

**“Namibianisation”, Exports and Domestic
Value Addition in the Namibian Fishing
Industry. Chances and Risks of Including
Fisheries into a Free Trade Agreement
with the EU**

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Table of contents

Acknowledgements.....	iii
List of Tables.....	vi
List of Figures	vi
List of Boxes	vii
List of Abbreviations.....	viii
Abstract.....	x
1. Introduction.....	1
2. Gains and Losses of Including Fisheries into Free Trade – Some Considerations from a Developing Country’s Perspective	2
2.1. The Relevance of Fisheries Management.....	2
2.2. Management Problems African Countries Face. Are Access Agreements the Solution?.....	4
2.3. The Impact of Free Trade on Fisheries	7
3. The Namibian Fishing Industry.....	8
3.1. The Relevance of Fishing Activities for the Economy	8
3.2. “Namibianisation” and other Management Policies in the Fishing Industry.....	12
4. Namibia’s Fish Exports to the EU.....	16
5. Empirical Findings	20
5.1. Methodology, Firm Profiles and Characteristics.....	20
5.2. Exports to the EU and Development of Export Options	28
5.3. Europe’s Relevance as Input Source	40
5.4. Competition in the Domestic and in International Markets	41
5.5. Value Chain and Added Value of Exports	43
5.6. Companies’ Strategy	48
6. Chances and Risks for Namibia of Entering into a Fishery Agreement with the EU.....	55
7. Conclusions and Policy Recommendations	57
8. References	61

List of Tables

Table 1: Fisheries contribution to GDP, 1990-2002.....	9
Table 2: Tariff structures for fish imports to Namibia and to the EU	17
Table 3: Number of total interviews in Namibia	21
Table 4: Summary of characteristics of surveyed Namibian fishing companies	26
Table 5: Summary of surveyed firms' main input source and development of input prices.....	41
Table 6: Summary of firms' profit development, 1999-2003	44
Table 7: Summary of firms' price development	46
Table 8: Total Allowable Catches (TACs), in '000 tons	48
Table 9: Number of licensed vessels 1999 and 2002.....	50
Table 10: Summary of surveyed firms' strategies.....	54

List of Figures

Figure 1: The ideal level of fishery exploitation.....	3
Figure 2: Capture of fish, crustacean, molluscs, etc. in Namibia's and South Africa's inland waters	10
Figure 3: Total fish harvest and value of fish and fish products to the EU, 1999- 2002	17
Figure 4: Total fish harvest and value of fish and fish products, 1998-2002	27
Figure 5: Summary of surveyed companies' reasons to export to the EU (<i>N</i> = 8)....	29
Figure 6: Summary of surveyed firms' hindrances to export to the EU (<i>N</i> = 11)	30
Figure 7: Summary of surveyed firms' strengths and weaknesses in exporting (<i>N</i> = 11).....	34
Figure 8: Export business' contribution to surveyed firms economic performance (<i>N</i> = 11).....	36
Figure 9: Summary of surveyed companies' export assistance (<i>N</i> = 11)	37
Figure 10: Surveyed companies' need for export assistance (<i>N</i> = 11).....	39
Figure 11: "Where are your main competitors?" (<i>N</i> = 11, multiple answers possible).....	42

Figure 12: “Do you feel adversely affected because of South African competition in the EU market?” (N = 11).....	42
Figure 13: “How did your general competition situation develop in the last five years?” (N =11)	43
Figure 14: Surveyed firms’ reasons for increased profits (N = 4).....	45
Figure 15: Surveyed firms’ reasons for decreased profits (N = 5).....	45
Figure 16: Surveyed firms’ expectations of development of exports (N = 11)	47
Figure 17: Surveyed companies’ strategy for upgraded activities (N=11)	51

List of Boxes

Box 1: Regional exports and regional cooperation of the Namibian fishing industry.....	23
Box 2: Walvis Bay: A new port for the region?.....	34
Box 3: Manufacturing incentives in the Namibian fishing industry	37

List of Abbreviations

ACP	African, Caribbean, Pacific
CDE	Centre for Development of Enterprises
EEZ	Exclusive Economic Zone
EPA	Economic Partnership Agreement
EPZ	Export Processing Zone
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FAS	Foreign Agriculture Service of the US Department of Agriculture
FDI	Foreign Direct Investment
FIGIS	Fisheries Global Information System
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GSP	General System of Preferences
IEEP	Institute for European Environmental Policy
MFMR Namibia	Ministry for Fisheries and Maritime Resources of the Republic of Namibia
MEY	Maximum Economic Yield
MFN	Most Favoured Nation
MoU	Memorandum of Understanding
MSY	Maximum Sustainable Yield
NAMFI	Namibian Maritime and Fisheries Institute
NCCI	Namibia Chamber of Commerce and Industry
NTB	Non-Tariff Barrier
OSY	Optimum Sustainable Yield
PPP	Public Private Partnership

R&D	Research and Development
SACU	Southern African Customs Union
SADC	Southern African Development Community
SME	Small and Medium Enterprise
SPS	Sanitary and Phytosanitary Standards
TAC	Totally Allowed Catch
TDCA	Trade, Development and Co-operation Agreement
TIDP	Trade and Investment Development Programme
UNIDO	United Nations Industrial Development Organization
UNAM	University of Namibia
USA	United States of America
WBCG	Walvis Bay Corridor Group
WTO	World Trade Organization

Abstract

Namibia's fishing industry is regarded as an example of success in terms of investment attraction, modernisation, sustainability and ownership transfer to previously disadvantaged population groups. However, the industry was not able to increase its manufacturing activities and to diversify to new activities as desired. The paper discusses the chances and risks that a North-South free trade agreement offers for the industry. Joint ventures as well as a fishery agreement with the European Union (EU) could help the industry to benefit from technical assistance and knowledge transfer. However, policy interventions by the EU that distort the market to the benefit of EU market participants will necessitate a careful examination of costs and benefits of such an agreement by the Namibian Government. Nevertheless, the strong principal interest in such an agreement on both sides imply a strong negotiation position for Namibia as well as an incentive to enter into negotiations.

1. Introduction

Namibia is one of the very few African countries that has been able to establish its own fishing industry and is judged as being successful in international terms (Acheampong 1997). Since Namibia's independence in 1990, the sector has attracted considerable investment and created modern processing facilities. Moreover, Namibia has achieved to invert the foreign ownership of its fishing industry and to involve formerly disadvantaged Namibian citizens stronger into the industry.

However, despite this success, the industry has not been able to increase its manufacturing activities as desired and does to a large extent still rely on the export of traditional products to traditional markets. The natural fluctuation of stocks, exchange rate problems and the erosion of EU preferences do however highlight the relevance to upgrade products and to explore new export markets. Furthermore, the intensification of international trade and increasing global liberalisation efforts put pressure on Namibia to open its market.

The EU, Namibia's main export market, is highly interested in improving its access to Namibian fishing grounds. Since the EU is negotiating an "Economic Partnership Agreement" (EPA) with Namibia, including a Free Trade Agreement (FTA), there are European ambitions to include fisheries into free trade. It is argued that an FTA with the EU could help Namibia to improve its access to modern technology and to integrate the fishing industry better into the global value chain. Namibia again is reluctant to include fisheries into free trade since it fears that its national empowerment, monitoring and sustainability policies will be undermined.

The following paper discusses the chances and risks a North-South FTAs offers for the Namibian fishing industry. The study, which is based on relevant literature and face-to-face interviews with representatives from the Namibian fishing industry, government officials, research institutes and private sector support institutions, does not claim to be representative. However, since it comprises interviews with the management of around 75% of fishing companies that have processing plants as well as expert interviews, the study gives the reader comprehensive insights into the Namibian fishing industry, such as the development of exports, constraints to supply the EU market, and efforts to upgrade products and services.

The paper is structured as follows. After this introduction, section two discusses motivations and difficulties to manage national and global fishery resources. In this context, chances and risks of free trade in fishery products are elaborated from a developing country's perspective. Section three presents the economic performance and management system of the Namibian fishing industry. The fishing industry is the second largest contributor to Namibia's export earnings after mining and the country's second largest manufacturing sector after the food and beverage industry (MFMR 2004b). Namibia has largely excluded foreign access to its fishing grounds and adopted a comprehensive policy framework that is strictly regulating access to

the treasured resource. However, as the discussion shows, the management of fisheries is a difficult task and the Namibian policy concept does show some weaknesses.

Namibia's trade in fisheries is analysed in section four. The EU is the main market for Namibian fish exports, mainly hake, 60% of which is processed onshore. However, there is scope for additional value-adding activities, which have not been sufficiently explored yet. The necessity to diversify fish exports in products and processes is elaborated at length in section five, which presents in detail the empirical findings and verifies them with sector-specific research results. To get an idea about the individual situation of the surveyed companies', about their position in the value chain, and their connections to European firms and the EU market, the questions relate, amongst others, to companies' trade relations with the EU, their strengths and weaknesses in the export business and the relevance of exporting for their all-embracing economic performance. Furthermore, surveyed companies' manufacturing activities and their efforts to diversify their product range are explored.

Whether and how an FTA with the EU could help the Namibian fishing industry to upgrade its products and processes is elaborated on in section six. The final section seven concludes the main findings of the paper and draws policy recommendations how a developmental oriented fishing agreement with the EU could look like.

2. Gains and Losses of Including Fisheries into Free Trade – Some Considerations from a Developing Country's Perspective

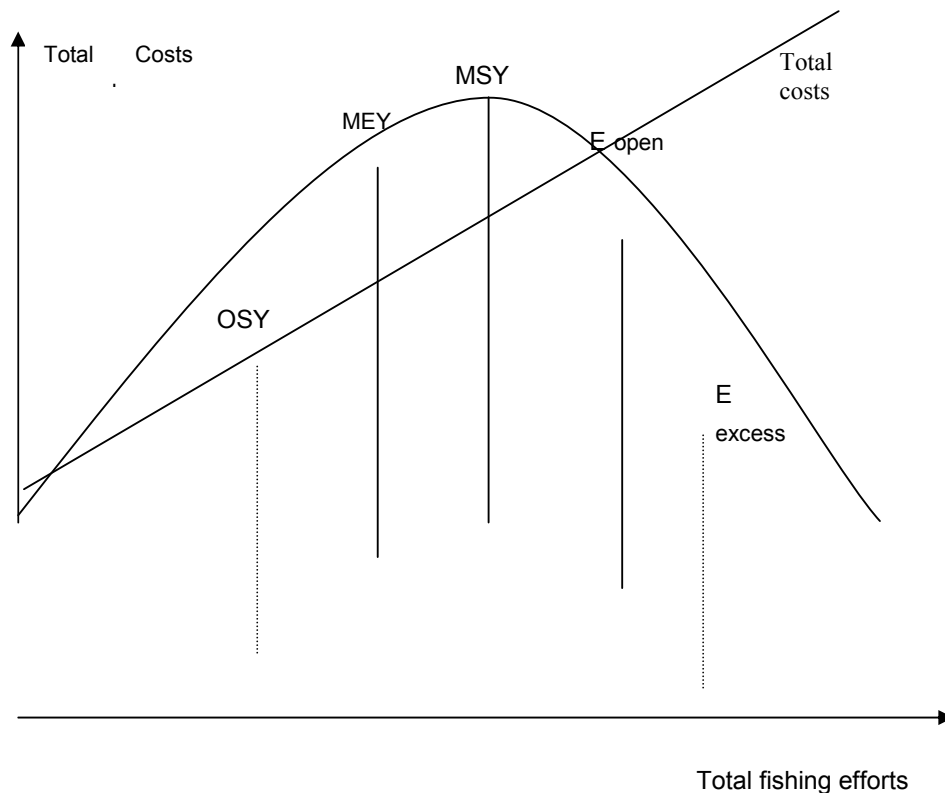
2.1. The Relevance of Fisheries Management

Fishery grounds are naturally an open accessible and free-of-charge resource. However, since the world-wide demand for fish exceeds the product resources, the market allocation of the resource becomes economically wasteful and ecologically unsustainable and needs to be controlled, which is tried to be done by most countries in the world.

The following Figure 1 illustrates the ideal level of fishery exploitation. The curve represents the total costs and the total revenue of fishing activities. An increasing effort of fishing e.g. by more vessels employed or increased efficiency, leads to an increased output that reaches its maximum at MSY. This Maximum Sustainable Yield (MSY) marks the maximum amount of fish that can be taken from a stock under existing environmental conditions without significantly affecting the reproduction process. After MSY, fishing activities can no longer be achieved on a sustainable basis. The increasing number of vessels leads to the depletion of fish stocks.

The economic target equilibrium differs from the purely biological concept, as it incorporates the costs of fishing. The Maximum Economic Yield (MEY) marks the point where the marginal benefits from the fish catches equal its marginal costs, i.e. at this point the maximum rent can be achieved.

Figure 1: The ideal level of fishery exploitation



Source: Based on Gordon (1954) as cited in Costanza *et al.* (2001:65).

However, it must be kept in mind that there are long-lived and short-lived fish species as well as animals that depend on specific fish species, such as seals and sea birds. To consider these biological time lags and protect the fragile ecosystem that ensures the optimal level of biodiversity, less fish than what is economically desirable can be caught.¹ The point OSY on the curve represents therefore the Optimum Sustainable Yield, i.e. the ideal level of catches that internalises any non-market environmental effects.

If anybody who is able too goes fishing, this will result in an unsustainable exploitation of the resource, labelled by point E open on the curve. E open highlights the point where the total revenues equal the total expenses. Though total costs

¹ See Seijo *et al.* (1998) for an explanation of any externalities that have to be taken into account when managing fish stocks.

exceed total revenue beyond this point, it is even supposable that the fishing grounds will be more excessively exploited since the single fisherman does not know that the fishing grounds are already exploited and will keep on fishing to cover his individual costs. Thus, the personal micro-perspective differs from the macro-economic analysis of optimal fishery exploitation and the behaviour of fishermen needs to be controlled if the renewable resource is to be maintained on a sustainable level.

To manage the fish resources properly, it is therefore necessary to determine the Optimal Sustainable Yield (OSY), which corresponds to the Maximum Sustainable Yield (MSY) modified by relevant environmental, economic and social factors (FAO Glossary). The OSY is therefore always subject of political pressure from different interest groups (fishermen, scientists, ecologists, investors...), which makes it difficult for the Government to set it (Cunningham et al. 1985:106).

Apart from the difficulty to determine and set the OSY, the Government also faces the problem of implementing a limited entry plan, which can be done by license, quota per fisherman, or taxation of catches. Moreover, the Government must provide an effective monitoring system that ensures that no unreported fishing activities take place. The right to fish must be specified to selected persons who take ownership over the resource and who know that they face penalties if they do not act as agreed. These fishing rights can be transferable among right holders as long as it is ensured that the total catches do not exceed the optimal sustainable yield (Seijo et al. 1998).

Namibia has applied a comprehensive management and surveillance system to supervise the exploitation of its fishing grounds. Catches are limited by license, non-transferable quota and taxation of catches. Namibia's monitoring system, which is judged to be effective in international terms (FAO 2001:12) as well as Namibia's fishery policy and legislation are discussed in detail in section 3.

2.2. Management Problems African Countries Face. Are Access Agreements the Solution?

It is not an easy task to manage fishing grounds effectively and includes several costs and required management skills. The government must ensure that scientific information on fish stocks and their development is available, has to take uncertainties, the business and investment climate and the economic and social situation of fishermen into account when fixing the limit of total allowable catches (TAC). Furthermore, it must be guaranteed that the fishery legislation is enforced and periodically evaluated and adapted if necessary (Seijo et al. 1998).

Many African countries have severe problems to manage their fish resources properly and are not even able to exploit their fishing grounds commercially as they lack of the necessary capacities. To get any revenue from their resource most African countries have agreed to sell fishing rights to foreign partners (Acheampong

1997).² In theory these so-called access agreements can be mutually beneficial: the industrialised country gets access to new fishing grounds and the African country receives financial compensation as well as technical assistance and other forms of aid to develop its own fishery industry. Further potential advantages are the import of capital goods and knowledge of fish catching and processing methods as well as the employment of African workers. Moreover, the fishing agreements shift the risk of stock fluctuation (e.g. by the El Niño phenomenon) to the foreign fishing nation (Stone et al. 2001:9-10). However, there are also negative effects of access agreements and scepticism about its net value of benefits for African countries. A severe concern is that African countries are not in a position to supervise the quotas agreed upon so that illegal fishing is taking place. The unsustainable fishing leads to the depletion of fish stocks and affects the income and nutrition of the local coastal community. Subsistence and small-scale artisanal fisheries are a major income source for coastal people in many African countries and play an important role in poverty alleviation. These small-scale fishermen are often negatively impacted by foreign access vessels that often encroach on their grounds, effectively putting them out of business (Acheampong 1997:4-5). This problem aggravates, since industrialised countries subsidise their fishing industry, which results in the overcapitalisation and thus, the overcapacity of their fleets. On the one hand, the subsidies reduce fishermen's cost to fish, however they put pressure on the fishermen to increase the number of caught fish in order to keep their vessels and factories employed.³ Since the EU fishing stocks are largely depleted, European fishermen have to find fish somewhere else. As a result, the problem of overcapacity has shifted to developing countries in form of access agreements.

The difficulties to monitor fish catches effectively have also resulted in the claim that African countries are not sufficiently compensated for providing access to their fishing grounds. Stone et al. (2001:10) state: "...it is virtually impossible, at the present level of monitoring, to confirm whether the actual catch occurred within or outside – on the high seas side – the coastal state's fisheries zone." Though access agreements with the EU do not only include compensation payments per ton but also support that is difficult to quantify, such as technical assistance, increased aid assistance and improved market access to the EU, the price paid to African countries is claimed to be too low, not reflecting the world market price sufficiently (Ibid). Reasons are seen in the EU's lopsided negotiation power as well as in African countries' need for foreign exchange and their high economic dependency on their former colonial power.⁴ Evidence for the thesis of insufficient compensation is also given when analysing the single fisheries agreements African countries have negotiated with the EU. The agreements differ with respect to amount of quota

² Morocco, Namibia and South Africa are the only African countries that have managed to take control over their fishing resources (Stone et al. 2001:12-13).

