Nova Scotia
Seafood Processing Study
Meeting – proceedings

Gardner Pinfold
Consulting
Economists Ltd.
www.gardnerpinfold.ca

East Coast
1331 Brenton St.
Halifax, NS
Canada, B3J 2K5
Ph: 902-421-1720
Fax: 902-422-5343
mgardner@gardnerpinfold.ca

West Coast
6150 Baillie Rd.
Sechelt, BC
Canada, V0N 3A7
Ph/Fax: 604-885-0105
tpinfold@gardnerpinfold.ca

Submitted to:

Nova Scotia Department of Fisheries and Aquaculture

Prepared by

Gardner Pinfold Consulting Economists Limited

November 2007

MEETING PROCEEDINGS

1. Why this Meeting

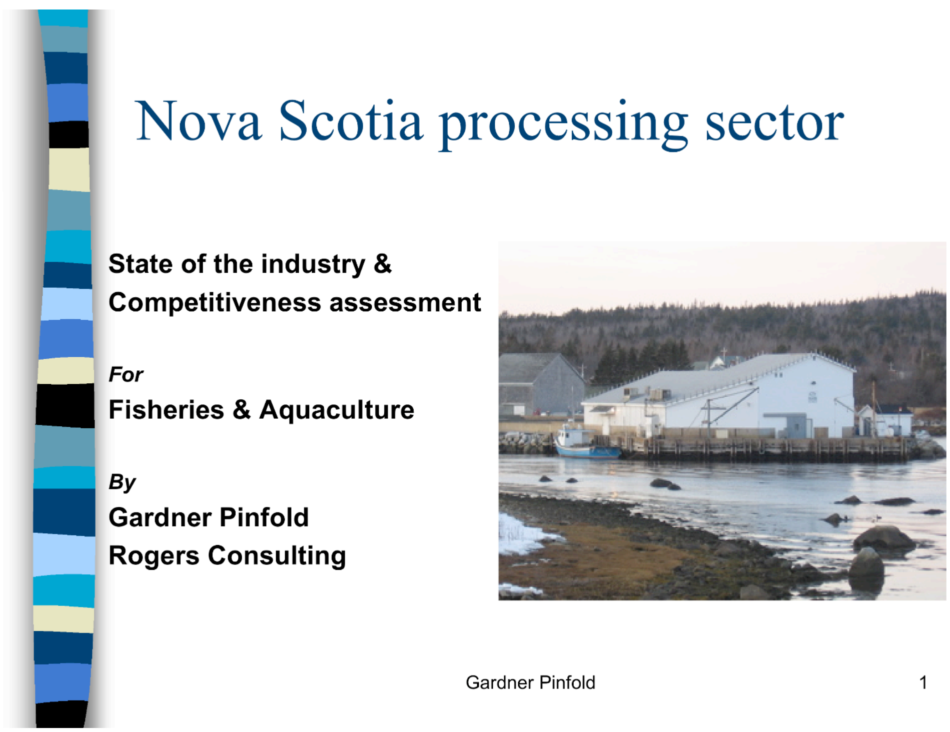
On November 19th, 2007, the Nova Scotia Department of Fisheries and Aquaculture organized a meeting with members of the seafood processing sector to discuss the recently released study, *Nova Scotia Seafood Processing Sector - state of the industry and competitive assessment.* Building on the findings, the study makes several recommendations. These were the focus of discussion by the participants at the meeting.

This report provides a presentation made by Michael Gardner, author of the report, on the main findings and the recommendations. This is followed by a summary of the participants' discussion of the recommendations.

The meeting program is set out in the Annex.

2. Nova Scotia Seafood Processing Sector - state of the industry and competitive assessment.

This section sets out the presentation by Michael Gardner summarizing the processing sector study. A brief discussion followed, with speakers noting the absence of any reference in the report to the impact seals are having on the industry through predation on groundfish. The issue should be discussed in more detail in future forums as many groundfish processors expressed their concerns.



