British Columbia

Seafood Sector and Tidal Water Recreational Fishing:

A Strengths, Weaknesses, Opportunities, and Threats Assessment

Seafood Market Survey

Prepared for:

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Victoria, BC

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Preface

The BC Ministry of Agriculture, Food and Fisheries retained GSGislason & Associates Ltd. to conduct a business planning SWOT (strength-weaknesses-opportunities-threats) study of the BC seafood industry. This survey report on broad seafood market trends and issues is a background document to the SWOT study.

The seafood business interviews were conducted by Dr. Jim Anderson, Dr. Gunnar Knapp, Garnet Jones, Eric van Soeren, and Ruth Salmon. The consultants appreciate the cooperation of the seafood buyers. GSGislason & Associates Ltd. has final responsibility for the content and analysis of the report.

INTRODUCTION

A team of consultants interviewed 18 seafood producers, processors, marketers, brokers, and distributors from outside the province to identify broad trends and issues in world seafood markets. Interviews were conducted from May to August 2003.

The companies interviewed both source and sell seafood around the world including North America, Europe, Japan, China and other Asian countries. The companies sell seafood from both wild (capture) and aquaculture sources, and sell to distributors, food service (restaurant) and retail establishments. Several companies, so called broadliners, sell a variety of poultry and other proteins as well as seafood. The annual sales or turnover of the companies exceeds $20 billion US.

The results of the interviews are presented under 12 headings – 10 headings addressing General Seafood Business Topics and 2 headings addressing the Position of the BC Seafood Sector. The intent is to convey the flavour and diversity of views on seafood markets. The consultants do not necessarily endorse the views presented.

Exhibit 1: List of Interviews in Seafood Market Survey

Company Name	Business Description	Geographic Markets
1. Ahold USA (Stop & Shop, Giant, Bi-Lo, Tops, Peapod)	Food retailer buying seafood from North America & Chile / fish purchasing HQ in Quincy MASS	US
2. Bornstein Seafood	Seafood specialty distributor & processor / HQ in Bellingham, WA	US Pacific Northwest primarily
3. Century Pacific Greenhouses*	Greenhouse vegetable producer & marketer / Delta, BC	North America
4. Darden Restaurants (Red Lobster, Olive Garden, etc.)	National seafood restaurant chain / HQ in Orlando, FL	US
5. Endeavour Seafood	Seafood importer, wholesaler & distributor with supply from SE Asia & Russia / HQ in Newport, RI	US
6. Gordon Food Service	Regional broadline distributor	Michigan & Ontario
7. Heritage Salmon	Farmed salmon producer and marketer of North America & Chile product / HQ in New Brunswick	North America
8. Icelandic Seafoods USA	Seafood specialty distributor & importer sourcing seafood from Iceland & other countries / Maryland	US, Europe
9. John Nagle	Seafood broker selling mainly fresh product sourced from US, Canada, Norway, Iceland, Scotland & Chile to wholesale distributors / Boston, MASS	US
10. Norquest Seafoods	Processor with fixed & floating plants in Alaska that handles salmon, herring, halibut and crab / Seattle, WA	US, Japan, Europe
11. Nicherei Corporation	Japanese importer, processor & distributor / Tokyo	Japan
12. Ocean Impex	Chinese reprocessor of frozen raw material from around the North Pacific	North America, Europe
13. Slade Gorton	Seafood specialty distributor & processor / HQ in Boston, MASS	US East Coast primarily
14. SYSCO	National broadline distributor & US leader in food service / HQ in Houston, TX	US
15. Unisea Corporation	Alaska processor of surimi, crab & salmon / Seattle, WA (owned by Nippon-Suisan in Japan)	US, Japan, Europe
16. Unnamed Company	Fish processing & marketing company / Central Canada	Canada
17. Unnamed Company	National broadline distributor/based in Maryland with over 100 distribution centres	US
18. Unnamed Company	Chinese reprocessor of frozen raw material from around the world	North America, Europe, China

** Non-seafood company with knowledge of food distribution trends and technology for fresh products.*

SECTION A: GENERAL SEAFOOD BUSINESS TOPICS

1. ***What are the important trends in demographic and consumer tastes that are affecting seafood markets?***

