Portland’s Auction Success

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Abstract: The Portland Fish Exchange, opened in 1986 has grown into a highly successful auction. During the same period other auctions in New England have diminished in their importance. Other attempted display auctions on both the east and west coast of the United States have failed. What factors have made the Portland auction a success and are those factors transferable?

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1. BIRTH OF THE AUCTION

1.1 Introduction

The Portland Fish Exchange is a shining example of success. I will explain how this success occurred, what factors I believe were essential to this success, and what elements might be transferable to other sites.

The Exchange was developed as a quasi-public/state/federal/city project as one essential cornerstone of the development of the Portland Fish Pier. The Fish Pier opened in 1985 and the exchange opened in 1986. It originally consisted of a 22,000 square foot refrigerated building – built and owned by the City of Portland. The Fish Exchange was obligated to pay the city rent on the building. While much planning went into this project the building was delivered missing a few things you and I might consider essential. There was no office space, no storage space for totes or anything else, no space to repair machinery, and no toilet facilities. The exchange opened with the office staff sprinting between the auction building and a nearby office building. And toilet facilities were quickly installed.

I mention these problems, not to blame the city, although the exchange’s history has been plagued with, at best, ambivalence on the city’s part; but to illustrate that the exchange has not succeeded by excellent planning, infinite resources, and a nurturing political climate. I believe the exchange has succeeded by sheer will.

1.2 Portland and Maine before the Exchange

Where is Portland relative to the markets and the fishing grounds?

Figure 1. Chart of Fishing Grounds and Major Markets

Prior to the opening of the Portland Fish Exchange, fish were sold through a network of traditional fish dealers. The Portland fleet consisted of a mixture of dealer or processor owned vessels, larger trawl vessels owned by the captain or as part of small fleet operations, and small inshore seasonal vessels. Because market opportunities in Maine, if one was not owned by a processor were so bad, any vessel with the ability to steam to Gloucester or Boston frequently did so to sell its catch.

There were enclaves of fishing vessels all up and down the coast. Many of the boats landing in Maine sent whatever they caught directly to Boston, or directly to Canada for salt. There were processing facilities in Portland and Rockland but processors and Maine as a whole were not gaining benefit from the Maine fleet’s harvest.
1.3 Dynamics within the Industry at the time the Exchange Opened

Fishing vessel owners living in Maine desperately wanted some marketing system that allowed them to land their fish in Maine. Being able to land fish where it is easy for the crew to go home, easy to watch over the vessel, and easy to repair the vessel is a very valuable asset to a profitable fishing operation. It also is very helpful to the owner’s, captain’s, and crew’s family life.

Processors, having lost their redfish base, needed fish to process. Many processed Canadian groundfish, but that was very seasonal. It was to the processor’s advantage for the larger vessels to land their fish in Maine, where they could have a chance at getting the fish.

The traditional dealers could see no advantage to increased competition and most fought the Exchange to the last ounce. Dealers in Gloucester and Boston obviously saw no benefit to the Exchange and pressured boats not to try it.

The core fleet for the fledgling auction was comprised of 45-60 foot vessels, known collectively as the shrimp fleet. These vessels traditionally fished seasonally for northern shrimp, whiting, and groundfish. The boats were excellently sized for their fisheries, but not really large enough to profitably make the steam to Gloucester or Boston. This core was augmented by four or five larger boats (in the 90 foot range).

2. THE PLAYERS

There are four groups of players in the daily auction game. First are the sellers, who provide the product. Second is the auction, which provides the facilities and services. Third are the buyers, who provide the market. Fourth are the seller representatives, who protect the interests of the sellers.

2.1 Sellers

There are three different kinds of sellers at the auction.

- There are the boats that pull up to the dockside of the auction, unload their catch, and steam away.
- There are “truck boats” which are boats that unload someplace else and have their fish trucked into the exchange. These range from a day boat bringing his catch in the back of his pickup to docks four and five states away who unload and truck the fish to Portland for a fee.
- Fish regularly arrive from a four hour trucking radius of Portland.
- The third seller is a dealer or processor who for whatever reason owns fish that he needs to sell. Sellers need do nothing more than let the auction know they are coming, who is authorized to represent their fish, if anyone, and where to send the check.