Conducting the study

- Objective: determine the state of the industry and factors contributing to competitiveness
- Obtained information from all 220 licenced plants through questionnaire and/or in-person interview
- Gathered landings and market data from published sources
- Conducted SWOT analysis based on industry data and market analysis
- Findings and recommendations based on consultant's findings

Key statistics

Structure (2006)

- 180 active plants, down from ±400 in early 1990s
- $1.1 billion production value
- $960 million export value
- Employment ranges from 2,900 in winter to 4,850 in summer

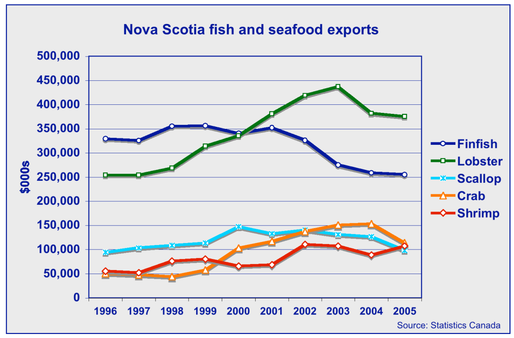
Main lines of business

- 105 process fish
- 40 ship lobster
- 30 buy/sell lobster/crab
- 5 other activities

Major species

Key species

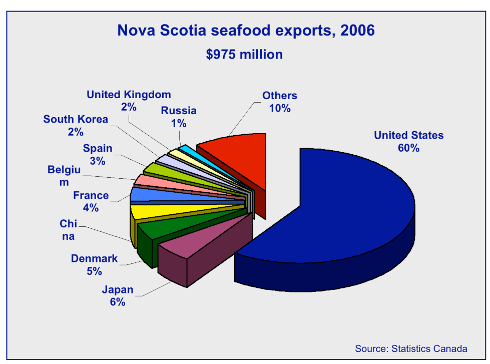
- Lobster (35-45%)
- Finfish (20-25%)
- Scallop, crab, shrimp (10% each)



Major markets

Nova Scotia exports

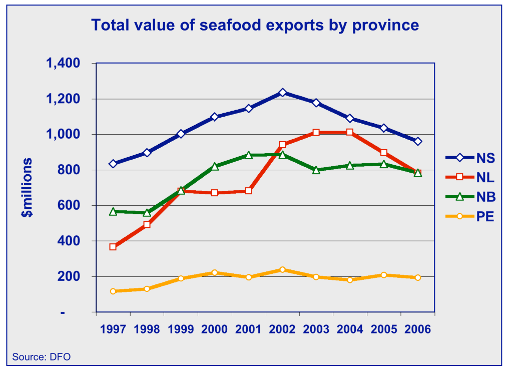
- $960 million in 2006, down from $1.2 billion in 2002
- Exports to 85 countries
- U.S. takes 60%
- EU takes 20%
- Japan takes 6%



Provincial export trends

NS decline due to:
- exchange rate (all species)
- resource (scallop, crab & lobster)
- Global shift in groundfish markets

Others:
- NB stable - lobster import/re-export trade
- NL decline - drop in crab resource/ market



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Major findings: industry structure

NS seafood processing a fragmented sector
- 180 mostly small companies
- Limited market reach
- Limited product & market development capacity
- Operates independently from harvesting sector
- Vulnerable to growing power of large distributors

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Major findings: capacity

Industry characterized by excess capacity

- Provincial licencing policy facilitates excess capacity
- Excess capacity intensifies competition for raw material
- Excess capacity intensifies competition for sales
- Industry holds opposing views on access to licences:
  - Control to prevent destructive competition
  - Open entry to ensure healthy competition

Major findings: federal policy

Federal fisheries policy intensifies competition

- Determines terms of access to raw material
- Restricts vertical integration of plants & vessels
- Protects bargaining power of harvesters
- Intensifies competition among plants for raw material
- Plants cannot rely on secure raw material supplies
- Makes plant operations & marketing difficult to plan

Major findings: competitiveness

Sector competitive position has eroded

- Declining resources - mainly groundfish
- Competition from low-cost producers
- Rising raw material costs
- Rising operating costs
- Declining value of U.S. dollar
- Concentration of buying power in key markets
- Regulatory environment

All factors contribute to financial weakness

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Major findings: throughput

Plant throughput & employment are declining

- Local groundfish stocks have not recovered
- Competition driving up international groundfish costs
- Focus on fresh market results in less value added
- Most shellfish requires limited on-shore processing
- Increasing emphasis on frozen at sea technology

