

The Icelandic fishing industry

December 2018

Íslandsbanki is a staunch supporter of the fishing industry

The first motor was installed in an Icelandic fishing vessel in 1902 when a Danish 2 HP motor was installed in a conventional rowboat in Ísafjörður. Widespread scepticism notwithstanding, the Ísafjörður experiment was a success. The boat operated as though six men were rowing it. This forward-thinking endeavour can be viewed as a precursor to Iceland's real Industrial Revolution.

Íslandsbanki was founded at around that same time on 7 June 1904. The main objective of this new enterprise, which had been in preparation for several years, was to support the coming revolution in Icelandic fishing. The Ísafjörður experiment marked the beginning of the mechanisation of the Icelandic fishing fleet, which progressed quickly from then on. Indeed, Iceland was among the first countries to motorise its entire fleet.

Concurrent with the mechanisation of the fleet, Icelanders took another major step forward when they began using trawlers. The first such vessel, the bottom trawler *Coot*, was purchased in 1905. More trawlers followed in the years to come, including *Jón forseti*, the first newly built trawler acquired by Icelanders. Íslandsbanki is proud to have played a key role in the development of the Icelandic fishing industry. Its connection to the fishing sector has continued uninterrupted until the present day.

Much has changed in the 100 or so years since the fishing industry motorised its fleet and Íslandsbanki was founded. The status of the sector has changed radically, and Iceland

has become a global leader in the fishing industry. Íslandsbanki is proud to partner with a number of Icelandic fishing companies and plans to continue to support them in the future.

Íslandsbanki has issued seafood industry reports since 2003. The reports support the Bank's fishing industry focus by analysing the current status, recent developments and the outlook for the sector. We hope these reports give stakeholders a comprehensive view of the scope of the sector and its impact on Icelandic society. We also wish to draw the public's attention to matters of importance in the sector, and to this end we have posted the reports on the Bank's website. As in recent years, the Bank benefited from the assistance of Deloitte in preparing the discussion of fishery operations. We extend our sincere thanks to Deloitte staff for their efforts.



Runólfur Geir Benediktsson
Executive Director,
Seafood Industry Team

Highlights

In a hurry? We've summarised the highlights of the report to save you time.

- Aquaculture will continue to drive growth in marine production volumes in the future. The OECD forecasts that it will overtake wild catch in terms of volume for the first time in 2020.
- China is the world leader in fishing, with 17.4 million tonnes, or 19% of the global wild catch in 2017. The Chinese caught more fish than all of Europe's fishing countries combined.
- Iceland ranked 19th worldwide in 2016, with a 1.2% share of total wild caught volume. In Europe, Iceland ranked third, below Russia and Norway.
- In terms of volume per capita in Europe, Iceland ranks second only to the Faroe Islands.
- Since the beginning of 2017, the price index for groundfish products has increased by 5.4%, more than all other marine products. This is of particular benefit to the Icelandic fishing sector, as most of its value is derived from groundfish products.
- In 2017, Iceland's total catch volume was 1,177 tonnes, an increase of 10% year-on-year in spite of the fishermen's strike early in the year. The increase was attributable to a recovery in the capelin catch, which offset the impact of the strike.
- Even though total catch volume increased, the catch value fell by 17% in 2017, in part due to the appreciation of the ISK.
- In 2017, groundfish declined as a share of the total catch, primarily due to the recovery in capelin. As a result, the catch value per tonne was less than in 2016, when groundfish accounted for over 6 percentage points more of the total.
- As before, cod was by far the most valuable exported species in 2017, at ISK 84bn, or 42% of the sector's total export value.
- Catch volume is projected to increase by 8% in 2018. In 2019, volume is expected to contract by just under 2%, due to a significant reduction in catch quotas for pelagic species such as mackerel, capelin, and blue whiting.
- Prices in ISK have developed favourably for the Icelandic fishing industry in the recent past, owing both to rising global market prices and to the depreciation of the ISK since August 2018. This will affect export revenues in the coming year. We expect a 15% increase in export values in 2018, followed by an increase of just under 7% in 2019.

