

# Economic Performance of the Capture Fishery in NL

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# MOU Report, 2011



## ▶ Deloitte re harvesting:

“between one-third and two-thirds of the fish harvesting operations currently operating in NL are viable, depending on the viability measure employed”

## ▶ Grant Thornton re processing:

“The profitability level is not sufficient for the NL processing sector on average to make secure capital investments and achieve long-term viability.”

➔ The industry is in crisis

➔ The problems are of our own making – based on choices we have made

# Harvesting – Low ROI



## DFO COSTS AND EARNINGS SURVEY, 2004 NL CRAB & SHRIMP FLEETS

	CRAB, VESSEL LENGTH				Total/Avg	SHRIMP 35'-64'
	<25'	25'-34'	Crab	35'-64' Crab & Shrimp		
<b>NO. ENTERPRISES</b>	600	1,574	651	279	3,104	61
<b>AVG. CREW SIZE</b>	2	3	5	6	3.5	5
<b>EFFORT</b>						
Days fished	51	56	51	59	54.3	56
<b>REVENUE</b>						
All fisheries, \$	32,339	52,911	227,109	539,564	129,211	340,141
Crab, \$	28,656	37,894	174,553	322,122	90,317	
Shrimp, \$						286,651
<b>NET INCOME</b>	9,730	11,198	43,132	113,722	26,827	50,916
Per Day Fished	191	200	846	1,927	494	909
% of Revenue	30.1	21.2	19.0	21.1	20.8	15.0

# FPI – “Walking Wounded”



	2000	2001	2002	2003	2004	2005
<b>INCOME STATEMENT, \$000</b>						
Sales	723,153	703,115	720,079	758,943	800,401	833,661
Net Income	13,553	(1,007)	13,771	1,661	4,440	(10,478)
<b>BALANCE SHEET, \$000</b>						
Total Assets	327,407	349,544	390,885	410,518	465,459	538,230
Shareholders' Equity	193,949	193,051	200,958	185,250	184,837	169,082
<b>RETURN ON INVESTMENT</b>						
Return on Equity, %	6.99	(0.52)	6.85	0.90	2.40	(6.20)
Bank Prime Rate, Avg %	7.27	5.81	4.21	4.69	4.00	4.42

# Highliner Foods Stock Price



- ▶ SeafoodSource.com, September 17, 2012
  - ◆ “the report discusses Norway’s opportunities for value creation based on marine resources and paints a promising picture of the future prospects for Norway as a marine nation.”
  - ◆ “It estimates that marine value creation has the potential for a six-fold increase by 2050.”
  - ◆ **“All this makes a very pleasant change from the messages of doom and gloom emanating from other countries.”**

