



# ***Wild-Harvested Shrimp***

## ***Technical Assistance Curriculum***

By

**Texas Cooperative Extension  
Sea Grant College Program  
Texas A&M University**

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# Acknowledgements

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# Trade Adjustment Assistance Program

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## **What is Trade Adjustment Assistance (TAA) for Farmers and Fishermen**

The Trade Act of 1974, as amended by the Trade Act of 2002, established Trade Adjustment Assistance (TAA) for Farmers. The Trade Act of 1974 was created by Congress to provide business owners and their employees relief from hardships created by foreign import competition.

The purpose of TAA for Farmers is to help agricultural producers and fishermen adjust to import competition. The amended program provides technical assistance and cash benefits to eligible farmers and fishermen from the U.S. Department of Agriculture (USDA), and access to Department of Labor (DOL) retraining and education programs.

Traditional TAA has provided technical assistance and labor retraining services to non-agricultural businesses and employees. TAA for farmers expands the benefits to include:

- Technical assistance from the Extension Service to assist producers and fishermen in exploring alternative commodities, marketing opportunities, and alternative enterprises.
- A cash payment of up to \$10,000 depending on the amount of product you harvested.
- Retraining and education to help producers and fishermen transition to a different career, including tuition for up to 104 weeks of full-time classroom education.

## **Establishing a Commodity's Eligibility for TAA**

Commodities must be certified as eligible for TAA before individual producers can apply for benefits. The eligibility criteria for a commodity are:

- Average price of the commodity in the most recent 12 months must be less than 80% of the average price over the past 5 years in which data is available.
- Imports of directly competing products must have increased during the most recent 12 month period.
- Increase in imports must have “contributed importantly” to the price decrease.

Petitions to seek TAA eligibility may be filed by a group of agricultural producers or their representatives (grower groups) with USDA's Foreign Agricultural Service (FAS).

The TAA petition form is available at [www.fas.usda.gov/itp/taa/FAS0930.pdf](http://www.fas.usda.gov/itp/taa/FAS0930.pdf) or may be requested by phone at (202) 720-2916 or by e-mail at [trade.adjustment@fas.usda.gov](mailto:trade.adjustment@fas.usda.gov). Petitions may be made on behalf of a state, region or the nation as a whole.

FAS does an initial eligibility screen. If the petition meets basic requirements, the information is posted in the Federal Register and FAS must announce the determination regarding a commodity's eligibility within 40 days of posting in the Federal Register.

## **Applying for Individual Producer or Fishermen TAA Benefits**

Producer or fishermen are eligible to apply for TAA benefits once a commodity petition has been certified and if:

- They are an owner, operator, landlord, tenant, sharecropper, or fisherman who is entitled to a share of the commodity available for marketing from the farm or fishing operation.
- They harvested the commodity in the year for which TAA eligibility has been established.

## **Applying for Cash Benefits**

Application must be made at a USDA Farm Service Agency (FSA) office within 90 days after the commodity has been certified as eligible for TAA. The application form is available at [http://forms.sc.egov.usda.gov/eforms/Forms/FSA0229\\_030923V01.pdf](http://forms.sc.egov.usda.gov/eforms/Forms/FSA0229_030923V01.pdf) or at local FSA offices. Information regarding the location of local FSA office is available at [http://oip.usda.gov/scripts/ndisapi.dll/oip\\_agency/index?state=us&agency=fsa](http://oip.usda.gov/scripts/ndisapi.dll/oip_agency/index?state=us&agency=fsa). After an application has been submitted the applicant has until September 30 of the current year to submit the following documentation:

- Certification that technical assistance has been received from the Extension Service.
- Acceptable production documentation for the commodity.
- Evidence that net income was less than the last year in which no adjustment assistance was received.
- Proof that average gross revenue was less than \$2.5M for preceding 3 years.

## **Applying for Technical Assistance Benefits**

Technical assistance at no cost will be widely available through the Extension Service. Technical assistance must be completed within 180 days after the commodity has been certified as eligible for TAA. Sources for technical assistance are listed at <http://www.agrisk.umn.edu/taa/> or can be obtained by contacting one of the four regional TAA centers:

|                      |                             |                |
|----------------------|-----------------------------|----------------|
| Western Region       | Washington State University | (800) 477-4012 |
| Southern Region      | Texas A&M University        | (254) 968-4144 |
| Northeast Region     | University of Delaware      | (302) 831-6540 |
| North Central Region | University of Nebraska      | (402) 472-2039 |

Technical assistance will help producers and fishermen evaluate opportunities to improve production efficiencies, alternative or improved marketing, and alternative enterprises potentially suitable for the geographic area.

## **Applying for Retraining and Education Benefits**

To apply for Department of Labor retraining and education benefits contact your state department of labor. Links to your state department of labor TAA coordinators are available at <http://www.doleta.gov/tradeact/contacts.cfm>. The national Department of Labor TAA site is <http://www.doleta.gov/tradeact>.

The Department of Labor provides TAA employment counseling, case assessment, job development, and self-directed job search services. Education assistance (Trade Readjustment Allowances) pay tuition and travel for up to 104 weeks of full-time education including classroom training, on-the-job training, and employer –based training.

## **Deadlines to Apply for Benefits**

Application for cash benefits must be made at with Farm Service Agency (FSA) within 90 days after the Foreign Agricultural Service (FAS) announces a commodity is approved for Trade Adjustment Assistance. The FAS approved petitions for eligibility for shrimp producers in Texas, South Carolina, and Georgia on November 10, 2003. Therefore, shrimp producers from these states must make application **before** February 9, 2004.

The application need not be completed by that date. However, one form **must** be completed and filed with the FSA by February 9, 2004. This form is entitled “Application for Trade Adjustment Assistance (TAA) for Individual Producers.” The form number is FSA-229. This form can be found on the web at [http://forms.sc.egov.usda.gov/eforms/Forms/FSA0229\\_030923V01.pdf](http://forms.sc.egov.usda.gov/eforms/Forms/FSA0229_030923V01.pdf). It is also available from the local FSA Office.

Technical assistance must be received from the Extension Service within 180 after FAS announces a commodity is approved for TAA.

## **Department of Commerce Assistance**

Farmers and fishermen may also qualify for assistance as business owners through the U.S. Department of Commerce. Qualified applicants may receive 50% cost sharing for projects like developing business plans, creating new marketing strategies, research and

new product development, or design of marketing materials. A separate application with the Department of Commerce is required. For more information contact go to [www.taacenters.org/locations.html](http://www.taacenters.org/locations.html).

## **To Obtain Further Information**

Extension's one stop site for information on technical assistance is <http://www.agrisk.umn.edu/taa>. This site also provides links to obtaining cash benefits from FSA and retraining benefits from the Department of Labor. You can also obtain additional information at your local FSA or Extension county offices.

Alternatively you can contact the Washington, D.C. Trade Adjustment Assistance Office, Foreign Agricultural Service, at (202) 720-2916 or write to USDA, Foreign Agricultural Service, Trade Adjustment Assistance, STOP 1021, 1400 Independence Avenue, SW, Washington, DC 20250-1021, or e-mail at [trade.adjustment@fas.usda.gov](mailto:trade.adjustment@fas.usda.gov).

## **Where Am I?**

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- **Status of the World and U.S. Shrimp Markets**
- **Evaluating the Financial Viability of the Business**
- **Inventory of Resources and Talents**



# Status of the World and U.S. Shrimp Markets

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With domestic production averaging roughly 200 million pounds per year, any growth in the U.S. shrimp market beyond that level has to be supplied by imported product. Not surprisingly, imports have been a growing contributor to total U.S. shrimp supplies for decades. However, calendar 2001 signaled a departure from the gradual, annual increases in shrimp imports. Specifically, imports in 2001 exceeded 2000 levels by almost 122 million pounds, or 16 percent. In both 2002 and 2003, annual shrimp imports have set records that have been eclipsed in the following year. In 2002, even with the West Coast stevedores' strike that began in October, imports exceeded the record set in 2001 by 64 million pounds (7 percent). Finally, shrimp imports in the first ten months of 2003 are 152 million pounds ahead of imports for the same time period last year, a 20 percent increase.

Most U.S. producers and processors feel that sharply increased supplies are the root cause of the low ex-vessel prices they have received since 2001. Ironically, many shrimp farmers half a world away, who supply a growing fraction of the American marketplace, are also perplexed by the relatively low prices they are receiving. The question then becomes whether the last three years are symptomatic of a short-term imbalance between worldwide demand and supply, or whether we are seeing a fundamentally different global shrimp industry to which we must adapt. This section of the technical assistance report attempts to answer that question by reviewing what is known about (a) world shrimp production, (b) supply trends within the American marketplace, and (c) the drivers that steer the international shrimp trade.

## **World Shrimp Production**

Shrimp are produced from practically every tropical and subtropical coastal country in the world. Historically, the source of supply has been wild harvests from the worldwide band of nearshore tropical waters. However, with many wild sources being harvested close to their maximum sustainable levels, new supplies have come from coastal shrimp farms; most located in developing countries within Southeast Asia, the Indian sub-continent, and Central America.

Between 1979 and 1999, world production of tropical shrimp grew from 1.86 billion pounds of shell-on, headless product to 4.3 billion pounds [1]. In 1979, pond-raised shrimp contributed just 88 million shell-on, headless pounds to world production (4.7 percent) while wild sources supplied 1.78 billion pounds. Twenty-one years later wild harvests stand at 2.74 billion pounds worldwide, with cultured shrimp comprising 36.5 percent of the world production base of tropical shrimp (1.57 billion shell-on, headless pounds) (Table 1, Figure 1). Over this 21-year time frame, wild harvests grew about 41

million pounds a year while pond production grew by about 84 million pounds each year [2].

Table 1. Worldwide Production of Tropical Shrimp from Capture Fisheries and Aquaculture

| Year | Shell-on, Headless Pounds |               |                | Percent Cultured |
|------|---------------------------|---------------|----------------|------------------|
|      | Capture                   | Aquaculture   | Total Supplies |                  |
| 1979 | 1,773,416,673             | 88,072,110    | 1,861,488,783  | 4.7%             |
| 1980 | 1,804,307,202             | 99,875,718    | 1,904,182,919  | 5.2%             |
| 1981 | 1,702,061,594             | 123,080,079   | 1,825,141,673  | 6.7%             |
| 1982 | 1,794,246,977             | 155,604,248   | 1,949,851,225  | 8.0%             |
| 1983 | 1,787,352,626             | 197,509,347   | 1,984,861,973  | 10.0%            |
| 1984 | 1,841,473,910             | 239,339,432   | 2,080,813,342  | 11.5%            |
| 1985 | 2,050,588,216             | 296,782,173   | 2,347,370,389  | 12.6%            |
| 1986 | 2,157,141,578             | 444,073,748   | 2,601,215,325  | 17.1%            |
| 1987 | 2,102,309,049             | 686,417,911   | 2,788,726,960  | 24.6%            |
| 1988 | 2,135,543,073             | 801,477,038   | 2,937,020,112  | 27.3%            |
| 1989 | 2,006,452,142             | 863,014,994   | 2,869,467,136  | 30.1%            |
| 1990 | 2,034,144,847             | 935,179,947   | 2,969,324,795  | 31.5%            |
| 1991 | 2,145,651,918             | 1,157,905,145 | 3,303,557,063  | 35.1%            |
| 1992 | 2,139,891,113             | 1,237,293,679 | 3,377,184,791  | 36.6%            |
| 1993 | 2,063,872,657             | 1,178,313,148 | 3,242,185,805  | 36.3%            |
| 1994 | 2,278,169,882             | 1,237,160,320 | 3,515,330,202  | 35.2%            |
| 1995 | 2,237,239,967             | 1,323,777,990 | 3,561,017,957  | 37.2%            |
| 1996 | 2,356,067,858             | 1,335,178,744 | 3,691,246,602  | 36.2%            |
| 1997 | 2,508,452,056             | 1,390,439,131 | 3,898,891,187  | 35.7%            |
| 1998 | 2,548,422,069             | 1,493,166,774 | 4,041,588,843  | 36.9%            |
| 1999 | 2,735,697,548             | 1,570,763,304 | 4,306,460,851  | 36.5%            |

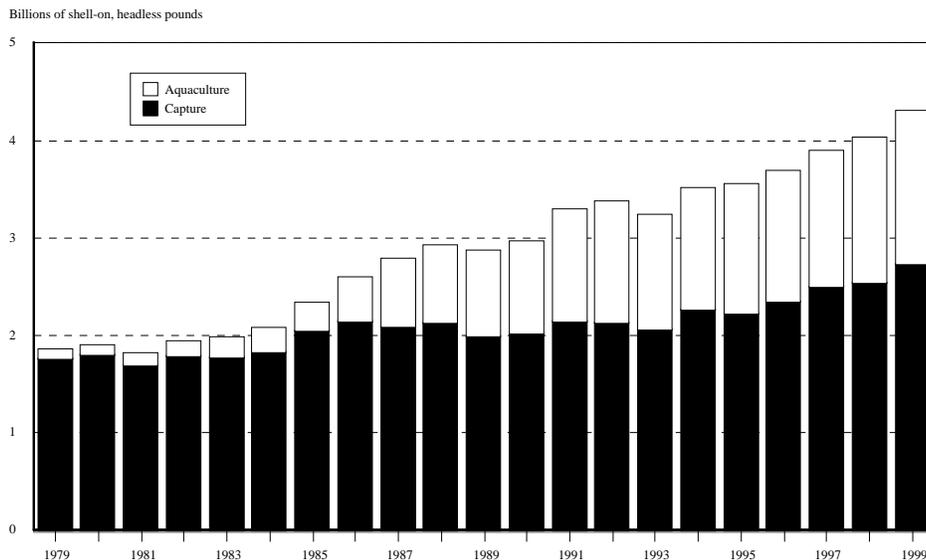


Figure 1. Annual changes in world production of tropical shrimp from capture fisheries and aquaculture

Further growth in the global shrimp supplies will continue to be fueled by aquaculture for several reasons. First, wild, tropical shrimp resources across the globe appear to be fully utilized. Second, technological advances in the culture of marine shrimp have reduced both the risk of crop failure and the cost of production. For example, feed formulations are being evaluated that replace a larger fraction of fish meal with cereal or grain-based protein thereby reducing feed cost; a major production expense. Furthermore, shrimp farming need not be exclusively located in the coastal zone. In the early days, shrimp farming was limited to coastal regions where estuarine water could be pumped into ponds. Today, however, some countries have developed farms in upland areas since species like Pacific white shrimp (*Litopenaeus vannamei*) can be grown in fresh water. Aside from the obvious advantage of greater expansion capability, moving away from the coastal zone typically reduces the environmental impacts on sensitive, estuarine areas. Third, many developing countries continue to pursue a policy of producing and processing various agricultural commodities for the export trade as a means of providing employment to a growing labor force while funding improvements in their national infrastructures.

## **Market Growth in the Major Shrimp-consuming Countries**

Historically, the major worldwide markets for shrimp have been located in Japan, the European Union (E.U.), and the U.S. The U.S. has consistently remained the largest shrimp market in the world. Until the mid-nineties, Japan was the second-largest shrimp market but then began to decline in response to slower economic growth. Today, the E.U. is the second-largest major shrimp market (Table 2, Figure 2)[1].

Table 2. Apparent Annual Consumption of Shrimp Among Major Markets

| Year | Shell-on, headless pounds |                |             |               |
|------|---------------------------|----------------|-------------|---------------|
|      | USA                       | European Union | Japan       | Total         |
| 1988 | 788,280,000               | 513,810,467    | 618,465,015 | 1,920,555,482 |
| 1989 | 738,633,000               | 554,359,756    | 670,020,120 | 1,963,012,876 |
| 1990 | 719,225,000               | 611,884,457    | 683,426,520 | 2,014,535,977 |
| 1991 | 777,954,000               | 662,350,887    | 688,806,720 | 2,129,111,607 |
| 1992 | 840,958,000               | 716,991,714    | 685,373,535 | 2,243,323,249 |
| 1993 | 817,042,000               | 694,483,316    | 713,890,800 | 2,225,416,116 |
| 1994 | 870,247,000               | 727,996,560    | 725,755,905 | 2,323,999,465 |
| 1995 | 846,644,000               | 695,055,646    | 695,648,835 | 2,237,348,481 |
| 1996 | 864,468,000               | 743,123,014    | 689,604,930 | 2,297,195,944 |
| 1997 | 930,642,000               | 722,002,378    | 641,037,600 | 2,293,681,978 |
| 1998 | 1,000,792,000             | 848,346,959    | 571,333,140 | 2,420,472,099 |
| 1999 | 1,102,047,000             | 816,296,490    | 596,265,075 | 2,514,608,565 |

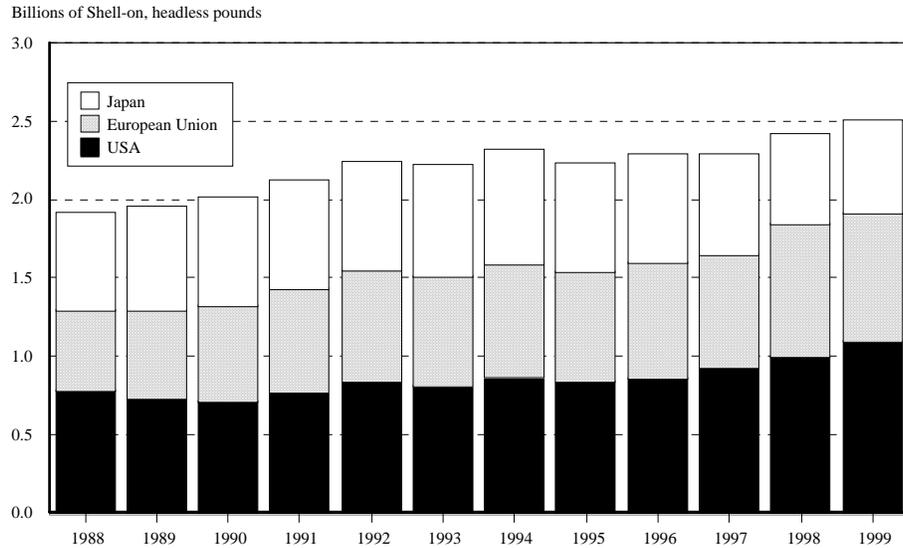


Figure 2. Apparent Consumption of Shrimp Across the Major World Markets

When worldwide supplies (Table 1, Figure 1) are compared with total apparent consumption from the three major markets (Table 2, Figure 2), it is clear that shrimp consumption across the rest of the world is also increasing. In 1988, approximately two-thirds of worldwide supplies (1.9 billion shell-on, headless pounds) were consumed in the U.S., the E.U. and Japan, with 1 billion pounds consumed in the rest of the world. In 1999 however, the U.S., the E.U. and Japan consumed 58 percent (2.5 billion pounds) of the 4.3 billion pound worldwide supply that year, with the rest of the world using approximately 1.8 billion pounds. Increasing worldwide consumption outside the major shrimp markets is a positive signal for the domestic shrimp industry because it suggests that more of the growing supply base is being consumed outside the historic major shrimp consuming regions.

