Policy Brief 2

Seafood Prices and Market Access for Change Islands Inshore Fishers

KEY MESSAGES

Change Islands is one of several outport fishing communities that reflect the cultural heritage and traditions of Newfoundland and Labrador. These fishing communities face socioeconomic vulnerability as traditional groundfisheries decline and seafood trade becomes globalized. This Policy Brief highlights key concerns facing Change Islanders in terms of the increasing cost of fishing, low fish prices, and poor marketing opportunities, resulting in low returns on their physical and financial investment.

We also explore future options raised by Change Islanders, taking into account their local knowledge of marine resources and market opportunities. Interviews with harvesters revealed the impact of low fish prices and lack of marketing opportunities combined with fishery policies that do not address these concerns. Future options lie in developing coherent policies that work for vulnerable coastal harvesters and their resource supply, developing synergies with the processing sector for market access, diversifying into multi-season and multi-species fishing, as well as other sectors such as eco-tourism, and partnerships for long-term community development.

BACKGROUND

The collapse of the groundfishery, subsequent moratoria and restructuring has brought new challenges to fishing-dependent communities in Newfoundland and Labrador. The fishery has also changed in terms of increasing restrictions and regulations, new target species, changing policies governing fish harvesting, processing and trade, and increased global competition. Together these changes have increased socioeconomic vulnerability on Change Islands, especially for local inshore fish harvesters. Currently, the Change Islands fishery consists of approximately nine vessels in the 25-45' range, three up to 49'11", and 20-25 additional vessels under 25' used in lobster and hook and line cod fisheries. There are 21 Core fishers with commercial fishing enterprises that hold key species licences, and 12 additional Level I and II harvesters, including both men and women. The key target species is snow crab, followed by cod, capelin, and mackerel as well as small amounts of herring and squid when stocks and prices permit.

Change Islands has a history of community involvement in seafood processing enterprises that can be traced back to the mid 1950s. Currently, there is one operational fishing plant on Change Islands. After a 40 year period of shifting, largely private ownership, the Town of Change Islands established the Fishermen's Improvement Committee (FIC) to operate the community's only remaining fish processing facility in 1998. The FIC holds licenses for groundfish (all types), pelagics (capelin, lumpfish, tuna, herring, mackerel), squid, and sea cucumber (one of only two in the province). The groundfishery has been the most important of these in the past. The fish plant also offers the service of landing crab to local harvesters. The Committee's processing licenses are considered an important community asset, although they must be used in one of every two years to retain them. The facility, currently leased to Seabay Fisheries, employed 35 people in 2008, acting mostly as a feeder plant. Overall, the fishing industry provided over 65 jobs in the community, directly supporting an estimated 26% of income earners. In 2009, however, production fell to 19,000 pounds (from 210,000) and only 15 individuals were employed in processing (six of whom qualified for employment benefits), highlighting the unpredictability of the sector. The uncertainty of plant operations is exacerbated by the decision to lease the facility to outside operators. The need for further investment in the facility if new value-added products are to be pursued is an additional challenge.

Some key factors that affect fish prices, processing and marketing opportunities, and fishing livelihoods in Change Islands and other Newfoundland and Labrador fishing communities are outlined below. This is followed by possible options and opportunities for product development, niche markets and synergies in fish harvesting, price setting, processing and marketing and market access.

KEY CONCERNS RELATED TO FISH PRICES AND SEAFOOD MARKETS

Key challenges for Change Islands inshore fish harvesters include increasing fishing costs, poor prices for raw materials, lack of alternative options for seafood marketing, and low economic returns leading to questionable viability of fishing enterprises. Other related concerns that affect fishing and marketing of seafood products include rationalization measures, low quotas, fish price setting mechanisms that lack adequate market information, and the integration of fisheries with other economic sectors such as tourism.

Low prices for species landed

The price of fish is set through the 1971 *Fishing Industry Collective Bargaining Act* of NL, which governs a bargaining process between fishers and processors. Binding arbitration was put in place in 1997 and in 2006 an amendment to the Act instituted a three member Standing Fish Price Setting Panel to provide market information and arbitrate disputes. Disputes over a 2010 crab price of $1.35 per pound (carapace ≥ 4”) recommended by the panel are illustrative of the tensions within the industry.