   - More people eating out
   - Nutrition especially in the younger generation. Seafood is well placed to compete with beef, pork, poultry
   - Asian influence, baby boomers, the ageing of the population, more health-oriented
   - More convenience items because of working families
   - Ethnic market growth, head-on shrimp, roe-on-scallops, head-on fish. Asian and Hispanic markets are now coming to the attention of mainstream distributors. There are also some regional preferences for species e.g. shrimp and salmon
   - Increasingly value-added products such as fillets, portion control and vac-packs
   - Targeting the ethnic community such as Hispanics
   - In Japan the older people prefer fish to meat. But the younger generation tends to dislike fish because it is too complicated to prepare – many young wives don't want to cook or want food that is easy to prepare and cook
   - Customer wants easy preparation, wholesome healthy selection
   - There has been a change in seafood preparation - consumption of breaded items is less than half of what it was 10-15 years ago
   - More people are eating shrimp and other exotic species
   - The younger generation is much more health-conscious. This helps seafood as seafood is seen as a healthy product
   - More Japanese are buying finished dishes at retail for home consumption
   - Halibut, both wild and farmed, is showing huge market growth in the east coast of the US

2. ***What has been the effect of structural changes and/or consolidation in retail & distribution sectors on seafood markets?***

   - Competition is for centre-of-the-plate with the biggest pressure coming from groups like Tyson's who can supply a range of products
   - The relative strength and control of large distributors has increased – they are squeezing margins. They are doing their own branding
   - The continued retail consolidation in all developed nation markets is a huge force affecting seafood markets. The giant Walmarts, Costcos, Safeways and Daies are putting tremendous deflationary pressures on seafood – they want better quality fish at a cheaper price next year
   - Increased competition for centre-of-the-plate from diversified protein distributors
   - A number of larger accounts use a bidding system – they "qualify" major suppliers and then solicit bids for specified items. But wild salmon suppliers, except for canned, can't participate because they can't assure supply
   - Consolidation will continue. Consolidation helps create efficiencies. Consolidation improves consistency in supply, price, and quality

- There has been increased private label i.e. retail brands appear to be growing. Consolidation at retail and distribution is also causing some consolidation at the production level
- From a food service perspective, there is some consolidation in the supply side – but the larger companies such as Trident and FPI can't drive the market as the little guys are aggressive and will maintain a piece of the business
- Large distributors are penetrating further into the supply chain (going to the source)
- Outlets like Safeway and Costco are getting aggressive in campaign for private labels – in many cases they will only agree to a supplier if they can put the product in the stores' private label packaging
- As a large buyer, sometimes it is better to spread the volume around to many small players and leverage guys against each other. Too much volume from one guy may actually result in a higher price
- From the distributor's standpoint, the competitors are fewer and more specific. This results in a narrower focus
- The big accounts prefer to deal with a few large year-round suppliers rather than many seasonal suppliers. They also demand good projections about product availability and price. This brings greater certainty
- Food services are consolidating under buying groups who are passing the costs back to suppliers
- Consolidation in retailing is happening very rapidly in Europe right now
- Retailers are dictating what types and pricing of products are acceptable. They set a price point and challenge us to produce a product that fits that price point. Costco does this very effectively

3. *What are the trends, issues, and opportunities re: "branding" of seafood products?*

- It's difficult to brand a fresh product – most brands are packaged goods
- The product must actually match the image the brand is trying to convey. You can't develop a brand without consistent supply and quality
- One area where branding hasn't changed one iota is in the fresh seafood case
- Branding in canned salmon hasn't seemed to save anyone
- Fewer branded seafood items than before
- Brands are becoming less important with the younger generation. They have no real brand loyalty – it's all about them
- It is tougher to develop a producer's brand due to the increase in private label brands
- The Internet is a threat to branded seafood. A distributor can get in direct contact with farmers and harvesters to supply their brand
- Branding can be a real benefit if linked with consistency and strong product identification
- Huge opportunity and strong growth opportunity for private label branding – helps create captive markets
- Branding is everything now, especially in lean times. Consumers buy familiar brands during lean times
- Many of our divisions have their own frozen brands – we are trying to consolidate under one corporate brand

