

Seafood Marketing Review Panel

Report of the Chairman

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Foreword

The essence of my assignment from the Minister of Fisheries and Aquaculture was to consider ways in which a seafood marketing council could help address the key marketing challenges faced by the Newfoundland and Labrador fishing industry (excluding Aquaculture).

At the outset of my work a three person Seafood Marketing Review Panel was struck to act in an advisory capacity with me as its Chairperson. Members of the panel were Derek Butler, Association of Seafood Producers; George Joyce, Seafood Processors Association of Newfoundland and Labrador; and Earle McCurdy, Fish, Food and Allied Workers Union (FFAW-CAW).

All three were extremely helpful and responsive to me throughout the course of my work and especially so at the beginning when I was in need of reorientation, having not been actively involved in the industry at the time of taking on this assignment. I nonetheless undertook my terms of reference independently, and took the requisite latitude to form my own opinions and reach my own conclusions, for which I take responsibility.

I would be remiss if I failed to acknowledge the assistance readily provided by the staff of the Department of Fisheries and Aquaculture. Everyone to whom I came for assistance of one kind or another was most obliging. I am especially indebted to Sean Barry, Wanda Lee Wiseman and Brian Delaney. My thanks also to Rose Ledwell whose secretarial skills transformed my final report into a professionally prepared one.

Section I: Summary and Outline

Summary

One of the outcomes of the Fishing Industry Renewal Process was a proposition that a Newfoundland and Labrador Seafood Marketing Council would be a worthwhile initiative. This was based on the perceived need for more collaborative marketing.

Since, de facto, the processing sector is the sales and marketing arm of the industry I had assumed, very much incorrectly, there would be general support for this initiative amongst the companies comprising the sector.

Having conducted over 25 interviews with members of the processing sector I am unable to determine from whom or how this proposition arose. No one wishes to be acknowledged as having proposed it. So I found myself having to ask companies, irrespective of how the idea came about, do you feel it would be a worthwhile endeavor? I also asked the same question of myself.

The response to this question from companies was an overwhelming - no! Some companies put their response in the context that there are many important issues to be addressed in this industry and a marketing based initiative is not near the top of that list. Others, I think, were influenced by the current black cloud of mistrust that seems to hang over the industry. Many felt that the decision to have such a Council was already made and thus to express any kind of support for the idea would only enable government to feel legitimized.

As for my response to my own question, I have convinced myself there could be considerable merit in having an industry wide sales and marketing related entity and hence I have made such a recommendation. However, I emphasize the words "could be" because in making my recommendation I realize all too clearly there are a number of realities that must be understood, accepted, and gotten around by all involved before such an entity should even be created let alone have a chance to succeed.

The idea of a Newfoundland and Labrador Seafood Marketing Council is not a new one. An organization of the same name and purpose was brought into existence in the 1990's. It had marginal impact and eventually fizzled out.

When viewed against the above background, the recommendation to try and establish a similar type organization again is not an obvious one. This report will explore the matter in considerable detail and give grounds for the positions taken.

Outline

Section II begins with a brief description of what is normally meant or should be meant by the word marketing. This section also endeavors to distinguish marketing from selling since the two words were so commonly and inappropriately interchanged in most of my interviews.

Section III describes the two organizations placed before me as possible models for a similar undertaking here, namely the Alaska Seafood Marketing Institute (ASMI) and the Norwegian Seafood Export Council (NSEC). In my interviews, I found most companies were unaware of these organizations. Amongst those who did have a fair knowledge of either one or the other, there were a number of misconceptions that I have addressed.

Section IV is a summary of the interviews I had with members of the processing sector. Rather than provide a long list of the comments made to me I decided to synthesize the common threads into my own words. In so doing I may have lost some of the colorfulness with which they were delivered but hopefully that is offset by a sharper focus on their substance.

Section V is my attempt to fulfill the section of my terms of reference that required me to identify what are the key marketing challenges faced by the Newfoundland and Labrador industry. I found this to be a particularly challenging part of this assignment, for two reasons. First, when I relayed the question on to those I interviewed their answers had more to do with the industry's pressure points than with marketing challenges per se; second, it was hard to describe market challenges without describing the markets themselves which made the section longer than I would have liked; and finally, my own absence from the industry for a number of years, while an advantage overall in this assignment, worked against me in this particular section.

Section VI contains the basis for my recommendation that we try once again to have a sales and marketing related industry body (subject to the caveats laid out in Section VIII). For want of a better name I would continue to call that body the Newfoundland and Labrador Seafood Marketing Council.

Section VII outlines my suggestions regarding the mandate and key activities of that Council. It also speaks to what the Council may hope to accomplish along with my thoughts on funding and staffing issues.

Section VIII outlines three industry realities that must be recognized, the existence of which shapes my recommendations on the structure of the Council and the manner in which it might be implemented.

Section IX contains observations on some matters not covered in the above and my conclusions.

Section II: Marketing versus Selling

As I went through this assignment, I found that the word marketing had many different meanings depending on who was using it and what was being discussed. The word was used in widely varying contexts and often to describe an activity or function that it was never meant to describe. To some it is just a buzzword for advertising and promotion while others used it to refer to product information materials. The most common occurrence was the use of the words marketing and selling as if they were synonymous. I feel it necessary, therefore, to differentiate between the two, or rather, to try and see how they are supposed to be differentiated.

As any first year business school student would know, marketing in its simplest and unadorned sense occurs when one exchanges something of value for another thing of value. In our case it would most commonly be money for food. A marketer, then, is a person or organization who desires to make an exchange and a market consists of people or organizations with wants or needs to satisfy, money to spend and a willingness to spend it. In summary, markets are composed of customers and marketing is the process of satisfying customer needs and wants through an exchange process.

So far the distinction between marketing and selling is not highly contrasted. However, when you look at what constitutes a marketing program the difference starts to emerge. A marketing program consists of a product, a pricing structure, distribution systems/ channels and promotional activities. Selling, along with pricing, packaging etc. are only components of a marketing program.

Modern day marketing implies a customer first orientation throughout all the activities of an organization with the ultimate objective of achieving customer satisfaction. It is an integrated approach throughout an organization. To repeat, marketing encompasses selling. The two are not synonymous. Some basic differences may be described as:

- Selling is oriented to what is available and the organization's needs - marketing is oriented toward the customer's needs and how these can be satisfied;
- Selling is about finding a home for the product you have produced - marketing is about how to produce, deliver and communicate to a customer that your product can be relied upon to satisfy their needs;
- Selling is volume oriented - marketing is profit oriented;
- Selling focuses on the short-term, move product, etc.- marketing focuses on longer-term, relationship building, repeat business, new products, tomorrow's markets and future growth;
- Selling is about closing a purchase and sale transaction with a customer - marketing is about creating new customers and maintaining existing ones;
- Selling is about the seller-marketing is about the customer.

Marketing also involves a continuing evaluation of and sensitivity to changing market environments. In the case of our industry, this would include such things as changing concerns for the environment, evolving attitudes towards healthy eating, cultural changes in market composition, actions by our competitors, the implications of technological innovations, foreign exchange developments and so on. Assessments of ever changing market environments can lead to adjustments in or a complete restructuring of a marketing program.

The above brief (and admittedly somewhat academically oriented) discussion of marketing versus selling will undoubtedly provoke mixed reaction amongst industry participants. A valid question it might raise would be this - does marketing as described above have any relevance in an industry whose output is determined by uncontrollable natural forces and where the stages of production are not integrated? That, of course, is the key question underlying this report.

Section III: Other Models - ASMI and NSEC

Two of the more recognized seafood marketing organizations are the Alaska Seafood Marketing Institute (ASMI) and the Norwegian Seafood Export Council (NSEC).

The mandate of both of these organizations is essentially the same - to generically market and promote worldwide seafood from their respective regions. Both are export oriented but ASMI also has a major focus on the U.S. domestic market given its size. Neither organization is involved in direct selling.

Both organizations also carry out their generic marketing role in much the same way with emphasis on branding and product promotion.

Branding: This involves creating positive awareness and recognition of Norway/Alaska as the place of origin for high quality seafood. In positioning their respective brands both make extensive use of consumer appealing images - seafood from clean, cold, wild, natural, unpolluted environments, and both highlight commitments to resource sustainability.

