



ECONOMIC OUTLOOK SURVEY

WEST COAST GROUND FISH INDUSTRY

20

22

Author: Jana Hennig, Executive Director

Layout & Illustration: Marie Janine Murmann

Published: January 2023

Acknowledgments:

We thank all West Coast Groundfish fishermen, processors and community-supported fisheries that have participated in this research and provided valuable insight into their industry. Further, we would like to thank the Saltonstall-Kennedy Grant program (NOAA) for financially supporting this effort.

Copyright: (c) Positively Groundfish. All rights reserved.

Positively Groundfish
1592 Union Street #336
San Francisco, CA 94123
www.positivelygroundfish.org

HELLO!

Welcome to our 2022 Economic Outlook Survey of the West Coast Groundfish industry! As we head into 2023, we see growing economic concern and pessimism about the near future among leaders of the West Coast Groundfish industry. This year's survey is notably less optimistic compared to last year's and is almost reminiscent of the gloomy sentiment of the 2020 mid-pandemic survey.

Over the past year, the supply chain issues and shortages that marked 2021 could largely be resolved, the US economy showed strong growth and low unemployment, and consumers were spending. However, by the end of the year, the optimism of the post-pandemic economic recovery had worn off. The Fed's stark interest rate hikes, a plunging stock market, and large-scale white-collar layoffs have spurred recession fears, which are reflected in our survey. The industry struggles with stubborn high inflation and swelling input costs on the one hand, and foresees subdued demand as consumers adjust their spending patterns on the other hand, resulting in a profit squeeze. Simultaneously, industry leaders are worried about several regulatory and policy challenges that are distracting from and compounding the current economic challenges.

Positively Groundfish conducts this industry survey with the same questions at regular annual intervals, painting a longitudinal picture of our industry over time. Every year we survey West Coast Groundfish fishermen, processors, community-supported fisheries, and direct-to-consumer businesses to indicate and quantify their perceptions and expectations of the market, of key challenges and opportunities, and of their own organizations' plans over the coming 12 months. It is, in essence, a pulse check on the West Coast Groundfish industry.

Economic outlook studies are inherently subjective. They are a study of subjective sentiment of key participants and their predicted behavior, rather than a purely quantitative economic analysis. And as with all predictions of the future, they are inherently inaccurate, biased, and cannot account for the unexpected or unknown. Nonetheless, tracking economic confidence of key industry participants is valuable as a leading economic indicator and has some predictive ability.

First, industry participants often have a forward view of contracts, new products, projects, or investments that are in the pipeline but are not yet public. Second, they have a much more intimate understanding of their own resources, production factors, and ability or limitations to meet the challenges they face. And finally, while industry participants' economic outlook and confidence is subjective, it is after all their subjective point of view that will be driving their decisions and behaviors, and collectively, that of the industry. Our hope is that this survey will prove insightful for policymakers, investors, researchers, media as well as members of our industry and communities.

Yours positively,

Jana Hennig
Executive Director





BACKGROUND

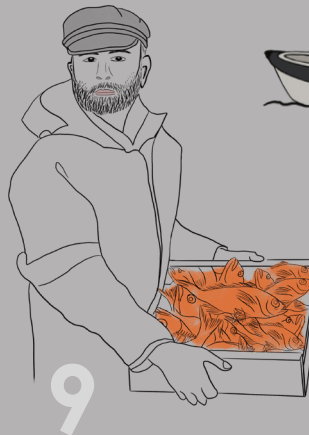
Total: 42 Respondents

Methodology

The West Coast Groundfish Economic Outlook survey was conducted via Google Forms during December 2022. Overall, 42 of the 82 industry leaders that were invited participated in the survey. All response sets qualified and were accepted into the final survey. A copy of the survey questionnaire can be found at the back of this report.

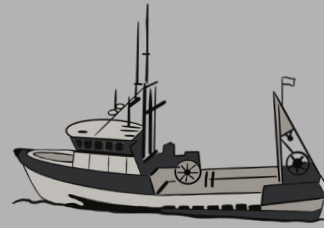
It is worth noting specifically, that this is not a comprehensive survey of all industry participants and must be understood as such. Participating processors represent over 80% of all non-whiting West Coast Groundfish volume processed. However, the 18 participating commercial fishermen represent only 27% of vessels participating in the trawl fishery.

Organizations



9

community supported fisheries

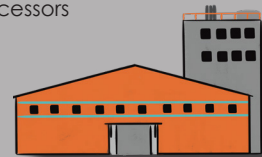


18

fishermen

15

processors



Survey Participant Profile

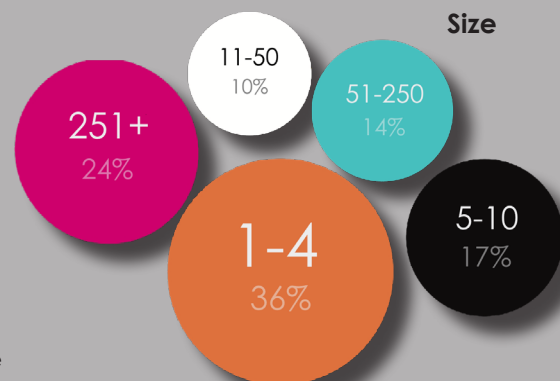
The 2022 West Coast Groundfish Industry Economic Outlook Survey received 42 responses from invited industry participants. Of these 42 respondents, 18 represented harvesters (captains or boat owners), 15 represented processors and 9 community-supported fisheries (CSF) or direct-to-consumer businesses (D2C). All are directly involved in the West Coast Groundfish fishery.

All respondents are very senior decision-makers in their respective organizations such as boat captains or vessel owners (29%), CEO/owners (38%), general managers (10%), heads of sales/marketing/distribution (21%) or one head of production (2%). All respondents thus have a thorough understanding of the breadth of the opportunities and challenges facing their organizations, and have the authority to make decisions on investments, personnel, and business strategy.

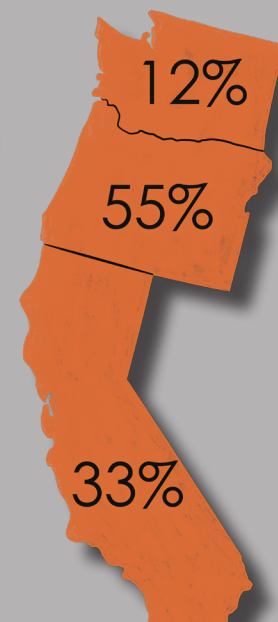
Survey participants come from a diverse set of organization sizes. Almost 53% work for small businesses (36% in businesses between 1-4 employees, 17% in businesses with 5-10 employees), 24% manage medium-size businesses between 11-250 employees, and a further 24% are leaders of large organizations with more than 250 employees.

Just over half of respondents (55%) spend most of their time in Oregon, while 33% operate primarily in California and 12% in Washington State. That represents a slight shift toward more respondents from California and fewer from Oregon versus previous years, but it still approximates the geographical distribution of groundfish landings.

Size



Location





KEY INSIGHTS

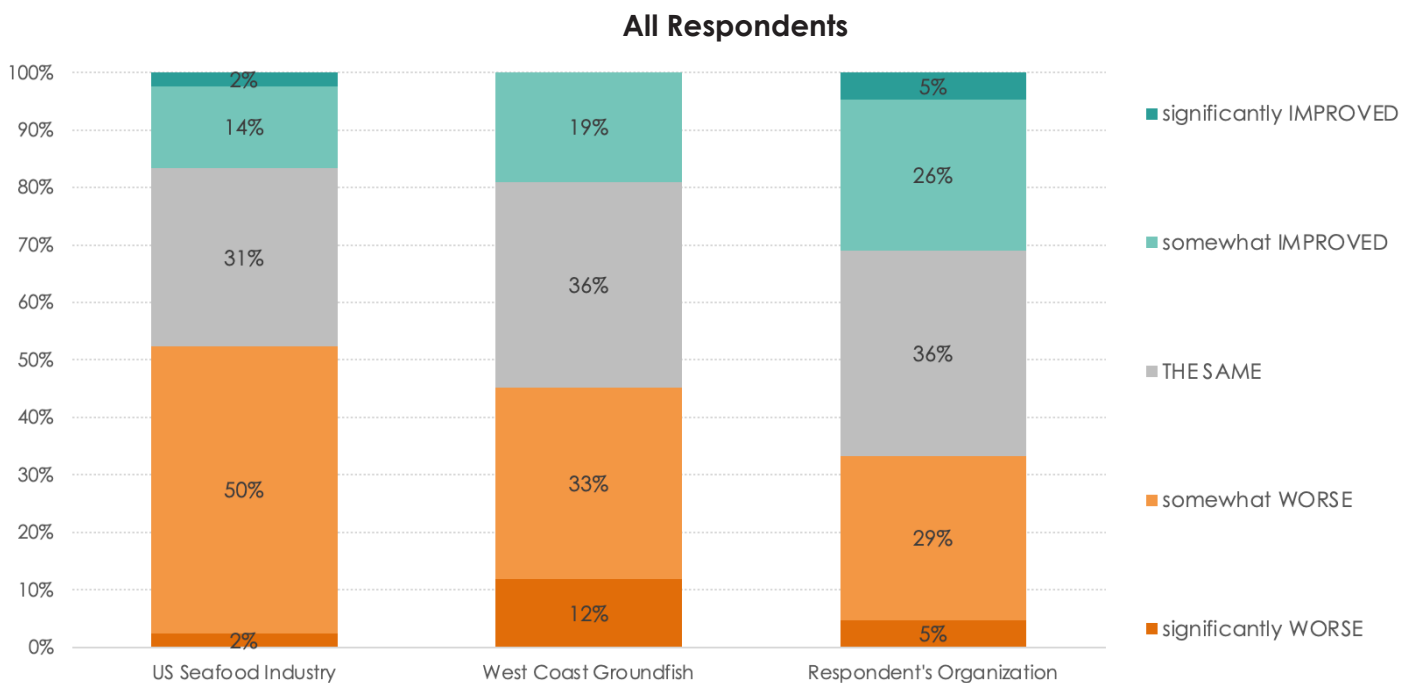
- 1 The industry has an increasingly pessimistic economic outlook.** But leaders are more worried about the wider US seafood industry and the groundfish fishery than their own businesses.
- 2 Processors have swung most notably toward pessimism compared to a year ago.** This gloominess seems to be driven by external market factors and general economic trends.
- 3 CSF/D2C businesses are the most optimistic.** Their direct access to consumers is a strong advantage currently. They continue to grow and invest, including in groundfish.
- 4 West Coast Groundfish is expected to maintain if not grow in importance** to respondents' businesses relative to other fisheries over the next 12 months.
- 5 The industry expects a profit squeeze.** While softening demand is expected to subdue the topline, inflationary pressures on input and labor costs are impacting the bottom line.
- 6 The industry is less enthusiastic about making investments in the fishery** compared to 2021/22. Fishermen, especially, are more reluctant to invest given the current outlook and uncertainties.
- 7 Availability of skilled labor is still the main bottleneck for industry growth.** Processors are notoriously understaffed and want to hire, but most are unable to fill the positions.
- 8 While the industry still experiences underutilization,** there are more and more players who have maxed out quota and production equipment capacity, which curtails growth.
- 9 Regulations/policy and wider economic conditions are the greatest challenges** for the industry currently, compounding each other in a powerful 1-2 combination.
- 10 Proposed offshore wind energy projects are of great concern to the industry,** even if most don't expect impacts over the next 12 months, except for the effort required to fight it.



