

2008



Canadian/U.S.



LOBSTERMEN'S TOWN MEETING

April 4-5, 2008 – Portland, Maine, USA

Hosted by the Lobster Institute

SUMMARY REPORT

Prepared by the

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Fishery Products International, Inc.

Sponsor

Orion Seafood International, Inc.

Moderator

Ted Hoskins, Minister to Coastal Communities & Fisheries - Maine Sea Coast Mission

Panelists

Peter Anastasia, Sales and Lobster Category Manager at Orion Seafood International

Laurence Cook, lobsterman from Grand Manan, New Brunswick (LFA 38) & Chairman of the Lobster Sector for the Grand Manan Fishermen's Association and the LFA 38 Committee for DFO.

Bernie Feeney, lobsterman from Whitman, Massachusetts & President of the Massachusetts Lobstermen's Association.

Eugene O'Leary, lobsterman from Guys County, Nova Scotia and active with the Fishermen and Scientists Research Society

Elliott Thomas, lobsterman from Yarmouth, Maine. Member of the Board of Advisors of the Lobster Institute & Board of Directors of the Maine Lobstermen's Association.

Michael Tourkistas, CEO of the AHI Group and East Coast Seafood

The Lobster Institute would also like to acknowledge the hard work of the Planning Committee, comprised of representatives from the Lobster Institute's Board of Advisors:

Planning Committee

Dana Rice – Co-Chair – Maine
Ashton Spinney – Co-Chair – Nova Scotia

Bill Adler – Massachusetts
Dr. Bob Bayer – Lobster Institute
Sheila Dassatt – Maine
Klaus & Melanie Sonnenberg – Grand Manan
Bonnie Spinazzola- New Hampshire
Elliott Thomas – Maine

Background and Goals

The Board of Advisors of the Lobster Institute planned and hosted its fifth consecutive Canadian/U.S. Lobstermen's Town Meeting on April 4 & 5, 2008 in Portland, Maine, USA. This year's industry-wide gathering of lobstermen and others connected with the lobster industry brought people together to discuss pricing structures and marketing issues in the industry (an offshoot of last year's general focus on the economics of the industry). Approximately 100 people attended the meeting, coming from as far south as Florida and as far north as Nova Scotia.

Goals of the event:

- Provide fishermen with an opportunity to share with one another what they are observing in their day-to-day operations, what their concerns might be, and what positive things they are seeing -- and how scientists and management might use the information they can provide
- Allow fishermen to get a more complete picture of the entire resource and the industry, including commonalities, differences and potential future impacts.
- Help set the agenda for research for the lobster fishery on an industry-wide basis, geared toward the responsible use of the resource while maintaining the vitality of the industry.
- Foster collaboration and communication between all geographic areas and all sectors of the fishery, reinforcing the fact that all share and rely on a common resource that must be protected.

Format

Friday:

- The meeting started with brief introductory remarks and recognition of sponsors.
- Next a panel of both Canadian and U.S. fishermen and members of other industry sectors discussed pricing and marketing from their perspectives. They provided a foundation of information used to stimulate dialogue for the "town meeting" portion of the event.
- The rest of the day took the form of a true town meeting. Lobsterman and others in the industry were invited to draw from their experiences and share their thoughts, observations, concerns, theories and questions about topics related to the economics of the fishery. Principal participation in this component of the meeting was from industry people (fishermen, dealers, pound owners, distributors, etc.). The town meeting was directed by an experienced moderator, Ted Hoskins, Minister to Coastal Communities & Fisheries - Maine Sea Coast Mission.

Saturday:

- This was the first year a half-day session was scheduled on Saturday. The Town Meeting was reconvene with about 40 participants, who were encouraged to revisit any topics discussed the previous day or any new issues of concern.

The Town Meeting was audio taped and an unabridged transcript of these tapes is available from the Lobster Institute at 210 Rogers Hall, University of Maine, Orono, ME 04469 (207-581-1443).

