

Nautilus Consultants

Port Markets Strategy Study

Discussion Document

May 1999

Prepared for: The Sea Fish Industry Authority

By: Nautilus Consultants

University of Edinburgh Management School

Industry Consultation

This discussion document forms part of work commissioned by the Seafish Industry Authority examining the future role of the port auction and its impact on the evolution of UK fishing ports over the coming decade. This work programme has also been supported by the UK Fish Industry Forum, a cross-industry forum established to give consideration to issues facing the future health and well-being of the industry.

The study is intended to provide guidance to policy-makers, key industry decision-makers and managers of the UK's fishing ports. The emphasis of the work is on the future rather than the present – forming the basis of recommendations for improvements to the system, for sustained economic value and viability, and providing suggestions as to the best implementation route for these recommendations.

This discussion document is presented as part of a process of industry consultation focused around three seminars scheduled for July 1999 (further details from Seafish).

Contents

Overview	5
Conclusions	7
Establishing how much is sold by auction.....	7
Main Findings	8
General Conclusions.....	9
Specific Conclusions	10
Recommendations	13
Key recommendations	13
A programme for action	14
Responding to opportunities and threats	14
Developing a strategy for different ports	15

Overview

This discussion document describes and analyses the first level markets for fish in the UK and provides preliminary recommendations that the organisations involved might take in order to benefit from projected changes. The report is based on a survey of published data, a telephone survey covering around 50 major fishing ports and case-studies of twelve ports. The focus of the study is an assessment of the pressures affecting fish markets in UK ports and the development of strategic recommendations.

The generic threats to existing auction markets identified are reduced landings, making fish auctioning less profitable, and the pressure exerted by multiple retailers on processors to bypass the auction market. Retailers and, increasingly, processors seek increased traceability, consistency of supply and improved quality definition. Small-scale local processors have the greatest commitment to the auction, so the move towards economies of scale in the processing sector is also a threat to auctioning.

The significance of these threats for individual port auction markets varies depending on three factors: the market's scale, the proportion of landed fish currently bypassing the auction and the ability of traders in the market to meet the needs of processors and wholesalers. In the largest markets, the auction provides an efficient means of determining a current market price with the depth of demand drawing in fish from overseas and other British ports. In smaller markets, the auction's function is principally to transfer the ownership of the fish with prices influenced by those prices achieved in larger markets elsewhere.

The auctions at greatest risk of decline are those trading less than fifty per cent of locally landed fish. This is due to traders' acquired knowledge and practice of bypassing the market and lack of commitment to the auction. The future of any existing auction market depends upon the continued mutual commitment of buyers and sellers. Commitment to the auction is more social for many traders, a factor that sometimes masks commitment on the basis of economic calculation. It is, therefore, impossible to identify an auction turnover at which the auction becomes non-viable.

The ability of the port trading communities, including port managers, fish sales agents, producer organisations, and port wholesalers, to respond strategically to these pressures is limited by two factors: the financial weakness of many enterprises, and the difficulty of co-ordinating action across all the enterprises involved. To respond to these pressures port trading communities should co-operate to clearly identify and respond to customer needs. It is proposed that this will include a greater role for the provision of market information and the introduction of descriptive and quality systems to meet customer needs. It is recommended that Government and the Seafish Industry Authority both have a role in facilitating these changes by encouraging port communities to approach marketing strategically and co-operatively.

Conclusions

Establishing how much is sold by auction

Landings to auction ports: About two thirds of fish landed to UK ports, by value, are landed to auction ports. In addition, a little under ten per cent of total UK landings originate from foreign vessels and there are, in the main, also landed to UK auction ports. About a quarter of total landings, by value, are landed to non-auction ports (made up predominantly of nephrops – about a third of total landings – and other shellfish – about two thirds of total landings).