1. OVERALL ECONOMIC OUTLOOK

Heading into 2023, participants in the West Coast Groundfish industry are increasingly pessimistic in their economic outlook for the coming year, be it for the industry as a whole, the West Coast Groundfish fishery specifically, or their own business. More than half (52%) of survey respondents expect the US seafood industry as a whole to fare worse in 2023 compared to 2022, while only 16% have optimistic expectations for the wider seafood industry. That is a sharp turn of sentiment compared to our survey a year ago and shows a similar level of pessimism that we saw during the height of the Covid-19 pandemic in August 2020.

Q1: Please select the rating that best describes your view of the economic outlook for the next 12 months (compared to the most recent 12 months). I expect it will get ...



Respondents' economic outlook for the West Coast Groundfish fishery is only marginally more optimistic than for the total US seafood industry. In fact, this is the first time in this survey's history that expectations for West Coast Groundfish are more positive than for the US seafood industry as a whole. Still, 45% of respondents expect the fishery to do worse economically in the coming year, with 12% expecting a *significantly* worse performance. Only 19% of respondents are optimistic for the fishery, which is less than half the level of optimism we saw just a year ago. For West Coast Groundfish this year's results have not quite reached the level of pessimism we saw in 2020, but they show a significant worsening compared to 2021.

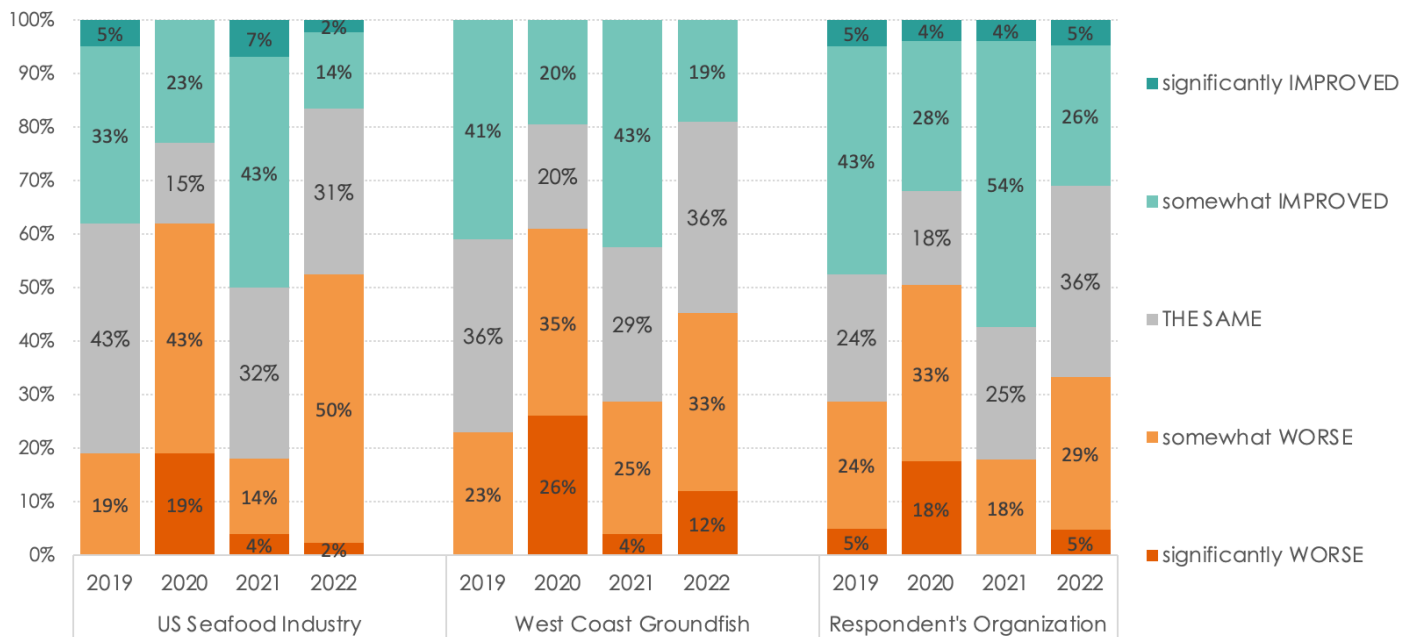
Finally, respondents are slightly more positive in their outlook for their own organizations. Positive sentiment rises to 31%, which is twice that for the wider seafood industry. However, compared to previous years, participants' optimism for their own business has muted significantly and indicates a worrying trend. In every year of this survey, we have observed the same pattern



that respondents are most optimistic about their own organizations. We hypothesize that respondents either believe they have an edge over groundfish competitors, or that their optimism relates to another fishery they participate in. Alternatively, it may simply reflect participants' increased knowledge of the economic situation and greater ability to forecast for their own organization than the wider fishery sector or seafood industry.

Q1: Please select the rating that best describes your view of the economic outlook for the next 12 months (compared to the most recent 12 months). I expect it will get ...

All Respondents 2019 - 2022





Results by Participant Group

When breaking down responses by participant group, we see some notable areas of agreement but also some differences in economic confidence between fishermen, processors, and community-supported fisheries (CSF)/direct-to-consumer sellers (D2C). Generally, processors and CSF/D2Cs seem to be more optimistic in their economic outlook than fishermen.

We see divergence between participant groups in their expectations for the total US seafood industry. Overall, processors are the most pessimistic with their outlook for the US seafood industry: two-thirds (67%) anticipate performance to worsen, and only one quarter (27%) expects slight improvement in 2023. Fishermen as a group are the most aligned in their outlook - they either expect stability from year to year (56%) or they expect a slight worsening (44%). Conversely, community-supported fisheries and direct-to-consumer sellers are the most optimistic group: one third of this group has a positive outlook (33%) with a further 22% anticipating little change, but still, 44% expect a slight worsening.

With respect to West Coast Groundfish, fishermen are the most pessimistic group overall. Although, it's worth noting that there's no clear agreement within this group. We see a broad range of outlooks from *significantly worse* (17%), and *somewhat worse* (39%), to *same* (22%) and *somewhat improved* (22%). While this may not look great, it is still better compared to the 2020 survey in which 70% of fishermen had a pessimistic outlook for the West Coast Groundfish fishery. Processors and CSF/D2Cs are more optimistic about groundfish, with the largest group expecting more of the same this coming year (40% and 56% respectively).

Finally, all participant groups are most optimistic about their own organizations' prospects for the coming year. And CSF/D2Cs are by far the most optimistic here – only 22% expect a worsening. Fishermen are the most split in their expectations. While 39% have a negative outlook for 2023, including 11% who anticipate significant worsening, there are only 17% of fishermen who believe 2023 will be better for them than 2022.

Overall, across all groups, but especially processors, we see a noticeable shift toward pessimism compared to where we were a year ago in the buoyant post-pandemic economy. This is likely a reflection of a worsening economy marked by high inflation, high input costs and growing recession fears. The fact that we see greater pessimism about the US seafood industry as a whole compared to West Coast Groundfish or respondents' own organizations further indicates that this growing pessimism is driven by concerns about the wider economy, and perhaps even other fisheries, but less so about respondents' West Coast Groundfish business.

Finally, community-supported fisheries and direct-to-consumer sellers are generally more optimistic than processors, who in turn are more optimistic than fishermen. That means, the further the respondent is along the supply chain, the more optimistic they are as a group. During times of high inflation and rising input costs, it is important to be able to pass on costs.

