

# CONSTRAINT ANALYSIS ON THE IMPEDIMENTS FACED BY INDIAN SEAFOOD EXPORTERS

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Among the leading non-traditional exports, fish and fishery products play a prominent role contributing significantly to the success of India's export effort to bridge the yawning trade gap of India. They have become one of the major foreign exchange earners in the agricultural and allied sectors of India in the recent years. Starting from mere scraps in the pre independence period, it is a saga of steady striking and sustained growth that the industry had recorded raising India's status and prestige and securing for her a respectable position among the maritime nations of the world.

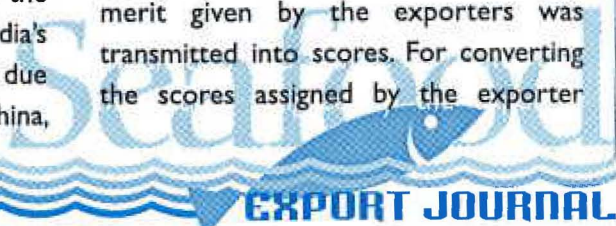
The marine products exports from India continue to surge up new heights and unabated by global recession. During 2010-11 the quantum of exports surpassed 7.25 lakh tonnes with a forex earning of 2.6 billion dollar. The appreciation of the Indian rupee hasn't much affected the export earnings. The reason for the sustained increase in export is due to the demand for raw fish rather than value added products from the retail outlets as the buyers opted for cheaper fish on account of lower income and increasing unemployment. Nevertheless, being a heavy export earner to the tune of 2.60 billion dollars the fisheries sector is facing numerous problems on account of economic shortcoming, technical constraints, institutional limitation, trade restrictions and marketing lacuna. Severe competition exist between the different competitors like Thailand, China and South East Asian countries for sustaining the market share by product diversification. The sea food industry in many countries are undergoing a rapid change to process more and more ready to cook and ready to eat in convenient packs. Indian seafood industry, by and large, still remains as a supplier of raw materials to the preprocessors in foreign countries and 90 per cent goes in bulk packs, which is the prime reason for the drastic reduction in the unit value realization.. India's predominant position in shrimp market is being eroded due to the sudden spurt in farmed shrimp production in China,

Indonesia, Thailand, Vietnam etc. The problems were again complicated with the restriction placed by the USA by the imposition of Antidumping duties which has been discussed at length in the appellate body but continues to haunt the export industry. Situations aren't rosy with European Union countries with changing quality standards and cases of rejection and alerts. There are problems related to non-availability of raw materials and low capacity utilization of processing plants. It is in this backdrop that the present study on the constraint analysis faced by the different seafood exporters was conducted.

## Data and Methodology

The study was conducted on the basis of primary data collected from 60 seafood exporters using a pre-tested interview schedule. The study would help to ascertain the different constraints faced by the seafood exporter's. The analysis of the data were done using the Garette Ranking Technique.

The Garette Ranking Technique was employed to rank the problems in fisheries exports as expressed by the exporters. The problems, which were felt as important, were listed and the order of merit given by the exporters was transmitted into scores. For converting the scores assigned by the exporter



towards the particular problem, per cent position was worked out using the formula

$$\text{Percent Position} = \frac{100 (R_{ij} - 0.05)}{N_j} \dots\dots(1)$$

Where,

$R_{ij}$  = Rank given for the  $i$ th problem by the  $j$ th exporter

$N_j$  = Number of attributes

The Statistical tests of Kendall's coefficient of concordance were done to see whether there is an agreement between the exporters regarding the ranking of the constraints. The significance of the Kendall's coefficient of concordance was tested with the null hypothesis ( $H_0$ ) that the  $k$  rankings are unrelated and alternate hypothesis  $H_1$  : that the  $k$  rankings are related.