Highlights

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- Marine product exports to the UK, Iceland's largest export market, were valued at ISK 31bn, about 16% of total marine export values.
- In volume terms, Norway is the leading market, with 123,000 tonnes, or 20% of all marine exports. Fishmeal and fish oil account for most of exports to Norway.
- Frozen products have increased by 40% in terms of volume since 2000 and accounted for about half of total marine export values in 2017. Despite the increase in volume, their value has declined over this period.
- In contrast, fresh products have contracted in volume terms by a third since 2000, whereas their value has increased by 82% over the same period. The value per tonne of fresh marine products has risen steeply since 2000.
- Fisheries' revenues declined by 11% in 2017 to ISK 225bn. EBITDA fell by 29% to ISK 40bn and the EBITDA margin decreased by 4 percentage points to 18%.
- Fishing companies' profits fell by more than half in 2017 compared to 2016. The decline in profit was due largely to the reduction in revenue and a decrease in exchange rate gains.
- The investment level in the sector is relatively high in historical terms, with investment totalling just under ISK 20bn in 2017.
- The investment-to-EBITDA ratio was 48% in 2017, an increase of over 9 percentage points between years. Operations in the sector are less able than before to cover necessary investments, which partly explains the increase in borrowing.
- Public levies paid by fishing companies totalled ISK 15.8bn in 2017, down ISK 3.6bn due to weaker operating performance. Fishing fees have increased most since 2008, and in 2017 they constituted the largest share of public levies in the sector, at 43%.



The global fishing industry



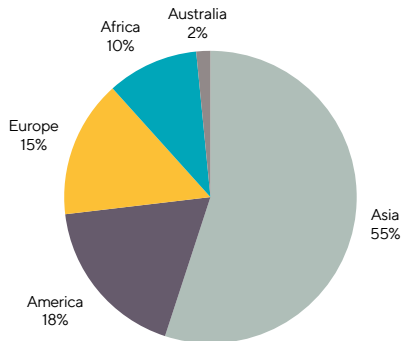
Asia accounts for over half of global fishing ...

... and Europe for 15%, led by Russia

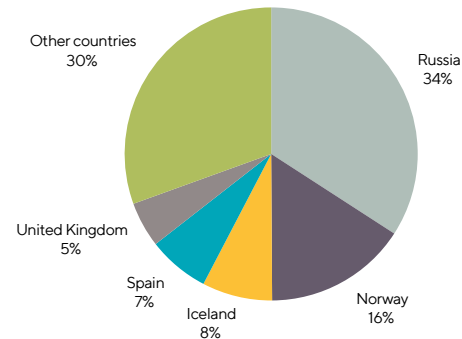
Asia accounts for 55% of worldwide marine fishing, or 51m tonnes, and has increased its share of the global total by 13 percentage points since 1990. Second in line are the Americas, with 18m tonnes (19%), and third is Europe, with 14m tonnes (15%). The distribution between pelagic and groundfish catches has been much more even in Europe than it is globally. In the Americas and Asia, the share of pelagic fish caught has been much larger than in other parts of the world.

Asia has increased its share of global fishing, while the share of Europe and the Americas has declined. The Americas' share has fallen by 9 percentage points since 1990, and Europe's share has fallen by 8 percentage points over the same period. In 1990, Europe accounted for 42% of the worldwide groundfish catch, but a surge in Asia and the Americas has lowered Europe's share to about one-third. Furthermore, European countries' pelagic catches have contracted by a larger proportion since 1990 than their groundfish catches have.