³ An estimated number of 20,000 fishermen and 20,000 processing sector jobs are supported by the EU's fisheries agreement with third countries (Acheampong 1997:4).

⁴ The EU is the major trading partner for most African countries (see Davenport *et al.* 1995).

allocation, agreed revenue, number of locals employed on EU vessels and financial assistance to develop a national fishery industry (European Commission 2004).

Another problem that occurs in an access agreement with a foreign fishing nation is that the local government has only little influence on the plans made by foreign investors. The options to establish an own fishing industry are very limited since domestic trawlers cannot compete with subsidised high-tech foreign fleets. Thus, the benefits for the African countries of its resource are often restricted to (limited) employment effects and increased government revenue.

For the ACP countries, the option to enter into fishery agreements with the EU was already included in the first Lomé Agreement (1975), which stressed the importance of EU-ACP cooperation regarding the optimum utilisation of ACP fishery resources. Today, the EU has 21 fishing agreements with third countries, most of them in Africa.⁵ 70-85% of Sub-Saharan fish exports are destined for the EU market (Stone et al. 2001:16).

The EU's fishery agreements with African countries often lacked effective monitoring and control provisions and were judged to be incoherent with the EU's development goals (Acheampong 1997). The EU responded to these claims and decided to move from pure "access agreements" towards "partnership agreements" in December 2002. These "partnership agreements" do not only compensate for fishing but are also supposed to help to develop the local fishing industry in ACP countries. However, an analysis of the Institute for European Environmental Policy (IEEP 2003) summarises that this new approach is still not environmentally, socially and economically sustainable.⁶

Namibia has not entered into a fisheries agreement with the EU yet. It is argued that these agreements are incoherent with Namibia's policy objectives to increase local ownership in the fishing industry and to manage the fishing grounds in a sustainable manner.

⁵ The EU has bilateral fisheries agreements with Angola, Argentina, Cape Verde, Comoros Islands, Côte D'Ivoire, Equatorial Guinea, Gabon, Greenland, Guinea Bissau, Guinea, Faeroes, Iceland, Madagascar, Mauritania, Mauritius, Morocco, Norway, Russia, Sao Tomé and Príncipe, Senegal, Seychelles (European Commission 2001).

⁶ It is claimed that the amount paid by the EU varies considerably among countries and does not compensate sufficiently for the value of the catch. Also the amount of development assistance to build-up an own industry varies considerably among the four countries investigated. Moreover, the fishing agreements with African countries do still lack of effective monitoring and control provisions (IEEP 2003).

2.3. The Impact of Free Trade on Fisheries

The global distribution of fish is very uneven so that trade in fisheries has a long history. Trade in fisheries is on an increasing scale due to increasing demand for fish products and ongoing depletion of fishing grounds (FIGIS 2004). National failure to internalise the full costs of fishing have resulted therefore in increasing global pressure on fishing grounds.

Theoretically, free trade in fisheries can result in a win-win situation for both partners: the industrialised country imports fish and keeps its industry employed and the developing country increases its revenue by exporting fish. Moreover, imports of capital and modern technology from advanced economies can stimulate the processing of innovations and new technologies. By this, the productivity of labour and the utilisation of capital equipment can be increased and economies of scale can successfully be exploited. Further dynamic benefits of free trade are learning and technology effects, resulting from foreign investment and cooperation with foreign firms, which offer the developing country the option to upgrade products and processes.

However, there are different reasons why free trade in fisheries is disputed. One argument is that existing tariffs and non-tariff barriers as well as subsidies distort free trade (FIGIS 2004). Fisheries are excluded from the WTO Agreement on Agriculture so that the main features of most favoured nation and non-discrimination (GATT 1994, Art. 1 and 2), which provide that the same regulations apply for domestic and foreign goods and services, are not applied (FAO 2004b:1).⁷ Therefore, fish products, in particular some value-added fish products, are still subject to (high) tariffs. Another issue that hampers global free trade of fishery products are technical regulations, standards and safeguard measures (FIGIS 2004). Though all Sub-Saharan African countries except South Africa are classified as ACP countries and thus enjoy duty free market access for raw and processed fish products to the EU market their exports are often constrained by strict sanitary and phytosanitary standards. Moreover, EU subsidies extend the intensity of fishing and result in market distortions so that African countries' non-subsidised fleets are displaced (Acheampong 1997). The subsidies do thus result in unfair competition, undermining the comparative advantages of African fishermen, such as good quality of fish and cheap labour.

Another problem for African countries is the exchange of and the access to information. Though the FAO seeks to provide international data on fish analyses, national authorities in developing countries often lack country-specific information due to missing capacities. Companies in developing countries again, which do not show any form of international linkage have difficulties to receive up-to-date

⁷ Though the WTO reduced the average weighted import tariff on fish products to 4.5% in industrial countries, several tariff peaks and tariff escalation for processed fish products still remained. Developing countries aim to address their concerns in the Doha Development Round (FAO 2004b:1).

information about import market requirements. Labelling and certification have become increasingly important marketing factors in high-income import markets and many developing countries are not able to meet the determined requirements and are thus excluded from the international marketing and distribution network (FIGIS 2004).

Altogether, the options for many African countries to benefit from free trade in fisheries are constrained by their inability to manage and monitor their resource effectively as well as by non-tariff barriers of trade and high market entry costs.⁸ It makes therefore a big difference whether trade in fisheries between African and industrialised countries are pure access agreements or associated with joint-ventures. While the first has above all positive effects on government's revenue, a joint-venture agreement can be also beneficial in terms of learning and technology effects (Cunningham *et al.* 1985:204-5). As the further discussion shows, joint-venture agreements have enabled businesses in the Namibian fishing industry to improve their access to markets and finance. Joint-ventures in the fishing industry have furthermore partially helped to integrate small businesses run by formerly disadvantaged Namibians.

3. The Namibian Fishing Industry

3.1. The Relevance of Fishing Activities for the Economy

The fishing industry is, after mining, Namibia's second largest manufacturing industry and accounted for 25% of total export earnings in 2002 (Iyambo 2003b). Employment increased by 2000 people in the period 1993-2002. Today around 13,500 people are employed in the fishery industry of which almost 80% are Namibians.⁹ Most new jobs were created in the secondary sector (on-shore processing), which contributes to around 60% of total employment in the fishing industry (Iyambo 2004c:5).

According to Table 1, fisheries' contribution to GDP increased from 5.4% to 6.6% in the period 1990-2002. Though this raise of 1.2 percentage points does not seem to be much in ten years' time, one must also take the development of total GDP into account. Thus, the total value of fishing and fish processing rose by more than 36% in the period 1998-2002, which has, according to the figures in Table 1, preliminarily been achieved by harvesting fish. Fish processing activities, however, grew to a lesser extent in the period.

⁸ It is reported that illegal fishing is a big issue in many developing countries, which do not have the specific legislation and regulations and, the financial, human, material and technical capacities to patrol their coastal areas accordingly (Greenpeace 2001:3, Drammeh 2000)

⁹ Namibian employees accounted for 68% of sea-going employment and 98% of on-shore employment in 2002 (Iyambo 2003c:5).

However, the classification of fishing and fish processing has been revised by the Namibian Government and brought in line with UN definition in 2000. The term "fishing" includes now also fish processing on board (offshore processing), which was formerly (1990-99) defined as "fish processing". Now, fish processing includes, according to the definition of the UN, only processing activities on land, such as freezing, filleting and canning (MFMR 2004d:6). The figures published by the MFMR therefore show a high share of fish processing activities on total fisheries before 2000 and are not comparable with the post 2000 figures. Thus, the only statement that can be drawn from Table 1 is that the total value of fishing is increasing. Fishing contributes in average around double as much as fish processing to the total value of fisheries.

Table 1: Fisheries contribution to GDP, 1990-2002

	1990	1992	1994	1996	1998	1999	2000	2001	2002*
Fishing	2.3%	3.4%	3.7%	4.0%	5%	4.7%	4.4%	5.2%	4.5%
Fish Processing	3.1%	3.2%	5.3%	3.0%	2.9%	2.2%	2.3%	1.9%	2.1%
Total	5.4%	6.6%	9.0%	7.0%	7.9%	6.9%	6.7%	7.1%	6.6%
Total value (in million N\$)	n.a.	n.a.	n.a.	n.a.	1,476	1,422	1,592	1,922	2,016.5

* provisional figure.

Source: MFMR (2003a:4) (up to 1996) and MFMR (2004b) (1998-2002).

The main fishery in Namibia is demersal fishery that catches hake, monk, kingklip and sole, which are the most valuable species for Namibia and strictly regulated by quotas for totally allowable catches (TACs). The hake industry is the biggest sub-sector: it employs around 70% of all workers and contributes to more than 50% of the total value of the sector (Erastus 2002:5). It is also the biggest foreign currency earner and attracts most investment in the fishing industry (MFMR 2004d:4).

Further important fisheries in Namibia are the midwater fishery, which catches mainly mackerels, purse seine fishery, deep-water fishery, tuna fishery, rock lobster fishery (based in Lüderitz) and the crab fishery (MFMR 2003a:5). Commercial trawlers solely exploit Namibian fishing grounds. Because of Namibia's sparse population (around 1.8 million) lives predominantly in rural areas inland, almost no subsistence fishing takes place (FAO 2000:2. See also Box 1).

Domestic fish consumption in Namibia

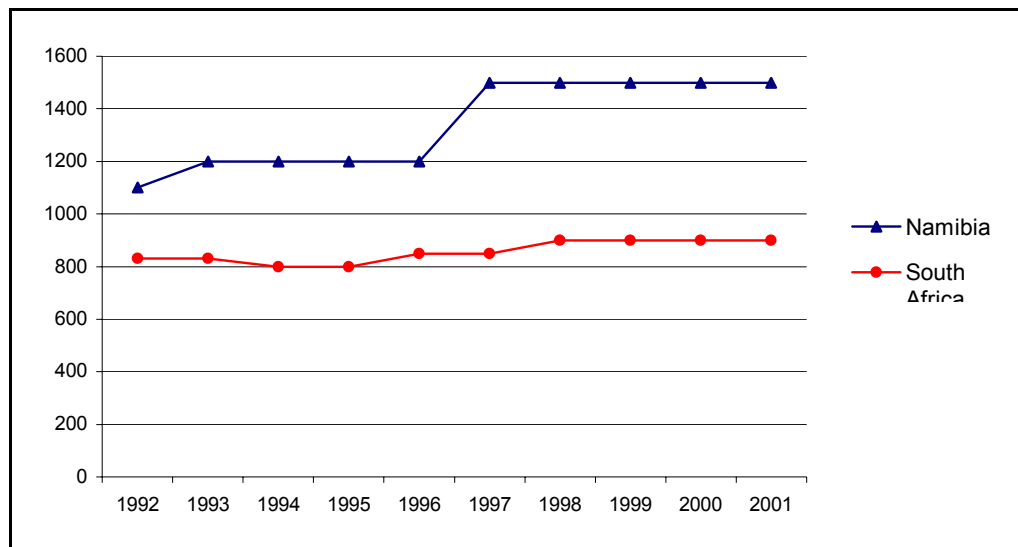
The fish consumption of the average Namibian has doubled since independence and is 8-9 kg per annum, which lies still well below world's average of 15-16 kg

(FAO 2001:8). Since fish is a cheap protein source and around 50% of children in Namibia's northern region (where the majority of the population lives) are malnourished, the government further promote domestic fish consumption (FAO 2000:5). However, around 97% of Namibia's fish catches are destined for exports and only 30-40% of locally consumed fish comes from marine waters (Iyambo 2002:13). Namibian hotels and restaurants claim that they receive only over-priced domestic fish. The reason for this is that parts of the industry overprice fish for the domestic market to increase their earnings from the export business. The Minister of Fisheries and Marine Resources, Dr. Iyambo calls upon the industry: "*As a major fishing nation, we must redress this incongruity between our production and what we offer for sale to our domestic consumers! ... If fresh fish on ice can be imported, exported and sold profitably: why can't our own fishing industry sell sufficient products here? ... I want to see some workable proposals! We can do better!*" (Iyambo 2003a:7). The industry argues that a lack of cold storage and transport facilities constrains the Namibian-wide distribution of fresh fish. The Ministry promised to address this problem by building a cold storage depot in the North to supply fish to rural areas and small distributors (Iyambo 2003a:8).

The Namibian Government is convinced that the fishing industry shows substantial growth potential. This is due to unpolluted waters, comparable rich fishing grounds, a good fish quality, and productive fishing methods (Oelofsen 2003:38). The FAO (2000:1-2) confirms that Namibia has one of the world's most productive fishing grounds with considerable development potential.

As Figure 2 shows, Namibia is a bigger fish producer than South Africa and captured around 1,300 million tons fish, crustaceans and molluscs in the period 1992-2001 (FAO 2004a).

Figure 2: Capture of fish, crustacean, molluscs, etc. in Namibia's and South Africa's inland waters



Source: FAO (2004a)

As a renewable natural resource the fishing industry is vulnerable to external shocks, such as the Benguela Niño phenomenon in 1998 that harmed Namibian stocks seriously. Moreover, the Benguela current is unpredictable as it can for instance lead to low oxygen level that damages fishing stocks. The biomass of many species was also affected by over-fishing prior independence in 1990. However, though some species, like pilchard, are still threatened, most of them have recovered. The Government was able to stabilise the TACs for most species and has even increased the TAC for hake from 60,000 tonnes in 1991 to 200,000 tonnes in 2003 (Oelofsten 2003:36).

Though fishermen's revenue is highly dependant on fluctuating fish stocks, it must be noted that fish prices are - in contradiction to many other primary commodities - not affected by the worsening of terms of trade.¹⁰ In recent years there was even an increase in fish prices due to the scarcity of worldwide resources resulting in a considerable increase in production values of the industry in the period 1993-98 (MFMR 1999 as cited in Erastus 2002:4, 6). However, despite the depletion fishing grounds in many countries, fish prices have not increased as expected due to the development of fish farming activities, led by Asian countries (Tall 2002:4). In addition, the worldwide insecurity since 11 September 2001 and the European recession have affected the Namibian fishing industry negatively. Thus, demand and price for Namibia's largest export product, hake, have remained static (Nichols 2004a). However, in the light of increasing EU consumption and declining TACs for European fishermen, an increasing demand for fish products is expected in the near future (CBI 2003, Tall 2002).

Since the export of sea-processed fish limits the options for job creation and revenue collection, the Namibian Government promotes value adding activities on land, like the filleting and canning of fish (Iyambo 2003b). Furthermore, domestic value addition could be increased by the development of brand names, labels, and distribution and marketing activities. These value-creating activities still occur outside Namibia, in industrialised countries. The Namibian Ministry of Fisheries and Marine Resources tries to improve the communication between the fishing industry, export markets and end consumers in order to upgrade the activities in the fishing industry (Iyambo 2003b). The industry acknowledges the importance to diversify fish production towards higher valuable products. It is necessary to attract investment in order to introduce new technologies for improved catches as well as for new product and processing methods (Tralac news, 29/04/2004).

As the discussions in section 4 and 5 show, there is still considerable scope for the industry to diversify products and markets and to move towards higher valuable activities.

¹⁰ With exception of prices for fish meal, fish oil and canned fish, which face decreasing world market prices (WTO 2003:A3-188).

3.2. "Namibianisation" and other Management Policies in the Fishing Industry

"Namibianisation, simply put, is a means to peace, economic reconciliation, equity and increasing employment for Namibians, especially the previously disadvantaged." (MFMR 2004c:i).

Before independence, the Namibian fishing industry was dominated by foreign companies, from Europe, Eastern block countries and South Africa, leading to a very uneven distribution of marine resources and an over-fishing of valuable species. More than 100 vessels were fishing illegally in Namibian waters in 1990 (Nichols 2003b:3). The over-fishing by South African and international fishing fleets also resulted in the closure of fish factories. Namibia decided to drastically limit the number of foreign trawlers after its independence on 21st March 1990. The country declared 200 nautical miles as Exclusive Economic Zone (EEZ) to gain greater control over its marine resources. Moreover, a national fishery policy was created (Oelofsen 2003:33-4). Through the Fisheries Act 1992, the Ministry of Fisheries and Marine Resources (MFMR) followed up the goal to rebuild stocks and to "Namibianise" the former foreign owned fishing sector. The Act that controlled the exploitation of "internal waters, territorial sea and exclusive economic zones" pursued the following achievements (MFMR 1992):¹¹

1. Sustainable use of fishing resources and establishment of a conducive maritime environment;
2. Promotion of "Namibianisation": formerly disadvantaged Namibians should be the principle beneficiaries of the fishing industry through increasing ownership of companies and vessels, new jobs, and increased training;
3. Contribution to poverty alleviation: redistribution of wealth through reasonable payments for social expenditure by the industry; and
4. Attraction of domestic and foreign investment

The Second National Development Plan (2001-2005) identifies further goals of Namibian fishing policy as a) an increased value addition by promoting processing activities; b) the expansion of the Namibian fishing industry within the region; c) the promotion of regional integration in the fishing industry; and d) recognising the role of fish in ensuring food security (FAO 2000:6).

Companies that want to fish in Namibian territory have to apply for an exploitation right. Though the rights, given for 7, 10, 15 or 20 years, could be withdrawn by the Government if the company does not perform accordingly, there is a high confidence in the industry that the fishing rights will be renewed (Manning

¹¹ Ministry of Fisheries and Marine Resources (1992): "Towards the Responsible Development of the Fisheries Sector". Due to obligations resulted from the ratification of several international agreements the 1992 Act was replaced by the "Marine Resources Act" (Act. 27 of 2000).

2000:31).¹² If the right holder performs accordingly, the fishing rights can be extended after the maximum period has been granted. Whether and to what extent an applicant receives the right of fishing depends on the vessel and fishing methods used, to what extent Namibians are involved, their size and investment capabilities and on the socio-economic performance of the company (MFMR 2000:Art. 33).