Relative importance of auction sales: A little over half of all landings to the UK, by value, are sold by auction. Most of this comprises local landings of demersal species, accounting for about three-quarters of all fish auctioned at UK port auctions. The remaining twenty-five per cent is made up of white fish imports and some sales of nephrops. Auction sales of local landings are augmented by imports of fresh whitefish, notably in respect of supplies to the Humberside ports. In addition, some nephrops is sold by auction in Northern Ireland (and more recently Troon), but little to no other shellfish (bivalves, crabs and lobsters) is sold at auction. No pelagic landings are sold by auction in the UK, though landings to continental ports (Norway in particular) are often sold by auction.

First hand sales channels: About 60 per cent of landings to auction ports are sold by auction in the port of landing (equivalent to 40 per cent of total landings to UK ports). A little under ten per cent of landings by UK vessels to UK auction ports is consigned for auction at other UK ports. Accordingly about a third of fish landed to auction ports, by value, is sold by direct negotiation. Some of this, more particularly in Northern England and Scotland, is sold on the basis of contract, though the distinction between a contract and a negotiated trade is generally difficult to discern.

First and second hand sales in port of landing: About half of all fish landed to auction ports, by value, excepting nephrops (where the proportion is a third), is sold at second hand by businessmen in that port (i.e. value is added by local businesses between first and second sale). The equivalent for non-auction ports ranges from about fifteen per cent for pelagic species to sixty per cent for flat fish.

Sales channels for landings by foreign vessels: Much of the fish landed to UK ports by foreign vessels is over-landed to continental auctions and processors. Nevertheless, significant proportions are sold on UK auctions and/or traded and processed by UK companies.

Market dynamics

It is a generally held view that more fish is sold by direct negotiation than by auction than was the case, say, ten years ago – even though this is very difficult to establish on the basis of available figures. In itself this should not be seen as in any way bad.

The first hand market in fish is dynamic, the market has adapted to changing trade patterns, and the industry is actively exploring ways of maintaining its competitiveness. Nonetheless, against these very positive characteristics must be set the less positive aspects that the industry's efforts have been un-focused, have been overly reactive, and have lacked strategy.

Main Findings

Providing the right service

Many port markets do not meet buyer requirements: The role of the port auction market as the focal point for the first-hand sale of fish is threatened. Current practices in the markets are failing to meet the needs of many buyers. These needs include continuity of supply, advance notice of supply, narrow and rigorous specification of product (species, size, weight, quality), adherence to appropriate codes of practice (e.g. to allow for traceability) and transparency of market operation. In many sub-sectors of the industry, most notably in the white fish sector, this has encouraged traders and processors to seek an increasing proportion of their supplies from outside the UK and to make more direct supply arrangements with vessel owners and their agents.

Smaller markets suffer from a lack of buyer competition: Vessel owners and skippers dissatisfied with the returns available for fish sold through the markets in the ports of landing are increasingly electing to consign their product to another market. Consignment is generally to a larger market, where a combination of specialisation and market depth increase competition and thus the likelihood of returning a "fair" market price for their catch.

Fleet behaviour

The above points apply:

- the larger white-fish trawlers, many of whom are willing to enter into long-term direct relationships with processors,
- the pelagic industry, landing in Norway, Denmark and the Netherlands,
- sections of the flat fish sector, where a significant proportion of landings find their way onto Dutch and Belgian port markets or into Dutch or Belgian processors,
- the so-called "flag-boats" (mainly Spanish and Dutch), whose owners consign fish to continental markets, and
- the many foreign vessels that land to UK ports but consign to home markets, including French deep water fishing vessels, Dutch and Belgian beamers, and Spanish trawlers.

Consequential Impacts

The consequences of these trends are significant:

For the supply-side

- Existing large volume markets are likely to remain attractive to the larger suppliers of wet fish, in particular round fish from large vessels,
- Smaller vessel operators will react positively to local port market specialisation, and to markets / ports locking into electronic information exchange and trading systems that offer access to more buyers and strengthen the competitive positions of such ports.