- Better quality results from the owner of the brand having their name associated. Also results in better continuity of supply
- Distributors don't care about branding – they are looking for price, quality and service. But customers do care as they have a perception or vision as to what a good quality product is. BC's well-situated and known for its good clean water and quality products
- Some large companies such as Castle and Cook and Tyson's have been unsuccessful at branding fish. The customer at the seafood counter either likes or doesn't like the look of the fish and makes their purchase decision regardless of the brand
- If we have finished products that consumers can buy at stores, then we can brand. But if we are only handling raw material that somebody up the chain is changing its form or package or whatever then we don't brand. We have good brand recognition but buyers won't pay a premium for it – but it will sell first and shorten our inventory turnover period
- Retailers increasingly are identifying the species and origin of salmon in their packaging or in the seafood case

4. ***What are the trends regarding reprocessing of frozen fish in China and elsewhere? What is the acceptability of previously frozen seafood as a source of raw material for value-added products?***

- It is surprising how many directions fish are going. Herring from Alaska goes to China, they pop the roe, the flesh stays in China, the roe goes to Japan, then placed in final gift pack in Japan
- The Russians catch fish, H&G it, send it to China where it is filleted
- Because of the huge differential in labour cost, you can't compete. The only reason the Alaskan Pollock industry is competitive against China is because machinery exists to take it from round to finished fillet or surimi on the boat
- Previously frozen is fairly highly regarded, but fresh still has the advantage
- This reprocessing in Third World countries is undercutting the market price. For example, the half-pound pound can of pink salmon from Asia typically sells for 30% less than the North American product. But the fact that the product exists starts sucking down the price of the higher quality product – buyers are confused. They don't understand why you want more for your product
- Acceptability of twice frozen product is growing. Quality of raw materials is key
- Our company has built a vibrant business on reprocessed/twice frozen products. High quality/value priced items drive the business
- Reprocessed fish supply from China is increasing for certain commodity items. But quality issues may slow growth. The product is acceptable
- Demand for "refresh" product – frozen whole haddock, FAS Alaskan cod
- High wage countries can't do twice frozen
- Quality and workmanship has improved in China and is now quite good
- There are three types of frozen products: 1) FAS 2) land frozen and 3) double frozen, traditionally the lowest grade. But in some cases the twice frozen is getting to be as good as the land-frozen. FAS is different because the fish is processed before rigor mortis. If you are coating the fish, you can't really tell the difference between double frozen and land frozen. If you are baking or broiling, the single frozen has the advantage

- Acceptability depends on the region. In New England you can not get a twice-frozen cod in the supermarket case – but down south, consumers are less knowledgeable, they don't notice the difference, and find it acceptable
- There is an increasing trend to North American-caught fish being processed in China and then re-exported back to North America
- The two trends are value-adding at sea and reprocessing in low-wage countries – more freezer trawlers are filleting on board
- For some products using frozen raw material is acceptable. For example, a reprocessor may be able to cut a frozen fillet into portions. But in other situations, they would have to fully thaw the product, reprocess, and then refreeze. This could be a disadvantage
- More retailers are accepting "refresh" – this started with the decline of Atlantic cod. People started using previously frozen Pacific cod
- This is a growing trend, the products are very acceptable. It's the same product just processed at lower labour costs
- Reprocessing in China is expanding. Twice frozen is more and more acceptable, and in some cases becoming the standard
- Fully acceptable, sold as "twice frozen" at a discount. Salmon, tuna, swordship, groundfish brought to China for value-adding. Excellent workmanship, good quality. A large portion of the market seems indifferent
- There are problems with traceability of product processed in China eg. antibiotics
- Almost all fish coming into Japan is frozen. Japan has sophisticated freezing and defrosting technology that allows Japanese seafood processors to produce very high quality products for the domestic market

5. *What are the seafood market trends re: product development and new products?*

- More heat and serve items in both retail and food service, e.g., crab cakes, salmon burgers
- Asian influence and healthy preparations
- More value-added, greater variety, more daring presentations
- This is the weakest part of the seafood industry – no real good creative R&D. Need to develop more marketable ideas using underutilised species
- In fresh, seeing a lot more pre-packaged marinated tray pack items (e.g. teriyaki salmon) and fish with different toppings. Consumers seem to like them. One problem is price – many are too expensive
- Increasingly seeing different preparations of the same species
- New product forms that will appeal to shoppers looking for quick ready-made meals
- We are not very imaginative in ways to use the fish
- Because the product is best in its fresh, unprocessed state, the biggest source of value adding is actually in the packaging and presentation, not in the processing
- We need more product development – there is a limit to how often you can eat salmon and tilapia in the same way. But it costs money to run a good product development program
- You can do many more things with chicken than fish because of the different cell structure
- Halibut is showing huge growth both wild and farmed. Also selling more local cod and haddock. There seems to be demand for quality fresh "whitefish"