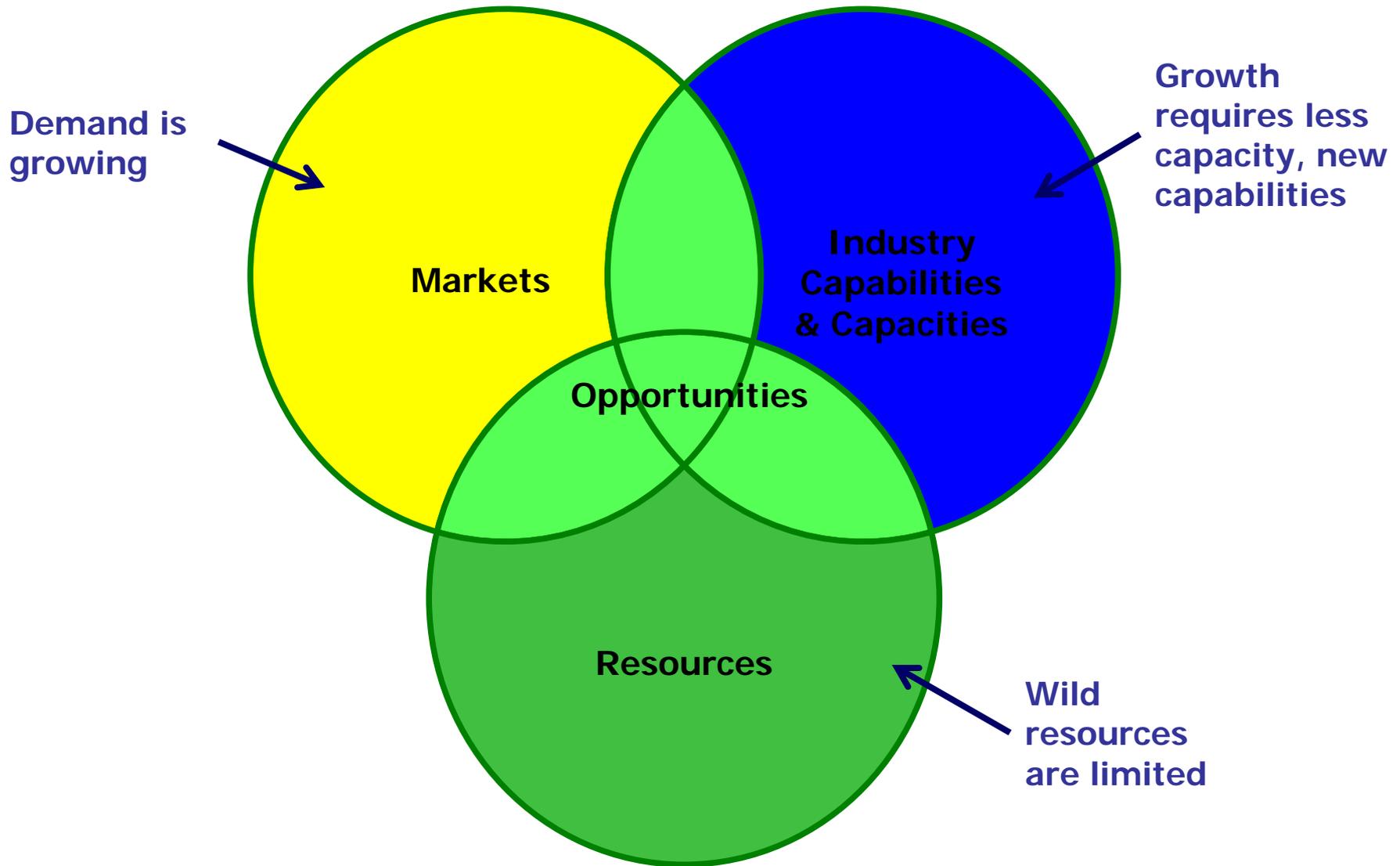


# “Insurmountable Opportunities”



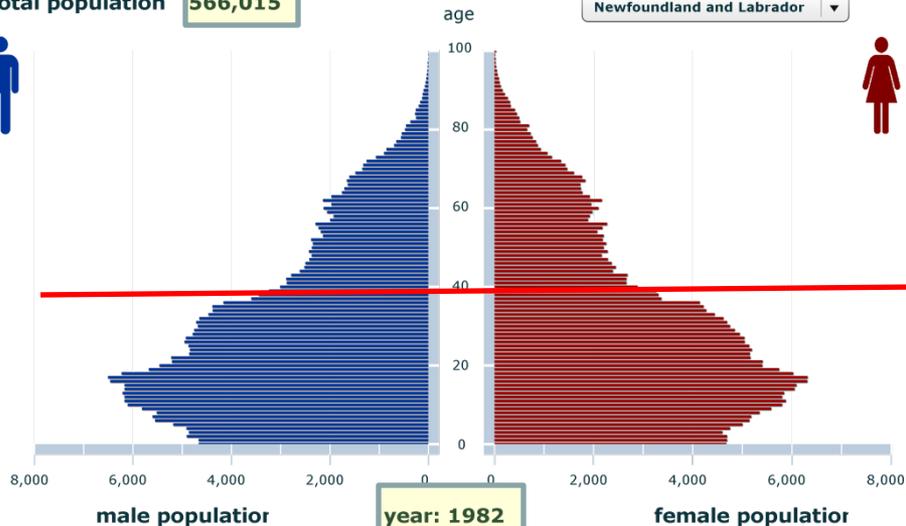
CATEGORY	DESCRIPTION
<b>MARKET-BASED</b>	
<b>Human food</b>	
<ul style="list-style-type: none"> <li>Overall demand for seafood</li> </ul>	Growing but mostly in developing countries, due to population growth, changes in lifestyles; supply from capture fishery is limited
<ul style="list-style-type: none"> <li>High quality</li> </ul>	Markets are willing to pay more for <b>consistently</b> high quality
<ul style="list-style-type: none"> <li>Fresh products</li> </ul>	People perceive fresh = good quality; fresh products attract premium prices; aquaculture now sets the standard; China cannot compete with fresh
<ul style="list-style-type: none"> <li>Niche markets</li> </ul>	Competition is fragmenting former mass markets into niches, based on geography, use
<ul style="list-style-type: none"> <li>Reliability of supply</li> </ul>	Demand is year-round; supply of captured fish is often seasonal
<ul style="list-style-type: none"> <li>Prepared products</li> </ul>	People are uncertain about buying and preparing seafood, leave it to “professionals”
<ul style="list-style-type: none"> <li>Nutraceuticals</li> </ul>	People want health benefits of seafood without having to eat seafood