Both also consider their generic brand to be like an umbrella brand, i.e. one that has more consumer awareness than could be obtained by any single company brand yet allows individual company brands to piggy back on its success. The Executive Director of ASMI, drawing on his former career with the U.S. Coast Guard, expressed it to me quite graphically by comparing the Alaska Seafood Brand to the icebreaker that forges the way for other ships to follow.

Both organizations have their highly visible, trademarked, brand logos that they encourage members to use for co-branding purposes.

Both are very protective of the image of their respective brands and of the family of seafood products associated with the brand. Each seeks to be proactive and quickly responsive to any publicity potentially negative to that image. NSEC, in particular, has a dedicated crisis management team, which monitors media and other sources to identify and manage industry's response to negative stories about Norwegian seafood.

Product Promotions: In alignment with their respective industry members, both ASMI and NSEC are very actively engaged in product promotions. These are structured with retail grocers, restaurants and even food service distributors each of whom benefit from increased volume movement during the promotions. ASMI/NSEC provide the point of sale materials, advertising support, in-store demos, cross branding with wine companies etc. in support of the promotion. In effect they remove from the retailer et al. a lot of the effort and cost involved in a promotion and provide the pull for the products being promoted.

Both organizations claim they have more success getting retailers et al. to conduct product promotions than would individual member firms since the latter focus on selling product which in turn leads to a focus on price. Once a product promotion has been largely structured and member companies come in behind with product for the promotion, price becomes less of a focus.

The branding and product promotions activities of both organizations are complimented by public relations activities, trade education, sponsorship of culinary events, feature articles in relevant trade magazines, trade show participation and so forth.

Market Intelligence: Both organizations collect and disseminate market intelligence to members on a regular basis covering such topics as prices, trends, competitive activity, currency movements and similar issues. Special analysis of new markets, products and opportunities are regularly conducted and distributed to members.

Both ASMI and NSEC are government legislated, independently operated, processing sector controlled, mandatory membership bodies.

ASMI has a seven person Board of Directors. Five must be from processor companies (and one of these must be from a small sized company as defined). The other two must be commercial fishers.

NSEC has an eight person Board of Directors of which at least five and invariably six are from processor companies. There is also one each from the fishers and plant workers organizations.

Both ASMI and NSEC have in place formalized internal structures and mechanisms to ensure their activities are directed by and remain relevant to their respective industry members.

The funding available to each of these organizations is considerable. NSEC has a budget in the order of \$42 million Can., coming entirely from industry, mostly from an export levy. This levy varies by product within a range of 0.2% to 0.75% of export value. In 2006 Norway's seafood export value was about \$6.6 billion Can. so the levy averaged approximately 0.6%. By comparison, the value of this province's seafood exports in 2007 was about \$670 * million. The same levy here would generate funding from industry of about \$4 million. It should be noted, however, that applying the Norwegian species levies to the province's species mix and values would result in a lower total levy of roughly \$2.2 million.

ASMI's budgets have been in the range of \$15 to \$18 million U.S. of which about half comes from industry and the balance from some combination of the two levels of governments, State and Federal. The industry portion is derived from a levy of .5% on the landed value of each company's fish purchases. In 2006 the total Alaskan seafood harvest was valued at about \$1.4 billion U.S., generating industry assessments totaling over \$7 million U.S. Again by comparison, the value of this province's seafood harvest in 2007 was about \$350* million. The same levy here would produce funding from industry of about \$1.8 million.

I thought it would be worthwhile to try and get a feel for how these organizations are perceived by the industries that they serve. Any sort of formal, widely based survey was not practical, but I did contact either personally or through associates just under a dozen Norwegian companies of various sizes and species focus to ascertain how they viewed NSEC. Based on this albeit small sample, there was a high degree of satisfaction with the work of the Council. I found it very interesting that even the companies in highly consolidated sectors of the Norwegian Seafood Industry still felt there was a need for an industry wide organization to carry out generic marketing and other sales and marketing related functions on behalf of the industry as a whole.

With regards to Alaska, I discovered that in 2004 the Alaska processors were given the opportunity to vote on whether or not to continue the industry assessment that provides the core funding for ASMI. This was essentially a vote on whether or not the organization should continue. The processors voted not only to continue but also to raise their assessment from 0.3% to its current 0.5%. In return the organizations governing structure was streamlined and the processing sector given greater control over the activities of ASMI.

I think it is relevant to note that neither of these two organizations was put in place because their respective industries felt the need to have the activities and services these two organizations now provide. ASMI was formed over 25 years ago in the aftermath of a botulism scare that devastated the Alaska salmon industry. It was a public relations effort to rebuild consumer's confidence in Alaska salmon products.

* Excludes values of offshore shrimp and surf clams and seals.

NSEC was formed in 1991 when Norway was forced to rationalize its heavily subsidized seafood industry in the face of the growing European Economic Union. Previously, Norway had a dozen or so marketing or quasi-marketing boards for different species/products which led the industry into a number of embarrassing instances of huge inventory stockpiling. NSEC was put in place to help the Norwegian industry make the painful transition to non-subsidization. There was no clear vision at the time as to what this new organization should actually do and few would have expected it to grow beyond its initial staffing of a half dozen people.

The key point here is that “yesterday’s” processing industry in both these countries did not explicitly see the need for the activities currently carried out by these two organizations but “today’s” processing industry supports (and indeed pays for) these activities stemming from the advantage of having had time to see the benefits that come from them.

Many I talked with assumed these organizations have a quality monitoring function on their members. I did not find that to be the case. Both ASMI and NSEC conveyed to me the sense that quality control issues are the domain of government regulatory departments/agencies and individual companies. When asked, “How do you prevent member companies from bringing poor quality products to market?” their response was they don’t. They feel that those who produce poor products don’t long survive, that most major buyers have common sense enough to know that one company’s poor product does not taint the whole industry and that, particularly in Europe, the retail chains are very demanding and technically capable of avoiding poor quality suppliers.

A final note in relation to NSEC - a number of people have highlighted to me that NSEC controls the issuance of seafood export licenses in Norway and by inference the number of exporters. While it is true companies cannot export without a license issued from NSEC, it is also true that NSEC issues these licences without any real restrictions. If a company applying for an export license has met all the relevant government regulatory requirements the issuance of an export license is pretty well automatic.

Section IV: The Processing Sectors Viewpoint

During the course of this assignment, I met with over twenty-five people from thirteen companies in the processing sector. The companies were both large and small and were from all regions of the Island and from Labrador.

Each company, without exception, readily agreed to meet with me, had their key people in attendance and allowed the meetings to occur uninterrupted and for whatever time was necessary. I solicited their views on issues of marketing, the marketing challenges faced by the industry, the need, if any, for a marketing Council of whatever nature, and the possible structure, governance and financing of such an organization were it to come about.

Rather than list all the comments made and points raised in these interviews I have tried to summarize below the common threads of the discussions. I hope that the people with whom I met will, upon reading this report, concur with my synopsis (for which I nonetheless take full responsibility).

By far the most common and intensely held view was that the industry is circumscribed by structural problems of which marketing or the lack thereof is by no means the one that should be given priority.

Priority should first be given to addressing issues such as: too many plants; too many fishers; lack of vertical integration; vessel size restrictions; the manner and time we catch certain species; and how raw material prices are determined, etc.

It is beyond the scope of my assignment to go into a lengthy description of these and the other structural issues raised and, in any event, the issues are well known and have been thrashed about in many forums on many occasions. Suffice to say that it is a strongly held view of the industry that these structural impediments have marginalized both our processing and harvesting sectors and have prevented the kinds of industry modernization and renewal that has and is occurring in our competitor countries.

