sharply peaked season

- Core season lasts 8-10 weeks
 - NB 6-8 weeks
 - NL 8-10 weeks
 - NS 6-8 weeks
 - PE 3-4 weeks
 - QC 6-7 weeks



Cash driven export pattern

- Exports concentrated in four month period
- Export pattern reflects need for cash to meet buying commitments
- Crab is commodity
- Low margins limit ability to inventory/brand and develop market

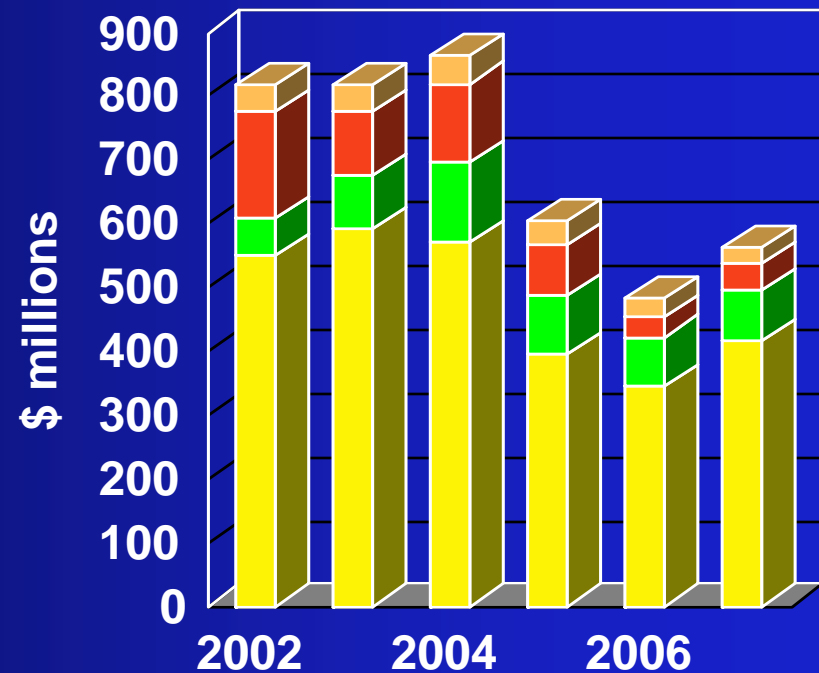


Plant operating data

Weeks worked and employment				
	Plants		Weeks Operating	Estimated employment
	Licenced	Active		
NL	38	36	8-10	4,000
NS	155	11	6-8	1,400
PE	6	1	6-8	100
NB	22	12	6-8	2,000
QC	22	22	6-7	1,500
Total	243	82	-	9,000

Canadian exports: 2002-2007

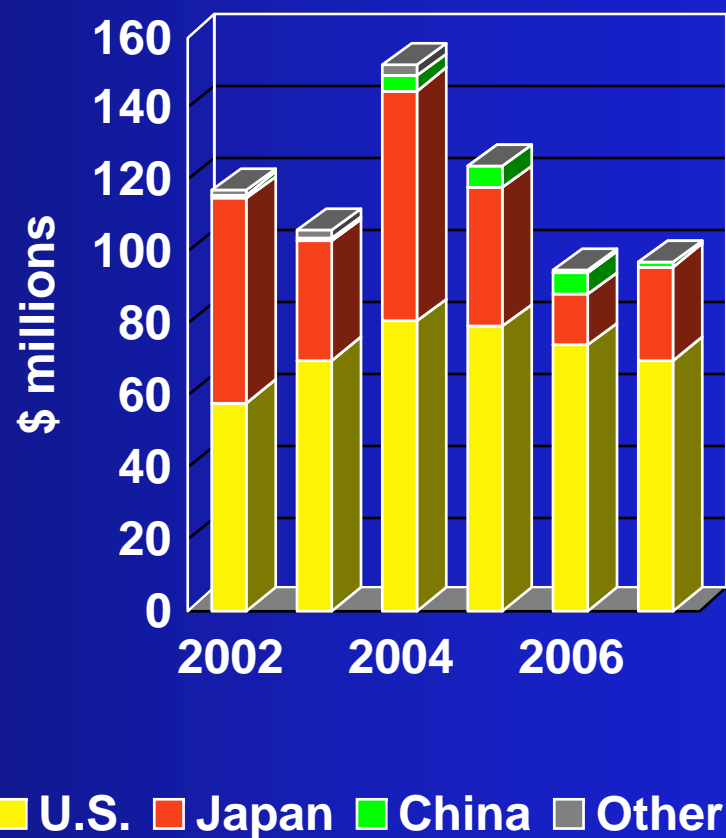
- U.S. the dominant market
- Exports to Japan in decline
- Most exports to China are destined for Japan