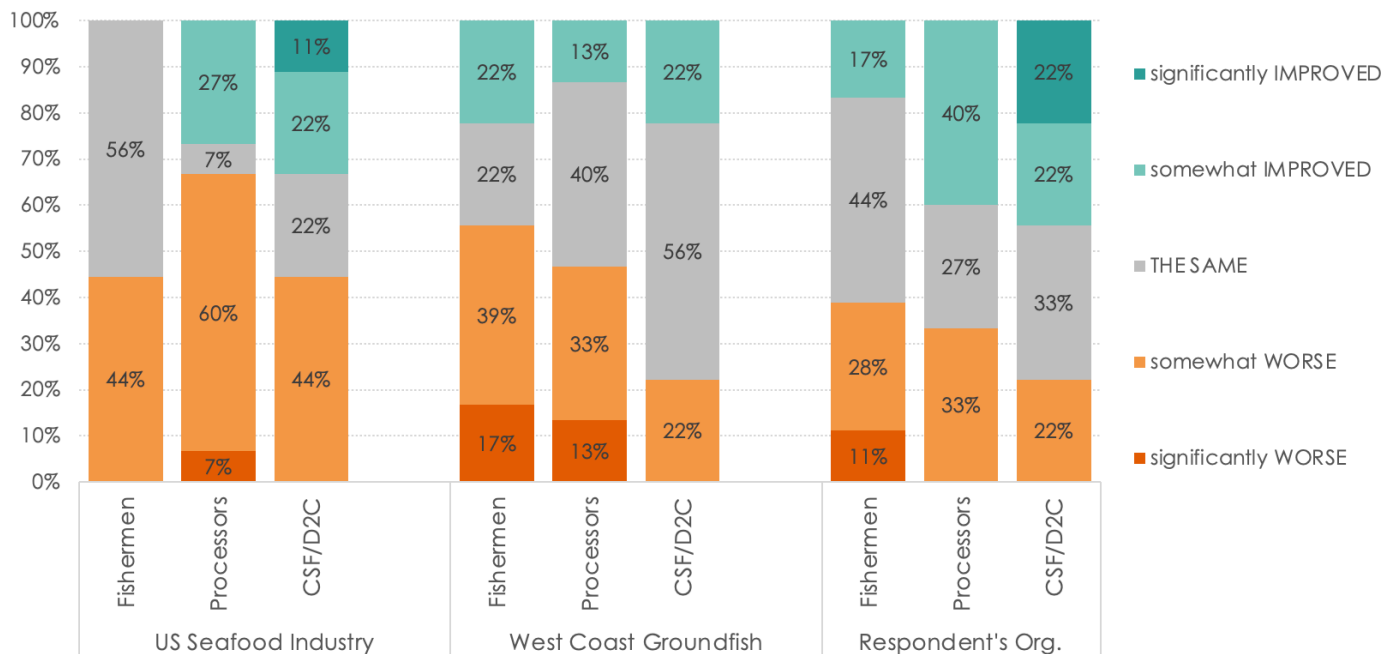


And so, those with direct access to consumers likely feel more able to pass on higher operating costs to their customers, whereas processors may find it harder to pass on all of their cost increases to retailers and restaurants. This is actually the first time in the history of this survey that processors are not the most optimistic group about their own businesses. They may feel caught between retailers' reluctance to increase prices in the face of slowing consumer demand, and their rising input and labor costs.

However, fishermen tend to be the most pessimistic every year, as they likely have the least ability to dictate prices (to processors). They also have less of a forward view of demand and thus more uncertainty, which may lead to higher levels of concern and pessimism. And finally, economic confidence and outlook are inherently subjective and may be influenced by participants' general outlook on life, tendencies toward optimism or pessimism, and varying interpretations of events and information. Different roles in the industry may attract people with different dispositions, which could be reflected in this survey.

Q1: Please select the rating that best describes your view of the economic outlook for the next 12 months (compared to the most recent 12 months). I expect it will get ...

By Respondent Group





2. ORGANIZATIONAL INDICATORS

In Question 2 we asked participants to indicate their expectations for key organizational metrics and economic indicators, providing us a more nuanced view of what is driving their economic outlook for 2023.

Respondents' expectations for topline revenue for 2023 have become more negative compared to our survey a year ago. 45% of all respondents anticipate their revenues to decline in 2023, including 7% who anticipate revenue to *decline significantly* (i.e. by more than 10%), while only 28% believe their revenues will increase at least *somewhat*. In aggregate, the survey group expects that slightly more of that revenue decline will be driven by declines in the price of fish (36%) than from volume declines (28%). Interestingly, expectations for revenue look more negative than either one of its component parts: volume and price. We see no clear logical explanation for that, except to say that a respondent's economic outlook is as much driven by emotion as by logic. However, it is evident that there is increasing gloominess about how consumer demand will look over the coming year.

We continue to see respondents expecting input costs to go up over the coming year. 76% of respondents anticipate costs to increase, including 33% of respondents who expect their input costs to increase *significantly* (defined as +10%). These levels are in fact a decline from last year's survey where 93% expected input cost increases, but they are still concerning. These results are aligned with current high inflation rates in the wider US economy. Respondents expect these cost increases to negatively affect their organizations' profit line, which is viewed more pessimistically than any other indicator we studied, and which comes close to the pessimism we saw in August 2020. This year, 64% of respondents believe their profits will decline, including 14% who think profits will *decline significantly*. So, while 28% of respondents expect their top-line revenue to increase, only 12% think their bottom-line profit will increase, too, presumably due to expected increases in the cost of production.

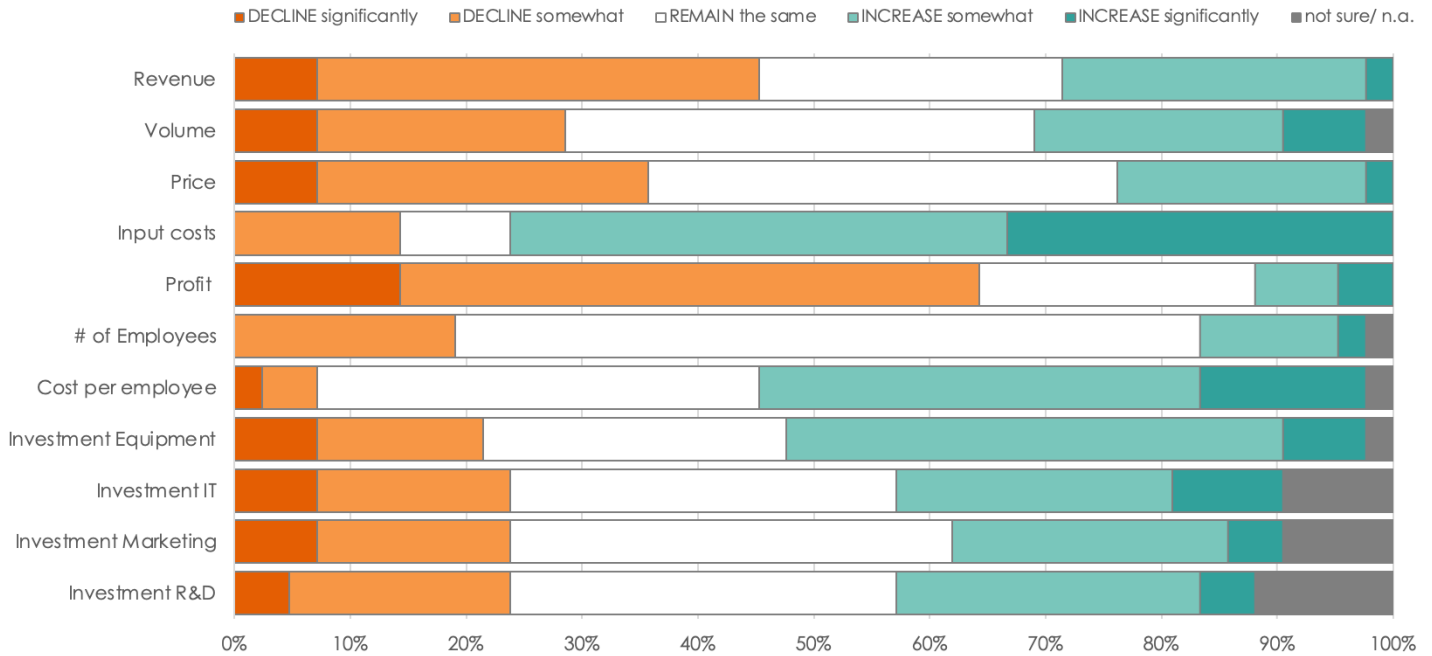
This year's survey shows that roughly two thirds of respondents (64%) expect the number of employees to remain stable over the coming year, but 52% also expect the cost per employee to increase, reflecting high inflation levels and a persistently tight labor market in the US. These results are very close to those from the previous year's survey, which suggests that not much has changed year-to-year with respect to labor.

Respondents' expectations for making investments in West Coast Groundfish operations during 2023 are a mixed bag. The majority of organizations foresee themselves continuing to invest at the same or an accelerated level compared to last year's level. However, we are seeing noticeably more respondents say that they will be reducing their investments in this fishery in the coming year, indicating a growing economic pessimism. Investment in equipment is expected to increase more than any other category; 50% of respondents plan to up their expenditure on equipment. Expectations for investment in IT systems, in Marketing & Sales, and Research & Development, are all very similar. Roughly one third of respondents expects to increase investment, while another third of respondents expects to pull back on investments.



Q2: Please indicate your view of the probable change over the next 12 months (vs most recent 12 months) for your organization, for the following key indicators, as it relates to WC Groundfish.

All Respondents



Results by Participant Group

In this year's survey fishermen's and processors' outlook for these key organizational metrics show more agreement and similarities than we have ever seen before. In past years, processors have typically been a lot more optimistic than fishermen. This year though, processors are almost as pessimistic as fishermen, albeit they are more likely to expect moderate rather than significant deteriorations in key metrics. CSF/D2C businesses continue to be the most optimistic, although even they are now less optimistic than in previous years.

