

Economic study of the hake deep-sea trawl fishery



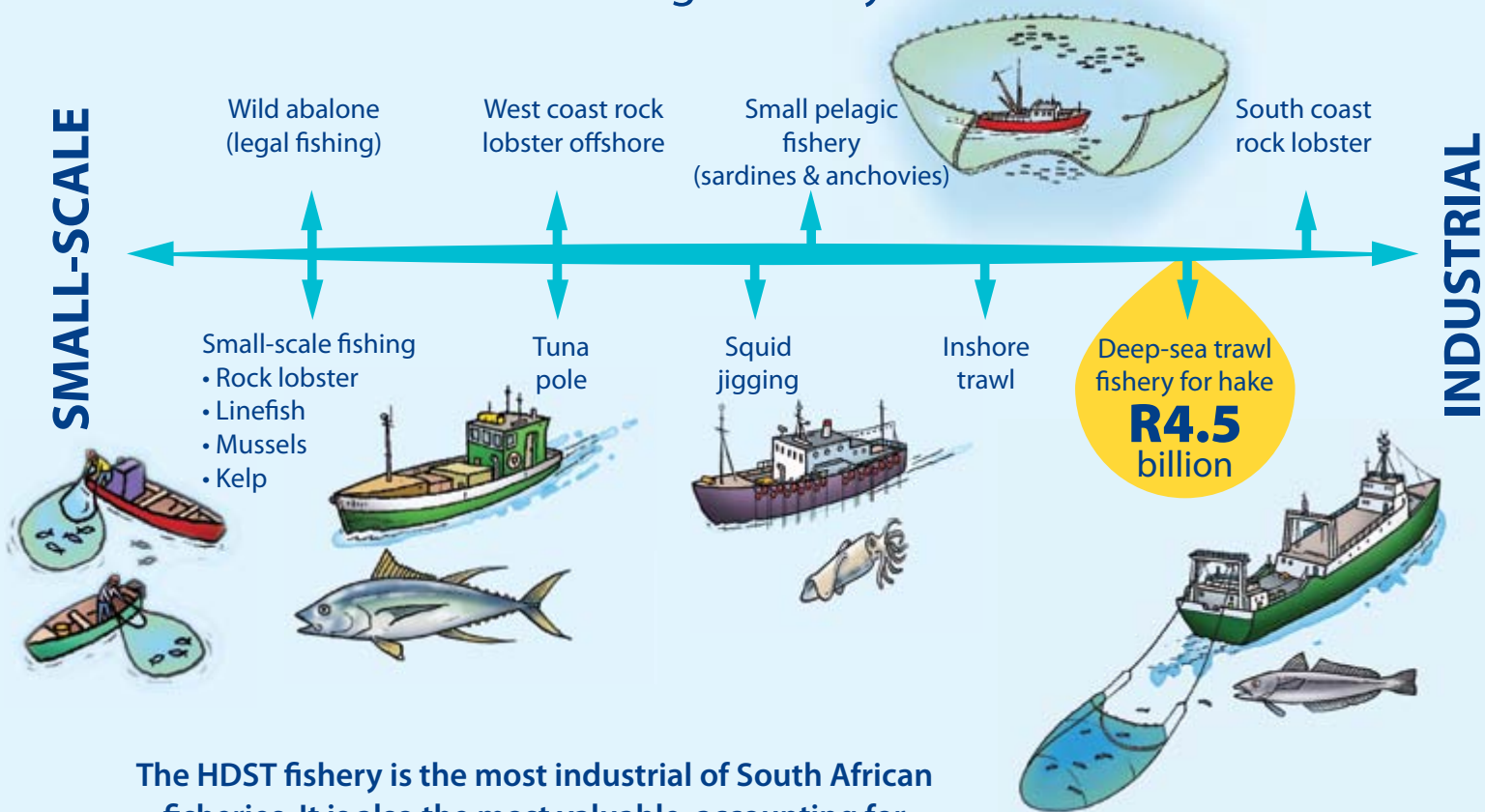
Key Findings

KEY FINDINGS

An industrial-scale fishery

The hake deep-sea trawl (HDST) fishery is an industrial-scale fishery. It does not overlap with small-scale fisheries, nor does it compete for resources with small-scale fishers - the fishery targets hake in deep, offshore waters that are inaccessible to small boats.

The South African fishing Industry

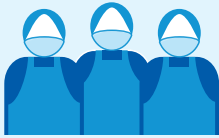


The HDST fishery is the most industrial of South African fisheries. It is also the most valuable, accounting for

R4.5 billion

in annual sales and approximately
45% of the value of the commercial fisheries.

