Hake Industry on Threshold of World Markets

By Cathy Blatt

“...all our fishing companies and 98% of our trawlers meet the requirements of the European Union (EU),” said deputy minister of Trade and Industry, Wilfried Emvula when he visited Walvis Bay in June 1996 with Dr Abraham Iyambo, deputy minister of Fisheries and Marine Resources.

In the short time of seven years since independence, the Namibian fishing industry has revamped trawlers and existing factories and built new factories according to the stringent hygiene regulations stipulated by the EU.
Before independence and the declaration of an EEZ of 200 nautical miles, Namibia had little benefit of its rich hake resource. Namibia’s outdated boats were no match for the fleet of foreign freezer trawlers ploughing up and down the coast line and taking their bounty to home ports. Considering that the official figures of foreign hake catches were accepted to be understated, the figures available for the catches of pre-independence years, particularly 1972 (800 000 tons!) are breathtaking. Of the three hake stocks prevalent in the Benguela system, namely the Merluccius polli, the Cape hake (Merluccius capensis) and the deepwater hake (Merluccius paradoxus), the Cape hake is the most important.

Wetfish and freezer quotas
The Namibian government, in its desire to create employment opportunities, has split the total allowable catch (TAC) for hake with 50% of the quotas allocated to the wetfish industry (land-based processing) and 50% to the freezer industry (frozen at sea). With the 1997 allocation for hake, the wetfish quota was increased to 56%, designated for onshore processing. There are three categories of quota holders, frozen only (ten companies), wetfish for processing on land only (13 companies), part frozen and part wetfish split into the 50:50 formula (ten companies).

Frozen-at-sea products, preferred and in high demand at the market place, are generally regarded as profitable. The wetfish quota, being labour and capital intensive with three thousand new employment opportunities having been created, has caused a dilemma for the industry. Contrary to the pelagic industry, which had its processing capacity in place before independence, the white fish industry needed a huge capital inflow to establish an enabling environment, especially to meet the stringent EU quality control requirements for exports to Europe.

Strong investment programme
More than N$600 million has been spent by the industry in the last few years with impressive results. With Walvis Bay still under South African control after independence, Pescanova built its factory in Luderitz. Given the isolated location, poor logistics and underdeveloped infrastructure of the town at the time, a larger investment promoting self-sufficiency was required. Also located at Luderitz, Lalandii, owned by Sea Harvest, renovated an unused crayfish factory to an amount of N$15 million which can now process 12 500 tons of whitefish annually. Seaflower Corporation, a subsidiary of Fishcor, likewise refurbished an unused crayfish factory at Luderitz. Fishcor is a government-owned concern.

The smell of money, so strong in the streets of Walvis Bay, certainly was not on account of the fishmeal processing for which this harbour and fishing town is so well known. The frenzy of enthusiastic building programmes commissioned by the industry revived a supporting industry reminiscent of the booming 1960s when the pilchard industry was at its peak. Consortium of the Ohlthaver and List group, spending N$25 million, built a brand new factory, Foodcon. Kuiseb Fish Products, owned jointly by Naras Investment (Pty) Ltd and South Africa’s Irvin and Johnson, built facilities capable of processing 10 000 tons of whitefish a year.

Tunacor invested N$24 million for a giant plant capable of processing 20 000 tons a year. Northern Fishing Industry, a pioneer of the whitefish industry and part of the Namfish group, rebuilt and renovated an unused factory and constructed a N$2.5 million concrete quay. Raphael Gabeiras, managing director of Cadibu Fishing, a subsidiary of the Vieriras Group in Spain, says that his company and the Commonwealth Development Corporation, have invested N$47 million in a factory (excluding trawlers).

Where there had been no hake processing plants in 1991, Namibia had thirteen hake wetfish processing plants by 1996. All trawlers and factories comply with EU specifications according to the HACCP system. A number of factories have installed their own quality control laboratories.

Besides high investments in factories, equipment and training, the onland processing also focused the industry towards the improvement of long neglected social needs such as providing acceptable housing and recreational facilities for a migrant labour force.