Key markets for crab include Asia, especially Japan and China for frozen-in shell product, and Europe and the United States for extracted and in-shell meat products. The US is the largest market for Canadian crab products, especially Newfoundland crab. The province is a major world producer of cold water shellfish, especially crab and shrimp, but according to Change Islands harvesters, crab prices are far lower in Newfoundland and Labrador than in other parts of Canada or in Europe. In May 2010, for example, snow crab prices were 1.85 per pound in the remainder of Atlantic Canada. They point out that they are at a disadvantage in the market because current policies limit where they can sell their product to processing facilities and brokers within the province.

Low seafood prices have been associated with the recent global economic downturn but also with increased competition from low price substitutes such as pollock, hoki, cultured tilapia and surimi (artificial crab). Increased consumption of surimi and increased supply of Bering Sea crab are key factors that affect the market price of snow crab. Moreover, there seems to be a mismatch between the opening and closing of crab fishing seasons and market conditions. Historically, an end of season increase in quotas has caused peak landings and short-term excess supply, reducing market prices.

Wholesale and retail markets including major grocery stores and restaurants are ideal for seafood products. Supermarkets and other retail outlets require high volume but also high profit margins, especially in the United States. Factors such as consumers expectations for high quality in Asian markets and the increased value of the Canadian dollar require the seafood industry to be proactive in seeking market information and potential niche markets.

Local markets offer significant potential in terms of profitability as they are not subjected to fluctuating exchange rates or international trade barriers. Fishers in Nova Scotia and New Brunswick opted to sell their lobster directly to the public at $5 per pound in 2009, bringing them above their reported breakeven point of $4, while fishers in Change Islands received only $2.75 per pound. The purchasing price for crab in 2009 fell as low as $1.35 per pound, yet retail crab prices were as high as $16.00 per pound (direct sales from Fogo Island ferry). Fresh cod also gets a good price in local markets, but fetched $0.52 per pound for gillnet caught and $0.62 per pound for hook and line at the Change Islands plant in 2009. This is low compared to harvesting costs and retail market prices. Although salt cod is a preferred product within the province, fishers further argue that quotas are too low to be able to provide the volume that larger buyers want, and therefore their access to markets is restricted. Harvesters suggest that a quota of about 10,000 pounds is needed for a viable cod fishery. Others are concerned that they are competing locally with illegal sales of cod caught in the recreational fishery.

Harvesters also stated that the absence of financing alternatives often leaves them at the mercy of 'trust agreements' with processors, further restricting their marketing options. As one fisher said, "The current system is worse than the old fish merchant days. We really need a fisherman's loan board again so we are not tied or controlled by the processors." One operator borrowed $150,000 from a processor to purchase their boat, but as part of the deal was obligated to sell his catch of crab to the same processor for $1.30 per pound while others received $1.55 per pound, including free bait. Harvesters reported that they were unaware of a provincial loan guarantee program, which provides guarantees for refinancing loans from processors. Taking into account these challenges, exploring innovative strategies for both domestic and international markets is needed to reduce volatility and enhance profit margins for the industry as a whole.

High fishing cost

The cost of fishing operations in the province of Newfoundland and Labrador generally varies by type of enterprise, boat size, the types of fishing licenses held and financing arrangements. A cost and earnings survey for the provincial crab fishery in 2004 showed that labour and fuel accounted for over 50% of total operating costs. Total operating costs range from approximately $36,000 for medium-sized boats (25-35') to $160,000 for larger crab boats (>35') and $350,000 for multiple crab-shrimp license operations in the same large boat category. Gross operating incomes for small boats (<25') is about $20,000 with net annual income about $12,000. Interviews with Change Islands fishing enterprise owners in 2009 also show minimal earnings for small boat owners. One small operator outlined his cost and revenue breakdown as follows: a 50,000 pound catch at $1.35 per pound for a total value of $67,500, with 50% of this income covering costs (about 30% toward a loan, and 20% for fuel, crab licenses and quota fees, and other operating costs). The remainder - about $33,750 – was shared between four full-time and one parttime crew members. For another operator, annual operating costs for crab fishing, excluding labour, were $16,500: about 30% for licenses and insurance, 33% for fuel and 36% for bait. Increases in government regulations and associated operational costs, including observer programs and other fees, union fees, increases in the cost of fuel and baits and low fish prices are making fishing unprofitable and threaten the viability of inshore fishing enterprises.

