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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

COMMUNITY AND ECONOMIC
DEVELOPMENT DIVISION

JUNE 22, 1981

B-200759

The Honorable Malcolm Baldrige
The Secretary of Commerce

Dear Mr. Secretary:

Subject: [Followup on the National Marine Fisheries
Service's Efforts to Assess the Quality of
U.S.-Produced Seafood] (CED-81-125)

On October 15, 1980, we reported to Secretary Philip M. Klutznick that a comprehensive assessment is needed of the quality of seafood produced by U.S. processors for domestic and foreign consumption. We pointed out several examples of foreign complaints about U.S. exports and noted that consumer and industry publications have been critical of the quality of U.S. seafood products. We recommended that the Administrator of the National Oceanic and Atmospheric Administration (NOAA) initiate a study to assess the quality of U.S. seafood produced for domestic and foreign consumption.

On March 16, 1981, the Acting Inspector General, in responding to our report, stated that the Administrator of NOAA would request proposals for the study to be conducted with fiscal year 1981 Saltonstall-Kennedy funds. ^{1/} Although the National Marine Fisheries Service (NMFS) received a proposal from its laboratory in Gloucester, Massachusetts, for an evaluation of seafood quality, we understand that the project will not be funded because of budget reductions and because higher priority projects will be funded instead.

Since our earlier report was issued, we have collected additional information on the quality of U.S. seafood products that further demonstrates the importance of our recommended study. For example, we found that quality considerations, along with

^{1/}The Saltonstall-Kennedy Act (15 U.S.C. 713 c - 2 - 713c 3) makes 30 percent of the gross receipts collected under custom laws from duties on fishery products available to the Secretary of Commerce. These funds may be used to promote the free flow in commerce of, and to develop and increase markets for, domestically produced seafood products. Each year NMFS makes a portion of these funds available for solicited fishery development and utilization projects.

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price, marketing techniques, and other factors, have limited U.S. exports; however, there is a lack of conclusive evidence to demonstrate the extent or degree that poor quality is impeding U.S. exports. A comprehensive evaluation such as we recommended is needed to determine the extent of the quality problem and to ascertain how it is impeding the demand for seafood products.

We also have determined that improvements are needed in the NMFS voluntary seafood inspection program. Specifically, we found that seafood products certified by NMFS inspectors are sometimes unacceptable to foreign importers. NMFS needs to improve its management of this program by training inspectors and informing them of foreign quality requirements.

Additionally, opportunities to improve fish handling techniques onboard fishing vessels could significantly improve overall seafood quality. NMFS needs to work with industry to establish the feasibility of dockside quality grading of fish and a system of price differentials to increase the amount paid to fishermen for high quality fish.

The objectives of our work were to assess the overall quality of fish and the foreign attitude toward the quality of U.S. seafood exports, to evaluate the effect of quality on the foreign demand for U.S.-produced seafood, and to identify needed improvements in NMFS' quality program. During our work we visited Japan, Germany, Spain, France, and England and discussed with business, government, and trade association representatives their experiences with U.S. exports. We selected these countries because they are either large importers of U.S. seafood products or represent significant opportunities for increased sales.

In these countries we discussed standards and methods used to assure seafood quality, the quantity of seafood imported by species and product from major producing countries, seafood product rejections, and the experiences of government and industry with U.S. seafood products. While information was not available for us to independently verify foreign claims of shipments of unacceptable quality, we did obtain and use the documentation that was readily available that described the condition of the shipments. We also discussed with NMFS, State, and U.S. industry officials their efforts to improve seafood quality and safety. Specifically, we obtained information on NMFS' administration of its voluntary inspection program and the U.S. seafood industry's attitude toward the program. We discussed with NMFS officials responsible for promoting U.S. fisheries in foreign countries their views and position on U.S. seafood quality and its effect on exports. We also contracted with Dr. Ranzell Nickelson, a seafood technology specialist, to conduct a literature search on seafood quality and safety and to determine areas for improving the overall quality of U.S. seafood products. Dr. Nickelson is the author of numerous publications on the quality of seafood, is an associate professor at Texas A & M University, serves as an associate member on seafood

technical committees, and is a project group supervisor for marine resources in a project supported by Sea Grant.

The following information discusses examples of the foreign reaction to U.S. seafood products, improvements that are needed in NMFS' seafood quality program, additional details on the factors that influence the export market potential of U.S.-produced fish products, and opportunities to improve seafood quality.