Namibia today can take its place among the great fishing nations of the world with pride as the industry boasts the most modern factories equipped with the latest processing technology. Yet, the satisfaction, in monetary terms, of seeing the new profitable Phoenix arise from the ashes of foreign trawler exploitation, has eluded the industry.

Environmental changes in the rich Benguela system put an end to expectations of a steady recovery of hake stocks. These hit the industry, stripped of cash by ambitious rebuilding programmes, simultaneously burdened by direct and indirect taxation, before it was able to rebuild its reserves to weather a rainy day.

Recruitment collapse of 1993 and 1994
The fish distribution and biomass estimates undertaken by the Dr Fridtjof Nansen for November 92 and January 93 supported the notion that Namibia was successful in its resource management policy. The Fridtjof Nansen programme with two surveys undertaken per year by the research vessel Dr Fridtjof Nansen was at the forefront of the assessments of the hake stocks since independence. Says Tore Strømme of the Institute of Marine Research, Bergen: “The situation in November 1992 was very promising with numbers and biomass heading upwards. We had an extraordinary rich recruitment of about five billion hake all along the coast but concentrated in the Walvis Bay region and estimated to be half a million tons. At the same time we had in the deeper depth range an adult biomass of 390 000 tons which was in a very good condition. The average size of hake was around 40 cm in length.

“When we returned in January-February, two months later, the situation had changed drastically. In this survey the fish had moved partially offshore and the biomass of young fish was reduced from 500 000 tons to 250 000 tons. This was a reduction in number from about 5 billion to 2.2 billion fish.”

Prof Peter Woodhead of the Marine Science Research Centre, Stony Brook New York, H Hamukuaya and M O’Toole, scientists of the Ministry of Fisheries and Marine Research, T Strømme and G Sætersdal aboard the research vessel Dr Fridtjof Nansen concluded that widespread anoxia in shelf bottom waters had trapped young hake killing two thirds of two to three year olds in the summer of 1993. Widespread loss of hake of this catastrophic magnitude had not
been reported ever before. There are other experts who believe that the fish migrated to areas within the Benguela system.

During the greater part of 1994, severe anoxic conditions again prevailed over much of the bottom and near bottom waters of the central Namibian shelf region (21° to 24°S) disrupting the normal distribution patterns of hake. To make matters worse, the coastal sea temperatures at Swakopmund, 22°S, were an extraordinary 4°C above their 1967 to 1994 mean of 17°C throughout late January. Successive trawl surveys showed that small and medium-sized hake were displaced from inshore waters across the central shelf into deeper waters. At the shelf edge, populations of small and medium fish were found mixed with large hake and a corresponding high incidence of cannibalism was recorded.

Fishermen have questioned whether the obligatory hammermills, installed aboard all trawlers to enforce the no dumping policy of the government, could have contributed to the low oxygen values. Hammermills grind heads and offal, previously dumped, into a fine meal, which is then thrown overboard. Scientists, however, discount this possibility.

Tore Stromme concluded that a better understanding of the relationship between the environment and “hake recruitment was of vital importance as it would contribute towards the inclusion of an environmental risk factor” in the management of hake stocks.

Woes of the wetfish industry
The much awaited increase in TAC for 1996 has not materialised. The industry landed only 111 000 tons in 1994 and 125 440 tons in 1995 instead of the allowable 150 000 tons of hake. It is doubtful whether the full 170 000 tons for 1996 was landed.

With the departure of foreign trawlers and predictions by scientists that a total allowable catch of 300 000 tons was feasible by the year 2000, one cannot blame the industry for letting their enthusiasm, at the prospects of catching hake previously caught by foreign trawlers, influence their investment and building programmes. According to figures released by the Ministry of Trade and Industry, onshore processing capacity stands at 160 000 tons whereas the wetfish quota allocation was a mere 66 000 tons for 1995. The hake stock is essentially in a reasonable state but the increase of TAC, so eagerly awaited, did not materialise on account of the recruitment failure of 1993 and again in 1994. In 1997, the biomass of adult hake is at the same level as at independence.