All three respondent groups have similar expectations of input costs increasing, and profits taking a hit as a result. However, views of revenue are divergent. The majority of fishermen and processor respondents expect topline revenue to decrease, fishermen more significantly so than processors. However, while processors expect this revenue decline to be driven mainly by cuts in price, fishermen are more likely to blame volume declines. In stark contrast, CSF/D2C businesses still largely expect their revenue to grow (44%) or at least stay stable (33%), driven predominantly by increases in the price they can get for their fish. Yet again, this demonstrates that during inflationary (and recessionary) times, those with direct access to consumers feel more confident in their ability to pass on increased costs and continue to drive revenue growth



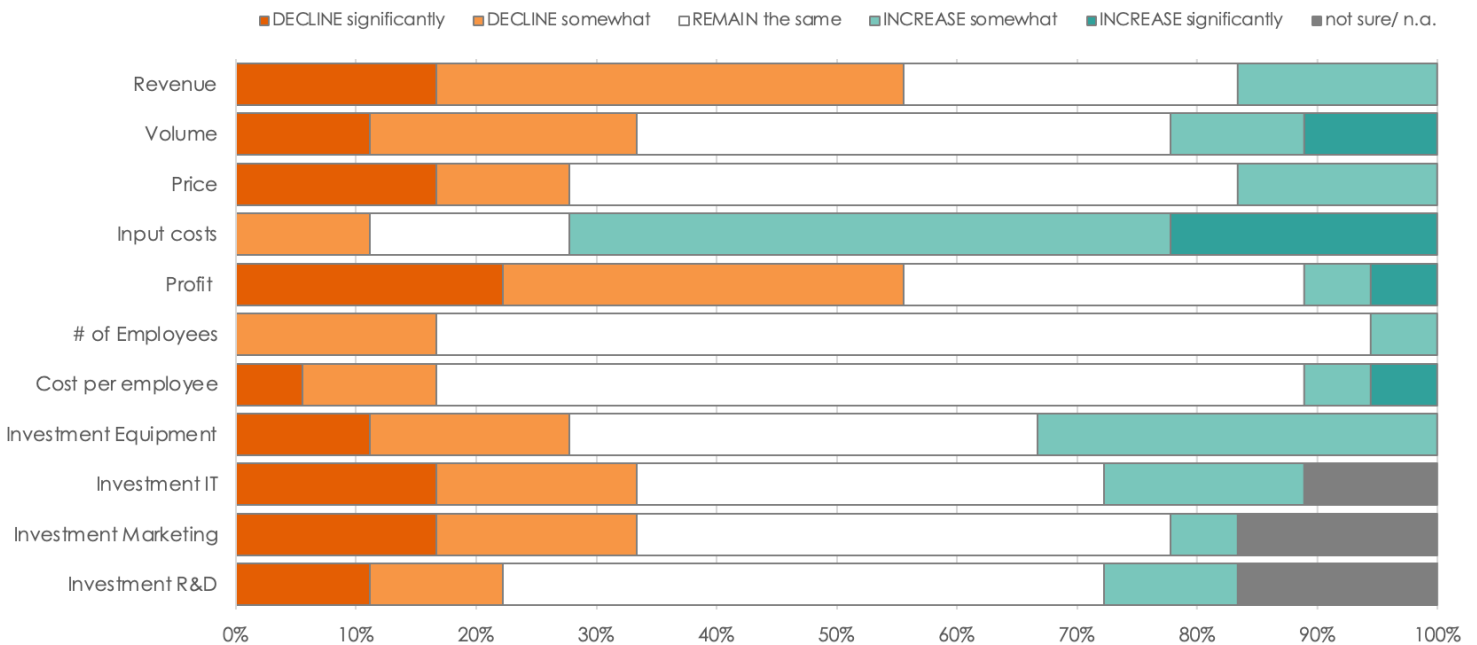
through price increases. Conversely, fishermen who are furthest from the end consumer, are most worried in these market conditions.

Fishermen don't seem to expect much change to the number of employees or the cost per employee though. In contrast, literally all processors expect costs per employee to increase, with 27% of them believing that Salary & Benefit costs per employee will increase by more than 10% in 2023, reflecting continued inflationary pressures and a tight labor market at the end of 2022. CSF/D2C businesses are the most likely to want to hire and grow their teams, and generally expect costs per employee to rise or remain the same for the coming year.

General levels of optimism or pessimism are reflected in each group's plans for investment. CSF/D2C businesses have the highest levels of intent to invest, especially so in equipment (67%), IT systems (56%) and Marketing & Sales (55%). Processors have pulled back on investment intent compared to previous years, but they continue to be most bullish about investments into equipment and Research & Development - 60% and 53% foresee those to increase, respectively. Fishermen, on the other hand, most typically expect investment levels to either decline or at most remain the same, indicating increased caution and lacking economic confidence for the coming year.

Q2: Please indicate your view of the probable change over the next 12 months (vs most recent 12 months) for your organization, for the following key indicators, as it relates to WC Groundfish.

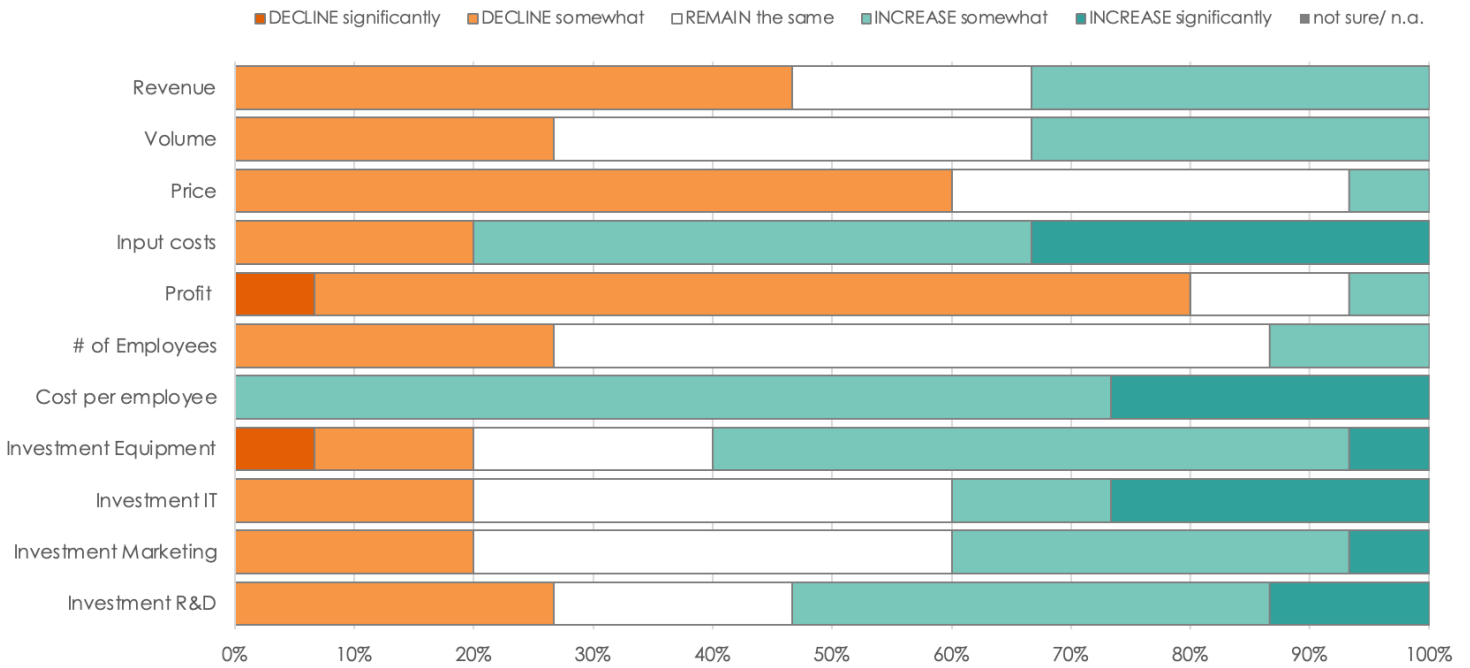
Fishermen





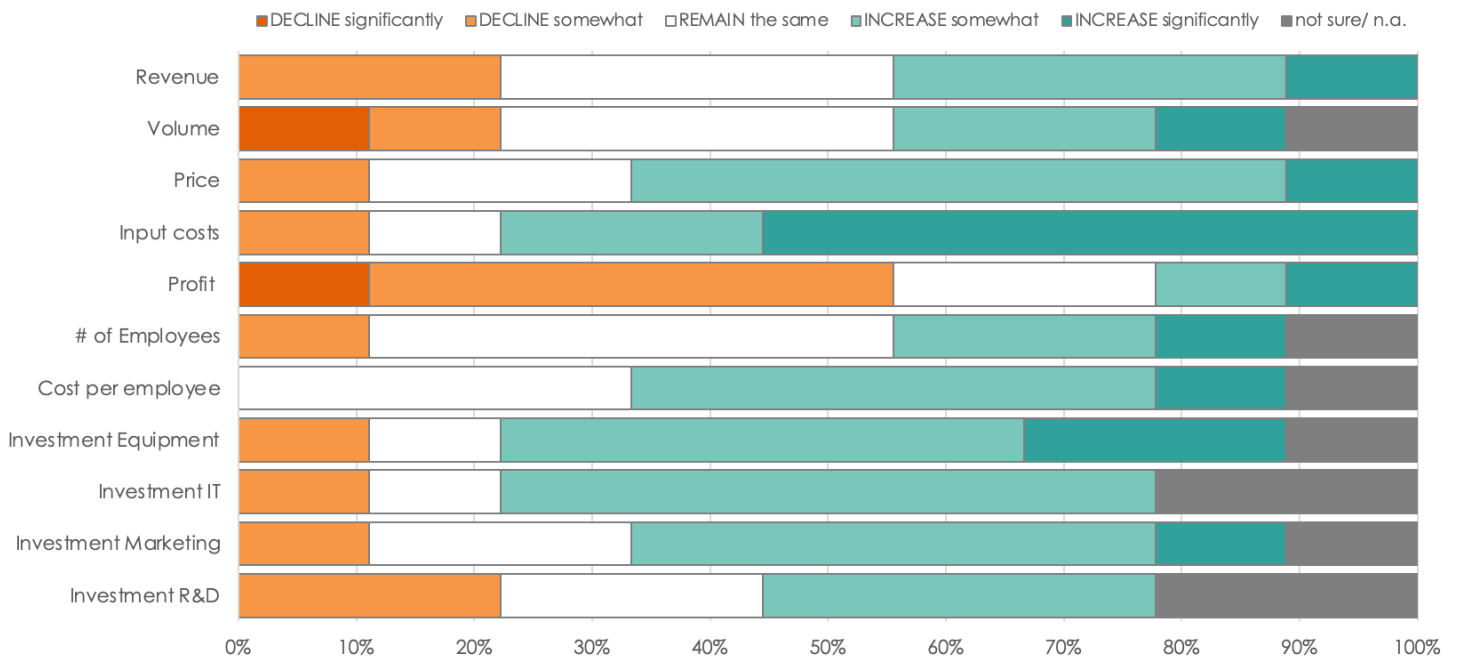
Q2: Please indicate your view of the probable change over the next 12 months (vs most recent 12 months) for your organization, for the following key indicators, as it relates to WC Groundfish.

