Status and Problems of the American Shrimp Industry

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ABSTRACT—The shrimp industry of the United States enjoyed 2 successful years in 1976 and 1977 and expectations are that 1978 will also prove to be successful. This account gives the current status of the U.S. shrimp industry plus a brief description of various problems facing it.

INTRODUCTION

The status and problems of the American shrimp industry can be viewed in terms of two major factors influencing this industry: resource availability and market demand.

Shrimp resources are influenced by their natural environment. Favorable environmental conditions can lead to an abundance of shrimp, a good harvest, and, generally, good economic conditions in the industry. Unfavorable environmental conditions lead to a low abundance and poor industry performance. So far as the natural environment is concerned, there is nothing that the industry can do either to promote a good harvest or offset a poor harvest.

Added to this influence, the strong demand for shrimp has gradually pushed prices to the point that shrimp are labeled as a luxury food. Shrimp are not regarded as a staple in the diet and, because of this, demand for shrimp is heavily influenced by changes in population, disposable income, and product quality.

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In light of these influences, it follows that the shrimp industry will be successful and have few problems when the harvest is good and markets are strong. Conversely, problems multiply with low harvests and poor markets. Shrimp fishermen have no control over factors affecting resource availability or market demand, the former being influenced by habitat conditions and the latter being influenced by national economic conditions.

CURRENT STATUS

Going into 1978, the status of the shrimp fishing industry was excellent. Domestic landings of shrimp in 1976 and 1977 were at record levels with the total value of these landings to the fishermen reaching $331 million in 1976 and $355 million in 1977. This was a significant improvement over the $179 million in revenues in 1974. At the same time, the market for shrimp has been strong. One indicator of this strength is the wholesale price. Wholesale prices rose from an average $2.00 per pound in 1974 to $3.54 in 1976 before dropping to $3.37 in 1977, following record landings from the Gulf of Mexico.

It is too early to tell if landings of shrimp will continue high in 1978, since the major Gulf season is just beginning as this paper was written. At this time, there are no indications that landings will drop significantly. Markets for shrimp are expected to continue strong and, with good landings, should contribute to another successful year for the American shrimp industry.

PROBLEMS

The American shrimp industry consists of several, separate sectors: Harvesting, processing, importing-exporting, and domestic distribution. Because of this diversity, it is difficult to generalize about problems. For example, what may be a potential problem for fishermen may not create problems for processors or wholesalers. The problems that we have found and which are most often cited by industry members involve the harvesting sector. This sector is directly dependent on domestic shrimp resources and domestic market demand, and is sensitive to price changes. Those segments of the industry not totally dependent on domestic shrimp resources have a greater degree of flexibility in the market, allowing them to adjust to changing prices more easily. Because of this, the problems of the American shrimp industry are often associated with the harvesting sector.

In the shrimp industry, as in all industries, problems center around those factors which affect profitability. Firms in the shrimp industry require a price that allows them to be competitive in the market and earn a profit. In any case where problems do occur, the severity of the problems will be directly related to domestic resource availability, market demand, or both.

The major problems facing the shrimp industry relate to the harvesting sector and were found to be: High and rising operating costs, overcapitalization, imports, rising insurance rates, and extended jurisdiction declarations by foreign countries.

Operating Costs

Vessel operating costs have risen sharply over the past few years and continue to climb, in part because of increases in prices paid for fuel, maintenance, and supplies, such as netting. Operating costs are incurred daily and are highly visible. With rising costs, vessel operators need higher revenues to cover these costs. The major influence on vessel revenue is the availability of shrimp. A high abundance of shrimp enables the fisherman to catch a greater quantity of shrimp, and a good market allows them to receive a favorable price for their catch, producing high total revenue. When the abundance of shrimp is high, shrimp fishermen are often able to operate profitably even with significant price declines. On the other hand, if the abundance is low, it may not be profitable to operate even with significant price increases. This is because the low abundance both reduces vessel catch and increases the time spent fishing, causing operating costs per pound of shrimp to increase, offsetting higher shrimp prices. Operating costs represent a problem that becomes more severe when shrimp resources decline or when shrimp resources decline in combination with prices.

