

Middlemen: the most maligned players in the fish distribution channel

By **AP Surtida**

Analysis of the fisheries market structure in the Philippines could be focused on: degree of concentration of sellers and buyers; product differentiation; and conditions of entry. It can also be classified as oligopolistic (Librero 1985), meaning, a market situation in which each of a limited number of producers is strong enough to influence the market, but not strong enough to disregard the reaction of his competitors. The oligopolistic structure is due to the multiple economic functions performed by traders and the vertically integrated operations of some brokers. The role of the traders must be seen within the light of indigenous free market cost of capital, risks borne, importance of social relationships in the traditional market setting and opportunity cost of replacing these functions (Torres et al. 1987).

The common practice among producers, whether in aquaculture or capture fisheries, is to concentrate on the production side of the industry and relegate the marketing to representatives or agents. This creates a niche in the fish distribution channel: the brokers or middlemen.

A broker is defined as an agent whose expertise is on selling or buying for his/her principal without having possession of or title to the goods. He earns his keep through a commission that is a percentage of the value of the goods bought or sold.

However, fish brokers at the Navotas Fish Landing and Market Authority (NAFILMA) and various fish markets across the country are not ordinary run-of-the mill brokers. Aside from receiving commission and representing their principals, they also have possession and physical control of the fish catch consigned to them. They have the power to agree on prices. In some cases, brokers have a dual role: they also engaged in production in aquaculture or capture fisheries.

According to a recent study (Salayo 2000), monopsonistic tendencies exist at the broker level, meaning, there is a market situation in which there is a single buyer for a given product or service from a large number of sellers.

An Asian Development Bank study (1993) said that fish marketing in the Philippines is not efficient and is characterized by:

- proportionately low return to producers
- a primordial role played by middlemen
- poor handling, preservation, and other post-market practices
- inadequate and inappropriately located marketing infrastructure; and
- lack of accurate market information

The same study also said that middlemen are the most maligned players in the marketing scenario. They are often associ-

ated with price and supply manipulation, but they do perform other distinct economic functions, including extension of credit, assuming risks of spoilage, and bridging time and space gaps between production and consumption.

The ADB study further describes middlemen as assemblers or brokers, and large fishing operators who are also into buying and wholesaling. Their commissions ranged from 5 to 7% in commercial selling. Their mark-ups at each stage of the marketing chain range from 10 to 50%. Thus, farm-gate prices are generally less than half of retail prices. Prices at the source are not, however, always identical with prices received by the fishermen, especially when the fishermen are hired help and are not boat-owners. In such cases, return to the fishermen is also 15% of the landed price.

The Librero (1985) study showed that brokers in Iloilo, Bacolod and Zamboanga are quite optimistic that factors such as goodwill, customer loyalty, or even capitalization and license acquisition were of no hindrance into their entry in the market. The only thing that fazed them was assurance of regular fish supply. But established brokers were given preference by both producers and fish buyers.

Where sellers are outnumbered by buyers, sellers can choose their methods of sale namely: by auction, contract sale or first-come-first-served basis. Terms of sale between producers-brokers, brokers-buyers, and among different buyers have their own dynamics. For example: **between producers and brokers** -- brokers are paid 5-7% commission on gross sales as producers' representative. Because fish are usually sold on credit, a broker uses his own capital to pay the suppliers promptly and fully and gives cash advances to maintain goodwill. Producers, on the other hand, sometimes extend 1-3 days credit to their brokers.

Between brokers and buyers -- brokers have the freedom to negotiate with any buyer. Generally, brokers sell their products on credit payable before next purchase. On a consignment basis however, the buyers pay their respective brokers at the end of the days' transactions or payments are remitted the following day. Transactions are either in cash or installment payment.

Among different buyers -- cash and carry is the usual practice, however, credit is also established with regular customers, selected friends, and relatives under exceptional cases.

In a more "up-close and personal" communication, we asked two producers/sellers about their experience with middlemen. One is a shrimp hatchery owner, and the other a mudcrab pond operator.

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Mr. Domingo Villanueva, 52, from Santa Barbara, Iloilo operates a mudcrab farm in Sapián, Capiz. He says that middlemen are an integral part and is very vital to the industry. They take care of problems in information, marketing access, transportation logistics, and finance, which he, as a mudcrab producer doesn't want to pay attention to because these aggravations would add to his problems. He gave this hypothetical example of a chain of middlemen and pricing, before it reaches the consumer -- farm gate price of mudcrab per kilo, P60; middleman A sells at P80, middleman B at P120, middleman C at P180, middleman D at P200. The retailer sells and the consumer pays P300.

Queried about the attributes of middlemen he wants to deal with, Villanueva enumerated the following virtues: honesty, capital capability, trustworthy, credible, knowledgeable, with good 'pakikisama' (smooth interpersonal relations), and a good track record.

The other informant, Ms. Angelita Tillo, a shrimp hatchery owner-proprietor in Tigbauan, Iloilo, has a similar view. Middlemen are valuable components in the industry. According to Tillo, middlemen have ample information regarding fry buyers in Bohol, Iligan, Masbate, Palawan and elsewhere, which she as a producer, has no access to. She sells her shrimp fry at 13 or 14 centavos to middlemen and the middlemen make their mark-ups which runs up to 20 centavos when it reaches the buyer. The deal is always on a cash basis between Tillo and her middlemen, because according to her, the biggest killer in the business is non-payment of delivery or bad debts. No checks either, because they could bounce and would lead to bankruptcy.

About the middlemen's attributes, Angie rattles off the following virtues: good track record, not an *estafador* (cheat), with good reputation in the business, pays good price, honest and reliable.

