



## DECELERATED GROWTH OF MARINE PRODUCTS EXPORTERS IN KERALA

Raphel Vallachira\* R. Arunmozhi\*\*

\*Ph.D Research Scholar, Department of Business Administration, Annamalai University, Tamil Nadu.

\*\*Assistant Professor, Department of Business Administration, Annamalai University, Tamil Nadu.

### Abstract

The seafood export sector is a booming business worldwide. World seafood demand has been growing steadily over the past years for a variety of reasons including, a rise in living standards, the greater variety of seafood available compared to other meats, more affordable pricing and growing appreciation for alternative forms of healthy foodstuff. Kerala is one of the most important maritime states in India with plenty of fisheries resources. The state is in the fore front as far as the number of fish processing plants and export of marine products are concerned. But there is a phenomenon which does not match the acceleration observed in overall performance. It is the deceleration in the growth of marine product export of individual exporters during the same period. This is indeed a paradox. This research study is undertaken to bring out and study the causative factors leading to this phenomenon.

**Keywords:** Export performance, Export Growth, Export Challenges, Kerala fisheries resources, International Business, International Marketing, International Quality, Government policy, Kerala Marine products export sector, India.

### Introduction

India is one of the largest producers of inland fishes in the world. With 27,000 km. long major rivers and about 2.7 million hectares of identified water area in the form of reservoirs, tanks and ponds which could be utilised for capture as well as culture fisheries, there is tremendous potential for increasing the inland fish production. Fresh water aquaculture contributes about half of the inland fish production today. Department of Animal Husbandry, Dairying & Fisheries (2010) had prepared an Annual Report, where they had revealed the Indian government's approach and Strategies on Animal Husbandry, Dairy Development and Fisheries Sectors. They stated that this sector contributes significantly to the national economy and provides livelihood approximately to 14.49 million people in the country. Fisheries sector has been recognized as a powerful generator for income, employment and foreign exchange. Kerala is one of the most important maritime states in India with plenty of fisheries resources. The state is in the fore front as far as the number of Marine products export processing plants and export of marine products are concerned. Seafood processing facilities in Kerala traditionally procure the raw material in pre-processed form from the peeling sheds. Products have traditionally been frozen in block form, although an increasing number of plants have installed capacity to manufacture Individually Quick Frozen (IQF) products. It has been pointed out that as the yields from rivers have declined owing to various reasons such as water destruction, de-forestation and increasing pollution, intensive aquaculture. There is a very tremendous potential for increasing production by aquaculture. However, the progress in this direction has been very tardy. The period from 1990s to 2006 has witnessed significant increase in processing plant capacity, but the availability of raw material for processing has not kept in pace with the capacity build up in processing sector which has ultimately resulted in less than 25 percent capacity utilization of the processing plants. Though, Marine products export sector witnessed significant increase in the quantity of export, there is a phenomenon which does not match the acceleration observed in overall performance. It is the deceleration in the growth of marine product export of individual exporters. Analysis of secondary data available during the past decade brings out this fact. It is found that marine product business faces many challenges sometimes negatively affecting growth while at the same time marking good overall performance. Here an attempt is made to find a solution for this problem.

### Objectives

- To identify the export challenges of Marine products export sector in Kerala.
- To understand the decelerated growth of marine products exporters in Kerala.
- To give valuable suggestions to overcome the export challenges of marine products export sector.

### Literature Review

The irregular supply of raw material, cut throat competition for raw material, heavy competition for target market, low capacity utilization higher cost of production and low margin of profit, uncertainty in prices, dictatorship of buyers, high cost of investment and lack of market and product information were the major reasons cited by the exporters encountered in the fisheries export. Several companies have given up seafood business because of their high operational costs.

**Raju (2016)** expressed that quality and food safety is the foundation of seafood export processing industry. The seafood service sector has subject to drastic changes in terms of the types of products in demand. The seafood sectors have earned a remarkable position in India's export basket. Fishing industry is facing a lot of problems. Demand side issues are Quality



Issues, International Standards and Regulations, Labeling and Certification Requirements, SPS, Codex Standards and Anti-dumping duty. Supply side issues are low levels of mechanization, low productivity, low capacity utilization, varying quality safety and hygiene, insignificant infrastructure, inadequate supply and quality of raw material, lack access to finance, marketing, changing business cycle and Government legislation.