## **Consumption and Supply Trends in the American Marketplace**

Since 1980, U.S. shrimp consumption has virtually tripled, growing from around 423 million pounds to approximately 1.3 billion pounds in 2001 (Table 3, Figure 3). Between 1980 and 2001, consumption has grown by an average of 33 million pounds each year.

Table 3. The U.S. Market for Shrimp

| Year | Thousands of Pounds of Shell-on, Headless Product |           |                               |                          |         |                      |                               |
|------|---|-----------|-------------------------------|--------------------------|---------|----------------------|-------------------------------|
|      | Landings  | Imports   | Dec. 31 Cold Storage Holdings | Cold Storage Adjustments | Exports | Apparent Consumption | Computed Trend in Consumption |
| 1979 | 205,587   | 267,119   | 109,634                       |                          | 53,058  | NA                   | NA                            |
| 1980 | 207,869   | 255,957   | 109,509                       | 125                      | 41,054  | 422,897              | 436,048                       |
| 1981 | 218,900   | 256,920   | 89,886                        | 19,623                   | 43,721  | 451,722              | 469,000                       |
| 1982 | 175,613   | 319,596   | 76,645                        | 13,241                   | 37,198  | 471,252              | 501,953                       |
| 1983 | 155,591   | 421,179   | 101,357                       | (24,712)                 | 35,937  | 516,121              | 534,906                       |
| 1984 | 188,132   | 422,340   | 81,596                        | 19,761                   | 26,591  | 603,642              | 567,858                       |
| 1985 | 207,239   | 452,232   | 79,379                        | 2,217                    | 26,940  | 634,748              | 600,811                       |
| 1986 | 244,409   | 492,005   | 75,633                        | 3,746                    | 30,450  | 709,710              | 633,764                       |
| 1987 | 223,514   | 583,030   | 92,319                        | (16,686)                 | 33,813  | 756,045              | 666,716                       |
| 1988 | 203,350   | 598,210   | 70,816                        | 21,503                   | 34,784  | 788,279              | 699,669                       |
| 1989 | 215,825   | 563,523   | 67,770                        | 3,046                    | 36,056  | 746,338              | 732,622                       |
| 1990 | 213,899   | 579,427   | 78,035                        | (10,265)                 | 59,682  | 723,379              | 765,574                       |
| 1991 | 198,115   | 632,775   | 71,655                        | 6,380                    | 87,186  | 750,084              | 798,527                       |
| 1992 | 207,086   | 694,252   | 69,105                        | 2,550                    | 81,604  | 822,284              | 831,480                       |
| 1993 | 180,687   | 708,683   | 76,751                        | (7,646)                  | 81,447  | 800,277              | 864,433                       |
| 1994 | 174,969   | 749,993   | 70,789                        | 5,962                    | 77,755  | 853,169              | 897,385                       |
| 1995 | 190,208   | 719,463   | 71,528                        | (739)                    | 77,677  | 831,255              | 930,338                       |
| 1996 | 195,902   | 720,852   | 61,857                        | 9,671                    | 75,130  | 851,295              | 963,291                       |
| 1997 | 179,084   | 810,696   | 67,926                        | (6,069)                  | 66,674  | 917,037              | 996,243                       |
| 1998 | 173,304   | 893,578   | 83,891                        | (15,965)                 | 65,302  | 985,615              | 1,029,196                     |
| 1999 | 189,112   | 959,915   | 79,893                        | 3,998                    | 65,427  | 1,087,598            | 1,062,149                     |
| 2000 | 218,542   | 1,024,476 | 66,633                        | 13,260                   | 70,383  | 1,185,895            | 1,095,101                     |
| 2001 | 201,428   | 1,178,232 | 81,842                        | (15,209)                 | 67,975  | 1,296,476            | 1,128,054                     |

a. Apparent consumption = [landings + imports + (Dec. 31 cold storage holdings in the previous year – Dec. 31 cold storage holdings in the current year) – exports]. End-of-year cold storage adjustments reflect the amount of product withheld from the market or entered into the market as determined by changes in subsequent years. For example, end-of-year inventories between 1999 and 2000 dropped from 79,893,000 lb. to 66,633,000 lb., so an additional 13,260,000 lb. entered the market in calendar 2000.

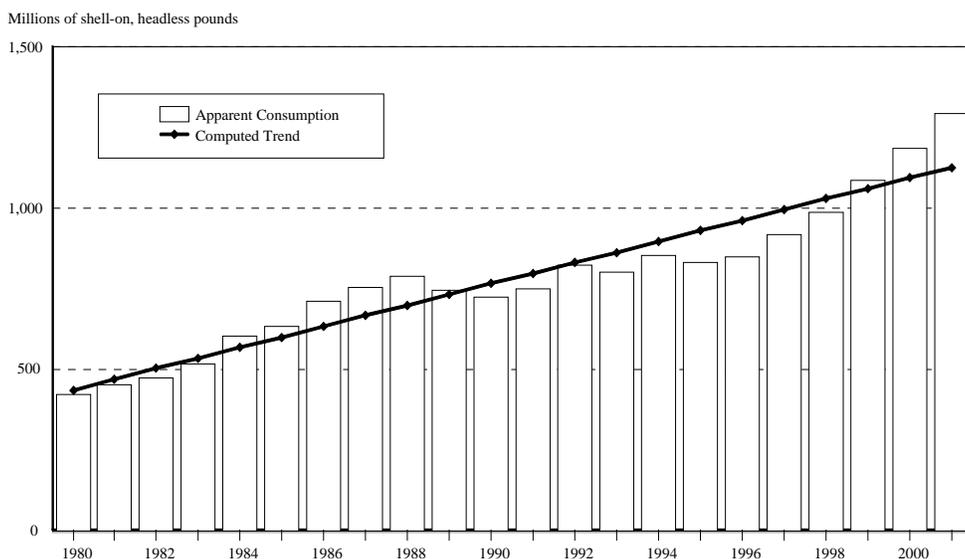


Figure 3. The U.S. market for shrimp (shell-on, headless basis)

Since 1980, domestic landings of tropical shrimp have remained relatively steady. Therefore, with consumption increasing by an average of 33 million pounds each year, imports have accounted for all expansion in the market. Because of significant growth in the total domestic shrimp market, the market share of domestic producers has gradually

slipped from 44.6 percent in 1980 to 14.6 percent in 2001 (Table 4, Figure 4). It is important to realize that the domestic market share has dropped because of market growth, not declining production levels in the domestic shrimp fishery.

Table 4. Domestic and Import Market Shares of the U.S. Shrimp Market

| Year | Thousands of Pounds |         |         | Market Share |        | Year | Thousands of Pounds |           |           | Market Share |        |
|------|---------------------|---------|---------|--------------|--------|------|---------------------|-----------|-----------|--------------|--------|
|      | Landings            | Imports | Total   | Domestic     | Import |      | Landings            | Imports   | Total     | Domestic     | Import |
| 1979 | 205,587             | 267,119 | 472,706 | 43.5%        | 56.5%  | 1991 | 198,115             | 632,775   | 830,890   | 23.8%        | 76.2%  |
| 1980 | 207,869             | 255,957 | 463,826 | 44.8%        | 55.2%  | 1992 | 207,086             | 694,252   | 901,338   | 23.0%        | 77.0%  |
| 1981 | 218,900             | 256,920 | 475,820 | 46.0%        | 54.0%  | 1993 | 180,687             | 708,683   | 889,370   | 20.3%        | 79.7%  |
| 1982 | 175,613             | 319,596 | 495,209 | 35.5%        | 64.5%  | 1994 | 174,969             | 749,993   | 924,962   | 18.9%        | 81.1%  |
| 1983 | 155,591             | 421,179 | 576,770 | 27.0%        | 73.0%  | 1995 | 190,208             | 719,463   | 909,671   | 20.9%        | 79.1%  |
| 1984 | 188,132             | 422,340 | 610,472 | 30.8%        | 69.2%  | 1996 | 195,902             | 720,852   | 916,754   | 21.4%        | 78.6%  |
| 1985 | 207,239             | 452,232 | 659,471 | 31.4%        | 68.6%  | 1997 | 179,084             | 810,696   | 989,780   | 18.1%        | 81.9%  |
| 1986 | 244,409             | 492,005 | 736,414 | 33.2%        | 66.8%  | 1998 | 173,304             | 893,578   | 1,066,882 | 16.2%        | 83.8%  |
| 1987 | 223,514             | 583,030 | 806,544 | 27.7%        | 72.3%  | 1999 | 189,112             | 959,915   | 1,149,027 | 16.5%        | 83.5%  |
| 1988 | 203,350             | 598,210 | 801,560 | 25.4%        | 74.6%  | 2000 | 218,542             | 1,024,476 | 1,243,018 | 17.6%        | 82.4%  |
| 1989 | 215,825             | 563,523 | 779,348 | 27.7%        | 72.3%  | 2001 | 201,428             | 1,178,232 | 1,379,660 | 14.6%        | 85.4%  |
| 1990 | 213,899             | 579,427 | 793,326 | 27.0%        | 73.0%  |      |                     |           |           |              |        |

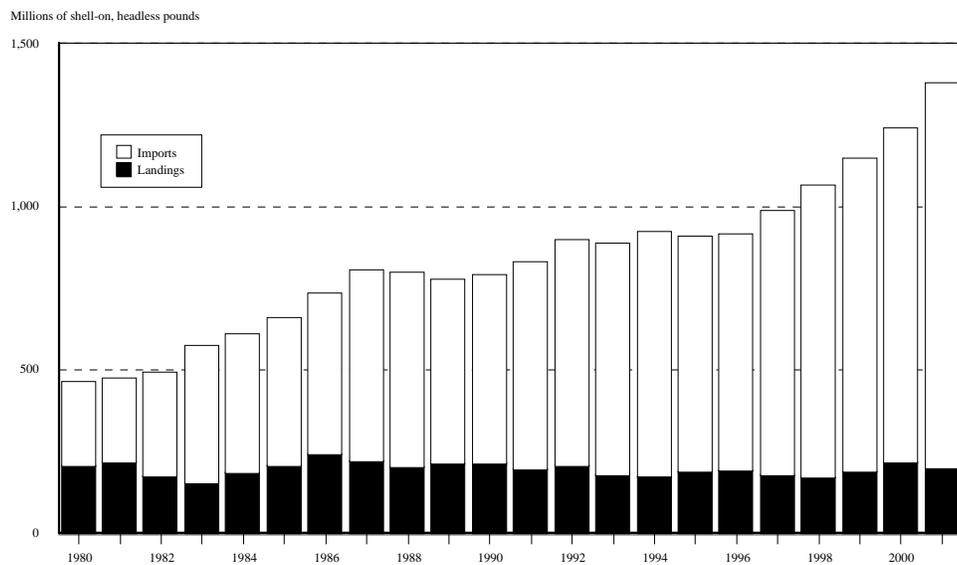


Figure 4. The contribution domestic landings and imports make to the U.S. shrimp market.

The previous analysis indicates that the American shrimp market has been dominated by imports for more than two decades. However, a closer examination of these imports between 1997 and 2001 should provide a clear assessment of competitive conditions present in the marketplace and may help answer the question stated at the outset: *“Are the last three years symptomatic of a short-term imbalance between worldwide demand and supply, or is this the new reality to which we must adapt?”*. This assessment begins by measuring how much of our supply originates from wild-harvested and farm-raised imports. Next, we consider the volume of imports by exporting country. Finally, the types of shrimp products exported to the U.S. are reviewed.

## The Contribution Made by Source and Production Method to the U.S. Shrimp Market

Between 1997 and 2001, the supply of shrimp available for utilization in the U.S. market grew by 31 percent or 257 million pounds (expressed as actual product weight) (Table 5, Figure 5) [3]. Over this five-year period, domestic landings increased by 22 million pounds, wild-harvested imports increased by 38 million pounds, and farm-raised imports increased by 197 million pounds. By 2001, cultured imports represented 65.2 percent of the beginning annual supply (708 million pounds), with domestic landings and wild-harvested imports respectively accounting for 18.6 percent (201 million pounds) and 16.2 percent (176 million pounds) of total beginning supplies. Imported, farm-raised shrimp have accounted for roughly 80 percent of total shrimp imports over the five-year time series.

Table 5. Sources of Shrimp Available for the U.S. Market Contributed from Domestic Landings, Wild-harvested Imports, and Farm-raised Imports

| Year | Dom. Landings<br>(shell-on, hds. wt.) | Imports<br>(actual product wt.) |             | Available<br>Supplies | The Contribution of Farm-raised Shrimp to: |                    |
|------|---------------------------------------|---------------------------------|-------------|-----------------------|--|--------------------|
|      |                                       | Wild-<br>harvested              | Farm-raised |                       | Total Imports                              | Beginning Supplies |
| 1997 | 179,084,000                           | 138,332,748                     | 510,636,951 | 828,053,699           | 78.7%                                      | 61.7%              |
| 1998 | 173,304,000                           | 139,976,804                     | 556,231,212 | 869,512,016           | 79.9%                                      | 64.0%              |
| 1999 | 189,112,000                           | 133,704,146                     | 598,609,008 | 921,425,154           | 81.7%                                      | 65.0%              |
| 2000 | 218,542,000                           | 152,658,192                     | 609,553,902 | 980,754,094           | 80.0%                                      | 62.2%              |
| 2001 | 201,428,000                           | 176,223,677                     | 707,814,567 | 1,085,466,244         | 80.1%                                      | 65.2%              |

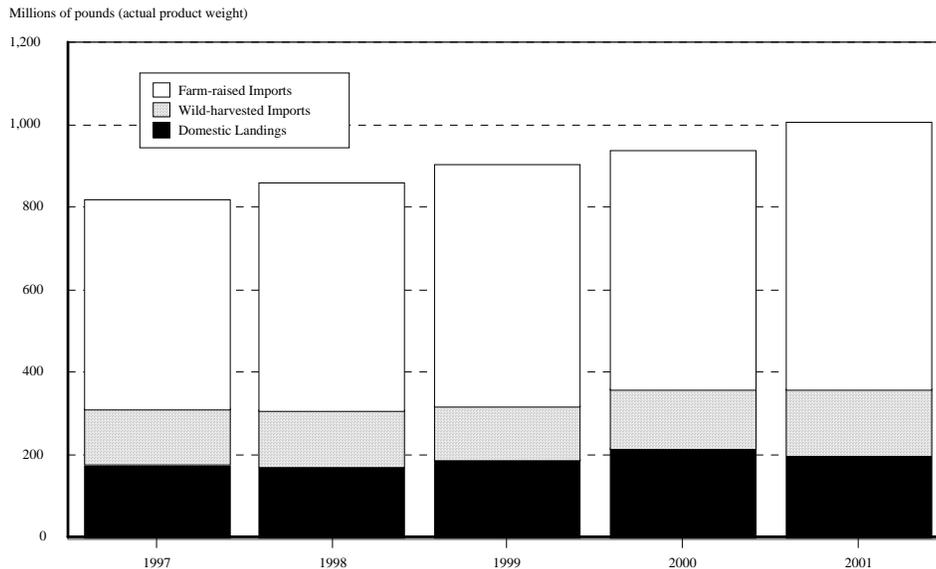


Figure 5. Sources of shrimp available for the U.S. market contributed from domestic landings, wild-harvested imports, and farm-raised imports

With farm-raised imports accounting for 65 percent of beginning supplies in the American marketplace, the quality attributes of aquacultured production have become the new standard against which all other shrimp products are judged. This upgraded standard represents a significant, fundamental change in the expectations of corporate procurement officers.

“Conformance to specifications” or standards is the first set of attributes used to define overall shrimp quality. Two primary “conformance-to-specifications” elements are considered in evaluating the quality of shell-on, headless shrimp: pack-style and product condition. Pack-style attributes include (a) accurate net weights and counts, (b) count uniformity, (c) presence/absence of damaged tails or pieces which, in most food service applications, are considered unusable elements, (d) the fraction of black-spotted shrimp, (e) soft-shelled product, etc. Product condition parameters include those elements that have bearing on edibility and enjoyment such as (a) dehydration, (b) texture, and (c) mild, “fresh-caught” odor, etc.

“Conformance-to-specifications” criteria are particularly important as a screening mechanism throughout the supply chain. In other words, products that do not conform to predetermined specifications are immediately eliminated from consideration, regardless of other attributes. “Conformance-to-specifications” criteria drive purchase decisions because they represent the cost-side of non-compliant quality for the purchaser. For instance, a sample of shell-on, headless shrimp that is non-compliant across pack-style criteria (e.g., incorrect average count size, or the presence of pieces or damaged tails) implies a higher cost per serving compared with a pack that does not contain these defects. A similar argument can be made about product condition defects.

## **The Contribution Made by Shrimp-exporting Country to the U.S. Shrimp Market**

According to import data maintained by the International Trade Commission (ITC), in any year about 100 countries export shrimp to the U.S. In 2001, 83 percent of total imports or roughly 737 million pounds (actual product weight basis) originated from just ten countries, with the remaining countries collectively exporting about 147 million pounds to the U.S. (Table 6, Figure 6) [3]. Slightly more than half of total shrimp imports originate from just three countries: Thailand, Viet Nam, and India (Table 6, Column 7). Thailand is the largest shrimp exporter to the U.S. In 2001, Thai shrimp accounted for 34 percent of total imports (roughly 300.3 million pounds) and 28 percent of total, beginning supplies. Nine of the top-ten shrimp exporting countries generate at least two-thirds of their production from farming systems (Table 6, column 5). Collectively, farm-raised shrimp comprises 87 percent of all shrimp imported to the U.S. by the top-ten shrimp-exporting countries (615 million farm-raised pounds out of 737 million total pounds). Among the other shrimp-exporting countries, farm-raised shrimp accounts for a smaller fraction of their total exports to the U.S. (63 percent).