<ul style="list-style-type: none"> <li>Flavorants</li> </ul>	Flavorants can be extracted for use in soup stocks, other products
<b>Fish food</b>	The aquafeed market in Atlantic Canada is estimated at \$110 million; aquaculture expanding rapidly but potential limited by supply of fish meal, oil, pigments
<b>Animal food</b>	Fish meal and oil formerly fed to animals increasingly being diverted to aquaculture
<b>Business ecosystem</b>	Development of spin-off businesses – e.g. secondary processing, suppliers of industry-specific goods and services (c.f. Iceland, Norway, Alaska)
<b>RESOURCE-BASED</b>	
<b>Species now harvested</b>	
<ul style="list-style-type: none"> <li>Uncaught quotas</li> </ul>	We leave substantial quantities in the water every year
<ul style="list-style-type: none"> <li>Further processing</li> </ul>	We sell substantial quantities in semi-processed form, for processing elsewhere, because our costs are not competitive
<ul style="list-style-type: none"> <li>By-products</li> </ul>	Most now treated as waste; potential for substantial added value
<b>Underutilized species</b>	
<ul style="list-style-type: none"> <li>Human food</li> </ul>	E.g. mackerel, capelin, argentine, saury, hagfish, stone crab, whelks, periwinkles, sea cucumbers, Icelandic scallops
<ul style="list-style-type: none"> <li>Fish/animal food</li> </ul>	E.g. sand lance, argentine, saury