■ U.S. ■ China ■ Japan ■ Other

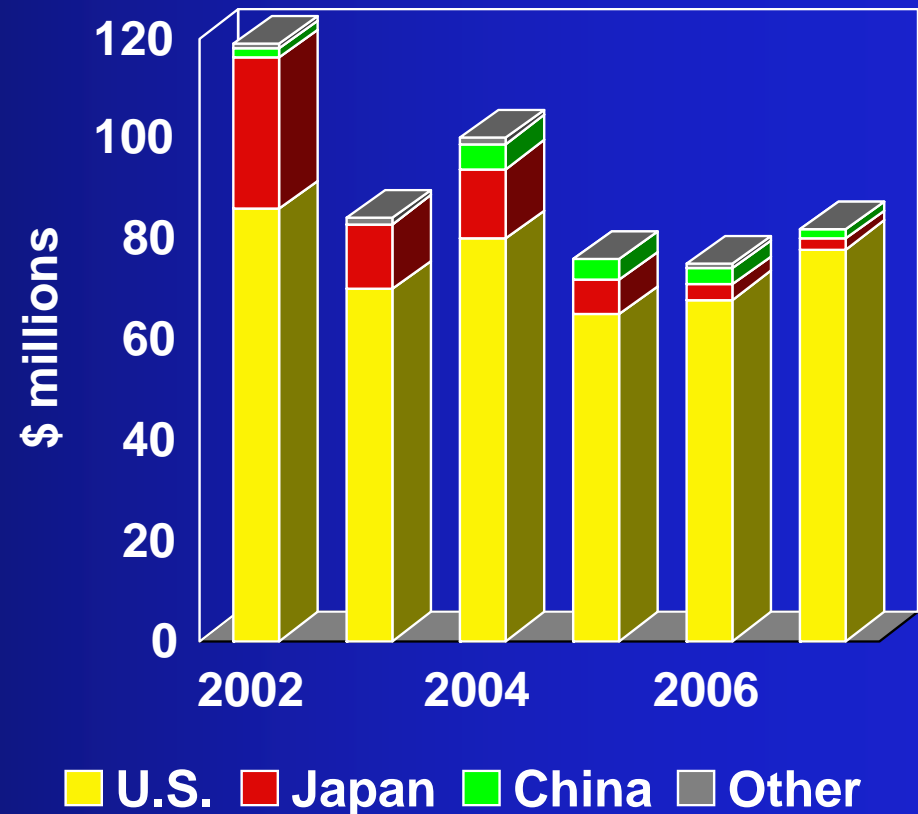
New Brunswick exports

- Total export value stable in 2007 after two years of decline
- U.S. market steady in absolute terms but rises in relative importance
- Japan declines in importance