- There is a trend away from highly battered and highly breaded seafood products
- There is no reason why you can't do boneless, portioned skinless salmon products at the point of primary processing if you have the quality raw material to work with
- We must develop boneless products for the younger generation in Japan
- Farmed cod, halibut, and blackcod could do well in Japan

6. ***What do you see as important trends or issues affecting seafood markets under the following headings:***

❒ ***Tariff & non-tariff trade barriers, trade liberalisation***

- There are high tariffs on value-added products in Japan and Europe
- There are a lot of trade barriers in Russia and China. Russians are big pink salmon eaters – but they have huge tariffs. If you import fish to China, reprocess it and export it, there is no tariff. But if you keep it in China, they have to pay 30 or 40%
- Trade barriers have affected catfish prices. Pond bank prices for catfish have gone sky high due to the basa issue
- There is increasing section 201 actions in the US
- Tariffs themselves are not going up. But non-tariff barriers are growing as a replacement
- There will be pressure for European retailers and processors to bring the tariff barriers down. Europe is dependent on seafood coming from outside the EU
- Japan has a variety of input tariffs ranging from 3 to 10% of CIF value to protect the domestic fishing industry

❒ ***Bioterrorism prevention measures***

[*Note: The proposed 24 hour advance notification period has since been revised to 2 hrs (road), 4 hrs (air or rail), and 8 hrs (water).]*

- The 24 hour notice period will screw up fresh business and sales
- Bioterrorism measures have affected salmon distribution greatly. Air shipments are being disrupted
- Bioterrorism measures are slowing shipments down, causing people to use better packaging (i.e. tamper resistant tape) – Customs is now inspecting entire ships vs. random containers before
- The paperwork and time delays as a result of new measures are very costly – but this is necessary
- Anybody in the fresh business is going to have a lot of trouble with the 24 hour notice requirement under the bioterrorism-prevention measures
- Bioterrorism measures are not a big issue in Japan

❒ ***Food safety, labeling, traceability***

- Traceability adds more costs but I don't see anybody advantaged or disadvantaged
- A lot of buyers are inspecting your fish plants for traceability and other in-plant procedures. For example, anybody who sells to Unilever has to submit to a quality audit
- All developed nations are demanding more in items of food safety

- Traceability is a security issue – if you have a problem and can't trace it, how do you get it out of the system or recall it?
- The driving issues are resource management, the environment and labeling. Regulations surrounding these issues are resulting in greater restrictions and costs
- Traceability is necessary to track freshness
- Everything that enhances food safety and traceability is a positive thing
- There is more and more demand for labeling, and traceability
- Food safety adds costs but it is positive for industry
- Food safety, labeling, traceability is a huge issue. The industry is unregulated and too much fraud occurs. The playing field needs to be leveled
- After mad cow, traceability is a very big issue. The pressure is on to be able to trace a product back to its source, not just the plant, but back to an individual vessel or farm and specific locations of harvest
- Traceability is moving up the list to become a top priority of retailers and reprocessors – there is more pressure to have complete traceability from where and when it was caught, where and when it was processed and so on
- Mercury is an emerging issue in wild-caught fish
- Sorbitol is one of the main ingredients in surimi – it's a corn syrup base. We're getting customers who want traceability on the raw materials going into the soribtol because of GMO concerns.