Summary of Panel Discussion

Elliott Thomas, a lobsterman from Yarmouth, Maine. Elliott discussed the various fixed and variable costs of doing business as a lobsterman. He noted in particular the substantial increases in fuel and bait over the past three years. He referred to a graph summarizing his costs versus the price he has been paid for his lobsters over a 7-year period. (See Appendix 1) He noted that the lobstermen are at the bottom of the value chain in lobster sales. He expressed frustration at not being able to set a price – and speculated that it is because lobsters may be considered a luxury item thus the consumer dictates the price.

Peter Anastasia, the Sales and Lobster Category Manager of Orion Seafood International (a seafood distribution company specializing in frozen lobster). He noted the market for frozen lobster really took off in the 90s, with the increases in landings. They searched for new markets and the casual dining restaurants emerged as a market that would take the lobsters year-round. He also noted that the larger catches, particularly of soft shell lobsters, used to be July – September and now it has shifted to September – November. This no longer coincides with a tourist market in New England. This makes the casual dining sector an even more important market. He added that the economy is now affecting customers of the casual dining sector. Stocks of casual dining sector restaurant chains are all down. This is a market the industry cannot afford to lose so it must work within their price tolerance.

Mike Tourkistas, CEO of East Coast Seafood in Massachusetts and Paturel Seafood in New Brunswick (a seafood distribution company specializing in live lobsters). He noted his company exports to Europe and has offices worldwide. This marketed opened up in the 90s, concurrently with the increase in landings. His company is integrated: it does operate buying stations and does processing as well. He reviewed a boat-to-plate pricing chain (See Appendices 2 & 3), discussing the pricing impacts at various layers. He expressed his opinion that improved efficiencies might be the best way to deal with the challenge of increasing costs – costs that everyone along the chain is feeling. He noted that retailers typically work with a 40% mark up; and restaurants work with a cost x3 to cost x5 price formula. He also noted that quality is the number one customer expectation, then value, and then consistency (in availability and price). Consistency is difficult, due the seasonal changes in the physiology of the lobster. He noted inconsistency in pricing is a particular challenge when dealing with chain restaurants that need to plan their menus 6 months to a year ahead of time. He stated inconsistency in pricing causes distrust. He added that the product is good and lobsters are well regarded – but the yield of protein per dollar is much less than that of other high-end protein i.e. steak.

Laurence Cook, fisherman from Grand Manan. He noted the price changes in bait, fuel and lobsters from when he started fishing in 1991 to the present, highlighting that his costs have gone up substantially but his income per pound of lobster has remained the same. He cautioned that this differential will seriously impact conservation, as more catch is needed just to maintain a constant income for fishermen. “The temptation to cheat is great and the need to go further and harvest more is great.” He stated he feels the industry is calling lobster a luxury item, but treating it out of the boat as junk. He commented that the lobster fishery is ecologically sound and should be marketed that way...people will pay a good price for a quality, “green” product.

He remarked that there are ways to increase the quality of the product, but it comes with a cost, and no one is willing to pay more. He said that to secure the future of the industry, there must be fewer people handling the lobsters along the price chain. He agreed that price needs to be leveled, but at an amount that will allow for both a sustainable approach to fishing and turn a profit for fishermen. He added that the decreased value of the U.S. dollar has also impacted the industry, so there is no margin for the Canadian fishermen. He admitted that he had no solutions, yet the challenges are real.

Bernie Feeney, lobsterman from Massachusetts and President of the Massachusetts Lobstermen's Association. He stated that the problems are all the same for every sector of the industry: costs of business are escalating and having everyone maintain the level of profits they are accustomed to is impossible. He noted that he has economized as much as he can, but still can't get enough for his lobsters to break even. He expressed one idea to improve profitability for fishermen would be rolling seasons. Catch the same amount in less time, with less expense.

Eugene O'Leary, lobsterman from LFA 31A in Nova Scotia. Gene talked about the need to do things a little differently. He noted that lobstermen need to know more about marketing. They took the time to learn more about science over the years, and now they must learn more about economics. If fishermen can better understand pricing structures, and what impacts prices, they can work together better with other sectors.