Processors



Q2: Please indicate your view of the probable change over the next 12 months (vs most recent 12 months) for your organization, for the following key indicators, as it relates to WC Groundfish.

Community-Supported Fisheries / Direct-to-Consumer





3. RELATIVE IMPORTANCE OF WEST COAST GROUND FISH

The industry expects that the West Coast Groundfish fishery will retain or grow its level of importance for their organizations relative to other fisheries they participate in over the next year. Only one processor expects the fishery to become less important to their organization. These are positive results and indicate that respondents don't have strong performance concerns that are particular to the West Coast Groundfish fishery.

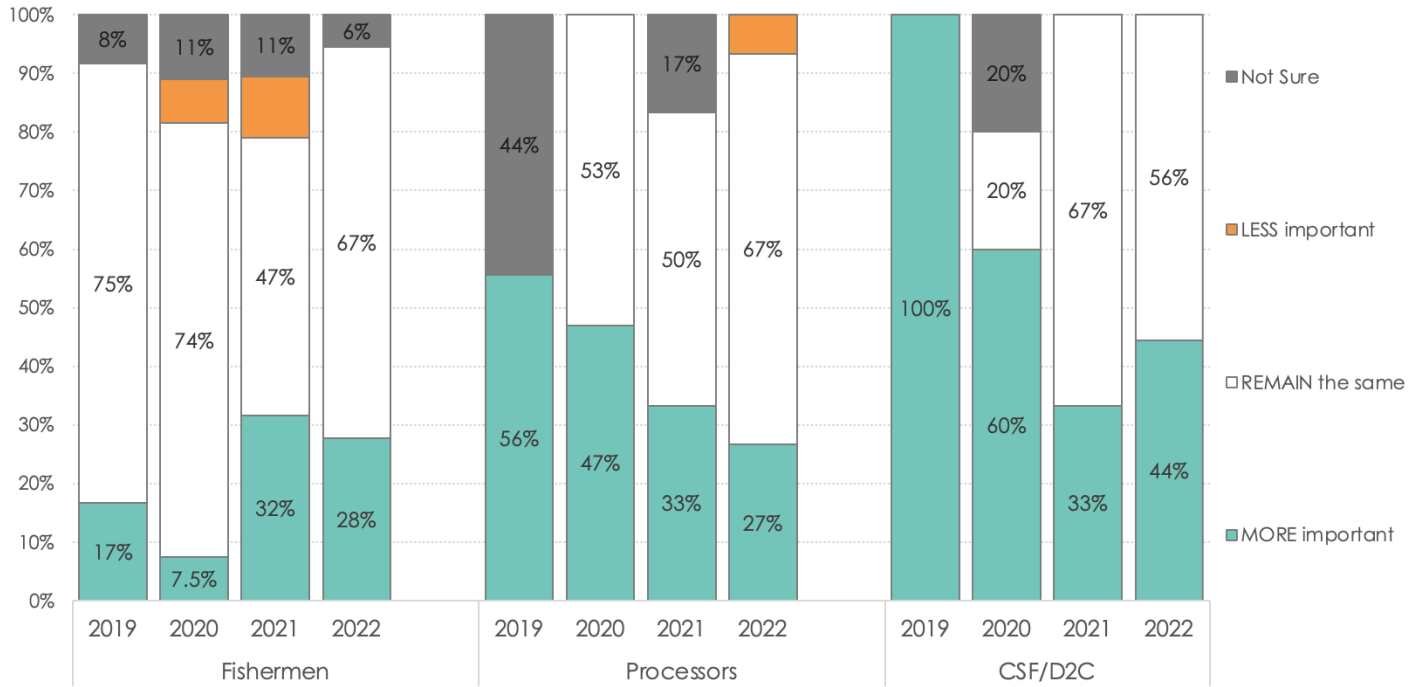
This year's survey results indicate a further stabilization of the role West Coast Groundfish plays in respondents' overall businesses. We see the number of fishermen that expect groundfish to retain its current level of relative importance increase from 47% in 2021 to now 67% in 2022. That's a significant shift. Encouragingly, 28% of fishermen still expect the fishery to become more important to them in the near future. Given that most fishermen do not fully utilize their groundfish quota, there's still room for this fishery to increase landing volumes.

Similarly, processors have steadily become less and less bullish on West Coast Groundfish growing in importance in their species mix. While in 2019 56% of processors thought the fishery would become more important to them, now that number is only 27%. Concomitantly, two thirds of processors now expect the groundfish fishery to just hold steady relative to other fisheries over the coming year. This may simply be an expectation of strong consistent performance, or it may be indicative of factors constraining their output, such as a shortage of labor or equipment capacity that precludes the growth of groundfish volumes. Or indeed, processors may not see market demand increasing significantly, which we saw come through in Question 2.

CSF/D2C businesses are again the most optimistic group about West Coast Groundfish: 44% expect the fishery to become relatively more important to their businesses, while 56% expect it to remain the same. There is a strong overlap between CSF/D2C respondents who expect their revenues to increase in Question 2 (44%) and those expecting West Coast Groundfish to become relatively more important to their overall business (44%) in Question 3.



Q3: What is your expectation of the relative importance of West Coast Groundfish to your organization over the next 12 months? I expect it will be...





4. PRODUCTION FACTORS: EMPLOYMENT

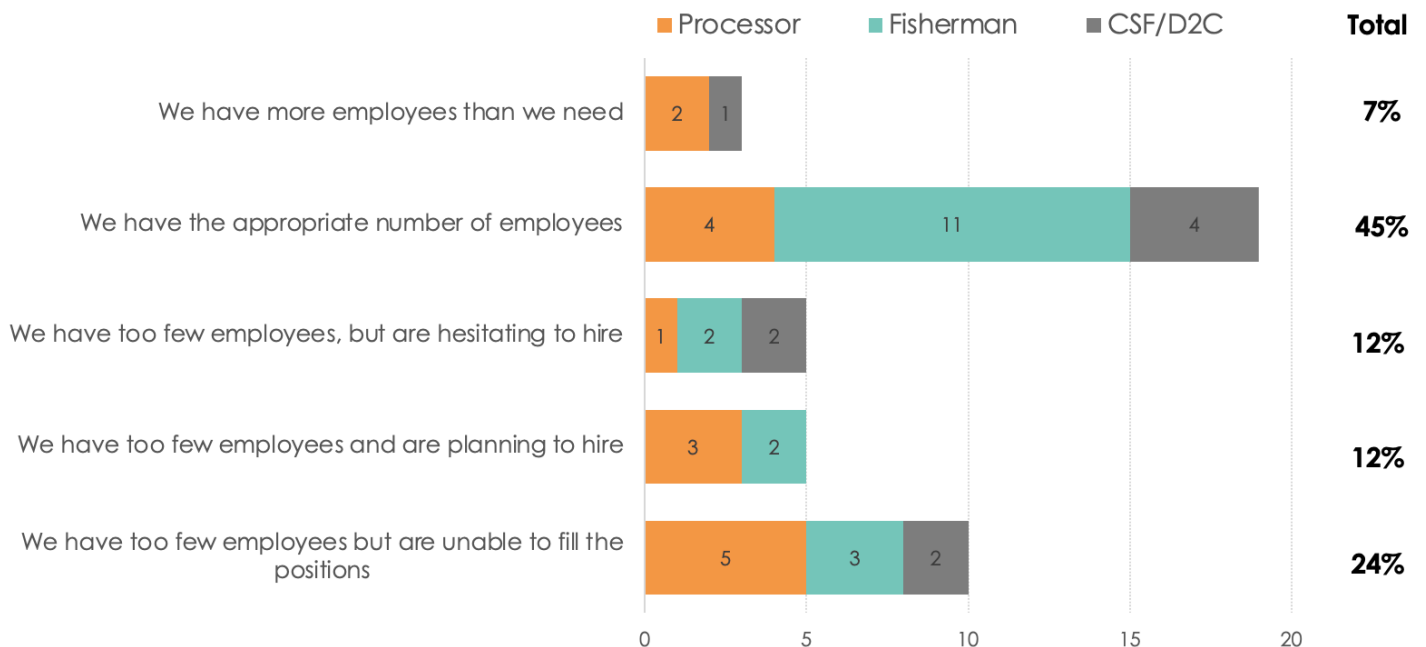
In Questions 4, 5 and 6 we take a closer look at key operational input factors – labor, equipment capacity and access to fish – in order to get a sense of how much room for growth there is in the system or to help identify systemic bottlenecks that could restrict growth of the West Coast Groundfish sector.

At a total level, we see that this year more respondents are now indicating that they are understaffed (48%) than last year (29%). Concomitantly, only 45% of respondents think they are appropriately staffed versus 66% a year ago. This indicates that availability of labor is a growth restricting factor in the groundfish industry.

Currently, 60% of processors indicate that they are understaffed, and more than half of these say they are unable to fill the positions. Qualitative commentary clarified that this understaffing issue is mainly a lack of skilled filleters. We have observed this processing labor shortage consistently over the last 4 years, making this one of the key structural long-term issues restricting growth in the industry. Interestingly, while 60% of processors indicate they are understaffed in Question 4 only 13% indicated that they expect to be increasing the number of employees over the coming year in Question 2. This further underlines that processors know they are chronically understaffed with filleters, but don't seem to have much hope of being able to change that.

In this year's survey, we also see a growing number of fishermen struggling with understaffing. This year 39% of fishermen are understaffed versus only 16% a year ago. Conversely, the picture for CSFs/C2Ds has no clear pattern and can only be attributed to their organizations' current individual situations. 44% of CSF/D2C organizations are appropriately staffed, 44% are understaffed, and 1 out of the 9 is overstaffed even.