The Namibian government, viewing the fish resource as a national asset and in accordance with its policy to let those previously disadvantaged share in this resource, issued a substantial number of smaller quotas (now dubbed paper quotas) to newcomers in the fishing industry. The hake fishing industry, particularly in Namibia, is a “low margin, high volume business”. Most fishing factories, except Pescanova, now NovaNam, the largest quota holder, have a quota far below the required throughput to enable a profitable operation. Negotiations for the paper quotas, at times priced at unrealistic levels, continued until insufficient time remained for the catching effort. Of the original fifteen newcomers issued with wetfish quotas, less than a handful have survived without merging or entering into joint venture agreements with larger companies. Of these, two catch their hake by longline method.

According to fishermen a further contributing factor for not having landed the allocated quotas was that the upgrading to comply with HACCP requirements left fleets and processing plants out of action for four months of the fishing season.

Holders of freezer quotas have been doing well and have been able to use their earnings for the purchase of boats. In this case, the objective of government to actively involve newcomers in the fishing industry, has been successful.

Research has indicated a decline in the inshore hake stock, Merluccius capensis. The establishment of wetfish quotas resulting in trawlers operating as close as possible to processing plants, may have led to pressure on this species. The deepwater hake stock, Merluccius paradoxus, has maintained its 1995 levels. Towards the end of 1995, when figures of recorded landings showed that the wetfish quota would not be fulfilled, the Namibian Hake Association appealed to the Ministry for more flexibility regarding the conversion of wetfish quotas into freezer quotas. This request was not granted in 1996.

Quota fees
Though there is understanding in some quarters for government’s management policy to tax at source, many quota holders would like to see quota fees adjusted on a sliding scale to world market prices. Others argue that there were no hidden agendas as the quota fees were known when applying for quotas. Quota fees were set in 1991 when hake prices were relatively high. In 1993 prices were down by between 30% and 40% of the 1992 prices due to market resistance against the price of hake resulting in product substitution. To combat substitution, prices were lowered again thus compounding problems for an already cash-stripped industry.

Summary of quota fees
- For a Namibian-owned trawler permanently based in Namibia, 51% Namibian-owned and carrying a 80% Namibian crew, the quota fee is N$400 per ton;
- For a Namibian-based vessel, that is registered in Namibia, and permanently based in Namibian waters, flying the Namibian flag, less than 51% of its ownership held by Namibian citizens and less than 80% Namibian crew the quota fee is N$600 per ton of hake;
- The quota fee for a foreign vessels is N$800 per ton.

A company holding a wetfish quota is given a rebate of N$200 per ton for hake landed on ice for further processing on land. A bone of contention is that this rebate is given on the landed part of the quota only and not on the uncaught part for which the fee will be the original amount for processing on land. Fishermen feel that as it is in their interest to catch the full allocated quota, inability do so should not be penalised if this is due to unfavourable environmental conditions. The Ministry of Fisheries and Marine Resources, recently announced as a relief measure that the fee on the uncaught portion would be waived, should more than 20% of the TAC for a fishery not be landed.
Quota fees are payable in four equal instalments in March, May, July and December. Prior to 1994 the higher costs of landing wetfish could be offset in some measure by catching quantities of mionk and kingklip. However, punitive bycatch fees have ended this possibility.

The fishing industry is burdened by fuel oil duties that increase the cost of gas oil by US $70 per ton. The government announced a reduction in fuel levies in February 1997 but legislation has so far not been enacted to offset this much-needed relief to the industry.

The industry pays the salaries of government fisheries observers present on most vessels, a rather strange practice of making the industry directly responsible for salaries of the “policemen” monitoring its activities. This and research levies paid into a research fund add to the expense package.

