CHAPTER 6. BUYING FISH

Fish Resources

A fish processing plant can’t succeed unless it can get fish to process. Fish runs and harvests can change a lot from year to year. So in planning a fish plant, you need to think carefully about the fish resources in your area and how they may change in the future.

It may not be easy to predict how runs may change in the future. Even the Department of Fish and Game only makes projections for one year in the future. But the success of your plant will depend on more than just one season, so you need to make the best guesses you can about future fish runs. Talk to the Fish and Game biologists. Talk to the elders in your area who have been fishing for a long time.

The volume of fish that might be available for you to buy will depend on more than just the run size. How the fishery is managed will also matter. Changes in the commercial fishing regulations and the subsistence fishing regulations can affect when the fishery is open and how much fishermen will be allowed to catch. So you also need to think about how management might change.

Village fishermen watch as their catch is weighed at the Mekoryuk halibut processing plant (1994).
The disastrous Yukon River salmon returns in 2000 and 2001 were a reminder of one of the risks faced by village fish processing plants. A processing plant can’t make money unless it can get fish to process.


The Salmon Disaster and the Kaltag Fish Plant. These two stories from the Anchorage Daily News—written just two years apart—help show how lack of fish can change the outlook for a fish plant.

April 18, 1998:

Kaltag Fisheries Association said it has secured more than $1 million in federal grants to build a seafood processing plant that could be operating as soon as next year. . . Richard Burnham, a fisheries association member, said an existing plant . . . will be obsolete under stricter processing rules imposed by the Department of Environmental Conservation. Plans call for a concrete and steel structure that should satisfy regulators, he said. "It'll allow us to not only do things with the (salmon) egg roe, which is our primary product right now, but also start utilizing the fish and doing more value-added-type things," Burnham said.

September 11, 2000:

So few salmon swam upriver this year that some villagers are wondering whether the plant will have to be mothballed before it slices its first fillet. "We took for granted that the fish were always going to be here," Mayor Violet Burnham said. "Now we have to think there may not be fish, and what are we going to do?"
Competition

Having good fish runs doesn’t necessarily mean there will be enough fish for your plant. Having a fish processing plant in your village doesn’t guarantee that fishermen–even the fishermen from your village–will sell their fish to your plant. Other buyers may compete with you for fish.

Other fish buyers in your area will want fish just as much as you do, especially if runs are low. So you need to think about how you will compete with other buyers. You will probably need to pay the same or better prices as other buyers offer fishermen. You will need to offer the same or better services such as tendering and loans.

Established buyers who have bought fish in your area in the past will have advantages over you at first. One reason is that they already have experience in processing and marketing salmon from your area. Another reason is that fishermen who have dealt with them in the past may have greater confidence that they will get paid when they deliver to established plants than when they deliver to a new company. Fishermen may feel that they need to keep delivering to plants if they have received loans from them.

Sometimes competitors may only operate at the peak of the season, when the fishing is best. This may cut into your fish deliveries when processing can be most profitable.

Even if there isn’t any competition at the moment, there might be in the future—particularly when markets are strong or when fish runs are low.

Your competition won’t necessarily be limited to buyers from outside your area. It may also include other village fish processing plants. In most parts of Alaska there are enough fish for some villages to have successful processing plants. But there aren’t enough fish for every village to have a successful fish processing plant.

The Community Development Quota (CDQ) program has brought important new players into the western Alaska fish processing business. A specific purpose of the CDQ program is to promote fisheries-related economic development in western Alaska, and several CDQ groups have invested in fish processing plants. Many of the plants operating in western Alaska north of Bristol Bay are now owned by CDQ groups.
Creating jobs and providing markets for fishermen are important goals for CDQ-owned plants. Because these plants have financial backing from CDQ groups, they do not necessarily have to earn a profit or even break even. Even if CDQ-owned plants aren’t profitable, they benefit the communities where these plants are located and the fishermen they buy from—as the CDQ program was intended to do.