In addition to the right of fishing, the companies have to apply annually for a quota of the fish species they want to catch. The levy system based on quotas is justified by the Government with the argument that all Namibians should have the right to benefit from their natural resources: *"As not all the "people" can participate in fishing, those awarded fishing rights are actually acting as "agents" for the people and should therefore be paying for this privilege."* (Oelofsen 2003:37). The quota fee paid by the fishing companies is not only supposed to earn revenue for the Government but is also used for research, training of Namibians and the development of the industry (Oelofsen 2003:37). The resource rent collected is further used to subsidise market entrants of newcomers and to promote the "Namibianisation" of the industry. Government's revenue from the fishing industry rose by more than 30% in the period 1998-2002 to N\$ 131.8 million (MFMR 2004c:27).

The quota fee, which varies between 5 and 15% of the value of the particular fish species value, accounts for around three-quarters of the total fee amount collected in the fishing industry (MFMR 2004:14).¹³ The quota fee has to be paid on the allocated quota, even if the company does not catch the fish.¹⁴ However, the companies have the option to return the quota before the end of the season, without paying a penalty (Nichols 2004b).

To promote the engagement of Namibians in the fishing sector, reduced quota fees for Namibian owned vessels and 10 years fishing rights for Namibian owned companies (versus seven years for joint-ventures) are also part of the policy.¹⁵ Furthermore, companies, which promote fish processing activities and training and

¹² In 2002, 102 out of 163 fishing rights were granted for 10 or 15 years. In total, only four rights expired in 2002. The fishing right for 20 years is exclusively for fishing companies that employ at least 5,000 Namibians, which has not been the case at any company so far (MFMR 2004c:24).

¹³ In addition to the quota fees, registered companies have to pay a Marine Resource levy that finances research and training activities of the MFMR, license fees for licensing their fishing vessels at the MFMR, and by-catch fees. Since all caught fish must be brought to land, by-catch fees should prevent companies from catching fish for which they do not have a quota but make it still profitable to land all fish caught (FAO 2001:10-1).

¹⁴ It is also not possible to carry the uncaught fish quota over to the next season (Iyambo 2003a:8).

¹⁵ The rebate system differentiates between a) Namibian vessels, b) Namibian-based vessels, and c) foreign vessels. Quota fees are the lowest for Namibian companies (>51% share) that employ at least 80% Namibians off-shore. On-shore workers have to be at least 95% Namibians (WTO 2003:A3-190).

transfer skills to Namibians, enjoy tax deductions (Erastus 2002:12). What quota is granted to a company also depends on its socio-economic contribution for poverty alleviation. Companies are called upon to engage in so-called social upliftment projects, which promote for instance the provision of improved infrastructure services in rural areas. Between 1990 and 2002 fishing right holders contributed in total N\$ 33.66 million to Namibia's socio-economic development (MFMR 2004c:30).¹⁶

Besides the elements of fishing rights, licenses and quotas, the Namibian fishing sector is managed by the setting of TACs (totally allowed catches) for the eight main fisheries to limit their catches.¹⁷ The TAC is distributed among the right holders. 25% of the TACs are allocated to new entrants, which are preferably formerly disadvantaged Namibians (Erastus 2002:13).

The Marine Resource and Advisory Council, a consortium of industry and scientific representatives, which was established in 2000, monitors the fish stocks and recommends to Government how to set the TACs (MFMR 2000, Part 4). The Government makes the final decision of TACs, trying to take not only scientific recommendations into account but also to ensure the maintenance of business activities and to promote a secure investment climate (Nichols 2004a).¹⁸

In addition to TACs, the Government can pronounce restrictions for fishing seasons and closed areas if the population of certain species is threatened. To observe whether companies comply with the regulations, observers are placed on board vessels. In 2003, 201 fisheries inspectors controlled the landing of fish over 1,500 km of coastline, covering between 70-85% of total landings (MFMR 2004d:2, Nichols 2004b). The Namibian monitoring and surveillance system is judged to work effectively in international terms (FAO 2001).¹⁹

In 2003 there were 163 right holders in the Namibian fishing industry, owning 335 vessels. All but one right holder and 71% of all registered vessels were owned by Namibians, which is defined as having at least 51% beneficial ownership and 80% of the crew comprising Namibian citizens (MFMR 2004c:25). The MFMR expects

¹⁶ Of which N\$ 11.1 millions came from newcomer companies (Iyambo 2003c:6).

¹⁷ These are hake, pilchard, orange roughy, horse mackerel, monkfish, deep-sea red crab, rock lobster and seals (FAO 2000:7). The TAC for pilchard was set at zero in 2002 (WTO 2003:A3-188).

¹⁸ See FAO (2001:20-2) for a detailed overview of institutional and decision making arrangements in the Namibian fishing industry.

¹⁹ Due to increasing value of landed fish, the costs for the monitoring, control and surveillance system decreased from 6% of landed value in 1991 to 3.6% in 1999 (FAO 2001:11-2). Namibian-flag fishing vessels that are engaged in unreported and unregulated fishing either in Namibia or abroad will lose their license immediately (Iyambo 2003a:9). See Nichols (2003b:3-4) for the major features of the Namibian monitoring, control and surveillance programme in the fishing industry. In the near future it is furthermore planned to introduce a satellite-based monitoring system to monitor the activities of all vessels (MFMR 2004c:16).

that at least 7,700 Namibians are directly and indirectly benefiting from the "Namibianisation" policy with at least 4,200 of them benefiting directly through shareholding (Iyambo 2003c:4). Foreigners are only allowed to work in the sector with a work permit granted in accordance to the Namibian immigration and labour law. This permit will be only issued if no trained Namibians are available (MFMR 2003a:5-6).

However, though more than 90% of the fishing industry is either wholly or in majority Namibian owned, the benefits of the industry are claimed to accrue only insufficiently to Namibians. Through the complex reorganisation of ownership and establishment of joint-ventures and sub-contracting agreements, companies that were formerly foreign-owned have now a 51% Namibian share, thus fulfilling the requirements of having "Namibianised" their company. However, the management would often remain the same since newcomer companies are not always adequately operationally involved into business (Erastus 2002:24, Manning 2000:28).²⁰ Though fishing quotas are officially neither transferable, nor tradable in order to avoid the market dominance of big companies, some newcomer companies rather use the financial opportunities of entering into an apparent joint-venture with a well-established company than developing technical and managerial capabilities to become a real joint-venture partner.²¹

As the discussion hitherto has shown, Namibia has established a national fishery policy with an effective control and monitoring system that ensures the sustainable exploitation of its fishing resources. The Namibian system that allocates the TACs to all registered companies according to their compliance with the goals of the national fishing policy creates stimuli for companies to perform well regarding their "Namibianisation" degree, their level of manufacturing activities, their investment levels and their socio-economic contribution. In contradiction to the EU where TACs are not bound to any company and its performance, it is not the largest company with the best fleet that catches most fish but the company that contributes to the economic and socio-economic well-being of the country.

However, despite its success, the Namibian policy model also illustrates Government's difficulty to distribute economic growth and welfare towards disadvantaged groups on the one hand and to stimulate and attract investment into the industry on the other hand. Though the industry has been officially

²⁰ Though almost 80% of employees are Namibian nationals, the majority of jobs was realised in relatively low positions (Erastus 2002:24).

²¹ It must be noted that the joint-venture relationship between well-established firms and newcomer companies works very well in some sub-sectors such as monk and rock lobster fishery but sometimes does not work as envisaged in the small pelagic and hake sub-sector where some newcomers cannot benefit from industrial fish catches. The Government calls upon these companies to integrate newcomers more effectively and also intends to set company specific quotas in case those well-established companies do not cooperate (Iyambo 2003c:4).

"Namibianised" the goal of effective participation of formerly disadvantaged groups has not been reached yet. Moreover, the system is claimed to have created windfall gains for large companies that were able to reach the "Namibianisation" requirements without realising operational equity with newcomer companies. However, to enforce a more effective "Namibianisation" policy is a tightrope walk for the Government, since newcomer companies have in general only little capital, technical knowledge and business experience, it needs time to build-up technical and managerial skills to enable newcomers to succeed in the industry (Erastus 2002:24). A stricter "Namibianisation" policy does therefore bear the risk to encourage inefficient processing and to create a national industry that is not sufficiently aware of international challenges and not in a position to undertake necessary upgrading activities.

4. Namibia's Fish Exports to the EU

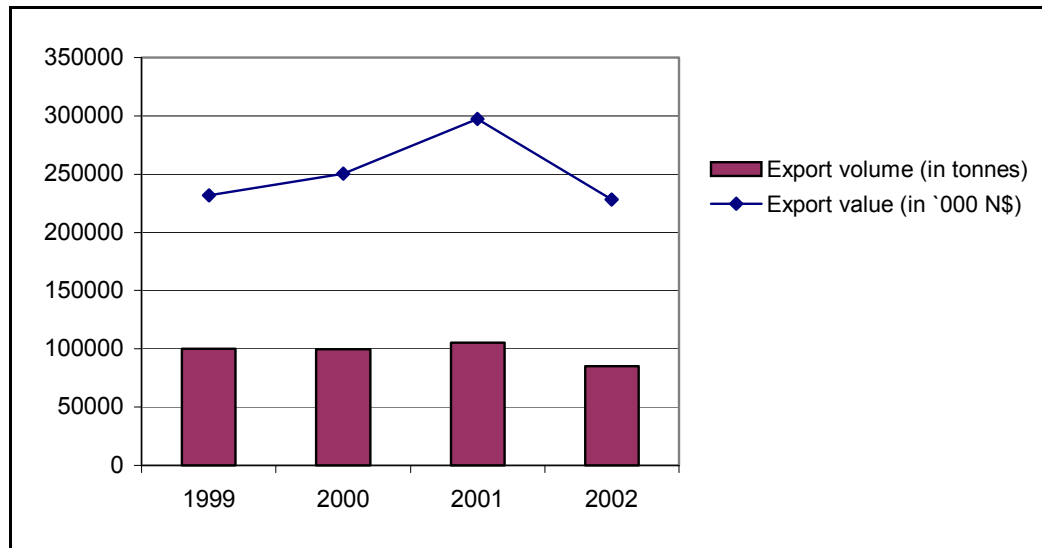
The EU is the second largest importer of fishery products in the world (Tall 2002) and the most important export market for Namibia, receiving around 70% of Namibia's total fish exports (Erastus 2002:4). The main species exported are hake and monk where 75% and 95% respectively of total production is destined for the EU market. The demand as well as the price paid by European suppliers is generally high (Nichols 2003a). Also for the EU, Namibia is an important import market for fish and was the fifth largest developing country supplier for all fish products and even the largest developing country supplier for hake in 2001 (CBI 2003:54, 59). The EU regards Namibia as reliable supplier due to its well-developed processing industry that allows Namibia to export good quality fresh and frozen fish (CBI 2003:90).²²

As can be obtained from Figure 3, the exports of Namibia's main fish products to the EU decreased in the period 1999-2002. The quantity for hake and kingklip was reduced by almost 2.5 times and the export quantity for monk to the EU shrank by 50% (EU Export Help-Desk). However, this considerable decline in export quantities was compensated by higher prices,²³ so that Namibia's export value in 2002 remained more or less stable compared to 1999.

²² The Government promotes the export of good quality fish and has adopted a national quality assurance system in accordance to international standards (MFMR 2004c:22).

²³ The value for hake increased by 9.2% to € 403 per 1000 kg and the value of monk by 23.7% to € 240 per 1000 kg. Only the price for kingklip decreased, namely by 18% (EU Export Help-Desk 2004).

Figure 3: Total fish harvest and value of fish and fish products to the EU, 1999-2002



Source: CBI 2003:124, EU DG Trade (2003).

Namibia is classified as an ACP country and enjoys duty free market access to the EU. This implies that Namibia currently receives a tariff advantage up to 22% for fresh fish and up to 24% for preserved fish compared to non-ACP countries (see Table 2). However, any fish product must originate in Namibia to benefit from free market access. Namibia is not allowed to import fish from South Africa, manufacture it for instance into fillets and sell it duty free to the EU. Though the Cotonou Agreement foresees that South African inputs will be handled like an ACP import product if “... *the value added there exceeds the value of the materials used originating in South Africa.*” (European Commission 2000: Protocol 1, Art. 6.4) this provision does not account for fish or fish products. These are exempt from the cumulation regulation as long as fish is still subject to tariffs under the TDCA (European Commission 2000, Art. 6.7 and Annex XIV to Protocol I). Thus, any fish imported from South Africa and manufactured in Namibia is subject to the MFN tariff of the EU.

Table 2: Tariff structures for fish imports to Namibia and to the EU

Country	Description of product	MFN Bound rate of duty (ad valorem, %)	GSP	Cotonou Agreement
Namibia	Extracts or juices of meat, fish or crustaceans, molluscs or	37.0	-	-

(SACU tariff)	other aquatic invertebrates			
EU	Fish, fresh or chilled, excluding fish fillets Monk Hake Horse Mackerel Tuna	2-15% 15% 15% 15% 22%	2-15% 15% 8-15% 15% 22%	0 0 0 0 0
EU	Description of product Extracts or juices of meat, fish or crustaceans, molluscs or other aquatic invertebrates a) in immediate packing of a net capacity of 1 kg or less: 20% ad valorem duty b) in immediate packing of a net capacity of more than 1 kg but less than 20 kg: 4% ad valorem duty	MFN Bound rate of duty (ad valorem, %) 12.8 0	GSP 4.4% 0	Cotonou Agreement 0 0
	Prepared or preserved fish; caviar and caviar substitutes prepared from fish eggs			

Salmon	5.5%	2%	0
Herrings	15-20%	15-20%	0
Pilchard	12.5%	9%	0
Preserved Tuna	24%	12%	0
Hake	20%	7%	0
Caviar	20%	7%	0

Source: EU Export Help-Desk (2004).

In addition to the restriction to cumulate with South African inputs, the Namibian fishing industry faces eroding preferences in the EU market, since the EU's motivation to protect its fishermen is declining. As discussed, TACs are always subject to political pressure and are often set higher than the scientific advice. In the EU, this has resulted in the over-capitalisation of fleets and thus to widespread exploitation of fishing grounds. Since consumers' demand for fish products is increasing and fish factories have to fully load their capacities, the EU shows a great demand for imported fish so that tariffs are expected to decline further (Payne 2003:314). For the comparable small supplier Namibia this implies increased competition in the EU market from large fish supplying nations like New Zealand, Russia or Chile (Namibia Foundation 1998).

Namibia's dependency on EU preferences raises concern about the international competitiveness of Namibian fishermen. The WTO (2003:A3-191) states: *"Continued over-reliance on ... substantial tariff preferences in foreign markets that shelter exports from international competition, can be both an indicator and a contributing cause of inefficiency."* In other words, the EU preferences might limit the efforts of Namibian fishermen to upgrade products and processes since they rely on a "secure market".

However, as the discussion has shown, the Namibian fishing industry faces several challenges. Though the industry has performed comparably successfully since independence and has been effectively nationalised, it has to deal with eroding preference, a high dependency on the EU market and the necessity to increase the local value addition. So far, the majority of exports are still offshore processed, i.e. sea-frozen fish, which offers few employment options or opportunities to create forward linkages in the form of distribution or marketing.

The next section presents the empirical findings, which give further insights into the relationship between Namibian fishermen and their EU counterparts. The field study focuses on fishermen's export performance and efforts to upgrade products and processes as well as on strategies to improve their position in the global value chain. The chances and risks occurring from an FTA with the EU in this respect are discussed hereafter, in section 6.

5. Empirical Findings

The purpose of the field study was to investigate Namibian fishing companies' trade relations with their European counterparts and to get insights into the export performance and the international competitiveness of the Namibian fishing industry.

1. The key research questions that were followed up were:
2. How important is exporting for the livelihood of companies and how have exports to the EU developed over the past years?
3. How important is the EU as input source for the companies surveyed?
4. How did domestic and international competition develop in the past years and how is the companies' performance (e.g. regarding price and profit development)?
5. Do the companies have a strategy to cope with international challenges?

While the first two question blocks related to companies' trade relations with the EU and its relevance as export and import market, question block three and four investigated Namibia's position in the international value added chain for fishing products. Findings are compared with secondary literature as well as with face-to-face interviews conducted with representatives from the Food and Agriculture Organization of the United Nations (FAO), the Ministry of Trade and Industry, the Namibian Manufacturing Association, and the Walvis Bay Corridor Group (WBCG).

5.1. Methodology, Firm Profiles and Characteristics

The interviews in the Namibian fishing industry were taken in September 2003 in Walvis Bay, Namibia's industrial centre where 90% of all fish is landed (Nichols 2004a). In total, 11 companies and grouping of companies respectively were interviewed by means of a standardised questionnaire (see Annex 1). Since a total of 30 marine resource-processing plants do currently exist in Namibia and five of the companies surveyed own more than one plant (see “Foundation and number of plants”) it can be stated that the analysis comprises around three quarters of Namibian fishing companies that have processing facilities. However, the analysis does not contain any newcomer companies. Newcomer companies have been excluded from the sample since they are insufficiently involved in the export business.

The interviewed persons held the following posts in the companies: Managing Director or General Manager (8) and Product or Engineering Manager (3). With exception of two, all interview partners were male and white. This is in line with the general situation in the sector where management is highly dominated by white men. Only one company in the fishing industry is currently managed by a black Namibian man (Nichols 2004a).

As can be obtained from Table 3, additional interviews with two companies from other sectors, with officials from the Ministry of Fisheries and Marine Resources (MFMR), the Ministry of Trade and Industry, the Ministry of Agriculture, the Central Bank, private sector support institutions and research institutions were conducted during the author's field studies in Namibia. However, it is only the interviews with officials from the MFMR, the Ministry of Trade and Industry, the Namibian Manufacturing Association, and the WBCG that are incorporated to the following analysis.²⁴

Table 3: Number of total interviews in Namibia

Fishing companies	Companies from other sectors	Ministries'/Central Bank's Representatives	Private sector support institutions	Research Institutions, Foundations	Total
11	2	10	3	4	30

Major products and markets: The main fishing species caught are fresh and frozen hake (caught by eight companies), monk fish (6), horse mackerel (4), and kingklip (3). Though the Namibian fishing industry catches many more species, hake and monk are primarily exported to the EU market.²⁵

The EU is the main market for the majority of companies surveyed (8 of 11). Seven companies deliver on average 83% of their total hake production to the EU, three companies deliver 100% of their monk production to the EU market and one company supplies the EU with 100% of its kingklip catches.

