

Future-Proofing the Seafood Industry

A Strategic Analysis of the
North East Scotland Seafood Processing Sector

June 2020

Commissioned by the North East Scotland Fisheries Local Action Group (NESFLAG)

with support from Seafood Scotland and Opportunity North East



N.E. Scotland Fisheries
LocalActionGroup



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EXECUTIVE SUMMARY.

Introduction and Context

This study, “Future Proofing the Seafood Industry”, commissioned by Aberdeenshire Council on behalf of the North East Scotland Fisheries Development Partnership (NESFDP) and funded by NESFLAG, Seafood Scotland and Opportunity North East (ONE), provides a detailed analysis of the strategic position of the Seafood Processing sector in NE Scotland, immediately pre Covid19 lockdown. The study has been delivered by BDA Ltd.

The study provides a rigorously researched evidence base and its conclusions are being incorporated into the separate Seafood Transformation Project (STP) led by ONE. Government, industry and representative organisations have agreed that a Business Case is required for a STP to draw together the key actions, to test the justification for the potential public and private investment and to design the programmes needed to address the issues identified in this study, and thereby significantly grow the Scottish seafood processing sector. At the time of publication of this study, the STP Business Case is at draft stage being reviewed by key partners – Scottish Government, Aberdeenshire Council, Seafood Scotland, Scottish Enterprise, Scottish Seafood Association and representative processors.

The commissioning organisations and authors of this “Future Proofing the Seafood Industry” study believe that while there are challenges, not least resulting from Covid19, there is a strong case for investment in this major part of the Scottish food manufacturing sector through an ambitious Transformation Project and that it can be an important element of the national food and drink recovery plan as the economy emerges from lockdown.

Readers are encouraged to review the findings and to consider how they can play a part in a unified approach to growing the sector.

Background to the Strategic Analysis.

In 2019, Aberdeenshire Council issued an Invitation to Quote (ITQ) for the provision of a strategic analysis of the North East of Scotland seafood industry infrastructure, and subsequent recommendations for development and delivery of a value proposition unique to the seafood industry in the North East.

The UK Government’s ‘Sustainable Fisheries for Future Generations’ white paper (July 2018) painted a positive picture, however, it was suggested that profitability within the on-shore processing sector was under pressure. Following the referendum outcome in 2016 that the UK should leave the European Union, scenarios were identified under which quota for Scottish vessels might increase, resulting in an increase in landings to Scottish ports.

The Scottish Government considered that to maximise the value of those increased landings, adding value within Scotland required a robust Scottish processing sector to maintain and potentially increase a presence in both primary and secondary processing. There was however no clear understanding of processing capacity within the Scottish seafood processing sector, nor a clear indication of what level an increase of fish landings the Scottish seafood processing sector could cope with before the “added value” potential was lost from Scotland.

In June 2018, the North East Scotland Fisheries Development Partnership (NESFDP) highlighted a possible danger that onshore investment might be insufficient to grasp the full opportunity for economic growth in the processing and added value sectors. If an uplift in landings by Scottish vessels did materialise, could these bypass the Scottish processing sector, and transfer directly to value adders elsewhere in the UK or near continent?

In March 2019, Marine Scotland sought consultation primarily from the catching and landing sector¹ while Seafood Scotland developed a strategy document setting out recommendations for the seafood industry supply chain².

¹ Future of Fisheries Management in Scotland: National Discussion Paper.

² Changing Tides.

With the concentration of Scottish processing capacity in Aberdeen, Peterhead, Fraserburgh and other smaller communities, the North East Scotland Fisheries Local Action group (NESFLAG) promoted the need for a high impact, strategic analysis of the seafood supply chain in North East Scotland.

The key aim of the analysis was:

“To provide a strategic analysis of the current status of the seafood processing industry, and to support development of an implementation plan that facilitates maximisation of the local economic impact from any future increase in landings”.

In late summer 2019, work on the strategic analysis commenced with the key aim of delivering a comprehensive, evidence-based study culminating in a deliverable action plan. Methodology consisted of:

- Desk research.
- Face to face interviews with as many processing businesses in North East Scotland as possible.
- A standard question questionnaire to determine a wide range of data for each business.
- Identification of critical driving forces and external risks for the processing sector, using PESTEL analysis (Political, Economic, Social, Technological, Environmental, Legal). A total of 33 factors within those headings that were considered as directly relevant to the strategic review.
- Identification of key opportunities and challenges that all sectors of the processing industry believed lay ahead.
- Particular evaluation of the capacity of the on-shore processing industry to handle increased volumes of fish landed at the key ports of Peterhead and Fraserburgh.

By early 2020, a draft strategic analysis document was available and was presented to the funding partners.

However, by this time the impact of Covid 19 on the Scottish, UK and international economies was all too clear.

Virtually overnight, much of the white fish export trade from North East Scotland to European supermarkets, the hospitality sector, and food service businesses has been lost. Almost all of Scotland’s shellfish exports destined for the restaurant sector in France, Spain and Italy have been devastated. Many UK domestic markets for Scottish processors have been badly impacted.

Recovery for affected businesses – virtually the whole sector, if it comes and to what degree of former volumes in the short to medium term, will be partly dependent upon the actions of foreign governments as to when their domestic restrictions are lifted. It seems inevitable that in the short term there will be some business failures, with long term and possibly lasting damage to the entire supply chain.

Against this unprecedented background, we have discussed at length with the funding partners of this Strategic Analysis whether it would be appropriate and timely to publish such an Analysis, given the fundamental changes that have taken place since field work and research was completed. The unanimous decision was that to secure prosperity and stability in the long term, perhaps very long term, there must be the highest levels of immediate support for, and confidence in, the whole fisheries sector in Scotland, and for the purposes of this Strategic Analysis, the industry in North East Scotland.

