

Magnuson-Stevens Fishery Conservation and Management Act (MSA): Investments in U.S. Seafood Processing Capacity

ISSUE: The MSA, as reauthorized in 2007, mandates in P.L. 109-479, sec. 106(c) that the “Secretary of Commerce work with the Small Business Administration (SBA) and other Federal agencies “to develop financial and other mechanisms to encourage United States investment in seafood processing facilities in the United States for fisheries that lack capacity needed to process fish harvested by United States vessels”. Pursuant to this mandate, and a request to look at the Maine lobster fishery, NOAA Fisheries reviewed information on processing capacity in federally managed and non-federally managed, and provides this report on programs administered by SBA, NOAA and other agencies that may assist the seafood processing sector.

I. THE U.S. SEAFOOD PROCESSING SECTOR

A. General: The domestic seafood processing sector encompasses a wide range of mainly small to medium-size firms that purchase raw fish from harvesters and process them as semi-finished or retail products. The last Fisheries of the United States (2008) reports a total of 877 seafood processors with just under 40,000 employees, of which just over 30 percent (272) are located in two States, Washington and Alaska. It should be noted that the processing sector includes two distinct components: (1) at-sea catcher-processors and mother-ships and (2) shore-side, or land-based operations.

B. Federally Managed Fisheries: NOAA Fisheries has concluded that, with limited exceptions, a shortfall of domestic processing capacity is rare. Of the 46 current fishery management plans (FMPs), processing capacity is adequate to handle domestic harvests in virtually all cases. Processing capacity may be inadequate in fisheries for selected species, but these seem to be the exception. As examples, the seasonal salmon runs in Alaska may create short-term gluts. A few low-value flatfish species in Alaska, such as Arrowtooth flounder and Yellowfin sole, and some of the underutilized East Coast species, such as Illex squid, Atlantic mackerel, Spiny dogfish and Atlantic herring, may also have inadequate processing capacity. In these instances, investments in processing capacity may have lagged because of weak domestic markets for those species. In addition, in some fisheries, a healthy share of the raw fish is exported to take advantage of less expensive foreign processing. Examples are a few Alaska groundfish species that are processed in China, and domestically harvested shrimp that is processed in Mexico.

C. Non-Federally Managed Fisheries: Finally, NOAA Fisheries considered information on processing capacity in non-federally managed fisheries. In these fisheries, the level of processing relative to harvesting capacity varies significantly from fishery to fishery. At one end of the spectrum, some non-federally managed fisheries, such as Atlantic menhaden, are dominated by vertically integrated firms. On the other hand, in some other non-federally managed fisheries, domestic processors lack the capacity to handle all the harvests.

II. THE MAINE LOBSTER FISHERY: The Maine lobster fishery is managed by the inter-state Atlantic States Marine Fisheries Commission, and the resource, based on assessments for 2009, is in excellent condition, with high stock abundance and recruitment. There are approximately 6,000 commercial license holders and about 2,000 active lobster fishermen that harvest the bulk of lobsters in a four-month period from August to November. In addition, there are over 1,000 dealers and five active processors.

In recent years, the Northeast lobster fishery has generated 75 to 100 million pounds of landings and \$350 to \$400 million in revenues. Normally, 50 to 70 percent Maine lobster harvests are sold to Canadian processors, mainly in Nova Scotia, who in turn re-export the finished product for distribution in the United States and elsewhere. In spite of healthy harvests in recent years, the current economic downturn has caused serious harm to the Maine lobster fishery, and lobstermen have suffered substantially from falling ex-vessel prices, stricter environmental regulations, and rising costs for fuel and bait. Compounding these problems, sales to Canadian processors have dropped sharply due to the declining demand associated with the recession and to the processors' loss of lines of credit with their Icelandic sources of financing. Consequently, the revenue paid to fishermen declined from \$414 million in 2005 to \$306 million in 2008, a decrease of more than \$100 million. Prices in 2009, continue to remain at low levels.

