

The Winding Glass: As States Close Restaurants, Shutdown will Test Distributors and Harvesters

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The Winding Glass is an opinion and commentary column by SeafoodNews founder, John Sackton.

[Today should have been the second day of the Boston Seafood Show.](#) Coronavirus news that impacts the seafood industry is like a tsunami. But it is important for us to not get caught up in the hourly updates and instead to think about what our business conditions will be like in two or three weeks.

A month ago, I wrote about [two scenarios for our industry](#). One was a short, sharp reduction in pricing that spurs make up demand for products like shrimp, lobster, crab and salmon, so that within a few months it is obvious that demand is again on pace of outstripping seafood landings and harvests.

The second scenario is a slow grinding gridlock of inventories, where the lack of sales and financing cost on one product spill over into the ability to finance and buy something else, and the entire purchasing environment becomes toxic.

This second scenario is a recipe for financial disaster for weaker companies, and a surge in consolidation by stronger companies.

Unfortunately, we are now facing the second scenario. The tipping point has been [a wave of restaurant closures, ordered by state governments](#).

In the past 24 hours, Massachusetts, Illinois, Ohio, Washington, have ordered, or will do so today, all bars and restaurants to close, except for takeout. In Las Vegas, MGM Grand has closed its 14 properties, including Bellagio, Mandalay Bay, Luxor etc. Wynn has closed Wynn Las Vegas and Encore.

In California and New York, Governor Newsom and Governor Cuomo closed bars, but allowed restaurants to remain open at reduced capacity, with limits on seating. Traffic in these states was off 48% in New York, and 38% in California last week even before these announcements.

To show how quickly things are changing, I started this column over the weekend when I received data from Open Table on the collapse of restaurant sales across the country last week. They produced a daily summary of total visits, including all reservations and walk-ins. In Seattle, where on Friday it was reported that at least 50 restaurants had closed, total visits on



Thursday, March 12 were down 58% vs a year ago. Yet on Saturday, February 28 they had been up 7% over the prior year. In Boston they were up 22% on that Sunday (February 29), and down 47% by last Thursday.

In the rest of the country, restaurant visits were down from 20% to 50% over the same day of the prior year.

I thought this was going to create immense problems for seafood distributors. The complete closure of restaurants in many states will simply amplify the problem.

Most restaurants are allowed to do takeout and curbside pickup. States appear to be waiving any license restrictions that would have prevented take-out. But many of these restaurants are not offering their full menus for takeout, instead selecting a limited number of dishes for home use.

This does not bode well for seafood items, as they are often more complex than many standard pasta and meat items, and so less likely to be among the takeout offerings, with the exception of shrimp dishes.

I cannot stress enough how much we need to be thinking about our situation in two or three weeks, vs. our situation today. Much of the impact of the foodservice slow down, let alone total halts, has yet to ripple through the supply chain.

Freezers are already generally full, as supplies were built up for Lent, the exports collapsed.

It is already hard to get freezer space and appointments. With the shutdown of foodservice, a lot of product is going to sit longer in the freezers.

As I have said in virtually all my writing on the crisis, the buildup of inventory is the most dangerous thing for our industry, as it will be the biggest obstacle to both a future recovery, and even the ability to conduct the spring harvests.

So there are three elements we need to pay attention to.

First is logistics. With border closings and the shut down of air travel, much of the air cargo capacity that was available is being cut. For example, air lift out of Chile for salmon is now being impacted. So is cargo capacity from Europe to the US, as transatlantic flights get cut. When there are logistics issues, it is harder to deliver to customers on their schedules, or harder to hold back deliveries that are not wanted.

In Brussels last week, restaurants were putting live lobster orders back on the trucks and refusing to take them. Expect more of this type of disruption.

Major cold storage companies are also a key link. Most have massive contingency plans in case an employee is sick, or they have to bring in workers from other areas. But if a freezer is put in quarantine for a few days, for cleaning or some other reason, it could be another difficulty to overcome. Planning for distribution from multiple points would be a good resiliency step.

Second is financial. Talking to distributors last week, their major concern was already supporting their foodservice customers who were seeing traffic declines. This means looking at things like receivables, and allowing them to stretch out as customers are deprived of revenue. However, receivables can only be stretched so far, and of course some of the restaurants may never reopen. Here, government no-interest loans and guarantees are going to become critical to keep business flowing. So it is important to investigate what options are available to increase credit and finance higher levels of inventory.

The third issue is seasonal harvests. What will happen to snow crab and lobster fisheries, scheduled to open within weeks in Eastern Canada. What about Copper River salmon, and the roll out of the entire Alaska salmon fishery. Bristol Bay communities are already working on plans to safeguard the health of cannery workers, but we don't know how harvesters are going to get paid.

The problem is that if left to market forces alone, the dock price in a lot of fisheries would fall below the cost to harvesters to land that fish, meaning there would be little reason to go fishing.

At the same time, in this crisis food production is one of the key aspects of preparedness and resiliency. Norway, which is in total lockdown with closed borders and numerous emergency decrees in effect, has addressed this head on.

On Friday, the Ministry of Industry and Fisheries sent a formal letter confirming that the food supply is defined as a socially critical function. The letter states "The value chains include: drivers, warehousing workers, employees at distribution centers and warehouses, employees at fuel terminals and plants, employees in central administrative functions, employees in the feed industry, employees in livestock production, fisheries and aquaculture, veterinarians working with livestock, fisheries and aquaculture, employees in the food industry and shop and petrol station employees. ”

This means in Norway that laid off workers will get full pay and that all closed borders are open to freight traffic. At the same time, Råfisklaget, the Norwegian fishermen’s association, has regulatory authority to limit harvests if it feels it is necessary to do so to maintain prices. So far, bad weather in Norway has kept fresh landings at about half the pace of last year, but should this change, weekly landing limits might be imposed.

In our decentralized system in the US and Canada, we will have to come up with harvest strategies that protect the supply chain, allow fish to come ashore, maintain market prices for the true existing level of demand, and look towards a future recovery.

This could involve delayed fishing, financial support for both harvesters and processors, strong protections for the supply chain through maintaining access to critical services, and transparent information about supply and demand.

It is no exaggeration to say this is a war-time level emergency.

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