The industry feels failure to address the structural problems above has resulted in an industry with the following features that are relevant to how it conducts sales and marketing:

- Too many companies which in turn leads to fragmented selling;
- Too few bigger companies with sufficient size to have a proper and adequately funded marketing function;
- Too many smaller companies lacking the financial ability to inventory product and lacking any in house sales capability and hence the extensive use of brokers;
- An overriding preoccupation with competition for raw material which lessens the attention on other business functions, i.e. marketing, and militates against industry cooperation in other areas, i.e. marketing;
- The fishery for some species not being conducted when the quality is best for the consumer;
- The harvesting of major species being compressed to a point where a processor's ability to preserve quality and produce the best-finished product is severely taxed, and the requirement for working capital greatly increased; and
- Fishers who would be willing to fish a longer season and/or have better on board handling equipment being effectively barred from acquiring the kind of vessels needed due to vessel size and other restrictions.

When I asked individual companies to outline their specific market challenges the response would invariably revert back to the structural problems of the industry and to the issue of fragmented selling and destructive pricing. The latter issue was mentioned by all, but opinion on the magnitude of the problem varied. Some of the companies with a large presence in a particular species felt it wasn't a significant issue. Most, if not all the smaller companies, felt it was indeed a problem

With a few notable exceptions most companies possessed only a very general awareness of the Alaskan and Norwegian seafood marketing organizations, assumed incorrectly that they were government financed and couldn't perceive their generic marketing activities to be of much tangible value to their members.

The notable exceptions were very much aware of the work of these organizations, felt that they did add a significant dimension to their respective industries, and felt there are voids in our marketing efforts that could possibly be filled by some similar type of organization here.

Every company I talked to expressed the concern that government(s) will unilaterally impose some kind of marketing initiative on the industry irrespective of the industry's views. Quite a number feared it might even be a marketing board with single desk selling etc.

Needless to say, given all the above and the general lack of enthusiasm for the notion of a Marketing Council, one could have guessed the reaction to suggestions of an industry wide levy to fund it and having harvester involvement in the governance of it were negative.

Section V: Markets and Market Challenges

The following review of markets is meant to be more qualitative than quantitative. In some instances the statistics quoted may not be the most currently available. However, I am certain that where that may be the case, the use of the more up-to-date data would not have significantly altered the wording of the market review in question nor the market challenges identified.

Shrimp

The global catch of *Pandalus Borealis* is now probably less than 430,000 metric tons (MT) of which about 270,000 MT is landed for the purpose of cooking and peeling (C&P). About half of this amount is the so-called industrial component of the frozen-at-sea shell-on offshore fisheries and thus it becomes twice frozen C&P product.

Approximately 130,000 MT is landed in a fresh state and becomes once frozen C&P

product. Canada has by far the largest share at around 100,000 MT of which approximately 65,000 MT is processed in this province.

Newfoundland and Labrador is a relatively new entrant into the world's C&P markets on a major scale. The genesis of its entry was the explosive growth of the shrimp resource here in the 1990's and Government's decision to allocate the bulk of that growth to the inshore fishery on the North East Coast. Prior to that the C&P markets were the domain of three main players - Iceland, Norway and Greenland. Canada now has about one third market share and the other three supplying countries each have a little fewer than twenty percent market share.

The consumption of C&P coldwater shrimp essentially occurs in northern European countries with the United Kingdom being by far the biggest single market at about 40% of the total world consumption. Norway, Sweden and Denmark each comprise five to ten per cent of total consumption. The European market is predominantly a retail market.

From a marketing perspective, it is interesting to note that the northern European country with the highest population, Germany, consumes barely 5% of world supply. Also, the United States with a population close to all of northern Europe, and the world's largest shrimp consumer, accounts for less than 13% of world consumption of C&P coldwater shrimp. Canada with one tenth of the US population consumes almost half the quantity the U.S. does.

The European Market – Three Quarters of the Global Market

The dominant factor for Newfoundland and Labrador companies supplying C&P shrimp to Europe has been the 20% EU tariff and the relative strength of the Canadian dollar against the currency of its key shrimp markets. Recently the volume that can be exported to the EU at the reduced tariff rate of 6% was substantially increased from 6,000 to 20,000 MT.

The UK – The Single Biggest Market

The retail "multiples" comprise about two thirds of the total C&P market in the UK. The product forms at retail are frozen consumer packs, chilled modified atmosphere packages, bulk shrimp defrosted in the fresh fish counters, sandwiches, cocktails and as a component of ready cooked meals.

The large chains have long-standing supplier relationships with C&P producers in Iceland, Norway, Greenland and the Faroese. Breaking into this established network of users/suppliers has been a formidable challenge to nascent Newfoundland & Labrador producers operating from an artificially imposed 20% cost disadvantage. In addition, these chains have very high food safety standards and specifications which supplier plants must be capable of meeting and must be fully audited and approved by the retailer or its agent. This requires significant added capital costs and adoption of rigorous operating procedures. Although all the shrimp peeling plants in this province are of recent

construction only a few were constructed from the start with this important market segment in mind. There are still plants not approved.

Sales to UK retail customers by Newfoundland and Labrador suppliers have shown a steady albeit unspectacular increase, an increase that unfortunately is not commensurate with our resource growth nor our relative size in the global coldwater shrimp industry. Those companies that have targeted this important segment and have made the requisite plant investment and have presence in the local market have reaped increases in both volume and higher returns.

Scandinavia - A Quarter of Global Consumption

A product form known as brine cured shrimp dominates the market for C&P Coldwater shrimp throughout Scandinavia. As its name suggests the product is marinated in a low Ph brine solution that gives the product about a two month shelf life. The brining process works much better with once frozen raw material and hence briners specify and buy only once frozen product.

This is a fortuitous situation for Newfoundland & Labrador processors who produce mostly once frozen product. Greenland is also predominately a once frozen producer and is therefore a major competitor country that has duty free access to the EU. Production and marketing is carried out through the state monopoly corporation, Royal Greenland, which also operates one of the largest brining plants in Europe. Royal Greenland also has a C&P shrimp plant here in Canada.

Observations: From a marketing perspective, I make the following observations with respect to the European market:

- Europe is our dominant market but it is a mature market;
- The price of C&P shrimp has been in steady decline since Newfoundland and Labrador became a significant supplier. A slight recovery occurred in 2007;
- Our main competitor countries each go to market through considerably fewer entities than we do. This is because of industry consolidation, the use of marketing consortia, and in the case of Greenland the existence of a state monopoly. Our industry goes to market with more entities and with greater use of middlemen - a situation that is exacerbated when viewed in a Canadian context because of the additional players in the Gulf. As an industry we have lacked the solidarity and conviction necessary to bring about the market impact that a major supplier normally can achieve. It could also keep us from gaining the maximum advantage from the current and anticipated weakening supply situation in our competitor countries;
- The 6% reduced tariff rate only applies to product used in the EU for further processing. A fairly detailed documentation trail is required for product to qualify. Only a few Newfoundland and Labrador producers have their own logistics capabilities inside the EU. Most sell ex-plant to their European

- middlemen and thus lose control of whose product is used for what purpose which could limit the benefits from the expanded ATRQ; and
- The pending approval by Marine Stewardship Council (MSC) of the Newfoundland & Labrador shrimp fishery could be leveraged strategically by targeting the environmentally super-sensitive retailers in Europe, particularly those in the UK.

The North American Market – Underdeveloped

▪ The United States

Americans are huge per capita shrimp consumers. However, they are predisposed towards the much larger warm water species. Coldwater C&P shrimp represents about a paltry 2% of total U.S. shrimp consumption. Most sources I have consulted contend the major market channel is at retail especially on the west coast where there is a local coldwater shrimp fishery.

Only one Newfoundland and Labrador company has made a concerted and sustained effort to enter the U.S. market with a branded product supported by a structured marketing campaign. It achieved significant volume growth at acceptable margins, but I am given to understand their allocation of product to the U.S. market has been curtailed due to exchange rate and other factors. Interestingly, the major market channel for their product was in the foodservice arena, not retail, which probably speaks to what can be done with a sustained marketing approach. In the food service sector C&P is mostly used as a component in a food serving or as an ingredient for ready meal manufacturers and tends to compete with the smaller sized warm water species.

Coldwater C&P shrimp has many significant attributes over its comparably sized warm water species. It is wild caught, in icy cold clean waters, has a natural versus an artificially induced pink color, tastes better and so forth. As with the situation in Europe, American retailers are also becoming more eco-sensitive and the pending MSC certification referenced above offers a real opportunity to differentiate our shrimp from the environmentally challenged warm water varieties. With adequate and sustained marketing support it could easily be elevated to its own category and command higher returns.