❒ ***Ecolabelling, organics, MSC certification***

- The first few companies that go through MSC will have a competitive advantage. But at the end of the cycle, everyone will have done it – and everyone is paying more and everyone is equal
- Ecolabelling is important but it should be addressed objectively by UN or FAO, not NGOs
- Our business has been affected by chef's organisations pushing sustainable fishing and conservation e.g. swordfish and farmed salmon
- Ecolabelling, organics, MSC is not important to food service – only to consumers who value it
- Ecolabelling etc. is less important for the foodservice sector
- Organics seem to be gaining some mainstream growth at retail
- Ecolabelling is here to stay. In some countries where the consumer does not trust the government on health & safety issues, ecolabelling is seen as a replacement
- Most of our major customers in both Europe and US are sending their QC people up to our plant at least once a year to do a QC audit
- Companies like McDonalds are very image and environmental-conscious these days. Now they will only buy beef and poultry that does not use antibiotics
- The largest seafood processor in Germany – Frozen Foods International owned by Unilever – will only buy products from sustainable sources starting in 2005

7. ***What are the supply trends from Russia, China, Taiwan and Indonesia into North American, EU and Japanese markets?***

- There is increasing supply from Asia
- Russia has fishery management issues. But continued growth expected out of Asia and South America
- Demand for Chinese product is growing
- These countries have a labour cost advantage. Aside from shrimp, we believe Chinese finfish still suffers from quality concerns (off-flavour)
- We have spent a lot of money implementing a traceability system that starts with the farm site and follows through to our product shipments leaving the plant. Traceability is becoming a "must-have" for seafood companies, but it adds costs which we can't pass through to our customer

8. ***What effect do you see the 2002 US Farm Bill having? (the Bill requires US retailers to label country of origin or COOL on seafood, meat and produce, and to label whether the food is wild or farm-raised).***

- COOL will add costs to those selling to the retail sector, little impact to those selling to foodservice
- The Farm Bill may be positive for Canada as we are seen as a good quality supplier
- This was pushed by the catfish and salmon people
- There has been a lot of confusion in the marketplace. Who knows what they were buying?
- Need better control, keep lots separate, different labels
- This is not a big deal for restaurants
- It will add significant administrative costs
- You could have two outcomes: 1) you won't have as many imported products because consumers will focus on buying US products, or 2) consumers will gain confidence in imported products and become selective as to what imports they purchase
- COOL will be a huge cost to the consumer with little, if any, benefit to them
- Will be a nightmare for fresh fish cases. Supermarkets may have two different countries of origin for swordfish in the case at the same time - they will need different labels
- COOL labeling is problematic for the retail industry – difficult to administer as you need to keep lots separate and have different labels. Is the consumer better off seeing a label such as "caught in Alaska – processed in China – sold in Maryland"?

9. ***Can you comment on the specific attributes of wild vs. farmed products that your customers value? e.g. price, quality, safety/traceability etc.***

- Americans weren't that big salmon eaters. Farmed salmon developed new markets for all salmon
- Negative press on farmed salmon may hurt all salmon
- But we are beginning to see some differentiation between wild and farmed. Farmed salmon is the big guy, especially in the fresh markets – we have to see ourselves as a niche market
- Farmed salmon has more consistency in terms of quality and price – customers tend not to differentiate between farmed and wild

- Some customers definitely value wild-caught fish but most don't have a clue what they are eating
- We are very concerned about the effect of media on seafood purchase decisions. A buyer who has purchased farmed salmon – happily – for years comes in with a newspaper and says he thinks he'll have to start buying wild instead
- Farmed has the advantage re consistency and good quality – prices are generally higher for farmed. Farmed also has advantages in safety, traceability, and continuity of supply
- Romance of wild sells in some areas, value of farmed sells in other areas. Troll-caught kings or Copper River may play to high end users. Some wild items suffer from poor reputations, e.g., wild pink salmon. Farmed in general offers the best mix of value and quality
- Customers are driven by price/quality/value rather than farmed vs. wild. Food safety is a given in either case
- Consistency of quality is key – you can count on farmed salmon
- Processors and consumers value consistency of farmed products as well as competitive pricing
- Wild fish consistency supplied and of consistent quality out-competes farmed
- Wild has inconsistent price, difficulty in tracing. Farmed has consistent price, quality, safety/traceability
- Farmed is consistently available. Stable pricing plays a big role in driving volume. Quality is consistent for farmed
- If the wild producer attacks the farmed producer, it will affect his sales as well. The consumer is just going to receive the message that it is bad to eat fish and bad to eat salmon
- Wild shouldn't attack farmed. Think of beef, Angus Beef, it has a brand image. If there was a beef scare it would affect both Angus and everything else. You have to try to keep your identity but you don't want to attack the species
- You cannot mix farmed and wild – if you do then you lose the identity of the wild
- The negative PR on farmed salmon has definitely moved some customers back to wild

