

Fragmentation of the deep-sea trawling industry will come at the expense of beneficiation and jobs

This position paper examines three factors behind the success of the South African deep-sea trawling industry – sustainability, beneficiation and transformation – and presents a compelling argument against the further fragmentation of the fishery.

Fishing is a global industry and one in which the South African deep-sea trawling industry is successful and competitive. In spite of the fact that South Africa produces less than 2 percent of the global catch of whitefish (approximately 140 000 metric tons per year), South African producers are highly regarded on international markets and Cape hake competes successfully with cod and haddock – the benchmark whitefish species.

Three factors contribute to this South African success story:

- The South African hake resource is well managed and sustainable. Producers have worked with government to establish a science-based system for setting the annual total allowable catch (TAC) and for managing and monitoring landings.
- South African hake producers have succeeded in positioning Cape hake as a premium whitefish species. They have done this by adding value to the raw material and developing a diverse and sophisticated product offering for retail and foodservice markets, both locally and internationally. (All value-adding takes place in South Africa.) The certification of the trawl fishery for hake by the Marine Stewardship Council has allowed the industry to penetrate markets in northern Europe where MSC certification is highly valued.
- Fundamental structural change has taken place in the industry in response to government’s policies on broad-based black economic empowerment (BBBEE). Prior to 1990, the industry was dominated by a handful of white-owned conglomerates, but today the picture is very different: the bigger companies have been transformed at the shareholding and management level (most have also introduced employee shareholding schemes) and a number of small- and medium-sized, majority black-owned companies hold rights in the fishery and are operating successfully¹.

Economy of scale

The larger companies in the industry are said to be “vertically integrated”, meaning they own the vessels and assets to catch, process and market their catch. Smaller companies are typically not vertically integrated but it is common for them to work with the larger companies through joint ventures or catch agreements. Such arrangements benefit smaller operators because they reduce the risk of doing business with a single vessel; they benefit larger operators because they enable them to secure much larger volumes of hake than they hold in a quota.

Large volumes justify investments in catching, processing, marketing and administration. Hake fishing and processing demand sizeable overheads (fixed costs) because they require vessels, fuel, labour, skills, space, machinery, electricity and water. To make an investment in vessels and processing assets worthwhile, the volume of hake that is processed and marketed needs to be sufficiently large so that the overheads are spread as thinly as possible. (With large-scale operations, the economic concept of economy of scale comes into play and average costs are lower.) From a purely marketing perspective, large volumes of hake and certainty of supply allow fishing companies to secure fixed contracts with international customers. These contracts cushion producers from currency fluctuations and boost profitability. A profitable and internationally competitive industry generates valuable foreign exchange and corporate taxes for South Africa.

Further fragmentation of the industry will impact beneficiation and jobs

The deep-sea trawling industry is a “mature” industry in the sense that profits have long been based on sustainable harvesting rather than mining down the resource. Moreover, TACs are relatively stable and there are no prospects of a major increase in the size of the resource. Allowing new entrants into the fishery by reducing the tonnages of established right-holders will create “paper quota holders” who will be forced by marginal tonnages to enter into quota renting arrangements with existing players to catch, process and market fish. This will not create jobs or add value, but rather lead to:

¹ A report produced by independent economists, Genesis Analytics, in 2018 found that historically disadvantaged persons (HDPs) currently hold approximately 66% of the shares in the firms that harvest 90% of the HDST catch, and most likely the same or higher amongst the remaining smaller firms. Shareholding by HDPs has more than doubled since 2005.

- a shrinking of margins and a consequent lack of re-investment in the fishery;
- less beneficiation because the major processors will not be able to secure the volumes of hake required to produce a wide diversity of products;
- a less competitive industry and a consequent shrinking of demand from international retail markets;
- an increase in the quantity of commodity hake products produced for export and a drop in the value of exports;
- a drop in the number of onshore processing jobs;
- a drop in the foreign exchange and corporate taxes generated by the industry;
- possible consequences for fisheries compliance because a large number of right-holders is difficult, if not impossible, for the fisheries authority (Department of Agriculture, Forestry and Fisheries) to properly monitor and manage.

The fundamental structural changes that have taken place in the industry over the past 25 years have been accommodated by right-holders and the industry has remained profitable. This has largely been as a result of the fact that small and larger right-holders have pooled allocations and assets through a system called “clustering”. However, the success of the cluster system is predicated on at least one member of a cluster holding sufficiently large volumes of hake to justify investments in fishing and/or processing. A cluster of small right-holders who between them cannot secure sufficiently large volumes of hake are unlikely to invest. Nor are larger right-holders who are required to enter into quota renting agreements to secure the volumes they need to justify their investments likely to invest.

Without continued investments in fishing and processing assets, the industry will lose international competitiveness and it will no longer be able to service high value retail and foodservice markets. The net result will be that each right-holder will trade in small quantities of low value commodity products.

In conclusion, long-term fishing rights provide a secure platform for investment and incentivise the responsible management of the resource. Attempts to further fragment the deep-sea trawling industry will encourage short-term rent seeking and result in a less competitive and less profitable industry. When considering the further restructuring of South Africa’s deep-sea trawling industry, government must take into account the serious repercussions its actions may have on the coastal and national economies.

Other position papers and factsheets in the SADSTIA series:

SADSTIA. 2016. Economy of scale and the danger of fragmentation to the South African deep-sea trawling industry. SADSTIA Position Paper No. 1. Available at www.sadstia.co.za/publications-and-media/

SADSTIA. 2016. Employment in the Hake Deep-Sea Trawl fishery. SADSTIA Factsheet No. 2. Available at www.sadstia.co.za/publications-and-media/

SADSTIA. 2016. Transformation in the Hake Deep-Sea Trawl fishery. SADSTIA Factsheet No. 4. Available at www.sadstia.co.za/publications-and-media/

References

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- Ferrandi, D.C.** 2015. Industrial organisation in the South African deep-sea hake trawl sector: a taxonomy. Paper submitted in partial fulfilment of the requirements for the Degree Economics Honours. School of Economics, University of Cape Town. 21 pp. Available at <http://www.sadstia.co.za/publication/industrial-organisation-in-the-south-african-deep-sea-hake-trawl-sector-a-taxonomy/>
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Unlocking the value of the Cape hake resource