To address this situation, the Governor of Maine commissioned a "task force on the economic sustainability of Maine's lobster industry" in 2008, which sponsored a study that was completed in May 2009: The Maine Lobster Industry Strategic Plan.¹ Notably, the task force report concluded after careful study and several meetings with industry and public stakeholders that the Maine lobster industry should focus on reforming and upgrading the marketing of this product. Major recommendations include:

- (1) consolidation of marketing organizations in a newly created Maine Lobster Institute,
- (2) targeted marketing and R&D, including development of value added new products,
- (3) development of a more widely recognized Maine lobster "brand",
- (4) improving the year-round supply of Maine soft shell lobsters,
- (5) regulatory measures to combat "imposter" lobster products,
- (6) improved quality through "best practices",
- (7) adoption of a government or private sustainability certification system,
- (8) \$4 million in annual Federal funding, including \$1.5 million from NOAA and \$2.5 million from USDA.

NOAA Fisheries notes that the common theme of these recommendations is to assist in improving consumer demand, and not to add new processing capacity.

¹ Formally issued on May 22, 2009 and prepared by the Moseley Group, a managing consulting firm specializing in the food and beverage industries.

III FINANCIAL ASSISTANCE PROGRAMS: Federal programs that could be used to provide assistance to seafood processors exist in several agencies, chiefly SBA and NOAA Fisheries. Some of these programs could be utilized to expand processing capacity, while others have broader economic assistance missions. NOAA Fisheries notes that the seafood processing sector includes shore-side and at-sea components, but has focused this report primarily on the land-based shore-side sector. In light of the MSA provision, NOAA Fisheries believes that the most relevant programs are listed below:

A. Small Business Administration (SBA): The SBA Office of Capital Access supports small businesses in the U.S. by expanding access to capital needed to start, grow, and succeed. The SBA offers several credit and investment products to meet the diverse financing needs of small businesses:

(1) The 7(a) loan program is the Agency's largest business loan program to assist small businesses, specifically for those which have faced difficulty accessing conventional forms of credit.

(2) The 504 loan program serves small businesses requiring "brick and mortar" financing. It is a 100% government guaranteed, subordinated debt program that offers long-term fixed-rate financing.

(3) The Microloan program provides loans and technical assistance to non-profit intermediaries that provide very small loans to start-up and newly-established small businesses

In addition, other SBA capital access programs include its surety bond guarantee program, Small Business Investment Company (SBIC) program, and international trade assistance programs.

B. Fisheries Finance Program (FFP), administered by DOC/NOAA Fisheries: FFP may be used to provide Federal loans to U.S. processors to construct and/or expand facilities, including shore-side and at-sea operations. Applicants must comply with FFP credit standards. NOAA Fisheries notes that one Maine lobster processor already holds an FFP loan.

C. Northwest Atlantic Ocean Fisheries Reinvestment Program; MSA sec. 314: Subject to the availability of appropriations, the program authorizes technical support and assistance to, inter alia, US fish processors "to improve the value-added processing of underutilized species" in the form of contracts and grants through the Saltonstall-Kennedy Act.

D. Regional Coastal Disaster Assistance, Transition, and Recovery Program; MSA sec. 315: Subject to the availability of appropriations, the program authorizes "funds and other economic assistance" for, inter alia, "meeting immediate regional shore-side fishery infrastructure needs, including processing facilities, cold storage facilities, ice houses..." after a fisheries disaster determination by the Secretary of Commerce.

IV. FINDINGS

- NOAA Fisheries notes that there is adequate processing capacity to handle domestic harvests in virtually all U.S. fisheries. More specifically, inadequate processing capacity does not appear to be a major cause of economic problems in US fisheries and specifically the Maine lobster fishery. In that fishery, NOAA Fisheries agrees that there have been problems with Canadian buyers/processors, but concludes that the more fundamental problem is depressed demand.
- There are sufficient assistance programs already in place to support investments in seafood processing capacity.
- Programs administered by SBA and NOAA Fisheries exist that may be used to provide assistance to seafood processors, including direct loans and loan guarantees for working capital and start-up facilities
- The most relevant federal assistance programs are the:
 - (1) SBA 7(a),
 - (2) SBA 504, and
 - (3) NOAA Fisheries Finance Programs
- NOAA Fisheries financial services and SBA staff will be happy to answer additional questions and help fishermen and processors who want to work with federal agencies to craft effective and appropriate programs. Interested parties and individuals who want to further explore these programs should contact:

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