## Results and Discussions

The primary data was collected from 60 sample exporters and the results are presented in Table I. The important problems perceived by the exporters were ranked. The Garette ranking technique was employed to analyse the problems in general in the fisheries export. The results indicated that the irregular supply of raw material, cut throat competition for raw material, heavy competition for target market, low capacity utilization higher cost of production and low margin of profit, uncertainty in prices, dictatorship of

buyers, high cost of investment and lack of market and product information were the major reasons cited by the exporters encountered in the fisheries export. From the statistical test the alternate hypothesis was accepted;  $H_1$  was accepted i.e; the  $k$  rankings are related .Thus it was concluded that there exist good agreement among exporters in their ranking of impediments. The ranks are graphically represented in Figure 1.

Note: Garette ranking

$$\text{Percent Position} = \frac{100 (R_{ij} - 0.05)}{N_j}$$

### I. Irregular supply of raw material - Unpredictability of landings and production

There exists severe paucity of raw material due to depleted landings in marine sector and disease incidence in culture sector. The major exportable species like shrimps, lobsters and high value fishes registered a downward trend in ladings over the years .There has also been a significant reduction in shrimp production due to disease outbreak and huge cost of shrimp farming.

Sl.No:	Reason	Mean Score	Rank
1	Irregular supply of raw material	55.90	I
2	Cut throat competition for raw material	53.87	II
3	Heavy competition for target market	53.63	III
4	Low capacity utilization	52.75	IV
5	Higher cost of production and low margin of profit	52.48	V
6	Uncertainty in Prices	52.38	VI
7	Dictatorship of buyers	51.03	VII
8	High cost of investment	48.07	VIII
9	Lack of market and product information	30.17	IX

The reduction in landings coupled with geographical separation of landings often results in irregular supply of raw material thereby resulting in non-realization of economies of scale to the different exporters. In addition, the seasonal variations in marine catches constrain the operations of the firms. During lean seasons, majority of the firms face shortage of raw materials resulting in low capacity utilization. The bigger firms either having access to backward

Table I Constraint faced by exporters – Garette Ranking Technique

integration or owning fishing vessels may operate to some extent but the smaller firms either lay idle or limit their operations.

## **2. Cut throat competition for raw material -** *Nominal prices of raw materials much above the real prices*

The peak landings in the marine capture sector generally coincide with the peak season for exports. More than 60 per cent of the landings occur during the post monsoon period which coincides with the highest export demand. Thus to restore parity between the demand and the supply, the raw materials are often purchased at exorbitant prices with even forward marketing with the boat owners. There can be chances of deterioration in quality due to non-availability and that too at affordable prices.

## **3. Heavy competition for target market –** *Too many exporters chasing too few markets*

There exists very huge competition for gaining access to the target markets. Japan, USA and European Union or Western Europe were the major fish importers from India, which accounted for about 60 to 65 per cent of the volume and about 70-75 per cent in value of Indian seafood export. Even though geographic diversification emerged with countries like Middle East and China with the strict quality regulations in US or EU, they still account for a major share (70-75 per cent) in the foreign exchange earned through our export. Often price discrimination; brand positioning and market segmentation exists among the competing countries. It has been found that the brands developed across the major competitors has provided an innate edge for them in the target markets in sustaining and generating a sizeable market share in the target markets. There are even cases of Indian delicacies being marketed in their brands which portrays the state of affairs of Indian seafood products.

## **4. Low capacity utilization-** *More and more capacity generation leading to less and even lesser utilisation*

Realization of the capacity utilization was the major problem faced by them and the average capacity of the processing plant was found to be 32.12 tonnes whereas the utilization was only 12.10 tonnes (37.70) percent. The results were also analyzed

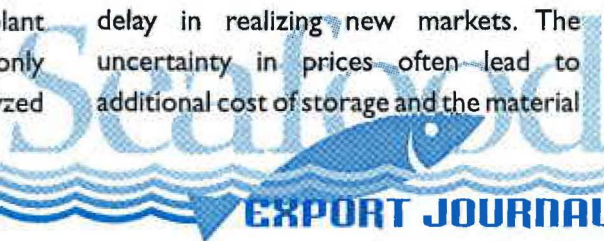
for the capacity utilization across the different quarters. It was found that during the period from October - December months contributed to 30.39 per cent followed by January- March at 28.29 per cent. The processing plants processed minimal quantities during the period during July-August and April-June. The average quantum of marine fish products processed per processing plant was found to be 2,781.70 tonnes per annum.