QUALITY OF U.S. SEAFOOD EXPORTS

Officials from various segments of the U.S. seafood industry, including processors and retailers, have different opinions on the quality of U.S. seafood products. Some processors contend that the United States produces a high quality product while others believe that major improvements are needed. NMFS officials stated that the "variable quality" of U.S. seafoods is contributing to the low volume of domestic as well as foreign sales.

Our work in five foreign countries showed that foreign importers of U.S. seafood products have experienced serious problems with U.S. exports. Foreign importers attribute problems to U.S. industry practices that fail to recognize foreign seafood quality requirements. For example:

- Spanish industry officials said the U.S. seafood industry is unfamiliar with procedures to produce commercial quality squid and added that poor quality results from inadequate handling at sea and poor processing procedures. The failure to quick freeze the product and poor grading were noted as major problems.
- German industry officials said herring imports from the United States were of poor quality because procedures were not established to keep the fish fresh while onboard the fishing vessels and the herring were badly handled during processing. They said when German importers cooperated with U.S. processors to improve the quality, they were satisfied with the end product.
- In France we were told by one importer that he stopped importing salmon from the United States because, among other reasons, the salmon were damaged by fishermen using nets or hooks rather than the preferred method of trolling. The salmon also weighed less on the average than salmon from other countries. The importer added that inconsistent deliveries and excess ice, which reduced the net usable weight of the salmon, also were factors that led to his decision to stop importing U.S. fish products.
- Several English importers complained that products were not fresh because of inadequate U.S. processing procedures

and facilities. An importer said the salmon marketed in 1979 was of poor quality because the fish were bruised and damaged by poor shipboard handling and were frozen in cold storage boxes rather than being hung frozen.

We also interviewed a number of Japanese importers and they provided examples of problems they experienced. For example, two companies said in 1979 they had problems with their imports of Alaskan tanner crabs. One company said the crabs had undesirable meat coloring, broken legs, product dehydration, and poor size assortment. The most frequent problem cited by the Japanese importers was excess ice, which reduced the net usable weight of the seafood products.

In discussing the quality of seafood exports, several U.S. processors stated that quality is not a problem in U.S. products. For example, one processing company official said some foreign complaints about U.S. quality may be influenced by whether foreign importers have purchased more fish than they can market. This processor also said he received a complaint that a shipment of squid to Italy had not been properly graded. NMFS had inspected the product before shipment. Samples of the shipment were sent back to the United States and were reinspected by NMFS. The reinspection showed that the squid had been properly graded during the first inspection. Another processing company official said quality is not a significant problem and that the industry is becoming more familiar with foreign quality requirements.

A U.S. processor who exports seafood to Italy and France said he has not had quality problems. He did state, however, that a shipment of dogfish he sent to France did not satisfy the French Government requirements for ammonia content. He added that neither he nor the NMFS inspectors were aware of the French requirements.

We also discussed U.S. seafood quality with officials from trading companies that buy seafood products from U.S. processors and sell to foreign importers. One trading company official said quality is not a big problem and that his company has not received any complaints on NMFS-inspected exports (other than for specifications such as the size of a particular cut of fish) during the past several years. Another trading company official, however, stated that quality is a serious problem in exports and that many foreign complaints on quality are valid. A number of other processors supported the position that major improvements are needed in the quality of U.S. seafood exports.

IMPROVEMENTS NEEDED IN NMFS' INSPECTION PROGRAM

As previously discussed, importers of U.S. seafood products attribute quality problems to industry practices that result, to a

large degree, from the U.S. industry's unfamiliarity with foreign quality requirements. NMFS inspectors also are not familiar with the foreign quality requirements.

We found cases in which seafood products inspected and certified by NMFS as meeting prescribed quality standards were unacceptable to the importing country. For example, a German importer said that his company cannot fully rely on NMFS' certification. He told us that his company registered a complaint with the Department of Commerce involving a shipment of silver eels. The company official said the quality and sizes of the eels did not comply with the terms of the sales agreement or the quality standards described in the Commerce export certificate. An inspection of the shipment by a municipal veterinarian showed that the eels were frozen dead rather than alive and were spoiled. The shipment was of "considerable inferior quality" and was prohibited by German law for sale for human consumption.

The company sent a letter to NMFS regarding the poor condition of the eels. NMFS responded:

"The inspector was asked to examine the product for quality, condition, and wholesomeness. These factors were found to be acceptable at the time of the inspection, as he has certified. Further, although the inspector did not see the product before it was frozen, he noted that the eels were intertwined (sic) together after freezing, the best evidence that they were frozen live. Dead eels would have remained single and unentangled when frozen."