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Major findings: margins

Margins in processing are low and declining

- Processors squeezed on revenue and cost sides
- Revenues down due to drop in U.S. dollar
- Increased competition from low-cost producers driving down prices
- Prices squeezed by increasing market power of distributors and customers
- Raw material costs rising
- Higher operating costs due to rising fuel/labour costs

Major findings: cash flow focus

Focus on cash flow not return on investment

- Cash flow constraints a major limiting factor
- Must sell product immediately to pay for raw material
- Industry competes against itself at both ends of the market - raw material & sales
- Most plants tend to operate in survival mode due to uncertainty and narrow margins
- Cash flow vulnerability well understood by distributors and customers

Major findings: labour force

Labour force declining in coastal communities

- Plants must meet increasingly stringent standards to compete internationally
- Plants finding it difficult to recruit & retain workers
- Demographics turning against the industry
- Increasingly difficult to meet competitive wages
- Diminishing interest in working in fish plants
- Seasonal structure contributes to lack of appeal

Major findings: technology

Limited investment in processing technology

- Need for operating flexibility results in labour intensive operations
- Lobster holding facilities represent the major area of investment in past few years
- Weak financial returns and poor access to conventional financing contribute to limited investment in plant and equipment

Major findings: products

Product development is lacking

- Most plants lack size and resources to develop new products
- Cash flow constraints and insecure raw material supply limit capacity to develop new products
- But some companies are exploring new products and niche markets

Major findings: markets

NS industry trying to diversify

- U.S. is still dominant market, but now accounts for 65-70% of export value, not 80%
- Diversification occurring for two reasons:
  - declining value of U.S. dollar
  - rising middle class in emerging markets in Asia/eastern Europe.

Low cost producers hurting and helping

- China and Far East nations taking market share
- Low cost producers supplying NS companies

Major findings: food security

Security requirements becoming more stringent

- Industry has had to up-grade facilities to meet CFIA standards
- More stringent standards are expected, with a requirement for industry to invest in facilities and equipment to address growing concerns over food security and traceability
- It is not clear that processing companies have the financial resources or the access to capital needed to make the necessary up-grades

Major findings: eco-labelling

Consumers pressuring for sustainable fisheries

- Retailers and distributors are demanding eco-labels on fish products to satisfy consumer demands that fish is harvested in a sustainable manner
- Eco-label requires independent certification of sustainable fishing practices/management
- Marine Stewardship Council is leading eco-label
- Certification is time-consuming and expensive process, but likely to be essential in order to meet customer specifications in coming years

Strengths & weaknesses

Success factor	Strength	Weakness
Adequate resources	Shellfish supply good High quality	Local groundfish weak Global supply costly
Regulatory environment	Meets CFIA standards	Fleet separation means insecure supply
Skilled labour supply	Current supply OK	Future supply weak Risk of high wages
Technology	Available but costly	Poor investment climate
Access to capital	Some private sources	Limited access to conventional lending
Market access	Adjacent to U.S.	Exchange rate Market power of buyers

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Key recommendations

- Take steps to rationalize capacity
- Review provincial financial assistance policy
- Consultations on licencing, financing, trade
- Up-date human resource analysis
- Strengthen market intelligence
- Improve industry information base
- Encourage eco-label certification
- Support formation of industry association

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3. Discussion on recommendations

Participants were divided into three groups to discuss the recommendations of the study. The recommendations along with a synthesis of the discussions are presented below.

Recommendation #1: Take steps to rationalize processing capacity.

The industry is characterized by too many plants with too much capacity chasing too few fish. This weakens the industry because it results in plants bidding up the price of raw material to unprofitable levels in order to secure enough supply to cover fixed costs. Resolving this issue could take years, but could start immediately with the following steps:

- **Revoke licences that have not been used for a specified period (say 2 years);**
- **Ensure all plants and fishermen packers meet a common set of QMP standards;**
- **Establish firm criteria for issuing new licences (based on industry consultations;**
- **Impose a moratorium on new licences until criteria have been established.**
- **Provide no financial support for troubled plants (no exceptions).**

Discussion

The majority of participants agree that overcapacity is an issue in the industry and steps should be taken to rationalize capacity.

