

*Statement of Kimberly P. Gorton
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*Statement before the Committee on Small Business
“How COVID-19 is Impacting Small Businesses Across the Food System.”
United States House of Representatives
Washington, D.C.
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Chairwoman Velazquez, Ranking Member Chabot, and distinguished members of the Small Business Committee, my name is Kim Gorton, and I am the President and Chief Executive Officer of Slade Gorton & Company, a seafood processor and distributor based in Boston, Massachusetts and Ft. Lauderdale, Florida. I am also an Officer of the National Fisheries Institute, the nation’s largest trade association for the commercial seafood industry. I am pleased to have the opportunity to appear before the Committee today to discuss how the COVID-19 pandemic has harmed the seafood supply chain.

Slade Gorton & Company is a third-generation family business. Our mission is to bring wholesome, nutritious domestic and globally sourced seafood to Americans’ tables. Our company and its 85 employees is one of America’s largest distributors and processors of fresh, frozen and premium value-added seafood products, and we provide over 200 million seafood meals to families every year. We develop and manage fresh and frozen seafood programs for some of our nation’s largest retailers, distributors, and chain restaurants. We are proud of our record of supplying healthful and safe seafood to American families for over 90 years.

The Seafood Supply Chain

Many envision the seafood industry as solely fishermen. But it is so much more than the iconic images of men and women who work on the water. Harvesters catch or farm-raise the fish, but primary processors head and gut it, secondary processors portion and package it — often adding other ingredients such as breading or marinades — and distributors then transport the fish to either restaurants or retailers, who then serve or sell the seafood to families.

More than 1.7 million Americans work along that supply chain. About half a million men and women work at various places along the middle of this supply chain, many for small family run companies like mine, taking the product from the pier and transforming it into what you enjoy at a restaurant or in your home. Without us, the fishermen’s bounty would never make it off the docks, severing a vital link that gets seafood from our oceans to our tables.

Before the pandemic, this vast network of small companies generated approximately \$150 billion in U.S. sales per year, with nearly 70% of those sales coming from restaurants, cruise ships, hospitals, and other foodservice establishments. With the continued closure of, or severely restricted service at, restaurants and public eating venues, many of these companies are at serious risk of failing.

Seafood in the Wake of the COVID-19 Pandemic

With the foodservice industry coming to a crashing halt due to mandatory closures, and with 70% of seafood being consumed outside the home, the seafood industry was left in uncharted waters. The industry has had to deal not only with billions in lost sales, but also with the job losses that go with such an unexpected downturn. Personally, I saw over seventy percent of my business disappear overnight in the immediate weeks following the nationwide shutdown.

Ingenuity, resiliency, diversification, and honestly grit became the hallmarks of seafood processors and distributors during this time. Many struggling companies rushed to freeze and store product, some even began selling directly to consumers. Even with that effort, we saw many companies that had to dump millions of dollars' worth of fresh product that could not be sold, or stored. Seafood is not a Twinkie ... it goes bad at some point.

Unfortunately, when the restaurants moved to curbside and takeout service, seafood did not get its fair share. Seafood does not travel as well as other meal options, and therefore disappeared, or was dramatically cut back from restaurant menus. Even with partial reopenings, restaurant operators are faced with increased costs at a time when many are operating below break-even capacity. All have had to find ways to simplify service and menus and cut food costs. Although there are many affordable options, seafood tends to be more expensive than other proteins, and due to the complexity of managing across multiple seafood species, some of our foodservice customers have not resumed ordering our products, or where they have, have pared down to only the most popular items.

Outstanding Accounts Receivable Problems

One of the biggest issues affecting the seafood supply chain in the wake of the pandemic is the large unpaid debts owed to distributors for food that restaurants could not sell due to COVID-related government shutdown orders.

Seafood has a complex supply chain that runs from the boat or aquaculture farm through processors and distributors until it finally reaches the consumer. The middle of the value chain is not only a critical link in distribution but also helps provide essential financing our customers need to purchase products and pay their employees. Typically, restaurants purchase their supplies on payment terms that allow them to generate revenue before the bill comes due, normally 30-60 days after delivery.

When restaurants were forced to close in March, our foodservice customers had no sales and have not been able to pay Slade Gorton and companies like ours. Now that some restaurants are trying to re-open, they will again need to rely on us to provide credit so they can purchase the products they need. We are then faced with choosing to extend further credit, at higher risk of not being paid, or, abandoning what are in many cases decades-long customer relationships. Our company has largely chosen to stick by our customers, but at significant cost and risk.

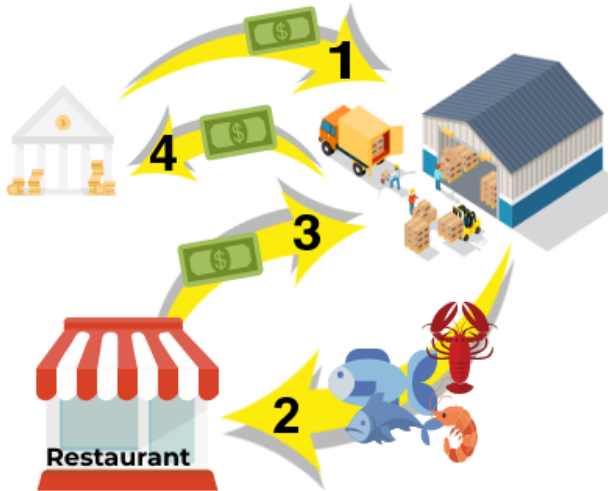
What complicates this even further is the way in which most distributors help finance their operations — that that is, through asset-based lending from banks. Credit lines are tied to a distributor's assets, primarily inventory and receivables. As both receivables and inventories age, their value declines, reducing the distributor's borrowing capacity. With sales dropping dramatically, lost profits exacerbate this lack of liquidity, limiting a distributor's ability to purchase more seafood with which to service restaurant customers as they try to recover. It is a vicious cycle. The most recent challenge is that product is backed up in the entire system, choking cold storage facilities and limiting production capacity in processing plants.