Global fishing, by continent



European fishing, by country



Russia leads Europe in fishing

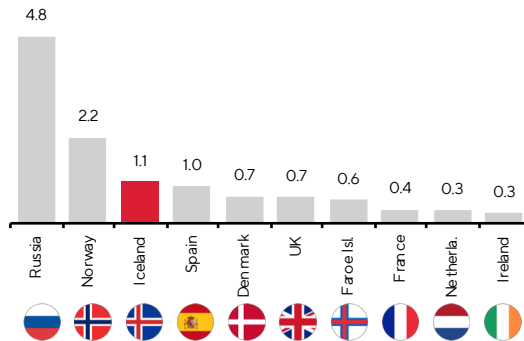
The Faeroese lead in catch per capita, followed by Iceland

The Russians caught about 4.5m tonnes in 2016, or about 31% of the European total. However, Russia's share of fishing in Europe has declined since 1990, when it amounted to 7m tonnes, or 37% of the European total.

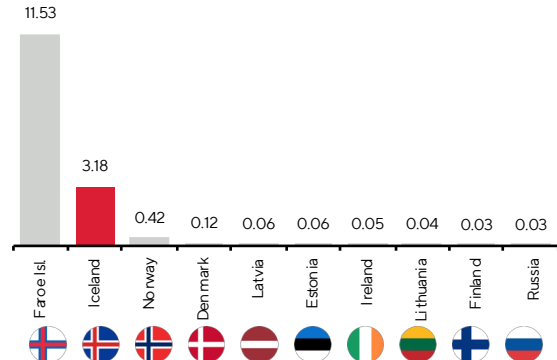
Russia is followed by Norway, Iceland, Spain, and Denmark. In 2016, these five countries' fishing totalled 10m tonnes, or 70% of the European total. Iceland was Europe's third-largest fishing country in 2016, with about 8% of the continent's total.

In terms of fishing per capita in Europe, Iceland catches 3.2 tonnes per person, ranking second only to the Faeroe Islands.

Europe's ten largest fishing countries, 2016 (m tonnes)



Per capita catch in Europe, by country, 2016





The Icelandic fishing industry



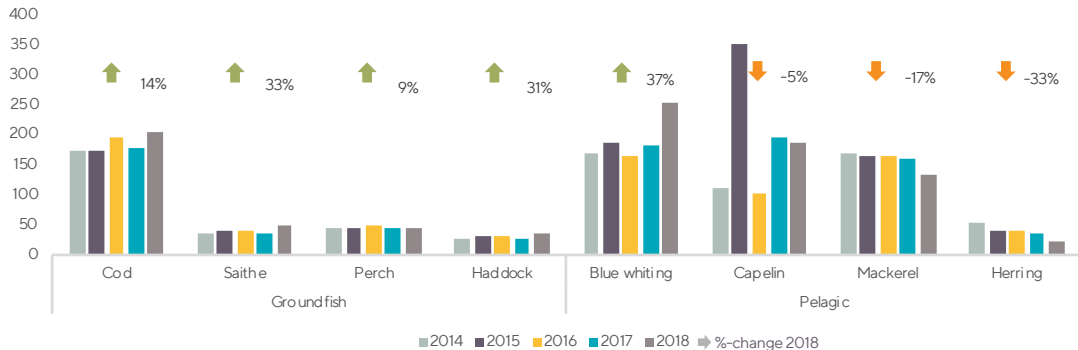
Increased groundfish catches in 2018

Fishermen's strike in early 2017 caused a contraction in catch volume

The outlook for 2018 is for an increase in catches in Iceland. The total catch for the first nine months of the year was 991,000 tonnes, an increase of 7% YoY. The rise between years is due mainly to increased groundfish and blue whiting catches.

Among key groundfish species, catches increased in the first nine months of the year. The total catch volume for key groundfish species was up 49,000 tonnes, or 17%, from the same period in 2017, mainly because of the fishermen's strike at the beginning of 2017.