Table 6. 2001 Shrimp Import Volumes from both the Top Ten and Remaining Shrimp-exporting Countries Delineated by Production Method

| Country             | Farm-raised<br>pounds (actual product weight) | Wild-<br>harvested<br>pounds (actual product weight) | Total Imports | Farmed /<br>Wild Pct. | Cumulative    |        |                     |        |
|---------------------|---|--|---------------|-----------------------|---------------|--------|---------------------|--------|
|                     |   |  |               |                       | Total Imports |        | Farm-raised Imports |        |
|                     |   |  |               |                       | Pounds        | Pct.   | Pounds              | Pct.   |
| Thailand            | 288,556,574                                   | 11,710,412   | 300,266,986   | 96 / 04               | 300,266,986   | 34.0%  | 288,556,574         | 40.8%  |
| Viet Nam            | 56,704,216                                    | 16,699,300   | 73,403,516    | 77 / 23               | 373,670,502   | 42.3%  | 345,260,790         | 48.8%  |
| India               | 48,563,155                                    | 24,092,672   | 72,655,827    | 67 / 33               | 446,326,329   | 50.5%  | 393,823,944         | 55.6%  |
| Mexico              | 55,435,504                                    | 10,764,047   | 66,199,551    | 84 / 16               | 512,525,880   | 58.0%  | 449,259,448         | 63.5%  |
| China               | 41,441,804                                    | 20,643,295   | 62,085,099    | 67 / 33               | 574,610,979   | 65.0%  | 490,701,252         | 69.3%  |
| Ecuador             | 58,544,647                                    | 460,238  | 59,004,885    | 99 / 01               | 633,615,864   | 71.7%  | 549,245,899         | 77.6%  |
| Indonesia           | 26,700,743                                    | 8,243,300  | 34,944,043    | 76 / 24               | 668,559,907   | 75.6%  | 575,946,642         | 81.4%  |
| Guyana              | 458,807                                       | 25,316,889   | 25,775,696    | 02 / 98               | 694,335,603   | 78.5%  | 576,405,450         | 81.4%  |
| Brazil              | 18,322,373                                    | 3,327,601  | 21,649,974    | 85 / 15               | 715,985,577   | 81.0%  | 594,727,823         | 84.0%  |
| Honduras            | 20,526,162                                    | 828,563  | 21,354,725    | 96 / 04               | 737,340,302   | 83.4%  | 615,253,984         | 86.9%  |
| All Other Countries | 92,560,583                                    | 54,137,359   | 146,697,942   | 63 / 37               | 884,038,244   | 100.0% | 707,814,567         | 100.0% |

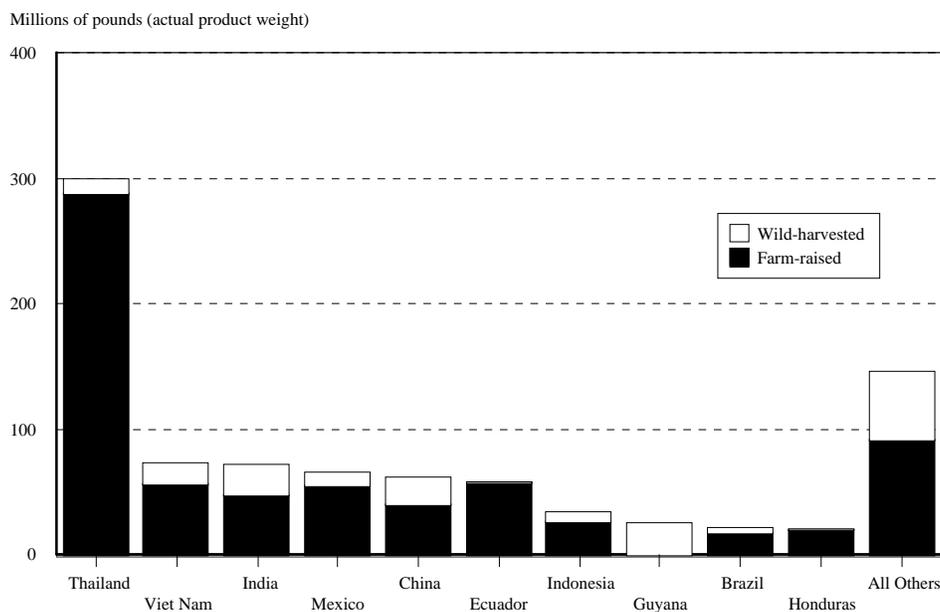


Figure 6. 2001 Import Volumes from Both the Top Ten and the Remaining Shrimp-exporting Countries Delineated by Production Method

Between 1997 and 2001, annual exports of shrimp from all exporting countries grew, on average, by 53.6 million pounds per year (actual product weight). The volume of exports to the U.S. by the top-ten countries grew by 49.3 million pounds per year while exports from the remaining shrimp-exporting countries grew by 4.3 million pounds per year; less than one-tenth of the rate computed for those countries among the top-ten. Considering a few of the top-ten countries individually, the computed average annual growth rates of shrimp exported from Thailand, Viet Nam, and India between 1997 and 2001 were respectively 35.2 million pounds per year, 15.5 million pounds per year, and 7.6 million

pounds per year. Importantly, two of the countries in the top-ten actually experienced negative growth rates in the amount of shrimp they exported to the U.S. between 1997 and 2001. Specifically, the computed average, annual growth rate for Mexico over the five-year interval was -3.1 million pounds each year while the average annual growth rate for Ecuador was -26 million pounds each year.

## The Contribution Made by Product Form to the U.S. Shrimp Market

Understanding the product forms imported to the American marketplace is important as the domestic industry addresses how best to tailor wild, domestic shrimp products to specific segments of the U.S. market. The product forms of shrimp that enter the U.S. span the continuum of convenience; from raw, frozen, shell-on, headless product to hand-peeled, cooked shrimp that, once thawed, are ready-to-eat. For reporting purposes, the spectrum of shrimp products is generally collapsed into four primary forms. These include (a) shell-on, headless product, (b) raw, peeled shrimp, (c) canned or breaded shrimp, and (d) “other” preparations which mostly consists of cooked, peeled product. Of the four categories listed above, the last three represent the value-added products.

Between 1997 and 2001, total annual shrimp imports were about equally split between the various sizes of shell-on, headless product and all of the value-added market forms combined (e.g., peeled, canned or breaded, and “other”). Over that five-year interval, total imports grew by 36 percent. Within this same time frame, shell-on, headless volumes increased by 25 percent (98 million product weight pounds) while the value-added component increased by 45 percent (137.1 million product weight pounds) (Table 7, Figure 7) [3].

Table 7. Market Form Composition of Imported Shrimp: 1997 – 2001

| Year | Shell-on,<br>headless          | Peeled      | Canned or<br>Breaded | Other       | Total, All<br>Market Forms | Total,<br>Value-added | Percent<br>Value-added |
|------|--------------------------------|-------------|----------------------|-------------|----------------------------|-----------------------|------------------------|
|      | pounds (actual product weight) |             |                      |             |                            |                       |                        |
| 1997 | 343,704,554                    | 235,592,263 | 4,072,027            | 65,600,855  | 648,969,699                | 305,265,145           | 47.0%                  |
| 1998 | 341,956,637                    | 264,426,404 | 4,024,368            | 85,800,607  | 696,208,016                | 354,251,379           | 50.9%                  |
| 1999 | 344,962,926                    | 275,587,569 | 5,233,648            | 106,602,103 | 732,386,246                | 387,423,320           | 52.9%                  |
| 2000 | 338,798,460                    | 285,815,207 | 7,887,444            | 129,740,299 | 762,241,410                | 423,442,950           | 55.6%                  |
| 2001 | 441,658,079                    | 276,567,415 | 11,376,135           | 154,436,615 | 884,038,244                | 442,380,165           | 50.0%                  |

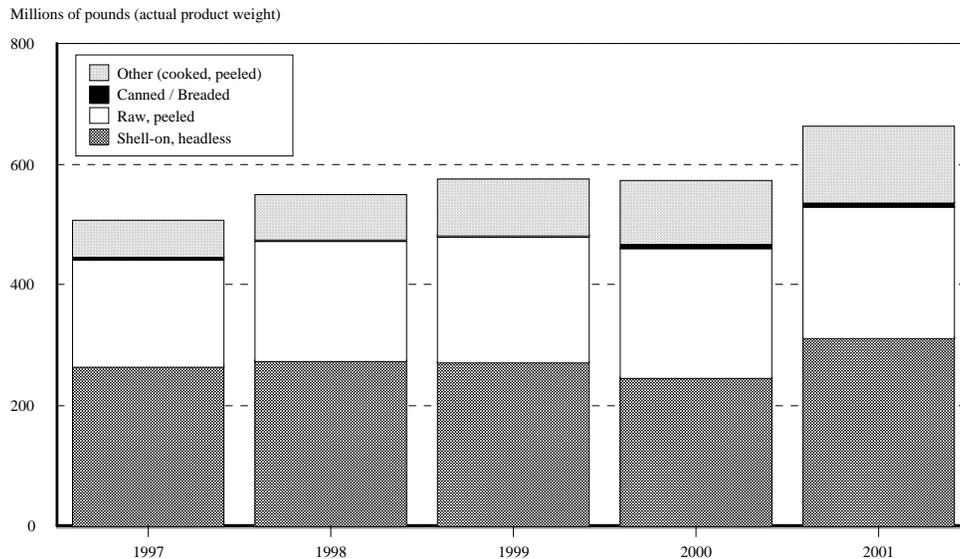


Figure 7. Market Form Composition of Imported Shrimp: 1997 – 2001

Computing and examining growth trends among each of the four major product forms imported over the five-year interval illustrates two important points: (a) there is no statistically significant trend in the growth of shell-on, headless shrimp imports and (b) within the value-added complex, the two categories of raw, peeled and “other” exhibit statistically significant trends, with average, annual increases of 10.3 million pounds and 22.1 million pounds respectively. Closer inspection of the ITC shrimp import database illustrates a highly significant trend in the growth of both the peeled and “other” categories among the top-ten countries, with peeled shrimp estimated to have grown, on average, by 16 million pounds each year while “other” preparations have grown by 19.7 million pounds each year. Among the other shrimp-exporting countries, there is no statistically significant trend for raw, peeled shrimp, but within the “other” category the average, annual growth rate is 2.5 million pounds.

## Insight from a Review of the U.S. Shrimp Market

### Continued Dependence upon Imported, Farm-raised Shrimp

In each year between 1997 and 2001 imported, farmed shrimp accounted for at least 62 percent of the supplies available for domestic utilization and roughly 80 percent of all shrimp imports (Table 5). In addition, imported, farmed shrimp were responsible for approximately 71 percent of the average, annual growth that occurred in beginning U.S. shrimp supplies between 1997 and 2001. With farm-raised shrimp accounting for roughly two-thirds of beginning, annual shrimp supplies, the quality standard has been raised. This suggests that domestically produced and processed products are now judged against these higher standards.

## **Major Shrimp-exporting Countries**

In 2001, 84 percent of total shrimp imports were supplied by just ten countries. Between 1997 and 2001, the volume of exports to the U.S. by the top ten countries grew, on average, by 49 million pounds per year. Exports to the U.S. are becoming more geographically concentrated, even among the top ten countries, with exports from Thailand, Viet Nam, and India accounting for slightly more than 50 percent of total imports. Exports from Thailand alone account for almost the same volume that is collectively exported to the U.S. by those countries that occupy the second through the sixth places within the top ten – Viet Nam, India, Mexico, China, and Ecuador (Table 6).

## **Growth in the Value-added Fraction of Imported Shrimp**

Value-added shrimp products – peeled, canned or breaded, and “other” items (mostly cooked, peeled shrimp) – accounted for roughly 50 percent of total imports each year between 1997 and 2001 (Table 7). The average, annual growth rate for the value-added fraction is computed to be 34.3 million pounds per year. Growth in the value-added fraction accounts for 64 percent of the annual growth of total shrimp imports. Virtually all of the increase in the value-added fraction has occurred within two categories: (a) raw, peeled product and (b) cooked, peeled preparations.

A growing, value-added fraction of total shrimp imports should come as no surprise. First, several of the top ten countries (e.g., Thailand, Viet Nam, and India) have a growing, dependable supply of raw materials. Second, convenience can be added to this dependable supply at a relatively low cost because wage rates in most shrimp-exporting countries are much lower than those in the U.S. For example, the reported wage rate for Thai food, beverage, and tobacco workers in 1999 was 78¢ an hour, while hourly wage rates for U.S. employees in similar occupations were reported to average roughly \$12 per hour [6]. Third, shrimp can be grown to a predetermined count size that meshes with menu requirements and advertising plans. Thus, the value-added market forms from the top-ten countries appear to target the specific, convenience requirements of the largest food service operators. For most of the casual dining establishments around the country, purchasing the precise market form required for a particular shrimp preparation enables the operator to minimize on-site preparation time and concentrate on those specialized in-store functions that support retail success.

## **What Drives the International Shrimp Trade?**

The recent history of imported shrimp demonstrates an unprecedented increase between 2001 and 2003. However, questions remain about why shrimp imports increased so dramatically in 2001 and continued through 2003. Answering this question requires that three issues be considered: (a) tariffs, (b) currency exchange rates, and (c) enforcement of food safety regulations. Importantly, these institutional considerations can create national demand/supply imbalances that result in dramatic changes in both producer and wholesale prices.

## **Tariff Issues**

Shrimp are routinely traded on the world market, but individual countries have differing approaches in taxing imported shrimp. All market forms of shrimp enter the U.S. market duty-free [4]. However, in some countries the tariff rates can change almost overnight, or can be applied differently to various market forms of the same product. Other things being equal, tariffs result in the exporter netting less money on the transaction. Of course if the price offer takes the tariff into account, then other factors like currency exchange rates and differences in transportation costs direct the flow of shrimp from producing to consuming country.

The E.U. exemplifies a trading block of nations where tariffs for certain products are in a state of flux. Specifically, certain nations that exported shrimp to the E.U. experienced tariff treatment different from that accorded to other shrimp-producing countries. In the fourth quarter of 2001, Thai shrimp marketers were surprised to learn that the lower tariffs the E.U. had imposed under the generalized system of preferences had ended, and the tariff on Thai shrimp would be 12 percent on frozen, raw products and 20 percent on cooked shrimp [5]. E.U. duties on processed shrimp (e.g., peeled or cooked, peeled varieties) from other countries such as Peru, Indonesia, India and Vietnam were taxed at between 3.6 percent and 7 percent, while a tariff rate of 4.2 percent was applied to frozen shell-on, headless shrimp. Importantly, such tariff increases make shrimp from countries affected by these higher tariffs appear less expensive in competing markets like the U.S.

## **Currency Exchange Rates**

Exchange rates for currency are important issues for most shrimp-exporting countries because the revenues earned from the sale of shrimp in many developing countries are used to fund improvements in national infrastructure. Generally speaking, national infrastructure such as aircraft, road-building services, petroleum development, electrical power and its distribution, etc. is priced in U.S. Dollars, Euros, or Yen.

When the exchange rates are factored into the pricing formula along with tariffs, the final destination of shrimp exported from a producing country can clearly be seen. Tables 8 through 10 illustrate three scenarios that compute different ending prices when tariffs and currency exchange rates change. In Table 8, a hypothetical Thai marketer offers shrimp to an E.U. buyer under the provisions of a 4.2 percent tariff and a Dollar/Euro exchange rate of 1.0823. As shown in Table 8, after accounting for the tariff and the exchange rate, the price of 5 Euros per pound offered by the E.U. buyer nets the marketer \$4.426 per pound.

Table 8. Computing a U.S. Dollar Equivalent Price for Thai Shrimp Offered for Sale in the E.U. with a 4.2 Percent Tariff and an Exchange Rate where One U.S. Dollar Equals 1.0823 Euros

|  |   |
|--|---|
| <p><b>Conditions:</b> Current E.U. tariff is 4.2 percent • Exchange rate: 1 Euro = \$0.924 • Exchange rate: \$1.00 = 1.0823 Euro</p>   |   |
| A firm in the E.U. bids 5.00 Euros/lb.   | A bid is also solicited from a U.S. firm.   |
| <p>Determine E.U. bid price in U.S. dollars after accounting for tariff and exchange rate issues:</p> <p>= (5.00 Euro / lb. * (1 - % tariff)) * (\$1.00 / 1.0823 Euro)</p> <p>= (5.00 Euro / lb. * (0.958)) * (\$1.00 / 1.0823 Euro)</p> <p>= 4.79 Euro / lb. * \$0.924 / Euro</p> <p>= 4.79 Euro / lb. * \$0.924 / Euro</p> <p>= \$4.426 / lb.</p> <p><b>After paying the tariff and accounting for the exchange rate, that bid of 5.00 Euros/lb. is worth \$4.426 U.S.</b></p> | <p>If the U.S. bid price is at least equal to \$4.426 / lb. then the Thai processor would sell his shrimp in the U.S. assuming that transportation costs are equal.</p> |

In Table 9 only the tariff rate has changed; this time to 12 percent. After the tariff increase, the Thai marketer would net \$4.065 per pound on the same bid of 5 Euros per pound; an 8.2 percent reduction. If the freight cost from Bangkok, Thailand to either the U.S. or Europe is the same, then should a U.S. buyer offer a price just above the \$4.065 the seller would net in the E.U., then those shrimp would likely be shipped to the U.S.

Table 9. Computing a U.S. Dollar Equivalent Price for Thai Shrimp Offered for Sale in the E.U. with a 12 Percent Tariff and an Exchange Rate where One U.S. Dollar Equals 1.0823 Euros

|  |   |
|--|---|
| <p><b>Conditions:</b> Current E.U. tariff is 12 percent • Exchange rate: 1 Euro = \$0.924 • Exchange rate: \$1.00 = 1.0823 Euro</p>  |   |
| A firm in the E.U. bids 5.00 Euros/lb.   | A bid is also solicited from a U.S. firm.   |
| <p>Determine E.U. bid price in dollars after accounting for tariff and exchange rate issues:</p> <p>= (5.00 Euro / lb. * (1 - % tariff)) * (\$1.00 / 1.0823 Euro)</p> <p>= (5.00 Euro / lb. * (0.88)) * (\$1.00 / 1.0823 Euro)</p> <p>= 4.40 Euro / lb. * \$0.924 / Euro</p> <p>= 4.40 Euro / lb. * \$0.924 / Euro</p> <p>= \$4.065 / lb.</p> <p><b>After paying the tariff and accounting for the exchange rate, that bid of 5.00 Euros/lb. is worth \$4.065 U.S.</b></p> | <p>If the U.S. bid price is at least equal to \$4.065 / lb. then the Thai processor would sell his shrimp in the U.S. assuming that transportation costs are equal.</p> |

Table 10 presents conditions where one U.S. Dollar is worth less than one Euro. In this situation, the 5 Euro per pound bid would actually be worth \$5.72 per pound. In this scenario, the American shrimp buyer would have to offer something at least equal to \$5.72 for shrimp to be delivered to the United States.

