BRISTOL BAY

Regional Seafood Development Association

Explanation of Fishery Price & Options for Fleet Consideration

Special Member Publication

March 1, 2021

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Introduction

This document provides more detailed answers to a basic line of questioning we have heard from the fleet since last summer: "*What is going on and what can be done?*". We have spent several months gathering as much information and input as possible to provide our members with answers to those two important questions. A shorter summary version is available on the BBRSDA's "Market & Value Info" page (LINK).

Bristol Bay fishermen were generally disappointed with the 2020 base ex-vessel price of $0.70 per pound for sockeye. Frustration and confusion over the ex-vessel price were common themes in nearly every interaction BBRSDA board and staff members have had with the fleet since last season, in addition to numerous social media posts and comments. But perhaps what fishermen found most concerning was the lack of any transparent explanation as to why the price was set so low. A postseason survey of Bristol Bay fishermen ranked 2020 price transparency as the most important issue facing the fleet, followed by ending the "open ticket" policy and getting more buyers in the Bay to create competition. We believe the strong and widespread concern about these issues stems from a lack of partnership and transparency between fishermen and processors.

As the largest organization representing Bristol Bay fishermen whose mission is to maximize fishery value for the benefit of its members, ex-vessel price is obviously a key concern for the Bristol Bay Regional Seafood Development Association (BBRSDA). While our activities are focused on marketing, quality improvement, and maximizing sustained harvest volume, most of these investments are made with the expectation that fishery value will benefit as a result. If there is reason to suspect that fishermen are not reaping rewards from those efforts due to issues involving market structure, we feel compelled to examine the situation collaboratively with our members.

This white paper addresses "*what is going on*" by summarizing market conditions and addressing unique factors affecting the 2020 season. The second section offers a list of options for fleet consideration, so fishermen may decide "*what can be done*" along with some ideas for how those might be executed. We look forward to engaging fishermen in discussions prompted by the information and ideas submitted in this document. Members may reach out to BBRSDA via email at board@bbrsda.com or by calling the Executive Director at 907-677-2374.

Andy Wink – Executive Director

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Market Conditions & 2020 Price Factors: What is Going On?

The base ex-vessel price for Bristol Bay sockeye fell 65 cents/lb., from $1.35 in 2019 to $0.70 in 2020. This lower price equates to a collective loss of $130 million ($0.65*199.3 million lbs.) in ex-vessel value compared to 2019, or roughly $75,000 per driftnet vessel. Many fishermen have received COVID relief funds and "trade relief" payments, but that doesn't really factor into what constitutes a fair price for fish or the other issues discussed in this paper.

Retail prices for Bristol Bay sockeye appear to be at an all-time high and demand has been very strong in recent years. The 2020 season saw a sharp decline in sockeye harvests outside of Bristol Bay, but the total harvest of 39.5 million Bristol Bay sockeye was 46% above the 20-year average. So, Bay fishermen produced a large supply of a valuable product, which was in much shorter supply elsewhere. In short, 2020 should have been a terrific season for Bristol Bay fishermen, but it wasn't (or at least it hasn't been great thus far).

The table below provides data about the 2020 pricing situation compared to recent years. Looking at the differences between first wholesale and retail price levels compared to ex-vessel prices, it is clear that the pricing spread has been much wider during the 2020 sales season.

Supply Chain Pricing Data for Bristol Bay Sockeye Salmon, 2017-2020

Prices/lb. (in round weight terms)	2017	2018	2019	2017-2019	2020
(1) Base Ex-Vessel	$1.02	$1.26	$1.35	$1.21	$0.70
(2) Final/Average Ex-Vessel	$1.31	$1.60	$1.54	$1.48	???
(3) First Wholesale Frozen Fillet**	$3.22	$3.49	$3.16	$3.29	*$3.30*
(4) U.S. Retail Fillets (Sold on Promo)	$5.42	$5.72	$5.71	$5.61	*$5.99*
(3-1) FW difference - Base EV	$2.20	$2.23	$1.81	$2.08	*$2.60*
(3-2) FW difference - Final EV	$1.91	$1.89	$1.62	$1.81	???
(4-1) Retail – Base EV difference	$4.40	$4.46	$4.36	$4.40	*$5.29*
(4-2) Retail – Final EV difference	$4.11	$4.12	$4.17	$4.13	???
(4-3) Retail – FW difference	$2.20	$2.22	$2.55	$2.32	*$2.69*

**First wholesale (FW) fillet prices are a rough estimate for 2020, as data is not yet available, based on the likely price of producing fillets from H&G fish. The 2019 FW fillet price is also estimated based on H&G pricing. Notes: EV = ex-vessel basis. To keep the pricing basis consistent, fillet prices are adjusted to a round weight basis using a yield of 50% (i.e., 2 pounds of round sockeye yields a 1-pound fillet). Retail and FW prices are shown on a "harvest year basis" which runs from June of the year listed through the following May. However, retail fillet prices for 2020 are incomplete, representing the average monthly price from June-January. Italicized figures are estimated or based on partial year data.*

Admittedly, this pricing table has a lot of numbers packed into it, but it also has much to say. What's most instructive here is to look at the *differences* in prices from 2017-2019 and compare those to 2020 prices.

There's a difference of roughly 40-50 cents between the 2020 average frozen fillet price and base ex-vessel price compared to previous years (see line (3-1) in table). This suggests the 2020 base price could have been 40-50 cents higher if fishermen were paid a similar share of first wholesale price as previous years. The final price spread between fillets and ex-vessel price averaged $1.80/lb. and notched a recent high of $1.90/lb., suggesting a final ex-vessel price of $1.40-1.50/lb. The spread between retail prices and ex-vessel price is even larger in 2020. If the final 2020 ex-vessel price followed a similar price spread to retail prices from the 2017-2019 period, that would result in a final average ex-vessel price of $1.86/lb ($5.99 - $4.13, from table). Past pricing relationships within the supply chain would suggest a much stronger (base) ex-vessel price than was paid out in 2020. However, there is no guarantee that 2020 pricing spreads must or will fall in line with previous seasons.

Please note that the 2020 sales season is not yet complete and due to reporting lags with the data, the fillet price is based on estimated price of product cut from headed-and-gutted fish, and partial year data for retail pricing. However, we believe the prices shown below and the corresponding price spreads accurately reflect market conditions. If one were to use the going rate of roughly $8.00/lb. for once-frozen frozen fillet pricing, the $4.00/lb. round weight equivalent would produce even larger price spreads but distributors can achieve lower prices by cutting fillets from headed-and-gutted fish.

For additional analysis and supporting data see the BBRSDA Market & Value Info page and the November 2020 Member Meeting presentation video. There is a ton of relevant data and analysis contained at these two links. We highly recommend exploring the "market & value info page" and watching the presentation video if you'd still like to understand market conditions better.

Several factors have been suggested or identified that could at least partially explain why ex-vessel prices fell so much in 2020. Those are discussed in more depth below.