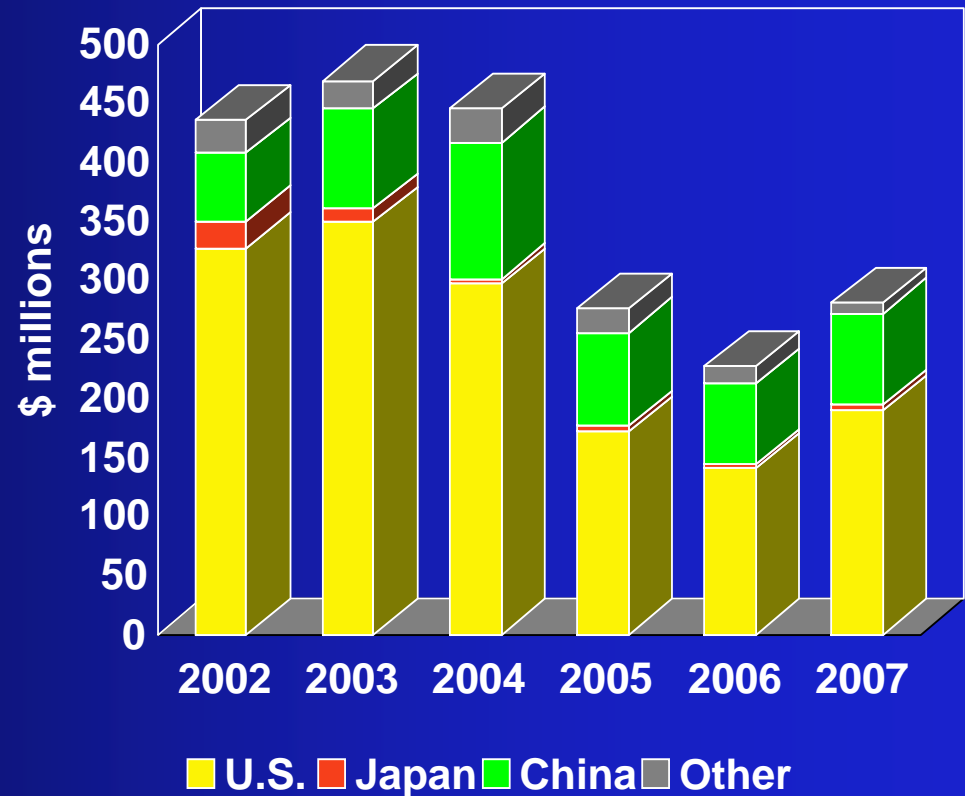
Québec exports

- U.S. is dominant market despite exchange rate
- Japan and China market substantially reduced