Table 10. Computing a U.S. Dollar Equivalent Price for Shrimp Offered for Sale in the E.U. with a 12 Percent Tariff and an Exchange Rate where One U.S. Dollar Equals 0.769 Euros

|   |   |
|---|---|
| <b>Conditions:</b> Current E.U. tariff is 12 percent • Exchange rate: 1 Euro = \$1.30 • Exchange rate: \$1.00 = 0.769 Euro  |   |
| A firm in the E.U. bids 5.00 Euros/lb.  | A bid is also solicited from a U.S. firm.   |
| <p>Determine E.U. bid price in dollars after accounting for tariff and exchange rate issues:</p> $= (5.00 \text{ Euro} / \text{lb.} * (1 - \% \text{ tariff})) * (\$1.00 / 0.769 \text{ Euro})$ $= (5.00 \text{ Euro} / \text{lb.} * (0.88)) * (\$1.00 / 0.769 \text{ Euro})$ $= 4.40 \text{ Euro} / \text{lb.} * \$1.30 / \text{Euro}$ $= 4.40 \text{ Euro} / \text{lb.} * \$1.30 / \text{Euro}$ $= \$5.72 / \text{lb.}$ <p><b>After paying the tariff and accounting for the exchange rate, that bid of 5.00 Euros/lb. is worth \$5.72 U.S.</b></p> | If the U.S. bid price is at least equal to \$5.72 / lb. then the Thai processor would sell his shrimp in the U.S. assuming that transportation costs are equal. |

Thus, when the dollar is valued higher than the native currency in the country (or trading block) where the shrimp are sold, the shrimp appear less expensive in the American market, and product would be expected to flow to the U.S. Conversely, when the native currency in the country (or trading block) where the shrimp are sold is valued higher than the dollar, the shrimp would have to command a relatively high price in the U.S. to remain competitive with the bid offered in another country. In this situation, the exporter may find it easier to sell his shrimp in the E.U. because to equal the bid of 5 Euros per pound, a U.S. firm would have to offer at least \$5.72 per pound.

## Enforcement of Food Safety Regulations [6]

Food safety considerations are not new issues in the international shrimp trade. In the seventies and eighties, shipments from certain exporting countries were automatically detained pending sampling for bacterial pathogens. Today, the primary food safety issue in the world shrimp trade is residue of banned antibiotics in farmed product. For some shrimp-farming countries the food safety requirements in receiving countries have become much more important than tariffs or currency exchange rates in steering international trade. Expectations of regulatory oversight and scrutiny of incoming shipments for compliance with a country's food safety requirements can be the paramount issue in deciding where shrimp are sold; particularly if non-compliant product can be destroyed by the importing country's food safety authority.

Beginning in August 2001, chloramphenicol, a broad-spectrum antibiotic was detected in shrimp offered for sale in the E.U. [7]. This compound has been banned in most countries for over a decade. With a zero tolerance for this compound, public health authorities in the E.U. blocked importation of non-compliant shrimp; much of it from China, Southeast Asia and the Indian sub-continent [7]. Citing the risk associated with sending potentially non-compliant shrimp to the E.U., Peter Redmayne, writing for Seafoodbusiness.com, noted in May 2002 that *"The European market for Asian shrimp is dead, since other Asian producers can't afford to risk having their containers seized and destroyed by E.U.*

*regulators. As a result, shrimp that used to go to Europe is going to the United States, which is putting pressure on prices” [7].*

Many in the domestic industry questioned why the aggressive lead taken in the E.U. was not followed by the U.S. Food and Drug Administration. In the first few months after the initial detection of chloramphenicol in the E.U., the U.S. was reeling from the 9/11 terrorist attacks and the subsequent distribution of anthrax through the U.S. Postal Service. Understaffed, and preoccupied with new bio-terrorism concerns in the nation’s food supply, the Food and Drug Administration performed limited testing for chloramphenicol in 2001. A maximum level of 5 parts per billion (ppb) had been in force for some time, but imported shrimp was not scrutinized for the compound. In summer of 2002, public health officials in several Gulf States initiated their own sampling plans to determine the presence and level of chloramphenicol in imported shrimp products. Early sampling has shown the presence of the compound in farm-raised shrimp and crawfish from some Southeastern Asian countries. In late 2002, the Food and Drug Administration lowered the federal action level from 5 parts per billion (ppb) to 1 ppb; then, in the first half of 2003 FDA adopted the worldwide standard for residual chloramphenicol of 0.3 ppb, so differences in this particular food safety standard are beginning to fade among the major shrimp-importing countries. This is a positive signal that should help level the worldwide “*playing field.*”

Changing an action level to a lower limit is an important step in harmonizing food safety requirements, but it is the periodic operational oversight and sampling that makes such action levels effective. In fact, FDA is beginning a more aggressive sampling plan. On August 26, 2003 “*The National Fisheries Institute announced that the FDA has initiated a new sampling assignment to test for chloramphenicol in shrimp. An FDA assignment is an instruction to FDA field offices to collect a specific number of samples over a period of time. The FDA has not announced the number [of samples to be taken] for this assignment, but has asked its field offices to collect about 12 samples per week*” [7].

The additive effects of high tariffs in the E.U., a strong U.S. dollar, and inconsistent food safety standards among shrimp-importing countries have pushed record levels of relatively low-priced shell-on, headless shrimp into the American marketplace. Given that the domestic industry maintains about a 15 to 20 percent market share (depending on market form), relatively low commodity prices for the remaining 80 percent of the market imply that domestic producers will also receive much lower prices for their harvests. As shown in Table 8 and 9 (above), when E.U. tariffs increase while the dollar is strong, prices offered in competing markets like the U.S. can as much as drop 8 percent overnight. Factor in the impact of a “*distressed sale*” (i.e., shrimp sold in the American marketplace that could not be sold elsewhere in the world because it could not comply with stated food safety standards) to an already falling price, and the price-taking domestic producer receives prices he has not seen in years.

## **What Does a Review of the World and U.S. Shrimp Markets Suggest?**

At the beginning of this section the question many producers have asked was raised. Specifically, *“Are the last three years symptomatic of a short-term imbalance between worldwide demand and supply, or whether we are seeing a fundamentally different global shrimp industry to which we must adapt?”* The short answer is *“some of both.”*

On the fundamental side, global supplies of shrimp are growing in response to breakthroughs in shrimp farming and the economic opportunities an agricultural export provides. In the future, the American marketplace will increase its dependence on imported, farm-raised shrimp products. A larger fraction of these farm-raised imports will likely come from fewer countries such as Thailand, Viet Nam, and India. In addition, it is clear that the major shrimp-exporting countries will continue to increase their percentage of value-added shrimp products destined for the U.S. Furthermore, with farm-raised shrimp accounting for the *“lion’s share”* of the domestic shrimp market, the quality standard for the domestic market has also been significantly upgraded. Products that cannot meet the new standard for pack style and product condition will be relegated to a lower tier within the market, and will be priced accordingly.

Focusing on the effects of a short-term imbalance between demand and supply, growing supplies of cultured shrimp coincided with a global economic slowdown that began in the second half of 2000. This set the stage for a general softening of prices that has affected every member of the worldwide shrimp industry. Additional downward pressure on U.S. ex-vessel and wholesale prices resulted from three other regulatory and institutional issues. First, aggressive enforcement by the European Union (E.U.) for banned antibiotics prevented non-compliant imports from entering that trading block. This preemption resulted in additional quantities being rerouted to the only other major market in the world – the U.S. Second, a sharply-higher tariff rate imposed by the E.U. on shrimp imported from certain Asian countries in December 2001 made those shrimp less expensive in competing markets like the U.S. Third, until recently, the dollar was quite strong against other currencies which also made imports less expensive in the American market. These four conditions have resulted in record imports to the U.S. market since 2001. This onslaught of lower-priced imports has dramatically reduced ex-vessel shrimp prices by \$1.00 to \$2.00 per pound depending upon the size count.

In the future, the world will have a greater supply of varied shrimp products than ever before. Importantly, the historic data suggest that a growing fraction of these shrimp will be consumed outside the three major shrimp markets of the U.S., the E.U., and Japan. This is a very positive signal for the domestic shrimp industry. Other issues such as tariffs and currency exchange rates will always be part of the steering currents that determine the ultimate destinations for exported shrimp. For example, the dollar is currently falling against other major currencies which makes imported shrimp more expensive in the American market. So long as this condition prevails, the prices of all shrimp products should be lifted. Finally, the antibiotic residue issues that surfaced in 2001 – and continue

to this day – will be addressed in a uniform fashion among all major shrimp-importing countries. For this food safety issue it is a question of “*when, not if.*”

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Prepared by Michael G. Haby, Texas Cooperative Extension / Sea Grant College Program, Texas A&M University

# Evaluating the Financial Viability of the Business

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Just as it is important to construct a new building on a strong foundation, it is important to build the economic future of your business on a sound financial base. Evaluating the financial viability of your business will help you understand the financial strengths and weaknesses of your business position. With knowledge of your financial situation you are in a better position to respond to current economic forces within the industry.

There are three major financial objectives that businesses usually monitor to track their financial performance:

- Solvency to track changes in the net worth of the business;
- Profitability to monitor the earnings of the business; and
- Liquidity to estimate cash flow available for short term payments.

## **Solvency**

Solvency analysis compares the capital (assets) invested in the business with the sources of capital, debt and equity. In almost every business, one of the primary goals is to grow net worth or equity over time. In periods of low profits, a strong equity position helps the business survive and may also provide the borrowing capacity needed to make business adjustments.

The balance sheet is the financial tool used to evaluate solvency. It provides the foundation for all of the remaining financial analysis. It is very difficult to evaluate where you are and what resources you have available for adjusting to economic forces without an accurate balance sheet.

If you do not have a current balance sheet, you may be able to get a copy from your lender. Otherwise, you can build one from scratch. There is a set of financial statement forms at the end of this section that includes a balance sheet format. It is available in PDF format at <http://www.extension.iastate.edu/Publications/FM1824.pdf>. Other possible sources include:

- FINPACK Farm Financial Software, available through many local Extension offices.
- Assessing and Improving Your Farm Solvency, <http://www.agnr.umd.edu/MCE/Publications/PDFs/FS540.pdf>

## Asset Valuation

It is becoming more and more common for agricultural balance sheets to include Cost and Market valuations for capital assets.

- Cost – capital assets are valued at their original purchase cost less depreciation. Cost value balance sheets are most useful in evaluating year to year progress.
- Market – capital assets are valued at their estimated current market value. This is most useful in evaluating the financial soundness of the business and borrowing capacity.

Market value balance sheets are still the standard used by most agricultural lenders. For the purpose of this analysis, it is probably most useful to value assets at their conservative market value net of selling costs.

## Measuring Solvency

The Debt to Asset Ratio is the most common measure used to evaluate business solvency.

$$\text{Debt to Asset Ratio} = (\text{Total Liabilities} / \text{Total Assets}) * 100$$

Simple rules of thumb for evaluating solvency (Debt to Asset) position are:

|            |            |
|------------|------------|
| Strong     | Under 30 % |
| Caution    | 30 to 60 % |
| Vulnerable | Over 60 %  |

Businesses that are in a **Strong** solvency position have a firm foundation upon which to build or change their operations. They may be experiencing profitability or cash flow problems because of the current economic situation, but their financial position should open up doors to alternatives and borrowing capacity that allow them to survive and adjust to more profitable strategies.

Businesses whose debt to asset ratio raises the **Caution** flag need to do some serious financial planning to assure, as much as possible, that their net worth position is not going to continue to erode. If so, they need to look at their options. Their lender should still be willing to work with them but may not be willing to lend enough money to make major changes in facilities or equipment. In the worst case, they may need to consider exiting the business while there is still substantial net worth left.

Businesses in a **Vulnerable** solvency position have limited ability to borrow additional funds. They need to look at options that improve net worth growth without investing more money in the business. Some examples might include using existing facilities more fully and/or improving operating efficiencies. Other options could include adding non-farm income and reducing family living costs.

## **Profitability**

Profitability analysis involves analyzing how much money the business is making. Profitability is measured using an Income Statement. Most non-farm businesses are required to complete an accrual income statement for tax purposes so it is relatively easy to evaluate their profitability.

Farmers and ranchers, unless they are very large, are not required to do accrual accounting for tax purposes. While cash accounting provides flexibility for tax management, it leaves agricultural producers in a position of evaluating their profitability based on a system whose general purpose is to reduce income. Therefore, for many growers, tax statements do not provide a reliable source of information for evaluating farm business profitability.

### **Accrual Adjusted Income Statement**

An accrual adjusted income statement adjusts the cash income and expenses reported for tax purposes for changes in inventories of crops, growing livestock, and assets that would have been included in taxable income had they been sold during the period covered. It also adjusts for changes on prepaid expenses, accounts payable and other items that would have been recorded as expenses had they been paid.

The set of financial statements included at the end of this section includes an accrual adjusted income statement format. The FINPACK Farm Financial Software, available through many local Extension offices, also includes a tool to calculate accrual net farm income.

### **Using Schedule F Tax Statements**

It may be impossible to complete an accurate accrual adjusted income statement. In that case, the only option may be to use tax information. If so, it is recommended that you use the average net farm income from several years' Schedule F tax forms. In theory, the average of the net income from three or more year's taxes will wash out the effects of year-to-year inventory changes. Livestock producers should add the income from sales of raised cull breeding livestock to the Schedule F net income.

The bottom line of the income statement, Net Farm Income, is the amount of money the business contributed during the period for owner withdrawals for family living and taxes. If, over a period of time, net farm income is not enough to cover owner withdrawals, other sources of income will be needed or net worth will decline.

## Measuring Profitability

The most common measure of profitability is the Rate of Return on Assets (ROA).

$$\text{ROA} = \frac{\text{Net Farm Income} + \text{Interest Expense} - \text{Value of Unpaid Labor \& Management}}{\text{Total Farm Assets}}$$

Value of Unpaid Labor and Management is an estimate of the amount of income unpaid farm operators could have earned from off-farm employment.

Rate of Return on Assets can be directly related to interest rates. The goal when borrowing capital is to earn a higher return than the interest rates being paid. Businesses with low debt to asset ratios can operate with a lower ROA because they are paying interest charges on a smaller portion of their assets.

Business profitability can vary a great deal from one period to the next. Managers should take care when basing decisions on results from only one period. With that in mind, some simple rules of thumb for evaluating your Rate of Return on Assets are:

|            |           |
|------------|-----------|
| Strong     | Over 8 %  |
| Caution    | 3 to 8 %  |
| Vulnerable | Under 3 % |

A **Strong** ROA indicates that the business is operating efficiently. If there are cash flow problems, it may be that the business is not large enough to support the number of people or families drawing from it. Or it may be that there is too much short-term debt placing undue pressure on cash flows. In that case, maybe debt repayment schedules can be restructured.

If the ROA raises the **Caution** flag, take a closer look at business efficiencies. Are there adjustments that could be made to control costs, improve marketing, or use facilities and equipment more intensively?

For businesses where the ROA analysis comes up **Vulnerable**, managers need to dig deeper to try to figure out why the business was not profitable. It is human nature to blame problems on factors beyond management control, like foreign competition. The management challenge is to position the business so that it can react to those outside forces.

## Liquidity

Liquidity deals with how much cash the business could convert or generate in the short term, usually one year, to meet financial obligations. Holding inventories of cash and liquid assets is a risk management strategy to cushion the business from short-term financial downturns. Unfortunately, cash flow pressures often prevent businesses from

holding liquid assets. And even if they can, it is difficult to invest those liquid assets in places that yield a high rate of return. So there is often a conflict between liquidity and profitability.

The Cash Flow Statement is the most common tool for analyzing the liquidity of your business. It can be either a summary of sources and uses of cash from the past period or a projection of cash flows for the future. Many agricultural lenders require a cash flow projection as part of any credit application.

The set of financial statements included at the end of this section includes a cash flow statement. Other sources of projected cash flow formats include:

- FINPACK Farm Financial Software, available through many local Extension offices
- Cash Flow Projection and Operating Loan Determination, <http://www.oznet.ksu.edu/library/agec2/mf275a.pdf>

## Measuring Liquidity

The most common measure of liquidity is the Current Ratio. It is useful for businesses that have substantial current assets. Businesses with limited current assets have little liquidity no matter what the current ratio says.

$$\text{Current Ratio} = \frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}$$

Simple rules of thumb for evaluating your Current Ratio:

|            |             |
|------------|-------------|
| Strong     | Over 1.75   |
| Caution    | 1.1 to 1.75 |
| Vulnerable | Under 1.1   |

Businesses with a **Strong** Current Ratio have established a healthy risk management cushion for difficult economic times. Their challenge is to make sure they are earning a reasonable return on their liquid assets.

If the Current Ratio raises the **Caution** flag, management needs to monitor cash flows carefully. A low current ratio will not make the business unprofitable but it might make it difficult to take advantage of opportunities as they arise.

Businesses with a **Vulnerable** Current Ratio are in a precarious position. Businesses don't usually go out of business because they lose all their net worth; they go out because they can't pay their bills. Businesses that fall in this category need to take immediate action. First, determine if there is a profitability problem, a solvency problem, or are owner withdrawals putting too much strain on the business. Maybe adding non-farm income is an option. Operators in this position should work very closely with financial

advisors, creditors and others to craft a plan that will get their operation back on the road to financial security.

## **Adding Up the Evidence**

Financial analysis is a diagnostic, but not necessarily a prescriptive process. In other words, it may reveal a problem, but it may not point to a specific solution. The remainder of the resources available through this site will help business managers dig deeper into their operations to look for adjustments and creative options for their individual situations. Producers who understand ‘Where Am I?’ financially are in a much better position to evaluate alternatives for generating more income, controlling costs, and improving their bottom line.