Major species catches, first nine months of the year (thousands of tonnes)



Outlook for an 8% increase in catch volume in 2019

We expect a 15% increase in export values this year, followed by a 7% increase next year

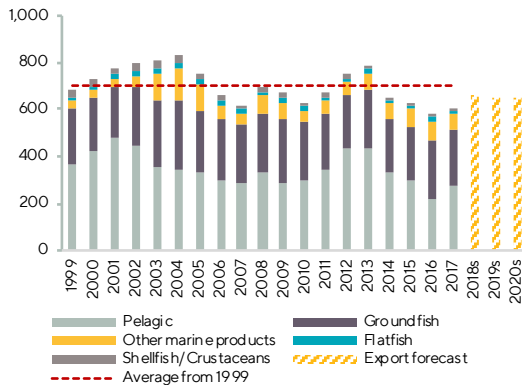
Since Íslandsbanki published its macroeconomic forecast in late September, the outlook for marine product export values and volumes has changed markedly. Export volumes are expected to exceed the forecasted growth rate of 8%. In the first nine months of the year, export volumes were up by over 12%, due in part to effects of the fishermen's strike in Q1/2017, as well as to an increase in groundfish quotas.

In 2019, however, the outlook is for a contraction of just under 2%, due to a significant reduction in catch quotas for

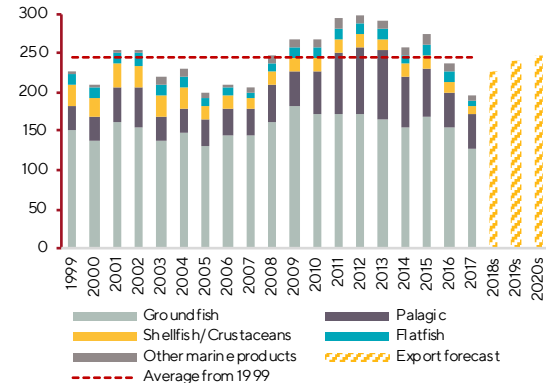
pelagic species such as mackerel, capelin, and blue whiting. On the other hand, quotas for various groundfish species have been increased.

Prices in ISK have developed favourably for the Icelandic fishing industry in the recent past, owing both to rising global market prices and to the depreciation of the ISK since August 2018. This will affect export revenues in the coming year. We expect a 15% increase in export value in 2018 and roughly 7% increase in 2019.

Marine product exports (thousands of tonnes)



Export value of marine products (ISK bn at 2017 prices)



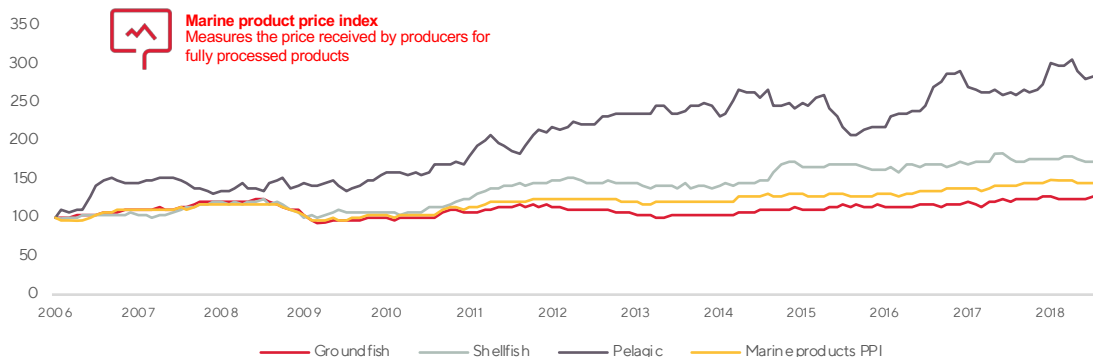
Favourable developments in marine product prices

Increased groundfish product prices highly beneficial to the Icelandic fishing industry

The marine product price index averaged 140.8 points in 2017, about 5.7% above the 2016 average. The rise was driven by a 5.8% increase in groundfish prices in 2017. The average index value for the first eight months of 2018 was 4.1% above the 2017 average. Since the beginning of 2017, the price index for groundfish has increased by 5.4%, more than all other marine products. This is of particular benefit to the Icelandic fishing sector, as most of its value is derived from groundfish products.

The marine product price index is an index for domestic production that measures the price received by producers for fully processed products. The index in XDR corrects for exchange rate effects and measures prices in foreign markets, based on a basket of the currencies most often used in international trade. The sub-index for groundfish weighs most heavily in the marine product price index, and the two indices track one another to a large extent, as groundfish products represent the most value.