Town Meeting Summary of Topics Discussed

Major topic areas discussed are listed below in alphabetical order. Comments made and questions raised regarding that topic are summarized, as are suggestions for change. All sectors of the lobster industry were represented at the gathering, which led to productive discussion. An index is available in the full transcript that will assist readers in locating complete discussions of listed topics.

Note: Comments noted in this report do not necessarily reflect a consensus opinion of those who attended the Town Meeting, nor do they necessarily reflect the views of the Lobster Institute.

Casual Dining Restaurant Sector

- It was noted that the casual dining restaurant sector is one of the largest purchasers of American lobster – and that Darden Restaurants and Outback Steakhouse International restaurants account for 1/3 of the purchases of American lobster.
- Australian and South African lobster is more popular with chefs in white tablecloth restaurants and American lobster with casual dining
- Because of high prices (\$26 for two tails), casual dining restaurants are not promoting lobster on the menu – and think it may possibly price itself off the menu since the economy is negatively impacting the casual dining sector.
- White tablecloth customers are not feeling the effects of the economic downturn as much as casual diners
- Promoting lobster as a “luxury” may be counterproductive.

Closures

- Some suggested U.S. should not catch lobsters at the same time as Canadians – seasonal closures would keep the market from becoming flooded.
- It was suggested that during shedder season, the U.S. should look at rolling closures to ensure landings of higher quality lobsters.

Conservation

- It was noted that all areas have conservation measures – and while there is difference of opinion as to which measures are most effective, it would be best to market that conservation in general is an important consideration in how lobstermen approach their fishery.
- It was pointed out that conservation is hurt by low profit margins. If people need to catch more in order to justify the cost of a trip out to haul traps, than they will start to push the limits. This will impact sustainability.

Consolidation/Rationalization

- Some noted that since effort cannot be increased, reducing the number of fishermen would help raise profitability. More lobsters would be caught per boat using the same effort, thus helping to offset increased costs of doing business. This could be accomplished through:
 - Buyouts
 - Changes in limited entry
- It was also noted that Canada already has limited seasons and limited entry, yet they are facing the same profitability challenges as the U.S. fishermen.
- It was suggested that funds from LNG projects could be put toward license buyouts. Though others cautioned about doing business with LNG companies.
- It was noted that a good number of lobstermen are older and approaching retirement, making this a good time to consider buyouts.
- One model suggested was that current fishermen could buyout other fishermen nearing retirement – at a reduced trap amount.
- It was said that industries do become more efficient with consolidation – yet the lobster industry is dominated by independent owner-operators by design.
- Concerns were raised that if the number of fishermen dwindled it would negatively impact communities.
- It was said that increased promotion and increased efficiencies would only increase profits by nickels and dime – whereas consolidation would give the 30 – 40% increases needed to survive.

Cost of Doing Business

- There was concern expressed about the rising costs for fuel, bait, boat repair/purchases, etc. – with little if any average rise in the boat price over the last couple of years.
 - The limited availability of bait was keyed into this conversation.
- It was also noted that many things beyond the control of the lobstermen dictate what their catch will be – making it difficult to estimate income, and factor this into budget considerations.
- Many said they are struggling just to break even when they go out.
- Distributors/dealers also noted the cost of fuel is affecting their sector of the business as well, particularly in the area of fuel surcharges for shipping.
- It was suggested that distributors/dealers have more flexibility to adjust the prices they charge to end-users than lobstermen do in requesting a boat price.
- There was also concern expressed about young fishermen over-extending themselves financially and being ill prepared for any downturn in catch or other negative economic influences.
- It was suggested that increasing demand is the best way to offset the high price of doing business.
- It was noted that since effort cannot be increased, a reduction in the amount of fishermen could allow fewer fishermen to catch the same amount of lobster, thus making the profit margin greater. In other words, consolidation or rationalization of the fishery is needed.

- It was suggested that recreational lobstermen are cutting into the catch of commercial fishermen.