The U.S. is our most natural market in many respects, given it is duty free, transportation costs are low comparatively, overall logistics are simpler, regulatory requirements fewer and so on. It is also an underdeveloped market for coldwater shrimp as opposed to the much more mature European market.

To develop our superior product to its potential in our most natural market would require that we commit to making it happen and commit product for it to happen. We may have to be prepared to periodically forgo short term better returns in other markets due to fluctuating exchange rates and other factors.

- **Canada**

In our domestic market, consumption of coldwater C&P shrimp remains fairly static. The strongest demand is in Quebec and British Columbia, with Ontario having the weakest demand on a per capita basis. The product form is mostly IQF bags of various weights. The largest market channel is food service and within that channel it has an increasing utilization as a component in home meal replacement type products. As in the U.S. similar size warm water species are the primary competing product.

Canada too has to be considered an underdeveloped market. Increasing concerns with food safety on imported shrimp from China and other countries represents a significant, currently unexploited opportunity to advance the positioning of the product relative to its competition. The Canadian market obviously has no foreign exchange issues and in this age of currency volatility and uncertain net returns, the Canadian market presents a very attractive target for market development with a proper marketing strategy.

Crab

The world supply of snow crab is considered to be about 150,000 MT. While this comes from six countries, for the most part, Canada and Alaska have always dominated world supply with one replacing the other as the dominant supplier.

Alaska has had the more volatile supply swings. Recently its catch has been under 20,000 MT but that will increase in the current year to the 30,000 MT range. In the past Alaska has had the ability to supply almost 150,000 MT in a single season.

Currently Canada holds the top position supplying about two thirds of world consumption. Newfoundland and Labrador has been the dominant Canadian producer in the past decade or so. Recently landings have been around 50,000 MT following a peak of 62,000 MT in 1999. The Gulf region has been supplying in the order of 40,000 MT.

Sections are the dominant product form and there are essentially two customers - the United States and Japan. In the U.S. the demand trend was upward until high prices impacted consumption in 2004. Canadian snow crab has filled in the void left by the major decline of the domestic Alaska fishery. In Japan the demand trend has been downward because of general economic conditions. The Russian crab fishery, that is unregulated and currently the subject of much international scrutiny, has also negatively impacted Canadian imports.

- **United States**

In the U.S. snow crab sections are consumed at both retail and foodservice. In both market channels it is a volume mover. Foodservice customers are buffet houses with an all you can eat venue, casinos, mid priced restaurant chains and Asian cuisine eateries. At retail most snow crab sections are sold on promotion.

Supermarket chains seem to have concluded that a low margin/high volume combination works best for this product.

In both market channels, conventional wisdom, expert advice and most persuasively, history, has shown that as the wholesale price of sections approaches the \$3.75 U.S. range, the product ceases to be able to return to both retailers and the big usage restaurant chains the margin they require at an end price their customers are willing to pay.

■ **Japan**

The Japanese consume snow crab in section form and as meat primarily for the sushi market. The meat extraction is increasingly being carried out in China and other Asian countries. Snow crab sold at foodservice in Japan is generally to higher end restaurants than in the U.S. and at retail it tends to be seasonally featured. Live and frozen snow crab from the uncontrolled Russian crab fishery is highly prized in Japan and it has virtually replaced the once highly desired gas frozen sections from the Gulf.

Observations

There have been so many reports, studies, presentations, analyses and commentaries on the Newfoundland and Labrador (and Atlantic) snow crab industry that I find it difficult to word any observations of my own without plagiarizing on the wording of similar observations made by someone else. The report that I felt best captured in substance and wording the points I would have made in its absence is the Gardner Pinfold report of June, 2006 entitled Overview of the Atlantic Snow Crab Industry

The wording of the following points is largely drawn from that report:

- Newfoundland and Labrador's 35 odd processing plants (and Atlantic Canada's 80 plus processing plants) mostly produce a single product; crab sections;
- The industry relies on two markets, the U.S. and Japan and more so the former. Such high dependence on a market as narrow, commodity based and price sensitive as the U.S. leaves processors and thus all industry stakeholders in a vulnerable position;
- Industry structure creates a competitive environment that subordinates the processing and selling of crab to raw material supply pressures. Short processing periods and the resulting peak working capital requirements result in the processors need for immediate sales which is pursued in many cases through brokers/distributors some of whom prey on their cash flow pressures. All this leaves little room for individual companies to engage in market or product development;
- Newfoundland and Labrador (and Atlantic Canada by extension) should be able to exert more market power given the amount of crab it controls. While possible, it is unlikely unless the industry were to approach the market with a more united

front on product supply and pricing issues. The industry would need to behave in a less fragmented way - seeing the competition not as each other but as suppliers of substitute products and the importers/distributors who handle them; and

- Looking ahead, the major concern on the horizon for Newfoundland and Labrador (and Atlantic Canada) is likely to be a recovery of the Alaska fishery.

The observations above beg this key question- should Alaska reemerge, as is probable, a more major supplier of snow crab to the world market, how would the Newfoundland and Labrador industry be positioned against that competition? The following points are relevant:

- Newfoundland and Labrador has over **3000** vessels engaged in the crab fishery. (Atlantic Canada about 4,000). Alaska's crab fleet has been reduced through Government financed loan buy-out programs from about 280 to about **80** vessels;
- Newfoundland and Labrador has **35** crab processing plants. (Atlantic Canada over 80). Alaska has about **15**. (including mobile plants)
- Newfoundland and Labrador has **28** companies bringing crab to market (Atlantic Canada probably in excess of **55** companies). Most Alaskan crab is sold through **4** companies.
- Most Newfoundland and Labrador (and Atlantic Canada) crab suppliers go to market through intermediaries. Alaskan suppliers sell direct to end users or final stage distributors;
- The Alaskan companies supply their crab customers in both Japan and the U.S. with significant other seafood products, including other popular crab species. Few, if any, Newfoundland and Labrador (or Atlantic Canada) companies can do so to the same extent;
- Two of the four Alaskan companies are Japanese owned;
- Alaskan snow crab, as a rule, tends to have a better color than some Newfoundland and Labrador crab and it is generally 1-1.5 oz larger; and
- Alaska has an industry wide marketing organization, which promotes its snow crab under the Alaska Seafood umbrella brand and undertakes product promotion campaigns with major snow crab end users. Newfoundland and Labrador (and Atlantic Canada) has no similar marketing activities in support of its product and seems to be content having its fortunes in the market dictated solely by crab supplies.

Caplin

In recent times caplin supplies have come from three countries - Canada, Iceland and Norway. Newfoundland and Labrador is essentially the sole producer in Canada. Norway, having flooded the caplin market three years ago, hasn't had a fishery since. Currently, Newfoundland and Labrador at about 40,000 MT and Iceland at about 180,000 MT have the only significant caplin fisheries. However, Iceland's caplin, while generally preferred because of its higher fat content, is smaller in size that limits its demand in the major caplin food markets. Iceland also harvests its resource with fewer and bigger

vessels. These two factors make production into fishmeal a better economic option for Iceland leaving Newfoundland and Labrador as the main food caplin supplier.

Newfoundland and Labrador's production of female caplin in 2007 was about 15,000 MT of which about 9,000 MT went to Japan. Historically Japan was the only market for food caplin. It is still our biggest market but no longer our only market. Taiwan is now an increasingly important market and China, Thailand, Korea, Vietnam, highly populated Asian communities in North America and Russia, including some of its former republics, are now also markets.

The Japanese are very discerning buyers and their in-plant inspectors make deductions for caplin that are damaged, spawned, male, and have red feed, etc. Other markets are not as fussy in comparison and so the Japanese offer price is normally discounted by about 15% when making apples to apples comparisons with prices available in other markets. Also, specifications sometimes differ which inhibits price transparency.

In Japan (or increasingly in China) the caplin are individually hung for semi drying in a cold air process after which they are refrozen and tray packed for sale mostly in supermarkets. There are only a handful of such caplin processors and they are a very tight lipped and almost secretive group. About ten or so Japanese importing companies purchase the caplin for resale to these processors.