Marine product price index and sub-indices (in XDR)



Export volume rises, while export value decreases

The main reasons are the appreciation of the ISK and reduced groundfish catches

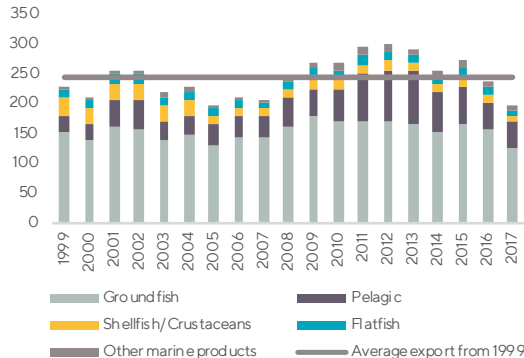
Nearly 610,000 tonnes of marine products were exported in 2017, about 5.1% more than in 2016 and about 93,000 tonnes below the long-term average. This YoY rise in exports was due mainly to increased pelagic catches.

Export values totalled about ISK 197bn in 2017, down 17% YoY at 2017 prices. Export values per tonne decreased in 2017, due mostly to the appreciation of the ISK although the contraction in groundfish exports was also a factor.

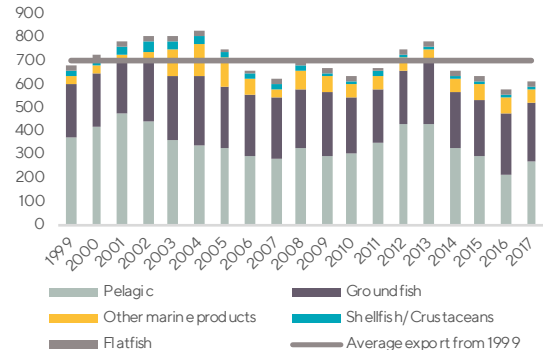


Export values
Statistics Iceland calculates the export value of marine products based on exporters' customs reports.

Marine product exports (ISK bn at 2017 prices)



Marine product exports (thousands of tonnes)

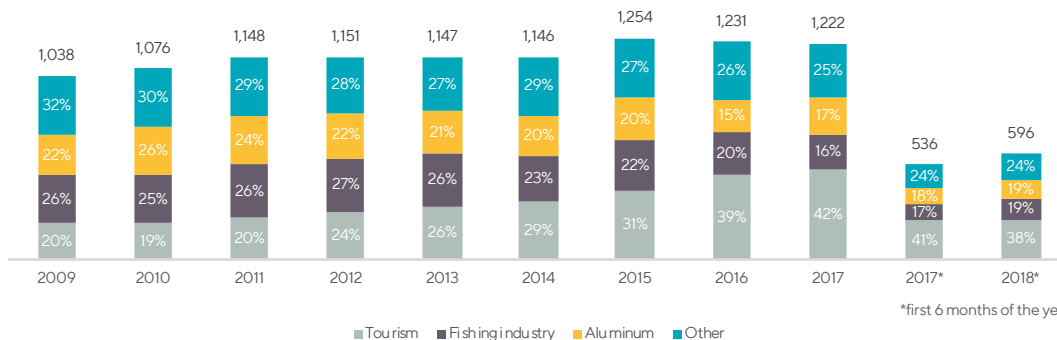


Fishing: an important source of foreign currency revenue

The sector generates about 1/5 of Iceland's FX revenues

In the first half of 2018, the fishing industry generated more foreign currency revenue than any other sector except tourism, which has grown by leaps and bounds since 2010. The export value of marine products accounted for 19% of Iceland's foreign currency revenue from goods and services trade over this period. Clearly, then, the sector is an important generator of foreign currency revenue and, in our opinion, will continue to be so in coming years.

Export value generated by key sectors, at 2018 prices



Source: Statistics Iceland and ISB research

Cod leads in export volumes ...