The combination of relatively low quotas (with poor prospects of these being increased in the near future), quota fees, high fuel costs, fuel levies, research levies and cash flow difficulties caused by the exorbitant amount of start-up investments in shore-based operations, coupled with poor export conditions in Europe in 1992 and 1993, have contributed to massive losses incurred by the wetfish industry. Companies which, in association with mother companies or partners, were able to export under a brand name into the retail market fared better than those who exported frozen headed and gutted hake in 10 kg cartons or filleted hake to the wholesale and catering market. With no relief in sight, it is feared that losses incurred by the wetfish industry might prove to be insurmountable in the future. An article in the Financial Mail dealing with the Annual Report of the South African giant, Irvin and Johnson, cites that the company was absorbing the N$20 million loss suffered by its Namibian subsidiary, Kuiseb.

Peter Kuttel, chairman of the Namsea Group, elaborating on the disappointing results and the loss of N$9 117 000 by the Group for 1996, attributed this to “the total absence of pilchards in both Namibian and Angolan waters, as well as the poor catches of the hake sector, coupled to lower prices on export markets”.

In a media briefing in October 1996, Fisheries Minister Hifikepunye Pohamba commented: “In the two years from 1993 to 1995, the volume of landings fell by over 20% but the value of the production increased by 30%. Part of this increase is due to the continuing decline of the Rand and the value of the Namibian dollar, which increased earnings for producers exporting outside the Rand monetary area. The other major factors are the success of the Namibian industry in diversifying into new markets such as the development of a regional market for horse mackerel and the increase in sales of hake to the United States and the very substantial progress that is being made in adding value to fish products, especially in the hake sector.”

The windfall of the falling Rand is offset to some degree by rising costs, especially of imported equipment required by the industry.

Quo vadis?
Clearly, the exploratory time of “getting to know you” is over. The industry has “already got to know” how best to accommodate the new working circumstances and how to meet the challenge of not having high profit margins to help them over lean fishing periods.
Under the present difficult circumstances, it is doubtful whether the industry can contribute towards employment generation to the extent forecast in the initial reconstruction period. According to Namibia’s first National Development Plan (NDP1) the target for employment was set at 21 000 by the year 2 000. Since 1995 the wetfish industry labour force has declined from a peak of 9 000 in 1994 to the present 6 700. With the severe losses, wetfish-processing concerns with low quotas are at crossroads of either closing down or increasing their value-adding capabilities. The joint venture agreement between Kuiseb Fish Products, (partners Naras Investments (Pty) Ltd and Irvin & Johnson Ltd) and Consortium Fisheries Ltd, a subsidiary of the Ohlthaver and List Group, could well be the beginning of a series of factories entering into merger agreements. In a joint statement, Mr Festus Naholo, chairman of Kuiseb Fish Products, and Mr KWR List, chairman of the Ohlthaver and List Group, said that they had joined forces to overcome difficulties resulting from subeconomic quota allocations and poor catch rates.

In the new company, Hangana Seafood (Pty) Ltd, Ohlthaver and List, through Consortium Fisheries, will hold 60% of the shares whilst the partners in Kuiseb will own 40% of the shares. Hake processing and value adding will take place at Foodcon, and Kuiseb will process landings by freezer trawlers, as well as engage in fresh fish exports.

At the time of going to print, discussions on a possible merger between Fishcor and Lalandii were underway.

Several companies have entered the high value fresh fish market in Spain. Namibian hake, especially the deepwater hake *Merluccius paradoxus* is held in high regard for its excellent quality and firm white flesh, second only to *Merluccius australis*. However, fresh fish export is a high-risk business, prices vary from one day to the next and from market to market. As one fisherman put it: “You make NS$50 000 in one week and lose it the next week.”

It could cost a company up to NS$40 million to establish and market a new brand product. At present only four companies are active in the retail market, namely: Kuiseb under the Irvin and Johnson and Frudesa of Spain brand names; Lalandii under Sea Harvest; Foodcon, a wholly-owned Namibian company, entered the retail market in Namibia as well as processing for retail outlets under contract; Cadilu under the Vieira brand name; and Pesanovia, now NovaNam, selling its products under the Pescanova label in Spain.

Says Angel Tordesillas, managing director of NovaNam: “Our retail consumer packs and production of branded products now make up 40% of our factory throughput and will exceed 50% by mid-1997. As far as the onshore wetfish processing is concerned, this means our economic survival.”