Control of the supply chain

The fishers of Change Island strongly believe that the processors and fish buyers control the supply chain and influence decisions in an unfair manner. Prices paid to fish harvesters for their catch are too meager to break even and have declined over the years. The price of capelin at $0.03-0.10 per pound is "not worth fishing" noted one harvester and once harvested the processors may not even be willing to purchase the product, leading to '‘dumping' - with ecological and management implications. Harvesters argue that fishers are not getting the return for cod that they did in the 1980s while plant workers receive similar or higher incomes without the same investment or risks. Further, harvesters are only paid for the portion of their catch that processors deem "usable" according to either market or regulatory factors. Some processors then market "unusable" landed product, for bait or feed for example.

Solutions are needed that provide greater benefits for harvesters along the supply chain. Change Islands harvesters voiced strong support for efforts to develop a seafood marketing council as one such solution. The formation of a provincial seafood marketing council with financial support from the federal government was narrowly defeated by a vote of processors in January, 2010, despite the potential benefits to the industry as a whole. Small boat inshore fishers feel controlled by processors and regulatory policies, in addition to a union that does not represent them adequately because of the competing interests of larger enterprises and fish plants who are also in the same union. Moreover, the 'bonus system' exercised by processors, whereby harvesters are offered payments above the minimum prices set, favours harvesters that can supply larger volumes as well as those without obligations to processors due to debts. As one harvester explains, "if they are free to sell where they like …this makes a big difference in the ability to survive."

Lack of agreement between, and within, the harvesting and processing sectors is a barrier to unified strategies for seafood marketing and market access. Change Islands harvesters support the development of new large-scale marketing programs, but are especially interested in efforts to secure small-scale, targeted niche markets that meet specific retail needs. Negative market responses to provincial seafood quality and standards have been a concern in the past. Lack of financial resources and management capacity are additional barriers for the community of Change Islands. Initiatives such as improved quality assurance and a partnership with Memorial University, with financial support from the Canada Innovation Fund for processing sea cucumber on the island demonstrate, however, that these barriers can be overcome and new markets pursued.

POLICY OPTIONS AND ALTERNATIVES

Innovation, value addition and marketing programs to ensure market access

Although the fish plant in Change Islands only has primary processing licenses, secondary and tertiary processing has the potential for adding value and product diversification. While this will require upgrades of the existing facility, identifying niche markets for value added products merits further investigation. Bond Rideout of Neptune Sea Products in Fair Haven is cited as a good example of an entrepreneur who has taken advantage of opportunities in secondary processing by targeting niche markets such as kosher spicy flavored cod. With products sold in New York as well as Sobey's in Newfoundland and Labrador, this business has expanded into additional markets in Canada and the United States through product diversification and secondary processing into signature products. Change Islands fishers and FIC members suggest diversification into other higher value products such as smoked and salted fish, stuffed squid or flounder, and fish paste or cakes with local branding.

Other initiatives that could improve market access for Change Islanders include branding of high end cod products associated with sustainable harvesting techniques such as hook and line or the 'cod pot', a variation on the traditional cod. The historic legacy of these techniques offers insights for sustainable harvesting high quality fish products and marine conservation and potential for improved access to green markets through eco-certification. Change Islanders have proposed the establishment of a special area for hook and line fishing within their historic, local fishing grounds with the goal of selling to high-end markets.

Opportunities for fishers to capture greater value also exist through direct marketing. Avenues such as regional fish markets, local retail outlets or auctions warrant further research. Examples of community fisheries exist in British Columbia, New England, South Carolina and elsewhere where harvesters have direct access to markets such as high end restaurants and wharf-side sales. Recent initiatives in the province include direct air shipment of fresh seafood products from Gander to Europe. In summary, maximizing the value of a more diverse yet specialized range of seafood products is recommended as a policy priority for the industry and the community. These initiatives will require regulatory, policy, technical and financial support

Exploring alternative price setting mechanisms

Current collective bargaining procedures and price setting mechanisms have significant ramifications for market prices and industry profit margins. For the year 2008, for example, agreement on minimum prices was reached for only three out of ten key species. The Standing Fish Price Setting Panel determined the final offer in the remaining seven instances. Change Island harvesters suggest that current price setting mechanisms together with requirements such as minimum in-province processing do not take adequately into account their cost of operations or market opportunities and jeopardize the viability of their enterprises. Other seafood producing nations have fish marketing and pricing options that include auctions, on-line bidding, and fresh fish markets. Options such as on-line bidding could complement direct international or regional shipment of high quality products. While experiments such as these have not been fully successful in the province, the success of the industry demands evaluation of these previous efforts as well as continued investment and research and development of market innovations.

