



An Economic forecast for Irelands Inshore sector. A perfect storm caused by a confluence of events.

As our members prepare themselves for 2020 they find themselves facing an unprecedented economic crisis and have serious concerns that without financial support in some shape or form, fear for their future viability.

It is important to look at some background prior as it has a bearing on the resilience of members to the confluence of events that are impacting the resilience of the sector and by extension a bearing on the level of mitigation required. The following points should be noted.

The weather over the last four months has in general been poor, particularly since the beginning of 2020. This has limited the fishing activity and landings of many members. Cash flow has become limited for many members. For them financial capacity to deal with extended periods of low or no profitability is limited, or in some cases does not exist. Some have reported loss and damage to fishing gear in recent storms which exacerbates this problem. Reduced activity and landings are making it difficult to gauge the impact of the current unfolding crises in global seafood markets however indications from Asian markets are poor.

First sale prices for brown crab (a species on which there is high dependency) dropped significantly in the latter half of 2019 due in part to the issue of health certificates for crab for the Chinese market. This was against a background of reduced catch rates and landings, led to a decrease in profitability in 2019 for many members. First sale prices for many species targeted by members experienced a sharp rise from 2015-2016, this led to extra investment in the part of the sector. Subsequent reduced catch rates were offset by increased first sale prices. Profitability was reasonably high, however many observers commented that the sector had become over capitalised much of which was based on borrowings and thus over exposed to any sudden economic shocks. Operators find themselves now at low prices and low catch rates which will have repercussions for viability. The resulting lower level of resilience amongst these members, in terms of financial capacity to deal with issues like this.

In some fisheries particularly lobster and brown crab, operators on the West coast have yet to start, but as we all know market sentiment affects the price and the impacts of a crisis originally in Asia but now developing in Europe and have a massive effect on the shellfish markets. This makes it difficult to gauge impact in these fisheries, however the outlook is poor and the indications are that Fisheries in full production such as New Zealand Rock Lobster are in serious trouble in the Asian market. A similar situation is also unfolding in our domestic Razor Clam and Whelk fisheries.

Impacts to date/expected impacts on member's profits and their wider implications

A number of drivers are conflating to exert severe economic pressure. The examples from a few fisheries involving our members concentrate on first sale price and its impact on turnover. It is obvious from that, that profits are falling and likely to continue to do so. The impacts of this are varied and serious at a fleet and community level. These include;

The most extreme implication is where members have to cease fishing when production costs exceed value of landings and the business effectively loses less money having the vessel tied up than if it remained fishing. This does not eliminate all business costs, borrowings still have to be repaid along with many other fixed costs such as harbour dues, and insurance. In these cases members fear vessel repossession, and by extension their future in the sector. Crew/staff being let go, many without adequate access to social protection, which could force them to seek employment in other sectors. Skilled trained crew are difficult to find and obtaining crew to put the vessels to sea again could prove difficult.

Other members report implications where they have had to change their business model to build resilience. Some have described how they have had to reduce the size of their crew, again leaving skilled, trained staff go (with no guarantee of being able to replace them, should that be viable in the future), is further weakening the sector by losing the talent and skill that exists. Some describe how they intend to reduce expenditure on non-essential maintenance of vessels and fishing equipment. Going forward this will lead to a decrease in overall operational efficiency which will reduce resilience to deal with current issues and any others that may arise going forward. While such efforts may build resilience in the short term to address current issues, they are likely to be counterproductive in terms of building resilience in the long term. Where available to them members report using savings or income from alternative sources to subsidise fishing operations, this is something that won't be sustainable in the medium to long term and members with the capacity to do this are a small minority.

Concerns for future Supply chain continuity for both seafood distribution and supplies coming inward have been aired along with concerns regarding increased costs and availability of equipment required for fishing operations (fishing gear, engine parts, spare electronic parts etc.

Many members have low levels of resilience in terms of dealing the business climate that is unfolding therefore the timing, nature and scale of mitigation measures need to take this into account.