KEY FINDINGS



Employment

5 201 permanent } 7 225 employees
2 024 part-time



Investment

Insured asset value of vessels and processing facilities = R6.6 billion
Total capital investment since 2005 (when rights were last allocated) = R3.8 billion



Value

Domestic sales = R1.5 billion } R4.5 billion per year
Export sales = R3 billion
Exports make up 67% of all sales



Wage bill

The total wage bill of permanent employees is R1.2 billion per year, growing to R1.9 billion when local economic multiplier effects are accounted for¹

- Sea-going employees earn R20 000 per month.
- Quayside and processing employees earn R10 000 per month, on average.
- The HDST fishery injects at least R468 million per year into smaller fishing communities.



Taxes

- Income tax = R268 million per year
- Municipal rates and taxes = R6.9 million per year

Rights holders pay further amounts to government in the form of utilities, registration fees and levies.



CSI spend

Social investment = R10.6 million per year
Between 40% and 50% of social investment is spent on education.

Supplier spend

Direct = R2.8 billion per year } R4.5 billion per year
Indirect = R1.7 billion per year



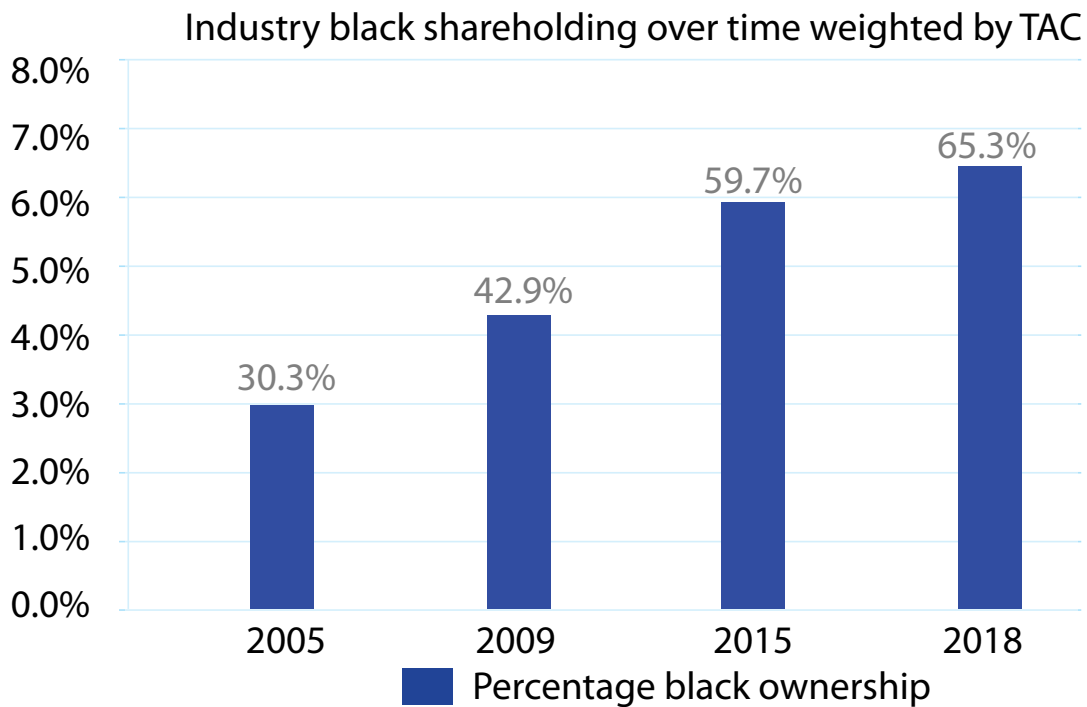
A large focus of supplier spend (>R335 million) is with exempt micro enterprises (EMEs) and qualifying small enterprises (QSEs).

¹ The use of the gross domestic product multiplier on the wage bill assumes that the annual average salary of the permanent employees is directed straight into the local economy, generating additional demand for goods and services in the market. Additionally, the assumption is that the wage bill is an upper bound because it does not exclude income tax and other salary deductions.

KEY FINDINGS

Transformation

Shareholding by historically disadvantaged persons (HDPs) has more than doubled from around 30% in 2005, when rights were last allocated.