Q4: Employment - Given current conditions, how would you characterize your overall staffing situation relative to your needs?





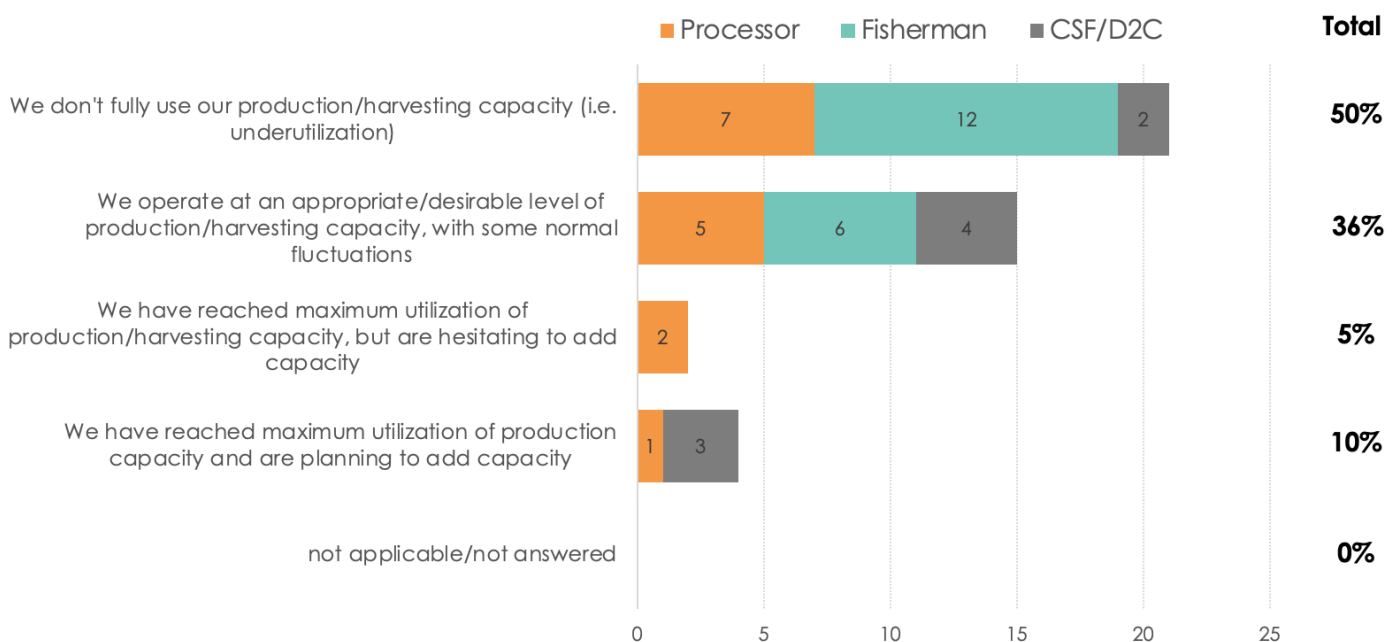
5. PRODUCTION FACTORS: EQUIPMENT CAPACITY & UTILIZATION

Production capacity or equipment capacity (i.e. machinery, vessel size) is generally not a major constraining factor for groundfish production. That being said, this year we are seeing 15% of respondents indicate that they have reached maximum capacity, when last year we had none at all. This year though, 20% of processors and 33% of CSF/D2C operators are maxed out with their equipment, and many of them expect to invest in equipment to allow for growth in future. However, equipment underutilization is nonetheless a major theme this year. 66% of fishermen and 46% of processors say that they don't fully use their equipment's production capacity (i.e. underutilization), and thus have room for growth without needing to invest in equipment. This represents a shift from last year. This year fewer processors experience equipment underutilization, however, more fishermen now underutilize their equipment.

In past years processors had added more automated machinery for filleting operations and with that had added equipment capacity. And for some time that meant processors had high levels of surplus capacity in 2021. By the end of 2022 though, many have started using this capacity more fully and appropriately, bringing more efficiency and balance to the system.

Fishermen, on the other hand, largely don't fully use their vessels to full capacity, which could be a quota or market demand issue. Overall, however, the system seems to have plenty of equipment capacity left to facilitate growth in the near future, without too much need to purchase new equipment. These patterns align well with respondents' expectations for equipment investment over the coming year provided in Question 2.

Q5: Production Capacity/equipment - Given current conditions, how would you characterize your overall production capacity situation relative to demand for your product?





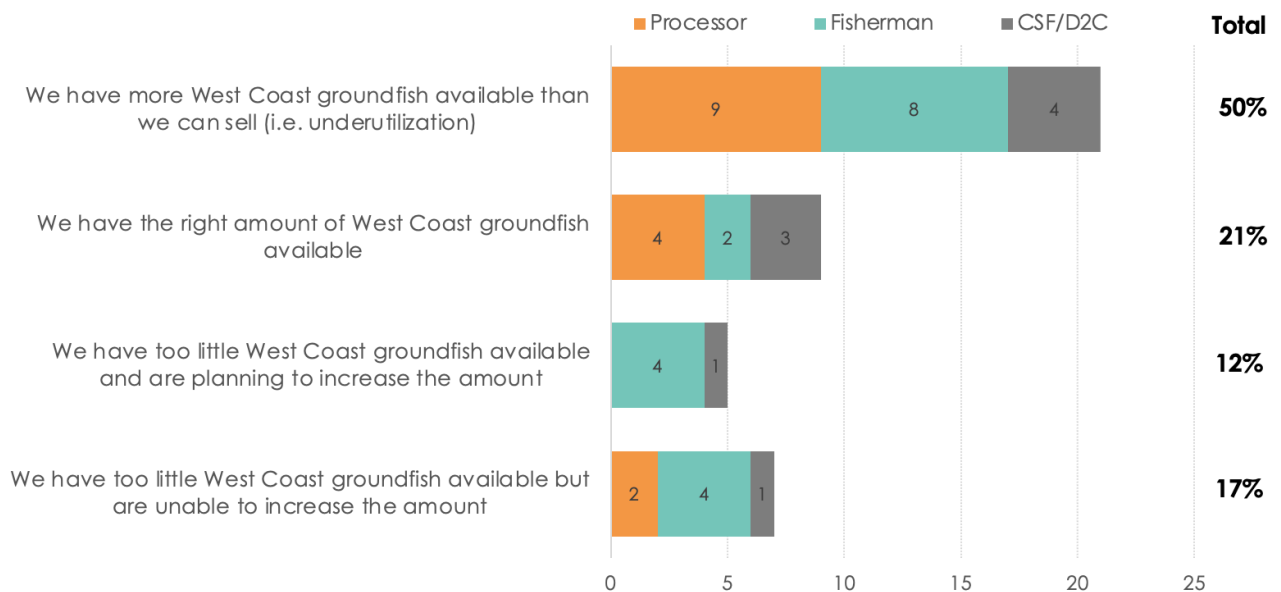
6. PRODUCTION FACTORS: GROUNDFISH AVAILABILITY & ACCESS

Finally, we looked closer at participants' perceived availability or access to West Coast Groundfish relative to demand for these species. Out of the 3 production factors we looked at, the availability of fish is the factor that seems most out of whack. Only 21% of all respondents feel they have the right amount of West Coast Groundfish available to them. Everyone else either has too much or too little, or either at different times.

Underutilization has been an issue for the West Coast Groundfish fishery for many years now, and it continues to be so. In this year's survey, half of all survey participants (60% of processors, 44% of fishermen and 44% of CSF/D2C) believe they have more access and availability of West Coast Groundfish than demand for it and are thus in a state of quota underutilization. In effect, they believe they couldn't sell more even if they had more available to them. Whilst we saw a slight improvement on this measure in last year's survey, this year we see a return to higher levels of underutilization of fish, mainly driven by processors saying they have more fish available than demand.

Conversely, 29% of respondents actually feel they currently have too little access to West Coast Groundfish and want to get more, of which more than half are unable to get more. So, 17% of respondents have growth bottlenecks due to a lack of available quota or fish coming to them. Qualitative commentary by processors and CSFs added that often it's not an overall lack of fish availability, but the timing of fish availability that presents the greatest challenges to their ability to meet demand.

Q6: Fish Availability - Given current conditions, how would you characterize your overall availability/access to West Coast Groundfish relative to demand?