Traditionally the New Bedford and Boston auctions dealt primarily with trip trawlers and trip scallopers. From the beginning this was one aspect of the Portland Auction that was different. On any day one might expect to see some combination of the following:

- **Trip Trawlers** These boats tend to be the largest ranging from 70 to 110 feet. Trips are between 8 and 10 days. They fish both the Gulf of Maine and Georges Bank. They are similar to the boats that traditionally sold on the New Bedford or Boston auctions.
- **Mid sized Trawlers** These boats are between 45 and 60 feet and tend to fish between 3 and 6 days. They tend to fish in the Gulf of Maine with occasional forays onto Georges. This is the larger segment of the shrimp fleet.
- **Dayboats** Included in this category are the dayboats and those boats who might take overnight trips. There are both trawlers and gillnetters in this category. They obviously fish close to port. The trawlers in this category will also seasonally fish for northern shrimp.
- **Trip Gillnetters** These boats range from 35 to 60 feet and tend to fish for 3 to 5 days.
- **Bottom Longliners** These boats range from 50 to 85 feet and tend to fish 10 day trips in the Gulf of Maine and Georges. Seasonally pelagic longliners may land at the auction.
- **Other** Occasional landings of lobster trap bycatch or hook and line caught fish. These landings have become rarer as the regulations have become more restrictive. Small boat scallopers also seasonally land.

2.2 The Auction Staff

Auction staff provide a variety of functions. They accept hails, schedule unloading, provide recordings of anticipated landings; unload both boats and trucks, cull, and stage the fish in plastic totes; record the auction transactions, collect from the buyers (in advance) and pay the sellers (next day); steak (cut head off), box (in cardboard cartons), and load trucks as needed; then clean totes, make boxes, clean the cooler, clean the auction room, etc. in anticipation of the next auction. The Auction also provides an auctioneer, who is not auction staff and who is not associated with the fishing industry.
2.3 The Buyers

There are currently 22 fish buyers registered at the exchange. To be a buyer, one must be approved by the Portland Fish Exchange board. A buyer must have a letter of credit, must prepay fees, and must pay an annual seat fee for the first three years he holds a seat. Each seat holder is assigned a number. Individuals who act as buyers may bid on two numbers during any one auction. Buyers must be physically present to bid. Buyers may use phones during the auction. Some seat holders listen to the entire auction through the phones of their buyer, giving second by second instructions to their buyer. Most buyers have more autonomy, either buying on general instructions, or for themselves. Buyers fall generally into the following categories.

- Local fish market.
- Local processor. All local processors utilize Canadian imports and other domestic product, as well as Portland Fish Exchange fish.
- Regional processor. All regional processors utilize fish from a wide variety of sources. One processor is known to purchase from individual dealers, the four New England auctions, as well as auctions in Iceland and Norway daily.
- Exporters. These buyers tend to specialize in specific species. For instance, there is one buyer who only buys Monk Livers. Others buy monks, dogfish, and shark fins.
- “New York” buyers. New York buyers buy on speculation and/or on order for stall holders in the Fulton Fish Market and for seafood wholesalers in Philadelphia, Baltimore, and DC. This product is usually shipped out directly from the auction. The only processing done is the removal of the heads of large pollock and cod. In some cases, specific stall holders finance the seat for “his” buyer, and controls to whom the buyer can sell. In other cases, the buyer finances his seat independently and has a wider range of options available to him.
- Specialty buyers. These people specialize in very high end product. They pay top dollar for fish that meets their requirements.

2.4 The Seller Representatives

There are four seller representatives at the Portland Fish Exchange. Boats are not obligated to hire seller representatives, but more than 99% do. They are hired by the boats to represent the broad range of boat’s interests before, during, and after the auction. Seller representatives make sure that the auction staff does its job. They also have the right to refuse offered prices during the auction and to dispose of the fish as they see fit after the auction. Some boats always are pushing for more, some boats just want the fish all sold that day. I will come back to Seller Representatives later, because I believe they are an important element in the auction’s success.