While currently Newfoundland and Labrador has a favorably market environment for the sale of its caplin this has not always been the case and likely will not be the case again at some future time. For quite a few years prior to about 2003 both Norway and Iceland were bigger producers of food caplin and since their seasons are before ours this was a period of little or no demand for Newfoundland and Labrador caplin. During that time period only a few processors stuck with the product. Other markets had to be sought out and developed.

Over the past number of years as market conditions improved, mostly because of supply side changes, more processors have come back into caplin production. This trend was also facilitated by the growth and steadier availability of the mackerel resource, which requires much the same processing equipment (graders, blast freezers). Currently we have about forty companies going to market with caplin.

Producers of product for Japan sell direct to the Japanese importer who normally takes delivery of the product as it is produced. However, due to costs, Japanese importers are tending toward having technicians in just the bigger volume plants. This leaves smaller processors having to sell their production to other markets. Most Newfoundland and Labrador companies go to market outside Japan through an intermediary.

Although there have been efforts in the past by individual processors to diversify product mix, little success has been achieved.

Mackerel

Mackerel is a global fish. Landings are in the millions of tonnes worldwide and because it is such a globally available fish the markets for it are global but very challenging competitively. Resource variability is also a factor. For example, in 2006, Japan, a major importer of mackerel, had a fivefold increase in its own resource and so became a net exporter.

Newfoundland and Labrador, even with its recently increased catches of around 40,000 MT, is a very minor player on the world scene. Our volumes are small and supply inconsistent, our mackerel are of inconsistent quality and subject to red feed and other types of feed. Competitor countries catch their mackerel with large vessels designed to deal with the specific quality challenges this species presents. (It is not even certain that our mackerel could be harvested with such vessels.) Also countries with large and consistent mackerel landings, i.e. Norway, are infrastructurally prepared to handle this large volume/short time span fishery.

For quite a period in Newfoundland and Labrador only a few companies carried out significant production of mackerel for export. These were mostly on the west coast where mackerel availability was more consistent. Some had their own vessels as well as being supplied by independent fishers and for the most part the harvesting and processing of mackerel was carried out in an orderly fashion. Companies carved out market niches where, when appropriately priced, the kind of product produced here could be made to work. This is mostly in Eastern Europe for applications less sensitive to feed content and a smaller amount into the more discerning Asian market. Over time less and less product had to be sold for bait.

In the past number of years however many more companies are into processing mackerel because of a combination of these factors:

- The resource has appeared in bigger quantities and with more consistency outside the west coast than was previously the case;
- Pressure from fishers to handle all catches available to them and from plant workers for more work hours;
- Crab profitability alone no longer ensures survival; and
- Investment in caplin processing equipment to take advantage of the rebound in that species worked equally well for mackerel.

In 2007 over 30 companies processed mackerel in almost fifty plants. By contrast, in 2007, three of Norway's already big pelagic producers merged into a single entity.

Unlike with caplin, there are not a dozen or so importers waiting to take delivery of the product as it is being produced. Also, a frequent lack of cold storage space creates even more pressure on processors to transfer ownership of product unto someone else as soon as possible.

The new environment as might be expected has resulted in greater quality inconsistency and more fragmented selling through a more opportunistic cadre of intermediaries.

Herring

Herring is mainly a northern European species. The big consuming countries there are supplied from European resources that are in excess of 1.5 million MT and are currently trending upwards. Canadian herring into the EU faces a 14% tariff. Our herring resource is inherently inferior to the European resource because of its size, fat content inconsistency and, at times, red feed content. Where some small market access is achieved it is generally because of price point and that becomes more difficult when supply is abundant, as is now the case. Recently unfavorable currency exchange rates have exacerbated the challenge.

There is a market for herring in some underdeveloped countries but the combination of low market price and high transportation costs make these markets generally uneconomic for Newfoundland and Labrador producers.

A relatively small amount of our herring was traditionally filleted and cured by a number of processors and sold in North America to a handful of companies that produce herring in jars etc mostly for ethnic population centers. It has been a gradually declining market. Currently, I believe there is only one company that does herring filleting on a consistent basis and one or two others who do so on order only.

The bait market on the Atlantic coast remains a major outlet for herring but the prices for bait make this a very marginal proposition.

Groundfish

There are over a dozen groundfish species currently processed in Newfoundland and Labrador. While landings of any one of these species may still be important to individual plants none any longer play the dominant role once occupied in the industry. I will make a few remarks on three species - cod, turbot and yellowtail flounder.

- **Cod** - About 17,000 MT of cod is now landed in Newfoundland and Labrador. About 60% is salted in 40 or so plants by almost the same number of companies. 10% is sold in fresh forms by about 20 companies, the largest concentration of which are a half dozen or so companies around the southwest corner of the province. The 30% processed into frozen fillets/loins is carried out by three companies, of which one is dominant.
- **Turbot** - Turbot production is now mostly either head-on or head-off for Asia, mostly Japan, Taiwan and China where markets are favorable in large part because of the reduction in supplies from Iceland and the relatively high prices for quasi competitive species such as black cod and Chilean sea bass. Currently about 25 companies produce this product, most of whom sell through one of a dozen

intermediaries. Turbot has also become an important contributor to the economics of the offshore shrimp trawlers.

- **Yellowtail Flounder** - It is the only flounder species for which there has been any significant return of quota. It is the smallest of the flounder species. If processed into frozen fillets the smaller sizes must compete with the Pacific twice frozen yellowfin sole processed in China. This is difficult to do economically and so the fresh market is a better alternative. The larger size fillets do not compete with yellowfin but with other higher priced, similar sized flatfish species mostly from Alaska.

There are potential markets in the EU given the decline of the European flatfish resources, however, a 15% tariff and nomenclature issues remain significant impediments

A possible negative development for existing North American markets could come as an indirect result of the significant reduction in the Alaska Pollock quota in 2008. This might result in a substantial increase in the directed flatfish fishery in Alaska.

Lumpfish Roe

Lumpfish roe is the raw material for caviar, the production of which is carried out by only eight or so companies in Germany and Scandinavia. Lumpfish caviar is consumed mostly around the Christmas season and France alone accounts for over half the market. It has a unique storage requirement of between -2 and + 4 degrees Celsius. There are three other major lumpfish roe producing countries: Iceland whose fishery starts the first, followed by Norway, then Greenland and finally Newfoundland and Labrador. Being the last of four suppliers works against you when there is oversupply and for you when there is undersupply.

There are about 30 processors of lumpfish roe in Newfoundland and Labrador. However, I find it most interesting that unlike any other species or product, the vast majority of these processors go to market through three of these processors. At least in one species we have a Newfoundland and Labrador marketing consortium albeit an informal one. Why this has come about for lumpfish roe and not for other species is an interesting question. No doubt there was a unique set of circumstances, but nevertheless, it shows what can be done.

Section VI: The Case for an Industry Sales and Marketing Organization

The ultimate objective of all participants in the industry must surely be to increase the economic return from our seafood resource consistent with sustainability. To achieve this objective we ought to be constantly improving and changing in all three stages of the industry - harvesting, processing, sales and marketing – in the face of changing technology, customer demands, and economic factors, none of which we control.

Clearly it would be ideal if all three stages of the industry were integrated so that, across the industry, improvements could be prioritized and synchronized. There would be greater commonality of purpose and coordinated implementation. Such is not currently the real world in our industry nor is it likely to be in the foreseeable future. (I do not say that lightheartedly.)

The lack of integration in this industry is a serious constraint to its ever being a truly customer oriented industry and to its competitiveness.

Our major competitor countries have either allowed integration to occur to varying degrees or have achieved much of the benefits of integration through other measures such as the removal of constraints of vessel size, consolidation, etc.

That being said, the issue comes down to this - are we doing the best job we can in the selling and marketing of our seafood products or can we make meaningful improvements there notwithstanding the structural inadequacies of the industry. Put another way, in the absence of addressing the structural issues in the industry that should be addressed is there nothing we can do on the sales and marketing front?