It was concluded that the findings of the Strategic Analysis provided

- A clear datum point on the position of the industry in North East Scotland in late 2019.
- Its strengths, weaknesses, opportunities and threats.
- Infrastructural weaknesses and threats to be addressed in support of long-term development.
- Means by which individual businesses and the sector as a whole could achieve maximum exploitation undoubted strengths and opportunities that exist.

With funding partners, we have therefore concluded that findings from the Strategic Analysis should be published in full. Jointly, we have decided that we would term those results the “Datum Point”, a comprehensive view of the processing industry, and a basis from which the industry can move forward, and secure the broadest and most sustainable future for the very long term.

Facts and Figures.

The Seafood Industry in North East Scotland.

Seafood processing is one of the largest contributors to the food and drink sector in North East Scotland, estimated to be worth in the region of **£700 million** to the North East out of a total of **£2.2 billion** of overall food manufacturing turnover.

In 2018 landings at the North East ports of Aberdeen, Peterhead and Fraserburgh are shown below with a 2014 comparison, this being the year in which a previous survey of capacity was undertaken: -

Landing Centre	2014		2018	
	Tonnage	Value (£'000)	Tonnage	Value (£'000)
Aberdeen	1,090	£ 3,261	963	£ 5,393
Peterhead	184,071	£ 163,998	170,227	£ 183,637
Fraserburgh	26,880	£ 40,035	27,990	£ 44,238
Total	212,041	£ 207,294	199,180	£ 233,268

Scottish Sea Fisheries Statistics 2018 show that North East ports, principally Fraserburgh and Peterhead, made up:

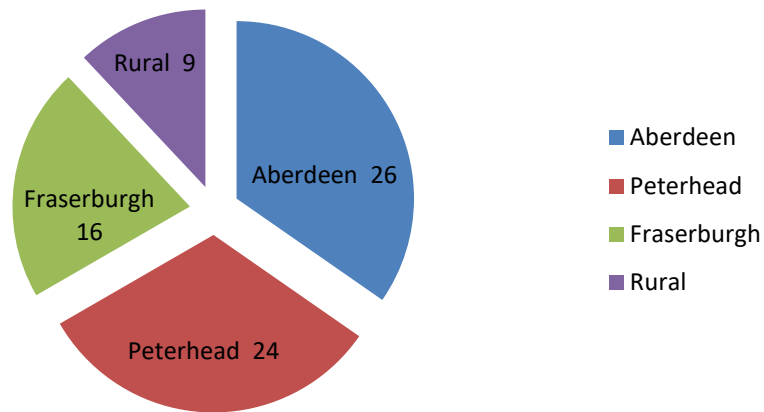
- 57% (199,180 tonnes) of the volume of fish landed in Scotland by Scottish, UK and foreign registered vessels (348,064 tonnes).
- 45% (£233,268,000) of the total value of landings in Scotland (£520,618,000) demonstrating the importance of the North East to Scotland as a landing centre for Scottish fish and shellfish.
- The number of fishermen employed in North East Scotland totalled 1,300, representing 27% of the total number of fishermen employed in Scotland (4,860).
- Fraserburgh has the largest concentration of fishermen with 774 with Peterhead having 413 fishermen. There are 113 fishermen employed in Aberdeen.

Prior to embarking upon developing a strategy for seafood processing in North East Scotland, it was considered essential to carry out an in-depth audit of the current nature and capacity of the industry to establish a firm baseline and solid foundation upon which recommendations for a practical and deliverable strategy could be made. A total of 64 seafood processors were interviewed in Aberdeen, Peterhead, Fraserburgh and the rural areas, representing over 90% of the 72 seafood processing businesses in North East Scotland, as well as 2 local fishermen, 2 producer organisations and 2 fish salesman's offices. Separate discussions were carried out with Seafish, Scottish Seafood Association, Seafood Scotland, Aberdeenshire Council and Aberdeen City Council as well as other assistance agencies. The following key facts were established.

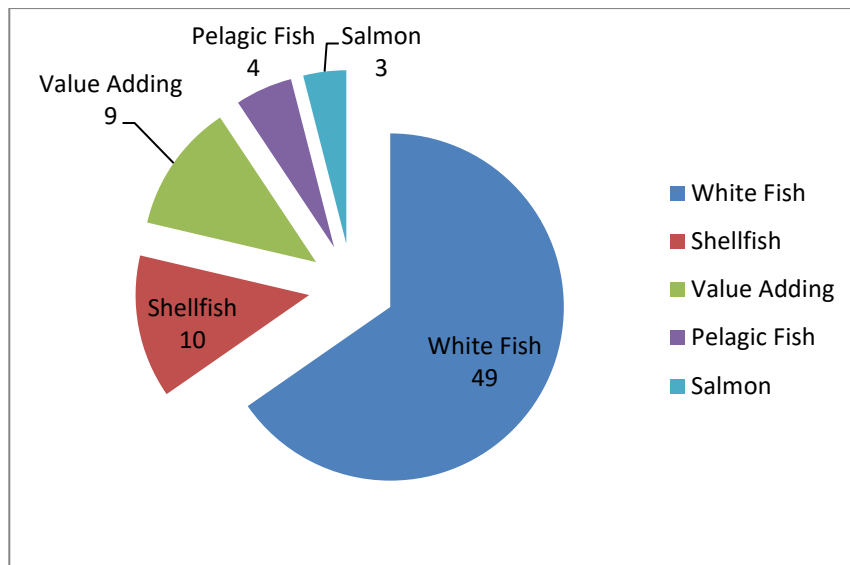
Key Findings - Survey of Processors / Stakeholders

Distribution and Location of North East Scotland Seafood Processing Sites.