CDQ-owned plants can represent a major competitive challenge for non-CDQ owned plants in western Alaska which have to cover all of their costs. It’s harder to compete successfully for fish if your competitor doesn’t have to break even and you do.

Who will you be competing with to buy fish?

Will fishermen be willing to sell you the volume of fish you plan to buy?

Competing with Cash Buyers. Here’s how the former manager of a western Alaska village fish plant described competition from cash buyers:

Fish buyers started seeing the reputation of the quality of the fish we had. Cash buyers started coming in. They started setting up shop right at the mouth of the river, where they would just set up signs. If we were paying $.75/lb for kings they had signs over here saying “$.80/lb cash.”

Whereas we were financing fishermen. We bought their nets, we bought their boats, we bought motors, we bought gear for them—so we had accounts receivable from fishermen. So when they come to deliver to the fish plant 50% maybe of their delivery would go their account, so they’d only get half the money.

But with the cash buyer there’s a sign saying a penny or two higher. But it would be cash. So that would be lucrative for them. And they came in basically for the kings or the cohos and then they were gone. We ended up with all the low-value fish, the chums and the pinks. We had overhead, we had loan payments, whereas the cash buyer he’d get their fish and fly them out and recover all of that. So we just couldn’t beat the cash buyers, couldn’t compete with them, with our higher overhead and higher operating costs.
Competition for village fish processing plants:
Bering Sea Fisheries operation on the Lower Yukon.

Fish Quality

As competition increases in world fish markets, quality standards for fish products are rising. Finding and keeping a good market for your fish will depend on delivering consistently high quality products. To make good quality fish products you need to start with good quality fish. In many parts of Alaska, that means changes in how fishermen handle fish, shortening the time period between when fish are harvested and when they are delivered and icing the fish to keep them cool. Fishermen may need training about what they need to do to deliver good quality fish. They may need ice. They may need new equipment, such as totes to hold iced fish.

It may not be easy to get fishermen to meet your quality standards. If you insist on higher quality standards than your competitors, some fishermen may stop delivering to you. It may difficult to refuse to buy from fishermen from your village who aren’t meeting your quality standards. But it is absolutely necessary to maintain strict quality standards—and to try to raise them over time.

How will you make sure that fishermen deliver good quality fish to your plant?

What will fishermen need to do in order to deliver good quality fish?

What will you need to do to make sure that the fishermen you are buying from meet these quality standards?

If you provide ice to fishermen, what will it cost you per pound of delivered fish?
It’s important to have enough unloading capacity so that you don’t have delays at the dock like this picture shows. Fish sitting in a boat are deteriorating in quality. Keeping the fish iced in slush bags or totes is essential. You need a boat that can provide ice to fishermen on the grounds or while they are waiting to deliver. Long waits are also tough on fishermen’s patience. If there's another buyer available, they may look to the competition.
Fish Prices

The cost of fish is one of the biggest costs of a fish-processing plant. In planning your plant, you need to think carefully about what you will need to pay for your fish.

That may be different from what fish buyers in your area paid this year or last year. Fish prices change from year to year. Fish prices in the future won’t necessarily be the same as they have been in the past. In planning for your plant, you need to think about how and why fish prices may change.

Fish prices are affected partly by local conditions in your area. When your plant opens your competitors may bid up the price to try to maintain their market share. In a low harvest year they may bid up the price to try to get enough fish to operate profitably—or they may sit out the season and not buy any fish.

Fish prices are also affected by market conditions for the products you and your competitors produce. If other buyers in your area are getting good prices for their fish products, they are likely to raise the prices they offer fishermen to try to get more fish. You will probably have to match the prices offered by other buyers (but be careful not to match prices until you’re sure they’re what other buyers are actually paying).

What you assume about the prices you will have to pay fishermen should be consistent with your assumptions about the prices you will get for your fish products. If you get a high price for your products, other buyers will probably also be getting high prices, and chances are the fish price will go up. If you get a low price for your fish products, other buyers will probably also be getting low prices, and chances are the fish price will go down. So one way to think about fish prices is to think about the spread—or margin—between the wholesale price for fish products and the ex-vessel price paid to fishermen. The margin will probably stay about the same in the future as it has in the past.