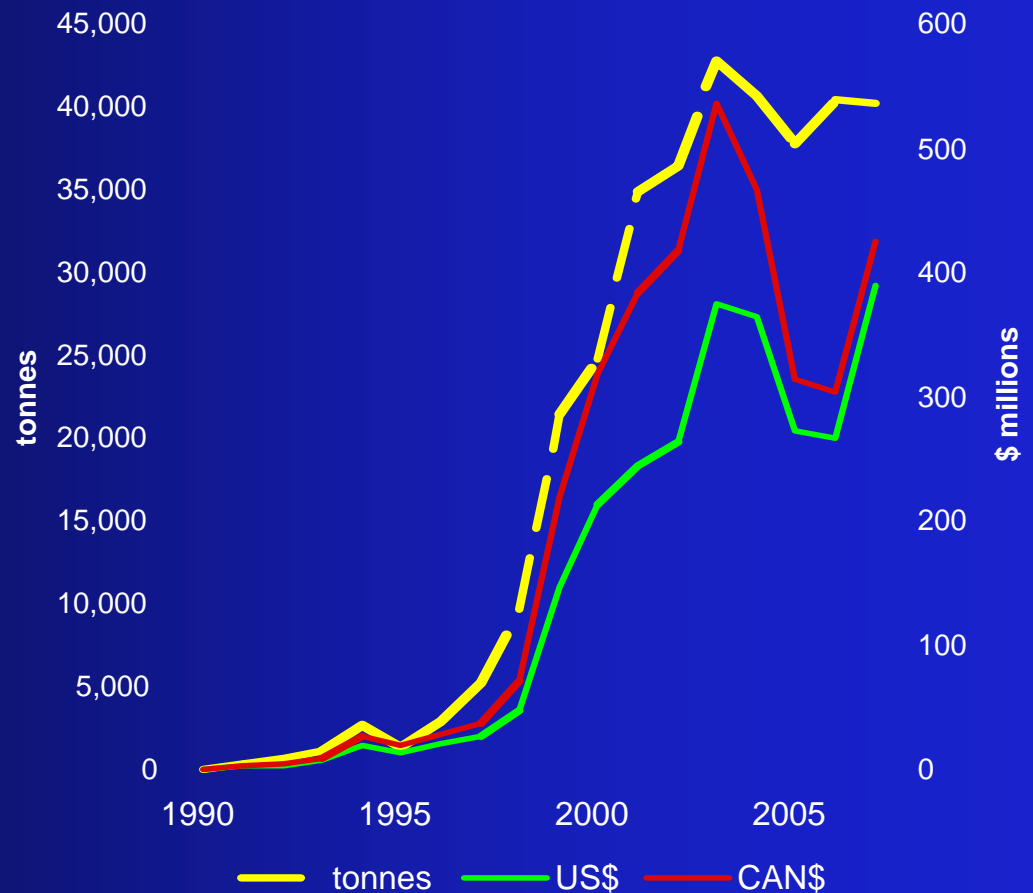
Newfoundland & Labrador exports

- U.S. is dominant market
- Exports to China for meat extraction and re-export to Japan



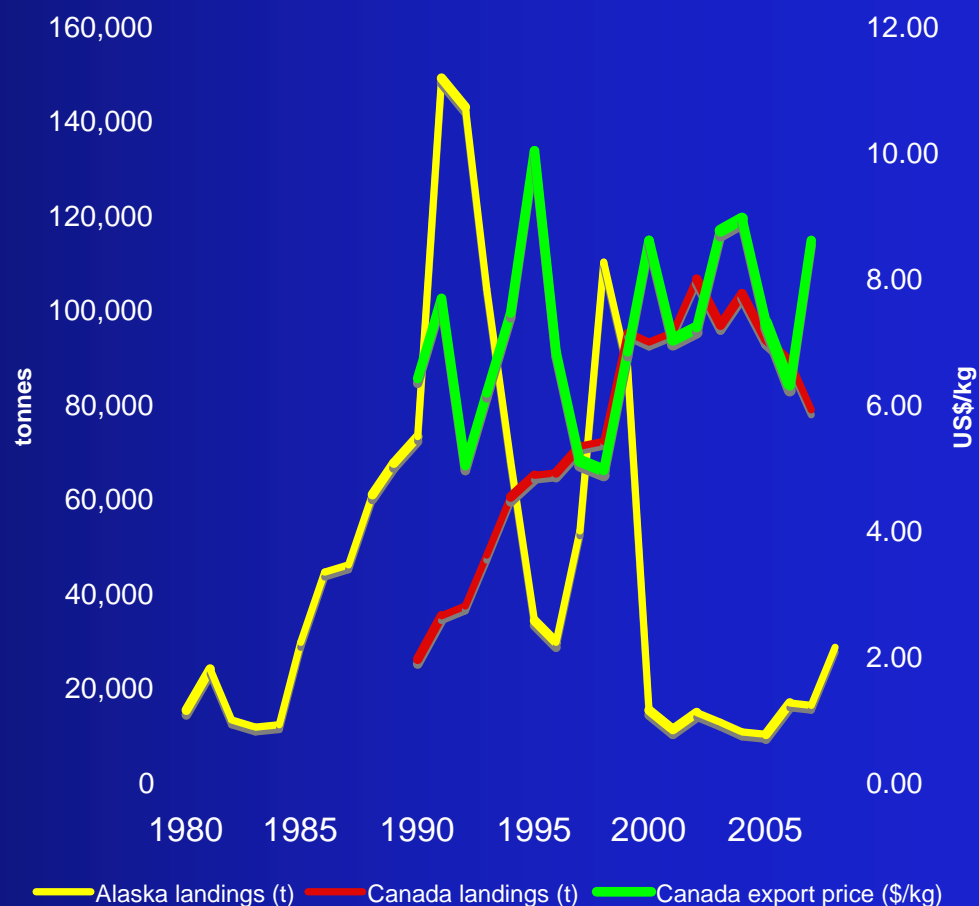
Canadian exports to U.S.