The survey carried out as part of the preparation for this report indicates that the total number of seafood processing businesses in North East Scotland is **72**, with the number of sites amounting to **75**.

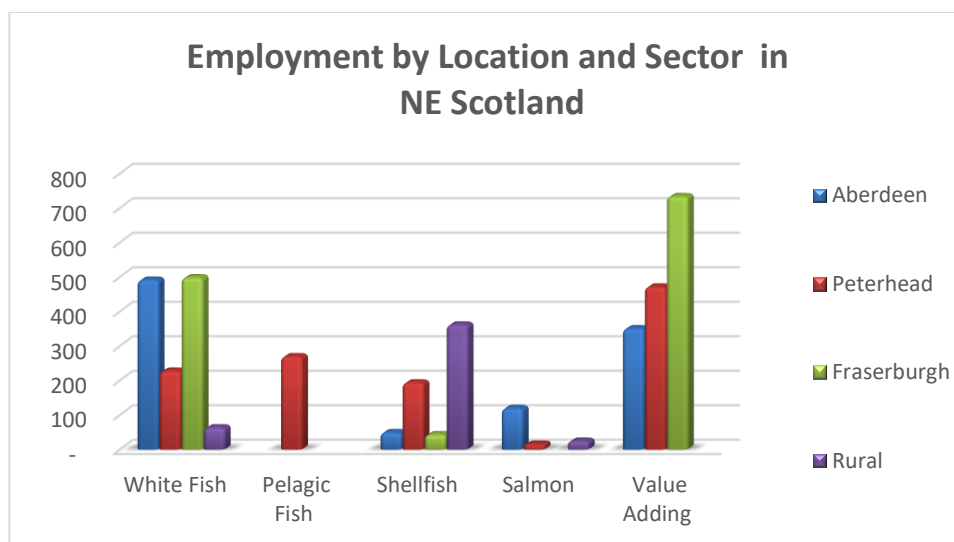
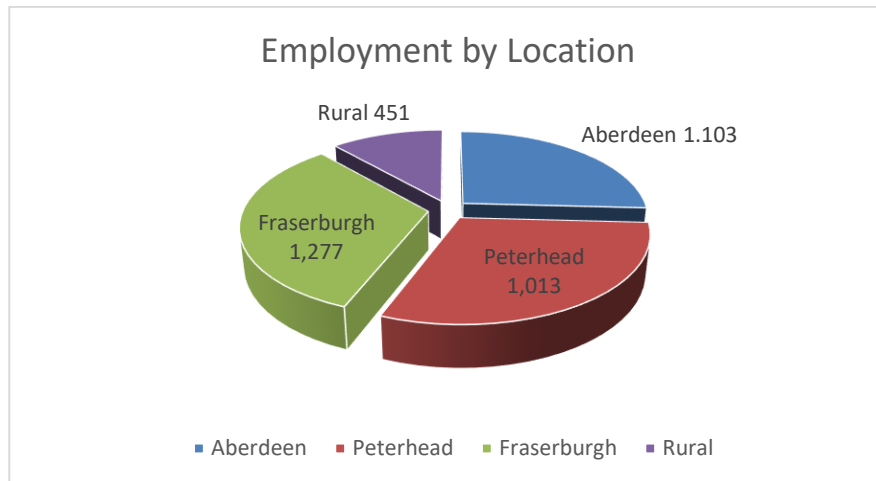


Classification of Seafood Processing Sites in NE Scotland.

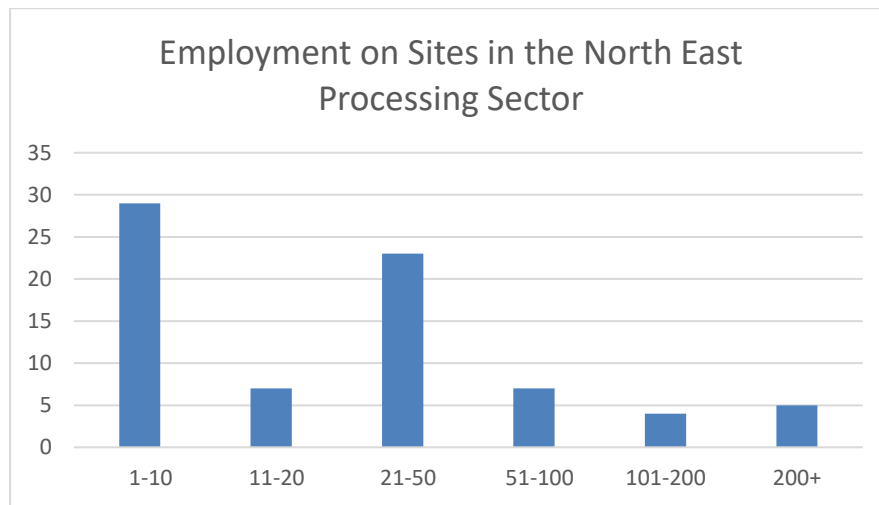


Seafood Industry Employment in North East Scotland

From survey work undertaken for the study, employment including full-time and part-time FTE jobs on seafood processing sites in North East Scotland totals **3,920**. Seasonal FTE jobs, which are of vital importance to the pelagic sector in particular, add a further 140 FTE jobs to this total.