What about the impacts of COVID-19?

The COVID-19 pandemic resulted in estimated direct costs to Bristol Bay processors of 7-12 cents per round pound of sockeye harvested. Several processing companies were able to offset some of these additional costs with COVID relief funds, but to what extent is not known. Also, it is likely that companies did not know exactly how much additional cost could be recouped through government aid programs prior to or during the season. Regardless, the direct costs of COVID safety measures does not fully explain the decline in ex-vessel price.

It is likely that the biggest impact COVID had on ex-vessel prices in Bristol Bay has to do with risk premium. Any time risk increases, businesses require a larger return to offset increased risk. Although COVID ended up increasing demand for seafood at retail stores, this was not widely known during the summer months or guaranteed that the trend would continue for months to come. COVID had and still has the potential to up-end almost any business operation, including those in the seafood industry. That makes anyone who is buying inputs or making investments in most industries more cautious, and hence act more conservatively.

COVID led to increased costs for processors and has decimated business for seafood companies which rely more heavily on the food service sector, but on the plus side for Bristol Bay processors it has also fueled retail and online demand for seafood which is where the majority of sockeye is eventually sold. COVID has also prompted a shift towards healthier eating. This has contributed to more demand in the short term but is also likely to support demand longer term as well.

What about the compressed run?

The Bristol Bay sockeye run is famous for size and intensity, but 2020 one the most compressed runs on record. As a result, processors could not produce as much once-frozen fillets as they would have liked. Once-frozen fillets tend to fetch a higher price than frozen headed-and-gutted (H&G) fish, but require more time to process. Data is not yet available for 2020, but based on anecdotal reports and pricing for once-frozen fillets, it's clear that fillet production very likely fell sharply in 2020. The end result is because the run came in so compressed, processors could not achieve their preferred product mix and will miss out on some sales revenue as a result. How much *potential* revenue was lost cannot be reliably estimated until 2020 production data is available later this spring.

Was the low 2020 price a result of poor performance in 2019 or in business operations outside of Bristol Bay?

Another potential price factor has to do with how unusual 2020 was. Not only did COVID upend market demand patterns, the distribution of Alaska salmon harvests by region were very different. Wild salmon harvests in other Alaska regions - outside Bristol Bay - were the lowest since 1979! In addition, prices for halibut and black cod declined sharply in 2020, and cod harvests have been poor for the past couple years.

All of Bristol Bay's major processing companies have plants in other areas of the state, and with disastrous chum, sockeye, and coho runs in these other areas it is likely that these short runs have had a negative impact on companies' profitability. A rough forecast of how much "net processing revenue" will be left over from the 2020 sales season after paying fishermen suggests the 2020 Alaska salmon season will probably be the worst of any year in at least the past decade.

Another explanation suggested for the low 2020 ex-vessel price is that Bristol Bay processors paid too much in 2019, or had poorer financial performance that year. The latter is true, to some degree, but also requires more context and is likely not the whole story. In 2019, processors posted a net processing revenue of $209 million from buying and selling Bristol Bay sockeye. That was down from $246 million in 2018, which was preceded by three years of $230 million or better (see this table for historical data). Basically, a decline of roughly $37 million in net processing revenue and perhaps $15 to $25 million in direct COVID costs for Bay operations doesn't explain a $130 million drop in ex-vessel value, unless it's needed to offset losses elsewhere.

Even if Bristol Bay processors do need to hold back earnings to cover poorer performance outside the Bay, it would appear likely that Bristol Bay fishermen will be paid some sort of significant retro ahead of next season. However, regardless of the numbers laid out above, there is no contractual requirement for processors to pay a sizable retro ahead of the 2021 season.

What Can be Done – Options for Fleet Consideration

Bristol Bay fishermen have three basic choices pertaining to ex-vessel price: accept the status quo and carry on, try to make a better deal with existing processors, or pursue alternative business partnerships or arrangements. This section provides more detail about the options available for each choice, in order of the most passive options to the most assertive.

While a good deal of effort has been put towards the roadmaps outlined in this section, it is possible that there are yet more options available or that some of those listed below could be combined in some fashion. Our approach has been to listen to the fleet, discuss "*what can be done*" at length, consider the pros/cons, and make a solid first attempt at scoping out how these options might be executed, thus giving fishermen a more complete picture of their options.

Fishermen will notice a common starting point in all the options discussed below which would result in some sort of change to the status quo: a group of fishermen must collaborate and decide what path to pursue.

Many fishermen may choose not to take any action. After all, this is a very seasonal fishery that provides supplemental income for many people. Also, this fleet is somewhat notorious for being fiercely independent and uncooperative. However, we hope fishermen can realize as they read through this material that change does not require absolute agreement or cooperation among all fishermen. Nor does it require that fishermen catch, cut, ship, store, and sell fish themselves, independently. Bristol Bay sockeye is a valuable commodity, as evidenced by being one of the more expensive items in any meat and seafood department. With that comes incentive and access to highly capable companies which could become potential partners or investors. Also, the BBRSDA can provide resources and assistance in many respects, providing another potential partner. Change does appear possible in the present situation if some fishermen decide they are willing to pursue it.

That said, even without changes regarding how prices are set or realized we believe this fishery has a bright outlook. Consumer demand appears strong and stable. While nothing is currently guaranteed, fishermen are very likely to continue benefitting from this demand in the future.

Again, the BBRSDA wants to be clear that it is not advocating for any of the options listed below, at least presently. The fleet had questions about the options available to them and as the topic involves BBRSDA's core mission, we have prepared materials for fishermen to consider. Decisions about whether BBRSDA would be involved in any of the endeavors listed below will be reached through fleet engagement, legal vetting, and consideration of the overall impact to members. BBRSDA will not hesitate to act boldly on behalf of our fleet, but only if those actions are broadly supported by our members and are likely to advance the organization's mission.

CHOICE #1: ACCEPT AND CONTINUE WITH THE STATUS QUO

BENEFITS TO FISHERMEN OF CONTINUING WITH THE STATUS QUO

- Possible that the fishery could still provide attractive return for fishermen. The status quo has resulted in a string of good earnings performance in the fishery, at least up until 2020.
- Strong consumer demand should and probably will create upward pressure on ex-vessel value over time.
- Does not jeopardize processor relationships with fishermen or BBRSDA.
- Lowest risk option for fishermen.
- Avoid potential problems stemming from lack of fleet services.