For the buyer side

- Major processors seeking large-volume supplies will continue to rely on third country sources of fresh and frozen fish to ensure continuity and consistency
- Off-market sales are likely to increase and in some ports become the most significant means of first hand sales because they facilitate a more direct and low cost match between buyer requirements and available supplies.
- Some specialist sub-sectors of the industry may adopt the use of linked electronic trading as a means of marketing supplies from a variety of landing places to a dispersed body of buyers – nephrops, prime fish, some flat fish.

For the port market side

- Larger port markets are likely to come under increasing competitive pressure from those smaller markets that have been able to meet buyer requirements through species / product specialisation, product quality / traceability, and increased buyer competition (notably flat fish, but also prime round fish and shellfish).
- Some ports are aiming to increase buyer depth by linking electronically into Continental auction networks that will force them to improve grading reliability, handling practices and traceability.
- The proportion of fish passing through the auction in British ports is likely to decline over the next decade, unless auction practices can be rapidly and substantially improved.
- There will be many commercial incentives for the establishment of strategic groupings and alliances of ports – by selling system, by geography, by species, by fishery and by the degree to which ports complement each other.

General Conclusions

Industry wide impacts

- The trading of fish is increasingly demand-driven and the industry has been slow to adapt to this trend.
- Major requirements from retailers are
 - Improved traceability
 - Consistency of supply
 - More reliable quality description

- The move away from the market towards direct trading between boat owners and processors in partnership relationships, a development which is being encouraged by multiple retailers, will be extended by processors into other market sectors if markets are unable to meet the requirements of quality consistency and traceability.
- Constantly changing industry dynamics suggest a range of selling systems should be catered for by port managers – flexibility is necessary as in certain market conditions auctions will be favoured, whilst at other times direct sales will be favoured.

Future rationalisation of the supply chain

- Catchers – already extensive, but on-going with a focus on quality rather than volume.
- Agents – increased use of advanced landing information, strengthening of direct selling capabilities, and increased provision of sorting, grading and weighing services.
- Market operators and support services (inspection, quality assessment, etc.) – more diverse portfolio of responsibilities, focus on quality and enforcement of codes of practice, with opportunities for contracting out services to existing or new industry structures (for example electronic auctions and data exchange).
- Buyers & wholesalers / distributors – forced consolidation due to increasing processor concentration and increased direct trading with processors and larger merchants, but with new opportunities to provide higher qualities of service to niche markets.
- Processors – shakedown with focus on quality, and achievement of efficiencies through scale and improved raw material sourcing, in part through rationalisation of the number of suppliers used and in part through stronger links with boats and their agents.
- Inland wholesale markets – further decline as traders focus on specialist off-market catering supply services and the handling of fresh and frozen imports for retail and catering trades.
- Retailers – multiples increase market share and bring supply chain efficiencies.
- Caterers – growing market, but will expect improved quality and consistency.
- Consumers – multiples will promote consumption of fish, but industry must improve standards, introduce more convenience products, promote natural and sustainable characteristics of fish and fishing, and promote diversification away from sole focus on a few core UK fish species.

Specific Conclusions

The Auction

- The proportion of fish passing through the auction in British ports is likely to decline over the next decade.

- The UK auction system is losing out both to auctions on the Continent and alternative selling methods such as direct selling.
- Auctions at larger fishing ports will continue to dominate sales, but even these will decline as direct sales increase.
- The auctions in small ports, particularly those in isolated areas or landing certain species, may benefit from linking to larger auctions through electronic systems.
- The auction acts as a payment guarantee mechanism with virtually immediate payment for catchers. Alternative selling systems have difficulty in matching this service.
- The auction system acts as a barrier to information flow, benefiting agents and buyers with local knowledge, but preventing catchers getting information on customer requirements.
- The auction system acts as a mechanism to define a “fair” market price for fish in larger ports. This information may then be used by operators who do not support the auction with their own trade.

Port Facilities

- Conditions and facilities are improving to achieve common minimum hygiene requirements.
- New facilities need to be justified on a strategic basis (regional and national) rather than local as many recent developments have had the effect of simply leap-frogging local competitors, without satisfying longer term needs.
- Fishing ports can retain a viable fishing industry without a live auction if suitable facilities for vessels are provided.
- Port managers need to develop strategic management plans and aim to “either be first or be different” by reaching recognised milestones (linked auctions, temperature controlled areas) first or diversifying into niche markets.
- Consultation with all port and market users should be increased with their inclusion in decision-making processes.