What price do you expect to pay for fish?

In the past, what has been the typical “margin” between what processors in your area got paid for fish and what they paid fishermen?

A different perspective on fish prices

The establishment of the Alaska CDQ program in the 1990s put some Alaska Native small boat fishermen in new ownership and management roles. Traditionally they had believed that large fish processors were taking advantage of them on the price they paid for fish. When the fishermen became fish buyers, they realized that many factors affect the price of fish and that a low price is not necessarily an unfair price.
Prices processors pay to fishermen vary from year to year. Markets vary for different species. As these Yukon River prices show, the recent past is not necessarily a guide to price conditions in the future.

Alaska Prices Paid to Yukon River Fishermen for Chinook Salmon, 1984-2006

Fishermen’s prices reflect the wholesale prices received by processors. If you get higher wholesale prices, you will probably pay fishermen more. If you get lower prices, you will probably pay fishermen less.

Average Bristol Bay Sockeye Salmon Prices
Delivering Fish to the Plant

Part of buying fish is getting them to the plant. If your plant is close to where the fishermen are catching the fish, they may be able to deliver the fish to the plant directly. Otherwise, you may need to provide tendering (or trucking, if the fish are being caught by set-nets).

As part of your financial planning, you will need to estimate what tendering will cost you per pound. This will depend partly on whether you contract with someone else to do your tendering for you, or whether you operate your own tender boats.

Remember, in a low-run year, your tendering costs per pound may be higher than in a high-run year. It costs almost as much fuel and time to pick up a few fish as a lot of fish. So the tendering cost per pound should vary between a low-run and a high-run year. In some years it may be more cost-effective to pay a higher price for dock-side delivery rather than paying a tendering fleet.

How will fish get delivered to your plant?

Will fishermen deliver to tenders or directly to the plant?

If they use tenders, will you use your own tender boats or will you contract for tenders?

How much will tendering cost you?

Season Timing

You can’t plan a fish plant just by thinking about the total volume of fish you will buy over a whole season. You also need to think about when you will be buying and processing fish. What months will your fish plant be operating? How much fish are you likely to buy each week? Will your buying and processing be spread out evenly over the week or will you get all the fish in one day? The answers to these questions will affect how much space and equipment you need in your plant, how many processing workers you will need, and how long you will need them.

What will be the timing of your fish plant production?

What is the timing of fish runs in your area? When will fishery openings occur? What are the peak periods of the season?

What is the highest volume that might get delivered to you in a day?
Tender boats owned and operated by the Yukon Delta Fish Marketing Coop in Emmonak (top) and Maserculiq Fish Processors in Marshall (bottom)
Fish Taxes

Part of your costs in buying fish will be fish taxes. The State of Alaska has several different kinds of taxes paid by fish processors and fishermen. A village fish processing plant has to pay two kinds of taxes:

- The **Fisheries Business Tax** is paid by businesses that process fish. The Fisheries Business Tax rate for shore-based plants is 3% of the value paid to fishermen (except for canned salmon, for which the tax rate is 4.5%).

- The **Seafood Marketing Assessment** is paid by Alaska seafood processors with more than $50,000 in annual sales to support the Alaska Seafood Marketing Institute (ASMI). The rate is 0.5% of the value of seafood products produced in Alaska.

So the combined tax rate paid by most village fish processing plants is 3.5% of the value paid to fishermen.

You can get more information about these taxes, as well as copies of the tax forms, from the Alaska Department of Revenue’s web-site at [www.tax.state.ak.us/divisions/fisheries.htm](http://www.tax.state.ak.us/divisions/fisheries.htm).

In some parts of Alaska, such as the Bristol Bay Borough, local governments also collect fish taxes. Be sure to include any local fish taxes in your area.

What percent of ex-vessel value (the price you pay fishermen) will you have to pay in fish taxes?