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Russian Alaska Pollock
Update on quota, production trends and product/trade flow
And challenges and opportunities for the next three years

I was asked to talk about Russian Alaska Pollock, to given an update on quota, production trends and product and trade flow and to evaluate challenges and opportunities in the coming years. In order to this I will split the presentation into four parts:

1. Russian fisheries management
2. Annual quotas and catch
3. Production
4. Markets and selling activities

Before I start I would like to give a short introduction to my background and the company I work for, Ocean Trawlers, and the role Alaska Pollock plays in it´s operations.

OT, operations in harvesting, marketing operations, APO ownership and production

1. Alaska Pollock fishing stocks in the Russian EEZ

Now I turn to the Pollock in Russian Waters and start with the fishing stocks and the Russian fisheries management. Alaska Pollock is the largest stock of so called white fish species with an annual catch of over 3m MT, of which over half comes from Russia. Supply from Russia is therefore vital for the seafood industry in many countries.

The MSC certifier of the Pollock fishery in Sea of Okhotsk Moody states (check on what they said exactly), that Russia and prior Soviet Union operate a very good scientific research on its stocks in the EEZ. This picture describes the process from marine research to allocation of quotas in Russia. It is a long process, which involves many institutions and consultation with the industry. There is not time to describe this in detail, but this process is similar to what takes place in many other countries. Moody mentioned though one difference and that is that the research institutes use the experience of private companies less than is done in other countries. One reason behind this is that the scientists should be independent from the private harvesting companies in their work. But TINRO does use external vessels, e.g. for setting the 2014 quotas TINRO undertook 55 expeditions on own vessels and 10 voyages on vessels the outsourced. (check with SS).

There is an annual TAC set for individual fishing zones and the TAC is allocated as a percentage for each vessel of the annual TAC. It is based on an agreement,

which commenced in 2008 and is valid for ten years. It is not clear if the agreement will be prolonged after 2018 or if there will be made some changes to the allocation of TACs.

The picture shows the Russian Pacific EEZ. This is a huge area (how large?) and Pollock is harvested over most of it, but mainly in 2 parts of it: The Sea of Okhotsk and West Bering Sea.

For many years, foreign vessels were fishing in the so called Peanut hole, the area outside of the 200 miles EEZ in Sea of Okhotsk, and large volume was caught by many countries until it was stopped from 1993 by an agreement reached in 1990. In 2013 it was recognized, that the Peanut hole was part of the Russian EEZ.

Annual quota for Alaska Pollock is this year 1,614,000 MT with 869,000 MT in SoO, 393,000 MT in WBS, 113,00 MT in East Kamtchaka, 225,000 MT in North and South Kuril area and 14,000 in other areas. In my presentation I will split the discussion between the 2 main areas, but the SoO was MSC certified last year and WBS is under assessment for MSC certification. (2 areas)

On the basis of the MSC certification the harvesting companies have committed themselves to a more stringent control of their fishing and production methods at sea. It will possibly have influence on the size and volume of the roe production, which is an important source of revenue for the fleet, and the production of mince. This is an important development for the industry and good for the long term supply of Pollock. It should also speed the process of the application for WBS.

2. Quotas and catch

Let us now turn to the harvesting of Pollock, annual quotas and catch in the Russian EEZ.

The annual quota is split between coastal fishery, which has about 16% of the annual TAC, and industrial or offshore fishery with the rest (check latest split, SS). There are about 100 vessels that catch the Pollock quota and they are of different sizes, but most of them are medium sized trawlers like Sterkoder types.

The picture shows the harvesting seasons but are as follows: The A season in the SoO is from 1. January to 1. or 10. April, depending on area, when spawning starts. The B season is in the WBS from middle to end of May to the end of the year. From middle to end of October the fleet can catch what is left of the A season quota in SoO. (SS, confirm).

The picture shows the quota and catches in the SoO from 1984 to this year. It can be seen that fishing was between 1.5 and 2m MT until 1996 and a low was in 2004 with catch of only 420,000 MT. Since 1997, catch has been more or less in line with set quotas. The TAC has been going down since 2010, when it was

1,058,000 MT, to 869,00 MT for this year. First indication for next year is a reduction of about 32,000 MT.

About 80% of the catch is by vessels that are MSC certified, but 100 vessels are members of the Russian Pollock Catching Association.

The next picture shows similar figures for the WEB from 1999 to this year with annual volume between 650 and 800,000 MT.

There has been considerable consolidation in the Russian Pollock fisheries in recent years, which is the same as has taken place in other countries where a quota system has been implemented. It is likely that today 6 companies control about half of the Pollock quota in the Russian EEZ.

