

POLARIZING THE NORTH AMERICAN SEAFOOD VALUE CHAIN

Recent moves by seafood companies Fisheries Products International (FPI) and High Liner reinforce the movement of North American companies away from the middle, or secondary processing activities in the value chain.

Even the low US dollar has not altered the overwhelming supply trend of exporting processing jobs to Asia, and to China in particular. Demand has shifted towards higher value-added seafood products from the traditional fare of breaded fish and fish sticks. In response, many North American companies are moving to the ends of the supply chain: initial activities like harvesting and primary processing, and tertiary activities like retail and food services sales.

FPI once had its major presence in the seafood harvesting and processing industries, but in recent years its wholesale / retail division, Ocean Cuisine International (OCI), has grown to 65% of FPI's total sales. To free the potential value of an OCI equity offering from the gloomier finances of FPI's primary division, the company recently passed a plan to sell a 40% stake in OCI as an income trust. The Newfoundland legislature approved the plan in late June (a clause remaining from FPI's days as a government-owned company). FPI and its investors hope that the new income trust will unlock the value of OCI's equity, and generate cash for developing the promising premium retail seafood market.

High Liner does not have primary activities like FPI's, but its value chain position is changing nonetheless. The company's breaded seafood products are ubiquitous in the frozen section of the grocery store. But High Liner reported that sales for the first half of 2005 were down 7% from the same period in 2004, due in part to a decline of 14.5% in sales of branded seafood products (predominantly breaded products) to grocery stores. Lower breaded product sales were attributed to a shrinking demand for the products, and increased competition from private label and branded products.

As sales of its breaded products fell, High Liner reported that sales of to the seafood departments of grocery stores doubled due to popular new higher end products like wild salmon and tilapia fillets. In conjunction with the release of its second quarter results, High Liner announced the launch of its high end Captain's Cut retail frozen seafood products, due to start shipping in August 2005. The company expects the Captain's Cut launch costs to outweigh first year revenues by \$2 million, indicating High Liner's faith in the promise of the premium retail frozen seafood market.

Sources: Urner Barry, FPI, Tradex analysis

Implications for Food Services distributors and operators:

- Moves by industry leaders like High Liner and FPI suggest that the US market is looking more to higher value frozen and fresh seafood products.
- At the same time, the shift of seafood processing has created some isolated quality concerns from unscrupulous producers.
- Therefore the challenge for buyers is to expand their offerings of high quality retail and wholesale seafood products by finding a reliable supplier of top quality product.

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