3. THE PROCESS

The Portland Fish Exchange has auctions daily Sunday through Thursday at approximately noon each day. Boats are unloaded that morning and each boat’s catch is culled into species and size categories, assigned lot numbers, and displayed on the auction floor by category in order of unloading. Thus all of the large cod is displayed in one row, with the vessel unloading first being the first lot in each row. Maximum lot size varies between species from 600 lbs. 1,200 lbs. A “detail” is produced and is used as the basis for the daily auction. Using cod as an example, all of the large cod from all of the boats is put on the block. This might consist of 20 lots ranging in lot size from 10 pounds to 1,200 lbs. The winning bidder must choose at least one lot –in this case 10 lbs., but can take all of the large cod available. The remaining lots of large cod are then auctioned. The process is repeated until there is no unsold large cod or no interest in purchasing the remaining large cod. Then the auction moves on to the next cull (in this case market cod) and starts all over.

The seller has the right to refuse the offered price. The buyer who had won the bid has one chance to rebid. The seller (or representative) can accept, or can do whatever he wishes with the fish. This is essential to the success of the auction, but is hated by virtually all buyers.

The noon auction first had its roots in the Maine processors who were not based in Portland. They did not want to be disadvantaged by Portland processors having product for same day processing and they not. Noon gives the out of town people – both processors and New York – a chance to see where they stand after the morning auctions and other purchases. Noon also allows the fish to arrive in New York for the next morning’s activity. Product needs to get to New York between midnight and 2 am.

During the course of the auction shipping paperwork is generated and the auction performs whatever services the buyer desires – steaking, boxing, etc. and restages the product for loading onto trucks. Several trucking firms have routes from the Auction to New York, Boston, and Philadelphia. Many of the buyers have their own trucks.

4. THE PHILOSOPHY BEHIND THE EXCHANGE AUCTION
4.1 Other Auctions in the Region

The auctions in Boston and New Bedford were the result of distrust between fishermen and owners in each port. I do not know whether this distrust lead to the unions in each port, or whether the unions lead to the distrust. Both auctions occurred prior to the fish being unloaded from the vessel. Both auctions were run by a public entity.

In New Bedford, if you were a union boat you had to use the auction and you pretty much had to use a settlement house. The entire boatload of fish was sold as one unit based on hail weights and species breakdown. In Boston, the auction payment system was set up to protect “company” boat fishermen from receiving lower prices than non-“company” boats. Boston auctioned off all fish of a cull. All boats received the lowest price offered to assure all fish sold. In both cases distrust of the owners drove the auction system. Prices could be renegotiated if there were any quality issues, or if the hail was inaccurate. Renegotiated prices were always lower.

The New Bedford auction has gone through several formations since and is now run by one of the dealers. The Boston auction is fading. In the last several years a display auction has opened in Gloucester. It is privately run by a former dealer who transformed his facility into the auction with the aid of public money.

In very recent developments Global Food Exchange, an Internet company, has purchased the Gloucester auction and plans to tie the daily fresh fish auction with its Internet activities. It also is in the process of either acquiring, or opening its own auction in New Bedford. The New Bedford city government has decided it needs to control the fish auction activity again. No one knows what this development means to any of us.

4.2 Portland

In Portland, it was the boat owners, who in an effort to gain better markets for their fish, drove the desire for an auction. Thus, the Portland Auction was constructed to provide much more flexibility for owners. This is very significant both psychologically and operationally. Owners are active in representing their interests in the almost constant fights over Auction policy. They view themselves as equals to buyers and the auction personnel and over time have forced those others to view them as such.

While from the beginning, the boats had the right to bid on their own fish, to refuse prices, and to dispose of unsold fish after the auction, the belief underlying the auction was that a fisherman could represent his own fish because market dynamics would assure him that a fair price for his fish would surface through the auction process. This theory was tested from the beginning for four reasons.

- First, the buyers were not forced to purchase fish.
- Second, it was a much too altruistic view of market reality. Collusion will happen if it helps the people colluding.
- Third, owner/operators have much too much they need to accomplish when in port to spend several hours every time they unload attending the auction, and more hours dealing with fish that did not sell. Should the owner/operator stay in another day to watch over the fish he scratched?
- And Fourth, market prices are highly variable. You might sell fish for what you feel is a good price, to find out you are twenty cents below market. You might refuse to sell fish for what you feel is an absurd price, when it actually is a very attractive price. The only way to keep up with the market, is to be involved daily.