Coordinating marketing strategies and programs

Despite the recommendation for a provincial seafood marketing board in the 2007 Fisheries Renewal Strategy report, debate continues over the usefulness of a marketing council or similar body that can coordinate and integrate the seafood industry. The aim of the proposed seafood marketing council was to foster collaboration in the industry, promote products, conduct market research and support innovation, and enhance public relations, information sharing and customer engagement. Proposals for a council did not pass a vote within the processing sector. Marketing institutions and organizations are critical to the seafood industry in providing market access and developing and implementing product promotion strategies. Such institutional arrangements are common – for example, the Florida Seafood Marketing Campaign, the Alaskan Seafood Marketing Institute, the Norwegian Seafood Export Council and British Columbia's BC Salmon Marketing Council – and offer lessons for the province. Change Islands harvesters support the idea of a provincial seafood marketing body. Broad-based involvement of stakeholder groups in formulating an appropriate marketing wing for a viable fishing industry is recommended. Provincial-scale marketing initiatives can facilitate and complement local initiatives, promoting secondary as well primary products. Information sharing on market factors amongst stakeholders provides an opportunity not only for improved market opportunities but also for policy deliberations, building trust and providing positive inputs into decision-making.

Addressing lack of coordination between harvesting policies and markets
Short seasonal fishing openings have significant ramifications for resource conservation, market prices, more reliable seafood supply, and profit. Market demand should be considered when quotas are set and in the timing of fishing seasons. Flexible government policies and openings that address ecological conditions, market demand, potential oversupply gluts, product quality and potential for discards of low value catch can provide win-win solutions. Greater cooperation between local harvesters and local processors to handle local product can also result in better outcomes for both. Cod fish trucked 400 km from Harbour Grace to Change Islands for salting, for example, produced low yields combined with opening and closing dates that promote and support a multi-species and multi-season fishery, take into account local knowledge, environmental and market conditions and provide incentives for stewardship have the potential to increase seafood quality and prices and improve fishing livelihoods while reducing ecological impacts.

Linkages across sectors in the rural economy and governing arrangements
Partnerships between fisheries and other community stakeholders can also lead to diversification initiatives that integrate fisheries with other aspects of community development. For example, Change Islands fishers see opportunities for diversification and maximizing returns from their catch through stronger linkages with the tourism sector. Barriers to proposed ventures such as fish harvesters taking visitors on their harvesting outings or selling their catch to tourism markets require further investigation. A 2006 report released by Nova Scotia's Coastal Community Network explains the importance of a multi-sector approach to building on the coastline as an asset that benefits rural coastal communities and the provincial economy. This suggests a need to include community economic development practitioners and community leaders in the ongoing dialogue about the future of fisheries governance in the province, as well as a need to support joint initiatives in fishing and tourism and others that build cross-sectoral linkages and create new market opportunities.

ADDITIONAL READING

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Fish Prices and Markets Access

About this Policy Brief

This policy brief on Seafood Prices and Market Access is part of a larger SSHRC funded project that aims to address vulnerability in Change Islands and other coastal fishing communities in Newfoundland and Labrador. The Principal Investigator Dr. Derek Smith (Carleton University) and Co-investigators Dr. Maureen Woodrow (University of Ottawa) and Dr. Kelly Vodden (Memorial University) have been working with Change Islanders to build adaptive capacity for fishing livelihoods that are viable and resilient to global markets and uncertain futures. This initiative seeks to build upon community knowledge to mobilize and improve management measures for local inshore fisheries. This series of policy briefs is intended to provide policy inputs and knowledge mobilization on aspects of fisheries and coastal community viability outlined below. The briefs are based on a series of interviews and report-back meetings with Change Islands' harvesters, Fishermen's Improvement Committee members and municipal representatives, discussions with fishing industry stakeholders and a thorough review of relevant policy documents. The briefs will be made available through a project website designed to promote a distinct heritage and fishing culture that spans three centuries.

Policy Brief No. 1
Fisheries Rationalization

Policy Brief No. 2
Seafood Prices and Market Access

Policy Brief No. 3
Fisheries Regulations that Work

Policy Brief No. 4
The Viability of Coastal and Small Island Communities:
The Case of Change Islands, Newfoundland

For more information about this brief please contact: Ahmed Khan or Kelly Vodden

Department of Geography, Science Building

Memorial University, St. John's, NL A1B 3X9 Canada

Tel: 1 709 737 8981 Fax: 1 709 737 3119