NMFS in addressing other questions on the quality of the eels raised by the municipal veterinarian stated:

"Our inspector was not asked to examine the product for net weight, average weight of individual fish, or uniformity of size. "Wholesome and Edible" on our certificate does not refer to the contents of the digestive organs of the eel, but only to that part of the eel regarded as human food, primarily the muscle flesh of the eel."

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"We cannot judge the results of your inspection as to the condition of the product now, and cannot conclude from his results that no deterioration occurred in transit or storage."

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"In the future, we suggest that the USDC Inspector be furnished a copy of the letter of credit pertaining

to the part of the sales agreement which describes product requirements to our inspector before inspection and certification of the product."

Another German importer registered a trade complaint with the American consulate because he received a consignment of poor quality dogfish from a U.S. exporter who refused to negotiate a settlement. The consignment had an NMFS export certificate that stated the product was examined for quality and condition, possessed good flavor and odor, was practically free from defects, was fit for human consumption, and was free of abnormal ammonia and/or other odor. However, the German importer found that over 50 percent of the shipment was too small in size and gray in color and much of the product had the skin intact, which did not satisfy the importer's quality requirements.

According to the German importer, the American exporter visited Germany to inspect the shipment and verify the claim. Upon returning to the United States, the exporter advised the importer that the product had been inspected by NMFS, which certified the quality of the product. The exporter said the shipment must have been damaged in transit. The shipping company, however, said that there was no breakdown of refrigeration during transit. The importer also pointed out that the condition of the dogfish--bad cuts, skin on, broken, undersized, and discolored--clearly indicated that the product had not been processed or packaged very carefully.

In another case, a French importer said a dogfish shipment that NMFS certified as a product of good character, flavor, and odor and free from defects was found to have excessive levels of ammonia and was unfit for human consumption.

French Ministry of Agriculture officials told us that France requires an NMFS certificate on U.S. exports. These officials said U.S. inspectors certify that the fish are caught, processed, and prepared in accordance with French regulations when, in fact, many inspectors are not even familiar with French regulations and requirements.

We discussed these examples with the Chief, Standards, Specifications, and Labeling Branch, NMFS. He stated that NMFS inspectors are not familiar with foreign quality requirements. He pointed out also that NMFS started work in September 1980 on a project to collect and publish pertinent information on foreign seafood quality requirements that will be useful to exporters and inspectors in determining what constitutes acceptable quality in foreign countries. He stated that NMFS had planned to complete this work for five countries each year but, because of limited manpower resources, summaries have been drafted for only two countries--Nigeria and Italy--and neither have been published. He was unable to give us any information on when these summaries will be published or others completed.

Another factor that contributed to NMFS' certifications of unacceptable products is the fact that NMFS does not have any type of training program for its inspectors to familiarize them with foreign country requirements. NMFS officials agreed that the lack of training contributed to the inadequate NMFS certifications and stated that they are currently surveying their inspectors' qualifications and experience to obtain information on their education, work experience, previous training, and need for additional training.

OTHER FACTORS AFFECTING EXPORTS

The above examples show that U.S. seafood exports do not always satisfy foreign quality standards. Variable quality as well as prices, marketing techniques, and other factors affect U.S. exports of seafood products. There is no conclusive evidence, however, to demonstrate the specific extent or degree that variable quality impedes exports.

In some cases, quality is the determining factor in decisions to import U.S. seafood products. For example, a French importer of canned U.S. seafood told us that, although it is very expensive because of such things as duties and tariffs, he nevertheless imports quality crabmeat from Alaska. This importer said he discontinued purchases of U.S. canned shrimp, which was also expensive but was only of "a fair quality."

Japanese importers said that U.S. quality is improving, but remains a factor inhibiting expansion of imports from the United States. Some importers told us that, while quality inhibits U.S. exports, price is also a factor. These importers told us, however, that they do not keep records of rejected U.S. fish products or products sold at reduced prices because of poor quality.

Foreign country officials also criticized U.S. marketing techniques as a primary factor inhibiting imports even of good quality products. For example, an official of the largest firm that smokes salmon in the United Kingdom told us that U.S. salmon is of a good quality. The company, however, does not purchase much U.S. salmon because of problems it encountered in identifying suitable U.S. suppliers and trying to obtain U.S. Government cooperation in establishing business relationships with appropriate U.S. companies. The company imports Pacific salmon from Canadian brokers because of their interest and the Canadian Government's support in developing a European export market.

