SWOT and the BC Seafood Business

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Presentation Outline

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21. Aboriginal land claims - constraint & opportunity
22. Commonality of seafood and tidal angling interests
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SWOT is a strategic planning tool

1. **Background**
   - early 1980s - last provincial marine sector strategy
   - today - a very different world
   - identify major factors impacting viability
     - current (strengths & weaknesses)
     - future (opportunities & threats)
   - need information base to support provincial planning
2. **SWOT can support focussed strategy formulation by**
   - provincial government
   - federal government
   - industry
   - First Nations
   - others e.g., NGOs
3. **SWOT also can**
   - stimulate informed discussion & debate
   - document "lessons learned" from other jurisdictions
   - instill will to implement change
   - provide consistent and fair treatment of sectors

The SWOT study is comprehensive

1. **Sector coverage**
   - 4 sectors
     - harvesting ("capture")
     - aquaculture ("farmed")
     - seafood processing
     - tidal recreational angling
   - emphasize commonality of interests
     - public support for use of public resource
     - sustainability

2. **Five (5) broad study topics**
   - demand e.g., consumer tastes, demographics, trade & non-trade barriers
   - supply e.g., resources, labour, investment, R&D
   - government policies & regulations
   - relationships
   - macroeconomic e.g., exchange rates

3. **Study workplan**
   - reviews of 150+ reports & publications
   - interviews with 180+ individuals
   - international seafood market survey
   - QCI fishing lodge survey
   - 10 case studies from around the world
   - statistical & economic analysis

4. **This presentation**
   - focuses on seafood sector issues i.e. the first 3 sectors above

Economic importance of BC seafood

1. **An important economic stimulus**

	2002*
Sales value	$1,315 million
Wage & benefits	$460 million
Jobs	~25,000
Employment person-years	13,010 PYs

* includes distribution/retail for seafood sold in BC

2. **Over 50% of jobs & employment outside urban centres**

3. **First Nations have 20 to 25% of jobs & employment**
   ~ 6,000 jobs
   ~ 3,000 PYs employment

The seafood sector must accept business realities

1. **Successful businesses**
   - adapt & reposition in face of change
   - succeed based mainly on marketing prowess and not production capability
   - are market-driven

2. **There are no products for life**

   " markets "
   " businesses "
   " industries "
   " jobs "

3. **Product status can change**
   - move from commodity to niche product
   - move from niche product to commodity product

BC seafood is part of the global food business

1. **BC seafood sector**
   - competes with
     - other seafood
     - beef
     - pork
     - poultry
     - soy, etc.
   - competes for "centre-of-the-plate" protein
   - must emphasize the "food" part of seafood
   - must think globally

2. **Global food industry businesses**
   - market rather than sell food
   - have strong leadership, a vision & LT strategies
   - have cohesive industry associations, a unified voice
   - strive for production efficiencies
   - invest in their future e.g., R&D, human resources, new products
   - have value chain cooperation

The world has changed and the BC seafood sector needs to change with it

1. **Favourable conditions of the 1980s have disappeared or reached maturity**
   - oceanographic conditions
   - increased resource access through 200 mile limit
   - growing world economies e.g., Japan
   - exchange rate movements

2. **Plus substantial change since the 1990s**
   - globalization
   - growth of aquaculture
   - increasing environmental ethic & influence
   - traceability requirements

Globalization has resulted in the integration of national economies

1. **Elements of globalization include**
   - trade liberation e.g., FTA, NAFTA, WTO
   - advances in transportation & refrigeration technology
   - emergence of discounters e.g., COSTCO & broadliners e.g., SYSCO
   - consolidation in food distribution & retailing

2. **Results of globalization include**
   - seafood processing not necessarily adjacent to fish harvesting/growing
     - labour intensive processing to low wage countries
     - increasing acceptance of "twice frozen" products
   - increased world trade & competition
   - power shift
     - increased power to retailers
     - decreased power to manufacturers
   - seafood is a "buyer's market"

3. **China has had and will continue to have profound influence**
   - on seafood markets
     - importer
     - exporter
     - producer
     - consumer
   - on markets for other manufactured goods e.g., electronics, clothing, toys, copper refining

The growth of aquaculture has fundamentally changed world seafood markets

1. **Aquaculture has affected both seafood supply & demand**

2. **Supply influences include**
   - additional, new source of supply
     - downward pressure on price
     - keep "inventory in the water"

3. **Demand influences include**
   - new standards re consistency: supply, quality, price
   - attributes especially important for foodservice segment
   - "raised the bar" for capture seafood

4. **In addition growth of aquaculture has**
   - made some niche products into commodities e.g., salmon
   - adjusted expectations for seafood to be more in line with other proteins

