



Policy Brief 2

Seafood Prices and Market Access for the Inshore Fishery: The Case of Change Islands, NL

KEY MESSAGES Change Islands is an outport fishing community that reflects the cultural heritage and traditions of Newfoundland and Labrador. Change Islands and other 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.

Future options raised by Change Islanders are also explored, taking into account their local knowledge of marine resources, market opportunities and the fishing industry. 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 participation in and collaboration with other sectors such as local agriculture and cultural and eco-tourism, are also recommended.

BACKGROUND The collapse of the groundfisheries, subsequent moratoria, and industry 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 fisher people. 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 the lobster, and hook and line cod fisheries. There are 22 core harvesters with commercial fishing enterprises that hold key species licenses, and 12-15 additional Level I and II harvesters, including both men and women. The key target species include snow crab, cod, capelin, 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 that can be traced back to the mid 1950s formation of the local fish processing facility as a cooperative. 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 processing facility in 1998. The FIC holds licenses for groundfish (all types), pelagics (capelin, lumpfish, tuna, herring, mackerel), squid, and as of 2009 one of only two sea cucumber licenses in the province. Groundfish has been the most important of these licenses 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 and acts mostly as a feeder plant. Basic processing occurs and the product is then trucked to a larger plant for packaging and shipping. Overall, the

Seafood Prices and Market Access for the Inshore Fishery: The Case of Change Islands, NL

fishing industry provided over 65 jobs in the community in 2008, directly supporting an estimated 26% of income earners. In 2009, however, production fell from 210,000 pounds the previous year to 19,000 pounds and only 15 individuals were employed in processing (six of whom qualified for employment benefits), highlighting the unpredictability and vulnerability 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 a discussion of options and opportunities for product development, niche markets and synergies in fish harvesting, price setting, processing and marketing.

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 can affect fishing and marketing of seafood products are: rationalization measures; low and decreasing annual quotas; fish price setting mechanisms that lack adequate market information; and poor integration of fisheries with other economic sectors such as tourism.

Low prices for species landed

The price of fish in Newfoundland and Labrador is set through the 1971 *Fishing Industry Collective Bargaining Act*, which governs a bargaining process between fish harvesters 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 the 2010 crab price of \$1.35 per pound (carapace \geq 4") recommended by the Panel illustrated the tensions that remain within the industry despite these mechanisms.

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, in particular 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. It must be sold 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 other white fish low-price substitutes such as pollock, hoki, and cultured tilapia. Increased consumption of surimi, an artificial crab product 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

Seafood Prices and Market Access for the Inshore Fishery: The Case of Change Islands, NL

end of season increase in quotas has caused peak landings, short-term excess supply, and reduced 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 consumer 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 and domestic markets offer significant potential as they are not subject to fluctuating exchange rates or international trade barriers. Fish harvesters 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 for direct sales from the Fogo Island ferry. Fresh cod also gets a good price in local markets, as high as \$6.00 per pound, but fetched only \$0.52 per pound for gill net fish and \$0.62 per pound for fish caught on hook and line at the Change Islands plant in 2009. This is low compared to harvesting costs and retail prices. Although salt cod is a preferred product within the province, harvesters further suggested that quotas are too low to be able to provide the volume that larger buyers want to warrant processing, and therefore their access to markets is restricted. They suggest that a quota of about 10,000 pounds is needed for a viable cod fishery. Others are concerned 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 fish harvester 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 fish harvester stated that he borrowed \$150,000 from a processor to purchase his 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. Despite a provincial loan guarantee program, fish harvesters reported they were unaware of this opportunity for refinancing loans held with processors. Taking into account these various challenges, innovative strategies for both domestic and international markets are 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 generally varies by type of enterprise, boat size, 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 \$19,500 for small boats (<25’) to \$35,600 for 25-34’ vessels, \$161,000 for larger crab boats (35-64’) and \$357,000 for multiple crab-shrimp license operations in the same large boat category. Net annual incomes are as low as \$9,700 for small boats; \$11,200 for 25-34’ vessels; \$43,100 for crab boats 35-64’; and \$113,700 for multiple crab-shrimp license operations in the same large boat

Seafood Prices and Market Access for the Inshore Fishery: The Case of Change Islands, NL

category. 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% towards a loan, and 20% for fuel, crab licenses and quota fees, and other operating costs). The remaining \$33,750 was shared between four full-time and one part-time crew members. Another enterprise owner reported annual operating costs of \$16,500 for crab fishing, excluding labour, broken down as: 30% for licenses and insurance, 33% for fuel and 36% for bait. Increases in operational costs, including observer programs and other fees, the cost of fuel and bait, combined with low fish prices are making fishing unprofitable and threaten the viability of inshore fishing enterprises.