Developed by Dale Nordquist, Center for Farm Financial Management, University of Minnesota

## Balance Sheet

Name \_\_\_\_\_

Date \_\_\_\_\_

| FARM ASSETS                                    | Cost Value | Market Value        | FARM LIABILITIES                                | Market Value |
|--|------------|---------------------|---|--------------|
| Checking and Savings Accounts                  |            |                     | Accounts payable                                |              |
|  |            |                     | Farm taxes due                                  |              |
|  |            |                     | Short-term notes and credit lines               |              |
| Crops held for sale or feed                    |            |                     | Accrued interest - short                        |              |
| Invest in growing crops                        |            |                     | - intermediate                                  |              |
| Commercial feed on hand                        |            |                     | - long-term                                     |              |
| Prepaid expenses                               |            |                     | Due in 12 mo. - intermediate                    |              |
| Market livestock                               |            |                     | - long-term                                     |              |
| Supplies on hand                               |            |                     | Other   |              |
| Accounts receivable                            |            |                     |   |              |
| Other  |            |                     |   |              |
|  |            |                     |   |              |
| <b>Total Current Assets</b>                    |            |                     | <b>Total Current Liabilities</b>                |              |
| Unpaid Patronage Dividends                     |            |                     | Notes and contracts, remainder                  |              |
| Breeding livestock                             |            |                     | Other   |              |
| Time certificates                              |            |                     |   |              |
| Farm securities                                |            |                     |   |              |
| Other  |            |                     |   |              |
| Machinery and Equipment                        |            |                     |   |              |
| <b>Total Intermediate Assets</b>               |            |                     | <b>Total Intermediate Liabilities</b>           |              |
| Buildings/improvements                         |            |                     | Notes and contracts, remainder                  |              |
| Farmland                                       |            |                     | Other   |              |
| Farm Securities                                |            |                     |   |              |
| Other  |            |                     |   |              |
| <b>Total Long-term Assets</b>                  |            |                     | <b>Total Long-term Liabilities</b>              |              |
| <b>A. Total Farm Assets</b>                    |            |                     | <b>B. Total Farm Liabilities</b>                |              |
| Current Assets (market)<br>Current Liabilities | = _____    | Current ratio       | <b>Farm Net Worth,<br/>Cost Value (A - B)</b>   |              |
| Total Liabilities<br>Total Assets (market)     | = _____    | Debt to asset ratio | <b>Farm Net Worth,<br/>Market Value (A - B)</b> |              |

Balance Sheet (continued)

| PERSONAL ASSETS                                 |  | PERSONAL LIABILITIES               |  |
|---|--|------------------------------------|--|
| Bank accounts, stocks, bonds                    |  | Credit card, charge accounts       |  |
| Automobiles, boats, etc.                        |  | Automobile loans                   |  |
| Household goods, clothing                       |  | Other loans, taxes due             |  |
| Real estate                                     |  | Real estate, other long-term loans |  |
| <b>E. Total Personal Assets</b>                 |  | <b>Total Personal Liabilities</b>  |  |
| <b>G. Total Personal Net Worth (E - F)</b>      |  |                                    |  |
| <b>H. Total Net Worth, Market Value (D + G)</b> |  |                                    |  |

# INCOME STATEMENT

Name \_\_\_\_\_

Date \_\_\_\_\_

| INCOME  |           |           | EXPENSES                           |  |
|---|-----------|-----------|------------------------------------|--|
| <b>Cash income</b>                                    |           |           | <b>Cash Expenses</b>               |  |
| Sale of livestock bought for resale                   |           |           | Breeding fees                      |  |
| Sales of livestock, grain, other products             |           |           | Car and truck expenses             |  |
| Patronage dividends                                   |           |           | Chemicals                          |  |
| Agricultural program payments                         |           |           | Conservation expenses              |  |
| Crop insurance proceeds                               |           |           | Custom hire                        |  |
| Custom hire income                                    |           |           | Employee benefits                  |  |
| Other cash income                                     |           |           | Feed purchased                     |  |
| Sales of breeding livestock                           |           |           | Fertilizer and lime                |  |
| <b>A. Total Cash Income</b>                           |           |           | Freight, trucking                  |  |
| <b>Income Adjustments</b>                             | Ending    | Beginning | Gasoline, Fuel, Oil                |  |
| Crops for sale or feed                                |           |           | Insurance                          |  |
| Livestock held for sale                               |           |           | Interest paid                      |  |
| Accounts receivable                                   |           |           | Labor hired                        |  |
| Unpaid patronage div.                                 |           |           | Pension and profit-share plans     |  |
| Breeding livestock                                    |           |           | Rent of land, buildings, equipment |  |
| <b>Subtotal of Adjustments</b>                        | <b>B.</b> | <b>C.</b> | Repairs, maintenance               |  |
| <b>D. Home Used Production</b>                        |           |           | Seeds, plants                      |  |
| <b>E. Gross Farm Revenue<br/>(A + B - C + D)</b>      |           |           | Storage, warehousing               |  |
| <b>F. Net Farm Income From Operations<br/>(F - N)</b> |           |           | Supplies purchased                 |  |
| Sales of farm capital assets                          |           |           | Taxes (farm)                       |  |
| Previous cost value or new purchase                   |           |           | Utilities                          |  |
| Cost of capital assets sold                           |           |           | Veterinary fees, medicine          |  |
| <b>G. Capital Gain or Loss</b>                        |           |           | Other cash expenses                |  |
|   |           |           | Livestock purchased                |  |
|   |           |           | <b>I. Total Cash Expenses</b>      |  |

Income Statement (continued)

|                                   |  | <b>Expense Adjustments</b>                    | Beginning | Ending    |
|-----------------------------------|--|---|-----------|-----------|
|                                   |  | Investment in growing crops                   |           |           |
|                                   |  | Prepaid expenses                              |           |           |
|                                   |  | Feed and supplies on hand                     |           |           |
|                                   |  |   | Ending    | Beginning |
|                                   |  | Accounts payable                              |           |           |
|                                   |  | Farm taxes due                                |           |           |
|                                   |  | Accrued interest                              |           |           |
|                                   |  | <b>Subtotal of Adjustments</b>                | <b>K.</b> | <b>L.</b> |
|                                   |  | M. Depreciation                               |           |           |
| <b>H. Net Farm Income (G + H)</b> |  | <b>N. Gross Farm Expenses (J + K - L - M)</b> |           |           |

## Statement of Cash Flows

Name \_\_\_\_\_

Date \_\_\_\_\_

|                                  |  |  |
|----------------------------------|--|--|
| Cash Farm Income and Expenses    |  |  |
| Total Cash Income                |  |  |
| Total Cash Expenses              |  |  |
| Capital Assets                   |  |  |
| Sales of Capital Assets          |  |  |
| Purchases and Net Cost of Trades |  |  |
| Financing                        |  |  |
| New Loans Received               |  |  |
| Principal Paid                   |  |  |
| Nonfarm                          |  |  |
| Nonfarm Income and Receipts      |  |  |
| Nonfarm Expenditures             |  |  |
| Cash on Hand, Farm and Nonfarm   |  |  |
| Beginning of Year                |  |  |
| End of Year                      |  |  |
| Total                            |  |  |

If all cash transactions are included correctly, the totals for the two columns will be equal.

Source of financial statements: Farm Financial Statements, William Edwards, Iowa State University, <http://www.extension.iastate.edu/Publications/FM1824.pdf>



# Inventory of Resources and Talents



One of the purposes of TAA Technical Assistance is to help business owners find a profitable future direction for their business. The direction you take your business will depend on several factors, including:

- What you want to do (your goals)
- What is happening within the industry, and
- The package of skills, resources, and talents you and the other stakeholders in your business can pull together to implement a change.

Your resources come in at least two forms: 1) the hard assets and financial resources that are included on your balance sheet and 2) the knowledge, interests, and abilities that you can draw on from your management team. This section will focus on these personal attributes. It will ask a series of questions that are intended not to highlight weaknesses, but rather to help you build on your strengths and avoid the pitfalls of mapping a direction for your business that does not match your skills, likes, or values.

|   |            |           |
|---|------------|-----------|
| <b>Production and Operations Management</b> | <u>Yes</u> | <u>No</u> |
|---|------------|-----------|

Are your skills best suited to high volume commodity production?

- |  |       |       |
|--|-------|-------|
| • Do you have a history of producing high yields or rates of production per unit?    | _____ | _____ |
| • Are you a low cost producer?   | _____ | _____ |
| • Do you stay on top of new technologies?  | _____ | _____ |
| • Do you get things done on time?  | _____ | _____ |
| • Is expansion an option or interest?  | _____ | _____ |
| • Do you gain your competitive advantage by producing more per unit at a lower cost? | _____ | _____ |

Or, are your skills best suited to niche market or value added products?

- |   |       |       |
|---|-------|-------|
| Are you good at juggling multiple production schedules?                                 | _____ | _____ |
| Do you monitor production activities and quickly make adjustments if problems surface?  | _____ | _____ |
| Do you have a history of producing high quality products?                               | _____ | _____ |
| Do you gain your competitive advantage by marketing multiple products at a high margin? | _____ | _____ |

No matter the type of operation, efficient production is important. But it may be more important for some than for others. For producers of traditional agricultural commodities, the goal is to be the lowest cost producer. If you can keep costs per unit down and produce enough volume, you can generally be successful in commodity production.

For direct marketers, value added producers, and other non-traditional operations, efficient production is still important. But product quality and efficient marketing may well be more important than producing the highest production rates at the lowest costs. The world is full of stories of companies that have been very successful just because they out-marketed the other guys. Producing these types of products takes a different mindset. You may spend more of your time outside of production activities while managing others. You will spend more time in your office and less time on your tractor. If you can be happy doing these activities and you have skills in those areas, you may want to consider a transition into this type of operation.

**Marketing** Yes No

Are your skills best suited to marketing traditional agricultural commodities?

- Would you rather be out in the field or in the production facilities than negotiating with buyers? \_\_\_\_\_ \_\_\_\_\_
- Do you feel time on the phone is wasted time? \_\_\_\_\_ \_\_\_\_\_
- Do you have the option to contract your production? \_\_\_\_\_ \_\_\_\_\_
- Do you negotiate input costs? \_\_\_\_\_ \_\_\_\_\_
- Do you lock in a profit when it is offered to you? \_\_\_\_\_ \_\_\_\_\_

Or, do you have skills suited to marketing niche market, value added, wholesale, or retail products?

- Do you like to negotiate deals? \_\_\_\_\_ \_\_\_\_\_
- Are you good at closing a deal? \_\_\_\_\_ \_\_\_\_\_
- Do you know how to estimate the market for a product? \_\_\_\_\_ \_\_\_\_\_
- Do you develop good relationships with buyers and sellers? \_\_\_\_\_ \_\_\_\_\_
- Do you have skills in advertising and promotion? \_\_\_\_\_ \_\_\_\_\_
- Are you good at making pricing decisions? \_\_\_\_\_ \_\_\_\_\_
- Do you know who your competitors are? \_\_\_\_\_ \_\_\_\_\_
- Do you target your products at a specific market? \_\_\_\_\_ \_\_\_\_\_

Is there a market for your product? Most commodity producers have not had experience with estimating market size, target marketing, advertising and promotion, and pricing. These are skills that may be needed if you plan to move into a “niche” market or if your plans include direct marketing or processing of farm products. Many commodity producers have the ability to move into these areas but they may need to educate

themselves on the techniques. There are classes and other resources in community colleges and other institutions in most communities to help you improve these skills.

**People Skills**

Yes                      No

Are your skills best suited to managing a sole proprietorship?

- Do you feel a need to be actively involved in all or most production activities?                      \_\_\_\_\_
- Would you rather be out doing than directing others?                      \_\_\_\_\_
- Do you feel frustrated training employees?                      \_\_\_\_\_
- Do you worry about others getting things done right?                      \_\_\_\_\_

Or, do you have the skills needed to manage multiple employees?

- Do you like to work in a team setting?                      \_\_\_\_\_
- Are you comfortable delegating tasks to others?                      \_\_\_\_\_
- Are you able to constructively criticize employees?                      \_\_\_\_\_
- Do you have specific hiring procedures?                      \_\_\_\_\_
- Do you have specific training procedures for new employees?                      \_\_\_\_\_
- Are you comfortable with firing employees?                      \_\_\_\_\_
- Do you get satisfaction out of seeing someone else succeed?                      \_\_\_\_\_
- Do you like to delegate production tasks to others?                      \_\_\_\_\_
- Are you good at training others to do production tasks?                      \_\_\_\_\_

Many feel that they have to grow to be competitive in today’s business world, but there are still many very successful small businesses. Moving from a business with few employees to a multiple employee business is one of the biggest challenges for most business managers (inside and outside of agriculture). Those who successfully make the transition tend to be very happy with the change. They find that they can get away with assurance that things are getting done while they are gone. They build managerial capacity in the next generation and they get a great deal of satisfaction out of seeing others grow and be successful. But not everyone has the skills to be a people manager. If you are not comfortable with your skills in this area, there are two options: 1) get help and training in personnel management; or 2) stay small and look for other ways to improve profitability.

**Money Management Skills**

Yes

No

Should you consider hiring accounting and financial services?

- Do you use your records only for tax purposes? \_\_\_\_\_
- Do you let accounting functions slide as long as possible? \_\_\_\_\_
- Does your lender complete your balance sheet for you? \_\_\_\_\_
- Do you place financial reports in your files without examining them? \_\_\_\_\_
- Would you rather do just about anything else but accounting? \_\_\_\_\_
- Do you lack trust in your lenders? \_\_\_\_\_

Or, do you have the skills to manage the finances of the business?

- Do you know your production costs per unit? \_\_\_\_\_
- Do you like to do your own accounting? \_\_\_\_\_
- Do you read and understand financial reports? \_\_\_\_\_
- Do you develop a financial plan at the beginning of each production or accounting cycle? \_\_\_\_\_
- Do you monitor deviations from your financial plan and make mid-term adjustments to your plans? \_\_\_\_\_
- Do you periodically analyze the financial performance of your business? \_\_\_\_\_
- Do you work well with you lenders? \_\_\_\_\_
- Do you cover risks with adequate insurance and other risk management tools? \_\_\_\_\_
- Do you know how your living costs? \_\_\_\_\_
- Do you know your net worth? \_\_\_\_\_

Financial management is an area where many agricultural producers feel least comfortable. Again, there are a lot of resources within the Extension Service and local community and technical colleges to help you improve these skills. This is also an area where you might consider hiring outside help or joining a farm management group if one is available in your area. Hiring accounting and tax services, however, may not provide you with a great deal management information. You still need to understand the reports and monitor financial performance.

## **Other Resources**

Other resources include the physical assets you own, the other assets you can acquire through lease or other means, and the financial resources that you can access in terms of equity capital and borrowing capacity. If you are considering a major business adjustment, consider how well adapted each of these resources is to your new business plan. Is the business large enough to support you and other stakeholders? Is your land base suited to high yield and high quality production of your selected products? Are production facilities and equipment adequate? Has asset replacement been adequately considered in your financial plans? Is an adequate and well educated labor force available? These are among the questions that you should honestly answer before you commit to investing more in your business operation.

## **Summary of Strengths and Weaknesses**

After considering the resources, talents, and interests of the operation and the management team, it may be helpful to summarize the strengths and weaknesses of the operation. The worksheet on the following page provides a framework for this summary.

## Summary of Resources and Talents

| Strengths                 | Weaknesses |
|---------------------------|------------|
| Production and operations |            |
| Marketing                 |            |
| People skills             |            |
| Money management          |            |
| Other resources           |            |

## **Other Publications**

Checking Your Farm Business Management Skills, Farm Business Management for the 21<sup>st</sup> Century, Purdue Extension, West Lafayette, Indiana, by Michael Boehlje, Craig Dobbins, and Alan Miller.

Are Your Farm Business Management Skills Ready for the 21<sup>st</sup> Century?, Self-Assessment Checklists to Help You Tell, Farm Business Management for the 21<sup>st</sup> Century, Purdue Extension, West Lafayette, Indiana, by Michael Boehlje, Craig Dobbins, and Alan Miller.

Building a Sustainable Business, A Guide to Developing a Business Plan for Farms and Rural Businesses, Minnesota Institute for Sustainable Agriculture, St. Paul, Minnesota, by Gigi DiGiacomo, Robert King, and Dale Nordquist.

Developed by Dale Nordquist, Center for Farm Financial Management, University of Minnesota



# Where Do I Want To Be?

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- **Maximizing Revenues by Producing Top-quality Shrimp for the U.S. Market**
- **Goals**
- **Transitioning Out of the Business**



# Maximizing Revenues by Producing Top-quality Shrimp for the U.S. Market



## Background Information

Quality improvement has been a topic within the domestic shrimp industry for decades. Yet, today quality improvement is essential since – as the title suggests – production of top-quality shrimp can maximize the revenues earned from shrimp fishing. In fact, improving the quality of shrimp may be the easiest way to improve the “bottom line” for owners and boost the earnings of Captain and crew. This has been the experience of other industries that have undertaken a dedicated quality improvement program.

Worldwide, shrimp quality standards have become more stringent. Today, farm-raised imported shrimp supplies roughly two-thirds of the billion-plus pound American market. The U.S. shrimp fleet and wild-harvested imports each supply about one-sixth of domestic market needs. Because of its dominance in the American market, farm-raised shrimp have become the standard by which all other shrimp products are judged. Specifically, the packs from high-grade exporters are considered all but perfect across the attributes of visual appearance and product condition. The implication for domestic producers and processors is clear. Quality standards developed 30 or 40 years ago by the domestic shrimp industry have been eclipsed by more aggressive standards created by the large integrated shrimp farming and processing operations across Central America and Southeast Asia. Therefore, if the domestic industry is to receive the price for its products necessary to ensure profitable operations, improving the quality of domestic shrimp is essential.

Many domestic producers, processors, and marketers feel as though they can no longer survive by producing shrimp for the commodity market. Rather, these industry leaders suggest that the U.S. shrimp industry must move toward producing a specialty shrimp product that can be marketed to the more exclusive segments of the larger, domestic market for a higher price. In other words, many believe it is time to position the wild-harvested, domestic shrimp as a distinctive-tasting, wholesome alternative that cannot be duplicated in ponds. Improved quality is essential if a premium, wild-harvested shrimp is to be created from the domestic harvest.

Fortunately, the primary attribute that cannot be duplicated in ponds is literally “built into” each wild shrimp. The most obvious inherent attribute of wild shrimp is its consistent, superior flavor over farm-raised product. *“This [superior flavor] is thought to be due primarily to the increased abundance of free amino acids which the animals utilize to counteract the large osmotic gradient which exists in salty offshore waters. Conversely, pond-raised shrimp are most efficiently raised during the rainy season when*

*pond salinities may drop to one-tenth that of open ocean water. There is also speculation that the unique flavor of wild shrimp is due in part to their diet of high-protein, natural foods versus the cereal, grain-based feeds required to grow shrimp at high densities in ponds” [1].*

Your own experience as well as recent taste tests have shown that wild shrimp have a distinguishable flavor compared with pond-raised shrimp. However, the wild caught shrimp used in the taste comparisons were headed within half an hour, solidly frozen in a brine tank within 20 minutes, then stored in an on-board freezer maintained at 0° F to -10° F . After offloading, the shrimp were stored between 0° F and -10° F for three to five months prior to use in the taste tests. These were high quality shrimp, both in taste as well as appearance. Therefore, it is important for owners and crews to understand that ocean-derived flavor – the primary attribute and hallmark of this niche program – is subtle and will not be distinguishable unless the shrimp are handled carefully once landed.

Undoubtedly, creating such a niche marketing program and proving its worth to targeted wholesale, retail, and consuming interests will take time, and require the steadfast commitment of interested, cooperating producers, processors, and marketers.