Suggestions:

- Work together
- Increase demand – expand the market
- Pressure legislators to get fuel prices reduced
- Look for operating efficiencies
- Cooperative buying of fuel/bait

“Ecologically Friendly” Marketing/Sustainability

- Many agreed that the lobster and the lobster industry is in a good position to be, and must be marketed as sustainable: “ecologically friendly” or “green”. Can help bring a premium price.
- It was noted that several large purchasers of lobster, i.e. WalMart, will only buy certified sustainable product – and more are likely to do so in the future.
- Several fishermen expressed concern that certification should be approached cautiously, and that putting certification into the hands of organizations outside the fishery could negatively impact the industry.
- Many said the conservation measures already in place in the fishery prove or help prove it is sustainable.
- It was noted that a “sustainable” certification might bring a better price in the short-term, but once it becomes the norm it is non-negotiable in the market and the price will reflect that.
- Traceability – chain of custody - is key to eco-labeling; and this is easier to accomplish in the lobster fishery than in most others because each lobster is individually handled.
- See “Conservation”

Suggestions:

- Industry should create its own sustainability standards and labeling program

Economic Impact

- It was stated that while making a profit is difficult with rising prices, the message that the fishery is healthy and has a substantial positive economic impact should not be lost, and must be promoted.

Exchange Rate

- There was some discussion about the U.S. and Canadian dollars now basically at par with one another, and the affects on the industry.

- Will this drive the industry to expand exports to Europe since the Euro is strong now?

European Market

- It was noted that the Euro is strong and there is an expanding market.
- It was suggested an obstacle to increasing sales of frozen product in Europe is the duty imposed. It was suggested some political help to reduce this would be beneficial, as there is a 14% difference between the duty on whole lobsters (6%) versus frozen meat (20%).
- New technology should make shipping live product overseas easier.

Industry Structure

- There was some discussion about whether there was the need for buyers as middlemen between fishermen and distributors/consumers – and perhaps there should be a move to have fishermen work collectively to manage their own product.
- It was noted by distributors that the smaller buyers who have no investment in the industry other than their truck on the wharf are “opportunistic”, de-stabilize the industry, and create distrust between fishermen and invested dealer/distributors.
- It was noted that lobstering has become big business, and people are becoming involved less because they want to fish but because they think they can make money at it. Further, expectations of the fishery are too high.

Labor

- Concerns were raised over not enough young people entering or interested in the fishery
- Concerns were also raised over a shortage of committed sternmen or deck hands
- Several fishermen noted that even though it pained them they were recommending that their sons not become fishermen.
- It was noted that industries tend to weed out those who are not hard workers and are not the best at what they do – and this is the same for the fishery.
- Diversification used to see fishermen through, but not the lobster fishery is the only viable fishery left. Many lobstermen have left and become re-trained for other jobs, but it is difficult for older workers.
- It was noted that the labor problem is a national problem, not strictly a fishery problem – with immigrant labor playing a role.

Lobster Health

- Concern was raised about weak lobsters in pounds.

Suggestions:

- People were encouraged to contact the Lobster Institute if they are seeing weak or dieing lobsters.

Marketing/Promotion

- Most agreed that the lobster fishery should promote its reputation for landing a quality product and being conservation aware.
- Several people voiced the opinion that joint marketing between all regions of the industry, U.S. and Canada, would be most productive.
- Others felt that without unified regulations and conservation measures, unified marketing would not be feasible. Some regions are more “promotable” than others.
- It was noted that the increase in catch rates since the 90s has meant that distributors have been looking to expand the marketplace, and look at different ways to use the product.
- The opinion was expressed that government must step in to provide funding for promotion
- Should promote the healthful characteristics of lobster (excellent protein, low cholesterol, etc.) Educational programs in schools could be one method.
- Some felt lobster should be promoted as “every day” food and not as a special luxury.
- Need to find a balance between high-end niche markets and broad-based markets, and keep both.
- All the promotion in the world will only be minimally effective if the price is deemed too high by the consumer.
- It was noted that marketing would only add cost to the product. Strong public relations would be more effective.
- It was stated that the fishery is landing a lot of tonnage and is no longer a niche market, distributors must find buyers for 200 million pounds of lobster.
- The logic of marketing lobsters more heavily while the price is so high compared to steak or other “high end” menu items was questioned.