Moratorium on new licences. One way of rationalizing capacity is to impose a moratorium on new licences to prevent further entry to the industry. Most participants agreed that this would be a good first step, though it should be the subject of wider industry consultations.

Revoke dormant licences. With a moratorium in place, a further step would be revoking idle licecnes. This is not a step government should consider without careful study and consultation. Many suggested imposing a time limit for licences that have been unused for a specified period of time (a "use it or lose it" approach), recognizing that such a limit could run the risk of reactivating old plants as owners sought to avoid losing a licence that could add to the asset value of the plant. Some participants also questioned what would happen if the groundfish came back, (who would process the fish?), while others in response noted that any policy aimed at reducing capacity would also have to include criteria for approving additional capacity where circumstances warranted.

Recommendation #2: Establish a clear policy on inter-provincial trade in unprocessed fish.

Nova Scotia has traditionally allowed unrestricted trade in unprocessed fish. This recommendation calls for the formulation and adoption of a trade policy that would establish principles governing restrictions and spell out circumstances where Nova Scotia might implement restrictions.

Historically Nova Scotia has maintained a free trade approach to fish imports/exports and is a signatory of the National Agreement on Internal Trade (AIT). The provincial government has only interfered with trade to counterbalance unfair trade practices of other provinces that negatively impacted on Nova Scotia producers.

Discussion

The majority of participants are in favor of free trade but need of clarification of the current inter-provincial trade policy. Two major points emerged from the discussion:

Restriction would be a mistake. Processors throughout the region rely heavily on free trade among the Maritime Provinces to access raw material and operate efficiently. Restricting trade would compromise the industry's ability to compete effectively.

Consultations. To clarify the policy on inter-provincial trade, the province should engage in consultations with the industry, though many at the meeting feel these consultations should be confined to the processing sector. As one group clearly stated, issues concerning the processing sector should be dealt primarily by the processing sector. Many participants feel that the exclusion of the harvesting sector and independent buyers on issues that concern the processing sector would be warranted. They feel frustrated at being excluded from fishing Advisory committees because harvesters don't want them there. Other participants recognize that the trade in raw fish directly involves harvesters and any discussion on trade policy would have to involve them as well.

Lessons from other provinces. The province should examine other jurisdictions to learn more about how other provinces are handling inter-provincial trade (i.e: Newfoundland and Québec).

Recommendation # 3: Review provincial financial assistance policy.

Opinion in the industry is divided on the need for or desirability of a provincial financial assistance program. Those in favour cite the need to upgrade facilities and equipment in order to remain competitive, noting that conventional financing often is not available. Those against recognize the need, but express concern about the competitive advantage this would give companies particularly at a time when the industry, or at least segments of it, do not need additional capacity.

Discussion

The majority of participants agree that government should provide financial assistance to seafood processors based on clear and strict criteria. Such criteria include:

- Loans should be intended for the purposes of improving productivity, efficiency and possibly generic marketing. The issue becomes complex as projects that improve productivity and efficiency could be justified as promoting over capacity. This "grey area" should be addressed and examined carefully.

- Loans should not be given for the purposes of preserving over capacity (i.e. working capital loans, bail outs and grants).

The government should also explore the possibility of a Federal or Provincial tax credit as a form of financial assistance. This would target active and profitable companies.

Recommendation 4: Conduct policy consultations on licencing, financing and trade

Acting on recommendations 1-3 would require extensive consultation with industry. Consultation meetings should be conducted around the province, following a format familiar to the industry: circulation of material outlining the issues and options, open hearings to receive comment and positions, circulation of report outlining policy positions and rationale.

Discussion

The participants agree that ongoing consultations are necessary to address key industry issues. Several ways to conduct consultations include:

- Federal/provincial/industry committees or task groups focused on "specific issues"
- Public consultation
- Annual and bi-annual forum.

Most participants prefer the task group approach, with processing sector input into representation on the groups.

Recommendation 5: Encourage formation of a single industry association

Several issues identified in this study require policy decisions by the province, and action by the industry. These include licencing, inter-provincial trade, programs to assist with product and market development, emerging human resource constraints, product traceability and eco-labeling requirements, and financial assistance. Government should initiate and assist discussions with industry to further this goal.