## **5. Higher cost of production and low margin of profit –** *Double edged sword*

The cost of production increased exorbitantly on account of high purchase prices of the exportable species and other operating expenses like labour cost, water and electricity charges. The compliance cost of EU approval plant also increased manifold thus resulting in huge cost of production pegging the profit margin at minimal level. The high cost incurred for purchase at distant markets, compliance cost, establishment cost all resulted in higher unit cost of production and lower profit level. In the export markets the profit levels were maintained low to sustain the market share.

## **6. Uncertainty in Prices –** *Erratic global markets and demand habits*

There exists uncertainty in prices in the international market with the economic recession spreading to most of the target markets. The price uncertainties lead to delay in payments, loss in revenue and delay in realizing new markets. The uncertainty in prices often lead to additional cost of storage and the material



getting delayed in shipment and increased demurages

#### **7. Dictatorship of buyers – Paradox of buyers becoming price makers**

The export market is necessarily a buyers' market with the prices fixed by the international buyers. The absence of domestic demand coupled with the premium prices in the international market makes the products disposal at the whims and fancies of the importers. The exporters thus became a price taker than a price maker. The presence of such a buyers' market creates a dictatorship among the buyers in deciding the guidelines, quality criteria's and subsequent rejections

#### **8. High cost of investment – Break evens are waiting for the long run**

The establishment cost of a processing plant increased considerably over the years due to stringent quality standards set by international trade regulations. The compliance cost for EU approval also increased manifold thus resulting in huge cost of establishment. The overall compliance cost for meeting the EU norms has been estimated at 15 to 40 per cent of the FOB value. Often the cost of investment is so huge that the break evens aren't even attained after a decade of continuance in business. The analysis of the short run and long run gains on the SPS and compliance measures by the exporter's indicated that with the huge cost of investment required for the compliance of EU approval and HACCP implementation, the gains weren't significant due to non-capacity utilization of the processing plant and lack of raw materials. The processing plants which have implemented the compliance investment for the EU approval are yet to break even their cost of investment even after 8 -10 years on account of processing capacity utilization to the tune of 22-25 per cent. In addition, ecolabelling and other private standards by international retailers for environmental and social purposes also results in high costs and low margins.

#### **9. Lack of market and product information – Lag in market intelligence and poor market news**

The lack of market and product information leads to demand and supply constraints. The taste and preference of the buyers are ever changing that it becomes difficult to coup up with

their demand. Often the demand for the product forms changes with income and seasons. On the supply side, the awareness on ecolabelling, catch certificate and numerous trade regulations and quality standards becomes important. The lack of proper market intelligence and poor market news leads to the lag in equipping the seafood traders.

### **Conclusions**

The study revealed that the irregular supply of raw material, cut throat competition for raw material Heavy competition for target market and low capacity utilization were the major impediments faced by the exporters. It is to be noted that amidst the global recession and economic meltdown the sector performed well. Contrary to the major competitors slowdown in export growth the country's sea food trade grew by double digit in quantum as well as value. It may be true that the country isn't short of forex reserve and the balance of payment regime isn't weak and exports doesn't seem to hold good as an engine for growth. But it has to be taken care that the seafood exports has been the one sector which had been consistently growing and registered a sustained growth amidst competition from other countries. Indian seafood trade continues unabated amidst numerous non-tariff barriers and regulations remain as a major delicacy across 120 countries in the world. Governmental Support is a requisite to ensure that the sector doesn't suffer in the backdrop of unfair trade regulations and equivocal quality standards by the target markets.