Suggestions:

- Charge a penny-a-pound marketing fee and take a unified approach to marketing.
- The Lobster Institute will put together a group to look at the feasibility of unified international marketing and report the pros and cons back to the industry.

Price/Price Structure

- It was noted that volatility in prices tends to drive consumers away.
- Those from the restaurant/distributor end of the chain noted that chain restaurant dishes are frequently developed a year or more in advance of being placed on a menu, and menus are designed at least 6 months prior to printing and use. This makes it very difficult to account for fluctuation in the price of lobster meat used in dishes. Also, once an item is removed from a menu it is less likely to get it back on a menu in the future. It was also noted that pricing of live lobster is very different then pricing menu items that

contain lobster, as they can be acquired in advance with the price known before the menus are developed.

- Some feel there is a “disconnect” in what they as fishermen are receiving for a boat price, and what they see being paid by consumers.
- There was general agreement that a more transparent approach would alleviate some mistrust.
- Related discussion revolved around the availability of stored lobsters/lobster meat. Some fishermen commented that they are unsure if processors actually have the excess supplies they sometimes claim they do, they are only using statements to that effect to justify paying lower boat prices. Distributors noted they have a responsibility to their customers to ensure product is available year-round, and that holding lobster is high risk.
- It was also noted that forums like the Canadian/U.S. Lobstermen’s Town Meeting are an important part of the process of building trust and open communication.
- Supply and demand as related to the various Canadian season and various environmental influences were discussed.
- Contract pricing was also discussed. Obstacles noted were: the fragmentation of the market, and product availability being too hard to control. It was noted that some models in other industries use an initial fixed price for wholesale purchase and then the price is finalized after the market gets settled.
- As a commodity, it was noted that the end consumer ultimately dictates the price. There is also a different strategy and pricing structure in marketing to a niche market versus a broad-based market.
- It was noted that most supermarket chains (such as Wal Mart) have “price points” – meaning they do not stock items that cost more than a certain, set price. These types of operations, along with chain restaurants, look for more consistency in pricing.
- There was discussion about reducing the number of people that handle lobsters – i.e. eliminate buyers that operate from wharf to wharf with a ½ ton truck. Some felt this would only serve to give major buyers an opportunity to dictate the price, while some felt it would help stabilize pricing, provide a more security for the fishermen, and bring a better boat price over the long term.
- It was noted that it is becoming difficult for lobstermen to maintain a loyal relationship with a buyer now that every penny matters.
- It was stated that other food industry benefit from government subsidies and perhaps the lobster industry should pursue that type of support
- Looking to Asia, and China in particular, as a potential market was discussed. It was noted that cultural differences have an impact and Asian markets tend to be trendy and inconsistent.
- The concept of lobster auctions was discussed

Suggestions:

- Contracting for a price for the year
- Partnerships/relationships between fishermen, dealers, distributors
- Find more markets to create competition for the available supply – increase demand
- Government subsidies

Quality

- Fishermen asked dealers/distributors if bringing a quality product to the wharf would result in a better price. The answer was yes, a customer's major purchasing criteria is quality. However, some fishermen say they work hard to bring in only quality lobsters, but have not been given a better boat price as a result – so it is not worth the extra effort and expense.
- In order to expand markets into Asia, quality lobsters will be essential to ensure shipping – so increased boat price for quality lobsters will have to be addressed.
- Proper handling is most important in bringing a quality lobster to market.
- It was suggested that during shedder season, the U.S. should look at rolling closures to ensure landings of higher quality lobsters.
- It was noted that the buying system is set up for “one price”, crate run, and differentiating by quality is not workable.

Sustainability

See “Eco-Friendly” Labeling

Value-Added Lobster Products

- It was suggested that producing more value-added lobster products would bring a better price along the chain, and that this is the solution for the future.

Water Quality

- Concerns over maintaining water quality remain high, as they have at past Town Meetings. While it was noted that this was not the focus of this particular Town Meeting, the concern was raised for the record.