Virtually from the start owners realized they needed someone to represent their interests at the auction. Seller Representatives evolved from two sources. The first were wives of owner/operators. The second were fleet owners. As owners realized they needed to participate daily be knowledgeable for their own product, they added customers to cover the cost of their, or their employee’s time. Seller Representatives are paid on a per pound basis. They retain their customers by assuring that the boat’s experience at the Auction is positive. It is to their financial interest for the Auction to be successful. It is to their financial interest to develop markets where none exist. It is to their financial interest to add to the customer base of the Auction.

The auction hates seller reps because their job is to catch any mistakes the auction has made. The buyers spent the first ten years hating the seller reps because they thought they could get fish cheaper and make more money without them. In recent years most buyers begrudgingly appreciate the seller reps because their efforts have assured a reasonable level of product availability during serious shortages and they find them more reasonable to talk to than vessel captains when the markets are flooded.

5. CONTRIBUTORS TO SUCCESS

5.1 Regulatory Environment

I list the regulatory environment first because it has been a very large negative.

- Maine is the only state on the East Coast that does not allow trawlers or gillnetters to land lobsters. The importance of lobsters varies depending on season.
and fishery, but asking a boat to discard $10,000 worth of lobsters or more is a lot to expect.

- Maine is the only state on the East Coast to tax diesel fuel used in boats.
- Maine taxes the electricity used to make ice.
- Maine requires any vehicle transporting fish not owned by the owner of the vehicle to be licensed. A group of small dayboats from out of state had taken turns brings their catch to the auction. The State of Maine caught several pickup trucks with catches from more than one boat, and the resulting fines eliminated these customers.
- The city frequently appears as an unwilling partner in the Fish Pier. It has at various times tried to close the auction; has over time removed itself from any maintenance of the auction facilities and piers although it still charges significant rent; tried to build a parking lot on land set aside for future processor development; put the auction at a disadvantage because the auction is obligated by the city’s contract with the ice provider to purchase ice, when some level of ice production by the auction would be more advantageous; and frustrated the home fleet by demanding berthing agreements no one will sign.\textsuperscript{xii}

5.2 Location

Again what would appear to be a large negative.

- Portland is farther away from the major markets than any of the other auctions
- It has no direct routes west.
- Its airport does not have direct flights to either Europe, or the Far East.
- It is farther away from some of the prime fishing grounds while the regulatory mechanism, days at sea\textsuperscript{xi}, rewards proximity.

But there are some positives.

- The distance from major markets means that a system of allegiances between individual boats and stall holders had not evolved.
- The ferry to Nova Scotia lands in Portland. This aids the processors in access to Canadian fish for their processing needs but it also means that Portland is an excellent staging location for trucks returning to Canada to take fish to be salted. Salt fish will also be discussed in the section on price floors.
- There is not a Big Dig occurring (Boston) and trucks going to New York or Philadelphia do not have to go through Boston.
- Maine is a pleasant place to live.

5.3 Variety of Species

The wide range of species landed on a daily basis and the wide array of markets for each of these species is very beneficial. The market for monk livers, cod, or grey sole could not be more different. But equally important are the range of markets for an individual species. Cod is an excellent example. On any one day large cod can be sold to become the centerpiece in a high end buffet at a party somewhere in Texas. The purchaser FedEx’s it to his customer, the chef. This fish must look perfect as well as be very fresh. Another buyer provides the highest quality fillets for his customers, primarily in Florida. He cares about the flesh quality, but if there is an imperfection in the eye, or a few scales are missing he does not care. Another buyer supplies normal seafood channels. The processors with supermarket orders hope they forecast supplies well and there will be enough of whatever is on special for them to fill their orders within their bid and quality range. The processors specializing in frozen fillets are waiting to see if any of the good quality fish get into their price range. And finally the salt buyer is always on the lookout for fish at a fixed price. This is the quality needs ranking, frequently the salt price will be above the freezer price, or even above normal seafood channels. During one auction, virtually imperceptible differences in quality can have significant differences in price. Another location may not have available the range of species available to Portland, but should strive to assure the maximum range of markets.