The second important market is Africa (except SACU) that is predominantly supplied with low-value, high protein fish, namely horse mackerel (see Box 2). The horse mackerel is either frozen at sea or dried and salted ashore. The FAO (2000:4) states that around 70% of total Namibian production of horse mackerel is destined for African countries.

The SACU market, which is the third important market for the Namibian fishermen surveyed, receives often "the rest" of fish production (10-30% of total catches of hake, horse mackerel, kingklip, and salted and dried fish). Only one company

²⁴ Since the analysis of the Namibian fishing industry is part of a broader analysis for the author's PhD thesis, additional 13 interviews were concluded with officials from two large companies acting in the food-processing industry, two research institutes, three private sector support institutions, the Ministry of Finance, Customs and Excise, the Central Bank (2), the Namibian Investment Centre, and political foundations (2).

²⁵ The hake production alone accounts for 50% of the total value in the Namibian fishing sector (Erastus 2002:5).

produces almost exclusively for the SACU market (pilchard, which is either canned or processed into fishmeal).

For one company each, the USA and Japan respectively are the main export markets. The products delivered are orange roughy (USA) and lobster (Japan). Orange roughy, a rather unknown fish in the EU, is very popular in the USA where the majority of Namibian orange roughy is exported to. Japan, on the other hand, is the main export market for Namibian rock lobsters and deep sea crabs (MFMR 2004c:5).

In sum it can be stated that the major products and export markets of the companies surveyed reflect the pattern of the whole sector, as discussed in section 3. Thus, the majority of surveyed companies' exports, which are mainly hake, go to the EU market.

Box 1: Regional exports and regional cooperation of the Namibian fishing industry

Namibian fish exported to other African countries is mainly low-value, high protein fish. Four of 11 companies surveyed export to other African countries and also want to expand their export to Africa. The most interesting export market seems to be Angola to which all four companies want to expand their exports. Since Namibia has signed a bilateral cooperation agreement on fisheries with Angola for joint research on shared fishing grounds, in particular for pilchard and deep-sea red crab (FAO 2000:5-8), this finding is likely to be representative.

Further export markets the companies surveyed explore are Nigeria, DR Congo, Congo Brazzaville, Tanzania, Egypt and Mauritania. The companies do not only want to export to these markets but also to enter into cooperation agreements with their foreign counterparts in order to guarantee access to new resources. One company does even plan to set up factories in Mauritania and Angola in order to serve the Egyptian and Nigerian market. The expansion of Namibian fishing companies in the region could therefore be of mutual benefit and is promoted by the Namibian government, which is also working on procedures and criteria to enter into fisheries agreements with SADC member states (MFMR 2004c:15). Official agreements between Namibia and other SADC member states make sense, since the absence of any regulation implies the risk that Namibian trawlers exploit foreign resources like European and Russian trawlers did in Namibia before independence. It is therefore essential that the sustainable use of common fishing resources is regulated in a SADC framework. Namibia became the leader of the SADC "Sector Coordinating Unit for Marine Fisheries and Resource" in 1991 and provided guidance to formulate a common fishery policy (FAO 2001:23).²⁶ However, efforts to implement such a policy have been limited so far. Also, the SADC Protocol on Fisheries, which was signed in 2001, has not entered into force yet.

Asked for their main reasons to export to other African countries, the companies surveyed that export to the African region stated that there would be a high demand for their products. Furthermore, low non-tariff barriers and low product requirements would make the African market attractive. The other issues were rather controversially discussed: the proximity of the African market was judged as advantageous by two companies, while the other two companies stated that exporting on the road would be expensive, slow and bear the risk of theft. The prices achieved in the African market were judged as insufficiently by two companies but as attractive by the other two. The same applies to the question of competition and

²⁶ The Unit wants to a) establish a regional research and management network; b) adopt common import and export strategies; c) cooperate in human resource development; d) promote labour-intensive and value-adding processing industries; e) promote sustainable aquaculture policies (Hashiyana and Einarsson 1998:87).

import tariffs which were judged as low by two companies but as high by the two others.

The seven companies that do not export to Africa and/or do not intend to expand their exports to the African market gave the low price of sale as main reason. Because of the weakness of the majority of African economies, there would be a high demand but a low price so that the African market would not be attractive for high-valuable products, such as hake and monk fish.

Foundation and number of plants: With exception of one, all companies surveyed were established after independence, between 1990 and 1996.²⁷ Six out of 11 companies had only one plant that is located in Walvis Bay. Two companies had in total two plants,²⁸ two further companies owned 7 plants and one company owned 17 plants. With exception of one, all companies had exclusive plants in Namibia, which is suspected to be representative for the whole industry because of Government's "Namibianisation" policy.²⁹

Ownership: Four of the companies surveyed were domestically owned and six were joint-ventures. One company stated that it incorporates in total 17 companies of which eight were fully Namibian owned and seven were joint-venture companies. The contingent of shares of surveyed joint-venture companies differed, while four companies showed only a slight majority of Namibian shares (50.56-55%), two joint-venture companies were predominantly Namibian-owned (80-90%). The foreign shareholders were either South African or European citizens. This finding reflects the comprehensive re-organisation of the Namibian fishing industry after Namibia's independence. None of the companies surveyed was foreign owned and all joint-venture companies had a Namibian share of more than 50%. Since enterprises, which show a Namibian ownership of less than 50% are only entitled for 7-years fishing rights (instead of up to 20 years) and face disadvantages regarding quota allocation, the companies have a strong motivation to "Namibianise" their shares. However, foreign companies (South African and European) were involved in the majority of surveyed companies' businesses. Again, this finding presents the situation in the whole industry. There is a strong move to involve foreign companies in joint-venture cooperation since no new fishing rights have been allocated since 1997/98 (Nichols 2004a).

Turnover and Employment: The companies surveyed showed considerable differences regarding their turnovers: the smallest company showed a turnover of less than N\$ 15 million and the largest company had a turnover of N\$ 650 million in 2002. Seven companies showed a turnover between N\$ 60-180 million.

²⁷ One company was established in 1999 but had a predecessor that existed already since 1946.

²⁸ However, one company stated that its second plant is currently not working because of a lack of fish.

²⁹ One company surveyed also had a factory in Cape Town, South Africa.

The number of employees also differed considerably and accounted for 120 in the smallest and 850 in the largest company.³⁰ Five companies employed 250-600 workers. Considering the turnover and the number of employees, all companies surveyed can be classified as large companies from a Namibian perspective (UNIDO 2003:10).³¹

The workforce of the companies surveyed was highly dominated by male workers: 10 of 11 companies employed more than 60% men.³² The high gender bias can be explained by companies' processing method: offshore processing is still dominating and the workforce on trawlers is exclusively male. Women dominate in fish fabrics where 80% of the workforce is female (Iyambo 2003c:4).

Processing of products: Six of the 11 companies surveyed froze their products at sea and at land, three companies sold only sea-frozen products, one company froze exclusively on-shore and one company produced only canned fish and fish meal.

While the method of land processing is more labour intensive and favoured by the Government (which has introduced a 60% "wet-fish quota" for on-shore processing of hake) it has the disadvantage that the vessel must go on land around every eighth day (varying on vessel type). By using the capital-intensive processing method on sea, the trawler can stay at sea for up to 45 days. Furthermore, sea-frozen fish is regarded as a higher value product since the fish is frozen immediately after having been caught at sea. Thus, the returns of offshore processing are higher than of onshore production and offshore activities are still dominant in the Namibian fishing industry (MFMR 2004c:5). However, the margins between sea and land processing are narrowing. The Government strongly promotes onshore-processing, not only because this processing method is much more labour-intensive but also because it offers more options for increased value-addition. Onshore processing gives the companies a much higher flexibility to reply to the market, as they can store the fish and do not have to process it immediately (Nichols 2004a).

³⁰ One company stated that it employs 700 workers during the season (five months per year) but has only 48 fixed workers.

³¹ According to the Namibian Policy and Programme for Small Businesses a SME in the manufacturing sector employs less than five persons and has an annual turnover of less than N\$ 250,000 and/or capital employed of less than 100,000 (UNIDO 2003:10).

³² For five of them this share is 90-97%. Only one (fish processing) company employed more women than men (25 vs. 75%).

Table 4: Summary of characteristics of surveyed Namibian fishing companies

Foundation	<i>N = 11</i> 1990-96: 10 1999: ³³ 1
Ownership	<i>N = 11</i> Domestic company: 40.0% Foreign company: 0% Joint-venture: 60%
Number of manufacturing plants	<i>N = 11</i> 1 plant: 6 2 plants: 2 7-8 plants: 2 17 plants: 1
Employment	<i>N = 11</i> 100-200: 3 250-400: 3 450-600: 2 700-850: 3
Turnover (2002)	<i>N = 21</i> <N\$ 15 Million: 9.1% N\$ 60-90 Million: 27.2% N\$ 130-180 Million: 45.5% N\$ 320 Million: 9.1% N\$ 650 Million: 9.1%
Market focus	<i>N = 25 (multiple answers possible)</i> EU: 56% SACU: 16% Rest-Africa: 20% USA: 4% Japan: 4%

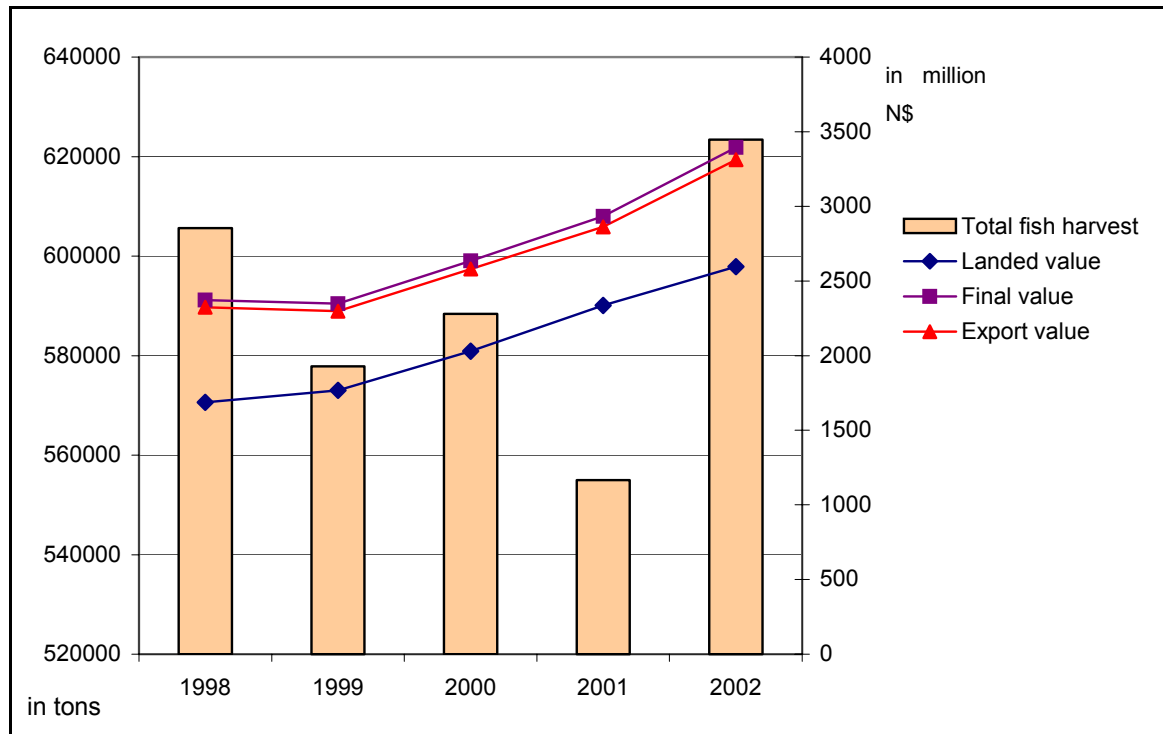
Summarising companies' profiles and characteristics as stated in Table 4 it can be stated that all companies surveyed are large, well-established firms that contribute

³³ The predecessor of this company was established in 1946.

significantly to Namibia's employment and income from the manufacturing industry. The companies are in majority joint-ventures but Namibian shareholders are dominating. Companies' main export market is the EU, which receives the species hake, monk and kingklip. Most companies produce in both ways: offshore and onshore.

As discussed, offshore activities are still dominant in the Namibian fishing industry. Government's success for more onshore processing activities and a higher diversification of fish products have been limited so far as can be obtained from Figure 4.

Figure 4: Total fish harvest and value of fish and fish products, 1998-2002



Source: Data collected from MFMR (2004b:26).

The landed and final value of Namibian fish increased continuously in the period 1998-2002.³⁴ The landed value (ex vessels price) did even increase in 2001, when the total fish harvest declined considerably, which indicates that prices increased significantly and compensated fishermen for decreased volumes (as already discussed in section 4). Another even more influential factor for the increased landed value is the devaluation of the N\$ against major currencies.³⁵ Furthermore,

³⁴ The final value of fish increased by more than four times and was N\$ 3,395 million in 2002 (MFMR 2004c:26).

³⁵ The N\$ is pegged at par to the Rand, as Namibia is a member of the Common Monetary Area (CMA). The Rand lost 26% against the DM from December 2000 to December 2001.

an improved quality of landed fish might have contributed to the increase in landed value.

However, what can also be obtained from Figure 4 is that the distance between landed value and final value increased only slightly in the period 1998-2002.³⁶ This again suggests that only little improvement regarding increased domestic value addition has been achieved.

Before discussing the position of the companies surveyed in the international value added chain for fishery products as well as their strategies to upgrade products and processes, the following section discusses companies' relationships to their EU counterparts, the relevance of EU inputs for manufacturing activities and the international competition situation of the companies surveyed. Special attention is given to the question where the advantages and disadvantages of the EU as export destination are and to what extent the close relationship to their European partners has helped the companies surveyed to improve their products and processing methods.

5.2. Exports to the EU and Development of Export Options

Only eight of the 11 companies surveyed export to the EU.³⁷ All of them have started their export business between 1992 and 2000. Since about 97% of all fish caught in Namibia's marine waters is exported, there is virtually no company in the Namibian fishing industry that produces exclusively for the domestic market (Iyambo 2002:13).

Market Advantages of the EU: All companies that export to the EU confirmed that preferred market access (15% import duty advantage compared to non-ACP suppliers for fresh or chilled fish) and long-standing cooperation with a European company are important or very important advantages. Furthermore, seven of them judged the high EU product standards as advantageous (see Figure 5). The high quality requirements of the EU market can be seen as beneficial because they offer the companies the chance to get higher prices and capture new, demanding markets (Nichols 2004a).

Asked for their appraisal about the development of EU prices, six companies stated that stable prices are a (very) important advantage of the EU market, whereas two companies said that EU prices would be rather volatile. Surveyed companies' assessment regarding knowledge transfer was also very mixed: four companies stated that this is a (very) important advantage, while the other four companies judged it as only partly relevant or irrelevant. A similar, rather mixed picture is provided by asking whether technical assistance is seen as an advantage of the EU

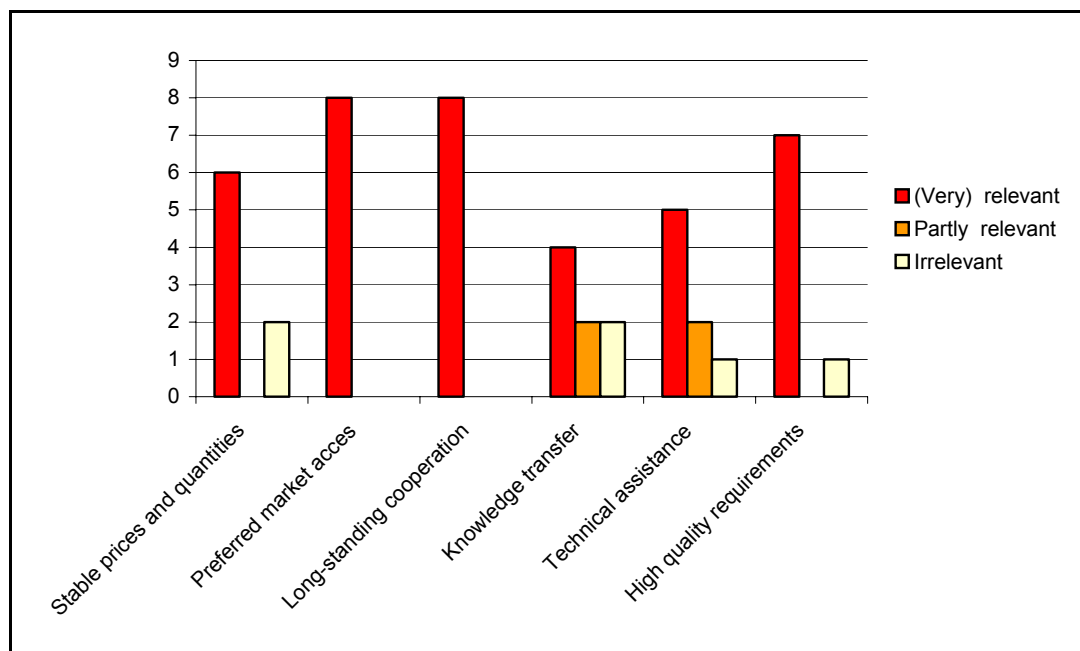
³⁶ Since around 97% of total harvested fish is exported, the export value and final value of fish are almost similar (Iyambo 2003c:6).