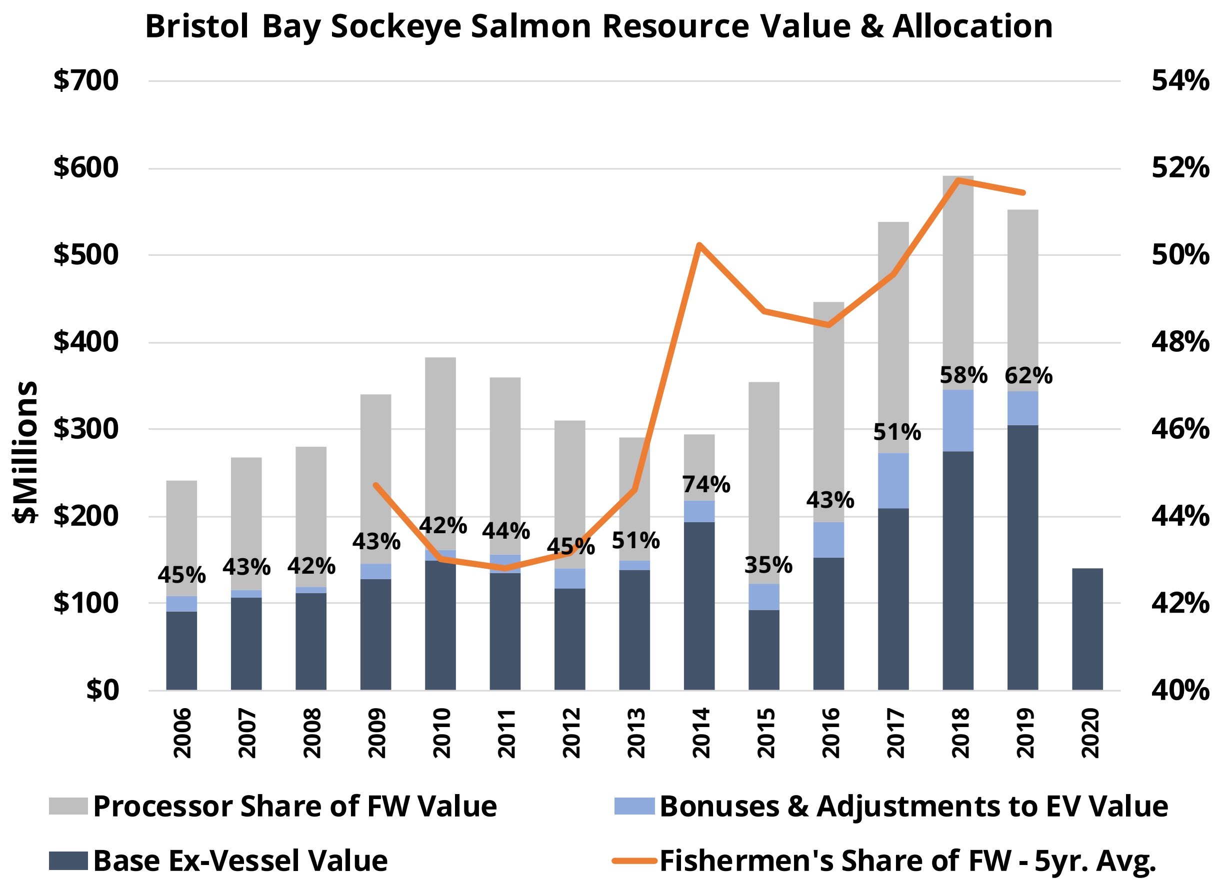
CHALLENGES & RISKS TO FISHERMEN OF CONTINUING WITH THE STATUS QUO

- Most fishermen continue to fish on open tickets with no guarantee that they will be paid prices commensurate with downstream sockeye prices.
- Could limit the effectiveness of BBRSDA investments and activities in terms of meeting the mission of increasing fishery value.
- Fishermen could be leaving a lot of money on the table.

From a fisherman's perspective, the current situation may appear unfair and unacceptable. However, before considering any course change, it would be wise to assess the pros and cons of continuing with the status quo.

Even though fishermen aren't guaranteed an ex-vessel price, there is a functional market feeding into a sophisticated supply chain. Bristol Bay salmon fillets are a valuable consumer product. Up until the 2020 season, fishermen have seen a bump in earnings due to strong consumer demand and have been paid a higher share of first wholesale value in recent years (see chart showing shares of fishery revenue between fishermen and processors on the following page). The supply chain is competitive overall, rewarding those companies that deliver the highest value for the lowest price. In short, as Bristol Bay sockeye have become more valuable further down the supply chain, fishermen have been paid higher revenues (up until the 2020 season).

See chart on following page.



Notes: First wholesale (FW) value is compiled on a harvest year basis (June of fishery year through May of following year, e.g. 2019 = sales from June 2019 - May 2020). Ex-vessel (EV) value is compiled on a calendar year basis. Final data for 2020 is not yet available.

Sources: Alaska Department of Fish & Game (Annual Management Report, Season Summaries, and COAR) and Alaska Department of Revenue (Alaska Salmon Price Report), data compiled and published by BBRSDA.

Assuming demand remains strong for Bristol Bay salmon products, some fishermen may feel content to trust that the market will price their valuable raw material appropriately, at least in the long term. There's a couple ways to look at this notion, so let's explore its basis.

The efficient market theory states that asset prices reflect all available information and that if markets function efficiently it will be difficult or impossible for an investor to outperform the market. This is a common belief by many who see free markets as infallible. It's summed up nicely in a famous joke:

> *Two economists are walking down the street. The first economist says, "Look! There's a $20 bill laying over there." The second economist replies, "That's impossible. If it were a real $20 bill, someone would have picked it up already." So, they walk on without picking up the money.*

There's substantial research disproving the theory of efficient markets and the absolute wisdom of crowds, but we bring this up to make a point worth considering. This is a big fishery, with lots of money to be made or lost. There is nothing stopping a new or existing buyer/processor from outbidding existing processors. So, there are reasons why ex-vessel prices are what they are. That's an explanation we've heard several times, from both fishermen and processors. Fully understanding the specifics of those reasons isn't really possible unless you are privy to information held by ownership or executives of processing companies.

This lack of certainty is one of the biggest counterpoints to pursing changes in fishery dynamics. Maybe ex-vessel prices are fair and the ex-vessel market for Bristol Bay salmon is more efficient than fishermen suspect. Maybe the prices paid represents the maximum price possible under current conditions. Or maybe not. Change requires taking risks, and it's often impossible to really predict the reward before making the leap.

Another aspect in favor of the status quo is more logistical in nature. Most existing processors support their fishermen in preparing for a season or in helping them deal with breakdowns during the season. The level of fleet service varies by company, but pursuing alternatives could result in fishermen (or a new business) having to make these arrangements themselves, and possibly have less access to support.

Of course, there are important drawbacks to the current situation, which is the motivation for this entire effort in deep reflection. Fishermen do not know what base price they can expect either before or during (most of) the season. Nor do they know upon what basis their harvest will be priced. There is no contractual guarantee that ex-vessel prices will reflect downstream demand for Bristol Bay salmon, and outside of Silver Bay Seafoods, fishermen do not have any claim on downstream profits.

CHOICE #2 – NEGOTIATE AND/OR PARTNER WITH PROCESSORS

This section examines potential options for negotiating and/or partnering with existing processors.