5.4 Price Floors

Three factors have lead to Portland having a better floor to price crashes than the other auctions in New England. These were very significant in making Portland the place to land when prices were crashing.

- Government contracts were instrumental in the development of the Portland Fish Exchange because the bidders needed steady supplies of guaranteed US landed fish. The contract prices were always somewhat above salt prices. Prime contract species were redfish and pollock. Rules changes have seen this market disappear to the West Coast.
- Canadian Salt buyers. Cod, pollock, and hake landed in the United States tends to be of a larger size than that landed in Canada. Salt buyers will pay a premium for those larger sizes. They will buy all sizes of saltable fish at some price. Recent years have seen fierce competition between salt buyers. There are several buyers representing competing Canadian salt operations on the auction. These buyers have been especially helpful in setting a floor for hake, which was never approved for Government contracts. I have watched prices for cod and hake crash at other auctions to half of the salt price. This would never happen in Portland because either the salt buyers would be too competitive, or if for some reason not there, the seller reps would step in. The
salt price is widely known and varies only slightly from company to company.

- US brokers of Canadian groundfish. These brokers make their money by having markets for the large waves of Canadian groundfish. Much of this fish, at least historically was of questionable quality. Thus they had expertise in dealing with volume and stressed product. Seller Representatives have the option of sending either fish not bid on, or fish scratched to one of these brokers. While these same brokers have auction seats, they, like anyone else, will attempt to get fish available at the auction at a discount. But, when sent to them on consignment, they treat the auction fish like other incoming product. **This willingness to work with problem fish and problem market conditions has been essential in the auction’s success.** Portland is fortunate to have several companies that can be utilized in this way. I believe some entity to serve this role is essential.

5.5 Price Ceilings

**One of the most significant factors in Portland’s success is the lack of a price ceiling.** Both New Bedford and Boston auctions were constructed to make a market for average good quality fish. The boat did not get any direct reward for high quality fish. The Portland Fish Exchange, with its individual lots of fish, small minimum purchase per bid, and display, allows a specialty buyer to pay for that fish he wants. This has had a broad range of positive results.

- Everyone likes the chance to win the lottery. Any day you get a dollar a pounds above average on something, not only do you have the monetary reward, but you have confirmation that attention to quality does pay.

- General increase in the fleet’s attention to quality. While the display part helped in this regard, no one wants to be consistently picked last, the recognition that generally high quality is the cost of one’s entry in the lottery has had a very significant effect.

- Elimination of preconceived notions of quality possible from different gears. The big winner in this effect are the gillnetters, who found, that with proper attention to details, their fish were not inherently worth less than other gears, but for certain markets were actually worth more. It was difficult for the hook boats and the day boats to realize that their fish were not naturally worth more. This shock greatly improved the quality of both. Yes, for the highest quality, a day boat needs to take ice, even in Maine.

5.6 Auction Structure

I would single out three aspects of the auction structure that has significantly contributed to its success.

- It is constructed as a quasi-public company. Thus it operates independent of the city government, but the city is the owner of the company. There are 7 board members: 2 buyers, 2 sellers, 2 public, and one city council member. Half of the seats are reserved for people with business interests in Portland.

- The auctioneer is a licenses auctioneer hired by the auction, but not an auction employee. He must have no outside connection with buyers or sellers. It is essential that the auctioneer have both the appearance and the actuality of neutrality.

- All knew the auction had to make it on its own, that there were not going to be handouts. While the city guaranteed some level of loans for the exchange, this was with extreme reluctance and if the city had had to honor its guarantee, it would close the auction. Thus the industry viewed the auction as theirs, rather than the city’s.
them. This stabilizes the market both for the boats and the buyers.

6. Constant Tension

I began by believing that the constant state of tension within and around the Portland Fish Exchange was vital for its success. It actually is the sign that the essential balance, necessary for success is there. That it is a public entity is important in providing the forum where it is possible to make sure no one element becomes dominant. But, as can be seen in the other New England auctions, that public ownership does not guarantee balance. Balance requires flexibility in the face of changes in the industry. In the beginning buyer’s fees were waived on scratched fish because boats needed encouragement. Then they needed to be charged to rebalance the auction. Lot sizes, culls, fees, auction times, services provided, financial policies, maximum purchase limits, rebidding rules, all have been adjusted to maintain an appropriate balance. That all sides feel disadvantaged, that all sides feel the auction is set up to slightly advantage someone else, is the best sign that an appropriate balance exists.