³⁷ The other three companies export exclusively to African countries.

market: five companies named it as (very) relevant factor but three companies denied the relevance of technical support.³⁸

Asked for further advantages of the EU as export destination, the companies named the high demand for their products (said by four companies) and the option to supply an attractive market niche (1) as advantages. The high European demand for Namibian fish, especially hake, is the driving force for Namibian fish exports. Most of all the well-organised and structured Spanish market has helped the Namibian fishing industry to bring business confidence to the sector and to improve its quality standards (Nichols 2004a).

Figure 5: Summary of surveyed companies' reasons to export to the EU (N = 8)



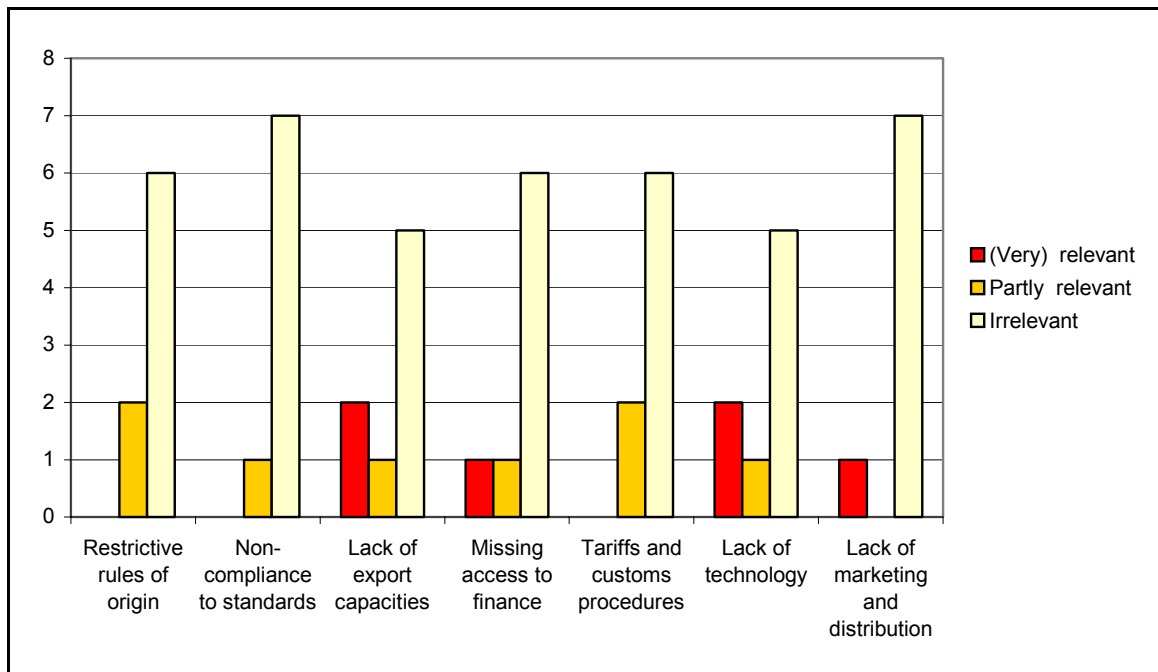
Market Disadvantages of the EU: To meet the rules of origin was not a problem for six of eight companies that export to the EU. Only two companies stated that they have had problems to meet the rules of origin when starting their export business. However, as discussed in section 4, the rules of origin under the Cotonou Agreement are very strict and do not foresee that Namibian fish products cumulate with South African inputs as long as fishery products are excluded from the TDCA (European Commission 2000, Art. 6.7 and Annex XIV to Protocol I). Thus, Namibian fishermen are only able to export manufactured fish products originated from Namibian waters duty free.

³⁸ However, the question did not differentiate between technical assistance provided by governmental institutions (e.g. by the EU Centre for Development of Enterprises that assists some Namibian companies to attend at fairs in the EU market) and by technical support given on a company-to-company basis.

The product quality and health standards applied by the EU as well as the quantities required do not seem to be a hindrance for surveyed firms to enter the EU market and are rather judged as advantageous. With exception of one, none of the interviewees had any problems to comply with EU standards. To fulfil the EU's quantitative requirements is also not a problem for any company. However, three companies misunderstood the question and stated that (sometimes) quotas constrained their exports (see Figure 6).

Other, almost non-existing, constraints are access to finance, tariff barriers and customs procedure as well as channels to distribute and market products successfully. Surprisingly, missing access to technology, namely of new vessels, also seemed to be only of minor relevance, with eight companies judging it as irrelevant. One company summarised the situation in the sector: *"Everybody has old vessels; we are a third world country! 95% of vessels in the fishing industry are older than 15 year. But if you have only maximum fishing rights of 15 years you will not invest in new vessels."* On average, each firm, acting in the fishing industry owns 2.1 vessels, which have a mean age of more than 30 years (Erastus 2002).

Figure 6: Summary of surveyed firms' hindrances to export to the EU (N = 11)



Further issues that were named as constraining factors to export to the EU were high transportation costs (said by three companies), missing business connections (1), and high credit costs due to non-existent subsidies in the industry (1). Those three companies that do not export to the EU named a missing demand for their products as reason

Altogether, the companies surveyed face few problems to enter the EU market. Nichols (2004a) confirms that rules of origins, standards, export capacities, tariff barriers and customs procedures are not a problem for Namibian fish exporters to

enter the EU market. A lack of technology would only be a problem for newcomer firms. It is however surprising that the companies surveyed barely have problems to finance their business and to market their products. Generally, many fishing companies have problems to apply for local credits. Since the industry depends highly on unpredictable TACs and company specific quotas for its economic wellbeing, many banks do not grant low-priced credit (MFMR 2004d:2).³⁹ That the majority of companies surveyed do not have problems to obtain the money required for investment, is likely to be because most of them show international linkages. The form and relevance of international linkages for companies' economic performance will be discussed in detail in section 5.6.

Companies' statement that they do not face any problems to market and distribute their products in the EU does not seem to reflect the reality of dynamic changes sufficiently. The discussion in the sections 5.5 and 5.6 shows that most companies are not involved in these value added intensive activities and have not developed any strategies to improve the marketing and distribution of their products. International high value adding activities such as the creation of brands and marketing of supermarket products do still take place in industrialised countries. Considering this, surveyed companies' answers might be an indication for companies' limited awareness of their position in the global value added chain.

Development of exports to the EU: Surveyed companies' exports to the EU developed quite differently in the period 1998-2003: four companies said their exports remained stable, two companies indicated their exports increased by more than 50% and two companies experienced a decrease in exports (20-40%) in the last five years. These differences can be explained by fluctuations in catches; the EU demand for fish whereas was constantly high. Those two companies that increased their exports to the EU were able to do so because they have changed the ownership (inclusion of newcomer firms) and were therefore able to raise their quota. Those two companies that showed decreased exports to the EU had to accept a decline in quota and bad catches respectively.

These answers indicate that the expansion of exports to the EU is above all restricted by quotas and bad catches. Nichols (2004a) contradicts these complaints, which does not reflect the realities in the fishing industry sufficiently. Well-established firms could also act competitively with a declining quota if they were more innovative.⁴⁰ The innovation ability of the companies surveyed will be discussed in the sections 5.5 and 5.6.

None of the eight companies that export to the EU face any quantitative restrictions. All their fish exports can be exported duty free because of the Cotonou Agreement.

³⁹ The Ministry does therefore plan the provision of special affordable loans by the Agricultural Bank and the Development Bank in the near future (Nichols 2004a).

⁴⁰ Newcomer firms on the other hand are often not able to use their quotas as they lack of finance and vessels (Nichols 2004a).

Namibia's duty free market access to the EU is judged as competitive advantage vis-à-vis competitors from other developing countries, such as South Africa. One company stated "*We hope not to lose the free market access to the EU. We see how the South African are struggling with tariffs and customs procedures.*" Though South Africa has entered into an FTA with the EU in 2000 it still faces a 15% *ad valorem* duty for most of its fish products, as fisheries were excluded from the EU-South Africa Free Trade Agreement. However, though the free market entry is judged as beneficial by the companies surveyed, the FAO (2001) and WTO (2003) point out it has been disadvantageous for the industry's willingness to upgrade products and services.

Strengths and weaknesses in exporting: The strongest advantage of the companies surveyed is obviously their product quality, which was judged to be excellent by all companies surveyed. The product price is also an advantage for the majority of companies (8); only three saw it as a disadvantage, mainly because their EU retailers would determine the price. That the majority of companies regarded their prices as strength despite the strong Rand supports the thesis that the price elasticity of demand for fish is rather low.

Raw material costs, which were defined as costs to be allowed to fish, and capital utilisation were judged very differently by the companies, with five companies seeing it as an advantage, five companies judging it as a weakness and one company judging it as neutral. Those companies that judged both, their raw material costs and their capital utilisation as strength, argued that domestic operational costs are still comparable cheap in international terms and that they invested into their fleet recently. Those five companies that saw their raw material costs and the utilisation of their capital as weakness stated that the valuation of the N\$ resulted in price increases, that the costs for quota were increasing, and that their fleet would be too old. Next to the age of vessels, it is also the quota that determines the level of capital utilisation. Generally, the return rate on investment in the Namibian fishing industry is regarded as good but is currently suffering from the strengthening of the Rand (Nichols 2004a).

The labour productivity and the costs of labour were judged as disadvantages by most companies (7 each). Only three companies said that the productivity of their labour is an advantage. The labour productivity was seen as weakness because of a lack of qualified labour, high sick leave rates and too powerful labour unions. Two companies mentioned that the high HIV/AIDS infection rate among their workers would have resulted in a declining labour productivity.⁴¹ Another reason for companies' rather negative appraisal regarding the labour productivity was that the industry suffered from illegal strikes in 2002 and 2003. The relationship between employers and employees is still bad in many companies, which is seen as a

⁴¹ The average HIV/AIDS infection rate in Namibia (15-49 years) was estimated to be 23% in 2002 (UNAIDS 2003). It might be even higher in the fishing industry since many fishermen are from rural areas in the North and do not live with their family.

heritage of apartheid. Some interview partners further complained that many representatives of labour unions are not sufficiently informed about companies' allocation of quota and their all-embracing economic performance, which would lead to unrealistic demands. The government has already called upon the parties to improve their communication and to establish a reliable and respectful partnership with each other (Iyambo 2003a:4).

The transport of products to the EU was judged as a weakness by five of 11 companies, three companies saw it as strength (since they exported directly from Walvis Bay) and three regarded it as neutral. Reasons stated by those companies that judged transport as weakness were the unfavourable exchange rate, high costs for fuel, and the high concentration degree in the transport business. A domestic transport sector barely exists in Namibia, so that most transport agents are from South Africa from which the shipping of goods takes place. However, as discussed in Box 3, Namibia is working on the bottleneck of delivering goods via Cape Town or Durban instead of Walvis Bay.

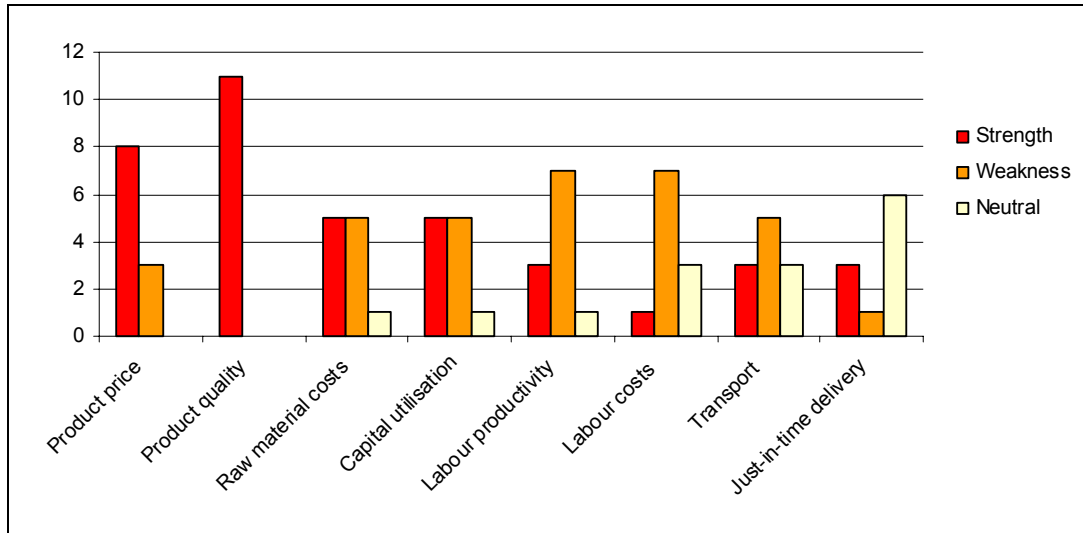
Just-in-time delivery is not an issue for the majority of the companies surveyed (6). Three judged it as strength and only one company stated it as a disadvantage in the export business.

When asked for further strengths and weaknesses in exporting the companies named only strength, namely

- (a) a stable quota and a reliable partner in the export market (said by two companies); and
- (b) the direct delivery to the end market, so that optimal benefit from the whole value-added chain could be reaped (2).

Companies' statements regarding their strengths and weaknesses are summarised in Figure 7.

Figure 7: Summary of surveyed firms' strengths and weaknesses in exporting (N = 11)



In sum, it can be stated that most companies regarded their product quality and price as advantages. Exports are not seriously constrained by the strengthening of the N\$/Rand; the demand for products remained stable due to the low elasticity of demand. Companies main weaknesses are the unfavourable labour cost/productivity ratio and the high transport costs, since most companies have to export via South Africa.

Box 2: Walvis Bay: A new port for the region?

Namibia has two ports, namely Walvis Bay and Lüderitz.⁴² Walvis Bay is the industrial centre, where 91% of total landings took place in 2003 (MFMR 2004d:4). In order to upgrade its deepwater harbour in accordance to international standards and increase the trans-shipment of goods, Namibia invested around N\$ 113 million in the harbour of Walvis Bay between 1994 and 2000 (Gschwender 2003a:636). As result, the port of Walvis Bay was ranked as most efficient harbour in whole Africa (World Economic Forum 2001). However, landlocked African countries like Botswana, Zambia and Zimbabwe, but also Namibia itself, still export and import via South African ports. Though Botswana, Zambia and Zimbabwe would save considerable transit time and around 20-40% of their total transport costs when exporting from Walvis Bay instead of Durban or Cape Town, the harbour of Walvis Bay is still insufficiently used and run at 40% of its capacity in 2003. According to the Walvis Bay Corridor Group (WBCR) the situation is like the one with the chicken and the egg: the ships do not want to go over Walvis Bay since there is not enough cargo but a larger amount of cargo needs a reliable ship transport (Gschwender 2003b).

⁴² Almost no fishing activities take place in Swakopmund, which is only 30 km distant from Walvis Bay (FAO 2001).

However, the bottleneck of delivering goods via South African ports instead of Walvis Bay should be overcome by the work of the WBCG, containing three projects: extension and modernisation of the Walvis Bay harbour, creation of the Trans-Caprivi-Corridor, connecting Namibia, Zimbabwe, Zambia, South of DRC and Angola) and the Trans-Kalahari Highway, connecting Namibia, Botswana and South Africa. To make the Trans-Caprivi-Corridor and the Trans-Kalahari highway work and to increase not only intra-regional but also international trade, mainly for landlocked southern African countries, the WBCG aims not only to establish an efficient infrastructure but also to smoothen trans-frontier operation, e.g. by creating a time schedule for border procedure.

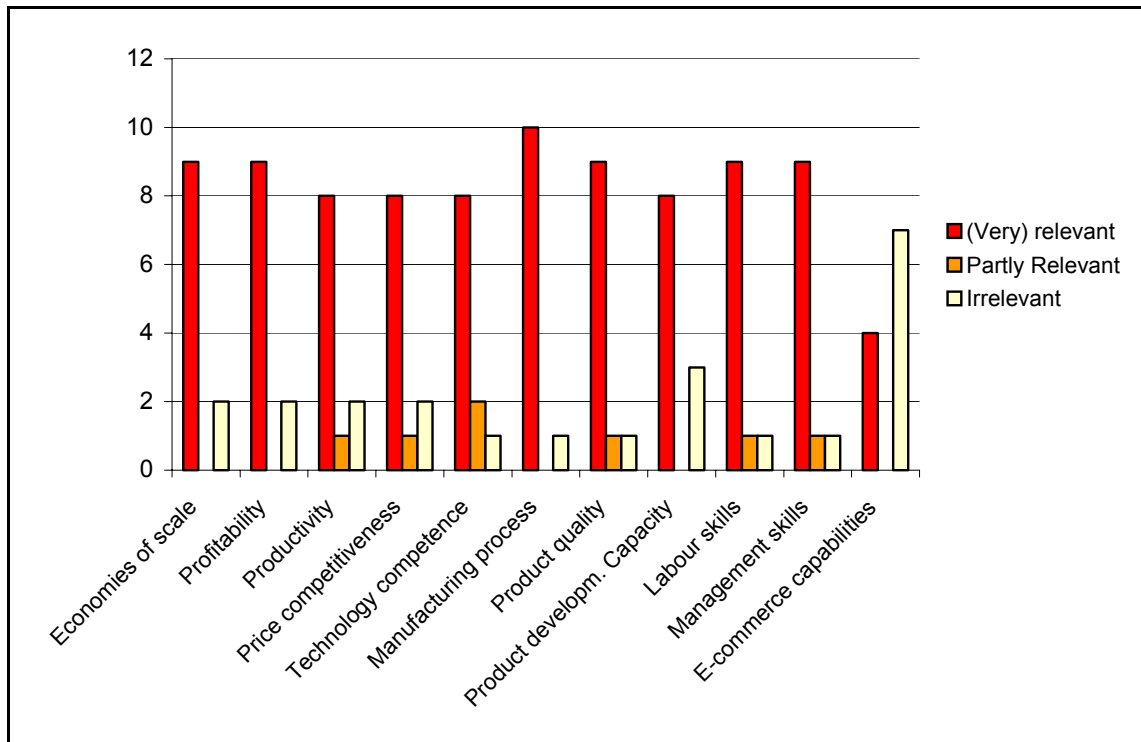
Continuation Box 2

To improve the transition of goods on the Trans-Kalahari Highway, Namibia, Botswana and South Africa have signed a "Memorandum of Understanding" (MoU) to implement a "fast track system" that should harmonise their regulations for transport, reduce NTBs and facilitate customs and border regulations. This has been reached by a regional Public-Private Partnership (PPP), concluding an institutional component (the three Ministries of Transport, Customs and Immigration and private transport enterprises), and an operational component (e.g. longer business hours at the borders). The capacity of the Trans-Kalahari Highway has increased from 15% in 2000 up to 60% in 2003 (Gschwender 2003b). Also the members of the Trans-Caprivi-Corridor seek to harmonise border arrangements to improve the transportation of goods. Zambia, which is connected to Namibia via the Sesheke Bridge since May 2004, is working on a one-stop border concept to facilitate its cross-border operations (Tralac News, 11/05/2004).