- From \$20 million in 1995 to \$536 million in 2003
- Down to \$300 million in 2006 due to:
 - Reduced quantity
 - Sharp price drop
 - Adverse exchange rate
- Recovery to \$425 million in 2007



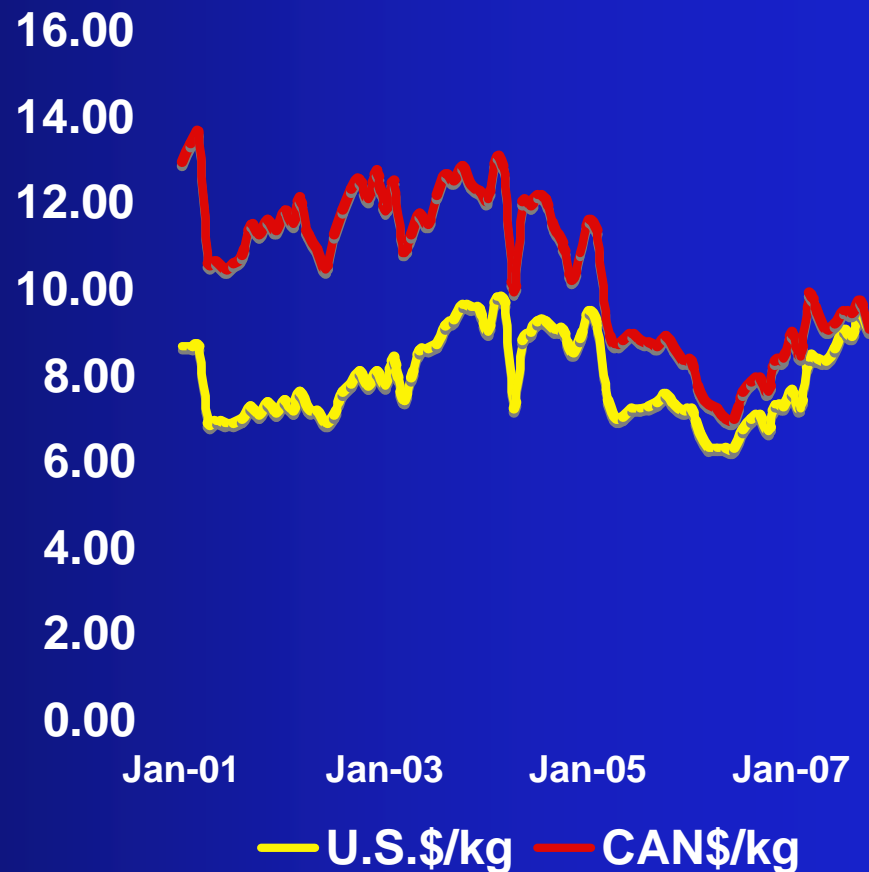
Price development: long-term

- Price sensitive to supply
- Swings between high of US\$4.50/lb and low of US\$2.25/lb
- Drop in 2005 due to fall in demand
- By mid-2006 export price down to US\$2.75-2.90/lb range
- Export price recovered in 2007 to US\$3.90/lb range



Price development - U.S.