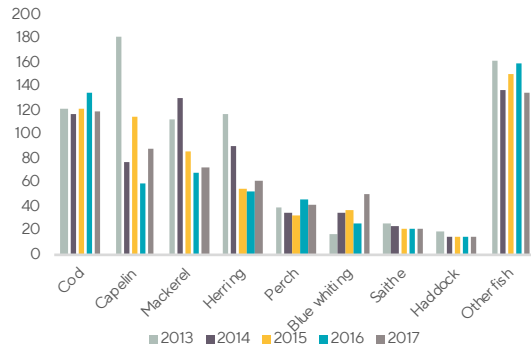
... and export values

In volume terms, cod was the most-exported species in 2017, followed by three pelagics – capelin, mackerel, and herring.

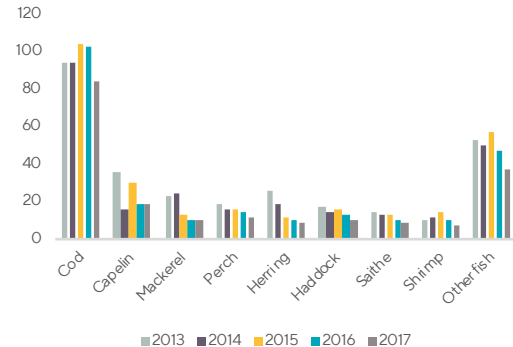
As in the past, cod was by far the most valuable exported species in 2017, at ISK 84bn. The export value of cod, like other species, has declined since 2015 because of the appreciation of the ISK.

Capelin ranked second in terms of export volume in 2017 at ISK 18bn, substantially below the export value of cod.

Export volume, key species (thousands of tonnes)



Export value, key species, at 2017 prices (ISK bn)



Britain: the leading market in export value terms

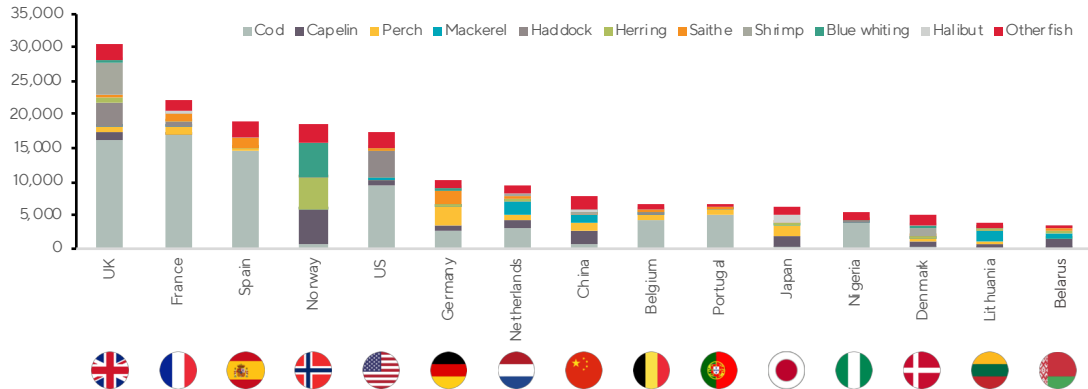
Five largest trading partners account for over half of marine product export value

The chart below lists Iceland's top 15 marine product export markets, which accounted for about 88% of total marine export values in 2017. The UK was Iceland's largest trading partner during the year, buying marine products valued at ISK 31 bn, or 16% of all marine exports. Next was France, with ISK 22 bn (11%), followed by Spain (10%), Norway (9%), and the US (9%).
















These five largest trading partners accounted for 55% of total export values for the year.

Among Iceland's five largest trading partners, Norway stands out as exports to the country primarily consist of pelagic species. The majority of Iceland's exported cod is sold to the UK, France, Spain and the US.