Control of the supply chain

The fish harvesters of Change Islands 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 the processors may not even be willing to purchase the capelin once it is caught. This can lead to dumping, which has ecological and management implications. Harvesters argue that they are not getting the return for cod that they did in the 1980s, compared to plant workers who receive similar or higher incomes without the same financial 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 equitable distribution of revenue and benefits along the supply chain. Change Islands’ harvesters voiced strong support for efforts to develop a seafood marketing program as one such solution. The formation of a provincial seafood marketing council was narrowly defeated by a vote of processors in January 2010, despite the potential benefits to the industry as a whole. Small boat inshore fish harvesters 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 many fish plant workers 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 and trust agreements. 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. A Memorandum of Understanding (MOU) among the provincial government, fish harvesting sector, and processing sector was signed in 2009 to address issues of price disputes, marketing and value-addition, and further industry restructuring for economic viability. In response to the recommendations from the 2011 MOU report the provincial government will explore options, together with the federal government and fishing industry, for marketing including the establishment of a seafood marketing council, seafood sales consortia and improved access to inventory

Seafood Prices and Market Access for the Inshore Fishery: The Case of Change Islands, NL

financing. This development presents new opportunities for branding, long-term marketing initiatives, and closer collaboration between harvesters and processors.

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 also 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, demonstrate that these barriers have been overcome in the past and new markets can be pursued that benefit both harvesters and local processors.

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 to 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 Sobeys, this business has expanded into additional markets in Canada and the United States through product diversification and secondary processing into signature products. Change Islands' fish harvesters 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 fishing technique. These approaches offer potential for sustainable harvesting of high quality fish products and for improved access to niche 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 sustainably harvested quality fish products to high-end markets.

Opportunities for fish harvesters 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-supported 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. Direct air shipments of fresh seafood products from Gander to Europe have also been explored in the past. In summary, maximizing the value of a diverse yet specialized range of seafood products is recommended as a policy priority for the industry and coastal communities such as Change Islands. However, these initiatives will require regulatory, policy, technical and financial support from both state and non-state actors.

Seafood Prices and Market Access for the Inshore Fishery: The Case of Change Islands, NL

Exploring alternative price setting mechanisms

Current collective bargaining procedures and price setting mechanisms have significant ramifications for seafood 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 Islands' harvesters suggest that current price setting mechanisms together with requirements such as minimum in-province processing do not adequately take into account their cost of operations or market opportunities, and further 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 local and regional direct marketing of high quality products. While experiments such as these have not been fully successful in the province, the viability of the seafood industry demands evaluation of these previous efforts as well as continued investment into research and development for marketing opportunities and institutional innovations.

Coordinating marketing strategies and programs

Marketing institutions and organizations are critical to the seafood industry in providing market access and developing and implementing coordinated product promotion strategies. Such institutional arrangements are common and offer lessons for the province. Examples include the Florida Seafood Marketing Campaign, the Alaskan Seafood Marketing Institute, the Norwegian Seafood Export Council and the BC Salmon Marketing Council. Change Islands' harvesters support the idea of a provincial seafood marketing body, which has been suggested in several previous reports. Broad-based involvement of stakeholder groups in formulating an appropriate marketing wing for a viable fishing industry is recommended. Provincial-scale marketing initiatives should facilitate and complement local initiatives, and promote 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, reliable seafood supply, and profit margins. Seasonal fluctuations in both stocks and market demand should be considered when quotas and fishing seasons are set. Flexible government policies and seasonal openings that address ecological conditions, product quality, market drivers, potential for supply gluts and discards of low value catch can provide win-win solutions. Cod fish trucked 400 km from Harbour Grace to Change Islands for salting, for example, produced low yields, significant wastage and a low quality product. Product diversification through combined multi-species harvesting and processing licenses can support a multi-season fishery. When combined with management systems that incorporate local knowledge these conditions can promote stewardship, economic viability and enhanced coastal livelihoods.