# Opportunities vs. Capabilities

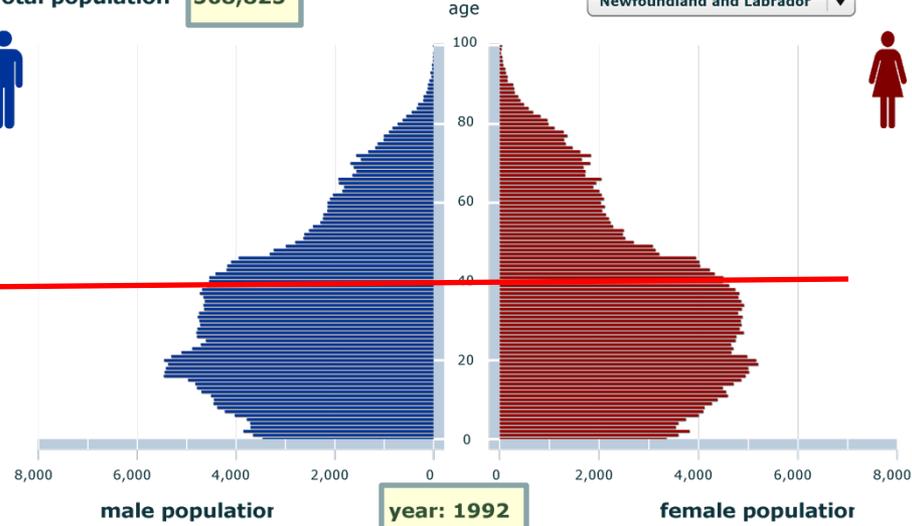


# Availability of People

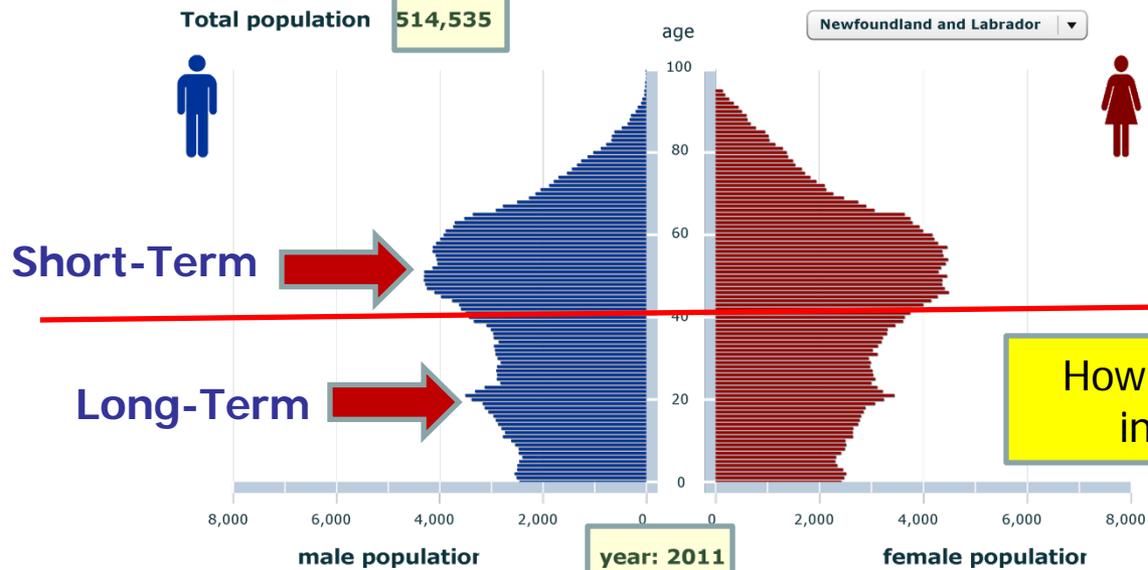
Total population **566,015**



Total population **568,825**



Total population **514,535**



How many want to go into the fishery?

# Policy Choices – Means vs. Ends



GOAL	CURRENT STATUS
<b>ECONOMIC</b>	
1. International Competitiveness	Commodity products; bulk sales to much larger customers; increasing competition from developing countries, aquaculture; labour-intensive high-cost structure; no proprietary technologies; weak support sector
2. Industry Viability	Excess capacity; no economies of scale; uncoordinated value chain; adverse currency exchange; increasing energy costs; poor/no ROI; little new investment; plants closing; fishing enterprises combining
<b>SOCIAL</b>	
3. Jobs/Incomes/Community Viability	Seasonal jobs + EI; low wages; poor safety record; uncertainty; lack of faith in the future; outmigration
4. Resource Sustainability	Longstanding pattern of overexploitation

➔ **Social vs. economic goals is ultimately a false choice**

# Key Questions



1. Can an uncompetitive, non-viable industry that repeatedly over-exploits its resource base provide economic stability to rural communities?
2. Will young people be content to stay in rural communities that cannot offer them stable jobs with good incomes?
3. Can the industry attract the investment needed to replace existing assets, adopt new technologies, and take advantage of new opportunities?
4. Who will provide the entrepreneurial drive to take advantage of the opportunities available?
5. Do we have the political will to allow the industry to change and adapt?