Size of Individual Businesses by Employee Numbers.



Seafood Processing – Sector Trends.

In North East Scotland, a total of 78 processing sites in 2014 has reduced to 75 in 2019, a drop of 4%.

- The total number of whitefish sites in North East Scotland reduced from 57 to 49, a drop of 8 but two of those included in the whitefish sector in the 2014 survey were re-designated to the value adding sector reducing the overall actual drop to 6.
- Whitefish sites increased by 2 in Fraserburgh.
- Aberdeen and Peterhead each losing 5 whitefish sites (including the reclassified sites).
- Value-adding businesses increased from 5 to 9 between 2014 and 2019 including the reclassified sites.
- Between 2014 and 2019 employment in the seafood industry in the North East of Scotland remained relatively static, with full-time and part-time FTE staff numbers marginally down from 3,964 in 2014 to 3,920 in 2019.

On premises:

- The ratio of owned to leased processing buildings in North East Scotland was 80 % / 20%.
- Concerns remain over the future operation of Aberdeen processors located in the North Dee Business Quarter.

On raw materials supplies:

- It is estimated that 74,700 tonnes of whitefish are purchased annually by North East processors, with around 49,000 tonnes sourced from Peterhead Fish Auction. Fraserburgh, Shetland are other key supply sources.
- In 2019, Peterhead Port Authority reported that 64,326 tonnes of whitefish were sold at auction, suggesting 76% of white fish landed are retained for local processing.
- For pelagic processors, all raw materials are landed locally.
- Only 61% of shellfish processed is landed in the North East.
- Value adding businesses source around 80% of raw materials in frozen block form from foreign suppliers primarily to remain competitive.

On products:

- Around 80% of whitefish processors sell only fresh chilled product.
- The vast majority of pelagic products are sold in frozen format.
- Shellfish processing is the most diverse, with fresh, frozen, cooked and live export.

On capacity:

- With current processing volumes around 69,000 tonnes, white fish processors estimate they have around 23% spare capacity or a further potential processing volume of 16,200 tonnes, though much of this could only be utilised by working additional shifts. This may not be compatible with the sector's need to purchase at auction and process / despatch product the same day.
- Pelagic processors have little spare capacity - around 15%, and are constrained by very short catching seasons when processing capacity is at its limit.
- Shellfish processors currently have capacity to process 40,000 tonnes and estimated that a further 7,700 tonnes (19%) could be handled.

On market profile:

- UK and European markets dominate sales by the white fish sector with 15,000 tonnes and 17,200 tonnes respectively. Other markets accounts for around 5,100 tonnes.
- Export markets dominate the pelagic sector with just over 32,000 tonnes of finished product to EU markets, 19,500 tonnes to other export markets, and 23,000 tonnes to the UK.
- For shellfish, only 1,700 tonnes are sold to the UK (6.6% of the total) with EU and R o W accounting for the vast majority of outputs.
- Value adders and manufacturers are strongly focused upon UK markets with just under 65,000 tonnes (78% of outputs), and EU markets accounting for most of the remaining outputs.

On future expectations:

- All sectors expressed confidence that sales, profits, employee numbers and raw material availability would be maintained or increased over the next 12 months.
- Shellfish processors had some concerns regarding possible tariffs on exports to the EU, and also on-going difficulty in accessing China.

On performance challenges:

- The volume and regularity of raw material supply remained the main performance challenge facing white fish processors, with staff and skill availability following closely.
- Pelagic processors saw staff availability and skills retention as their main challenge, with particular concerns regarding migrant labour in a post-Brexit climate.
- Shellfish processors also considered that raw material supply and labour availability were their key challenges.

Investment Capacity and Investment Willingness.

Central to this Analysis is the development of a practical implementation plan that facilitates maximisation of the local economic impact from any future increase in landings. A review of literature and reports shows widespread encouragement from Government, Seafood Scotland, and other fisheries support organisations, for the creation of a business environment that encourages capital investment in the processing sector at a level to support maximum value adding in Scotland from anticipated uplifts in landings.

Seafood Scotland sees a requirement for:

"a robust Scottish processing sector and supporting infrastructure to maintain a presence of both primary and secondary processing that maximises the added value return to the Scottish sector. Currently it is unclear if the Scottish processing sector could cope with a significant increase in Scottish landings".

From the review, there is an underlying assumption that by identifying processing sector needs, creating appropriate support structures, whether physical or financial, and creating an industry wide consensus to support growth, this will realise substantial capital investment from businesses.

However, should that assumption be challenged at an early stage? If evidence suggested that the processing sector's "appetite" for investment falls short of that required to deliver meaningful capacity growth and innovation, then the strategy to encourage and deliver growth may require to be reconsidered.

To determine industry's investment capacity and willingness, two key factors to assess the willingness and capacity of processing businesses to undertake capital investment were identified.

Succession Planning. Did current ownership of businesses indicate shareholders / business principals had a succession policy in place to ensure business continuity in the long term that would encourage long term investment and support servicing of any associated borrowing?

Financial Capacity. Did trends in financial performance of processing businesses and their current financial strength indicate retention of reserves to fund investment? If businesses were retaining capital, was it possible to quantify investment capacity across the sector?

The methodology firstly produced a subjective view based upon publicly available information at Companies House for all identified North East Scotland processing businesses trading as limited companies. No similar information is publicly available for businesses trading as partnerships and sole traders, but some limited information was obtained.