Quality

- Handling improvements at every stage in the supply chain are required.
- Weighing and reliable standard grading are positive steps, putting an end to over filled boxes and the use of quality grades that are too broad for buyer confidence.
- Ports should target temperature control as an important move towards maintaining quality.
- Exacting Codes of Practice should be developed for each port, and **enforced** at each port market.

Information

- The flow of information in most port markets is poor due to low levels of co-operation.
- Information is currently used for competitive advantage at every step in the supply chain. Many operators are, therefore, resisting increasing information flow that would result in a more transparent process.
- Information between catcher and agent must improve as markets are more closely targeted and the product is more highly valued.
- Buyers will demand more product information and want Hazard and Critical Control Point (HACCP) systems or other quality systems in markets and handling.
- Retailers and consumers will demand more information, including tighter product specifications and sustainability labelling.

Recommendations

Key recommendations

Below we outline key recommendations, and describe how these might be taken forward by the industry in terms of action.

Recommendation 1: *Above all, industry members at the port level need to work co-operatively and strategically.*

The market for fish in UK ports is facing a range of pressures, due to uncertainty on the supply side and pressures for improved quality on the demand side. While retailers and boat owners both approach their section of the supply chain strategically, between them in the port markets there is less evidence of a strategic response to these changes. The underlying industry reasons for this lack of strategic thinking are the atomised structure of enterprises in the ports, preventing co-operative responses, and continuing commitment of the industry to anachronistic practices. A failure to address these issues strategically will lead to a progressive decline in the role of port infrastructures in fish marketing in some ports.

Recommendations 2: *The industry should recognise and respond strategically to medium term and underlying changes underway in the catching, trading and processing sub-sectors of the industry.*

The UK fish industry will continue to undergo restructuring. The main wave of subsidised fleet restructuring (decommissioning) has now passed, but the rationalisation (under regulatory and commercial pressure) of both the fleet and the post-harvest sectors is only now beginning. This wave is likely to be completed over a much shorter period than has been the case with recent fleet changes, in a period of approximately five years. There are likely to be substantial changes in the allocation of the rights of access to fishery resources, with more restrictive quota entitlement linked to more regionally oriented management regimes (with impact on the economics of vessel and fleet operations). These latter changes are likely to take at least ten years and will be gradual.

Recommendation 3: *Port managers should develop a strategy specific to each individual port that focuses on the needs of customers - those who deal directly with the port market and those further down the supply chain with linkage to first hand sale.*

Caught in the middle of these changes are the fishing ports and the port markets. The absence of long-term planning combined with strong inter-port rivalries is evident, with ports and port markets inadequately structured for the medium and long-term future. The ports as a whole appear to have no strategic picture of the future or of how different ports should deal with it. Ports have been reactive rather than strategic in their development.

A programme for action

In this discussion document we have distilled the various dynamics underway within the industry, and indicated their likely impact on port markets in the future. Below we examine the actions that various industry members might consider taking to deal with the future.

Responding to opportunities and threats

In drawing up individual port strategies, the following predicted shifts in industry structure and operation will need to be addressed:

- Where scale factors permit and where operating economics allow, temperature controlled sorting and grading areas will be provided for port users, whether or not they sell product across the auction.
- Most ports already specialise in trading in a particular mix of species or in servicing a particular mix of fleet, but market conditions are likely to encourage further specialisation in customer base.
- Strategic alliances are likely to be established between smaller ports seeking strength in numbers, ports providing complementary services (species range), the co-ordination of services provided to clients, and the use of linked electronic trading systems (particularly in smaller ports).
- Where continental ports dominate in the sale, processing and distribution of particular species groups, UK suppliers will continue to consign fish to these markets, or establish electronic trading links to such markets.
- Other than for nephrops, auctions are likely to play a minimal role in the sale of shellfish.
- Efforts to reduce the complexities of sourcing nephrops for processing and export will encourage the establishment of electronic trading or auctioning systems linking the principal ports of landing.
- Electronic information exchange and electronic trading will play an increasing role in the sale of large volume pelagic species.
- As a means of achieving the efficiency gains that standard and transparent practices can deliver and most notably in those ports where the level of cross-industry co-operation is low:
 - consideration should be given to transferring ownership and operation of the port market and ancillary facilities to an independent port market or auction company owned outright by a single body, as is commonly the case with continental ports; alternatively it may be owned by a consortium of port users and statutory bodies (possibly more appropriate to UK practices);
 - under such arrangements, the fish selling companies would contract with a single service company for the sorting, grading, and weighing and specifying of fish (whether for direct or auction sale) and, if required, for the auctioning of such fish as they wish to put across an auction floor; in some cases the fish

selling companies themselves might provide such services under contract to the market operator.

Developing a strategy for different ports

Strategies and responsibilities

Currently there seems little likelihood that ports will seek to co-operate in the establishment of an integrated national or even regional port strategy. Instead they will seek to establish their own position in the wider market. Nevertheless, the core of such actions will need to be the development of individual port development strategies.

At present the prime movers in the development of such strategies are the harbour or port managers. In the future, much greater use will need to be made of port user committees in developing cross-industry support for such strategies. This will become all the more necessary as public finance for infrastructure improvements becomes tighter, and the industry will be expected to take greater responsibility for funding change using its own resources.

Port Strategy Outline

The contents of such a port strategy are out-lined below.

While each port has a unique market position and unique development problems facing it, thus requiring a strategy tailored to the individual port, a number of elements should be common to all. The move toward a demand-driven supply chain led by the highly public actions of multiples (but more realistically based on the growing need of catchers to capture greater value from the finite natural resources they exploit) has been highlighted as a fundamental change.

In the light of this, port managers should therefore:

- **Identify their direct customers**, including vessel owners, skippers, sales agents, buyers and processors, and their needs, which should extend further down the supply chain beyond port market users.
- **Review existing business operations** and establish their future viability.
- From 1 and 2, set and **prioritise objectives** for the port market based on customer needs.

At the same time, managers should develop and install the following complementary systems:

- Internal and external **market information systems**:

Internal: collection and strategic dissemination of data on volume and value of product passing through their market

External: market intelligence and research from a number of sources bought or commissioned to inform decision-makers of the general market conditions and specific conditions at certain other ports

- **Quality systems**

These should include a review of the market codes of practice, hygiene standards, weighing and grading practices, provision of forward landing information, staff training, and port facilities.

Key elements in developing any strategy will be:

- ❑ Gain broad consensus from port users that a strategy should be developed and establish mechanisms by which inputs from all port users can be accommodated and differences resolved.
- ❑ Identify which markets and market segments the port is best able to service and where it has, or might expect to develop, comparative advantage over other UK ports and over other European suppliers to those markets
- ❑ Decide how to deal with the matters of quality, product specification and traceability.
- ❑ Determine how best to meet customer needs and thus what part the port auction is likely to play in future operations of the port.
- ❑ Assess whether or not there is need for expansion or contraction of port market facilities.
- ❑ Identify the requirements for merchant and processor facilities within the port area, including facilities for grading and sorting fish.
- ❑ Assess if physical constraints or competing port development opportunities are likely to impinge on identified opportunities for port market facilities (flexible or dedicated facilities) and determine how to deal with these constraints.
- ❑ Identify what impact the call for tighter specification of product will have on sales systems employed.
- ❑ Identify whether or not remodelling of physical port infrastructure is required.
- ❑ Identify, where remodelling is indicated, whether or not it is economically justifiable and where the necessary financing can be raised.
- ❑ Determine if, after all this examination, the strategy is likely to ensure comparative advantage in a regional context, or if the competing strategies of nearby ports are likely to pose a real risk to such a strategy.