Importance of exporting for company's all-embracing performance: The majority of the companies surveyed confirmed that exporting improved their economies of scale (judged as very relevant or relevant by nine of 11 companies), their profitability (9), their productivity (8), their price competitiveness (8), their technology competence (8), their manufacturing process (10), their product quality (9), their product development capacity (8), and the skills of their workforce and management (9 each). Only four companies said that their e-commerce capabilities have improved (see Figure 8). Those two companies that were not able to improve their economies of scale and their profitability because of exporting, stated that they could not expand their production to an extent that the increasing costs and the valuation of the N\$ would have been overcompensated due to a lack of quota.

Most companies were also able to improve technological competence and their manufacturing capabilities due to exporting. Only three companies surveyed stated that this would not be the case since one of them had already "one of the most modern plants in the world" and the other two produced only low-valuable fish (horse mackerel) where no value addition process would make sense because of the cheap image.

Figure 8: Export business' contribution to surveyed firms economic performance (N = 11)



In sum, three quarters of the companies surveyed confirmed that the export business contributes positively to their all-embracing economic performance. Since around 90% of total catches are destined for exports, this finding is not surprising. However, the answers suggest that companies' export activities also contributed positively to domestic value addition. Thus, the manufacturing process of almost all companies surveyed improved, e.g. by the expansion of factories, new machinery or the re-organisation of shifts. Furthermore, the product development capacity and the skills of workforce were enhanced, e.g. by filleting activities, production of small retail packages or new management structures by entering into joint-ventures.

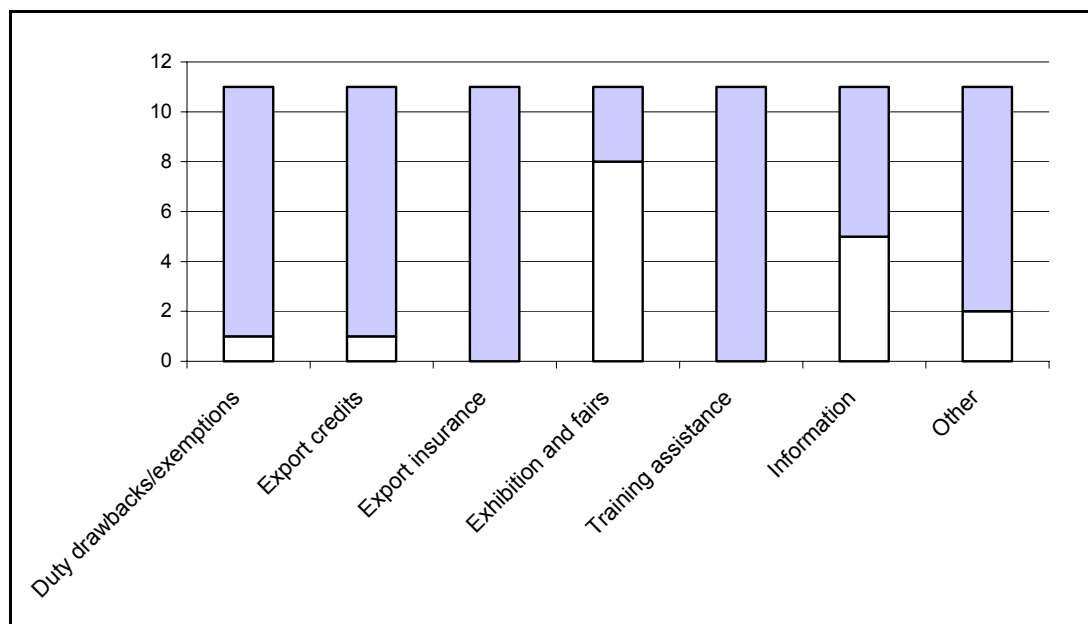
However, this positive self-estimation of the companies surveyed does not mirror the developments in the whole sector. As discussed around 60% of total exports are still offshore processed fish. Since the EU demand for unprocessed (offshore produced) fish is still high and prices are comparably stable, the incentive for upgrading activities in the whole sector is still too low. The Government tries to stimulate processing activities in the fishing industry by granting manufacturing incentives (see Box 4).

Export assistance: The only export assistance the companies surveyed received is assistance to participate at exhibitions and fairs. Eight of 11 companies got accordant assistance from the Ministry of Trade and Industry and private sector support institutions. One company got support from the European Centre for Development of Enterprises (CDE). However, six of those eight companies that received export assistance stated that this would be irrelevant for them. Since the

demand for fish is greater than the possible supply, they would not need to explore new markets. This answer indicates that the high EU demand for fish constrains the innovation and diversification efforts of Namibian fishermen. Though the sector officially recognises the need to diversify its export markets (Tralac news, 29/04/2004), most companies surveyed did not regard their dependency on the EU as problematic.

The Government does not provide direct support for companies that train their staff but has established the Namibian Maritime and Fisheries Institute (NAMFI), which is supposed to train young Namibians for jobs in the fishing industry. However, only two of the companies surveyed stated that they recruit their staff from NAMFI.

Figure 9: Summary of surveyed companies' export assistance (N = 11)



In sum, it can be stated that the Namibian fishing industry receives little assistance for exporting (see Figure 9).⁴³ The Government does rather promote the industry's efforts to increase its processing activities as summarised in Box 4.

Box 3: Manufacturing incentives in the Namibian fishing industry

Namibia's corporate tax for non-mining manufacturing industries is 35%, which is the highest within the SACU region. However, Namibia offers export-oriented companies the opportunity to act in Export-Processing Zones (EPZ) all over the country if at least 70% of total production is destined for exporting. Companies operating in EPZ enjoy diverse preferences like exemption from income and sales tax, customs duties, transfer taxes and stamp duties for an unlimited period.

⁴³ One of the companies surveyed stated that it received a road fund levy rebate. However, this rebate is granted to all companies in the fishing industry since they do not use roads.

Moreover, the companies are able to repatriate capital and profits free to their country (Trades Centre 2000:29). But these investment incentives, which should generate investment in labour-intensive manufactures, such as textile and garments, footwear, leather products, food and beverages and manufacturing of electronic equipment do not apply for the fishing industry since the industry is already regarded as attractive investment destination.

After independence, the fishing industry was substantially under-capitalised and needed large amounts of new capital and new skills (Tralac News, 07/05/04). Due to government's policy to encourage fish processing activities, Namibia shows today *"some of the most advanced fish processing factories in the world."* (FAO 2000:4). The number of processing plants increased from 11 in 1991 to 30 in 2004 (MFMR 2004c:4). In total, the Namibian fishing industry attracted investment of N\$ 2.08 billion in the period 1990-2002 (MFMR 2004c:30). Moreover, the industry received considerable aid amounts from various bilateral and multilateral donors since 1990 (FAO 2000:8-9).

However, processing activities in the fishing industry are still regarded as insufficient. The promotion of on-shore activities instead to capital-intensive procession at sea is one of the development goals to improve the domestic value-addition in the fishing industry. For hake production, the government has already introduced a 60% "wet-fish quota" for on-shore processing and a 40% "freezer quota" for processing the fish at sea (FAO 2001:11). The reason is that the that onshore processing employs in average one Namibian for every 70 kg fish, while the processing at sea employs one Namibian for every 450 kg fish (Iyambo 2003b).

To expand processing activities in the fishing industry and to stimulate new investment, the MFMR has introduced certain incentives. Thus, fishing companies may be granted tax deductions if they use labour intensive manufacturing methods, promote the training of their employees, and invest in manufacturing activities (Manning 2000:9). Companies that employ at least 5,000 Namibians are granted maximum fishing rights of 20 instead of 15 years. Furthermore, quota fees are reduced (and fully rebated for horse mackerels) if the company undertakes on-shore processing activities, e.g. fish canning, filleting or production of fish meal (WTO 2003:A3-189).⁴⁴ The MFMR does furthermore intend to expand the EPZ status to the fishing industry to encourage manufacturing activities and to attract investment (MFMR 2004c:22).

Apart from these manufacturing incentives the government does not grant any subsidies to the fishing industry, as it wants to avoid the overcapitalisation of the sector, which would make the exploitation of fishing ground inevitable (MFMR 2004c:13, 17).

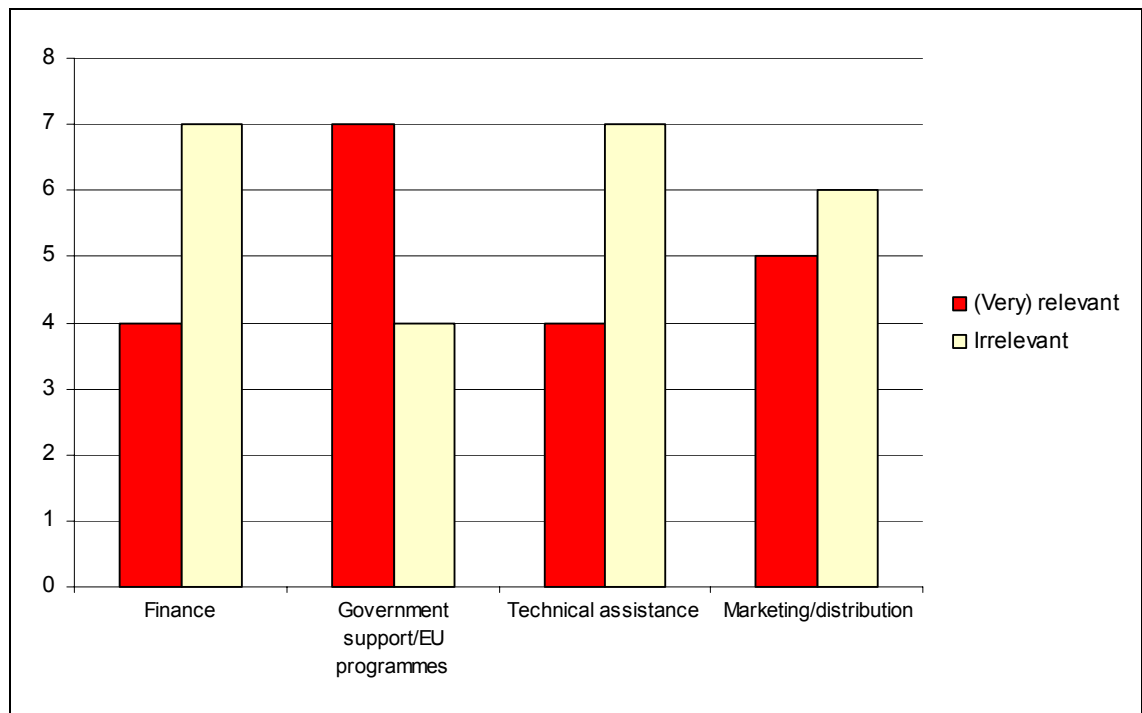
⁴⁴ However, so far the Namibian horse mackerel is fully processed off-shore (Nichols 2004).

According to the interview results, most companies regarded the high requirements of the export business as advantageous. To become a successful exporter, the companies have to comply with EU market demands to be reliable and deliver high quality fish. This again motivated some companies surveyed to invest into their fleets and to improve their product quality by improved manufacturing processes and the introduction of new products. New products, such as fish fillets in retail packs, again, required better labour and management skills. High consumer demands can therefore help companies to upgrade their products and processes.

However, since the demand for offshore processed fish is still high, many companies still prefer "to take the easy way" and do not undertake sufficiently efforts to upgrade their products and processes or to diversify their markets. This again makes them vulnerable to market fluctuations and limits their options to reply to challenges.

Required support to expand exports to the EU: It can be stated that most companies surveyed needed little support to enter the EU market in form of finance, technical assistance or assistance to market and distribute their products (see Figure 10). What was required was better support by the Namibian Government and the EU (said by seven of 11 companies), namely improved and updated information about joint-venture options, how one could benefit from trade agreements, latest research analysis about consumer preferences and EU standard requirements.

Figure 10: Surveyed companies' need for export assistance (N = 11)



The EU has partially responded to companies' requirements since its lack of information policy has been subject to criticism for a long time. Thus, the European

Commission, General Direction Trade is publishing the “SPS newsletter” since early 2004, which is available on the Internet free of charge.⁴⁵ Mainly exporters from developing countries should be informed about latest requirements and amendments of European food and health standards. Also the Centre for Promotion of Import from Developing Countries (CBI) offers an online information and assistance centre where exporters from developing countries receive latest information on EU import requirements for single products⁴⁶.

5.3. Europe’s Relevance as Input Source

Main source of inputs: The majority of companies surveyed received their inputs from Namibia (8). However, those companies, which have a high processing degree, got their main inputs, such as cans, sauce, and packaging materials, but also fuel and spare parts, from South Africa. This finding suggests that Namibia lacks of effective forward and backward linkages to its industry and is in line with the appraisal of the Namibia Foundation (1998:57), which sees an investment need in fish processing related activities, such as vessel and equipment maintenance, production of packaging material and provision of services. So far, only few, well-established fishing companies are totally horizontally and vertically integrated. However, for Namibian companies it is very difficult to build-up new industries since the country is in a customs union with South Africa and cannot benefit from economies of scale like established South African firms.

Development of input prices: All companies surveyed stated that the prices for inputs increased in the last five years (see Table 5). Four companies faced price increases up to 20% and five of 30-50%. Above all, the prices for fuel, wages and spare parts increased. Price increases were aggravated by the devaluation of the N\$ until the end of 2001. However, the recovery of the N\$ since early 2002 has not resulted in an equivalent price reduction for domestic inputs. Since the South African economy is comparably concentrated most companies face only limited competition and were thus not forced to lower their prices (Kaplinsky *et al.* 2002 : 1169–72).

⁴⁵ Available at: http://trade-info.cec.eu.int/doclib/cfm/doclib_section.cfm?sec=175&lev=2&order=date, accessed 01/07/2004.

⁴⁶ Interested persons can register free of charge at <http://www.cbi.nl>.

Table 5: Summary of surveyed firms' main input source and development of input prices

Main input Source	N = 11	
	Namibia: 8	
	South Africa: 2	
	Other: 1	
<u>Price Development</u>	N = 11	
Increased	100%	
Decreased	0%	
<u>Price Development</u>	N = 11	
Increased by 1-10%	9.1%	
11-20%	27.3%	
21-40%	18.2%	
41-50%	36.3%	
>50%	9.1%	

As the results showed, the companies surveyed are not connected to the EU market by imports but only by exports. Inputs used for processing activities were mainly imported from South Africa since the Namibian industry lacks of according industries. Despite being in a monetary union with South Africa, Namibian fishermen complained about exchange rate related price increases. This can be explained by indirect imports via South Africa (e.g. fuel), by price increases for inputs used for South African inputs (e.g. steel for cans) and by limited competition in the South African market.

5.4. Competition in the Domestic and in International Markets

Main competitors and competition within the EU:⁴⁷ The companies surveyed stated that their main competitors were in the country and in South Africa. Only one company said that one of its main competitors came from the EU. Three companies on the other hand stated that they do not face real competition and would compete above all with other Namibian companies for the allocation of totally allowed catches (see Figure 11).

⁴⁷ Multiple answers possible, N=11.

None of the companies felt adversely affected because of European fish imported to Namibia. However, five of the eight companies that export to the EU feared South African competition in the EU market (see Figure 12). It was stated that South African exporters can compete successfully with Namibia in the EU despite the 15% import tariff rate South African fish faces. This would be the case because South African companies do not have to pay quota levies and would have a higher quota for hake. Further advantages would be the good South African hake quality (which would be preferred by European suppliers) and the proper South African infrastructure.