- Information was analysed for 53 businesses, representing 83% of the total identified processing businesses in North East Scotland, between them employing approximately 3,800 FTE's.
- The number and age of owners of each business was obtained, looking for indications of succession by way of shareholder / directors or business partners who could be considered as the next generation of business managers. Where companies were part of a group structure the ultimate holding company was analysed.
- Information was obtained for three years of balance sheets, identifying the value of shareholders' funds (share capital and retained profit), and movement from the previous year.
- From balance sheet information and notes available, levels of indebtedness by way of bank overdraft, bank loans, invoice discounting facilities, and asset finance were established.

Subsequent validation of this research was undertaken during interviews with processors by way of the questionnaire including questions on business succession and investment intentions.

Succession Planning Within Processing Business.

Businesses were graded from 1 to 4, with 4 being considered to be the least likely to undertake capital investment, based upon the following criteria.

Average Age of Shareholders/Owners	Definition	Investment Potential
Age under 50	Businesses with succession policy in place through the inclusion of "next generation", part of a stable group, or where the age of owners allowed time to formulate a succession policy.	1 - Good Potential.
Age 50 - 55	Businesses with no obvious succession policy by way of ownership, and which would need to consider addressing the issue within the medium to long term.	2 - Some Potential.
Age 55 - 60	Businesses with no obvious succession policy by way of ownership, and which need to consider addressing the issue within the short to medium term.	3 - Limited potential to invest.
Age 60+	Businesses with no clear succession policy by way of ownership and which could be considered time limited in devising a succession strategy.	4 - Very unlikely to consider investment.

Investment Capacity within processing businesses.

Investment capacity is defined as the ability of a business to support capital projects or fund increases in working capital from its own liquid resources, or by accessing third party borrowing from a bank or other lender. A subjective view was made on investment capacity by looking at gearing within businesses. Gearing is the ratio of external debt due to banks and financial institutions relative to the value of owners' capital including share capital and retained reserves. A business with low or zero gearing could be expected to secure external investment capital more readily than would be the case where it had high existing debt and / or minimal commitment from its owners.

Businesses were graded from 1 to 4, with 4 being considered to be the least likely to undertake capital investment, based upon the following criteria.

Financial Capacity to Invest	Definition	Investment Capacity
Gearing 0%	Businesses with no external borrowing and cash reserves.	1 - Good
Gearing 0% - 50%	Businesses with limited existing borrowing but still capable of supporting some capital investment.	2 - Some
Age 50% - 75%	Businesses with significant external borrowing which would restrict investment capability.	3 - Little
Gearing 75% +	Businesses with significant external borrowing and little or no scope to increase to fund capital investment.	4 - Very little or none

The Investment Matrix.

Having assessed these 53 businesses for their investment potential and their investment capacity, results were placed within the following matrix using a scale of 1 to 4 for each axis.

Total North East Processors

		7	1	2	1
Finance	2	1	2	1	
	4	1	1	1	
	17	6	4	2	
			Succession		

Total Processors	53	100%
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Succession planned and good finance	27	51%
Succession or finance weak	9	17%
Succession AND finance weak	13	25%
No succession / finance poor	4	7%

Findings can be summarised as follows:

- Around 27 businesses (51%) would be in a position to deliver capital investment, with both succession and finance in a healthy position.
- Nine businesses (17%) showed a weakness in either succession or finance, but had the possibility of addressing that weakness through some consideration of succession, or by increasing their net worth.
- However, 13 businesses (25%) showed weakness in both succession and finance, restricting likelihood of undertaking capital investment.
- It is considered that 4 businesses (7%) have limited if any capability or capacity, to deliver capital investment.

Within the total of 53 businesses analysed, those operating in the pelagic, shellfish and added value sectors showed the highest probability of delivering capital investment, and indeed investment of some considerable scale. Given the small number of businesses in these sectors, it was decided not to include detailed information for those sectors as individual businesses may be readily identifiable.

For white fish processing businesses however the number of businesses is such that a separate matrix can be shown for that sector without compromising anonymity. It appears evident that the white fish sector is in a weaker position overall with respect to capability and capacity to support capital investment compared to the processing sector as a whole in North East Scotland.

The Investment Matrix - The White Fish Sector.

WHITE FISH PROCESSORS

		5	1	2	1
Finance	2	1	1	1	
	1	1	0	1	
	10	5	4	2	
					Succession

White Fish Processors	38	100%
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Succession planned and good finance	16	42%
Succession or finance weak	8	21%
Succession AND finance weak	10	26%
No succession / finance poor	4	11%

- Only 16 businesses (42%) would be in a strong position to consider investment.
- A further 8 businesses (21%) were likely to support investment if a weakness in succession or finance was addressed.
- A total of 14 businesses (37%) were considered have limited if any capacity to deliver capital investment. That position was determined by defining capacity as represented by cash reserves and available borrowing ability to take gearing (the ratio of external borrowing to shareholders funds) to a level of 75%.
- However, even where gearing is low investment capability may not be substantial. Of the 24 white fish processors considered to have investment capacity shown in the matrix above, 14 are assessed with capacity under £250,000, with four of those under £100,000 capacity.
- There are only a very few white fish processing businesses that are considered able to fund substantial capital investment in excess of £1m.
- Over a three-year period, the majority of businesses have increased their net worth during this period. From a total of 38 processors, 27 have increased their net worth. However, although the average increase in net worth for these 27 businesses is an encouraging £436,000, the median increase in net worth, being the mid-point by number of processors, is a much lower number at £121,000. This results from two particular businesses having shown a very substantial increase in net worth over the three-year review period.

While it is encouraging that the majority of businesses are increasing net worth, the lower median increase calls into question the scale of ambition and ability that the majority of processors might have in relation to increasing net worth to support future investment.