OPTION 2A: Create Pricing Agreement(s) between Fleets & Existing Processors

Working together, a fleet and processor negotiate a pre-season pricing agreement, which would likely include a base price, quality incentives, and guaranteed supplemental payments based on applying a formula to sales performance or some system of profit or revenue sharing.

BENEFITS

- Effectively ends the practice of fishing on open tickets with no guaranteed price, at least for those processors which offer pricing agreements.
- Likely creates a direct connection between wholesale market performance and ex-vessel price.
- For processors, it could be a useful tool for fleet recruitment or retention.
- At the very least, if a small group of fishermen pursue this concept, it creates a choice for both processors and fishermen to either change or acknowledge that they are committed to the status quo.

CHALLENGES & RISKS

- Requires cooperation from processors.
- Requires a higher level of organization among fishermen in any given fleet.
- Mutual agreement(s) may not be reached.
- It's possible that sensitive information could be leaked; however, this is true on the part of company employees as well, which is why companies often protect themselves with non-disclosure agreements.
- Larger processing companies could find it challenging to isolate costs related to just Bristol Bay salmon (e.g. how do you isolate the cost of trucking a variety of different products to a customer, with Bristol Bay salmon being among them).

The least disruptive option for substantial change is for fishermen and processors to formalize their business partnership with specific, contracted parameters. This approach seems to have broad appeal from the fleet, who indicated via a recent BBRSDA survey that price transparency and ending the "open ticket" practice were top priorities. In fact, there appears to be shared bewilderment from those we spoke with that Bristol Bay fishermen collectively agree to deliver fish with no prior agreement on price, or with no price on a fish ticket. Would a processor ever ship 90% of their production to a single customer with an understanding that they'll pay what they can, when they can? No, that would be an insane way to run a business! Yet, Bristol Bay fishermen do just that.

We have discussed this idea with fishermen and processors alike. While we cannot say there was strong interest in creating a pricing agreement or profit-sharing structure from the processors we spoke with, they did bring up solid points about workability that we have tried to address in the proposed approach outlined below. Despite our best efforts to predict how a negotiation might unfold, there are a myriad of details which might need to be addressed or altered to reach an agreement that works both sides.

One benefit of this concept is that it could reduce financial volatility for both fishermen and processors. Even if both sides made the same amount of money over time, they would prefer that cash flow to be more stable. As things currently stand, the lack of partnership often causes processors to recoup poor financial performance from the fleet in the following year. This depresses the ex-vessel price, making it harder to maintain wholesale pricing with customers who know exactly how much raw material was purchased for. The result is wild fluctuations in price and financial performance, which creates challenges for fishermen/processors and strains supply chain relationships where stability is more ideal.

Finally, it's important to point out for fishermen that negotiating a pricing agreement ahead of the season in no way guarantees a higher final price than the current situation. However, it would create more transparency and certainty about ex-vessel price, which seems like a reasonable ask.

Potential Frameworks for Negotiation

A group of fishermen which delivers to a specific processor surveys others in that fleet to confirm that all or most of the fleet would be willing to pursue a pricing agreement with the processor. If the fleet is amenable, this group of fishermen meets with the processor to inform them that the fleet wishes to negotiate a pricing agreement for the upcoming season.

If the processor is willing to consider a pricing agreement, the fleet selects or formally elects three to six fishermen to act as fleet representatives. Fleet representatives would be responsible for reviewing, evaluating, and negotiating a pricing agreement prior to the fishing season. The fleet may choose to hire attorneys or auditors to review information provided by processors and advise on a workable pricing agreement structure. The fleet would need to decide how it would like to conduct negotiations. Options may include:

1) authorizing the fleet representatives to negotiate and execute the best deal possible, or

2) having the fleet representatives bring back a proposed pricing agreement to the fleet to discuss (likely in a virtual meeting) and either accept or counter.

For option #1, fleet representatives (and possibly contracted attorneys or auditors) would physically meet with company personnel to negotiate a pricing agreement prior to a season. It is almost a given that this process would entail reviewing financial and sales information, but fleet representatives would not be allowed to save images or retain documents without written permission from the processor. Processing companies may require fleet representatives to sign a non-disclosure agreement specifying what information can and cannot be shared, and create appropriate consequences for doing so. The two sides negotiate and agree on a pricing agreement.

Then, the processor and fleet representatives collaboratively draft a letter to the fleet and any other announcement content (e.g. website or social media posts). This allows processors to exercise greater control over what information is shared, while allowing fleet representatives to ensure the agreement will be announced as agreed to. The announcement serves as a notice and commitment to the fleet that ex-vessel prices will be paid out according to the agreement (see below for more explanation of a likely pricing agreement structure).

For option #2, fleet representatives and the processor perform the same activities but prior to fleet representatives accepting the terms, the pricing agreement is proposed to the processor's entire fleet either via mail, email, or a meeting. It would be up to the processor to decide whether or not it would like company personnel to be present at this meeting. This would likely need to be some type of virtual meeting and/or conference call; an option which was not technologically possible until fairly recently (at least, in terms of having a secure conference call). Again, professional staff could be contracted to assist as independent mediators or auditors. The proposed pricing agreement is discussed and the fleet votes on whether to accept or counter. If the parties decided to finish the negotiation via (e)mail, they could utilize a third-party to execute a vote.

Each side would want to set up a framework in advance for how the proposal/counter mechanics are handled. A simplistic approach, saving on time, would be for the fleet representatives to continue negotiations for one final proposal. A meeting or (e)mail vote would again be held with only two choices: accept or reject the proposal.

If the fleet wishes to see revisions to the draft pricing agreement, the fleet representatives take the requested edits back to the company for final round of negotiations. A final pricing agreement is again emailed to the fleet for a vote with only two choices: accept or reject the proposal.

Under either option, if a pricing agreement can be reached, the processor and fleet representatives would work collaboratively to draft a binding pricing agreement for the upcoming season, which would then be mailed to each skipper in the fleet. After all this, it is possible that some fishermen might opt not to sign the pricing agreement for any reason. However, they would then not be guaranteed a price and the processing company could decide to pay them however they wish.

We did hear of one Bristol Bay processing company which used to approach its profit-sharing program in a similar, collaborative manner. Years ago, a few fishermen acted as fleet representatives and would physically meet with processor personnel to go through financial documents, in an effort to be transparent with their fleet. We do not know exactly why the practice was discontinued for that company, but just heard from multiple sources that their profit-sharing program doesn't work the way it used to.

What Might a Pricing Agreement Look Like and How is it Different than the Status Quo?

It's important for fishermen to understand what a pricing agreement would probably look like. It is likely that processors would be unwilling to commit to a final price prior to the season. There are many variables which could result in processors potentially losing large sums of money and being unable to recoup it from the fleet. Therefore, the fleet representatives would likely need to negotiate an agreement that provides for a base price paid out shortly after the season and revenue sharing (based on audited sales and inventory/production information) at various intervals after the season. Again, the fleet could hire independent auditors to verify the post-season execution of the pricing agreement, issue an independent audit report of the results (which could accompany settlement statements and/or checks), and assure sensitive information was kept confidential. The simplicity or complexity of any pricing agreement would depend on the core demands of each fleet and processor.