Redfish (Sebastes spp.) was caught in high volumes primarily by a processor owned fleet. The traditional grounds were deep-water lumps in the Gulf of Maine and beyond. The redfish fleet was squeezed out of its traditional grounds by Canada’s declaration of its 200 mile limit, the Hague Line decision, and finally management decisions in the US. There are no former redfish boats still fishing for fish in the Northeast. Some of the processors began using Canadian redfish to fill Government contracts and served prison time for breaking US law.

Dealers unload the boat and broker whole fish. Some processors are also dealers, but many dealers do no processing.

Canadian fish is accepted at the auction, but must be marked as such. Canadian fish may either be “truck fish” or dealer fish.

At the time the Portland Auction began there were auctions in both New Bedford and Boston. New Bedford auctioned off the entire vessel’s catch to one buyer. Boston auctioned off all fish of a cull. All boats received the lowest price offered to assure all fish sold. Both auctions occurred prior to the fish being unloaded from the vessel. Both auctions were run by a public entity. The New Bedford auction has gone through several formations since and is now run by one of the dealers. In the last few years a display auction has opened in Gloucester. It is privately run by a former dealer who transformed his facility into the auction with the aid of public money.

There are two local shrimp buyers who have special seats which only allow purchase of shrimp. All fish buyers can buy shrimp also.

While I own boats that land at the auction, this is the role most people would associate with me.

Part of a “detail” is attached. It lists under each cull the boat name, lot number, pounds in the lot, date landed, and seller rep. For each lot. Space is also provided to record the auction activity.

The auction participants are in what feels like constant tension over everything. This is a good example. Originally lot sizes were 1,200 lbs. for everything, and winner take all. Local processors with government contracts (a thing of the past we really miss) could not stand the daily battles over pollock. The auction put in a ten lot maximum (actually 12,000 lbs.) to assure that each processor got more than one chance. Then, especially during the winter, when small boat catches were very low, the small local fish markets and “New York” dealers wanted smaller lots. Currently each boat’s catch of a particular cull will have two 300 lb. small lots and the remainder of that cull in the larger lot sizes, but once again one can take all.

This also has evolved over time. Permutations tried included no rebid with all unsold product available to be reauctioned at the end of the auction. Fees for scratched fish were waived in the first few years. This decreased the risk of scratching and was necessary to reduce the risk a boat took coming to the auction.

The starting time of the auction is constantly fought over. Processors want an early auction because that might limit the activity of the New York buyers and depress prices. Boats usually want the current schedule because of the need to unload and stage the fish before the auction and the boat’s desire for higher prices. The New York buyers want to have the morning to sell fish and feel out the market. Currently there is a battle to move the auction based on a different alliance. Some New York buyers want an earlier auction because one of the local trucking companies is having problems in making New York early enough to have an advantageous position in the line. Local processors and boats are opposed to the move. Regional processors support the move for their traditional reasons. As an aside, several buyers believe the real problem is that the mob is no longer controlling unloading in New York. The city workers do not work at the same pace as the traditional unloading force.

The city wishes the boats to sign an agreement which would transfer liability for a tourist tripping in the parking lot, from the city to any berthing tenant.

Most species landed at the Portland Fish Exchange are either directly (cod, haddock, flatfish) or indirectly (monkfish) managed under the Multispecies Plan. It divided the fleet up into Individual Day vessels and Fleet vessels. The Individual Day vessels currently are allocated one half of their proven history based on days
away from the dock. The Fleet vessels were allocated 88 days. Originally this category was a system of opportunity days, but is now a flat allocation. Every minute away from the dock on a fishing trip counts against one’s annual allocation. Thus, if it takes you fifteen hours to steam to the fishing grounds, and it takes your competitor, 9 hours, he gains twelve hours of fishing time per trip, either for that trip, or in additional trips during the year.