Using the above indicators of investment capacity, it is estimated that businesses in the white fish sector could be in a position to support around £24m of investment, representing an average of £1,077,000 for each business. Again however, figures are dominated by several large businesses. When the top five businesses are excluded from this calculation, the estimated average investment capacity potential drops significantly to £262,000.

Conclusion.

Based upon desk research with confirmation by face to face interview for the vast majority of sector businesses, it is suggested that the hoped-for investment capacity and willingness, may be over-estimated. Encouragement to expand capacity is coming from many quarters, particularly with anticipated uplifts in quota for, and landings from Scottish vessels in future years. However, are these projects which are suggested to include premises expansion and automation, actually affordable to the majority, possibly greater majority of processors?

Industry Strengths, Weaknesses, Opportunities and Threats.

Sector analysis has been carried out and is shown within the full report. For this summary, the most important findings for the North East processing industry as a whole are set out below.

Strengths

- Long established/highly regarded seafood processing sector in North East Scotland.
- Reputation/product quality/freshness/provenance.
- Diversity of raw materials, white fish, pelagic fish, shellfish and salmon.
- Diversity of markets, wholesale, retail, food service in the UK, Europe and rest of world.

Weaknesses

- Irregularity of supply for wild caught processing – annual quotas and short-term peaks/troughs.
- Staffing issues – recruitment/retention/training and reliance on migrant labour, particularly in larger businesses.
- Lack of sufficient finance for capital investment and expanding trading.
- Lack of available infrastructure i.e. sites/buildings for development.

Opportunities

- Increased landings by Scottish fleet following Brexit.
- Capitalise upon facilities and accreditations at the new Peterhead Fish Market.
- Enhance processing efficiency to maximise margin and minimise costs.
- Collaborate with other processors e.g. to reduce costs and extend product ranges.
- Vertically integrate to improve efficiency in the supply chain.

Threats

- Continued high prices and poor margins lead to reduced processing capacity.
- Tariffs/delays at ports lead to increased costs and reduced quality.
- Irregularity of supply threatens/destroys customer relations.
- Product displacement by lower cost imports.

Strengths Weaknesses Opportunities and Threats – Conclusions.

There are a number of common strengths which are evident in all the seafood sectors in North East Scotland including reputation, product quality, freshness and provenance with processors benefiting from being close to the main fish and shellfish landing centres in the UK.

The diversity of raw materials/breadth of markets, both at home and abroad, and the range of business sizes as well as processor types act as significant strengths for the seafood industry.

Seafood processing presently retains a critical mass of businesses in North East Scotland allowing processors to meet increasing demand for Scottish seafood and creating an ability to process and market all the fish and shellfish species landed.

In the pelagic sector, a significant strength lies in the small number of large-scale, financially secure businesses which enjoy close working relationships with their fishing company suppliers.

The shellfish sector is characterised by a small number of large-scale businesses with relatively close links to their fishermen suppliers located mainly in Scotland but also throughout the UK to combat seasonality and assure year-round supplies. The sector displays increasing vertical integration through building or purchasing vessels, or providing loans to vessel owners.

Manufacturing value-added processors are few in number but large-scale and very efficient making the best possible use of automation and robotics to reduce labour dependency and minimise unit processing costs. A significant strength of these businesses is that they are innovative in terms of products and process line developments.

Weaknesses.

Irregularity of supply is the most significant weakness for processors in the whitefish and shellfish sectors. This is also an issue for value adding by-products businesses. Seasonality of supply is a significant weakness for the pelagic sector.

Staffing issues including recruitment, retention and training are weaknesses for all processors as is reliance on migrant labour, particularly in the value-added manufacturing and pelagic sectors. This weakness is likely to increase significantly post Brexit.

Other weaknesses in the whitefish sector include 'fragmentation' (lack of organisation and a collaborative culture), insufficient margins to stimulate growth/investment and lack of available infrastructure, particularly cold storage.

The concentration of processing over very short specific seasons is a significant weakness for the pelagic processing sector. The quayside sites occupied by pelagic processors are almost all fully developed, which creates a weakness in regard to potential future on-site expansion.

Opportunities.

Increased landings and sales of fish and shellfish in North East Scotland following Brexit represent a major opportunity for processors in the area.

Capitalising upon the area's reputation for the quality and freshness of its wide-ranging products represents a major opportunity as do opportunities to increase value through promoting a new 'Scotland' seafood brand.

Securing and promoting accreditations, particularly SALSA and BRC, represent a significant opportunity to open up new high margin markets for North East Scotland seafood products.

Diversification and production flexibility are significant opportunities in the whitefish processing sector as is opening up new higher margin markets.

Reducing labour dependency through automation represents an opportunity, particularly for larger businesses, and where manual labour is essential improving skills, increasing the attractiveness of the seafood industry to new entrants as a career and providing a career path for those in the industry is a significant opportunity.

In the pelagic sector there are opportunities to extend the length of the landing seasons to accommodate the processing of additional volumes of fish and to relocate some facilities e.g. cold storage, to new sites in order to free up space for additional processing at quayside locations.

Possible benefits that might be secured from Foreign Direct Investment (FDI) should be considered. Such FDI might be from seafood processors, but also from other food manufacturing businesses seeking to diversify and take advantage of increased seafood landings in North East Scotland.

Threats.

Brexit remains the single most significant threat to the seafood industry in North East Scotland, particularly to the markets of the whitefish and shellfish sectors. This includes possible implementation of tariffs and potential delays at ports.