Discussion

Participants believe that processors should belong to an association, but do not have strong views about what model would be most effective. They note that fewer than 50% of processors belong to any association. Membership in an association should be encouraged to improve industry and provincial relations.

There is not strong support for a single association, with participants noting that there does not seem to be the basis or need for such an alignment. There was some discussion on whether the two existing associations form the best model or whether the industry should be organized along sector lines (i.e., lobster, crab, groundfish, herring), but no consensus was reached. As one group pointed out, having everyone from the processing sector properly represented by an association is a high priority. To encourage membership, incentives such as rebates or fee reductions could be used.

Recommendation 6: Update industry human resource demand-supply analysis

Human resource constraints are emerging as a major issue in the industry. The last comprehensive analysis of the issue was conducted over five years ago. An update of this 2002 study would appear to be warranted.

Discussion

There was consensus among participants that a study on updating the industry human resource demand-supply analysis would not be necessary as the issues are apparent. Money going towards a study could be re-allocated towards addressing labour issues like:

- Training employees (i.e: filleting and first aid).
- Retaining workers or the possibility of foreign workers to fill the labour shortage.
- Reviewing the abuse on systems like EI, welfare and workers compensation.

Recommendation 7: Strengthen market intelligence

The Department of Fisheries and Aquaculture has an important role to play in supporting the marketing efforts of the industry, particularly since many firms lack the resources to carry out effective marketing. Consultation with industry would be required to identify specific needs and methods of disseminating information.

Discussion

Opinion on the need for market intelligence is divided, with many in favor and the remainder highly doubtful of its potential. There is considerable support for provincial participation in trade shows, but beyond this participants had difficulty agreeing on what role the province could or should play. To address the mixed views on the issue, several suggestions were made:

- Coordinating marketing needs with industry associations through more transparency.
- Staying current with market needs by capitalizing on big issues like sustainability, country of origin labeling and food safety (e.g., eco-labeling and promotion of health benefits for food).
- Considering generic seafood marketing programs (although generic marketing is often faced with conflict).
- Identifying niche markets.
- Continuing to pass along customer contact information.

Recommendation 8: Improve industry information base

This report serves as a useful baseline of industry structure and operations in 2006. On-going collection of all or some of the data would contribute greatly to a better understanding of sector trends, and would improve policy development. The Department of Agriculture and Fisheries should make it a condition of licence that companies provide basic information. The industry should receive feed-back in the form of annual reports showing industry trends and analysis.

Discussion

Participants indicated strong support for improving the industry information base. For it to work, the data gathered needs to be: basic information, kept confidential, accurate, and timely. The industry should also receive feed-back on what is collected in the form of an annual or bi-annual overview setting out basic statistics. Two issues arise that need further examination: How to enforce accurate data? Who is going to pay for the system?

Recommendation 9: Encourage fishing industry/DFO to pursue MSC certifications

The processing sector, and the industry generally, has much to gain from MSC certification (or some other well established and widely accepted eco-label) of the various fisheries. Indeed, the industry may in the coming years have little option but to secure certification if it wishes to supply major retailers in key markets. The processing sector, with the support of the province, could take the lead in urging eco-label certification for key fisheries.

Discussion

The majority of participants feel that MSC certification is an emerging issue that should be addressed by the industry. The industry needs to hold more information sessions on MSC and should review current experiences (i.e: Alaska, BC and Europe). The information sessions should address key questions such as: What it is? What are the implications? What is the cost? Who is going to pay for it? Who should be involved? How to involve participants?

APPENDIX - AGENDA

Seafood Processing Study
Meeting Agenda

November 19, 2007
Westin Hotel. Halifax

Facilitator: Michael Gardner

9:00	Registration
9:30	Welcoming remarks, overview of the agenda - Greg Roach
9:45	Consultants's Report, Michael Gardner- *Nova Scotia Seafood Processing Sector - state of the industry and competitive assessment.*
10:45	Break
11:00	Break-out session one
12:15	Lunch (provided)
1:00	Break-out session two
2:15	Break
2:30	Break-out session three
3:45	Summation and Next Steps