**Ancy (2016)** pointed out that the major problems faced by the fish export processing industry in Kerala are finance, labour, marketing, infrastructure, waste utilization, power, electricity charges, trade expenses, tax escalation, and increase in raw material cost, wages and salaries resulting in cost of production and profit margin. The fish storage facility in Kerala is grossly inadequate compared to the potential for fish production and processing. Extensive network of refrigerated handling, transport, storage and retailing has to be put in place. Also we have to make better use of fish waste and its by-products. Fish and fishery products in Kerala are facing crisis due to stagnation in production, low capacity utilization and highest cost of production due to overcapitalization and low productivity. There are various challenges faced by Kerala fish export processing industry on account of product diversification, dynamic market access, changing quality standards, climatic change, and global pressures and changing world scenarios.

**Ranjan (2014)** stated that since 1990s, three issues dominated Indian export scene: decline in overall catches, particularly shrimp; fluctuations in international markets depressing prices and profitability; and overcapitalisation of the production and marketing activities increasing risk. An important point to note is that virtually everyone in the sector from the poorest shrimp peeler to the most affluent processor/exporter is affected by the changes one way or the other and, more than poverty, it is insecurity that has serious impacts upon most occupations in the export sector. The main cause of vulnerability is the single-minded dependence on shrimp. Shrimp production from both capture and culture sources has been quite uncertain in the last decade and the downward trend of production has an impact on everyone in the sector (**Elias Sait, 2001**). Vulnerability comes from the cost of operations, which keep going up constantly and the demand for higher investment is almost always in inverse proportion to the profitability of operations, with the result that many stakeholders have begun to opt out rather than invest more and risk their future. An important reason for the overcapitalisation is, once again, shrimp. Because the returns on shrimp were extremely favourable, many producers and processors invested in excess capacity, leading to high investments and higher recurring costs, and when shrimp declined in catches, the cost of operations became suddenly very expensive.

**Shyam (2012)** expressed that there is exists severe paucity of raw material due to depleted landings in marine sector and disease incidence in culture sector. The major exportable species like shrimps, lobsters and high value fishes registered a downward trend in landings over the years. There has also been a significant reduction in shrimp production due to disease outbreak and huge cost of shrimp farming. The reduction in landings coupled with geographical separation of landings often results in irregular supply of raw material thereby resulting in non-realization of economies of scale to the different exporters. In addition, the seasonal variations in marine catches constrain the operations of the firms. During lean seasons, majority of the firms face shortage of raw materials resulting in low capacity utilization. The bigger firms either having access to backward integration or owning fishing vessels may operate to some extent but the smaller firms either lay idle or limit their operations. The peak landings in the marine capture sector generally coincide with the peak season for exports. More than 60 per cent of the landings occur during the post monsoon period which coincides with the highest export demand. Thus to restore parity between the demand and the supply, the raw materials are often purchased at exorbitant prices with even forward marketing with the boat owners. There can be chances of deterioration in quality due to non-availability and that too at affordable prices.

The increasing demand for fish in the domestic market as a result of population and percapita income growth rates pushed up prices of many of the exportable fish varieties. The high purchase prices of the exportable species and other operating expenses like labour cost, water and electricity charges caused the cost of production to increase at exorbitant levels. In addition, the high cost of compliance for EU approval, high cost incurred for purchase at distant markets, establishment cost all resulted in higher unit cost of production and lower profit margins. The establishment cost of a processing plant increased considerably over the years due to stringent quality standards set by international trade regulations.

The compliance cost for EU approval also increased manifold thus resulting in huge cost of establishment. The overall compliance cost for meeting the EU norms has been estimated at 15 to 40 per cent of the FOB value. Often the cost of investment is so huge that the break evens aren't even attained after a decade of continuance in business. The analysis of the short run and long run gains on the SPS and compliance measures by the exporter's indicated that with the huge cost of investment required for the compliance of EU approval and HACCP implementation, the gains weren't significant due to non-capacity utilization of the processing plant and lack of raw materials. The processing plants which have implemented the

compliance requirements for the EU approval are yet to break even their cost of investment even after 8 -10 years on account of processing capacity utilization to the tune of 22-25 per cent.

The high cost incurred for purchase at distant markets, compliance cost, establishment cost all resulted in higher unit cost of production and lower profit level. In the export markets the profit levels were maintained low to sustain the market share. There exists uncertainty in prices in the international market with the economic recession spreading to most of the target markets. The price uncertainties lead to delay in payments, loss in revenue and getting delayed in shipment and increased demurrages. The export market is necessarily a buyers' market with the prices fixed by the international buyers. The absence of domestic demand coupled with the premium prices in the international market makes the products disposal at the whims and fancies of the importers. The exporters thus became a price taker than a price maker. The presence of such a buyers' market creates a dictatorship among the buyers in deciding the guidelines, quality criteria's and subsequent rejections.