Furthermore, such a directed effort to (a) create a premium shrimp product from the Gulf and South Atlantic fisheries, (b) carve a niche out of the billion-plus pound American shrimp market, and (c) supply it with relatively high-priced product is an ambitious goal with mostly long-term benefits. However, it is important to consider three inescapable facts:

- First, the U.S. is the high-cost producer and processor of tropical shrimp in the world, so it no longer makes economic sense to target wild, domestic shrimp toward the broader commodity market. In commodity markets, the low-cost producer and processor begins with a significant, comparative advantage. On the other hand, a high-cost producer or processor must spend proportionally more to meet the threshold expectations of the commodity market, but there is little reward or additional economic incentive for doing so.
- Second, participants in other commodity markets have realized long-run success with a similar niche-marketing approach that stressed a unique attribute that was unavailable from other sources. In particular, the Vidalia onion program in Georgia is a shining example of how a unique, mild-flavored product coupled with industry-wide adherence to stringent quality assurance requirements, legislation to protect the brand, and applied research to extend the marketing window has become successful at generating higher prices that are realized through the entire supply chain.
- Third, such a program will require complying with an upgraded set of quality standards. Importantly however, these standards are already in place among U.S. buyers due to the proliferation of farm-raised imports that supply about two-thirds of the American market.

Today, shrimp fishermen must do more than catch and land a superior-tasting product. The history of shrimp marketing suggests that there are numerous criteria that ultimately determine the value of shrimp. Today, the “built in” attribute of superior, consistent flavor is often eclipsed by other “conformance to specifications” criteria such as counts, weights, uniformity, physical damage, product condition, etc. The reason why these “conformance to specifications” criteria dominate in the determination of shrimp value is simple. Shrimp are still among the highest priced meat products on the market today, and buyers carefully scrutinize potential suppliers for numerous potential defects in both the product and the pack. As a result, processors have become more careful about what goes into their boxes. Regardless of taste, landed product that does not meet the numerous visual and product condition criteria are relegated to a lower tier within the market which, of course, sharply reduces the price paid to fishermen. Shrimp pieces are perhaps the best example of what happens to the price of an otherwise great-tasting product. In summer of 2003, a piece was worth about 38 percent of what a whole tail would fetch.

## **Objectives**

To qualify for cash benefits under the Trade Adjustment Assistance Program, you are required to attend a Technical Assistance program hosted by Cooperative Extension. This is an excellent opportunity to revisit some harvesting and on-board handling procedures that will produce shrimp that meet both the visual quality and taste standards that are important to those segments of the American shrimp market who can appreciate and afford a distinctive-tasting, wholesome, higher-priced alternative that cannot be duplicated in ponds.

Wild-harvested shrimp destined for the niche-marketing program results from a team effort between producers and processors. To maintain its distinctive flavor, wild-harvested shrimp must be handled carefully aboard shrimp trawlers. To ensure that these distinctively-flavored shrimp are consistently packed with the same criteria used by high-grade foreign processors of farm-raised shrimp, both pack-style and product condition must be verified by scrupulous inspection during processing. Work is afoot throughout the Gulf and South Atlantic states to create a quality certification program for the domestic shrimp industry. The goal of this quality certification program is to create a premium product from the domestic harvest that meets the attributes important to the target market. Simply, these attributes are (a) a consistent, distinctive flavor and (b) product condition and pack style consistent with high-grade imports. Committed processors certainly play a key role in creating and servicing the premium niche, so rest assured that other industry-wide initiatives will also focus on processing requirements. However, only producers can qualify for the cash benefits offered by the Trade Adjustment Assistance Program, so this technical assistance focuses strictly on those quality improvement elements that fishermen can implement that will improve the quality of their catches. These quality management principles, when implemented, will enable producers to maximize the fraction of their catch that can be classified as premium quality.

The following production and on-board handling considerations will be reviewed: (a) tow times; why they are important and what they control, (b) on-deck work flows that prepare the shrimp for storage once they are landed (that is the steps of culling, heading, washing) and, (c) for freezer boats bagging or boxing, freezing on deck with brine systems, and moving frozen product to the frozen storage hold, or (d) in the case of ice boats, the use of dips and subsequent storing of fresh shrimp in the ice hold. Special emphasis will be given to management of brine systems since freezer boats comprise the greatest fraction of the offshore, domestic shrimp fleet.

## **Tow Times – The First Step in Producing Top-quality Shrimp**

Two-thirds of the shrimp consumed in the American marketplace are produced on farms. Shrimp ponds are graded to slope toward a drain. When it is time to harvest the shrimp, the pond is slowly drained and the shrimp flow into a catchment basin. From there they are pumped into a slush-ice bath where they are chill-killed as their temperature drops to 32° F. After arriving at the processing plant, which is often at the pond site, shrimp are headed, graded, and often further processed by being peeled, deviened, and perhaps cooked, then frozen within a matter of hours. Throughout processing shrimp rarely get above 40° F before they are frozen.

By contrast, wild shrimp usually die in the net, allowing bacteria and enzymes to begin attacking their “freshness” at a rate dependent on the water temperature. Also, as shrimp are captured, they are subject to physical damage from the pressure exerted by the rest of the catch. These things happen even before the shrimp are hauled on board, and are unavoidable due to the nature of this fishery.

However, the impact of these unavoidable events can be somewhat controlled by shortened tow times. While more work is required to set and retrieve the gear, shorter tow times always result in a better quality product. Quality is directly improved from a shorter tow for two primary reasons. First, a shorter tow reduces the fraction of the catch that is physically damaged from being pulled through the water for extended time periods. Second, shrimp spend less time in the net which (a) minimizes the growth of spoilage bacteria and (b) reduces the accumulation of enzymes that discolor shrimp through black spot. The following tow times are recommended (Table 1). Of course, these suggested times should be shortened during peak production to avoid crushing the shrimp as well as to work the catch on deck faster so the quality of the catch can be preserved sooner (by freezing) or stabilized sooner (by storing it in crushed ice below deck).

Table 1. Recommended Number of Drags and Maximum Duration

| Monthly Interval                                     | Recommended number of drags and the maximum time |
|--|--|
| January through April                                | A maximum of three drags each night              |
| May and June   | No drag should last longer that three hours      |
| July and September when surface water is above 80° F | Only two-hour drags                              |
| October through December                             | No drags over three hours                        |

Shorter tow times also create benefits that “spill over” to back-deck processing. On ice boats back-deck processing includes the steps of culling, heading, containerizing, washing, dipping in a sulfite solution, and moving shrimp below deck where they are stored under crushed ice. On freezer boats the steps of culling, heading, and containerizing are identical to an ice boat, but then baskets of shrimp are packaged in mesh bags or rigid, perforated plastic boxes, immersed in a brine freezing unit and when frozen, stored below deck in frozen storage. The catch resulting from shorter tow takes less time to process on the back deck. Ultimately this reduces the elapsed time between when the bag is opened and the last shrimp are processed and moved below deck.

From a psychological standpoint a smaller pile is less intimidating to the crew who must process it than a larger one. A smaller pile also suggests that each crew member will get a break sooner. On freezer boats, shorter tow times and a smaller pile mean that the shrimp will be frozen sooner, and without “heat shocking” the brine, an important issue which will be discussed in a later section.

## **On-deck Procedures that Maintain Product Condition**

Shrimp production would be easier if monthly production were more even. In reality, monthly harvests vary dramatically depending upon the time of year. Table 2, column 11 shows the average monthly production from the Gulf of Mexico off Texas computed over a twenty-year time frame. In just six weeks – the last two weeks in July and the month of August – 44 percent of the annual harvest occurs. This abundance is a welcome change from the six-month period between January and June when only 15 percent of the long run annual harvest is made. However, heavy production during the first six weeks of the summer season can compromise shrimp quality if the crew has not organized itself to undertake the most important job once shrimp come aboard. That job is completely processing segments of the catch as rapidly as possible so that shrimp remain in top condition. Also, the very asset designed to preserve shrimp at their quality peak – the brine freezing system – becomes the limiting factor between mid-July and early September when production is heaviest. Back-deck processing must be organized so that the brine system is not overloaded. This will allow the highest fraction of the catch to be preserved in top condition.

Table 2. The monthly percentage contribution made by Texas offshore shrimp harvests to each count size between 1981 and 2000 using a May through April annual operating cycle

| Month               | Number of Shrimp Tails Per Pound |           |           |           |           |           |           |           |         | Monthly Total |
|---------------------|----------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|---------|---------------|
|                     | 1-15                             | 16-20     | 21-25     | 26-30     | 31-40     | 41-50     | 51-67     | >67       | Unsize  |               |
| May                 | 4%                               | 5%        | 3%        | 2%        | 2%        | 2%        | 3%        | 9%        | 3%      | 3%            |
| June                | 2%                               | 3%        | 2%        | 2%        | 2%        | 4%        | 6%        | 14%       | 3%      | 4%            |
| July                | 22%                              | 10%       | 9%        | 17%       | 32%       | 35%       | 33%       | 24%       | 18%     | 23%           |
| August              | 15%                              | 11%       | 19%       | 26%       | 26%       | 24%       | 26%       | 16%       | 21%     | 21%           |
| September           | 10%                              | 15%       | 18%       | 16%       | 12%       | 12%       | 9%        | 6%        | 13%     | 13%           |
| October             | 13%                              | 17%       | 17%       | 12%       | 8%        | 8%        | 7%        | 7%        | 11%     | 11%           |
| November            | 10%                              | 13%       | 12%       | 9%        | 7%        | 7%        | 7%        | 8%        | 9%      | 9%            |
| December            | 10%                              | 10%       | 9%        | 7%        | 5%        | 4%        | 4%        | 5%        | 13%     | 7%            |
| January             | 3%                               | 4%        | 4%        | 2%        | 2%        | 1%        | 1%        | 2%        | 2%      | 2%            |
| February            | 5%                               | 4%        | 3%        | 2%        | 2%        | 1%        | 1%        | 3%        | 2%      | 2%            |
| March               | 3%                               | 3%        | 2%        | 2%        | 1%        | 1%        | 1%        | 3%        | 2%      | 2%            |
| April               | 3%                               | 3%        | 2%        | 2%        | 1%        | 1%        | 1%        | 3%        | 3%      | 2%            |
|                     | 100%                             | 100%      | 100%      | 100%      | 100%      | 100%      | 100%      | 100%      | 100%    | 100%          |
| Avg. Yearly Harvest | 1,326,859                        | 5,317,789 | 5,270,863 | 4,393,269 | 8,735,851 | 4,488,600 | 4,495,271 | 2,685,492 | 435,022 | 37,149,015    |
| Size Count Percent  | 4%                               | 14%       | 14%       | 12%       | 24%       | 12%       | 12%       | 7%        | 1%      | 100%          |

Through customary practices, back-deck processing has centered around completely finishing one step, like heading, before moving to the next step like washing. This “one big job” approach during the warm months sets the stage for (a) product condition defects like dehydration, off odor, and soft texture that affects edibility and (b) accelerating the progression of cosmetic-oriented defects like blackspot. The preferred approach would be to make a basket of “*just-headed*” shrimp the control that triggers subsequent jobs with those tails. In other words take that basket of tails and perform the all subsequent steps until those tails are stored below deck. Using an ice boat as a example, after a basket is filled with shrimp tails, that basket of tails should be washed, dipped in the sulphite or Everfresh® solution, then stored below deck under crushed ice. For freezer boats, once a basket is filled with “*just-headed*” shrimp, those shrimp should be washed, then sacked or boxed, and put in the brine freezing unit. Generally, the basket of shrimp tails that has been packaged for brine freezing should freeze solidly within 20 minutes, about the same time it takes to head enough shrimp to fill a basket.

## **Management of Brine Freezing Operations**

Many Gulf boats now use brine tanks to freeze their catch before placing it in frozen storage in the hold. This technology allows vessels to remain at sea for extended cruises, saving both time and fuel in returning to port every week to ten days to offload the catch, which is the common practice of traditional ice boats. This section begins by discussing several “myths” about using brine tanks, then addresses the three considerations essential to produce premium quality, frozen-at-sea shrimp. These considerations include: (a) properly charging the brine tank before each cruise, (b) knowing when and how to

recharge the brine tank with salt and dip (sodium metabisulfite), and (c) managing the quantity of bagged or boxed shrimp placed in the freezer at any given time.

## Myths Surrounding Brine Freezing Operations

Although brine freezing is a fairly simple procedure, a considerable body of *misinformation* has developed over the years which should first be laid to rest if high-quality shrimp is to be produced from this system. This section addresses three “myths” about the operation, purpose, and management of brine freezing systems.

- “The longer my shrimp stay in the brine tank the more weight they will gain.” Wrong!!!! The brine solution is about 25 times saltier than the body fluids in a shrimp so *water will move out of the shrimp* into the brine, and *salt will move out of the brine into the shrimp*. This process will occur until the *outside of the shrimp is solidly frozen*. Therefore the faster freezing can occur, the less chance there will be for (a) losing weight from water loss and (b) manufacturing salty-tasting shrimp due to salt uptake. We can taste salt at a concentration which is only twice the normal salt content of shrimp, so only a little salt uptake from the brine, combined with water loss, will make a shrimp salty-tasting and tough.
- “Putting my shrimp directly in the freezer (hold) is all that’s necessary to ensure good quality shrimp.” Wrong again! When deck-temperature shrimp are simply placed in the vessel’s below-deck freezer they freeze very slowly. The problem with a slow freeze is that the body fluids, which make up about 70 percent of the weight of shrimp, tend to freeze into large ice crystals which break cells open as the shrimp body fluids expand upon freezing. When these shrimp are thawed, much of the cell fluids leak out, resulting in losses in both weight as well as flavor. Since there is no protective glaze on each shrimp, they also dehydrate during extended frozen storage. This leaves them weighing less and uncharacteristically chewy.
- “Brine units were never designed to freeze shrimp, only to chill them so they will freeze faster in the hold.” Historically accurate, but wrong today!!! When brine freezers were first installed on shrimp trawlers they were not as efficient, but today immersion brine systems can freeze shrimp solidly in about 20 minutes. As mentioned above, so long as shrimp remain unfrozen in the brine they are losing water and taking up salt. So, if you are using brine simply to chill shrimp you would be better off using chilled fresh water or a fresh water ice slush rather than a concentrated salt solution.

## Why is Brine Freezing So Effective?

The essence of proper brine freezing is getting the shrimp to freeze in the shortest amount of time possible, and with the least amount of physical damage defects like pieces, broken or damaged shrimp, broken tails, and blackspot. The *rate of freezing* is directly related to the temperature difference between the shrimp and the coolant. The colder the coolant the faster the freeze. Concentrated salt water (brine) is the most common coolant used on fishing boats because it is the least expensive way to lower the freezing point of water. Water is a key ingredient because cold water removes heat from shrimp ten times *faster* than cold, circulating air. Specifically, it takes water chilled to 36° F 30 minutes to chill a 52° F product to 37° F, while it takes air chilled to 30° F about 300 minutes to remove the same 15° F. (Figure 1.) Also, think about how fast your body loses heat if you fall overboard in the winter as compared to being on deck when the air is colder than seawater. The same principle applies when chilling and ultimately freezing shrimp.

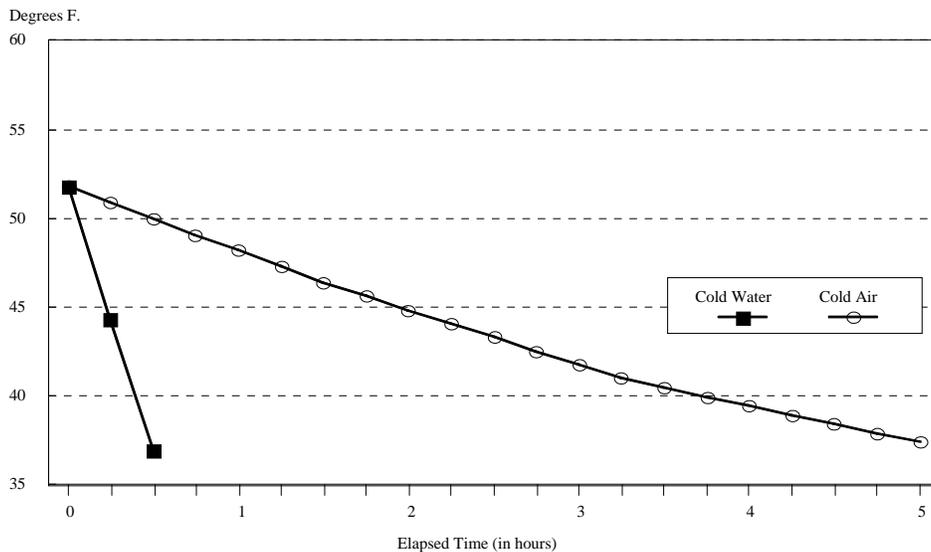


Figure 1. The efficiency of removing heat from whole fish with cold water and slowly circulating cold air

## Initial Brine Mix

The first objective in properly using the brine freezer is to create a brine solution that lowers the freezing point of water to about -6° F; the lowest temperature achievable by adding salt. The following procedure will enable you to begin each trip with the same concentration of brine that will result in the lowest operational temperature.

### Step 1. Determine how many gallons your brine tank holds.

- To begin, mark the “Full Line” with a waterproof marker inside the tank. Measure this distance in inches. It will become the height. Remember that the ingredients you will add will increase the volume slightly, so keep this in mind when marking the full line so the tank does not overflow.

- Next, measure the inside length and width of the brine tank in inches.
- Multiply length times width times height to determine the volume of your tank, then divide by 231 to determine the number of gallons your tank holds. For example, if your tank is 7 feet (84 inches) long, 3 feet (36 inches) wide, and you generally fill it 3 feet (36 inches) deep, then your tank holds 471 gallons ( $[84" \times 36" \times 36"] \div 231 = 471$  gallons). Record the gallon capacity of the brine tank because the initial charge of salt, dip powder, and corn syrup or corn syrup solids is based on the number of gallons the tank holds.
- Once the capacity of the brine tank has been calculated, fill the tank with fresh water to the full line marked in the previous step. Using fresh, potable water instead of seawater reduces the initial bacterial load in the water resulting in shrimp with a longer shelf life when thawed.