The growth of the environmental ethic has major implications for seafood

1. **The environmental ethic/movement exemplified by**
   - the influence of NGOs on fisheries management
   - the Marine Stewardship Council (MSC) & other ecolabelling
   - the acceptance of "sustainability" as an operating principle
2. **Sustainability criteria include**
   - sustainable harvest of target species & stocks
   - limiting impacts on non-target species & habitat
   - an effective fisheries management system (including monitoring)
3. **Sustainability affects both supply and demand**
   - supply influences
     - without sustainability, production opportunities foregone
     - Species at Risk Act (SARA) impacts on mixed stock fisheries
     - ecosystem impacts of aquaculture
   - demand influences
     - market access
     - some buyers imposing sustainable sourcing policies e.g., Unilever in 2005
4. **To be sustainable economically, you must be sustainable environmentally**
5. **Prefer the term "sustainable" to "conservation"**
   - "conservation" to many means
     - no use
     - no risk
   - "sustainable" means
     - wise use
     - acceptable & prudent risk

Traceability is becoming a market requirement

1. **Heightened awareness of food safety issues**
   - BSE outbreaks
   - e coli outbreaks
   - Sept 11/01 terrorist attack
   - trend to more healthy/nutritious diets

2. **Need for product history documentation i.e., traceability**
   - from "sea to table"
   - to demonstrate food safety
     " sustainability
     " MSC/ecolabelling
     " other product attribute claims
   - to gain market access

3. **Two new US traceability requirements**
   - COOL (country-of-origin labelling)
   - US Bioterrorism Act (Dec 12/03 requirements)
     - registration of facilities
     - advance notice e.g., 2 hrs for road shipments

Consumer tastes and trends are affecting seafood markets

1. **Healthy/nutritious diets**
   - low fat, high protein e.g., Atkins' diet
   - omega 3 oils, reduced risk of heart disease
   - celebrity chefs, cookbooks

2. **Convenience**
   - meal ready, heat & serve, combo packs
   - skinless, boneless
   - smaller portions

3. **Eating out**
   - foodservice growing faster than retail
   - US market segments
     - food service - 2/3 by value, 1/3 by volume
     - retail - 1/3 by value, 2/3 by volume
   - ethnic influence e.g., Asian meals & banquets

4. **Ecolabelled market share**
   - growing
   - but unclear whether consumer willing to pay more

Government regulations, policies and actions should be efficient, timely and prudent so as not to inhibit business planning and operations

1. **Government has an important role**
   - two main factors
     - human health & safety issues
     - use of the public marine environment
   - government role more pervasive than for any other economic sector
2. **But businesses need to**
   - plan operations
   - raise equity & financing
   - develop products & markets
   - invest in R&D, human resources, etc.
3. **Tardiness and perceived capriciousness of government decision-making retards these essential business functions**
   - some problem areas
     - fishing plans for harvesters
     - CEAA approvals for aquaculture
   - government needs to be more service bureau & less regulator
4. **More emphasis on support for the "D" in R&D**

Government should focus on what needs to be done rather than on who should do it

1. **Canada well-known for its jurisdictional complexity & disputes**
   - within seafood, outside seafood
   - often an excuse for inaction

2. **Focus on what needs to be done**
   - identify needed regulatory & policy actions
   - identify who best positioned to take lead
   - coordinate & harmonize e.g., MOUs

3. **This SWOT study is example**
   - strategic planning for entire sector needed
     - province does not have lead jurisdiction in harvesting or tidal angling
     - but province spent 100 cent dollars for SWOT
   - federal government did cooperate & add value
     - participated on Steering Committee
     - 40+ federal personnel interviewed

Human resource issues require immediate attention

1. **Current practices inadequate for future**
   - recruitment - mostly through word of mouth
   - training - mostly in-house, not institutional
     - training to avoid liability, not to increase productivity
     - salmon farms import workers from East Coast

2. **Current workforce characteristics**
   - capture boats & plants - old, limited education
   - aquaculture farms & plants - young, limited education
   - looming attrition/retirement for many workers

3. **Future needs**
   - recruit younger, better trained workers
   - sophisticated technology & electronics
   - sustainability & traceability requirements
   - food industry requirements e.g., quality control
   - flexibility in job functions i.e., multi-tasking
   - site visits by buyers to inspect procedures, training
   - need to offer year-round work in plants
   - “lifelong learning” culture for workforce

Considerable uncertainty exists in the BC seafood sectors

1. **Key areas of uncertainty**
   - aboriginal issues
     - land claims
     - Aboriginal Fishing Strategy (AFS)
   - regulation & fisheries management practices
     - CEAA
     - SARA & Wild Salmon Policy
     - fisheries management plans
   - security of tenure
     - licences & allocations
     - dilution of rights
2. **The result**
   - focus on ST cash flow, not LT viability & investment
   - foregone opportunities
   - erosion of business value
   - needed change in business model stalled

Wild salmon and its problems dominate discussions of the seafood sector

1. **Wild salmon is signature seafood product of BC**
   - intrinsic part of identity of BC
   - public cares about salmon

2. **Non-salmon capture fisheries working reasonably well**
   - viable
   - market-driven
   - self-rationalize with IQs, pool fisheries, etc.
   - strong fisheries organizations
   - constructive dialogue with DFO
   - effective co-management
   - degree of trust & cooperation in value chain

3. **Wild salmon has none of these**
   - root problem is competitive management regime
   - lack of incentives, enlightened self-interest
   - can not provide quality to meet market needs
   - much product goes to can on default basis ("the can is very forgiving in terms of quality")