Seafood Prices and Market Access for the Inshore Fishery: The Case of Change Islands, NL

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 cultural and eco-tourism sector. Barriers to proposed ventures such as fish harvesters taking visitors on their harvesting trips or selling their catch to tourism markets require further investigation and institutional partnerships. 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 regional economic development practitioners and community leaders in the ongoing dialogue about the future of fisheries governance in the province, as well as support for initiatives that build cross-sectoral linkages and create new market opportunities.

ADDITIONAL READING

- Cashin, R. 2005. Report of the Chairman on the Raw Material Sharing Review Committee. A Report Commissioned by the Department of Fisheries and Aquaculture. St. John's.
- Coastal Communities Network. 2006. Nova Scotia's Vibrant Coastline; Thriving Coastal Communities; and Sustainable Coastal Infrastructure: A Discussion Paper: www.coastalcommunities.ns.ca/documents/ns-vib-coastline.doc
- Clift, T. and Team. 2011. Report of the Independent Chair: MOU Steering Committee. NL Fishing Industry Rationalization and Restructuring. St. John's.
- DFO. 2007. Cost and Earnings Survey 2004: Atlantic Region Report. Economic Analysis and Statistics Policy Sector, DFO, Ottawa.
- DFO-DFA. 2006. Fishing Industry Renewal Initiative. A Discussion Paper. Canada-Newfoundland and Labrador. DFO-DFA, St. John's.
- Dunne, E. 2003. Final Report of the Fish Processing Policy Review. A Report Commissioned by the Department of Fisheries and Aquaculture. St. John's.
- FFAW, 2008. Will our Future include Outports? Strengthening and Sustaining Rural Communities through Fisheries Restructuring. A PowerPoint Presentation to the Economic Policy Committee of Cabinet. September 16th 2008. FFAW. Ottawa.
- Gardiner Pinfold Consulting Economists. 1993. Resource Access and Supply Continuity in the Atlantic Fisheries. Report of the Task Force on Incomes and Adjustment in the Atlantic Fishery. DFO, Ottawa.
- GLOBEFISH Market Reports and Fish Price Indicators, available at: <http://www.globefish.org/dynamisk.php?id=481>
- Jones, D.W. 2003. A Review of the Fishing Industry Collective Bargaining Act: A Framework for Stability. Commissioned by the Government of Newfoundland and Labrador. St. John's.
- Lery, J-M., Prado, J., and U. Tietze. 1998. Economic Viability of Marine Captured Fisheries – Findings of a Global Study and an Interregional Workshop. FAO Fisheries Technical Paper 377. FAO, Rome.
- Moore, W.P., Wash, D., Worden, I., and J.D. Macdonald. 1993. The Fish Processing Sector in Atlantic Canada. Financial Performance and Sustainable Core. Report of the Task Force on Incomes and Adjustment in the Atlantic Fishery. DFO, Ottawa.
- O'Rielly A. 1993. Market Perspectives: Canadian Seafood Products. Report of the Task Force on Incomes and Adjustment in the Atlantic Fishery. DFO, Ottawa.
- Roche, A.J. 2008. Seafood Marketing Review Panel Report of the Chairman. A Report Commissioned by the Department of Fisheries and Aquaculture. St. John's.
- Standing Fish Price - Setting Panel 2008-2009. Annual Report. Government of Newfoundland and Labrador. St. John's.
- Vardy, D.A and Team. 1998. New Beginnings: Bringing Stability and Structure to Price Determination in the Fishing Industry. Report of the Taskforce on Fish/Crab Price Settlement Mechanisms in the Fishing Industry Collective Bargaining Act. St. John's.
- Woodrow, M. 2003. Vulnerability in Coastal Communities: Adaptation to Change and Planning for the Future. An Overview Report on the Change Island Workshop 23-25th 2003. Ottawa,.

Seafood Prices and Market Access for the Inshore Fishery: The Case of Change Islands, NL

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 resilience of 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 dissemination on aspects of fisheries and coastal community viability outlined below. The briefs are based on a series of interviews and 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 are available through a project website designed to promote a distinct heritage and fishing culture that spans three centuries

See web link at <http://localknowledgechangeislands.ca>

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

For more information about this brief please contact: Ahmed Khan or Kelly Vodden,
Department of Geography, Memorial University, St. John's, NL A1B 3X9
Tel: 1 709 737 8981 Fax: 1 709 737 3119
ahmedk@mun.ca or kvodden@mun.ca



Social Sciences and Humanities
Research Council of Canada

Conseil de recherches en
sciences humaines du Canada