It has been suggested that exporting 40% of the Namibian hake total allowable catch in catering packs and 60% in retail packs would double the value of the TAC. To process such a big proportion in retail packs would require further investments of millions of dollars. At this stage, it is unlikely that the industry can provide the capital for this development.

Namibian enterprises have always been fiercely individualistic and self-reliant. Namibia must be one of the few nations of the world where one and the same company undertakes “catching, processing, packaging and selling”. Perhaps the time has now come for cooperation with one
another resulting in the pooling of resources towards value-adding capabilities.

For the Ministry, the present difficulties present an opportune time to assess whether the policy of direct and indirect taxation structure can sustain the long-term goals of truly Namibianising the industry and creating employment without compromising the diversity of players in the processing field. Fisheries contribution to the gross domestic product grew from 3.4% or N$165 million in 1989 to 9.3% or N$784 million in 1995. Fisheries contribution to exports grew from 7.6% or N$262 million in 1989 to 22.9% or N$1 368 million in 1995. The wetfish industry has provided new employment for 3 000 workers. In comparing 1989 statistics with those of later years, one should take into account that Namibia’s commercially important marine resources like hake, horse mackerel and crab, became available to the local industry only after Independence in 1990.

Judging by the impact of the demise of the lobster resource in 1992 on Lüderitz, which subsequently almost turned into a ghost town, and the collapse of the pilchard resource in the 1970s on Walvis Bay, the indirect contribution of the industry in monetary terms and employment opportunities is substantial.

According to FAO fishing statistics marine fish production has remained static since 1989. Forecasts for the year 2010 are that the demand for fish products will increase by 19 million tons. In order to relieve pressure on fish resources worldwide and to ensure sustainable fishing into the next century, a proposal (fiercely resisted by Ireland and Spain) has been made for a 40% reduction of quotas to member countries of the EU. The expected price increase could bode well for Namibia’s beleaguered industry provided the resource recovers as expected.

The latest recruitment figures for hake are encouraging and indicate that the recovery process is under way. Namibia’s hake industry is well-placed at the threshold of world markets. Namibia has earned international respect for its sustainable resource management. The timely implementation of a “Marshall Plan” for closer cooperation between the Ministry of Fisheries and government scientists on the one hand and the industry on the other hand can secure, for the future, a sustainable biomass which today despite present setbacks is still a rich resource.

The experiment in which government scientists and fishermen, with their trawlers Kaïma and Escholar, have joined hands for research purposes to establish catch rates of different nets and catch selectivity of different trawls is a good beginning. A further joint research trawl with metal grids at the top end of the codend will be conducted in November 1997.

The industry, if assisted in overcoming present difficulties, is well placed to meet the high expectations of creating employment and generating foreign exchange and revenue for state coffers. Its factories comply with the most stringent international specifications and the quality of Namibian hake, feeding on the rich Benguela system, is superb.

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The Namibian Hake Fishing Association

The Namibian Hake Fishing Association, founded in 1992, represents 25 of the 37 hake quota holders. Membership of the Association is open to any hake quota holder.

The Association proposes frequent consultations between members of the industry and the Ministry in order to solve ongoing difficulties experienced especially in the area of fishing regulations.

The objectives of the Association are:

- to protect and further the interests of the Namibian hake fishing industry;
- to provide opportunities for collaboration and discussion between members;
- to provide other essential services to the hake fishing industry;
- to negotiate (jointly on behalf of all members) with all government departments in order to further protect the interests, advancement and stability of the Namibian hake industry;
- to encourage responsible fishing practices by members by pursuing fishing and other activities and practices with due regard to recognised conservation concepts and requirements.

The Association elects a chairperson and two vice chairpersons, one of whom must be from Lüderitz to ensure fair representation of members from Walvis Bay and Lüderitz-based right holders.

At present, Lüderitz-based Pescanova Holdings, now NovaNam Ltd, the single biggest quota holder for hake, is not a member of the Association. Managing director Angel Tordesillas has proposed an umbrella organisation or national body, which would incorporate an association of Lüderitz-based members and a similar organisation for hake concessionnaires based in Walvis Bay.