Reform of salmon fleet management is a major opportunity

1. **Compelling need to reform salmon fleet management**
   - property rights, IQs or some other incentive-driven system needed to coalesce interests of
     - resource
     - resource manager
     - industry
   - slow down harvest (better handling) to improve quality & value
   - but DFO unlikely to act without majority support from industry/licence holders
   - but no fleet-wide industry organization exists to demonstrate support

2. **Promising development**
   - duly-elected Salmon Area Councils
   - representation on Commercial Salmon Advisory Board
   - potential - single voice to DFO

     - spur needed reform

The BC seafood advantage is quality

1. **World seafood demand is growing**
   - health and nutrition benefits e.g., omega 3 oils
   - variety, exotics in diets

2. **Two distinct ends in seafood market spectrum**
   - commodity products
   - niche products

3. **Commodity products & markets**
   - driven by economies of scale & costs
   - low cost producer wins
   - global competition

   BUT

   - BC's production volumes are too low & costs are too high to compete effectively

continued...

The BC seafood advantage is quality (con't)

4. **High end, niche products & markets**
   - driven by quality, uniqueness
   - higher prices, higher margins
   - more narrow regional markets, less competition

   AND

   - BC can produce high quality products
     - clean, cold marine environment for capture and aquaculture products
     - nearby production facilities can deliver quality to plant door
     - BC's strategic location allows timely distribution (by truck to US, air to Asia)

5. **Implementing the quality advantage requires**
   - a new market-driven business model
     - gov't as service bureau
     - seafood as food business
   - patience (will not happen over night)
   - cooperation between industry & gov't
   - cooperation in the value chain

Sustainability and traceability business requirements are complementary to quality

1. **Sustainability requires**
   - slowing down the harvest
   - shorter gear "soak" times
   - allowing live release of non-target species

   AND

   - this facilitates better handling of the harvest

   AND

   - this enables higher quality products

2. **Traceability requires**
   - identifying products of different origins throughout value chain

   AND

   - this enables product quality to be tracked through the system

   AND

   - this enables quality control, grading & differential pricing programs

The Chignik salmon seine fishery cooperative in Alaska is an innovative experiment in salmon fleet cooperation and quality improvement

1. **The 2002 experiment**
   - Board of Fish allowed permit holders option of
     - joining cooperative, or
     - fishing independently
   - 77 joined the Coop (received 69% of allocation)
   - 23 did not join (received 31% of allocation)

2. **The results for 2002**
   - the 77 in the Coop
     - fished ˜20 vessels, used ˜15 tenders
     - pumped fish directly from seine to tender
     - live hauled fish to plant, rested fish
     - bled, slaughtered & graded fish
     - diverted fish to product form based on market demand and/or pre-existing orders
     - developed "Castle Cape Reds" brand
     - reduced fishing costs, increased quality substantially
   - the 23 not in the coop fished competitively
   - the controversy
     - fairness of allocation between the 2 groups
     - the distribution of costs & profits between those coop members who fished and those who did not
     - the decision of the Coop to contract with only 1 of 2 traditional processors in area

continued...

The Chignik salmon seine fishery cooperative in Alaska is an innovative experiment in salmon fleet cooperation and quality improvement (con't)

3. **The cooperative fishery continued in 2003**

4. **Insights**
   - the experiment required leadership from industry and the Board of Fish
   - fishermen can change, cooperate & learn
   - the Chignik Coop fishery adopted food business principles
   - the Chignik Coop based their business model in part on information from a tour of a BC farmed salmon plant

Aboriginal land claims are both a constraint and an opportunity to improved financial performance

1. **Unresolved land claims create substantial uncertainty, inhibit investment**
   - non-aboriginal interests
   - aboriginal interests

2. **Land claims settlement**
   - stimulate business opportunities & investment
   - non-aboriginal - greater certainty as to tenure
   - aboriginal - “unlock” aboriginal opportunities
     - financial support, resources to launch businesses
     - create business opportunities in home communities
     - need to keep business separate from social & political aspirations
     - advisable to start small and/or joint venture to reduce business risk

The seafood and tidal recreational fishing sectors as a whole are greater than the sum of the individual parts

1. **The seafood and tidal angling sectors have a mixed public image**
   - many eat BC seafood, many fish recreationally
   - but environmental issues and fractious controversies diminish public acceptance
   - the consumer is subject to mixed messages from attack advertising
   - bad news in one sector can and has had negative spillover market effects
2. **Need public acceptance & support**
   - use the public marine environment
   - the environment has competing uses e.g., ecotourism, foreshore development, oil and gas
3. **Need to recognize**
   - each sector has a legitimate claim to existence
   - united, the capture & recreational fisheries and aquaculture sectors are stronger and more influential
   - there are many common interests e.g., growing seafood demand in total, sustainability
   - cooperation can build public support and enhance sustainable industry growth

With change there can be prosperity and viability

- Build on assets - quality
- Overcome liabilities - low volumes, high costs
- "Triple A" strategy
    - attitude
    - action
    - accountability
- New spirit of trust & cooperation
    - within industry
    - within governments
    - between industry and governments
- "Whenever there is change there is opportunity"