It is my judgment that, collectively, we are not selling and certainly not marketing our products as well as we could. Furthermore, I think there is potential in the sales and marketing phase for companies to bring about some reduction of the problems that flow from the unaddressed structural issues cited.

A reader of the previous section of this report would note that there are many instances in our markets where:

- We are a major supplier of a product but haven't captured the market strength that normally comes with it;
- We have a product with inherent strength that is not being sufficiently positioned and promoted in the market to gain better advantage over its competitor products and thus for our companies to gain more advantage over their competitors;
- We are too heavily dependent on brokers; and
- Simply put - there are too many of us.

Selling

On the selling side we must and can become less dependent on and more discerning of the brokers we use. There are knowledgeable, ethical brokers who work like partners with their suppliers. On the other extreme, there are brokers who are nothing short of market manipulators and not for the advantage of their Newfoundland and Labrador suppliers.

We must try to reduce the sheer number of us that go to market and not wait for industry consolidation alone to bring this about. There is no structural impediment that I am aware of that prevents processing companies in Newfoundland and Labrador from coming together and forming their own marketing consortia. It is commonplace in most of our competitor jurisdictions. Whether it is to increase the market presence of companies on the southwest corner of the province selling fresh fish into the Boston market, or to reduce the fragmented selling of crab sections into the U.S. or to enable C&P shrimp producers to have a better chance of convincing a major U.S. restaurant chain that we can supply sufficient product for it to menu our coldwater shrimp, a marketing consortium is a viable option to bring about any of these outcomes.

We must become more collaborative in how we go to market, whatever our numbers, in order to extract from these markets the returns we should reasonably expect. I think most people in the industry share this view. I can say from personal experience, in markets where we compete, people in the trade often look upon us as a fragmented group of sellers.

We do not communicate amongst ourselves extensively or intensively enough to have a more collaborative approach in how we go to market. In some species sectors it is simply impractical due to the sheer number of companies. In the absence of an industry vehicle to do this it becomes too much to expect of any one or a few companies.

Where communication does occur it is often less than productive because:

- Of a lack of trust stemming in large part from the intense competition for raw material;
- The tendency for most discussions to devolve onto the price of raw material on the wharf or the price of product in the market rather than on the market itself. This situation is exacerbated when participants are operations rather than sales personnel;
- The process is complicated by the large number of companies who use brokers and whose view of the dynamics at play in a given market is through the eyes of someone who is not personally present in the communication process and oftentimes has another agenda.

I think that much can be done to address these issues through an industry association with an active market intelligence gathering and dissemination role and with measures in place to encourage the formation of selling consortia within the processing sector.

Marketing

By in large, our industry does not understand and therefore does not appreciate the role of marketing, which is why the word is used synonymously with the word selling. For whatever reasons, valid or otherwise, there is general industry apathy towards marketing.

Marketing activities can be an important part of increasing market share and increasing net returns. As referenced in Section V, in important markets for our key species, competitors have national marketing campaigns either through their industry marketing association or a major corporation (Greenland). We now have neither.

We lack any semblance of effective marketing communication. Our industry has no common marketing theme nor have we woven together the important attributes of the products we sell and projected these to our markets in a manner that can differentiate us from our competitors. For example, in the UK, the biggest C&P market in the world, we as the biggest producer of C&P in the world ought to be telling the market and the consumer there that we are the biggest supplier, that our resource is sustainable (MSC), that it is caught near shore by smaller boats, processed in ultra modern facilities, flash frozen within minutes of cooking, only once frozen meaning sweeter, more succulent, etc., etc. I do not see that we are doing that in any kind of coordinated, concerted fashion.

Industry apathy of the importance and potential impact of meaningful marketing activities is, in my view, a reason to make a start. It is not a reason for inaction.

Those I interviewed, who had some appreciation of marketing, raised the issue of their company's financial inability to engage in any sort of significant marketing activities. In light of the "structural" apathy, if I may call it that, and the financial resources concerns, it is my view that if we wish to have our industry become more marketing oriented the initiative needs to be through an industry organization that:

- Is dedicated solely to that purpose;
- Houses the requisite skills to assist the industry in developing and executing marketing strategies; and
- Spreads the costs over the entire industry sector.

In short, I am of the opinion there is merit in having an industry organization related to its sales and marketing functions.

In the following sections I will outline what I think is the kind of organization needed, the critical factors for its success and how I think its implementation should be carried out.

I think the name "Newfoundland and Labrador Seafood Marketing Council" is as appropriate a name as any other that comes to mind.

Section VII: A Newfoundland & Labrador Seafood Marketing Council

The ultimate goal of the Newfoundland and Labrador Seafood Marketing Council should be to increase the economic value of the province's seafood resource. Initially it should have the following objectives in pursuit of that goal:

- **Collaboration** - to better enable and actively encourage Newfoundland and Labrador processors to "go to market" each season in a more coordinated manner and to better sustain that coordination throughout the production /buying season.
- **Image Development & Product Promotion** - to develop and promote the image of Newfoundland and Labrador as a supplier of seafood and to augment the marketing efforts of our companies with product promotion campaigns in selected markets.
- **Long Range Market Planning** - to facilitate and encourage industry focus on proactive longer range market planning.
- **Public Relations** - to be the industry vehicle for dealing with market relevant public relations issues as well as opportunities.

Collaboration

The main activities of the Council in support of this objective would be:

Market Intelligence - This would involve extensive market intelligence gathering and the timely and regular dissemination of this intelligence to all Council members. Market intelligence information would be gathered from:

- Sales and marketing personnel within member companies;
- Industry contacts in selected markets;
- Field agents in chosen markets who might be retained by the Council for the purpose of identifying and/or analyzing relevant market factors in that market (local laws, tariffs, customs, industry practice, etc.); and
- The ever-expanding array of information available from the Internet.

I believe that such a market intelligence function would:

- Result in a more shared appreciation of the market dynamics at play for a given species and thus the more likely formulation of a common "go to market" approach for that species before the tumult of the production season comes upon processors;
- Give processors, whether small, medium or large a common point of reference and also a person, who is not a competitor, who they can call for questions, concerns and issues that inevitably arise relating to the selling of a given species during the course of the hectic production season.

Market Consortia - I would see the Council actively encouraging companies to develop their own marketing consortia especially small and medium sized companies. The council should make available to interested parties, legal, financial and marketing organization expertise on retainer to the Council. By making such expertise available without significant cost companies may be more apt to consider and explore the merits of coming together for marketing purposes and hopefully then carry the idea through to conclusion on their own.

I feel that the combination of these activities by the Council could in the short run significantly increase the extent of collaborative marketing in the industry and, over time, lead to a greater degree of consolidation in the number of companies going to market.

I also think that by encouraging consortia formation and giving companies who sell through brokers (that is - the majority) independent intelligence as to what is happening in a given market it can only increase the likelihood of these companies:

- Exercising greater control of their brokers where this has not been the case;
- Upgrading to what I would refer to as partner type brokers; and
- Dispensing with broker selling as the so-called “normal” way to bring product to market.

Image Development and Product Promotion

I have joined these two objectives together because I think that the two should be closely coordinated and one should not get out ahead of the other, certainly in the initial stages.

In most of our markets, Newfoundland and Labrador, as a seafood supplier, needs to create, enhance or correct its image. In all our important markets we need to create an image that more powerfully conveys the positive features of Newfoundland and Labrador as a seafood source. Our clean environment, icy cold northern waters, sound management regimes, sanitary standards, etc. are all positive attributes that need to be conveyed to the markets we serve.

We need to reposition our image in the global seafood trade from a once major groundfish supplier to a major North Atlantic Shellfish producer. Our commanding position as the major supplier of both snow crab and coldwater shrimp is a powerful evoker of image. If we want to be market leaders for these species we have to act like market leaders. This requires an assertive marketing role.

Image development provides the backdrop to product promotion activity which in turn enables individual company's branded campaigns to have increased effectiveness. As a gardener the analogy of a good lawn comes to mind. While you clearly need good soil (the products), fertilizer (product promotions) enhances the soil and limestone

(image/awareness) enhances the fertilizer. We need the good soil, fertilizer and fertilizer enhancement; good products, promotions and image/awareness.