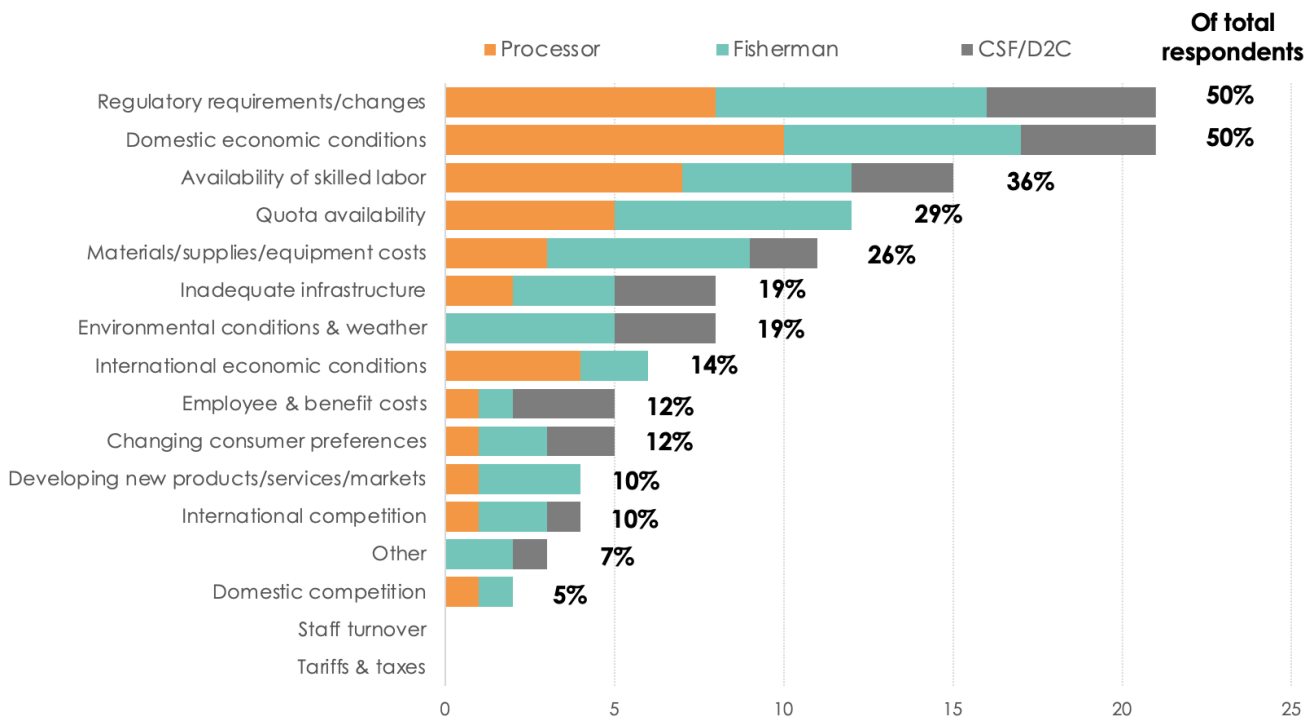
7. KEY CHALLENGES

Next, we asked survey participants to identify the top 3 areas that currently present the greatest challenges to their businesses. Overall, domestic economic conditions and regulatory requirements jointly hold the top position with 50% of respondents declaring these their key challenge at this time. This is followed by availability of skilled labor (36%), down from second place last year (43%), and quota availability (29%).

Policy-driven factors such as regulations, quota, or the sheer availability of labor (which relies on work visas) continue to present the greatest challenges to the West Coast Groundfish industry. Regulatory requirements or changes have been one of the top 3 factors in every year of this survey, and it continues to hold the top spot this year as proposed offshore wind power projects loom as a new regulatory challenge for this industry.

Simultaneously, we see concerns around the wider economic conditions come through very clearly this year, indicating a strong shift compared to a year ago. We see the impact of recession fears in the fact that external market factors such as domestic economic conditions (18% in 2021, 50% in 2022), international economic conditions (14%), international competition (10%) and changing consumer preferences (12%) are of comparatively high concern at the moment. Moreover, we continue to see inflationary cost pressures come through at levels similar to a year ago: materials/supplies/equipment costs (26%) or employee costs (12%) still rank relatively high. This aligns with respondents' expectations of input costs increases in Question 2.

Q7: Please indicate the top 3 challenges for your business.





Finally, concerns over infrastructure (39% in 2021, 19% in 2022) and developing new products/services/markets (29% in 2021, 10% in 2022) have taken a backseat relative to other challenges at the moment. Both of these factors are strategically important, future-oriented and work on relatively long development timelines. It is understandable, though concerning, that these are currently taking a backseat to more immediate economic and regulatory issues.

Results by Participant Group

Looking at results by participant group and comparing changes from year to year reveals some interesting granularity. We see some agreement between fishermen, processors and CSF/D2C businesses – all three groups rank concerns about changing regulations and domestic economic conditions as their top two challenges.

However, fishermen are far more concerned about materials/supplies/ equipment costs, environmental conditions/weather and developing new products/services/markets than processors. Whereas processors are more concerned about labor availability, international economic conditions, as well as domestic economic conditions than fishermen. And CSF/D2C businesses seem to fall somewhere between fishermen's and processors' concerns.

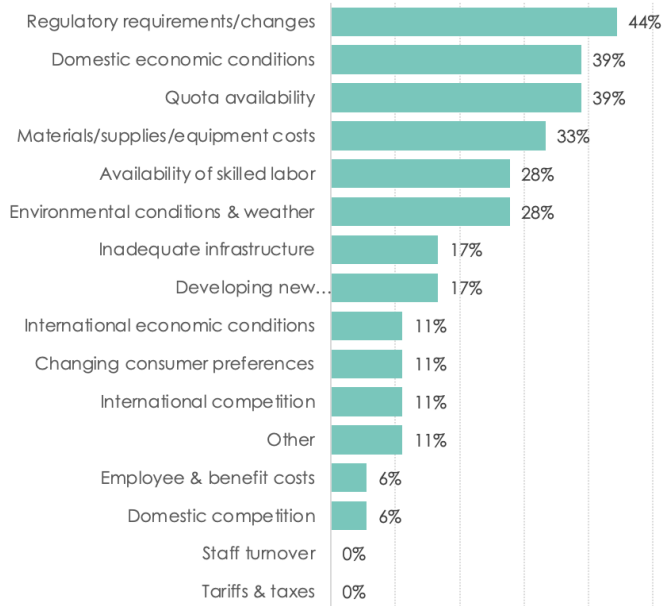
Question 7 actually makes it clear just how big of a concern the wider economy is for processors. Domestic economic conditions are by far their number one concern, while international economic conditions rank fifth. In contrast, a year ago, these factors were not even ranked by processors at all (i.e. 0%).

Interestingly, this year quota availability has returned as a top 4 factor for both fishermen and processors, when a year ago quota availability barely made the ranking at all. We've already seen in Question 6 that 29% of respondents are currently in need of more quota (versus none the year before), and that about half of them feel unable to get more. Combined with other big regulatory issues such as offshore wind projects which could significantly affect fishing activity, access to fishing quota is starting to be a growth inhibiting factor for the West Coast Groundfish industry. Moreover, as long as challenges around regulation and quota remain as pertinent as they are today, fishermen, processors and CSF/D2C businesses may not have the capacity, certainty, or incentive to develop new markets and products, and tackle current economic conditions effectively.

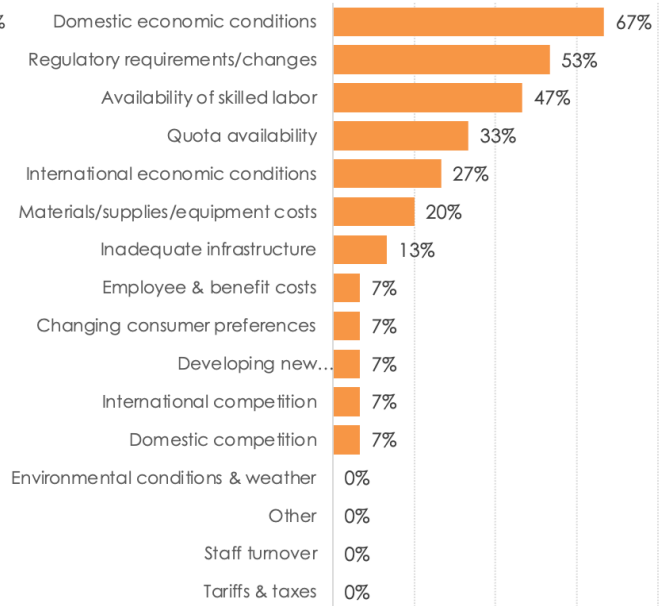


Q7: Please indicate the top 3 challenges for your business.

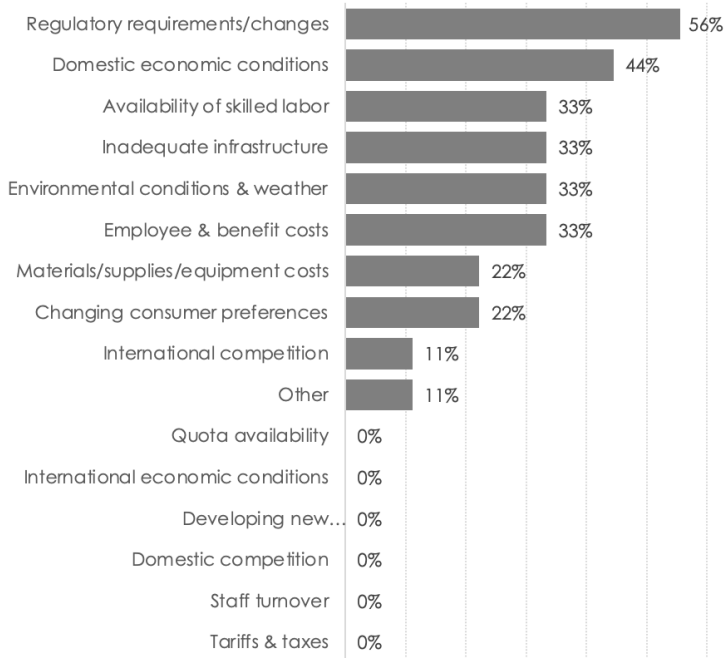
Fishermen



Processors



CSF/D2C





8. OFFSHORE WIND PROJECTS

Finally, in Question 8 we asked respondents in an open-ended question to describe what impact they expect proposed offshore wind energy projects to have on their businesses over the next 12 months.

Responses to this question were overwhelmingly pessimistic, with two-thirds (66%) of respondents foreseeing negative impacts on their businesses by the proposed offshore wind energy projects. 17% of respondents foresee little or no impact on their businesses, and a further 17% is unsure or did not answer this question. The 17% of respondents who expect no or minimal impact mostly operate in California (where offshore wind projects are not as advanced) and are more often a CSF/D2C business (from California). Or they simply had a strict interpretation of the timeline implied in the question and simply said “*not at this time*” suggesting that there could be impacts, but they wouldn’t be felt until farther into the future.

Respondents from Washington and Oregon were most pessimistic with 80% and 74%, respectively, anticipating wind farms to have negative impacts on their businesses. While only 50% of California-based respondents foresee negative impacts right now. This makes sense, given that most offshore wind energy projects have been proposed further north on the West Coast. Fishermen are the most concerned group, with 78% expecting negative impacts, followed by processors (60%) and CSF/D2C businesses (56%). Oregon fishermen are the single most concerned group – 100% of Oregon fisherman in our survey foresee devastating impacts.