Figure 11: "Where are your main competitors?" (N = 11, multiple answers possible)

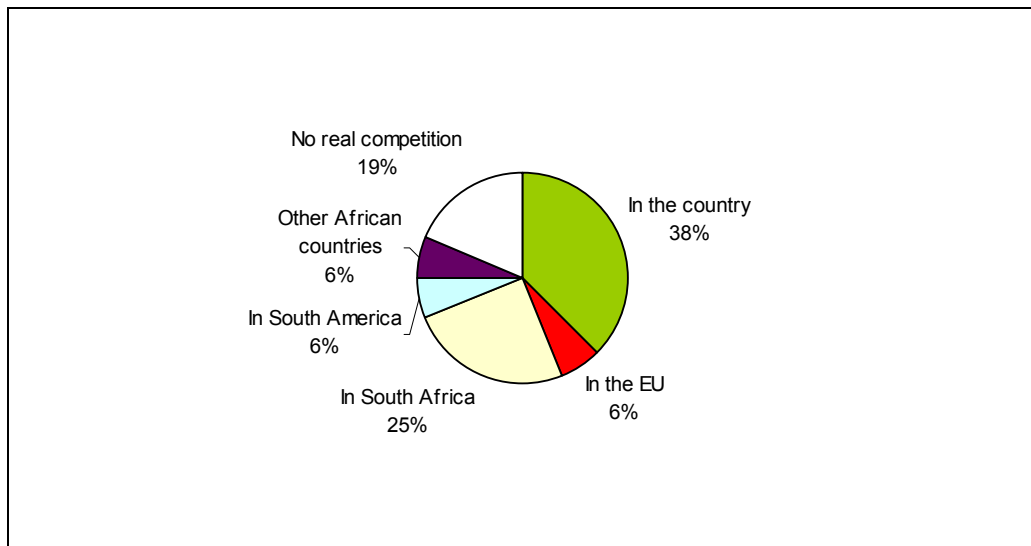
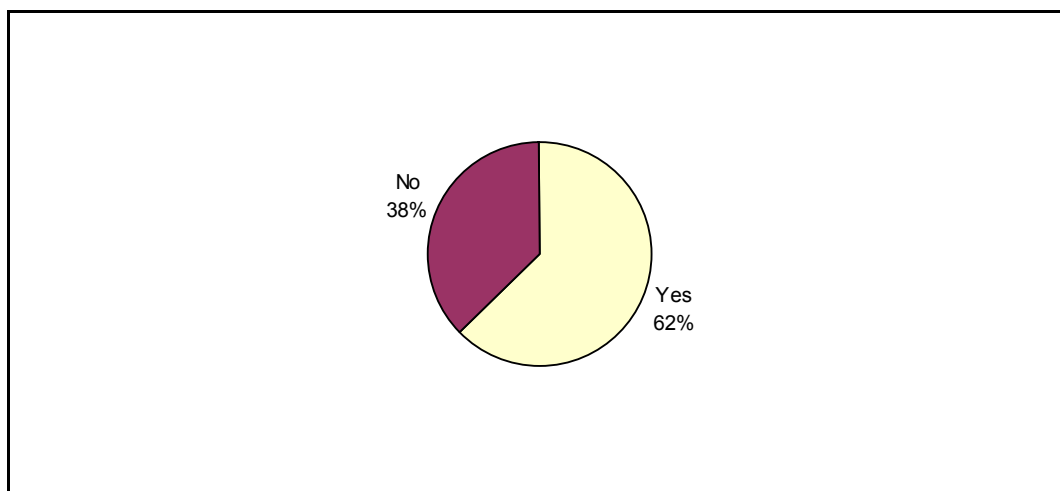
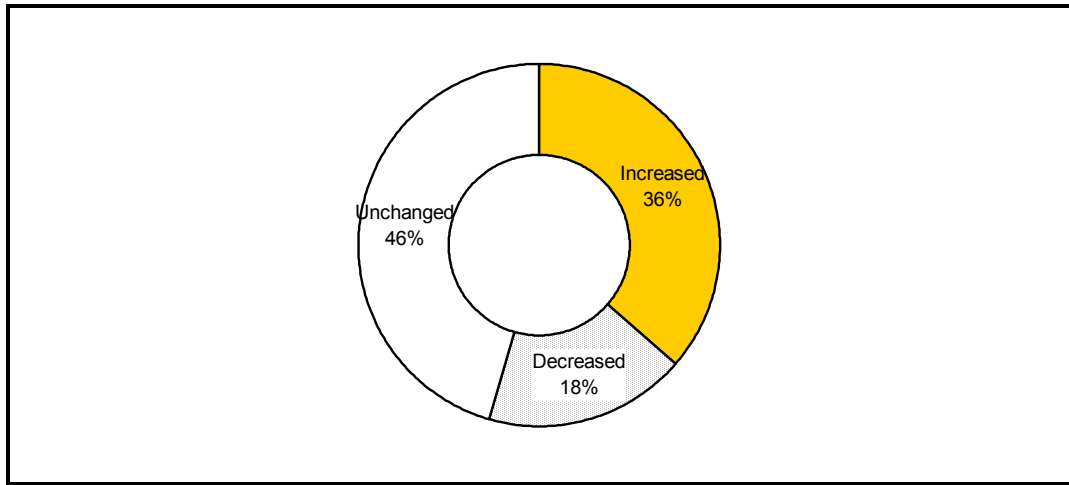


Figure 12: "Do you feel adversely affected because of South African competition in the EU market?" (N = 11)



When asked for the development of their general competition situation in the last five years, more than half of the companies stated that it had remained unchanged or that competition had declined. Only four companies faced increased competition from South Africa or South America (see Figure 13).

Figure 13: "How did your general competition situation develop in the last five years?" (N =11)



Though there are of course different market pressures for single export markets, it can be stated that most of the companies surveyed that export to the EU are not constrained by increased competition. The EU's demand for fish, in particular hake, is larger than what Namibian fishermen are able to supply. Thus, many companies state that they are rather constrained by the annual quota than by increased competition. Nichols (2004a) answers that the quantity of TACs has remained stable over the last few years for most species and that some companies do not even catch their quota. The reason for the inadequate success of some companies would rather be their unwillingness to innovate and diversify their product range as well as insufficient management capabilities.

Whether the companies surveyed are innovative or not and to what extent this finding is representative for the average fishing company in Namibia will be discussed in section 5.6, which analyses surveyed companies' strategies to cope with challenges. Before, the development of profits and the outlook for the development of exports will be discussed.

5.5. Value Chain and Added Value of Exports

Profit trend and relevant factors: 10 of 11 companies were ready to answer this question in detail. Four companies experienced an increase in profits in the period 1999-2003 (in average 40-50%), five a decline (in average 40%) and one company showed stable profits (see Table 6). It was the years 2002/03 during which the

majority of companies experienced decreasing profits (on average nine of 10 companies), while on average six of 10 companies showed increasing profits in the period 1999-2001.

Table 6: Summary of firms' profit development, 1999-2003

Increased	<i>N</i> = 10
Decreased	4 companies
Remained Stable	5 companies
	1 company
<i>Detailed breakdown: N = 9</i>	
Profits increased by	<i>N</i> = 4
10%	0%
10-20%	0%
21-30%	50%
41-50%	0%
>50%	50%
Profits decreased by	<i>N</i> = 5
<10%	20%
10-20%	0%
31-40%	20%
41-50%	40%
>50%	20%

The reasons for the increase as well as for the decline in profits were mainly volume and exchange rate driven: exports increased (decreased) because of a high (low) quota and the depreciation (appreciation) of the N\$ against the US\$/€ (see Figures 14 and 15). However, companies' profits depended not only on the exchange rate and the development of quota but also on their operational costs, which are judged as being too high. Many companies would not have reduced their costs and explored new markets as they could have done (MFMR 2004d:1-2). As discussed, this behaviour might be explained by limited competition in export markets and a constantly high demand for fish by industrialised countries. Thus, many companies do not see the relevance to act innovatively since their business is running. However, the concentration on traditional markets and products also bears the risk to lose market shares and to become uncompetitive. The fact that South Africa is already seen as the main competitor in the EU market, though the country still faces an import duty up to 15%, reveals that Namibian fishermen need to improve their performance.

Figure 14: Surveyed firms' reasons for increased profits (N = 4)

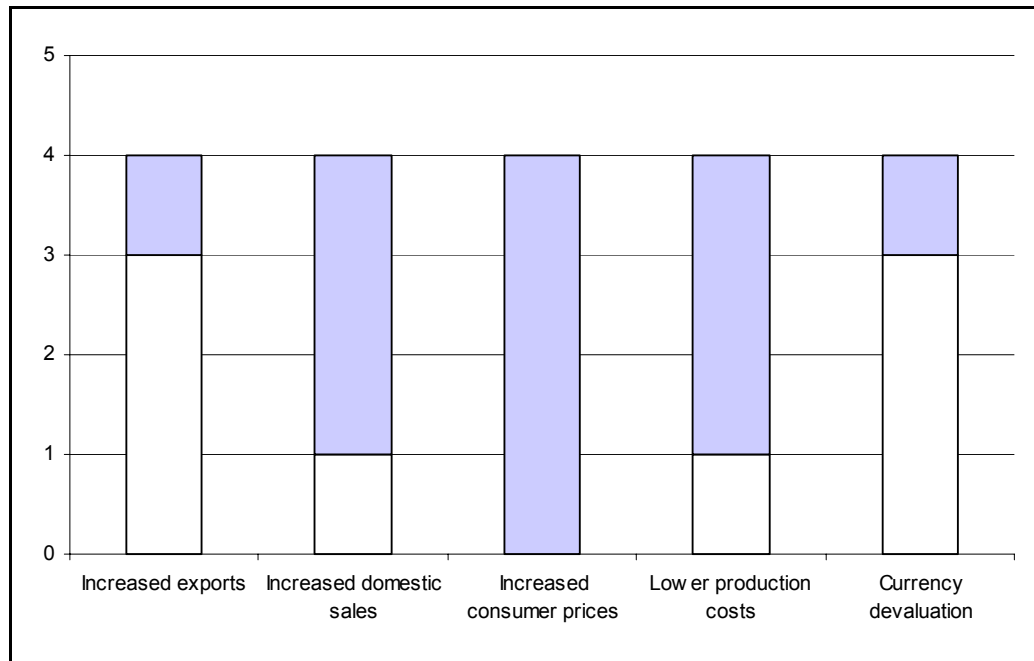
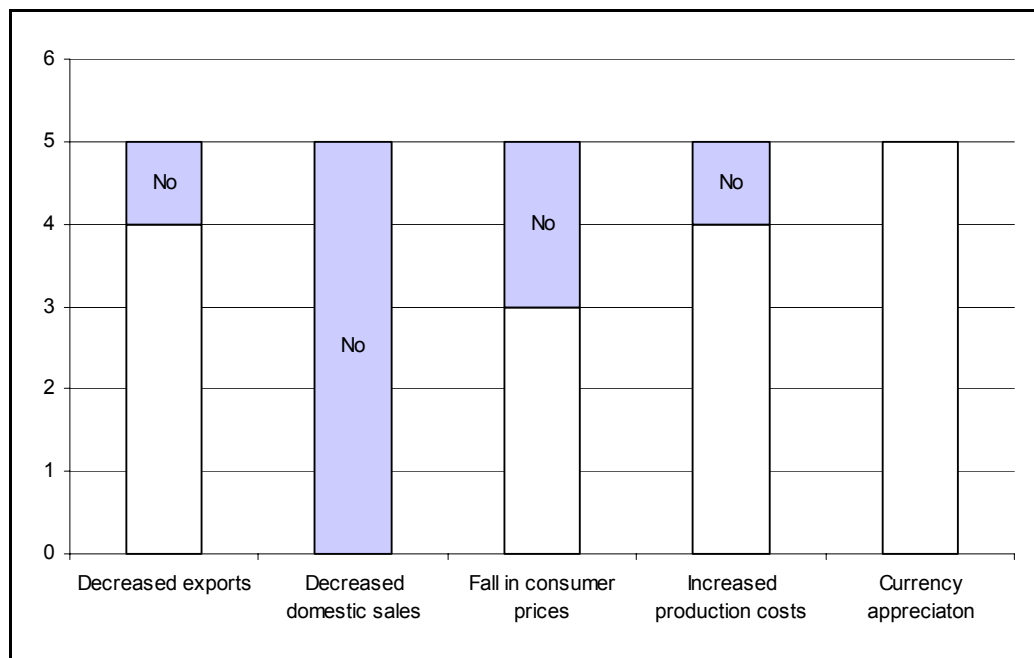


Figure 15: Surveyed firms' reasons for decreased profits (N = 5)



Change in unit price: Asked for changes in unit prices, five companies said that they had faced both, increasing and declining unit prices in the period 1999-2003. Two companies stated that their prices remained stable, two companies had to accept price declines and one company was able to increase its prices. When

analysing the price development per product, 11 of 28 total products remained stable, 10 showed decreasing prices and for five products the prices increased (see Table 7).

All five companies that had experienced both price increases and price decreases in the period 1999-2003 stated that their prices increased/remained stable in the period 1999-2001 but shrank in 2002-2003. This indicates that selling prices are highly exchange rate driven, a thesis, which is also supported by surveyed companies' appraisal of future price developments (see "Expectation of development of exports").

Table 7: Summary of firms' price development

Change in Unit Prices, 1999-2003 <i>(in real terms, inflation adjusted)</i>	<i>Per company</i> <i>N = 10</i>	<i>Per product group</i> <i>N = 28</i>
	Prices increased: 10%	Price increased: 17.9%
	Prices decreased: 20%	Price decreased: 35.7%
	Prices remained stable: 20%	Price remained stable: 39.3%
	Prices increased/decreased: 50/	n/a: 7.1%
Price developments per product group, 1999- 2003 <i>(in real terms, inflation adjusted)</i>	<i>Price increases per product group, N = 5</i>	<i>Price decreases per product group, N = 10</i>
	5- 10%: 4	5-10%: 2
	11-20%: 0	11-20%: 4
	21-30%: 1	21-30%: 1
	>30% 0	>30%: 3

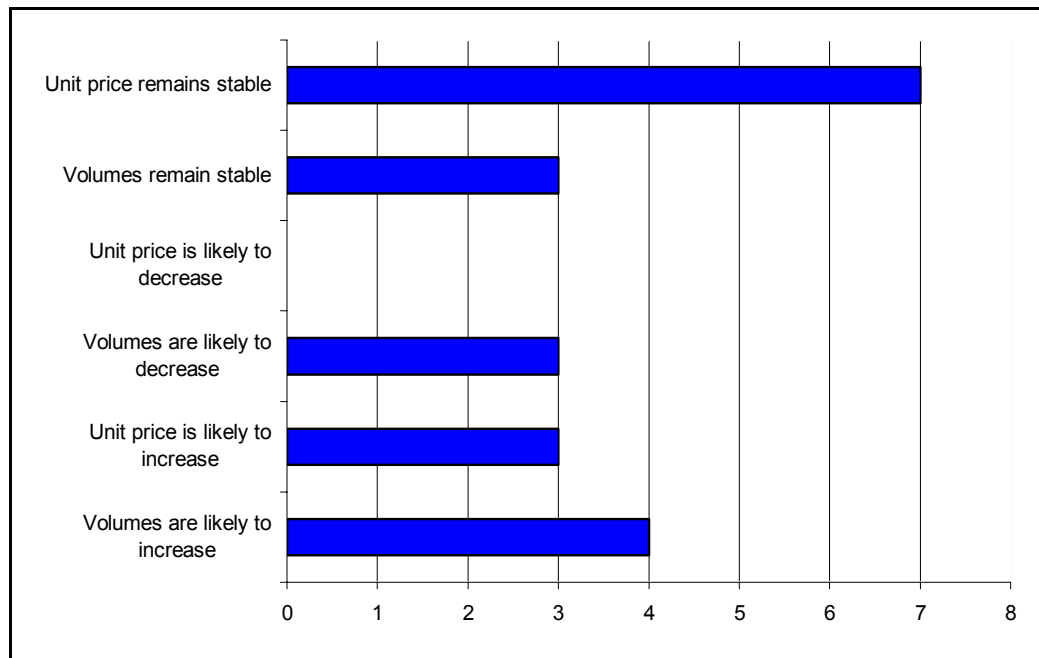
Main export purchasing company: Seven of the 11 companies surveyed supplied large, trans-national buyers and four companies exported to specialised, medium-sized buyers. Those eight companies that exported to the EU market supplied almost exclusively to large, trans-national buyers. This was judged to be attractive, because of the buy-off of large volumes. However, it must be noted that there are differences whether a company supplies a large wholesaling or retailing company: three companies surveyed exported exclusively to wholesalers, which take 5-kg catering packs and repack them at their final destination. Four companies surveyed whereas exported directly to supermarkets. These companies produced fillets in small packs for end-consumers, which is much more labour-intensive than the production of wholesaling packs. Two of these four companies had even developed

their own brand, which they were trying to introduce into the EU market. It was however emphasised that the EU retail market wanted the companies to produce only their supermarket brand and did not support the development of new, company-specific brands. This finding is in line with the global value chain research of the UNCTAD (2002), noticing a "slicing of production" in the world. Thus, value-added parts of the production process, like distribution, marketing and developing of brands would be often concentrated in industrialised countries while developing countries contribute mainly to the labour-intensive part of production.

Expectations of development of exports: Seven out of 11 companies expected stable unit prices in the next five years and three companies saw even the possibility for price increases. As can be obtained from Figure 16, no company expected price declines, which indicates that the companies did not fear according pressure from their global acting customers.

However, the companies surveyed were not so optimistic regarding the future development of volumes. Since they export a renewable natural resource, the realisable export volumes depend on the quota and the quality of fish, which can both only be influenced to a limited extent by the companies themselves.

Figure 16: Surveyed firms' expectations of development of exports (N = 11)



Based on the development of TACs, as stated in Table 8, one could have expected that exporters of hake appeared to be more positive than exporters of horse mackerel, considering that the TAC for hake increased by 18% in the period 1998-2002, while the one for horse mackerel decreased by almost 7%. However, the answers given by the companies surveyed did not show a clear picture. The reasons can be twofold: first, it is conceivable that companies' representatives had rather indicators for the individual quota allocation, such as the "Nambianisation"

degree of their workforce, their investment level and the amount of local value-addition in mind when answering this question, and second, companies' representatives might have also considered their difficulties to catch their quota.

Table 8: Total Allowable Catches (TACs), in '000 tons

Fish species	1991	1998	2000	2002
Pilchards	60.0	65.0	25.0	0
Hake	60.0	165.0	194.0	195.0
Horse Mackerel	465.0	375.0	410.0	350.0
Crab	6.0	2.0	2.0	2.2
Rock Lobster	1.2	0.3	0.35	0.4
Orange Roughy	-	12.0	2.4	2.4
Monk	-	0	0	12.0
Total	592.2	619.3	633.8	562.0

Source: MFMR (2004b).

The divergence between the *de facto* development of TACs and the individual expectation of the companies surveyed can also be interpreted as signs of the different policy approaches of the fishing companies on the one hand and the Government on the other hand. These differences between microeconomic and macroeconomic points of view, as discussed in section 2.1, can be summarised as follows: while the companies intend to maximise their profits with limited efforts, which can be easiest reached by more quota, the government points out that resources are limited and that sustainable profit increases are only possible if the production method is changed and new steps towards increased domestic value addition are undertaken. The Government has therefore limited the exploitation of the resource and introduced incentives to stimulate increased manufacturing activities in the fishing industry.

To what extent the companies surveyed responded to Government's incentives and how far the necessity to diversify products and markets had been adopted is discussed in the next section. The section thereupon is then going to explore to what extent a free trade agreement with the EU might help Namibian fishing companies to upgrade their products and processes.