This type of pricing agreement would function similar to how fishermen are currently paid, but with three critical differences:

First, processors wouldn't need to be as concerned about matching the base price of other companies, possibly setting themselves up for a poor sales season. If sales revenues are weaker than expected, the pain can be shared with the fleet and the benefits of the relatively better financial shape heading into next season can be communicated to the fleet. Obviously, fishermen may leave for other companies if the pricing agreement consistently results in lower final prices, but this is also true of the current situation. When a sales season goes poorly, it is clear how a processing company can reduce its financial volatility.

Second, fishermen would have certainty regarding the base price prior to going fishing. This would help them make more informed business decisions. It is possible that other processors would react by posting slightly higher base prices prior to or during the season. In this scenario, it would be important for the processor to communicate (and for fishermen to realize) that even if they have both agreed to a lower base price, the fishermen are being treated as real business partners and that other companies are not committing to any retro payments. Also, agreements can work both ways, and it is possible that a fleet would choose to accept an agreement that required fishermen to deliver all or a high percentage of their catch to the company in exchange for being offered a pricing agreement. We firmly believe even if a processor's pricing agreement did not always result in higher final prices for the company's fleet, it would be sustainably supported by fishermen who recognize the value of having a contractual arrangement with their market.

Third, even though fishermen wouldn't have certainty over the final price, they would have transparency regarding the basis upon which they are paid. In our conversations about price with fishermen, this trade-off has been found to be widely acceptable (provided the agreement was based on accurate financial information).

OPTION 2B: Create an Option for Fishermen to Earn or Purchase Equity

Working together, a fleet and processor create a program whereby fishermen can purchase or earn equity shares in the processing company over time. This could entail buying equity in the overall processing company or a subsidiary that is confined to Bristol Bay salmon operations.

BENEFITS

- Creates market transparency for fishermen while containing sensitive/confidential information for processing companies.
- Creates an option for fishermen to passively invest in the fishery.
- Creates an option for raising capital or cash for processors.
- For processors, it could be a useful tool for fleet recruitment or retention.

CHALLENGES & RISKS

- Requires cooperation from processors.
- Like any investment, fishermen could lose money or earn a poor return.
- Processing companies could find it challenging to isolate Bristol Bay-related business, and Bristol Bay fishermen may be less willing to invest in a more diversified company (or they may not).

Another option could be for fishermen to purchase or earn and equity stake in an existing processing company over time. Of course, this option is really up to each processing company. However, given that Bristol Bay processors have made significant investments in their facilities over the past decade and the sector has seen a surge in merger and acquisitions, it may be possible that a processor would be open to the possibility of allowing fishermen to invest cash or fishery earnings in the processing business.

One challenge here is that most Bristol Bay processors operate facilities under a single business entity in other areas. This could make it difficult to isolate business activities related solely to Bristol Bay salmon. However, if the processing company was willing to sell shares in the company, fishermen could decide to simply purchase a stake in the overall company. It may also be possible to isolate Bristol Bay-related business operations by creating a separate legal structure.

How this would work in practice would be completely up to the mutually interested parties. It is probably not worth speculating on any specifics, given that the ideal investment program would vary widely depending on the situation for each processing company and fleet.

CHOICE #3 – EXPAND, IMPROVE, OR BUILD NEW CHANNELS FOR MARKET ACCESS

This section examines potential options for expanding, improving, or building new channels to markets whereby Bristol Bay fishermen retain a share of equity in the operation.

OPTION 3A: Create a Bulk Purchasing Program for Direct Marketers

A group of direct marketers or another entity working on their behalf aggregates orders for product and handles disbursement in an attempt to negotiate a more favorable price for processed product.

BENEFITS

- Establish more transparency with respect to processing cost and sales prices/demand.
- Possibly expanded direct marketer sales and/or setting up new direct marketers for success, which can provide benefits in a direct and indirect sense (by increasing demand and awareness of Bristol Bay salmon).
- Lowers costs for direct marketers, thereby allowing them to increase their financial return from the fishery.
- There's a clearly achievable path, pending how much of a discount could be secured.
- Could provide funding to offset costs or supplement BBRSDA marketing activities.

CHALLENGES & RISKS

- BBRSDA may damage its relationship with other processors, not selected for the program.
- BBRSDA may not be able to secure a discount or the discount may not be big enough to provide much benefit, or justify program expenses.
- BBRSDA may wind up owning product if direct marketer commitments fall through.
- Direct marketers may not be able to secure product if the processor is unable to meet its production goals.
- General business risk pertaining to the processor (can it execute production and remain a viable entity)
- Unclear how this may solve the fundamental problems associated with ex-vessel price and market position.

While it's possible that BBRSDA might have a role to play in executing other options, this idea has a more clear-cut path for BBRSDA involvement. The primary goal here is to aggregate purchasing power from direct marketers to achieve a better price for product. A potential work plan for executing this idea is as follows:

Potential Phase 1 Approach

1. BBRSDA surveys existing and new direct marketers to calculate interest and product commitments for 2021 fish, assuming it can be purchased at a discount to major processors.

2. If there is interest in setting up a bulk discount program for direct marketers, BBRSDA issues a "Request for Bids" on a given volume of specified products (fillets, portions, H&G, round, and/or other forms requested by direct marketers), then selects the best bid (assuming it doesn't reject all the bids or get no answers). BBRSDA and the processor draft a purchase agreement with processors and possibly some type of commitment agreement with direct marketers.

3. BBRSDA commits to building a "Direct Marketer Resource Kit" to help new (and interested existing DMs) sell their product. BBRSDA uses a portion of the discount to fund the effort. The processor executes the sales commitment and may pick up more boats as a result.

4. In the event BBRSDA winds up owning product in cold storage, BBRSDA would have to find a buyer. Although not ideal, it is likely that this product (which is already discounted) could be sold to a distributor at cost, or a relatively small loss.

Potential Phase 2 Approach

BBRSDA again solicits bids for a bulk purchase for direct marketers or negotiates with a preferred processor. This time, as a pilot project, it adds a certain amount of pounds to sell itself, with the "profits" used to offset/supplement marketing expenses.

BBRSDA sells branded Bristol Bay Sockeye Salmon product(s) with marketing support to retailers and distributors. BBRSDA continues to support direct marketer sales, and possibly offering fulfillment support for direct marketers. If sales progress quickly, BBRSDA could possibly opt to purchase more product and keep selling.

BBRSDA evaluates the pilot sales project in order to make a decision about whether to continue the effort, and if so, what adjustments might be needed.