Our products must be of acceptable quality to our customer. The value of the product and the amount sold can be enhanced by the combination of company marketing efforts, product promotional campaigns and an overall strong, compelling image.

Image development and product promotions involve an array of activities which include: print and media advertising (to the extent affordable); featured articles in trade journals; sponsoring culinary events; structuring product promotions in individual retail and food-service chains as well as to full scale food service distributors; providing in-store demonstrations, point-of-sale materials and so forth.

Development of the actual image Newfoundland and Labrador wishes to portray is beyond the scope of this assignment. It will instead take some work by the Council staff together with industry.

The possibility of having a combined Newfoundland and Labrador/Canada image or incorporating Canada into the Newfoundland and Labrador image utilizing Agriculture Canada's Canada Brands Program and logo should certainly be pursued. The name "Canada" has very high and very positive recognition worldwide and if it could be woven into the overall theme of a Newfoundland and Labrador image that would be highly desirable.

Long Range Market Planning

I believe the Council could be a vehicle that assists the industry in periodically standing back from its day to day imperatives to focus on longer term market considerations. The emphasis would be on proactive planning and would involve research and analysis of perceived new market opportunities whether for new products or new geographic regions, relevant trends that may impact existing markets or open up new ones and even retrospective evaluations of the impacts of past industry sales and marketing decisions.

Public Relations

I believe the Council would need to have a two-sided public relations role. One would be to seek out and arrange industry participation in public relations events in our major markets and also to react quickly enough to take advantage of public relations opportunities that arise unexpectedly. One would think, for example, of the backlash that arose this past year to food imports from China and the missed opportunity to better our products against those of some of our competitors.

MSC certification is also an example of a positive development that can significantly impact on those who make the decisions to purchase our seafood, but only if it is communicated effectively. I am led to understand that MSC works with its respective clients to take advantage of this label where a mechanism to do so exists.

The other side of the dual public relations role would be to better prepare the industry to deal with negative publicity. I would see the Council monitoring media and other sources to identify potentially negative stories and arming its members with timely, credible, reliable information and guidance as to if, when and how industry should respond. This would clearly require close liaison with Government departments and industry associations.

Staffing

I would envisage the Council when fully operative requiring a full-time staff of four to six persons. There would be an Executive Director, an Administrative Secretary, two or three species focused Coordinators (Shrimp, Crab, Groundfish and Pelagics) and a combination of either one full-time or several part-time researchers/analysts.

When and wherever possible the Council would draw on the resources within member companies but I do not sense processors have sufficient staff to permit their secondment to the Council for any extended periods. Selective secondment from within government departments is a possibility worth exploring.

Budget and Funding

It is very difficult to say what size budget the Council would require to meaningfully carry out the mandate and activities outlined above. Obviously, the more funding, the better the job can be done. My estimate would be that once fully operational the Council would require a minimum budget in the order of \$3.6 to \$4.0 million annually to be effective. While this is small in relation to either the Alaskan or Norwegian bodies, a considerable portion of their expenditure is directed to salmon, either farmed or wild. In the case of NSEC salmon is about two thirds of their budget. The Council here would have a smaller budget but also a smaller range of products over which to apply it.

I would see this level of expenditure being funded from three sources. The core funding, comprising about half the annual budget, i.e. \$1.8 to \$2.0 million, would come from the processing sector companies. The other half would come from the provincial government and from federal government sources referenced later.

For an initial period only, as outlined in the next section, I am proposing that funding come mostly from government sources.

Section VIII: Realities, Structure, Implementation

Realities

Having defined the role and the key activities of a Newfoundland and Labrador Seafood Marketing Council I now turn to three major realities that have shaped my

recommendations on the structure of the Council and how it might be brought into existence, if at all. The realities are:

1. The Council must not be a government dominated organization.
2. The Council will not succeed as a meaningful, industry relevant organization unless the processing sector can and does take ownership of it.
3. The high degree of skepticism amongst processors as to the merits of a Seafood Marketing Council must be recognized and taken into account in any implementation plan.

No matter how well intentioned the aim, imposing a Seafood Marketing Council on an industry that, rightly or wrongly, does not want it makes no sense at all.

Processors, at the time of my interviews, certainly expressed little if any interest in such a Council. Whether upon consideration of this report and its recommendations they come to a different view, time will tell. I am proposing an implementation plan that gives them the opportunity to experience a Council for a trial period before having to make a final decision on its permanent existence. But,

If it is the wish of processors, independently given and accurately recorded, that we not go forward again with a new Seafood Marketing Council no matter what is being proposed then the matter should die.

If we are to try again to have a Seafood Marketing Council it has to be controlled and directed by the players who sell and market the seafood products it is being created to promote.

The companies that sell our seafood products must become active participants in every aspect of the Council's activities.

This did not happen in the first Seafood Market Council and that is a big part of the reason why it did not sustain itself as a vibrant, viable industry organization. The same result will occur again in the same set of circumstances.

Council Structure

In making the following recommendations as to how a Newfoundland and Labrador Seafood Marketing Council might be structured, I have leaned more toward the ASMI model because I think it is more aligned with the circumstances and industry orientation here.

Legislated Existence

- The Council would be established by an Act of the Legislature, administered by the Minister of Fisheries and Aquaculture and have its financial affairs audited by the Auditor General.

Mandatory Membership

- Membership should be mandatory for all processors with landed value above a certain administrative minimum.

Board of Directors

- The governing body would be a Board of Directors consisting of seven voting members appointed by the Minister from nominees of the fish processing and harvesting sectors.
- Five Directors would be from processor companies, of which at least two would be from small or medium sized companies. Two Directors would be fishers who are owner/operators actively engaged in fishing as their primary source of income, one each from the small and large fleet sectors.
- Directors would elect a Chairman.
- Directors would serve three year staggered terms.
- Director's remuneration would consist of meeting per diems and travel expenses.
- The Board would appoint the Executive Director and other staff as necessary.

Core Funding Assessment

- Core funding would be derived from an assessment on all members based on a percentage of the landed value of their fish purchases. Earlier, I estimated the core-funding requirement to be in the range of \$1.8 to \$2.0. This, in turn, would require an assessment rate of about 0.5%. (During the trial period a different funding arrangement would exist as outlined below.)

Sunset Provision

- The enabling legislation would contain a provision that upon a petition to the Minister by members comprising 25% or more of landed value a vote must be held on whether to continue the Council. Its continuance would require a 51% majority vote based on landed value.

Internal Administration

The Board of Directors and the Executive Director would organize the Council's activities. In my conversations with the staff of ASMI and NSEC I extracted some points related to their internal administration that may have relevance. I list these in no particular order:

- Directors from processor companies are expected to be the Heads of the companies and where that is not possible, they must be from their first reports;
- Sector committees (retail, foodservice etc.) or species committees seem to be the prime mechanisms for ensuring alignment between the Councils' and Members' interests and activities. The committees are comprised of people from within member companies. This is where the real work of these organizations gets done. Active and energetic participation is expected from those on the committees. In one of the organizations the Board itself evaluates the degree of participation and ruthlessly makes changes when necessary;
- To the extent feasible, attempt is made to correlate expenditures on a species with the revenue brought in from that species.

Implementation

I am recommending a three phase sequential approach to the implementation of the Council. This phased implementation, incorporating a three year trial period, would give the processing sector time to experience what might be achievable with a Newfoundland and Labrador Seafood Marketing Council without making a blind or burdensome financial commitment up front.

Stage One - Industry Vote on Trial Period

I am proposing that an organized, regulated vote be taken amongst all companies in the processing sector to determine if there is sufficient interest in having a Council for a trial period. A vote representing 51% or more of total landed value in favor of a trial period would be required.

Stage Two - Three Year Trial Period

A Newfoundland and Labrador Seafood Marketing Council would be established as if it were to be a permanent organization except that it would be given an initial three-year time horizon.

Stage Three -The Council Dies or Becomes Permanent

Towards the end of the three-year trial period a second vote would be taken on the same basis as the initial vote to decide if the Council is to be a permanent feature of our industry landscape or cease operations.