10. *What do you see as the key competitive factors, trends, and issues of the seafood business in general versus those of red/white meat/poultry, soy and other protein products?*

- Seafood is light and healthy. Price generally hurts seafood
- There is an unexploited opportunity to message that seafood is healthy. But we have to be careful that pollution and overfishing don't tarnish this potential advantage
- Health is a plus for seafood – fish is light and people can eat without feeling full as opposed to beef
- Health factors such as Omega 3 is an advantage for seafood. But lack of preparation knowledge negatively affects seafood sales
- Health benefits, Omega 3, nutrition are advantages. Since seafood is still primarily a hunted species, it is difficult to predict supply – this results in market fluctuations relative to beef. There is a lack of hedging opportunities in seafood
- Variety is a strength of seafood. The key competitive factors are price, quality, and continuity of supply

- Seafood has an advantage over other protein products in nutrition, especially if marketed properly, but advertising is important as most customers are not necessarily aware of the health benefits
- Fish is healthy – you can point out the longer life expectancy in Iceland and Japan, countries with a high proportion of fish in their diet
- Popularity of Atkins diet a positive to seafood
- Our major and perhaps only advantage is the health issue – seafood is always going to be higher in price than the other protein sources that you have
- The message of health and nutrition is likely to expand demand for seafood. We also must develop boneless fish products for the younger generation. And traceability will be important
- Have to be careful that pollution and overfishing do not tarnish the health advantage of seafood

SECTION B: THE POSITION OF THE BC SEAFOOD SECTOR

11. *What is the reputation of the BC product in the marketplace against its main competitors – price, quality, safety etc.? Who are these main competitors?*

- BC has good reputation but there is little awareness of BC – most product is sold/ promoted as West Coast, rather than BC. The term "West Coast" has more imagery and recognition
- For wild product, BC competes with Alaska – the prices and quality are similar except for herring roe. Canadian roe is valued higher, due to shape, colour etc, and due to Canadian fisheries management system
- BC salmon has a very good reputation. Alaska and ASMI are the main competitors
- We look at the Pacific Northwest as all the same. We had no idea BC was trying to niche their products – the key factors are quality and cost
- Alaska remains far and away the leader in terms of market recognition. There are about four primary origins of salmon in no particular order – Alaska, Norway, Chile and Canada. BC gets lumped into the broader Canadian category. Nothing makes BC stand out
- Purchased one shipment of wild BC salmon for reprocessing several years back. Bad experience. Product quality was poor. Would require effort to rebuild confidence
- From a reprocessor's perspective, BC product has no particular advantage over salmon from around the North Pacific (Alaska, Russia). The BC product must compete on price
- Alaska is main competitor - relative to Alaska, BC salmon is fine but BC halibut and groundfish is inferior. Perception of fish quality could be better
- Fisheries management is good
- BC quality is inconsistent
- BC stacks up pretty well vs. competitors from Alaska, Chile, and Atlantic Canada. BC has a distribution advantage over Alaska
- Here in the East Coast we know very little about BC and their seafood industry
- BC has such a non-presence. You never think of British Columbia when you think of seafood. The only information you see in the press is all negative because there has been so much environmental reporting about the BC salmon farms

12. ***What could the BC seafood sector do or change to better meet your needs and to expand your business?***

- BC needs to develop marketing strategies and communicate and support these more effectively. The East Coast doesn't know anything about BC seafood
- Do anything to make people aware of what you have to offer
- Provide better information, marketing support. Help get product to market like ASMI. ASMI invests heavily in marketing support
- Sell cheaper product for reprocessing
- BC should stop telling us what to buy – rather they should listen to what our needs are, and then meet those needs
- Need more marketing money
- Distribution needs to be improved. Customer service should be more aggressive
- Provide existing products at lower prices, better quality and/or more consistency
- Produce more steak products, wild & farmed
- Improve the quality – poor packaging in the summer is a major complaint. We have an in-house quality control program – we test all incoming product. Must arrive less than 40 degrees F temperature – would prefer 38 degrees – often it arrives and it's 46 degrees