OPTION 3B: Create a Sales and/or Logistics Company to Support Direct Marketers

This option would entail creating a company (either for-profit or non-profit) that provides all or some the following services:

- Inventory storage, management, and order fulfillment
- Logistics services (shipping arrangements)
- Account management and financial transactions
- Access to marketing resources and services
- Coordinating and assisting with packaging vendors and options

- Possibly, a centralized, digital marketplace where products could be sold for direct marketers, processors, or distributors; either in the format of a wholesale auction or listing board, and/or a space focused on selling smaller volumes to consumers.

BENEFITS

- Makes it easier for fishermen to do direct marketing, thereby gaining a higher value from the resource.
- Reduces direct marketing and logistics costs for direct marketers, and possibly other processors.
- Begins funneling wholesale sales to a central point.
- Improved market transparency.
- Ideally, would reduce costs within the supply chain, which would provide more money to direct marketers and may indirectly benefit other fishermen.

CHALLENGES & RISKS

- Requires a necessary amount of interest, scale, and cooperation to start.
- Would likely require hiring specialized staff.
- No guarantee that the effort could be competitive in the wholesale market.
- Could probably be effective in executing direct marketer orders or "spot market" wholesale sales, but how it could execute on-going program sales to retailers is harder to envision.
- Selling to buyers would expand sales opportunity, but also add complexity.

Direct marketers could reduce costs through economies of scale and technology, and it's possible that smaller processors or other distributors could utilize the services as well, for a fee. By aggregating volume, the company could likely negotiate better rates for cold storage space in Seattle (and/or elsewhere). Direct marketers could focus more on selling their fish, selling their story, and not worry so much about the logistics, or pay so much in terms of time and money. It may also lower barriers to entry, somewhat, for new direct marketers.

An alternative to this idea could be to approach an existing direct sales company to see if there is a mutually beneficial way to co-brand, sell product, and execute fulfillment on behalf of direct marketers, in exchange for a fee. This approach would require reaching an agreement with a partner company. Obviously, this sort of arrangement comes with drawbacks and benefits, but it might be worth investigating partnership opportunities with an existing company, rather than creating a new entity.

Potential Approach

In terms of setting up the company, a group of direct marketers could take the lead in creating this sales/logistics company and building out a set of services. Alternatively, another entity (potentially BBRSDA) could perform a needs assessment and set up the company if there is a clear market for these services. The work plan would be developed further based on the needs of company founders and/or an independent needs assessment.

OPTION 3C: Partner with a New Processor Offering a Pricing Agreement

A group of fishermen partner with a new processing company to deliver fish and are paid according to a pricing agreement, which may include a profit or revenue sharing element.

BENEFITS

- Creates more competition for fish, likely putting upward pressure on ex-vessel price.
- May provide a more realistic opportunity for fishermen to secure a pre-season pricing agreement, or an actual partnership opportunity involving equity in the new business.

CHALLENGES & RISKS

- The venture could fail, leaving fishermen without a market or bearing some of the costs themselves.
- Fishermen selling to the new entrant may not be guaranteed a higher price than is offered by other processing company.
- Possible that fishermen selling to the new entrant would not be able to sell to other markets.

Bristol Bay sockeye occupies a large market footprint in the U.S. market. There are several large seafood distributors that already sell and fillet millions of pounds of Bristol Bay salmon. They may be interested in partnering with fishermen to achieve a more reliable supply of raw material, with more certainty regarding cost. In fact, the recent acquisition of Peter Pan Seafoods was largely driven by a large seafood distribution company seeking more direct access to fisheries. So, it is certainly possible that if a group of fishermen wanted to pursue a new market and are committed to entering into a long-term relationship, they would have at a reasonable chance of finding a processing partner.

If fishermen are truly dissatisfied with their current market options and existing processors are unwilling to offer a reasonable pricing agreement, they could group up and seek out a new processor who is willing to offer an acceptable pricing agreement (either in the form of revenue-sharing or an advance price) or it could allow fishermen to take a minority equity stake in the new business venture. Outside of the Jones Act, which restricts the operation of foreign vessels in U.S. waters and fisheries, there is no law prohibiting other processing companies from operating in Bristol Bay.

Potential Process for Engaging a New Processor to Enter Bristol Bay

If there's mutual interest between a processing partner and an adequate number of fishermen, then the two parties negotiate a pricing agreement. From there, most all the development work is conducted by the processor. This could entail finding a suitable floating processor, building a shoreside facility, buying an existing facility, or possibly entering into a custom processing agreement with an existing processor. The new venture would also need to make arrangements for fleet service, tendering, and a myriad of other items.

While there is potential for fishermen and the new processing partner to reap rewards, there is also considerable risk. The costs to set up, buy, or hire functional processing capacity could be quite expensive, requiring a long-term commitment by both the processor and fishermen. It could be presumed that any processor interested in operating in the Bay already has access to attractive markets, but the ability to hire and retain skilled labor for processing operations in the Bay is a critical element that could dictate whether the venture soars or flops. This fishery has seen its share of new processing companies which failed due to a lack of human capital or were nudged out by an inability to compete with other companies.

Additional Points for Consideration

"Create more competition among processors" is a common suggestion from fishermen, and has been for years. The rationale is obvious. More buyers usually results in more competitive pricing. However, adding competition and processing capacity would likely result in lower economies of scale and greater aggregate processing costs for the entire fishery. The "catch-22" of this situation is that processors do not have much incentive to bid up ex-vessel prices unless they have excess processing capacity. Processors won't buy more fish unless they have the ability to process it. Building and carrying excess processing capacity costs money and that capacity which goes unused represents wasted investment. So, yes having more processors and more processing capacity creates more incentive to bid up ex-vessel prices, but it comes at the expense of processing efficiency - the cost of which eventually must be paid for by the fishery.

Larger plants that can process larger volumes of fish create greater economies of scale and lower the cost of processing per pound. Over time every processor seeks to improve its cost structure, which often happens by processors increasing their economies of scale either through internal growth or mergers. Market forces reward efficiency, but if larger economies of scale is the primary way to achieve efficiency then we eventually wind up with fewer buyers that have less excess capacity. Which brings fishermen back to a point where there is little incentive for existing processors to 1) bid away boats from competitors with higher prices or 2) share the benefits of its investments with the fleet.

In summation, having new processors enter Bristol Bay that operate similar to the existing companies is likely to have benefits in the short-term, but nothing is guaranteed in the long-term. Now, if the new processor can operate more efficiently and has some type of partnership agreement with its fleet, that is something which could create a paradigm shift.

So, is pursuing new processing partners a worthwhile goal for fishermen that wish to establish a more direct connection between ex-vessel price and downstream demand? It appears likely, although it would depend on many variables of how such an agreement was structured. It could create short-term benefits for fishermen, even if they don't sell to the new entrant. But to yield sustainable benefits outside of the traditional cycle of expansion and contraction, it seems logical that there needs to be a durable and equitable partnership relationship between fishermen and the new entrant.

OPTION 3D: Create a New Cooperative Processing & Sales Company

This option entails creating a new co-op that is majority owned (or eventually majority owned) by fishermen which processes and sells salmon products.