Funding During the Trial Period

I am proposing an interim funding arrangement for the trial period only. During the trial period, should there be one, funding for the Council should come mostly from the monies already allocated by the Department of Fisheries and Aquaculture and from funding to be obtained from federal government departments and agencies including Agriculture and Agri-Foods Canada, Atlantic Canada Opportunities Agency, and Department of Fisheries and Oceans.

In year two and three of the trial period Council members should have to contribute in total an amount of about \$250,000 per annum which would be derived from a membership fee related to company size.

Should the industry decide at the end of the trial period to make the Council permanent it would be on the basis that, thereafter, it has to provide the core funding as outlined earlier. Government sources would have to continue to provide funding of an amount approximately equal to the core funding

Section IX: Observations and Conclusion

Before the conclusion of my report I will touch on three subjects that have not fit neatly into the report thus far but on which some observations must be made. These relate to the issue of harvester representation on the Board of the Council, marketing boards versus marketing councils and the Atlantic Canada regional issue.

Harvester Representation on the Board

I have proposed a governance structure that provides for two active harvesters on the Council's Board of Directors. Intellectually and pragmatically I was comfortable in doing so.

The Council, should it come about, will only succeed in its market oriented mission if it stays above the day-to-day fray of the industry here in our own backyard. It must deal with the bigger picture, such as, our international competition, better connection to the consumer, market diversification and similar issues. I think it is appropriate that the broad direction of an organization charged with addressing these issues have the involvement of the two groups who must put capital at risk to be in the industry, that is, both processors and harvesters. It should help to bring about a more common understanding of the global challenges our industry faces as a whole and of the limitations on our ability to meet these challenges, self imposed or otherwise.

From the practical perspective, I would make two observations. First, the Executive Directors of both ASMI and NSEC were confident in saying to me they cannot recall an issue where their Board was split on processor versus harvester lines. The reason is simply because the kinds of issues these organizations are meant to deal with do not give rise to differences of opinion on that basis. Second, I just do not see it as a tenable proposition that funding for the Council will come from governments without their insistence on the Council's Board having harvester representation.

Marketing Boards vs Marketing Councils

The subject of Marketing Boards came up repeatedly throughout this assignment, including the very first day. In most instances the subject arose in the context of a fear that government was seriously considering this as one of its options for a marketing initiative. In case there is a body of support out there for the notion of a Marketing Board(s) that I failed to encounter, I felt I should express my views on the issue.

The evidence is very compelling that Marketing Boards, (as distinct from marketing councils) have not been a successful method of economic regulation in the fishing industry. They tend to be cumbersome and unresponsive to changes in consumer tastes, competitive pricing, resource availability, variations in quality and other factors affecting the supply and demand of seafood. The problems associated with the Canadian Saltfish Corporation have been well documented and owing to the Corporation's mandatory purchase obligation were centered on inconsistent quality, poor market access and timing issues. The result was substantial losses that were financed by governments.

A Marketing Board by its very nature does not allow differences in quality of raw material or finished product to be adequately rewarded or punished. Without a direct contact to buyers or consumers, producers become disconnected from their needs. A needed change in product specification or packaging becomes a bureaucratic exercise rather than a nimble response to market demand.

As I mentioned earlier in this report, the current Norwegian Seafood Export Council replaced a dozen or so marketing boards or quasi marketing boards that led Norway into some very embarrassing and costly inventory fiascos. Then and even more so now, the inevitable requirement for government money to solve the problems such boards create leads to international trade actions and countervail.

The Atlantic Region

One of the matters that nagged me as I worked through this assignment was the geographical feature, that is, that our two principal, most valued species are also present in the Atlantic Region, not just our province. One can only dream of the huge added dimension that would come from a fully integrated "Atlantic Canada" sales and marketing campaign for these two species. The funds available to do the job would be significantly increased at the same time as our market strength was being ratcheted up considerably.

The reality, as opposed to the dream, is that if establishing a Newfoundland and Labrador Seafood Marketing Council is a challenge then establishing an Atlantic Canada Seafood Marketing Council is a Herculean task for sure. Nonetheless in time anything is possible. We can best help to bring something like this about by first getting our own act together here in this province. If then in three years time we have a vibrant Council making good headway the door should always be opened to expanding the Council beyond our provincial confines.

Again, as I referenced earlier in this report, incorporating “Canada” into the Brand image the Council will have to develop would likely facilitate blending in to that brand other parts of Atlantic Canada.

Conclusions

As I went through this assignment and became more up to date on what has been occurring in the seafood industry in our competitor countries, the more obvious became the need for change here in Newfoundland and Labrador.

I am proposing that we try and re-establish a Newfoundland and Labrador Seafood Marketing Council. I am all too aware that this is what I would term a sub-optimal initiative. It will not take us a quantum leap forward in terms of improved industry efficiency or make us truly market driven and so forth.

Nonetheless, I do believe it could be a very worthwhile or even necessary undertaking if we are to keep our position in some markets from eroding in the face of our increasingly leaner competition.

I have proposed a Council structure and an implementation plan that I believe takes into account the principal concerns I heard from the processing sector (or, more aptly, the selling and marketing sector). If the recommendations in this report are accepted:

- Nothing will be imposed on the processing sector;
- Processors (i.e. sellers) will have control of the Council;
- The Council will have a built in mechanism for its removal should it become irrelevant; and
- The Council is proposed initially on the basis of a kind of trial free period.

As is always the case there are trade-offs. Processors must now wrestle with whether they want such an organization and, more importantly, with whether they are prepared to commit to that organization the time, effort, and finances needed to make it a success. It is for certain that the Council can only be as good as their commitment to it.

In optimistic anticipation of the recommendations in this report being accepted and of the processing sector wanting to go forward with the establishment of a Newfoundland and Labrador Seafood Marketing Council I will close my report with a few words on two matters that will be so very important to making that Council successful.

The Executive Director

Obviously, selecting a good leader is important for the success of any organization. Given the milieu in which this council will come into existence, selecting the right first leader, takes on an added importance. If at all possible, it should be someone from within the industry with widely recognized experience in sales and marketing. The person would need to be mature, even-tempered, communicative, well respected on a personal level, energetic and capable of keeping a diverse group of people on a defined course in the face of probable constant distraction.

I offer the following observation from my own knowledge of the industry. There are many who might wish to be candidates for this position but there are few who are right for the position. It is critically important that the founding leadership of the Council not be deterred from going after the best possible candidate.

Competing Objectives

The Council has to be allowed to concentrate solely on that which it is being created to do - enhance the selling and marketing of the province's seafood products. It should not be brought into other activities that will only distract it from its mission. It must not be used by processors or harvesters to achieve purposes for which it is not intended. I would strongly suggest that, although there may be cost savings forfeited, the Council offices not be located within either of the existing industry association offices.

I thank the Department of Fisheries and Aquaculture for giving me the opportunity to take on this assignment and I thank everyone with whom I came in contact for the cooperation that was unfailingly given to me.

Appendices

Extract – Terms of Reference

The Seafood Marketing Review Panel will be comprised of representatives from the processing and harvesting sectors and government. Members of the panel will act in an advisory capacity to the Chairperson on a voluntary, non-remunerative basis. The Chairperson shall undertake and complete a comprehensive analysis of the options for establishing an umbrella seafood marketing organization including the identification of key marketing challenges facing the Newfoundland and Labrador seafood industry and approaches for addressing these challenges.

To complete this work, the Chairperson will have to review the input received by Government through the Fishing Industry Renewal of consultation process, conduct additional consults with key industry players as required and review and analyze similar organizations in other jurisdictions such as the Alaska Seafood Marketing Institute and the Norwegian Seafood Export Council.

The primary areas to be addressed in this study include:

- a) Identification of the key marketing challenges faced by the NL fishing industry (excluding aquaculture);
- b) Consideration of ways a seafood marketing organization could help address such challenges
- c) Development of options for the establishment and administration of a seafood marketing organization including structure, mandate, membership, costs, etc. and identification of the recommended option, taking into account the potential for success in facilitating collaboration marketing, and cost effectiveness;
- d) Identification and prioritization of the key areas the marketing organization should focus on; and
- e) Review of options and mechanisms to secure participation (including funding) by industry, the federal government and other stakeholders and a recommended approach to move forward.