There is a big difference between harvesting in Russian and the US. FAS production is dominating the Russian catch while freezing at sea has less than half of the allocated quota and caught by only 19 vessels. And these vessels are much larger and better equipped for value added production than in Russia, where only one vessel is over 100m and the rest are medium sized trawlers, around 60 meter long. For Russia, the opportunity is to invest in large vessels for production at sea and to increase landing of fresh Pollock for processing on land.

3. Production

Let us now turn to the production of Pollock. Even though the production in Russia is dominated by FAS production, about 50,000 MT are landed annually fresh in Russia, probably from the North and South Kuril areas, but land production is on the Kuril Islands as well as in other areas.

The coastal quota, which was 267,000 MT in 2012, was supposed to be landed fresh, but rules have changed and it could also be frozen at sea but then landed for further processing in Russia. It is likely that this volume is consumed mainly in Russia.

My attention will mainly be on production at sea and what is exported. Of the 100 trawlers, 25 have the possibility to fillet the Pollock and this has not changed much over recent years. Except one vessel, they are all typical medium sized trawlers like we know from the North Atlantic, 60-65m long and can carry around 400 MT of products. This is very different to the American fleet (get information about their size).

Last year´s production of FAS Pollock looks like this (10 months):

Total: 865,500 MT

- H&G – 613,000 MT
- WR – 144,000 MT
- Fillets and mince – 34,500 MT
- Roes - 32,000 MT

- Milt, Liver – 7,000 MT
- Fishmeal and Oil – 32,500 MT
- Surimi – 2,000 MT

Distinguish between SoO MSC certified production and other production.

The Russian fleet produces raw material for further processing and commodity products, which are not very different to what other produce, and competition is therefore mainly on one variable, price. The opportunity for Russia is to move away from these products and to develop more production of fillet products, whether it is through more landing of fresh fish for processing on land or produce more interleaved fillets at sea. The industry does not have to look far, this is what the Russian fleet has done in the Barents Sea, reduced the production of h&g cod and haddock and increased the production of fillets of all kinds. The picture shows some possible products.

- Opportunities
    - New products > interleaved fillets
    - Increase the share of fresh landings in order to produce more on land > New products and markets
    - Learn from Barents Sea cod
        - > More fillet production instead of h&g
        - > Broad range of fillet products, skin on and pbi
        - > More grading
    - Learn from Iceland
        - > Use all raw material, freeze heads for drying

What lies ahead, where are the opportunities for the industry? It is not likely that the production pattern will change much in the coming years. Producing h&g is working well and the price of blocks and associated risks does not justify increasing their share of the production by any considerable volume. The size of vessels they have limits what is possible. A major change would mean investing in large trawlers, similar to the ones the US harvesting industry has and/or to build up production on land.

4. Markets and sales activities

In this last part we will turn to sales and marketing of Russian Pollock products.

Main markets:

- H&G
    - China
    - Korea
    - Russia
    - Other
- WR
    - Korea

    - Africa
- Fillets and mince
    - Europe
    - USA?

Over the years, Russia has depended on traders to sell their products, the fillets and the h&g as well as WR. With the consolidation in the industry and less foreign ownership, this has and will change. Larger players are in a better situation to finance their production and inventory and to build up sales office on main markets. This will very likely lead to a positive change for the industry. But there are many challenges ahead and the main ones are:

- Dependence on China
    - China is losing out in secondary production of FAS fish
- The APO industry is too dependent on industrial blocks, a commodity
    - Few buyers of blocks in Europe dominate the market
    - Price is the dominating factor, not service, quality nor new products
- Mainly one season for filets in Russia

There are less than 5 weeks left of the A season in the Sea of Okhotsk and it has not been a good season. Huge increase in imports to Europe last year from USA and from Russia lead to inventory at the beginning of the season and the MSC certification for SoO has enabled buyers to wait and request lower prices than we have seen for many years. The situation for buyers and the US producers is changed, there is much more supply of MSC certified blocks, both from Russian producers and twice frozen from China and it will take this and maybe next year for the market to adapt to the new reality.

And when the WEB will be MSC certified (SS?), the share of non MSC Pollock will be small.

So what can or should Russian producers do in this situation? Here are a few possibilities:

- Control sales more and work more closely with customers to develop new products and markets
- Strengthen sales activities on main markets and break into new segments. Will we see Pollock fish and chips on traditional markets?
- Increase market knowledge in the harvesting companies.
- Product development is important, new products are needed to break into new segments and reduce dependence on h&g and industrial blocks.
- Russian origin shall stand for reliable supplies and good quality seafood. There are still too many that think that Russian origin is not worth advertising.
- New products, e.g. loins and portions, light salted fillets, etc.