According to **Jayasekhar (2010)** in Kerala, it is seen that concentration and consolidation is taking place at the processing node of the chain where the number of exporters has come down and professional players are upgrading their position in the value chain. The most important aspect of the existing chain is the gradual disappearance of the independent preprocessing sector, which has been an important stakeholder of the seafood value chain. The preprocessing node of the value chain is getting integrated to the processing sector causing a major restructuring of the existing value chain. The dominant response to the imposition of stricter food safety standards for seafood exports in Kerala has been reactive, loyal and defensive, both by the government and the private sector. Thus, hygiene and antibiotic controls have been upgraded largely in response to regulatory change in EU and US, or on demand from major customers. In Kerala, substantial drive to upgrade hygiene controls occurred as a sudden response when market access to EU was threatened or curtailed.

**Dr. Karmakar and Dr. Banerjee (2009)** had analyzed in their paper on - Value Addition by The Marine Fisheries Sector. In their article they had explained the role of Marine fisheries in Indian economy and the issues associated with value added products. They had concluded that the Value Added Products and products diversification are two sides of the same coin. India needs to diversify its exports by addition of newer species through aquaculture/mariculture. The problem on executing Value Added Products and products diversification was due to lack of financial support and technology in India.

**Rao (1984)** highlighted the problems in the Indian shrimp industry. India was enjoying the position of being the largest producer and exporter of shrimp in the world but the industry had its fair share of problems. The study revealed that the shortage of raw material supply to processing units had adverse effects on export growth of Indian shrimp and also made shrimp processing operations uneconomical. With the cost of every input of the shrimp fishing and processing industry in India had raised sharply, the export prices for shrimp were more or less on the decline. This had rendered the shrimp processing and exporting industry non-profitable. In addition, overseas shrimp markets were unpredictable because of global economic imbalance and industrial recession. Neither the Indian exporters nor the overseas importers appeared to be making a profit in their business.

### **Materials and Methods**

In this study, special emphasis has been given to literature dealing with the marine products export sector to understand the reasons for decelerating growth of Marine products exporters in Kerala. There are number of studies available which give detailed outlook of seafood export business. The researcher has taken various literatures from research papers, books, Government reports, and internet sources for this study.

### **Conclusion**

According to **Jalali (2012)** export barriers can be defined as the attitudinal, structural, operational and other constraints that hinder a firm's ability to initiate, develop or sustain international operations (**Koksal and Kettaneh, 2011**). It is important to achieve a better understanding of export barriers, since these barriers waste the resource of firms and threaten the efficiency and effectiveness of a firm's operations. Reduction in costs of production will make the marine products more competitive in domestic and international markets. The costs in the production sector tend to be exorbitantly high in both capture and culture fisheries and this affects the profitability of operations. Addressing the issues of over-capitalisation and reducing unit costs of production, transport and processing would go a long way in making Indian seafood much more competitive in the markets. Government has to take efforts enhance institutional credit at affordable rates for the poorer producers and exporters would help the industry to reduce cost of production.



## **References**

1. Ancy V P & Dr.K.V.Raju (2016) “Trends in Marine Products Exports from India:Issues and Challenges”, *International Journal of Research in Finance and Marketing*, Volume 6, Issue 3 (March), ISSN 2231-5985.
2. Cecily Shibi Netto, Ramya K. P & Dr. Venogopalan K. V (2013) “Marine Product Export in India and Kerala - An Analysis”.
3. Dr. R.Gopal, Dr. Pradip Manjrekar & S.S. Dhond (2012) “Growth Strategies: A case study of Maharashtra’s Sea Food Exporters”.
4. Padmasani (2016) “Export performance of Indian seafood industry with special reference to shrimp” Thesis submitted in bharathiar university, Coimbatore.
5. Ranjan Kumar Dash, Rabi N. Patra, (2014), “Marine Fisheries in India: Issues of Growth and Instability during the Pre- and Post-WTO Periods”, *Journal of Economics and Finance*, Volume 5, Issue 2, September.
6. Sam Siril Nicholas S, Gunalan 2015 Indian seafood Industry strength, weakness, opportunities and threat in the global supply chain” *International Journal of Fisheries and Aquatic Studies*, ISSN: 2347-5129, .
7. Seyed Hossein Jalali (2012),”Export Barriers and Export Performance: Empirical Evidence from the Commercial Relationship between Greece and Iran” *South-Eastern Europe Journal of Economics*, 1, pp 53-66, Iran.
8. Shyam and S. Salim, “Indian Seafood industry and post WTO – A Policy Outlook”, *Socio- Economic Evaluation and Technology Transfer Division Central Marine Fisheries Research Institute, Cochin*.
9. Shyam.S.Salim and Aswathy (2012) “Constraint Analysis on the Impediments Faced by Indian Seafood Exporters” *Socio- Economic Evaluation and Technolgy Transfer Division, Central Marine Fisheries Research Institute. Cochln*.