The United Kingdom official stated that in 1979 his firm contacted the American Embassy in London and requested information about salmon fisheries off the coast of Seattle, Washington, and Alaska in anticipation of expanding its business. The company was told to contact the Department of Commerce; however, it did

not receive a response from Commerce and became dissatisfied with U.S Government assistance. Only after several additional contacts through the U.S. Embassy did the company receive the information it requested. The United Kingdom official said most of the company's Pacific salmon imports now come from Canada because "The Canadian Government realized our potential and furnished * * * no end of help."

United Kingdom officials told us that U.S. exporters must be able to provide a continuous supply of quality products and develop professional business relationships with foreign importers. They pointed out that countries such as Canada have emphasized these factors and have maintained "their share" of the competitive market. The officials said also that Canadian exporters have trade specialists in the United Kingdom overseeing their products to develop and protect good business relationships.

THE OPPORTUNITY TO IMPROVE
THE QUALITY OF LANDED FISH

Onboard handling techniques and the time between catch and delivery often contribute to poor quality seafood products. Foreign importers criticized the handling of fish onboard U.S. fishing vessels as well as U.S. processing techniques, with particular reference to the lack of adequate, prompt refrigeration of the products. The opportunity to improve seafood quality through improved handling techniques was also noted by our seafood technology consultant. The consultant concluded that the greatest gains in quality can be made by improving handling techniques aboard vessels. He concluded also that price differentials paid to fishermen for quality products is a viable alternative to achieving better onboard handling techniques.

Fishermen are not usually paid a differential price based on the quality of their products. NMFS officials, including the Chief of Fisheries Development, said improved handling by fishermen is an important factor in developing underutilized fisheries and in assuring quality in established fisheries. These officials stated that price differentials for quality combined with a dock-side grading program would provide the incentive for fishermen to improve their onboard fish products handling techniques. They said, however, that seafood product wholesalers prefer the current pricing system and would resist any changes that would establish different price levels based on the quality/condition of the product.

CONCLUSIONS

Variable quality, as well as prices, marketing techniques, and other factors, inhibit the demand for U.S. seafood products in foreign markets. However, evidence is not readily available to demonstrate conclusively the specific extent and degree that

variable quality impedes U.S. exports. Additionally, NMFS' voluntary inspection and certification program does not assure importers that U.S. products will meet or satisfy their quality requirements primarily because inspectors are not familiar with or trained in foreign quality standards.

The quality of U.S. exports, as well as domestic products, can be improved by better onboard seafood handling techniques. Incentives, such as price differentials, to fishermen for higher quality products could help in achieving needed improvements.

We believe a thorough evaluation of U.S. seafood quality, such as we previously recommended, is needed to

- establish the extent and degree that quality is, or is not, a problem impeding demand for U.S. products in both domestic and foreign markets;
- identify any specific problem areas;
- determine specifically which industry practices result in unacceptable quality; and
- provide a basis for industry and government programs to work together more closely to achieve the common goal of improved quality.

This effort would also be valuable in enhancing the reliability of NMFS inspections. The information could be used in developing inspector training programs in both foreign quality requirements and industry practices that affect the quality of the products and that often result in unacceptable products being sent to importers.

RECOMMENDATIONS

Therefore, we restate our earlier recommendation that you direct the Administrator of NOAA to initiate a comprehensive study to assess the quality of U.S. seafood produced for domestic and foreign consumption. We also recommend that, because budget reductions and higher priority projects for Saltonstall-Kennedy funds have prevented the needed evaluation, you review other options to support the evaluation. One option would include a cooperative effort utilizing NMFS and industry resources.

We also recommend that you direct the Administrator of NOAA to establish a program to train inspectors with particular emphasis on informing them of foreign seafood quality regulations and requirements.

Improvements are possible in onboard vessel handling of fish, and we recommend that you work cooperatively with the fishing industry, including fishermen, wholesalers, processors, and


retailers, to establish the feasibility of a dockside grading program together with a system of price differentials for high quality products.]

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to your Assistant Secretary for Administration and your Inspector General; the Administrator, NOAA; the above House and Senate committees; and the House Committee on Merchant Marine and Fisheries and its Subcommittee on Fisheries, Wildlife Conservation and the Environment.

Sincerely yours,



Henry Eschwege
Director