By the nature of their business and the products they produce, our members are acutely exposed to crises such as the one unfolding. By their nature, members' operations which are weather dependant, produce high value, low volume, high-end products many of which are not just perishable but actually live, presents unique challenges. It means members must avail of fishing opportunities when the weather allows, when the fish is available and within range and have it sold to the final consumer within a very short time frame. This in contrast to other catching sub sectors, who through mechanisms like quota management and value adding through processing which extends shelf life, have a greater capacity to manage the temporal nature of fishing opportunities to avoid temporarily depressed markets or other challenges

As the unfolding crisis is unprecedented, there are so many unknowns in terms of the severity of effects, the length of disruption and aftershock in the markets. It would be unrealistic not to consider the worst case scenario, which is that a significant portion of the inshore sector will have to stop fishing completely, indefinitely.

In the short/medium term, members already feeling impacts are calling for immediate financial support, they cannot see a future for them in the industry without it. Difficulty accessing social protection is not helping and social protection needs to be urgently addressed particularly for crew and share fishers. However, this alone will not cover the costs of sustaining a business that is losing money. It won't cover repayments on borrowing, harbour dues insurance etc. A range of tailored business supports are required, but all available options should be put on the table and considered. Many members have pointed to the need to build resilience to future-proof the sector against economic shocks that will be unavoidable, and no doubt will happen. Some have highlighted the need for a broad marketing strategy that doesn't put "all the eggs in one basket" and frees fishermen from being "price takers".

Many have highlighted management, which would deliver improved catch rates but also lower operating costs, increase profitability, reduce the need for unsustainable capital investment and associated debt burdens and the associated exposure that brings with it, get us away from the never ending cycle of "boom and bust" that is now a signature of our Inshore Fisheries.

As buffers become exhausted and the impacts of lack of management, over capitalisation, sustained poor weather, reduced access to markets and the severity of those impacts grows, the viability of the inshore sector and community which depend on it will be in tatters.

Summary of examples of a crisis unfolding to date fishery by fishery

Razor Clam.

East Coast members report being paid the following first sale price/kg for various size grades on 15/01/2020, XL €17, L €13, M €8.50, S €3.50/kg. Currently very limited market at €2.50/kg. Some vessels have ceased fishing with job losses reported.

Brown crab.

Despite extremely light landings and seasonal factors reduced prices for the top grade of hen crab of approximately €1.50/kg and male crab of €1.90/kg. This is against a background of €5/6 for hen crab this time last year and "all in" prices of €2/3 before Christmas. As crab prices have been falling since mid/late 2019 any further drops in a fishery in which most of the heavy capital investment has taken place could be severe.

Whelk

Prices dropped since January with further drops expected in coming weeks resulting of an approximate 20-30% drop in turnover since late January, limited market access may have

been buffered by the fact that the cooked product was being stockpiled. A further considerable drop expected and a possible scenario where boats may have to cease fishing completely also anticipated. Some members report already having to let crew go resulting in job losses.

Green Crab

Both the Spanish markets and the domestic markets are likely to be affected by the domino effect of lack of demand.

Lobster.

Similar to brown crab and for similar reasons, landings of lobster by our members have been light so far this year. First sale prices have dropped from approximately €30/kg to €20/kg since before Christmas, which is a typical if not somewhat greater of a drop than usual for this time of year. Typically prices would begin to rise around now prior to Easter but there is no indication that they are rising. Anecdotal reports were received of additional Canadian/American lobster exports being redirected from Asia to EU markets due to the situation in Asia. Typically members have been reliant in the most part on EU markets (including local domestic tourism) for lobster. As consumer demand declines in EU markets and EU wide tourism slows down, prices are expected to drop. It is difficult to gauge how low they will go, or if they will go below production costs at this stage.

Prawns.

Demersal trawling on the East Coast report a drop in price for tails of approximately 10% since late January and have been advised to expect a further drop of approximately 15% in the coming week. As consumer demand in European markets drops further, further price drops are expected.

***Purpose of this document*

The purpose of this document is aid representatives of NIFA/NIFO represent the interests of members at the Inshore Fisheries Forums and elsewhere as appropriate. Given that NIFA/NIFO membership is effectively a "random snapshot" of Irelands Inshore Sector, the issues faced by NIFA/NIFO members are likely to be indicative of the wider sector. It is important to also note that in seeking solutions to these issues for our members, we are not solely seeking solutions for just our members, but also seeking them for the wider Inshore Sector