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As Trade With China Dries Up, the Lobster Business Finds Itself Caught Between Trump and Canada

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The lobster industry was enjoying some good years, especially with the work distributors had done developing contacts to grow their presence in China. And then came the trade war and the July 6, 2018 start of China's 25% tariff on many U.S. goods, including the crustaceans. That market sank overnight and opened the door wide to competition from Canada, the other country in the business of catching and shipping the lobsters found only in the northeast region of North America.

"China replaced U.S. lobsters with Canadian," says Usha Haley, professor and Barton distinguished chair in international business at Wichita State University. Exports from domestic waters dropped from 12 million pounds in June 2018 to 2.2 million pounds by the same time this year.

The lobster industry may be small compared to big agriculture, manufacturing, or other sectors of the economy, but not to those in it. And they're trying to find ways to keep business afloat.

"About 80% of what we used to sell into China has stopped post tariff," says Sheila Adams, vice president of sales and marketing at Maine Coast, a lobster wholesaler. That works out to about 8% of the company's total business. "We used to do [direct] weekly sales into Mainland China," she says. Now it's only opportunistic business when Chinese buyers can't get what they need from Canada.

There are still U.S. indirect sales to China because of the unusual nature of the lobster business. "The industry has for the last 30 years built up a system where we work together while we also compete against each other," says Annie Tselikis, executive director of the Maine Lobster Dealers' Association. The reason is irregular supply. Canada has more than 40 designated areas for lobstering but only brief overlapping times when the different spots may be worked. Maine and New Hampshire allow year-round lobstering while other states typically have periods of the year that are closed to harvesting.

The U.S. as a result often has more available supply and sells into Canada to supplement when their availability runs short. Some portion of that lobster now heads to China because it is no longer subject to the tariff. But the addition of another middleman means fewer dollars per party. Prices are fine for the people fishing because they can sell everything they bring in. "Where the squeeze is happening is at our level," Adams says.

Not the first blow

This isn't the industry's only recent brush with trade-related adversity. That was in 2008, when the Food and Drug

Administration issued a consumer advisory against eating tomalley—the soft green material in the lobster body—because of a potential buildup of toxins that cause paralytic shellfish poisoning. The meat remained safe to eat but the wording was confusing.

Japan's Ministry of Health suggested buyers test the tomalley, which greatly curtailed purchases. "That's something within the USA's power to rectify," Adams said. "The Canadians rectified it quickly and ten years later the FDA has not."

"We're still at a standstill [there]," Tselikis says.

Then came problems in Europe. Canada signed a new trade deal with the EU, something the U.S. had yet to do, and got new lower tariffs on lobsters. Again, U.S. wholesalers were at a pricing disadvantage and lost more business.

Unlike farming, the lobster industry is relatively small and gets little attention from politicians. To make up for lost profits, wholesalers have focused on finding new markets—a time consuming and expensive undertaking. "It took about 6 months to one year for the US lobster industry to find alternate buyers," Professor Haley says. But replacements don't necessarily offer equal value.

Boston Lobster Company is another wholesaler that lost significant sales in China. "I think about 70% of my personal business has been gone since the tariff was passed," says Brent Lincoln, a salesperson at the company. "You have to look to other areas."

Boston Lobster tried doing end runs around the restrictions by shipping to Hanoi and then trucking the lobsters over the border to China. That lasted five months until authorities shut down that avenue. Lincoln spends much of his time looking for additional entry into other foreign markets, such as Singapore and South Korea.

Then there are domestic sales as wholesalers try to poach each other's U.S.-based customers, but that drives down prices. "If you're a good buyer, every time you place an order, you reach out [to multiple suppliers] and say what's your price," Lincoln says. The buyer pits one wholesaler against another "and says, 'Oh jeez, the other guy is at $7, can you help me out?'"

Even when the trade war eventually concludes and China drops the tariffs, there will likely be long-term damage. The U.S. has enjoyed an air shipping advantage over Canada, with a greater number of major airports and flight routes overseas. But Canada is "investing a lot to try to improve that," Adams says, potentially marking a permanent shift toward Canada. "When you take a competitor out of the market, then it gives [others] an opportunity to build strength."

"We're trying to stay positive," Lincoln says. If the tariffs drop and Canada has a bad season—a periodic problem in the industry—he hopes to get an email or phone call from someone in China who will say, "Do you have any product for us?"

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