Lack of sufficient migrant labour post Brexit represents a major threat particularly to the value adding manufacturing, salmon and pelagic sectors although it will have a direct negative impact on many seafood processors in other sectors.

Towards Future Proofing the Seafood Industry in North East Scotland.

A strategy for future proofing the seafood industry in North East Scotland should be **stretching, focused, practical and deliverable.**

It should address the issues facing the industry and provide a route plan for capitalising upon the significant opportunities to maximise added value to existing products, innovate to create novel products and develop new premium markets which will allow maximum returns to be achieved.

Potential increases in landings will provide a foundation for growth provided the industry increases production capacity to fully capitalise upon this opportunity.

The strategy should also focus on efficiency and cost reduction in pursuit of enhanced margins which will provide funds for future investment.

The overall objective of the strategy should be to create a **progressive** and **diverse** seafood industry with the capability of meeting the needs and aspirations of a growing list of customers on the world stage.

The industry should aspire to be at the **leading edge in terms of technology** with **high class facilities** and a **skilled workforce** which will allow the highest standards in terms of processing regime and products to be achieved and maintained.

The seafood processing industry strategy should **recognise the position seafood processing occupies** in the overall supply chain and work with other links in the chain to **maximise overall efficiency, productivity and value.**

For this study, the seafood industry in North East Scotland shows 5 distinct sectors i.e. **whitefish, pelagic fish, shellfish, value-added** and **salmon.**

All of the sectors operate independently of each other, with different supply chains some of which are more efficient and integrated than others. Each of the sectors has its own internal challenges and opportunities which require individual strategic responses.

However, 12 overarching strategic areas are common to all 5 sectors and could be considered to provide '**strategic pillars**' upon which the future sustainability and success of the seafood industry rests.

The Twelve Strategic Pillars for Seafood Processors.

- **Stabilisation.** If processing capacity in North East Scotland, particularly in the whitefish sector, is not to be lost then any strategy must focus on stabilising the current situation. It seems inevitable that the number of whitefish processors will reduce significantly over the next few years. A key strategic focus should be to quickly identify progressive whitefish processors with the market, management and motivation to rapidly increase production and then work closely with those selected businesses to fill the capacity gap at as early stage as possible.
- **Vertical Integration.** Significant levels of vertical integration are already present in the pelagic and shellfish sectors in North East Scotland. A strategy for the future proofing of the seafood industry in North East Scotland must take into account the opportunities which could be capitalised upon by vertical integration, particularly for the white fish sector. These include a more secure, efficient and effective supply chain, increased returns and a more resilient processing industry in North East Scotland. Vertical integration will probably require additional processing space. This may entail a move to larger and more suitable processing premises. A key part of supporting this strategic pillar will therefore have to involve the creation of basic infrastructure (land and services) to accommodate new vertically integrated seafood processing facilities.
- **Collaboration.** Processors in all sectors in North East Scotland have a reputation for being independent and sceptical of collaboration although this attitude has been less prevalent in some sectors over the past few years, in particular the pelagic sector. The whitefish sector remains characterised by 'fragmentation' which has acted as a significant barrier to growth. Collaboration in pursuit of addressing common issues or capitalising upon common opportunities should be assessed in all sectors.

The issues could include raw materials and finished product transport, collective purchasing of power, water etc, collaborative renewable energy projects e.g. CHP, collective provision of infrastructure e.g. cold storage and treatment/disposal of waste.

Collaborative projects could play a significant role in reducing the carbon footprint of the seafood industry in North East Scotland.

- **Diversification.** In the seafood processing sectors in the Scotland there are significant opportunities for diversification, particularly in the whitefish sector. In general terms the interviews carried out with small and medium-sized whitefish processors suggest that a key element in promoting financial stability and profitability is the ability to be flexible in terms of purchasing, processing and selling their products.

Diversification will help create more diverse, flexible and stable seafood businesses capable of adapting quickly and effectively to changes in supplies, markets and labour.

- **Premiumisation.** Seafood products produced in North East Scotland are already considered to be of premium quality, however processors across all sectors indicated that more needed to be done to introduce and develop 'premiumisation'. There was no national 'brand' which could support them in their efforts. Premiumisation will increase returns to processors, particularly whitefish, shellfish and pelagic processors by differentiating their products from those of their competitors.

A key element in supporting 'premiumisation' is a requirement to ensure that the reputation of seafood processing in North East Scotland is high and consistent. This will require that not only should products be of a high standard but processing standards should be high and consistent in all sectors.

This will help to enhance margins for processors and create a more sustainable seafood processing sector in North East Scotland. Support for this strategic pillar involves funding for the creation of a Scottish seafood brand and market research/marketing expertise for its promotion and policing of standards.

- **Reputation.** Currently, probably in all sectors but particularly in the whitefish sector, there is a need to ensure that all businesses not only comply with the minimum processing standards applied by the local authority but aspire to increase the standards by improving the processing environment and the skills of processing staff. The proposed SSCE facility in Fraserburgh will provide some of the necessary infrastructure for training provision. It is recognised that there is a need to ensure that all processors meet minimum standards as food producers and aspire to gain recognised quality accreditations such as SALSA and BRC.

The activities of Scottish Seafood Association should be expanded and funding provided for facilities improvement and training to raise and maintain the reputation of seafood processors in North East Scotland, particularly small-scale whitefish processors.

- **Innovation.** A significant issue for the seafood industry in North East Scotland, particularly for whitefish processors, is the relatively small net margins they are capable of generating. This has been fully articulated elsewhere in this report. Average net margins can be as low as between zero and 3%.