Overcapitalization

Despite some cyclical downturns, the Gulf and South Atlantic shrimp fishery has generally been perceived as being among the largest and most profitable of U.S. fisheries. This has led directly to high investment in these fisheries—an influx of new, more powerful vessels—because conditions of entry are not restrictive. Even though costs of vessels have risen (to about $250,000 currently), financing has been available. Furthermore, the regulations, the depressed resource conditions, and other problems facing some other major American fisheries have not plagued the Gulf and South Atlantic shrimp fishery. The resources, however, are limited. The net effect is that catch per vessel declines over time as more vessels enter the fishery and the risk of income loss increases. Although the industry recognizes the problem, it is not easily visualized. This is because there are a large number of independent vessel operators, and the catch on a given trip can vary with current availability of shrimp on the fishing grounds, skills of the captain, weather, and other factors.

The problem is not entirely one of generally declining profit margins as additional vessels enter this fishery. Because shrimp resources are limited and the abundance of shrimp varies from year to year, all vessels become more vulnerable to substantial losses in years when shrimp abundance is low as the total number of vessels increases. This is a risk that must be assumed by any vessel operator entering this fishery, but new vessels entering the fishery increase the risks for all those already in the fishery.

Imports

Shrimp imported into the United States increase the supply on the market and act as a restraining factor on prices. During seasonal and cyclical downturns, which are normal occurrences, some segments of the industry may cite imports as a cause for low or declining prices.

Ex-vessel price fluctuations are, however, more properly associated with variations in resource availability and market demand. Imports of shrimp can only influence prices that are low by retarding a recovery or by extending a declining trend that is already in evidence. There is no evidence to the effect that imports are the primary, leading force in seasonal and cyclical downturns in shrimp prices. Without imports, price fluctuations would continue.

The industry recognizes that the shrimp resources of the United States are limited and are not capable of providing the total quantity of shrimp that is demanded—imports accounted for 55 percent of consumption in 1977. In addition, the wide variability in domestic landings would make it impossible for processors and wholesalers to maintain and service their markets if alternate sources of supply did not exist. Imports of shrimp are a necessary source of supply although their presence on the market does result in lower average prices than would exist if imports were not available.

In years of high shrimp landings, high imports can cause prices to decline further than normal and remain down longer than normal. This is particularly critical when markets for shrimp are poor and imports of shrimp either depress prices or prevent a recovery in prices. It has been suggested that quotas or tariffs be applied to imports of shrimp to offset these occurrences. Quotas would limit total supplies of shrimp in the United States, causing prices—already in the luxury food category—to increase. Increased prices would make the domestic shrimp fisheries more profitable in the short run; in the long run, overcapitalization would become more serious, with an increase in the risk of substantial income losses in vessel operations.

The major influence of imports is felt at those times when markets decline. The industry has indicated that adequate knowledge on foreign markets is not available which can give the domestic industry, as well as importers, an indication of landings trends in other countries, processing volume, and the strength of buying by other importing countries, notably Japan.

As a result, the domestic industry often becomes aware of this influence only after the shrimp have entered the United States and begun to affect markets. This does not give them the opportunity to react to significant changes in market direction until the market has actually changed. If sufficient knowledge on trends in other shrimp producing countries were available, the domestic shrimp industry could possibly compensate for these trends in its planning. The lack of such knowledge is viewed as a major problem by some industry members.

Insurance Rates

Vessel operators have been faced with significant increases in premiums for property and indemnity insurance. Premiums for hull insurance are also expected to increase in the future. Insurance is essentially a fixed cost for the operator and must be covered through higher revenues per vessel.

Extended Jurisdictions

Mexico and Brazil are phasing out foreign fishing operations in their waters while other countries in South America are putting restrictions on the number of vessels allowed to fish in their waters. United States shrimp vessels which had operated in these areas are now expected to return to U.S. waters thus adding to the overcapitalization problem.

CONCLUSION

High landings and strong markets have contributed to 2 very good years for the American shrimp industry. The problems that exist, particularly in the harvesting sector, have been less evident because of this. As a rule, these problems are more significant in those sectors of the industry which have developed the greatest dependence on domestic resources. This would include fishermen as well as processors and wholesalers. Among those with the greatest dependence on domestic shrimp resources, these problems can be especially severe to those less able to sustain substantial losses.

MFR Paper 1327. From Marine Fisheries Review, *Vol. 40, No. 9, September 1978. Copies of this paper, in limited numbers, are available from D822, User Services Branch, Environmental Science Information Center, NOAA, Rockville, MD 20852. Copies of* Marine Fisheries Review *are available from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402 for $1.10 each.*