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## Russian Federation

### Fishery Products

### Fishery Update

## 2008

**Approved by:**

Scott Reynolds  
U.S. Embassy

**Prepared by:**

Mary Ellen Smith, Steven Kovascics

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**Report Highlights:**

Russia's fishing industry is currently experiencing several serious challenges including an obsolete fleet, confusing regulations, lack of processing facilities, and dwindling fisheries. Despite significant hurdles facing the Russian fishing industry, traders continue to be optimistic about opportunities for 2009.

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Includes PSD Changes: No  
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## Executive Summary

Russia's fishing industry is currently experiencing several serious challenges including an obsolete fleet, confusing regulations, lack of processing facilities, and dwindling fisheries. An ever-worsening situation has resulted in a decline in total official catch for Russian boats of 56 percent over the two past decades. Despite these hurdles many of the more sophisticated traders remain optimistic. They believe recent government reforms particularly 10 year vs. 5 year quota allocations (GAINS RS8070) will help revive the industry. Additionally, the forecast for 2009 is optimistic. Analysts believe prices will remain strong and demand will continue to grow in both Russia and overseas.

## Aging Fleet

Russia's fishing fleet is woefully outdated. In 5-10 years the situation will be quite critical when approximately 90% of vessels will be over twenty years old and not equipped with modern navigation and tracking technologies and therefore unable to fish extensively in international waters. Most banks are unwilling to finance fleet modernization, as they consider the industry too big a financial risk. In addition, the inefficient old fleet results in increased fuel consumption. Fishermen report that fuel now amounts to 30 percent of the cost of their catch and Russia's ability to supply Pollack could not exceed 40,000 tons of fillets, because of lacking capacity.

Though the government has acknowledged the challenges and particularly the credit problem, it has thus far refrained from taking action to provide alternative sources of funding. However, industry is hopeful that the new quota system with longer-term allocations will increase certainty and help ensure credit.

## Dwindling Fisheries and Poaching

Poaching remains a serious problem in Russia. While there has been some improvement in Pollack and Cod, the situation remains dire for crab and sea cucumber and mussels. Illegal fishing of protected species, unlicensed foreign boats in Russian waters, and catches exceeding quotas continue to deplete fisheries and seriously impact legitimate fishermen. Although Russia banned the export of live crab in May 2007, large amounts continue to be smuggled out of the country, primarily to Japan, South Korea and China. More than 30,000 tons of crab were taken from Russian waters during the first half of the year and sold to Asian markets. The amount is already triple the legal quota for the year.

## Lack of Processing Facilities

Russia lacks fish processing facilities, which reduces the potential for adding value to the fish caught. Almost all Russian Pollack will be processed into fillets in China. It is hardly in a fishing boat captain's interest to haul his catch back to Kamchatka or Sakhalin when he could take it directly to processing plants in China, Japan, or Korea. Currently, exports of fish that actually make it back to Russian shores are in the form of unprocessed frozen fish. During the Soviet era the government operated both on-shore fish processing facilities and maintained giant processing ships offshore. Recent changes in Federal Fishing law will require all ships to return to a Russian port, prior to export. While traders view this change as adding costs and time, overall they are supportive as the end result will be a reduction in poaching.

## **Bureaucratic Challenges**

More than forty federal agencies regulate the fishing industry, often unpredictably, overstepping their mandates and issuing contradictory regulations. As one participant put it, "we need to fight more against the stupidity of bureaucrats than against poachers." For example, a bureaucratic disagreement over the interpretation of a new fishery law turned the 2008 Sea of Okhotsk pollack season into a disaster for many Far East fishing companies. The Northeastern Border Guard Directorate narrowly interpreted the new regulations and accused nearly all of the pollack fishermen in the area of poaching and other violations, detaining dozens of boats for weeks pending investigation and court decisions. The RFE Military Prosecutor's Office eventually stepped in and found the Directorate's actions inappropriate, ruling in favor of the fishermen. By then the season had been disrupted, companies were unable to meet their quotas, and they suffered heavy financial losses due both to lost productivity and un-refunded fines.

## **Government Response**

Within the framework of a recently enacted national program, Moscow has pledged to allocate 62 billion rubles (2.5 billion USD) to support and encourage Russia's fishing industry. Thirty percent of the program's budget will be allocated to the Russian Far East to build 27 new research and fishing vessels, fifty fish farms, and to expand fishing port facilities in Vladivostok, Petropavlovsk-Kamchatskiy, Nevelsk, and in a number of smaller towns. The GOR has also set up a fisheries protection program through 2020. Federal fish hatcheries in the Russian Far East are also meant to increase production and guard against precipitous declines in fish stocks.

## **The Savvy Trader**

The Pollack Association is taking significant steps to safeguard the future of the Fishing industry in Russia. Pollack once severely over fished with the catch estimated to be 3 times over quota is reportedly now contained to only 20% over quota. The Association is advocating for sustainable fishing by actively pursuing Marine Stewardship Council (MSC) certification. Fish not carrying the label have been priced at 5-10% less and Russian production for the European market is restrained by the absence of the certification. There is also an interest in growing the supply of single frozen fillet for the U.S. and European markets. The Association forecasts that there will be a global decrease of all white fish species catch except for Russian Pollack. The association predicts demand will continue to outstrip supply and report the follow projections below.

Global Supply and Demand for Pollack