All the answers seem to confirm all past studies on market structure in the Philippines.

In a milkfish fry study in western Visayas (Nazareno et al 1979), it was noted that fry gatherers have four types of buyers: concessionaires (67%), dealers (9%), nursery ponds operators (7%), and fish pond operators (1.6%). Clearly, it shows that profit does not go directly to the pond operators, but to various middlemen.

Relationships between fry gatherers and concessionaires are often in close contact during the fry season, hence, amenities and other forms of assistance, including financial assistance, have been extended by the latter to the former (Librero 1976).

In a study of municipal fishermen in Camarines Sur (Piansay et al. 1979), five types of buyers were known: wholesalers (53%), retailers (35%), wholesalers-retailers (11%), and processors and consumers. On the basis of reported value of fish marketed to various outlets, it showed that fishermen stood to profit more in dealing directly with consumers (P4.95 per kilo) and processors (P4.60 per kilo). Retailers, wholesaler-retailers, and wholesalers relatively paid lower prices at P2.74, P2.42, and P2.35 per kilo respectively.

Types of sellers and buyers in the Philippine fish market

Sellers, producers or their representatives, may fall into the following types (Librero 1985):

- Commercial fishing boat operators with a gross tonnage of at least 3 tons
- Municipal fishermen operating fishing boats of less than 3 tons
- Middlemen who operate carrier boats and buy fish from fishing boat operators at the fishing grounds to sell at landing areas
- Fishpond or fish pen operators producing milkfish or shrimp or both
- Truckers, who maybe producers or middlemen, who bring in fish catch from other places by truck

Types of buyers according to characteristics and functions:

- Wholesalers are merchants who buy fish, usually in fairly large quantities, either from brokers or producers, and sell them to other middlemen (but not to ultimate consumers)
- Retailers are middlemen who sell their fish purchases to the ultimate consumers, mostly in retail markets
- Wholesaler-retailers are middlemen who buy fish in fairly large quantities and sell them to other middlemen and also to the ultimate consumers
- Buyer-sellers are also wholesalers but are differentiated from them as operating within the confines of the fish-landing area
- Institutional buyers buying fish for consumption in such institutions as hospitals, restaurants, etc
- Processors buy in bulk for processing into salted dried fish, tinapa, fishmeal etc
- Exporters buy fish for export to foreign market
- Canners buy fish for canning and
- Final consumers buy fish for household consumption

Librero (1985) confirmed that the presence of middlemen, which constitutes a long chain in fish trading, is one of the major problems in the fish marketing system in the Philippines. The study said that middlemen tend to inflate marketing costs by as much as 200%. Other than that, fish quality also suffers because of the long marketing chain.

The other two problems mentioned in the study are: lack of adequate fish landing areas (at that time) including lack of ice plants and cold storage facilities; and inefficient collection and distribution of fish, which results in areas of fish surpluses such as southern Luzon and the Visayas, and areas of deficit such as northern Luzon and some provinces in Mindanao. However, in another study (Torres et al. 1987), it was found that the tiers of middlemen that handle the commodity is large because the number of people involved in the distribution of fish is large. This makes fish marketing appear as a crowded enterprise.

tion taken to correct potential problems. Each of these principles must be backed by sound scientific knowledge: for example, published microbiological studies on time and temperature factors for controlling foodborne pathogens

How does HACCP influence importers?

While importers have always been responsible for compliance with FDA regulations that prevent the entry and commerce of adulterated foods, previous practice depended solely on regulatory surveillance. The new mandatory HACCP regulations include requirements for importers to become more proactive in ensuring the safety of the imported seafoods and aquaculture products. In addition to traditional import surveillance and periodic inspections, FDA will now require certain HACCP controls.

Who must comply?

Importers -- U.S. owners or consignee at the time of entry into the United States, or the U.S. agent or representative of the foreign owner at time of entry. Foreign processors will be influenced indirectly through requirements for U.S. importers to ensure their suppliers comply with HACCP programs equivalent to that for domestic processors

Processors -- firms either in the United States or in a foreign country, engaged in handling, storing, preparing, heading, eviscerating, shucking, freezing, changing into different market forms, manufacturing, preserving, packing, labeling, dockside unloading, or holding fish and fishery products

The products involved are: fresh or saltwater fish, crustaceans, all molluscs, alligators, frogs, aquatic turtles, jellyfish, sea cucumbers, sea urchins, other aquatic animal life except mammals and birds, and the roe from these animals, if intended for human consumption; fishery products with fish as the characterizing ingredient.

Products exempted from HACCP are those that are harvested or transported without processing. These include retail operations and practices such as heading, eviscerating, or freezing intended solely to prepare the involved products for holding onboard a harvest vessel. Note, harvesters and transporters can be influenced indirectly through a processors' product and shipping specifications as related to their HACCP Plans.

Over the last thirty years, HACCP has evolved from a simple method of ensuring food safety to an adaptable framework that can respond to change while identifying opportunities for improvement. The public health interest of the consuming public as always is placed first in its priority.

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The large number of middlemen seemed to be needed because of: (1) physical distance between producers and consumers; (2) variety of fish landed is such that the labor is needed for sorting, assembling, etc; (3) where the fish caught by large fishing vessels require bulk-breaking since no one trader can buy the whole lot especially in the Navotas fish landing; and (4) with processing, storage and transport activities, there is a need to introduce other intermediaries into the distribution system.

Therefore, it becomes extremely difficult to shorten the trade channels in addition to the fact that brokers have a hold on the fishermen in more ways than one.

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