## **Step 2. Add ingredients to the brine tank.**

- The next step is to add the salt, dip, and corn syrup (or corn syrup solids) to the water. As stated, salt is an economical way to reduce the freezing point of water; so its role is essential. Likewise, dip (sodium metabisulfite) is an agent that serves to prevent discoloration (blackspot) of shrimp shells.
- Alternatively, if a buyer specifies that the shrimp cannot contain any residue of dip powder (sodium metabisulfite), Everfresh® (4-hexylresorcinol) can be used as a pre-freeze dip. **Everfresh® cannot be used in the brine tank itself for two reasons: (a) the compound is ineffective when used at temperatures below 35° F and (b) the product is ineffective when mixed with strong salt brines on in the presence of chlorinated (city) water.** To prepare a solution of Everfresh®, use clean seawater from the deck hose once offshore. Everfresh® works best at deck temperature. One 200 gram pouch should be dissolved in 25 gallons of seawater. This solution will treat 500 to 600 pounds of shrimp, after which it should be dumped and a fresh batch made up. This will prevent the solution from becoming so contaminated with bacteria that it hastens the onset of spoilage, thereby shortening the trip length. Baskets of shrimp should be agitated for 2 minutes, then drained, and iced.
- Corn syrup, or corn syrup solids are not used aboard all freezer boats, but this type of sugar is an essential component of premium quality shrimp. Corn syrup or corn syrup solids provide two important benefits that impact upon shrimp quality. First, the sugar forms a glaze that keeps shrimp from dehydrating during extended time in the frozen storage hold. Dehydration slowly removes weight from the frozen shrimp which reduces the quantity that is packed out. Second, the sugar glaze prevents the shell from becoming rough and pitted. A rough, pitted shell is generally a telltale sign of improper use of dip powder, and the sugar glaze helps frozen-at-sea shrimp maintain their fresh-caught appearance. Standard proportions for each ingredient are specified for each gallon of water in the tank (Table 3).

Table 3. Required proportions of each ingredient per gallon of water

| Ingredient                                  | Pounds per gallon                         | Total amount for the 471 gallon tank  |
|---|---|---|
| Salt  | 2.53 lb. / gal.                           | 1,192 lb. salt = (2.53 lb. / gal.) x 471 gal.   |
| Dip powder (sodium metabisulfite)           | 0.074 lb / gal.                           | 34.8 lb. dip powder = (0.074 lb. / gal.) X 471 gal.   |
| Corn syrup<br>or<br>Corn syrup solids (CSS) | 0.12 gal. / gal.<br>or<br>1.19 lb. / gal. | 56.5 gal. corn syrup = (0.12 gal.) x 471 gal.<br>or<br>560 lb. CSS = (1.19 lb. / gal.) x 471 gal. |

These ingredients will increase the volume of the brine slightly, so keep this in mind when marking the “Full Line” (mentioned above) so the tank does not overflow. Thoroughly mix these three ingredients **before cooling**. Use a submersible pump or a drum mixer to hasten the salt into solution. When freezing shrimp, run the submersible pump or drum mixer to circulate the brine. Circulating the brine during freezing operations eliminates “hot spots” in the brine tank and ensures that shrimp are frozen at the fastest rate possible.

A refractometer can be used to confirm the concentration of your brine. Figure 2 shows the actual instrument (upper left) while the circle shows what the viewer sees when looking through the device. After adding the salt and thoroughly mixing for an hour or so the reading should be about 23 percent. After adding the dip and corn syrup, the overall concentration will increase slightly, and the reading with all ingredients added should be between 29 and 30 percent. Make a note of this reading as you will need to refer to it when periodically recharging the brine during each cruise.

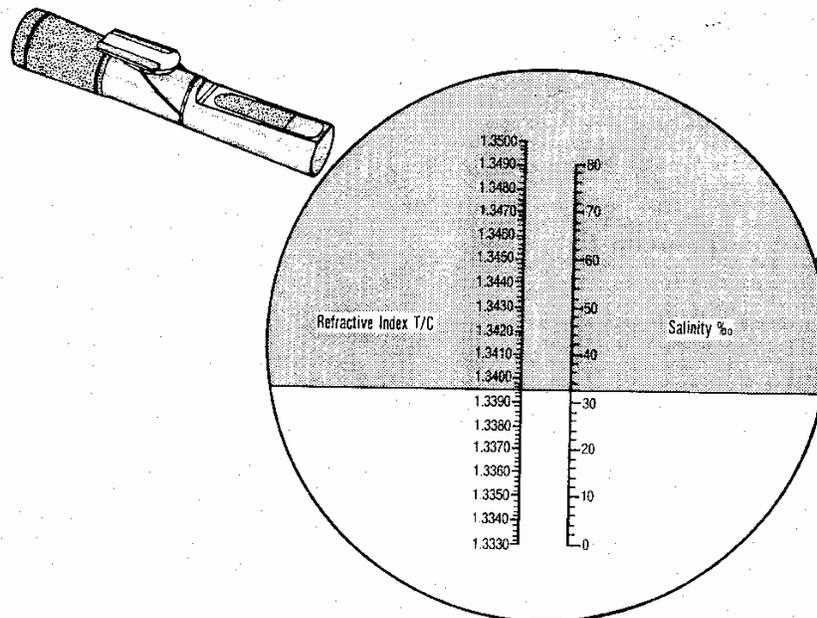


Figure 2. Use a refractometer to determine the exact concentration of brine

### **Step 3. Begin cooling the brine mixture.**

- Once the salt and sugar have dissolved, start the compressor to begin cooling the brine. If the brine was mixed correctly the temperature should approach the lowest temperature possible, - 6° F. An actual *working temperature* between 5° F and 0° F will freeze shrimp within the recommended 20 minutes.
- If the brine cannot be maintained at a temperature lower than 10° F, recheck your salt calculations and make sure your compressor is operating properly.

## **Recharging the Brine Tank**

Even with the system operating between 5° F and 0° F, a certain amount of salt, dip and sugar remain on the shrimp after they are drained. This means that as shrimp are frozen in the brine tank, the salt concentration is gradually diluted. As the brine becomes less concentrated with use, the minimum achievable temperature increases.

The practical effect of a higher operating temperature is a longer soak time necessary to freeze the shrimp. (Remember, that until the shrimp solidly freeze, body fluids migrate out of the tail which creates weight loss, and salt migrates into the tail muscle which results in a noticeable salty flavor.) The concentration of dip powder also drops with repetitive use. The practical effect of a diluted dip concentration is blackspot formation as the product is thawed. Therefore the system should periodically be recharged with salt and dip powder. One ingredient that does not have to be recharged is the corn syrup or corn syrup solids. The initial charge of sugar should be sufficient for the entire trip.

Knowing when to recharge the brine tank can be determined by two monitoring methods: the “pounds” method and the “refractometer” method. Either method can signal when a recharge is due. Regardless of the method, someone on board the vessel needs to be responsible for this monitoring step. With the pounds method, a count needs to be kept of the boxes or bags which pass through the brine tank. Alternatively, the concentration can be periodically checked with a refractometer.

The count method requires that the system be recharged after freezing approximately 1,000 pounds (10 boxes) of shrimp. Once 1,000 pounds have been frozen, the crew should add 28 pounds of salt and one cup of dip powder. (For reference, 28 pounds of granulated salt will fill a five gallon plastic pail to a depth of 6½ inches.)

The refractometer provides a clear read-out of the concentration in the brine tank (Figure 2 above). When the concentration drops 2 percentage units from its original dockside reading of 29 to 30 percent, it is time to add more salt and dip. Recharging with the refractometer method is also based on throughput, but the calculations are a bit different than when using the “count” method.

To determine the pounds of salt that need to be added to restore the brine to a 29 to 30 percent concentration as indicated after the initial charge, convert the gallon capacity of your brine tank to an equivalent weight in pounds, then multiply that value by 0.02, or the increase needed to restore the concentration to its original strength. Thus, to add 2

percentage points back to the salt concentration when it was originally charged, you will need to add 78 pounds of salt using the following formula: [(471 gallon capacity of the brine tank) x (8.3 lb. per gallon of brine) x 0.02]. To restore the concentration of dip powder, add about three cups of sodium metabisulfite.

## **Ensuring Peak Freezing Performance from the Brine Tank**

Two things should be kept in mind. During heavy production periods such as the beginning of the summer season off Texas it's easy to overload the brine freezer by trying to run too much shrimp through it in too short a time. Too much throughput never allows the brine to get below 20° F, when it should be operating somewhere between 5° F and 0° F. Even though 20° F is still below the freezing point of fresh water (32° F), at 20° F it may take the shrimp an hour to freeze, all the while losing water and taking up salt. In this case you really are using the brine to simply chill the shrimp before placing them in the freezer. This practice will not result in a quality product! If your production exceeds the capacity of your brine unit; that is, you cannot maintain the brine solution in the 5° F to 0° F range, you have several options:

- *Do not wait until the whole pile is headed before you wash, bag and freeze the catch*, as this will overload the brine system and the shrimp will not freeze solidly within the recommended 20 minutes. As soon as a basket of shrimp is headed, wash it, bag it, tag it with a numbered float and place it in the brine unit. Keep track of the immersion time for each bag using the numbered floats. Freezing as soon as possible after heading is especially important during the summer since enzymes and bacteria that *destroy the fresh quality* we are attempting to maintain become active within the first hour after the shrimp hit the deck! Freezing almost completely stops this action.

A 5 hp compressor chilling a 450 gallon brine unit should freeze up to 60 pounds of unchilled shrimp in 20 minutes. **Never place more than 15 pounds of shrimp per 100 gallons of brine, even if it is operating at 0° F, or it will “heat shock” the brine, raising the temperature enough to prevent solid freezing within 20 minutes.** These, however, are engineering calculations to “get us in the capacity ballpark.” Each brine system is somewhat unique and recommendations will vary depending on system design, compressor efficiency, insulation, air temperature, etc. **Whatever the system, the crew needs to adjust their heading and freezing activities so that the brine is maintained between 0° F and 5° F and the shrimp are frozen as soon as possible after heading.**

Obviously a thermometer of some sort is needed to monitor the brine temperature. Digital thermometers with a temperature sensor attached to a wire can be purchased for under \$20. Make sure it will read temperatures in the -10° F to +80° F range.

- The above recommendations can be exceeded if shrimp are pre-chilled in slush ice or chilled *fresh water* to get the shrimp close to 32° F before freezing. This

means the brine will have to remove only the heat necessary to *freeze* the shrimp, not the heat to get them down to 32° F. Since shrimp are about 75% water, roughly 1 Btu is needed to lower the temperature of one pound of shrimp one degree F down to 32° F. This means it would take about 300 pounds of ice to cool 1,000 pounds of shrimp tails from a summertime deck temperature of about 80° F to 32° F. Once at this temperature, an additional 144 Btu per pound must be removed to freeze the shrimp.

If your experience indicates that shrimp production at the start of the season may be too heavy for the crew to meet the above recommendations consider carrying ice, either in insulated containers on deck where it can be easily handled, or in the freezer, if moving it around is not too dangerous. Use the ice to cool *fresh water* in a separate container on deck. When production exceeds the crews' ability to head and freeze in the time recommended above, keep the shrimp in chilled water until they can be worked. If necessary, carry an extra deck hand for the first trip or two at the season opening just to help cull and head the catch.

### **Use of plastic boxes vs. mesh vegetable sacks**

From the time that brine freezers were installed aboard Gulf shrimp trawlers, operators have used mesh vegetable bags as the container of choice when freezing shrimp in brine. Beginning in the late eighties, some operators noticed that physical damage defects (no tail, inadvertently peeled shrimp, pieces, broken or damaged, blackspot, or broken tail) were less of a problem when rigid, perforated, plastic boxes were used in lieu of the more traditional "*onion sack*". A detailed study initiated in 1987 compared the levels of physical damage defects. This study demonstrated that the plastic boxes resulted in a 12 percent reduction in physical damage defects [2]. Subsequent work with this data set last summer (2003) demonstrated that the use of the plastic box would result in a 7.67 percent increase in a vessel's gross revenue which would be shared between the vessel owner and the crew!

These boxes, which hold 18 pounds of shrimp, cost about \$5 apiece. Therefore six boxes are required for every 100 pounds of shrimp. Crews who have used the boxes say they last several seasons. Although the boxes are stackable, the freezer needs to have racks or shelves installed so they do not slide around or fall off each other and spill shrimp onto the floor of the hold.

In addition to the documented reduction in physical damage, the rigid plastic boxes also facilitate a quick freeze in the brine because the configuration of these containers creates a high surface area to volume ratio. Shrimp packaged in onion sacks, particularly if the sacks are completely filled with shrimp, may take much longer to freeze because (a) the weight of shrimp is greater and thus more heat must be removed prior to freezing and (b) mesh bags tend to maintain a low surface area to volume ratio; thus, the distance to the center of the sack is greater than with a box.

If “*onion sacks*” are used, shrimp should be left *loose* in the sack so they have room to expand when they freeze. Freezing should never result in sacks with a solid mass of shrimp that has to be broken apart. Loose packing and the use of corn syrup in the brine will help prevent this, even if the shrimp thaw *slightly* then refreeze while in the hold. Boxes (or bags) should be drained then immediately placed in the freezer.

Both bags and boxes should be handled carefully when being moved below deck, stowed in the freezer, and offloaded. Individually quick frozen shrimp are especially vulnerable to breakage when tossed around.

## **A Summary of Important Considerations for Freezer Boats**

Brine systems are very effective freezing systems for the offshore industry. However, like all assets, brine freezers need to be managed before, during, and after the cruise. When creating the initial brine mix prior to leaving the dock, mix brine using fresh city water. During the cruise, be sure to wash headed shrimp thoroughly before placing them in the brine tank. This step effectively removes much of the surface bacteria from the shrimp and keeps the brine solution cleaner. It is essential that the brine drops to a temperature of at least 5° F and preferably 0° F before freezing shrimp. During the cruise, freeze shrimp a few boxes (or sacks) at a time while the rest are still being headed. This will ensure that the shrimp will freeze in less than 20 minutes. Importantly, do not overload the tank with shrimp. Overloading will increase the temperature of the brine to between 20° F and 30° F. At this higher temperature freezing will require well in excess of 20 minutes. Unfortunately, a long soak time the brine tank will reduce the weight of shrimp as water migrates out of the muscle and increase the salty taste as salt migrates into the tail muscle. **Use the ratio of no more than 15 pounds of shrimp per 100 gallons of brine.** For example, the brine tank used in previous discussions had a capacity of 471 gallons. If containerized shrimp start at **deck temperature**, you should put no more than 70 pounds in the tank. Alternatively, if you have pre-chilled shrimp in slush ice, the 15 pounds of shrimp per 100 gallons of brine ratio could be exceeded. After every 1,000 pounds of shrimp have been frozen, or after the concentration of the brine tank drops by 2 percentage points according to the refractometer, recharge the solution with salt and dip powder. Once frozen, handle shrimp carefully to avoid breakage. Remember that a piece is worth less than half the price of the equivalent whole tail. Finally, do not make a second trip using the same brine. Upon returning to port at the end of a cruise, drain the tank, then clean and sanitize it. Used brine harbors bacteria which coat the shrimp and reduces their shelf life once they are thawed.

## **Quality Management Aboard Ice Boats**

The first two steps of back-deck processing – culling and heading – are identical whether the trawler is a freezer or an ice boat. Aboard an ice boat however, the containers of headed shrimp must be washed thoroughly and should be pre-chilled in an ice slush bath for about 15 minutes with agitation before stowage below deck in crushed ice. If dip (sodium metabisulfite) is used in this **pre-chill ice bath**, it should be mixed at a rate of 1 cup dip powder for every 10 gallons of water. Alternatively, if the shrimp are to be

immersed in a solution of sodium metabisulfite at **deck temperature**, use 1.5 cups of dip per 10 gallons of water and agitate for only one minute before draining. Remember, there is a maximum allowable dip residue of 100 parts per million. Shrimp will be checked at the dock for this chemical and rejected if this level is exceeded. If shrimp are not pre-chilled they should be iced down as soon as possible. Do not work the entire catch before getting the shrimp on ice.

The hold temperature should not exceed 35° F. Shrimp should be layered in ice (two pounds of ice for each pound of shrimp) and maintained at 33° F. Of course, a thermometer should be used to assure these conditions are being met.

Headed shrimp should be thoroughly washed then pre-chilled in an ice slush bath for about 15 minutes (with agitation) before being placed in the fish hold.

If Everfresh® (4-hexylresorcinol) is used to prevent blackspot it should be used at a rate of one 200 gram pouch per 25 gallons of water. This solution will treat 500 to 600 pounds of shrimp, after which it should be dumped and a fresh batch made up. This will prevent the solution from becoming so contaminated with bacteria that it hastens the onset of spoilage, thereby shortening the trip length. Baskets of shrimp should be agitated for 2 minutes, then drained and iced. Everfresh® works best at deck temperature. It is best to make up each batch with seawater from the deck hose once offshore in clean water.

To land top quality shrimp ice boats should limit their trips to 6 days for head on, and 9 days for tails. As with freezer boats, when production is heavy limit the tow times, hire extra crew to help cull and head, wash thoroughly and ice as soon as possible to assure maximum “freshness.”

## **Summary and Conclusions**

Leadership in the Gulf and South Atlantic shrimp industry suggests that industry stability and vessel profitability may best be ensured by producing a premium, high-priced, specialty shrimp with attributes that cannot be duplicated in a pond. Wild shrimp have a flavor which distinguishes them from the vast majority of shrimp available in the U.S., but flavor alone will not establish domestic shrimp as a top-tier, specialty product. In addition to its unique *ocean-derived* flavor, the premium processed and packaged product will also have to compare favorably with shrimp from high-grade processors who export farmed shrimp from Southeast Asia and Central America. The vast majority of shrimp fishermen and processors in the Gulf and South Atlantic shrimp industry are capable of delivering such a premium product.

The objective of this report has been to revisit some harvesting and on-board handling procedures that will produce shrimp that meet both the visual quality and taste standards that will appeal to those segments of the American shrimp market who can appreciate and afford a distinctive-tasting, wholesome, higher-priced alternative that cannot be duplicated in ponds. **These procedures, when implemented, will enable producers to maximize the fraction of their catch that can be classified as premium quality.**

## **Tow Times**

While more work is required to set and retrieve the gear, shorter tow times always result in a better quality product. Shorter tows improve quality because (a) less of the catch is physically damaged from being pulled through the water, (b) shrimp spend less time in the net which minimizes the growth of spoilage bacteria and (c) less time in the net also reduces the accumulation of enzymes that discolor shrimp through black spot. The catch from a shorter tow takes less time to process on the back deck. Ultimately this reduces the elapsed time between when the bag is opened and the last shrimp are processed and moved below deck.