Export value of key species 2017, by country (ISK bn)



Export value, by trading partner and species (ISK bn)

	Allar tegundir	Cod	Capelin	Perch	Mackerel	Haddock	Herring	Saithe	Shrimp	Blue whiting	Halibut	Other	Total	% of total
 UK	30,608	16,352	1,066	595	144	3,770	566	300	5,019	287	20	2,489	30,608	16%
 France	22,332	17,137	8	1,159	21	701	101	1,036	9	0	348	1,811	22,332	11%
 Spain	19,174	14,635	0	340	25	24	0	1,533	49	0	1	2,566	19,174	10%
 Norway	18,588	843	4,861	9	77	100	4,710	21	80	5,212	0	2,675	18,588	9%
 US	17,419	9,543	724	122	85	4,283	0	388	0	0	16	2,257	17,419	9%
 Germany	10,416	2,632	1,042	2,548	16	101	180	2,062	12	394	235	1,194	10,416	5%
 Netherlands	9,357	3,130	1,244	843	1,922	36	97	533	566	0	50	935	9,357	5%
 China	8,041	653	2,182	1,215	1,196	9	0	7	28	23	707	2,021	8,041	4%
 Belgium	6,533	4,431	0	513	0	712	0	166	0	0	8	704	6,533	3%
 Portugal	6,485	5,224	0	473	294	0	0	188	0	0	0	307	6,485	3%
 Japan	6,350	107	1,959	1,281	282	0	84	6	0	0	1,241	1,390	6,350	3%
 Nigeria	5,437	3,687	0	0	43	405	0	246	0	0	0	1,056	5,437	3%
 Denmark	4,931	358	836	103	51	4	467	15	1,147	509	91	1,351	4,931	3%
 Lithuania	3,911	62	714	283	1,479	0	649	28	12	19	18	646	3,911	2%
 Belarus	3,042	28	1,354	88	658	0	726	24	0	0	12	150	3,042	2%
Other countries	24,400	4,848	2,100	1,699	4,506	314	1,490	2,170	230	77	1,560	5,405	24,400	12%
All countries	197,024	83,670	18,090	11,270	10,802	10,460	9,071	8,723	7,152	6,521	4,308	26,957	197,024	100%

Farmed fish exports have more than tripled since 2014

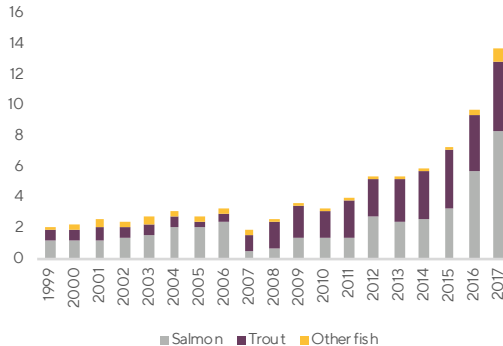
Opportunities for increased marine product production lie mainly in aquaculture

Exported farmed fish volume more than tripled between 2014 and 2017, while export values of farmed fish doubled over the same period. The appreciation of the ISK is one of the main reasons for the discrepancy.

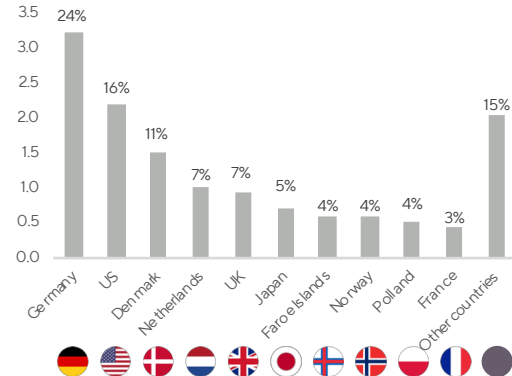
The largest share of exported farmed fish value, about 25%, is sold to Germany, followed by the US (16%), Denmark (11%), the Netherlands (7%), and the UK (7%). About 65% of the total value of farmed fish is sold to these countries.

The largest increase in marine product production is in aquaculture, which clearly offers significant opportunities for the Icelandic fishing sector in the future.

Export value at 2017 prices, farmed fish (ISK bn)



Farmed fish export value & share of total value, by country, 2017 (ISK bn)



The Icelandic Fishing Industry