Source: BEE certificate scores for SADSTIA members

Note: scores were weighted using 2018 TAC

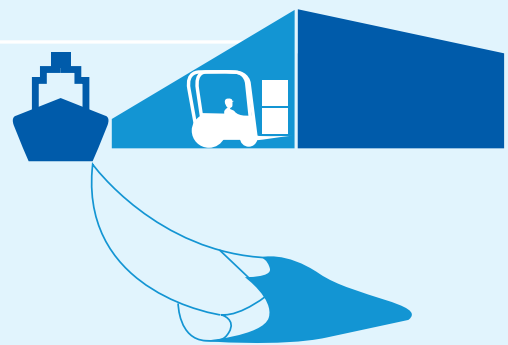
- HDPs currently hold approximately 66% of the shares in the firms that harvest 90% of the HDST catch, and most likely the same or higher amongst the remaining smaller firms.
- The top three firms in the HDST fishery are all level 1 B-BBEE contributors and the fourth is a level 2 contributor.
- The industry moved from an average B-BBEE score of approximately 80% in 2011 to approximately 100% in 2018.
- The industry generally scores highly on transformation of management, skills development and socio-economic development, and very high on enterprise and supplier development.



KEY FINDINGS

The HDST fishery is capital-intensive

Trawlers	R120 million to R250 million
Voyage costs	R1.5 million to R6 million
Safety surveys	R6 million to R10 million
Industrial scale fresh fish factory	R1 billion / R500 000 p.d. fixed costs
Value-add factory	R400 million / R250 000 p.d. fixed costs
Small quayside factory	R250 000 p.m. overhead costs



SME supplier spend

The HDST fishery spends significant amounts with suppliers that are defined as Exempt Micro Enterprises (EMEs) and Qualifying Small Enterprises (QSEs)

Total spend to EMEs and QSEs	R335 000 000
Total spend to EMEs and QSEs with 50% or more black shareholding	R188 700 000
Total spend to EMEs and QSEs with 30% or more black female shareholding	R87 200 000

KEY FINDINGS



Three different business models

The HDST industry has seen three different business models emerge over time, shaped by both the economics of the industry and the allocation of rights:

- Large industrial processors
- Medium-sized clusters
- Small and diversified operators

These business models are largely complementary, they target different markets domestically and internationally which ensures that no one market experiences over-supply and a pricing collapse.

‘ Diversification in terms of the products sold by the different players into different markets as a result of the three different business models is an important feature of the HDST fishery and one that contributes to its continued success and sustainability. ’

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KEY FINDINGS



Implications for the allocation of fishing rights

The Genesis Analytics report recommends that the policy that underpins FRAP 2020 should “factor in the characteristics of the HDST industry in order to ensure the multiple objectives of the MLRA are optimally achieved... This is of critical importance precisely because the HDST fishery is the most valuable and provides the greatest socio-economic contribution of all South African fisheries.”

Recommendations

- All applicants need to be compared and assessed against each other.
- The history of small quota allocations to un-invested new entrants in the HDST fishery demonstrates that entities in this category do not develop into independent fishing operations.
- The allocation of small quotas is likely to come at the expense of value-add, jobs and local economic development.
- Policy would be better placed supporting those that have demonstrably invested and are already building independent fishing companies.
- Now that the industry is more transformed, reallocation of rights to a new entrant pool will increasingly redistribute value from existing HDPs invested in HDST (including employees in employee share schemes).
- There would seem to be very little scope for a large allocation to a new entrant pool in the HDST fishery.
 - Even a 10% reduction in quota for existing rights holders will impact scale and unit costs, resulting in job losses and forced restructuring of business models.

Reallocation which undermines the ability to monitor and enforce resource conservation similarly has the potential to destroy substantial value in the industry.

KEY FINDINGS

The socio-economic contribution of the HDST fishery

Direct contribution = R4.3 billion per year
 Indirect contribution = R2.4 billion per year } **R6.7 billion per year**

Direct employment and capital contribution of the HDST fishery

Employment

Number of employees	7 225
<i>Permanent</i>	5 201
<i>Temporary</i>	2 024

Investment

Insured asset value of vessels and processing facilities	R6 649 000 000
Total capital investment since FRAP 2005	R3 807 000 000

Value of the HDST fishery (sales)

	R4 485 000 000
<i>Domestic sales</i>	R1 495 000 000
<i>Export sales</i>	R2 990 000 000

Socio-economic contribution of the HDST fishery

	Direct contribution	Indirect contribution	Total contribution
Wage bill	R1 184 000 000	R706 000 000	R1 890 000 000
Taxes			
<i>Income tax</i>	R268 000 000		R268 000 000
<i>Municipal rates and taxes</i>	R6 900 000		R6 900 000
Corporate Social Investment (CSI) spend	R10 600 000		R10 600 000
Domestic supplier spend	R2 820 000 000	R1 683 000 000	R4 503 000 000
Total socio-economic contribution	R4 290 000 000	R2 389 000 000	R6 678 000 000



SADSTIA

South African Deep-Sea Trawling Industry Association

www.sadstia.co.za