## **Back-deck Processing**

Heavy production during the first six weeks of the summer season can compromise shrimp quality if the crew has not organized itself to undertake the most important job once shrimp come aboard. Specifically, that job is completely processing segments of the catch as rapidly as possible so that shrimp remain in top condition. Using the customary approach of completing each step before moving to the next one during the warm months sets the stage for (a) product condition defects like dehydration, off odor, and soft texture that affects edibility and (b) the acceleration of some of the cosmetic-oriented defects like blackspot. Freezing as soon as possible after heading is especially important during the summer since enzymes and bacteria that *destroy the fresh quality* we are attempting to maintain become active within the first hour after the shrimp hit the deck! Freezing almost completely stops this action.

## **Brine Freezing**

A brine concentration of 23 percent will enable brine temperatures to remain between 0° F and 5° F. At this temperature range, shrimp will freeze within the recommended 20 minutes. If the brine cannot be maintained at a temperature lower than 10° F, recheck salt calculations and make sure the compressor is operating properly. The original charge with salt and dip powder depends upon the volume of water in the brine tank. However, recharging is strictly dependent upon the volume of shrimp that passes through the brine unit. Two monitoring methods are available so crew will know when to recharge the unit. Crew can count the pounds that go through the brine system, and recharge after each 1,000 pounds. Alternatively, the system can be recharged when the refractometer shows a 2 percent reduction from the original concentration. Regardless of the method, someone on board the vessel needs to keep track of the number of boxes or bags which pass through the brine tank or periodically check the concentration of the brine tank with a refractometer.

## Ice Boats

To maintain shrimp quality aboard an ice boat, containers of headed shrimp should be washed thoroughly then pre-chilled in an ice slush bath for about 15 minutes with agitation before stowage below deck under crushed ice. If dip (sodium metabisulfite) is used in this pre-chill ice bath, it should be mixed at a rate of 1 cup dip powder for every 10 gallons of water. Alternatively, if shrimp are to be dipped at deck temperature, use 1.5 cups of dip per 10 gallons and agitate for only one minute before draining.

If Everfresh® is used to prevent blackspot instead of dip powder (sodium metabisulfite) it should be used at a rate of one 200 gram pouch to 25 gallons of water. This solution will treat 500 to 600 pounds of shrimp, after which it should be dumped and a fresh batch made. Everfresh® works best at deck temperature. It is best to make up the Everfresh® solution with seawater from the deck hose once offshore in clean water. Baskets of shrimp should be agitated for 2 minutes in the solution, then drained and iced.

In the hold, shrimp should be layered in ice, with two pounds of ice to one pound of shrimp and maintained at 33° F. To land top-quality shrimp, ice boats should limit their trips to six days for head-on product, and nine days for tails.

## Final Thoughts

Because of the upgraded quality expectations that have resulted from our dependence on farm-raised imports, today only a few buyers pay extra when they offload premium quality shrimp. On the other hand, the boat *always gets penalized* for shrimp which contain too many physical damage defects (like no tail, pieces, broken or damaged shrimp, blackspotted product, or broken tails) or poor product condition (like strong off-odor, mushy texture, etc.).

Throughout the Gulf and South Atlantic shrimp industry there is talk of creating a niche for premium-quality, distinctive-tasting, wild, domestic shrimp, and work is underway to support that objective. As this niche marketing program gains traction, a higher price should be expected. Until that happens, it is essential that the greatest fraction of your catch be classified as premium quality. Spending days offshore only to have the value of your hard work down-graded for various quality defects costs both the boat and you money. More than anything, producing a premium-quality product requires that everyone use the procedures outlined in this report to work smarter, not harder.

## **References**

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# Goals

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Most of us would not leave home on a trip to an unfamiliar destination without a road map. We would want to know where food, gas, and lodging were available. Family members would discuss the best route. An arrival time would be estimated to inform family and friends. What about an agricultural business or fishery that is considering a new business model? Before launching into a new business plan, a well-developed “road map” is needed. A successful “road map” starts with discussion of where you want to go—personal and business goals. Steps for generating goals to guide your business decision-making follow.

## **What Are Goals?**

A goal is a statement of what an individual or family wants to achieve. Through goals, each person, family, or business unit identifies its aspirations for the future. Goals change with circumstances and time, and they must be reevaluated and updated periodically.

## **How To Use Goal Setting**

Goals provide focus and direction for management. Attaining high priority goals takes precedence in management decisions. They serve as reference points to monitor how well a business is doing and as a motivation if deadlines are specified. Goals help aid decision making in the face of uncertainty. Finally, achieving goals can serve as a rallying point for the family or business management team.

## **Steps in Goal Setting**

Goal setting requires creative thinking. Goals can be tangible and intangible, short-term and long-term, monetary and non-monetary. Goals are personal and unique to the family since they reflect values and beliefs, the resources available, and the opportunities and limitations faced. Because achieving goals often requires the cooperation of family, the goal setting process should involve discussion and compromise among family members. Seven steps for setting goals follow.

- Assess where the operation was in the past.
- Assess family and farm resources (including self) and planning restrictions.
- Develop a general management plan.
- Identify and establish specific goals or objectives.
- Prioritize goals.
- Develop plans for action and implementing goals.
- Measure progress and reassess goals.

## **Developing SMART Goals**

Other tips for goal setting are to make them SMART: Specific, Measurable, Action-oriented, Reasonable, and established in a Time frame. Write goals down to make them visible and increase commitment. Goals should be measurable, for instance, to increase income by \$8,000 per year. Goals should be challenging, but achievable. To be most effective, set family and business goals jointly, that is, set goals with family members rather than for them. Using realistic deadlines specify when the goal is to be attained.

## **Prioritizing Goals**

Goal priorities can provide clear guidelines for management decisions and make possible a level of consistency that otherwise is difficult to maintain. To help establish goal priorities, ask these questions:

- Which goals are most important for family well-being? Farm well-being?
- Which short-term goals, if attained, would help achieve long-term goals?
- Which short-term goals conflict with, or impede, long-term goals?
- Which short-term goals do not support any long-term goals?
- Which goals are so important that they should be attained even if it prevents reaching other goals?

High priority goals should not receive all the attention and resources while other goals are ignored. Priorities should not be completely either/or decisions, and priority decisions need not be permanent. In prioritizing goals, weigh the importance of each task for long-term and short-term goals. Consider personal life goals as well as business aims. Group similar activities wherever possible and identify links between goals.

## **Implementing Goals**

To effectively set and implement goals, the business manager must invest time and energy in mapping out goals. A thorough job of planning, with a commitment to the goal-setting process, will help ensure positive results. Make the goal known to others. Relate individual goals to family or team goals. Try to anticipate problems and plan strategies for overcoming them. Do not ignore potential conflicts or restrictions that might prevent reaching goals. Identifying possible problems in the planning stage will

allow time to resolve conflicts or channel efforts to feasible objectives. Beware of the following potential pitfalls:

- Making goals too lofty
- Trying to do too many things at once
- Overemphasizing quantitative aspects
- Vulnerability to unexpected events
- Failing to use all information or include all decision makers
- Ignoring good plans.

## **Summary**

Goal setting, although important for all individuals and families, is especially important for family farms and small businesses because of family and business interrelationships. The development of individual goals, discussion and negotiation of family goals, and business and family priority setting gives structure to the management process. Setting goals as a family at least annually (or whenever circumstances change significantly) should become part of the business management routine. By helping individuals and families work smarter, goal-directed management can improve business efficiency. Achievement of goals should result in a feeling of accomplishment and pride. Use the following worksheet to begin specifying goals for family and business.

Reprinted from Goal Setting for Farm and Ranch Families, Damona Doye, Oklahoma Cooperative Extension Service, Oklahoma State University.

## Goal Setting Worksheet

Short Term     
  Intermediate term     
  Long-term     
  Farm/business     
  Family/personal

| Goals                       | Priority<br>(High, Med. Low) | Potential Conflicts<br>or Restrictions | Ways to Resolve<br>Conflict | Resources<br>Needed | Assigned<br>Person(s) | Deadline |
|-----------------------------|------------------------------|--|-----------------------------|---------------------|-----------------------|----------|
| Most important goal?        |                              |  |                             |                     |                       |          |
| Second most important goal? |                              |  |                             |                     |                       |          |
| Other goals?                |                              |  |                             |                     |                       |          |
|                             |                              |  |                             |                     |                       |          |
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|                             |                              |  |                             |                     |                       |          |

Provide each family member or person involved in farm management with a copy of this worksheet. Ask each person to complete it, without input from others initially. When everyone has completed the worksheet, discuss it with family and/or business associates. Use additional copies of the worksheet to document your family or farm management team's best thinking and mark it as such. Short-term goals should include those that will allow you to attain your long-term goals. An additional sheet detailing activities necessary to achieve a goal may be needed, along with an associated time line.

# Transitioning Out of the Business

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For some farmers and fishermen, exiting the business may be the best financial and family option. For some it may be the only option. Transitioning to a new career, business, or to retirement can be an emotional and complex experience. This is particularly true when financial stress is forcing a change or exit from the business. Some producers and their families may be ready for a change or for retirement, but others may be in the process of being forced out of their business for financial reasons. If you are facing a potential transition out of your business you should discuss your options and goals with family members, creditors, and financial advisors. You might also seek additional assistance from TAA technical assistance providers.

There are different transition issues that need to be addressed depending each individual's situation, but some general factors should be considered by most producers or fishermen faced with exiting their business. These include future sources of income, family and emotional well-being, tax and credit issues, and retaining and education opportunities for TAA eligible producers and fishermen.

## **Future Sources of Income**

If you are transitioning out of your business, you need a new means to support yourself and your family. Your source of future income will depend significantly on your stage of life. Your stage in life will determine whether you are willing to start over with a new career or business, seek additional education and training, or plan for partial or full retirement.

## **Different Business or Career**

An earlier section of the TAA technical assistance package, Inventory of Resources and Talents, discussed your skills and resources. This same inventory can be very useful to assess your opportunities to transition to new business or career. The education and experience that you have obtained will have a significant impact on the alternative sources of employment and income available. The management, technical and people skills obtained in farming or fishing can often be leveraged into valuable assets for other types of employment or in other businesses.

Farmers and fishermen possess a set of entrepreneurial skills that are valuable when starting a new business. But starting a new business is rarely easy. The statement is frequently made that 80 percent of new businesses are gone within five years. Farmers

and fishermen may possess the experience and management skills to give them the edge to overcome the odds when starting a new business, but should still seek advice and assistance. Small Business Development Centers (SBDC's) are located throughout the country and provide help with financial, marketing, production, organization, engineering and technical problems and feasibility studies. To locate the nearest SBDC visit (<http://www.sba.gov/sbdc/>) or call 1-800-8-ASK-SBA.

You may be interested in starting a new career as an employee, rather than starting a new business. You probably have numerous relationships with businesses in your area. If you are seeking off-farm employment, your existing relationships are one of the most valuable tools available to assist you in your job search. As the producer of a TAA certified commodity, you also have access to employment counseling services at your state department of labor (<http://www.doleta.gov/tradeact/contacts.cfm>). Location may also be a major factor in determining how you will seek future income. In many rural areas job availability is limited, many jobs may not pay enough to maintain your standard of living, or available jobs may not include health insurance benefits. Determining whether you are willing to relocate may be a major issue for you and your family.

Regardless of whether you are considering a new business or a new job, your attitude is critical to success. You have the opportunity to create a new future for yourself. You can take the attitude that your future is in your hands or you can have the attitude that you are a victim of circumstances beyond your control, of imports, overproduction, and lost markets. Your attitude may be the single most important factor in determining the success of your new career or business.

## **Retirement**

The average age of agricultural producers in the U.S. is in upper 50's. For many producers, retirement may be a viable option when facing the choice of exiting the business or struggling financially to keep it going. If retirement is an option for you, there are a number of questions you should answer before making the decision to retire.

Do you have sufficient financial resources to sustain you through the retirement years? You should project your retirement income and your retirement expenses to determine if you will have adequate income for your retirement. If you aren't sure how to project your financial needs or how to evaluate income from your investments and capital assets, you should seek the assistance of a financial planner. How will you handle your capital assets? For many producers, the bulk of their wealth is tied up in capital assets such as land, buildings, and equipment. Will you sell the capital assets and invest the proceeds or will you lease out the assets to provide retirement income? Do you know how much social security you will receive if you retire? Do you have the annual statement you receive from Social Security Administration detailing how much you will receive at various retirement ages? You may want to contact your local social security office (<http://s3abaca.ssa.gov/pro/foi/foi-home.html>) or call 1-800-772-1213 to determine your specific retirement benefits.

Health is a major issue for most senior citizens. Do you want to retire early while your health is good? If you retire now will you have adequate health care coverage to cover you until you are eligible for Medicare? Should you wait to retire due to health care affordability?

## **Supplemental Income and Leasing Assets**

You have probably considered supplementing your income with off-farm or non-fishing income. Have you exhausted all the possibilities for supplemental income? There are certainly trade-offs associated with finding a second job. You may not have the time to successfully manage your business. The impact on your quality of life or family life may cause you to decide supplemental income is not worth the cost.

You may want to explore the possibility of terminating your business while retaining control of your business assets. Leasing your land, equipment, or boat to other farmers or fishermen when combined with an off-farm or non-fishing job may allow you to support yourself financially. This alternative may allow you to keep the land or boat to which you have emotional ties, while providing sufficient income for your family. Exiting the business while retaining control of the assets is dependent on the amount of debt you have against those assets and your overall financial situation.

## **Family and Emotional Well-Being**

When considering a transition or exit from your business, family concerns are one of the major issues that will impact your decision making. What are the goals of your family? How much emotional impact will leaving the business, possibly your way of life, or a potential move have on you and your family? Where will you live, can you stay living on your farm or in your community?

### **Goals**

The previous Goals section of the TAA technical assistance package discussed setting and implementing goals for your business and family. Goals are important when you are considering a major career change. Even though exiting your business may be the best financial decision or in some cases you may not have a choice about exiting, considering your family goals as explore the next step is important.

### **Emotional Stress and Counseling**

Transitioning out of your business and your way of life may be one of the most stressful events you will ever experience. This is especially true if you are exiting due to financial stress. Although you might not believe it now, many farmers and fishermen have successfully and happily transitioned to a different career. Many successful business people started out with a farming background and took their work ethic and skills into another field. During this time of emotional stress, it may be very important for you get

help. Counseling help is usually available. You might start by checking with your local county human services department or a member of your local clergy. If you don't know where to ask for help, contact your local Extension Service and ask them where to find assistance.

## **Living Situation**

What options do you have to continue to live in your home and in your community? The answer may depend on many of the issues discussed above, can you find alternative employment or start a new business that will financially support you in your current living situation? If you live on a farm, can you retain ownership of it and rent out the land? If you need to sell the land, can you keep the farmstead and continue to live in your home? If you need to move to a different community to find employment, will you be able to continue to own a farm that may have been in your family for several generations? One of the most important aspects of these topics is whether you are willing to seek the help of friends, family, or business advisors to help you think through your options? Often times someone else can help you think about options more broadly and also, others can look at the situation without the emotional stress you may be experiencing.

## **Tax and Credit Issues**

Taxes are one of the major issues you will need to address if you exit your business. If you are planning to sell your business or assets owned by your business, meet with a qualified tax advisor first. You should also keep your lender informed about your plans. Many assets have security agreements in which they are used as the collateral for the outstanding debt used to purchase the asset. Proceeds from assets sold with security agreements must be used to pay off the credit owed for the asset.

## **Income Taxes**

Taxes can consume a major portion of the sales value of a business's assets. Tax planning is critical if you are transitioning out of your business and selling business assets. When selling capital assets you must pay income tax on the difference between the selling price and the tax basis of the asset. Tax basis is generally the amount you paid for the asset minus any tax depreciation you have claimed on it. Some assets, such as land, are not generally depreciated, so the tax basis is simply the difference between the selling price and the original purchase price. Most assets owned more than 12 months qualify for capital gains tax rates. Capital gains rates are either 5% or 15% depending on your income level. For assets that have been depreciated below their market value, the difference between the sales price and depreciated value will be taxed at your normal income tax rate.

There are ways to reduce the amount of tax you will pay on the sales of your capital assets. One method is installment sales of property. The installment method allows you

to spread out the taxation proportionally over the years that principal payments are made. Another strategy is to sell assets over several years. Both the installment method and selling assets over time will often allow you to keep more taxable income in lower tax brackets. If you are selling a farm that includes your personal residence, up to \$250,000 (\$500,000 for married filing jointly) of capital gain on the residence can be excluded from taxation. In every case you should consult a tax advisor.

## **Self-Employment Tax**

Income tax must be paid on the sales of all farm or fishing assets, but self-employment tax is only due on current assets, such as, crop and livestock inventories. You may want to consider selling all of your current assets in a single year if it will push your income over the self-employment tax limit. In 2003, self-employment tax is only charged on the first \$87,000 of income. The self-employment tax threshold increases each year. Sales of capital assets including equipment, machinery, buildings, and land are not subject to self-employment taxes.

## **Collateral and Security Agreements**

You have probably been discussing your situation with your lenders, but before you sell any assets you should contact the appropriate lenders to check on security agreements. You should repay outstanding loans against assets that you are selling or discuss a repayment plan and security release with your lender. Frequently there is considerable debt against farming or fishing assets. Liquidating some assets may only generate enough cash to pay the outstanding debt or in some cases the sales revenue may be insufficient to cover the debt. You should keep lenders informed throughout the process and work with them.

## **TAA Retraining and Education Opportunities**

Producers of commodities that are eligible for TAA benefits are also eligible for substantially more retraining and educational benefits than the typical producer or fisherman facing an exit from their business. To learn more about TAA retraining and educational benefits available, contact the Department of Labor TAA coordinator in your state (<http://www.doleta.gov/tradeact/contacts.cfm>). For some producers and fishermen the TAA educational benefits may be the most significant benefit available under TAA. For others, such as those approaching retirement or unable to relocate to an area where jobs are available, the educational benefit may be less valuable.

The TAA Department of Labor program provides retraining and reemployment services tailored to help individuals prepare for employment in another job or career. Producers or fishermen may receive up to 104 weeks of approved training in occupational skills or basic or remedial education.

There are some conditions that you need to meet to receive the educational benefits. You must be able to complete your educational program within 104 weeks and be job ready at the end of that time. Generally that means that will need to earn some type of degree within the 104 weeks. The educational program must be fully paid for by the Department of Labor. You can't supplement government payments with your own funds. This means that there are limits to how much the program can cost and on when you must complete it. Individual state labor agencies responsible for TAA have lists of educational programs in which TAA participants may enroll.

## **Summary**

Whether to make the pivotal move of transitioning out of your farm or fishing business is a very personal decision that each person has to think through with the support of his or her family. Analyzing the financial viability of your business, determining the availability of alternative sources of income, working through the emotional and family issues, examining the tax consequences, and exploring retraining opportunities are important parts of the process. Assistance is available for all of these issues related to transitioning out of your business, but only you and your family can make the final decision.

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