BENEFITS

- Allows fishermen to vertically integrate in a passive or active manner.
- Directly ties ex-vessel value/price to financial performance of co-op activities.
- Assuming the co-op is as efficient as existing processors, would maximize profits for fishermen who would retain a larger share of profits which currently go to processors.
- Creates direct incentive to deliver high quality fish.
- Would create a platform to obtain better health insurance rates/coverage for fishermen that deliver any amount of product to the co-op.
- May achieve sales efficiencies.
- Allows fishermen to retain leverage, control, and financial return from production.
- If scaled up, may produce improvements in fishery efficiency and profitability.
- Could provide more financial transparency for fishermen.
- Creates competition for existing processors in Bristol Bay.

CHALLENGES & RISKS

- Requires a significant amount of financial capital.
- Requires finding and successfully negotiating with a willing processing partner.
- Requires a high level of outreach and organization.
- Requires the formation of a new company (with org structure, bylaws, etc.).
- Requires the recruitment and hiring of effective managers and specialized personnel.
- Requires substantial time to develop/execute, especially if new processing facilities are required.

- Possible that co-op members could be precluded from selling to other processors.
- Still possible that fishermen could be put on limits (similar to any other processing operation).
- Product mix could be more limited or result in 2x frozen product, to start.
- Wholesale market access could be curtailed or challenging for a variety of reasons, but especially considering the co-op may only have one type of product for sale (Bristol Bay salmon). However, this is the case for most farmed salmon companies in the world.
- Very real risk that existing processors would view this as adversarial and may attempt to oppose the co-op's efforts, as businesses often do with any competitor.
- The co-op must still be able to process and sell product at roughly the same or lower cost than other processing companies, not an easy task to achieve.

This option carries the most risk for those involved, but also guarantees the most direct connection between fishermen's earnings and downstream pricing. It's also one of the more complex options, and so it requires more forethought and explanation. To succeed, this company will need three basic inputs: a workable volume of fish, financial capital, and people (probably a partner company) with the ability to successfully execute management, processing, logistics, and sales activities.

To start, there are three main entities involved: 1) a group of fishermen committed to delivering all, most, or some amount of their catch to the company, 2) a processing company, and 3) an investment entity (or entities).

The three entities, explained in more detail below, each bring unique and necessary inputs to the operation. Each entity has critical resources - fish, capital, and capability - which the other is unlikely to possess, but which are collectively essential to creating a strong, sustainable company. The attractive thing here for fishermen, but also for investors and the processing partner, is that it is likely that there are numerous people and companies who would be interested and capable of filling the various roles.

- Fishermen – provides high quality <u>fish</u>, individual fishermen could choose to contribute towards start-up costs or pay back the investor entity over time in exchange for a majority equity position in the company
  (to operate alone it needs: capital & capability)

- Processor: provides the <u>capability</u> to efficiently process quality product and potentially provides access to sales channels for product, in exchange for a contracted rate or an equity stake in the co-op – starting a processing company from scratch isn't impossible but would be very difficult
  (to operate and expand alone it needs: fish & capital)

- Investor: provides start-up capital, a source of credit, marketplace legitimacy, and potentially plays a role in fleet services
  (to operate alone it needs: fish & capability)

This start-up approach makes two critical assumptions for any group of fishermen seeking to start a co-op. First, an arrangement can be secured with a legitimate processor and investor (if substantial start-up capital is needed). Second, enough fishermen will commit to delivering to the co-op to ensure the operation has enough production to make it financially viable and successful. A potential path for executing this concept is described below.

Potential Approach for Forming a Cooperative

Fishermen who are interested in starting a fishermen's co-op assemble and recruit others. The number of fishermen needed depends on how much production would likely be needed to make processing costs efficient, and how much total salmon the group is likely to catch in a given season. Assembling a group of at least 50 fishermen seems like a reasonable threshold, although the operation would have a better chance of success with 100-200 fishermen. It would be possible to get the initial planning effort going with a small number of fishermen and recruit more later, but eventually the co-op will need to achieve an adequate scale to begin operations.

Next, the group's leadership needs to find a processing company interested in partnering with the group of fishermen for a minority share in the business or outright selling processing facilities to the group. This could be an existing Bristol Bay processor or another processing company which would be new to the Bay.

After getting a group of committed fishermen and a processing partner, a new company is formed as a Bristol Bay fisherman's co-op. A temporary committee of founding members is created, either formally or informally. The Committee develops a comprehensive business plan, including a pricing agreement and/or profit-sharing agreement. Obviously, the business plan will also need to contain detailed plans for processing, tendering (if the facility is shoreside), fleet support, sales, logistics, and company structure. A prospectus is drafted and fishermen are recruited to join, and possibly invest funds. Catering to direct marketers and outlining a health insurance program are a couple tools which could be used to recruit fishermen, outside of the opportunity to own a share of the co-op.

It's possible that those involved may choose to delay formally creating a new company until after an Investor is found. Regardless, at some point there will need to be a business entity with the necessary structural components created, such as articles of incorporation, bylaws, a board structure, etc.

If the co-op needs access to significant start-up capital, it will need to find a suitable investment entity. The Investor could be an investment firm, a wealthy individual or family, an Alaska Native or CDQ corporation, a bank, or really any entity willing to provide the necessary capital under agreeable terms. The Committee pitches the investment opportunity to potential investors, adjusting the business plan and structure if needed. After an Investor is found and/or necessary capital is made available, the co-op will need to elect a board of directors and hire necessary professional staff.

After all the necessary pieces are in place, the co-op can advance to the implementation and operational phases of executing the business plan. This includes reporting on financial and operational performance to co-op members and issuing payments. Speculating on what the business plan entails before it concludes in reporting and payouts is getting to too far afield at this point; however, we will offer some additional ideas on how to execute key aspects of the business strategy or other aspects to keep in mind.

Potential Sales Strategies

Ideally, the processing partner would have the market connections and sales staff to sell whatever products are produced by the co-op to wholesale customers. This is the traditional sales strategy most primary seafood processors employ. However, the company may want to consider non-traditional sales approaches too, either as an alternative to existing sales channels or a way to supplement sales activity.

Direct (B2B) sales are a negotiation, often resulting in more favorable pricing for the buyer. Sometimes they are necessary, such as if a larger retailer wishes to secure product for a certain period of time at a pre-determined price. This provides benefits for both the seller and buyer. Also, for many sellers of any product, particular in the wholesale space you have to actively pursue buyers and learn about their needs to develop a roster of customers. However, it would be possible to create an online marketplace for wholesale customers or individual consumers.

The wholesale marketplace could be set up as an auction and/or a listing board, where the co-op and wholesale buyers could place bids and offers for available products. Something akin to a commodity exchange isn't a new idea and may work well for the co-op, particularly if it has substantial volumes of product to sell. Tradex Foods hosts a "live" online board where sellers can list product for sale (link). The online marketplace could also feature seafood products from other sellers, possibly for a fee, as well as provide links to product information and marketing resources for wholesale customers. Essentially, an online marketplace provides a spot market for co-op product. It could also bring more transparency, simplicity, and efficiency to the marketplace. Currently, it's very difficult for buyers or sellers to know what the "market price" is for sockeye products and sales need to be executed on a case-by-case basis.

