TRADEX

A Wave of Freshness

BRIEF – North Pacific Hake Fisheries

Market Analysis

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1. PREAMBLE

1.1. Disclaimer

The information in this report is for informational purposes only. The conclusions herein are forward looking and represent Tradex Foods' best estimate based on current available information. We have used data from sources we believe to be reliable but we can not guarantee that they are complete or accurate. Although we believe the expectations reflected in our forward-looking statements are reasonable, results may vary, and we cannot guarantee future results.

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2. INTRODUCTION

2.1. Species description[1]

Scientific name:	Merluccius productus
Common names:	North Pacific hake, Pacific whiting (Canada / US), Merluza (Mexico)
Maximum length:	91cm
Maximum weight:	1.2kg
Maximum age:	16 years
Classification:	Demersal / pelagic
Distribution:	East Pacific: Vancouver Island (Canada) south to northern part of Gulf of California, recent reports of growing abundance further north near Queen Charlotte Islands in Canada

2.2. Fisheries

- Mainly concentrated on the continental shelf off the west coast of North America.
- Commercial concentrations occur from depths of 45-500 metres.
- Approximately 90% of TAC is allocated to trawl gear.
- The Pacific hake stocks sit entirely within the Exclusive Economic Zones (EEZ) of Canada and the USA, so these are the only two fishing nations of this species.

2.3. Products

- Surimi and H&G are the most common Pacific hake products.
- Processors produce a smaller volume of fillets as well.
- The fillets are generally produced with skin on to support the soft flesh.
- Here is a list of products:
    - Round
    - H&G
    - H&G&T
    - Skin-on fillets PBI
    - Skin-on fillets PBO
    - Skinless fillets PBI
    - Mince (surimi)

3. MANAGEMENT

- After years of disputes over each country's share of total harvest, Canada and the USA signed a formal quota sharing agreement in 2003.[2]
- The agreement divides the annual Pacific hake catch as follows:
  - Canada: 26.12%
  - USA: 73.88%
- Although the quota is set for the whole coast, Canada and the USA manage their fisheries differently.

3.1. Canada

- The Canadian fishery is divided into two main components:
  - Shore-based vessels
  - Canadian-foreign joint venture (JV) at-sea processors
- The Canadian federal government has guaranteed existing Pacific hake processors a proportion of the annual quota roughly equal to their combined capacity, if the quota allows (currently around 50,000 metric tons or so).[3]
- This means that the JV at-sea processor component will only receive quota when the shoreside processors are assured of their supply.
- Small quotas in 2002 and 2003 precluded any deliveries to the JV component.
- The Department of Fisheries and Oceans (DFO) manages the Canadian fishery with an Individual Fishing Quota (IFQ) system – called an Individual Vessel Quota (IVQ) in Canada.[4]

3.2. USA

- The US fishery is divided into four components:
  - Offshore at-sea processors
  - Offshore mothership processors
  - Shore-based vessels
  - Tribal
- The Pacific Fishery Management Council (PFMC) currently manages the US fishery with a permit-based, "free for all" system.
- But in November, 2008, the Council voted to adopt an IFQ-based system that would come into force in 2011.[5]
- The proposal would include:

  - Merging the shore-based hake and non-hake sectors of the groundfish fishery.
  - Managing the unified shore-based multispecies fishery with an IFQ system.
  - Managing the two offshore sectors (C-Ps and motherships) with an IFQ-like co-op system, in which the fleet must form co-operatives to receive a percentage share of the annual quota. The co-operatives may then distribute the quota to individual vessels at their discretion.
  - Impose "accumulation limits," which restrict the total quota share a company or co-operative can own (e.g. the halibut fishery caps fisherman at 1% of the total quota). The Council has yet to agree on the actual limit.
  - Require observers on all vessels.
  - Distribute 20% of the inshore Pacific hake quota shares to 30 land-based processors (i.e. they receive no quota for other groundfish species).
- Examples of these models in other US fisheries include:
  - Halibut and sablefish (IFQ)
  - Bering Sea pollock (co-operatives)
- The Council will finalize details of the IFQ system at its December, 2008 meeting.

3.3. IFQ systems

- Simply put, an IFQ system gives established users a guaranteed share of the annual quota to fish at their own pace.
- In other global IFQ systems, the terms of the quota shares vary, but in other US fisheries, IFQ shares are generally perpetual.
- Quota holders can buy or sell their shares.
- The goal of IFQ systems is to eliminate the competition for fish, so that fishers have an interest in the long-term health of the resource.
- Experiences in existing IFQ fisheries suggest that the system is largely effective in this aim.
- For fishers, the quota shares also mean they can fish at their own pace, which improves safety and spreads their income over the entire season if they choose.
- The downside of an IFQ system – again reinforced by existing examples – is that quota shares become exorbitantly expensive, discouraging new entrants.

- Whether or not it is considered positive or negative, consolidation is another common outcome as quota holders sell their shares.

4. HARVESTS[6]

PACIFIC HAKE HARVESTS, CANADA AND USA, 1997-2007 *all figures in '000s of metric tons (MT)*								
	USA				Canada			
Year	At-sea processors	Shore-based vessels	Tribal	Total USA	Shore-based vessels	JV at-sea processors	Total Canada	Grand total
1997	121	87	25	233	49	43	92	325
1998	120	88	25	233	48	40	88	321
1999	115	83	26	224	70	17	87	311
2000	116	86	7	209	6	16	22	231
2001	102	73	7	182	32	22	54	236
2002	63	46	23	132	51		51	183
2003	67	51	25	143	62		62	205
2004	90	89	31	210	65	59	124	334
2005	150	74	35	259	85	15	100	359
2006	138	97	35	270	80	14	94	364
2007	107	67	30	204	65	7	72	276

- The fishery has been active since the 1960s.
- In the late 1980s, the US government nationalized its main fisheries (pollock is another example), pushing out foreign factory trawlers that had participated to that point.
- Harvests in the Pacific hake fishery began to rise to present-day levels during this transition in the late 1980s.
- Therefore, despite the fishery's relatively long history, comparing effort levels only works from the late 1980s onward.
- Since then, the fishery has followed a rough 10-12 year cycle from peak harvest to peak harvest.
- For example the most recent peak harvest was in 2006 at 364,000MT; the next most recent was in 1997 at 325,000MT.
- If this trend holds, 2007 marked the beginning of a cyclical decline towards a trough in 2012 or so.

[1] http://fishbase.org/Summary/SpeciesSummary.php?id=326
[2] http://www.dfo-mpo.gc.ca/csas/Csas/status/2003/SSR2003_032_e.pdf
[3] http://www.dfo-mpo.gc.ca/media/npress-communique/2004/pr29-eng.htm
[4] http://www-ops2.pac.dfo-mpo.gc.ca/xnet/content/MPLANS/plans08/2008_Groundfish_IFMP_Complete_Amendement_5_Sablefish_Season.pdf
[5] http://www.pcouncil.org/newsreleases/pr_trawl_rationalization.pdf
[6] http://www.pcouncil.org/groundfish/gfsafe1008/pacific_hake_assessment_2008_FINAL.pdf