Innovation can provide a valuable method of maximising added value and extending product and presentation ranges. This allows processors to increase sales to existing customers and access/develop new high-end outlets where returns can be improved.

Consideration should be given to the establishment of a new seafood specific Seafood Innovation Programme backed up with an Innovation Fund for seafood processors.

- **Simplification.** Although the supply chains in the pelagic, shellfish and value adding sectors are relatively short and efficient in regard to supplies of raw materials there may be opportunities to simplify and reduce the length of the supply chain in regard to sales. In the whitefish sector there is a significant opportunity to improve returns to fish processors by simplifying the supply chain, particularly post processing. This could be achieved by creating an electronic sales platform where processors are put in touch with end users, thereby achieving more direct sales and reducing the number of links in the supply chain. One such platform is currently being trialled using North East Scotland-based processors.

Automation. Automation is already making a significant contribution to the efficiency of large-scale seafood processing enterprises in North East Scotland. This is particularly the case in regard to pelagic processing and value adding.

There are opportunities in all sectors to gain benefit from higher levels of automation and, where appropriate the use of robotics, particularly in the packing process. Processors handling multi-species and lower volumes will find automation less attractive as an investment, however for all processors, there should be opportunities to improve productivity through increasing automation.

In support of this strategic pillar, opportunities to introduce and develop automation within all sectors should be fully investigated and, where appropriate, technical and funding assistance could be provided e.g. by SMAS.

- **Internationalisation (foreign direct investment).** It is generally accepted that there is potential for a significant increase in the volume of seafood landings in North East Scotland over the next few years. This is particularly the case if the UK gains control of fishing rights in its waters. This could lead to processors in Europe, particularly in France and Holland, considering investing in processing facilities in Scotland, especially at the North East ports, particularly Peterhead. There already several examples of inward investments/foreign direct investments in the seafood sector in North East Scotland, the largest and latest of which is the multi-million pound investment by Clearwater, a large-scale Canadian shellfish processor, in Macduff Shellfish, based at Mintlaw.

Any strategy developed for the fish processing industry in North East Scotland must take into account opportunities for inward investment/direct foreign investment, particularly at the main ports, either by purchasing existing businesses or developing new independent facilities.

This opportunity exists in all sectors and to facilitate the Internationalisation (Foreign Direct Investment) strategic pillar investment will be needed in identifying potential inward investors and promoting opportunities for foreign businesses to establish in North East Scotland.

There will also be a need to provide basic infrastructure (industrial land and services) to accommodate inward investments/foreign direct investments.

- **Representation.** The seafood industry North East Scotland is fragmented across sectors and within sectors. Each of the sectors operates independently and there is little cooperation and collaboration across sectors with each operating independently. Within the sectors processors consider themselves to be competitors and rivals and it is often difficult to bring them together in support of a common issue/cause. It is useful to compare the fragmentation evident in the seafood processing sector with the level of organisation demonstrated by the catching sector. The ability to bring vessel owners together in producer organisations and a single federation (Scottish Fishermen's Federation) has meant that the catching sector has a high degree of influence at political negotiations as the producer organisations and federation can rightly demonstrate that they enjoy the support of the catching sector.

The seafood processing sector has the Scottish Seafood Association which fulfils this 'representative' role although the size of its membership and the funding available to it severely curtails its ability to effectively carry out and further develop this responsibility. A mechanism should be found to properly fund the Scottish Seafood Association so that will have the resources and staff to provide high levels of training and support to the industry as well as ensuring that adequate representation is in place for the industry at the highest political levels.

- **Facilitation.** A key challenge facing all the sectors in the seafood industry in North East Scotland is lack of space in which to develop and lack of capacity to increase production throughput, and this is a significant barrier for future growth and development particularly in the whitefish and pelagic fish sectors.

If long-term efficiency and productivity are to be achieved it will be necessary for existing processors who have good prospects of growth in the future to consider relocation in order to provide themselves with larger and more suitable facilities. Currently, there are few opportunities to acquire suitable high quality buildings, and land is also in relatively short supply.

If the seafood industry in North East Scotland, particularly the whitefish and pelagic fish sectors, is to expand and successfully capitalise upon the opportunities brought about by increased landings it will be necessary to provide basic infrastructure i.e. serviced industrial sites to accommodate new buildings. As Peterhead is becoming increasingly the dominant centre for seafood landings and sales, a significant development site which could be serviced on a phased basis, should be identified at an early stage. Suitable sites at Fraserburgh should also be identified.

Facilitation will allow the public sector to participate meaningfully in future proofing the seafood sector in North East Scotland. It could provide the basic infrastructure which will allow local and incoming businesses to expand and increase capacity to process additional volumes of fish and shellfish landed at North East ports.

However, public sector participation must be matched by private sector commitment.

Practical Delivery of Strategy.

This document sets out the key challenges and opportunities that have been identified during work on preparing the Strategic Analysis. The full Strategy document contains much detail, and it is likely that parts of the full document will be a focus for different stakeholders.

It must be emphasised that all of the findings presented represent the processing sector position prior to the Covid 19 virus pandemic. A review of the changed landscape will be required once the industry adjusts to its changed economic environment.

Nevertheless, there are key matters that can and should be taken forward at this juncture, that can lay foundations for long-term recovery and growth. At some point in time, fish landings into Scotland can and will increase from current levels, and all sectors and stakeholders within the processing industry in North East Scotland should confidently plan for that eventuality.

In support of those aims, a comprehensive and detailed action plan forms the conclusion to the full Strategy document, with agreement from stakeholders on their participation and potential funding towards the common goal of “Future Proofing the Seafood Processing Industry in North East Scotland”.

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