Directly selling to consumers through an online site or subscription model might also be an option to explore. Selling smaller lots to individual customers creates more costs per transaction, but products fetch higher prices too. One of the challenges of selling frozen fish to consumers is the high cost of expedited shipping. The co-op might find a fertile market with other CSA-type customers in the lower 48 who can purchase in bulk and re-sell to local customers (thereby drastically reducing shipping costs), or simply handle fulfillment for co-op customers in the CSA's area for a fee. This would allow the co-op to offer discounted prices for consumers who live within a CSA's area and the co-op would still likely come out ahead versus shipping direct to consumers via Fedex or some similar air freight service. Fishermen co-op members or other contractors could be hired to perform local order fulfillment too.

Yet another option for selling directly to customers would be to engage with and provide support services for direct marketers who are co-op members. The co-op could likely make it easier and more cost effective for its members to do direct marketing by offering logistics, fulfillment, and advertising services. Again, this would have the added benefit of being a fleet recruitment tool for the company.

Improving Health Insurance Options for Fishermen

Another way to attract fishermen, beyond the obvious benefit of providing an easy means to invest in a vertically integrated seafood company, is to use the co-op as a vehicle for obtaining better terms for health insurance. Presently, individual fishermen who are not covered under a spouse's health insurance (or via their "regular" job) must buy coverage from state marketplaces (or forgo coverage). This is usually more expensive and/or results in worse coverage. When people can aggregate into larger numbers, they are then able to negotiate directly with insurance companies for better coverage. However, there must be some employer-employee relationship or financial partnership in order to group people together for insurance coverage. This could potentially save fishermen thousands of dollars per year on medical insurance, although it will probably depend on where those fishermen reside and how many fishermen or co-op members are involved. Even if fishermen sold small quantities of fish to the co-op, they could likely qualify for a health insurance program (although the co-op could decide to make some type of delivery requirement to suit its business needs).

Actions & Reactions

One thing that co-op owners must consider is the competitive reaction from existing processors. It is possible that existing processors would raise ex-vessel prices to prevent the co-op from recruiting fishermen, and/or may opt to sell product at lower prices to undercut the co-op's prices. While this would be beneficial for non-co-op fishermen, it could make for challenging co-op economics. It is critical that those involved in starting up any co-op have a realistic plan for withstanding the strategic reaction from competitors. The co-op's plan should produce profits by selling frozen H&G fish for approximately $2.20/lb. above the final ex-vessel price, covering the yield lost to processing and all other costs. From 2016-2019, the final ex-vessel price of Bristol Bay sockeye averaged $1.35/lb. while frozen H&G product averaged $3.57/lb. However, expecting a reaction on the part of competing processors, the co-op should apply a "stress test" to its business plan to see how much room it has with respect to margins. Can it survive financially if that margin (the difference between frozen H&G price and ex-vessel price) is compressed to $2.00/lb., $1.50/lb., or even less? If the plan is truly realistic and can profitably survive a stress test, then there is a reasonable chance the co-op can succeed.

Conversely, if the co-op is successful fishermen who sell to other processors could be negatively impacted by reduced economies of scale (which often results in higher operating costs, and hence less funds to pay for fish).

Transparency

The co-op ought to provide quarterly (or some other periodic) set of financial documents. The co-op may consider publicly posting its financial and operational reports to its website, as means of providing transparency not just to members, but to the entire fleet. This could be a useful tool for attracting new fishermen and establishing a basis for increased asset value of permits and fishing vessels. From the perspective of the entire fishery, providing transparency regarding operational costs and sales data would be a significant development for the entire fleet.

Most businesses strongly avoid publishing transparent reports for good reason. If they are earning good margins, the last thing they want to do is advertise that to their buyers or others who may enter their market as a competing supplier. This is where Alaska's limited entry system is such as huge benefit for fishermen and the co-op members. Even if the co-op succeeds in fantastic fashion and publicly reports their performance, this is wild salmon. There's only so much of it available and historically Bristol Bay is the largest source of premium product and its already one of the lowest priced premium salmon products (compared to other sources of Alaska king, coho, or sockeye salmon). Bristol Bay fishermen have the unique benefit of being insulated from a large competitor coming in and producing more product for less, which in other industries usually entails paying its workers lower wages than the co-op.

Creating a Plan for Successful Fleet Recruitment, Retention, and Long-Term Success

Like any company, co-ops are comprised of people who have feelings, egos, and personal agendas. There may be a desire for those involved in the early stages of a co-op effort to retain a higher standing or equity share than those who join later on. While there could be some arguments for this structure, it is important that the co-op does not create stratification among its fishermen members. Yes, those that join earlier should benefit from doing so, but not down the road at the expense of new members. This has the obvious result of creating mistrust and contempt among members. Which is almost always followed by dysfunction, poor performance, and the eventual collapse of the co-op. Keep things transparent and fair, for old and new members.

More Background on Producer Cooperatives

Producer co-ops are often formed to help increase marketing possibilities and production (and/or marketing) efficiency. They are organized to aggregate production, process, market, and distribute their own products. This can reduce costs which would otherwise be borne by individual businesses operating on their own, and provide a mutual benefit to those involved who share in the profits generated by the operation's efficiency or market position.

Coops succeed and fail for a variety of reasons. Available research, which was nicely summarized in this article by Peter Couchman and Murray Fulton, lays out some common factors that result in failure (often failures seem to follow a similar pattern, and researchers note it can be instructive to step through this list backwards as well as forwards). We won't repeat those findings here but encourage interested fishermen to educate themselves on why some co-ops succeed while others fail.

Those seeking examples of successful co-ops could start with this list to America's Top 100 Co-ops. The list does not include any companies which are involved in fisheries; however, agricultural cooperatives are most common type of co-op on the list. It would seem that having collective ownership over the most abundant supply of a uniquely valuable resource, in the case of Bristol Bay salmon, would be a strong asset for a cooperative. Many other agricultural cooperatives, such as Ocean Spray (cranberries), Blue Diamond (almonds), and Land O'Lakes (dairy products), have thrived without such a benefit.

A co-op can only succeed if it can produce and sell quality products at a competitive price. Buyers will (generally) not accept paying higher prices for the same level of quality, and fishermen will not accept receiving lower prices than competing processors might pay them (in the long run). The inherent assumption is that there is too much profit which is being 1) wasted on production inefficiencies, 2) captured by downstream middlemen, or 3) forgone due to sub-optimal marketing execution. Without transparency, it's hard to quantify or estimate "how much is being left on the table". This is why it's critical for a potential co-op to go through a rigorous business planning effort to determine if the venture can be competitive, and just as importantly it must create and execute a plan to remain so.