We estimate that the seafood industry has about \$2.2 billion in outstanding bad debt and other distributors have about \$10 billion. Small businesses cannot absorb a deficit of this magnitude. We need help to fix this.

Accounts Receivable Conundrum

How COVID-19 has Disrupted Seafood Distribution

Standard Operating Procedure



The **bank** gives the distributor a loan.



The **distributor** buys the fish and sends the fish to the restaurant.



The **restaurant** pays the distributor once they sell the fish they ordered, and the distributor pays back the loan.

COVID-19 Disruption



Restaurants closed and couldn't serve the fish they ordered, leaving them unable to pay the distributors.



The **distributors** can't pay off the loans from the bank because the restaurants did not pay them for the fish they originally ordered.



The **banks** won't give new loans to the distributors who already owe them, meaning the distributors can't supply more fish to establishments now open & ready to serve.

Seafood suppliers need Federal economic help to cover debts owed to them by restaurants that closed due to government order.

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Paycheck Protection Program

I want to thank the members of this Committee and the rest of Congress for moving so quickly in March to create the Paycheck Protection Program (PPP) as part of the CARES Act. It was a true testament to Congress working together to help Americans in a time of great turmoil. This funding has helped seafood businesses retain employees and offset payroll, mortgages, rent and utilities. Without this program, many seafood distributors and other small businesses would not have been able to survive. The PPP was exactly the type of program we needed and continue to need, and we strongly support efforts to extend this program.

As soon as SBA and lenders announced they were going to start lending under the PPP, it was a struggle to secure a loan, while at the same time trying to keep the business afloat. My company's lender was initially prevented from participating in the program, so in order to save my business we had to immediately pivot and find a secondary lender. We were fortunate. I have heard horror stories of others who were not so fortunate, and who could not get a loan. I can also attest to how difficult the paperwork was to fill out. I understand that the intent is to ensure that the businesses applying are meeting the objectives of the PPP, but without guidance from my trade association it would have been nearly impossible to navigate. Most small family businesses would have had problems. It is my hope that any efforts to extend or renew the program would also make the process and paperwork easier for small businesses.

Looking Forward

If we are going to help the economy get back on track, we need to help small businesses survive this pandemic, especially restaurants. Current figures suggest that 25% of all restaurants in the United States have closed forever, many of them family businesses like mine. It is imperative that Congress pass another stimulus bill. Small business owners like me need additional help in order to hire and re-hire our employees who were let go or furloughed. I urge Congress to increase the flexibility around the use of PPP loan funds that qualify for forgiveness, including adding payments to suppliers as a covered forgivable expense. This change would allow restaurants and other commercial seafood customers to use PPP funds to pay off their bad debt for product received before the shutdown in March and to purchase food and supplies. The upfront costs for products and supplies can be prohibitive, particularly given that restaurants that have been able to re-open are still operating in suboptimal economic conditions. With this change, the PPP can provide access to much-needed funds for bad debt and for operating expenses by restaurants and other customers struggling to stay open, protecting jobs and preventing permanent closures. It would go a long way toward stopping the death spiral.

Congress also should take a look at some form of help to small businesses trying to restart operations. Increased costs associated with frequent sanitizing; new employee training regimens; retrofitting processing lines, offices, retail spaces, and restaurant dining rooms; and providing PPE supplies for employees and patrons are very difficult for struggling restaurants and small businesses to absorb in this environment. Federal grants or tax credits to help pay for these critical safety measures would go a long way in helping small businesses like mine. Ultimately,

jumpstarting the economy requires continued support for those businesses that account for 80% of our GDP, small businesses.

Conclusion

The seafood industry and our system of processors and distributors is a complex one, but one that helps ensure every American has access to this healthy and sustainable protein at a price point families can afford. Without companies like ours, in the middle of the supply chain, families in Colorado, Kansas, Minnesota, upstate New York, Oklahoma, and Ohio, and of course, all across this great country, would have little to no seafood in their restaurants or stores. The seafood community is a family of almost 2 million Americans unknown to rest of the country. On the bridge of a fishing boat we are iconic, but as distributors in Middle America, we are invisible. In these challenging times we need you to recognize the seafood community as the vibrant and diverse system we are. Finally, I implore you to recognize the challenges and needs of our industry's lifeblood, restaurants. Food is the foundation of health and well-being, and lies at the center of happiness, human connection, and a vibrant nation. Our families have fed your families for generations. Our families now need you.

Thank for allowing me to discuss the impact COVID-19 continues to have on the food industry and the seafood industry in particular and for this invitation to appear before the Committee. I will be pleased to answer your questions.