There are a number of concerns around wind energy projects that were mentioned:

- 10 respondents specifically mentioned the potential loss of historic and productive fishing grounds and displacement of fishing activity. One Oregon fisherman expects a “*loss of fishing grounds of 70%*”.
- 6 respondents said it would have seriously disastrous impacts on their businesses and would make their operations completely unviable in future. They used words like “*devastating*”, “*extinction level*” and “*the end*”.
- 5 respondents mentioned specifically the large amount of time and effort required to participate in the regulatory process and the regulatory burden placed on them. They feel overwhelmed with the number of meetings, are frustrated by the time they can’t use productively, and the headspace they now can’t put toward building their businesses. They also don’t feel heard saying “*We’re talking but they ain’t listening.*”
- 4 respondents didn’t voice specific concerns but used highly emotive language such as “*It seems ridiculous, I can’t even imagine.*”, “*afraid for the future*”, “*all bets are off*”, and “*extremely frightening*”.
- 3 are most concerned about the impact the wind energy farms will have on the wider ecosystem and the California current.
- 9 respondents specifically stated that they do anticipate negative impacts eventually (!) but not yet in the coming 12 months since these wind farms won’t come online within that timeframe.

Evidently, the proposed offshore wind energy projects have elicited very high levels of concern among the West Coast Groundfish fishing industry. Most negative impacts from the wind farms are not anticipated to be felt over the coming 12 months, but rather further down the road as wind farms start being installed and start operating. The most immediate impact to the industry is the time and energy required to participate in the regulatory process in an effort to minimize the wind farms’ negative impact on the fishing industry.



CONCLUSION

Heading into 2023, we see growing economic concern and pessimism about the near future among leaders of the West Coast Groundfish industry. This year's survey is notably less optimistic compared to last year's and is almost reminiscent of the gloomy sentiment during the August 2020 survey. The optimism of the post-pandemic economic recovery has worn off. The industry struggles with stubborn high inflation, a persistently tight labor market, and growing recession fears as consumers start to adjust their spending patterns.

Processors, who have typically been very optimistic, have become noticeably less confident about the economy as a whole and their West Coast Groundfish business in particular. They seem to be caught between their continuously rising input and labor costs and retailers' reluctance to increase prices in the face of slowing consumer demand. That means processors' profits are being squeezed from both sides, reflected in their particularly pessimistic view of their profit line for 2023, and results in them pulling back their investment levels.

Naturally, that has a follow-on effect on fishermen, too, who have less market power than processors. Fishermen struggle with high fuel costs, notoriously subdued dock prices, and concerns about softening market demand in the coming year. So fishermen, too, are reducing their plans for investments over the coming year.

Finally, community-supported fisheries and direct-to-consumer sellers are generally the most optimistic group. Having a direct relationship with customers and being able to pass on rising costs is crucial in times of high inflation and rising input costs. CSF/D2C businesses are still looking to invest for growth, especially in equipment, as several of them have maxed out their production capacity.

On a net basis, the groundfish industry still experiences underutilization – of equipment and quota – on both the harvesting and processing sides. However, we see more and more bottlenecks forming. An increasing number of industry participants have maxed out quota and production equipment capacity. But the persistent lack of skilled processing labor is by far the greatest chokepoint. It is restricting processors' output (and therefore fishing trips), drives up their recruitment and labor costs, and is pushing processors to invest in more automated equipment.

Concerns about the wider economy have seeped through strongly in this survey, marking a strong shift compared to last year's survey. External market factors - concerns over falling demand and persistently high input costs – are top of mind for industry leader. And as such, the West Coast Groundfish industry reflects the broader economic realities at the end of 2022.

Nonetheless, policy-driven issues such as regulatory changes, quota availability, or proposed offshore wind energy projects, are seen as the greatest challenges for the industry at this time. At a minimum, these policy challenges are perceived to hinder respondents' capacity to effectively tackle market-based economic issues. And at worst, they are feared to be an existential threat. Naturally, the combination of strong economic headwinds and challenging policy issues make for subdued sentiment in the West Coast Groundfish industry for the coming year.



2022 West Coast Groundfish Industry Economic Outlook Survey

State of operation

CA OR WA

Type of Organization

- Groundfish Fisherman
- Groundfish Processor
- Groundfish CSF/C2D
- Groundfish CPG

Size of Organization

- 1-4 employees
- 5-10 employees
- 11-50 employees
- 51-250 employees
- 251+ employees

Your Position

- Captain/Skipper
- CEO/Owner
- General Manager
- Head of Sales/Distr./Marketing
- Head of Production/Plant Mngr

1. Please select the rating that best describes your view of the economic outlook for the next 12 months (compared to the most recent 12 months). Choose 1 per row.

| | significantly WORSE | somewhat WORSE | approx. the SAME | somewhat IMPROVED | significantly IMPROVED | Not sure |
|--------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| US Seafood Industry | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| West Coast Groundfish Industry | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Your Organization | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

2. Please indicate your view of the probable change over the next 12 months (vs most recent 12 months) for your organization, for the following indicators, as it relates to WC Groundfish.

| | DECLINE significantly | DECLINE somewhat | REMAIN the same | INCREASE somewhat | INCREASE significantly | Not sure/ Not applicable |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Revenue | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Volume | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Price | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Input Costs | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Profit | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Number of Employees | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Cost per Employee (Wages, Recruitment) | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Investment Equipment | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Investment - IT | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Investment - Marketing & Sales | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Investment – R&D | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |



3. What is your expectation of the relative importance of West Coast groundfish to your organization over the next 12 months? I expect...

- West Coast Groundfish will become MORE important to my organization
- West Coast Groundfish will become LESS important to my organization
- West Coast Groundfish will REMAIN as important to my organization as it is now
- Not sure

4. Employment: Given current conditions, how would you characterize your overall staffing situation relative to your needs (i.e., do you have excess capacity or are you stretched)?

- We have more employees than we need
- We have the appropriate number of employees
- We have too few employees, but are hesitating to hire
- We have too few employees and are planning to hire
- We have too few employees but are unable to fill positions

5. Production Capacity: Given current conditions, how would you characterize your overall production/harvesting capacity situation relative to demand for your product?

- We don't fully use our production/harvesting capacity (i.e. underutilization)
- We operate at the appropriate level of production/harvesting capacity utilization
- We have reached maximum capacity utilization, but are hesitating to add capacity
- We have reached maximum capacity and are planning to add capacity

6. Availability of Groundfish: Given current conditions, how would you characterize your overall availability/access to West Coast groundfish relative to demand?

- We have more West Coast groundfish available than we can sell (i.e. underutilization)
- We have the right amount of West Coast groundfish available to us
- We have too little West Coast groundfish available and are planning to increase the amount
- We have too little West Coast groundfish available but are unable to increase the amount

7. Please indicate the top 3 challenges for your organization at the moment. Choose 3.

- | | |
|---|--|
| <input type="checkbox"/> Regulatory requirements/ changes | <input type="checkbox"/> Domestic economic conditions |
| <input type="checkbox"/> Quota availability | <input type="checkbox"/> International economic conditions |
| <input type="checkbox"/> Environmental conditions & weather | <input type="checkbox"/> Tariffs & taxes |
| <input type="checkbox"/> Materials/supplies/equipment costs | <input type="checkbox"/> Domestic competition |
| <input type="checkbox"/> Inadequate infrastructure | <input type="checkbox"/> International competition |
| <input type="checkbox"/> Availability of skilled labor | <input type="checkbox"/> Developing new markets/products |
| <input type="checkbox"/> Employee costs | <input type="checkbox"/> Changing consumer preferences |
| <input type="checkbox"/> Staff turnover | <input type="checkbox"/> Other _____ |

8. What impact do you foresee offshore wind energy projects to have on your organization over the coming 12 months? _____

9. Please provide any commentary and contextual information about your previous answers. (optional) _____

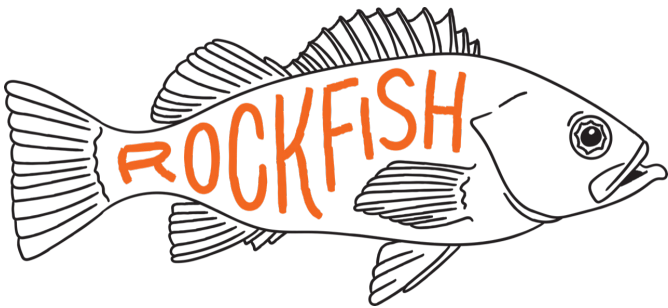


ABOUT POSITIVELY GROUND FISH

Positively Groundfish is a non-profit organization (501c6) that was incorporated in April 2018, but it represents a fishery that has been around for generations and that was once the economic and cultural backbone of coastal communities along the West Coast. The story of the West Coast Groundfish fishery has all the elements of a classic tale of success, downfall, and redemption; and Positively Groundfish was formed to give it its happily-ever-after. West Coast Groundfish faced ecological collapse and was declared a federal economic disaster in 2000, but, thanks to comprehensive sustainability measures, has since experienced a remarkable recovery and is now considered “the ecological comeback story of the century” (quote: NOAA) and a posterchild for what sustainable fisheries management can achieve. However, more work is needed to also make it an economic success story, to communicate this hopeful story to the public, and make West Coast Groundfish a truly compelling case study that can persuade other fisheries around the world to adopt better practices. That is the work of Positively Groundfish.

Positively Groundfish was formed as a collaborative multi-stakeholder initiative by a collective of environmental non-profits, fishermen associations, seafood processors and academia that have partnered with a shared vision for a healthy and vibrant fishery. Positively Groundfish's stated mission is to tell the positive story of sustainable underutilized West Coast Groundfish to cultivate public appreciation and support the long-term economic success of local fishing communities. It is spreading a message of hope and positive responsible engagement with our ecosystems in which ecological and economic goals go hand-in-hand.

To learn more visit www.positivelygroundfish.org.



2022

www.positivelygroundfish.org