- In 2006, CAN\$ price of exports to U.S. down by 50%
- 35% due to price drop
- 15% due to exchange rate
- Price recovery in 2007 partially offset by exchange rate



Exchange rate impact

- Exports revenues down by about 40% since 2002 due to exchange rate shift
- Canadian dollar likely to stay strong for foreseeable future

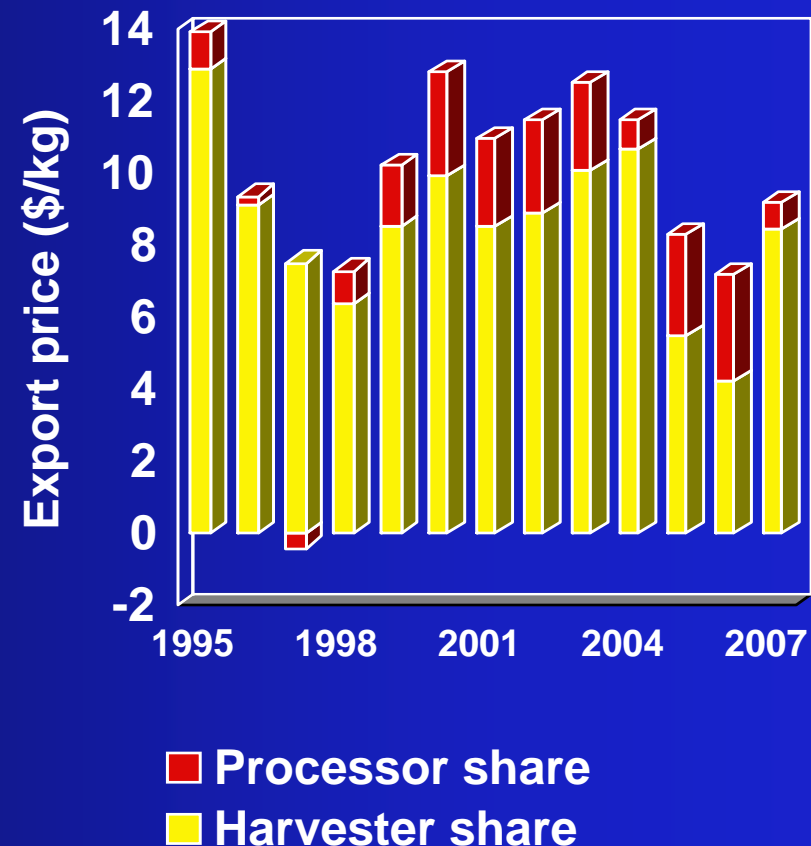


Snow crab value chain 2007

	Price	Gross margin
Consumer		
Food service/retail	5.00-8.00	0.60-3.60
Distributor	4.40	.20
Processor	4.20	.60
Harvester	Effective 3.60 Actual 2.25	1.35 yield loss @62% yield

Gulf shares of export price

- Abundant processing capacity results in volume driven industry
- Stiff competition for raw material
- Processing sector typically receives 10-25% of market price (after adjusting for yield)



Issue - processing capacity

- Industry over-capacity
 - Supply driven
 - Bid aggressively for raw material
 - Force up shore price
 - Squeeze out margins
 - Threaten viability

Issue - insecure supply

- Fishery rules processing decisions
 - Pressure to generate cash with quick sales
 - Destructive competition to sell
 - Limited scope to plan production
 - Poor production conditions
 - Limited ability to inventory or market product

Issue - market vulnerability

- U.S. market dependence
 - Commodity market
 - Increasing buyer concentration
 - Weak negotiating position

Issue - Labour

- Finding & keeping plant workers
 - Short season
 - Low pay
 - Aging workforce
 - Youth attracted by opportunities elsewhere

Addressing the issues

- What's needed for long-term viability
 - Secure raw material supply facilitates planning
 - Smooth seasonal flow of raw material reduces overheads & allows product & market development
 - Longer season provides better working conditions
 - Enhanced profitability provides basis for higher wages
 - Price setting regime that provides economic return to harvesters and processors
 - Greater financial stability provides greater bargaining strength in product markets