5.6. Companies' Strategy

Budget for product research and development (R&D): Only two of 11 companies had a budget for product research and development, which was around 2% of their turnover. Both companies that were engaged in R&D were old, well-established firms and part of large holdings, which incorporated several fishing firms. In addition to these two companies, four firms had developed new products in cooperation with their partner companies or benefited from R&D of an associated company.

According to this statement, more than half of the companies surveyed are directly or indirectly linked to R&D activities.

However, it remained unclear to what extent these R&D linkages improved the innovation ability of the companies surveyed. Only one company produced exclusively onshore; most companies combined on- and offshore processing. Furthermore, only four companies produced filleted retail products and only two of them had started to develop their own brand. The interview results do therefore suggest that there is still an untapped innovation potential regarding the introduction of new products, improved processes and branding activities in the Namibian fishing industry.

Training of employees: With exception of one, all companies surveyed invested into the training of their employees. The majority (7) spent 1-2% of their turnover to train their workforce. It is assumed that the companies offer enough in-house training since they have strong self-interest in having enough well-trained Namibians (Nichols 2004a).

However, the lack of skilled human capital is still a big problem to fulfil the goals of the "Namibianisation" policy. Training is therefore given high priority by the Government (Erastus 2000:19). To promote skills in the fishing industry and to integrate Namibian workers better into the industry, the Government created the Sea Fisheries Fund in 1994, which was replaced by the Marine Resources Fund in 2000. The Fund is used for research and training. The Government has developed several courses, which are undertaken by the "Namibian Maritime and Fisheries Institute" (NAMFI) in Walvis Bay, the Polytechnic of Namibia and the University of Namibia (UNAM) in Windhoek (FAO 2000:8). These three institutions are supposed to educate Namibians to be recruited by fishing companies. However, as the interview results showed only two of the 11 companies surveyed recruited their staff at NAMFI, which might indicate the limited acceptance of NAMFI graduates by the industry. To meet the requirements of the industry, some companies recommended that training institutes devise a curriculum in cooperation with the companies, which also contain internships.

Investment in fixed assets: All companies but one answered this question. However, since four companies were not able to indicate figures of 2002 but only their total investments in the last five to ten years (mainly into vessels) the figures are not comparable.⁴⁸ It can thus only be stated the companies surveyed invest in fixed assets, mainly in their fleet.

Looking at the development in the whole industry, it can be stated that considerable investments were undertaken in the last few years. Thus, the number of licensed vessels increased by almost 30% in the period 1998-2002, as can be obtained from

⁴⁸ The investment figures range from < N\$ 5 Mio. (2 companies) to > N\$ 60 Mio. (2 companies).

Table 9.⁴⁹ The largest amounts of investment were made in the demersal fisheries, which fish the most valuable species hake, monk, kingklip and sole. In the period 1990-2001 this sector contributed to more than half of the more than N\$ 2 billion investment into the industry (Iyambo 2002:15).

Table 9: Number of licensed vessels 1999 and 2002

Fishery	1998	2002
Pelagic	35	25
Demersal Trawlers	85	114
Long-Liners	6	10
Midwater	25	20
Linefish	25	26
Crab	3	2
Rock Lobster	29	38
Deepwater	5	6
Large Pelagic	47	71
Monk	-	23
Total	260 (of which 84% were Namibian-owned)	335 (of which 71% were Namibian-owned)

Source: MFMR (2004c:25).

However, the high investment into the industry is not only positive. Though fish processing plants have almost tripled since independence to 30 factories today, the considerable increase of vessels since 1998 is a reason for concern. Since the TACs remained more or less stable, competition among the single vessels has increased. The high investment into their fleets also explains why so many of the companies surveyed complained about a lack of quota: they are under pressure to keep the vessels employed in order to amortise their investment.

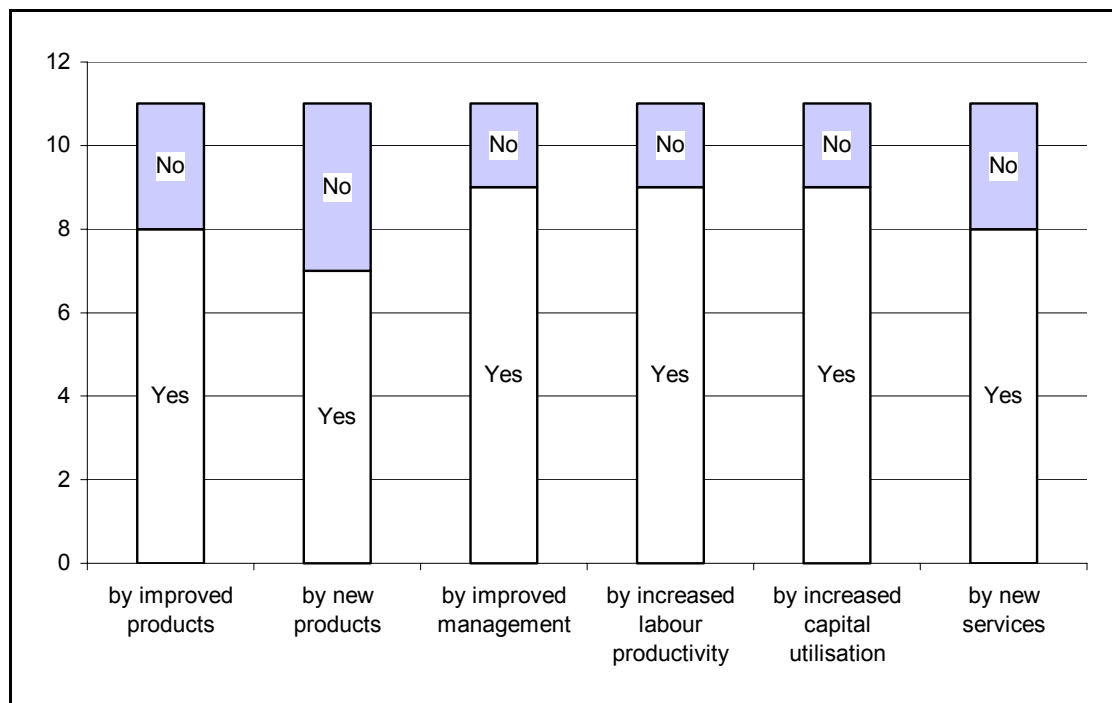
Upgrading of products and processes: The vast majority of companies surveyed stated that they upgraded their products and processes (see Figure 17). The companies tried to improve existing products but also introduce new products. This related less to the production of new fish species (only named by one company) than to increased value adding activities. Thus, the switch from offshore processing

⁴⁹ The proportion of Namibian owned vessels increased from 51% in 1991 to 80% in 2000 but decreased to 71% in 2002 (Iyambo 2003c:4-5).

to the production of hake fillets, which are packed in retail products, was named as product innovation by four companies.

Nine of 11 companies did intend to improve the productivity of their management and workers by in-house training and external workshops and to increase the efficiency of capital, e.g. by investment into their fleet or the change of factory lines. Eight companies also plan to broaden their current activities towards new services, such as the introduction of retail products (said by two companies), the engagement of a marketing agent (2), the introduction of an own label,⁵⁰ and the delivery of supermarkets outside the EU (1). Further upgrading plans related to the introduction of improved production processes and efforts to become ISO 9000 certified (named by one company each).

Figure 17: Surveyed companies' strategy for upgraded activities (N=11)



In sum, it can be stated that 80% of the companies surveyed stated that they were engaged in improving their products and processes. However, there is a significant difference between companies' plans and the activities that had been realised hitherto. Thus, only four of 11 companies surveyed produced fish fillets in small supermarket packs and only two companies had started to develop their own brand (and one company had planned to do so in the near future). Most companies

⁵⁰ Another company had recently introduced its own label and does currently not plan any further activities to upgrade its product.

surveyed delivered either 5-kg catering packs (4) or unprocessed fish (horse mackerel) (2).⁵¹ One company produced canned fish and fish meal.

Considering that the sample of companies contains around three quarters of processing plants in Namibia, it can be regarded as representative, indicating that there is still scope to improve domestic value addition. Though it is undoubtedly that market entry barriers to create a good brand image and to penetrate markets in industrial countries are high and that it takes many years to get a foot into the door, the “easy way” of exporting offshore processed fish, might come to an end. Eroding preferences in the EU market, increasing competition from East Asia (by fish cultivation) and the insecurity of future development of fish stocks, require increased domestic value adding activities to stay competitive. The government states: *“Apart from the development of new resources which is deemed to be fairly limited, the real development potential for the marine resources industry lies in value adding to products, the development of new products and finding new markets for existing and new products.”* (MFMR 2004c:12)

However, by far not all companies have realised the need to diversify products and markets as the dominance of offshore activities and the high investment into new trawlers show. Still, horse mackerel is exclusively frozen at sea and sold to other African countries. Asked for options to fillet this fish and sell to overseas markets the companies surveyed stated that horse mackerel is regarded as low valuable product. Value adding processes would not be rewarded by consumers. However, this statement seems to be quite sweeping since no fishing company in Namibia has tried to sell processed horse mackerel yet (Nichols 2004a). The government promotes the onshore production of horse mackerel by excluding these companies from the payment of quota fees (see Box 4).

A similar picture as with horse mackerel applies to pilchard, which is traditionally canned in a tomato-onion sauce and also only sold to the African market. Here might be product- and market-related diversification options. To increase the acceptance for Namibian pilchard in industrialised countries, the product could for instance be offered with new sauces, preserved in trendy cans, or as vacuum pack of boneless fillets. A market niche would also be pre-cooked, boneless fish dishes that can be easily prepared and are increasingly preferred by European consumers (Tall 2002:4).

Another market niche, which some Namibian fishing companies tried to explore, was the creation of an eco-label, which promotes their fish as caught in clean waters in a sustainable way. However, the MFMR, which is generally supporting the idea of eco-labelling, is concerned whether each company in the Namibian fishing industry is in a position to provide the detailed biological, economic and technical data and whether the provision of this data, which is necessary to receive the eco-label, can

⁵¹ Only three of the four companies that delivered to wholesalers exported to the EU.

be monitored by Government authorities (Iyambo 2003b). Another concern is the international acceptance of a Namibian eco-label. Globally, there are already several eco-labels but no standardised label exists so far. It would, however, be desirable to agree on global guidelines for a fishery eco-label in order to increase certification transparency and consumers acceptance.⁵² The Government could support endeavours in this respect by offering Namibian companies assistance to provide the necessary data and to create guidelines on how a Namibian label should look and how the compliance with these obligatory regulations could be monitored.

Next to the diversification of products and markets, there is also some scope for the development of fish processing support industries, such as gear manufacture and repairs, provision of processing equipment, the creation of storage facilities, and a distribution and marketing network (MFMR 2004c:12).

Encouragement of upgrading: Seven of 11 companies were encouraged by their main purchasers to upgrade their activities. The assistance granted related mainly to technical support to produce supermarket brands (said by five companies). For the development of their own brand, the companies did not receive any assistance. One company also received financial support from its customer to create a supermarket brand. Two companies, on the other hand, stated that their customers formulated only action tasks and did not grant any support at all.

In sum, the technical assistance provided was largely restricted to processing activities and not granted for highly valuable activities, such as branding or marketing. It is therefore judged as important for the Namibian fishing industry to go abroad and to establish its own distribution and marketing network (Nichols 2004a). However, the European fish market is characterised by many distributors so competition is very high. The CBI (2003) expects a further centralisation of the management of trade channels, which makes it very difficult for comparable small Namibian suppliers to get a foot into the door. On the other hand cooperation with European partners is likely to offer new chances to break down barriers to distribute and market products (CBI 2003:2-4).

Strategic alliances: Nine of 11 companies wanted to enter or had already entered into a strategic alliance with a foreign producer.⁵³ Only two companies said that they want to stay "100% Namibian". Asked for the advantages of cooperating with a foreign firm, the surveyed companies named the following:

1. Improved access to markets and distribution channels by valuable contacts (said by 7 companies);
2. Improved access to finance and modern vessels (4);

⁵² For this reason, the WTO Doha Round promotes the creation of an international certified eco-label for fisheries products (FAO 2004b:2).

⁵³ Six of the companies surveyed were in a joint-venture with a foreign company.

3. Inclusion into international value added chains and thus, higher profitability of business activities (2),
4. Exchange of skills (1); and
5. A higher quota that would allow for a higher capital utilisation (1).⁵⁴

Altogether, the companies surveyed saw few disadvantages in a partnership with a foreign firm. Only two interview partners were strictly against any foreign involvement into their company and named the sharing of power and resources as reasons.

New export markets: Most companies surveyed (8) investigated new export markets; only three companies stated that their capacities would be overloaded so that they did not see any reasons to analyse new export options. The main markets the companies surveyed explored were the USA (said by five companies), EU countries (5), African countries (3), Japan and Australia (2 each).⁵⁵ Since most of the companies said that they would investigate new export markets despite their constraints to supply them, they seemed to be well aware of the problems that can result of one-sided market dependency.

The following Table 10 summarises the strategies the companies surveyed pursued.

Table 10: Summary of surveyed firms' strategies

Receipt of assistance to upgrade products and processes	<i>N</i> = 11 Yes: 63.6% No: 36.4%
Intention to enter into a strategic alliance	<i>N</i> = 11 Yes: 81.8% No: 18.2%
Exploration of new export markets	<i>N</i> = 11 Yes: 72.7% No: 27.3%

Most companies surveyed planned to undertake considerable efforts to upgrade their activities and to explore new markets. Cooperation with a foreign partner was desirable for all but two companies surveyed. In cases where companies delivered to retailers, most of them encouraged Namibian fishermen to upgrade their products towards supermarket brands.

⁵⁴ *N* = 9. Multiple answers possible.

⁵⁵ *N* = 8. Multiple answers possible.

However, as discussed the realisation of upgrading activities for the whole industry has not been sufficient yet. In addition to the limited effort of some companies to leave "the easy way", the dualism between well-established companies and newcomer firms is also a reason for the deficient manufacturing performance of the industry. Though newcomer companies are connected to well-established companies by joint-venture agreements, they are not always well integrated into business operations. To reach the integration of newcomers into the international value chain, it is important that they benefit from international business experiences.

According to the interview results, all companies that have diversified their product range successfully were in a joint-venture agreement, which linked them to an international company group. These international linkages were judged as essential to upgrade products and services and to stay competitive. To enter into a strategic alliance with a foreign company was attractive for all but two of the 11 companies surveyed. The interview partners hoped that international linkages would help them to improve their access to markets, finance and distribution channels, and to receive support to upgrade their activities. In fact, examples from other countries have shown that the cooperation with a foreign counterpart might help the fishing industry to improve its access to inputs and to break down barriers to distribute and market products in overseas markets (CBI 2003:2-4).

The question is whether a fisheries agreement with the EU has the potential to help the Namibian fishing industry to enter into multi-beneficial cooperation with European firms. As yet, all EU fishery agreements with African countries are *de facto* FTAs that grant European vessels access to resources and compensate the countries for fishing rights (European Commission 2004). Thus, it should be discussed how the inclusion of fisheries into free trade could help the Namibian fishing industry to benefit from cheap capital goods and knowledge transfer and what are the consequences for national policies in the fishing industry.

6. Chances and Risks for Namibia of Entering into a Fishery Agreement with the EU

Soon after Namibia's independence and its accession to the Lomé Convention, the EU wanted to negotiate a fishery agreement with the country. However, the two parties could not agree on a common position and talks broke down. Since that time the EU has tried several times to negotiate a fishery agreement with Namibia but the Namibian side is not ready to enter into an agreement that provides quota allocations to the EU. Namibia has largely restricted foreign access to its fishing grounds, as experiences of other African countries, where foreign trawlers exploit fish resources, leaving only very limited value added in the country, have been put off Namibia. The Namibian side emphasises that there are, however, existing options of joint-venture or franchise arrangements, which have not been sufficiently exploited by EU fishermen. However, these arrangements do not go far enough for the EU that is highly interested in negotiating an access agreement with Namibia the

only southern African coastal state with South Africa, which has not signed a fishery agreement with the EU yet.⁵⁶

To enter into a fishery agreement with the EU would imply several chances and risks for Namibia. Possible advantages the Namibian fishing industry could obtain would be improved and cheaper access to modern European fishing vessels. As discussed the EU has an (subsidised) overcapacity of vessels and Namibia would – as an ACP country that has successfully negotiated a fishery agreement with the EU – be allowed to buy these vessels at reduced prices.⁵⁷ Currently EU fishermen are not allowed to sell their vessels to Namibian fishermen. One of the companies interviewed states: *“Our average fleet age is 36.24 years. In the EU fishermen receive subsidies when they scrap their vessels. They receive the more money the newer the vessels are. As a result new vessels are scrapped but fishermen still trawl with their old vessels. We offered them to buy their vessel because we urgently need them but it is forbidden; they must be destroyed.”* Thus, a fishery agreement with the EU would offer the industry the chance to modernise its old fleet at substantially reduced costs. It would therefore be of special interest for newcomer companies that lack capital. As a result of a modernised fleet, the profitability of fishing activities per company would be likely to increase. However, as discussed, companies’ investment into their fleet, which was substantial in the last few years, would also bear the risks of overcapitalisation since it increases the pressure on companies to amortise their investment. Another concern is that an “oversupply” of vessels results in increased fishing activities and illegal fishing, which would be detrimental for the sustainability of fishing grounds. Increased supply of minor quality fish could further result in price declines.

In fact, the Namibian fishing industry needs modern processing facilities rather than modern vessels, which would offer the sector the chance to increase the value addition of catches. However, the EU is also interested in keeping its factories busy and seeks to increase the import of unprocessed fish. It is therefore doubtful that entering into a fishery agreement with the EU would result in increased investment in Namibian fish factories. Moreover, a fishery agreement with the EU is likely to oblige Namibia to “reserve” a certain quota for EU vessels, largely independent from the development of stocks. For Namibian fishing companies such a regulation would imply decreased quotas, if the fishing grounds do not develop as predicted. As a result, the “Namibianisation” policy could be slowed down since only a smaller quota could be redistributed to newcomer companies.

On the other hand, a fishery agreement with the EU would increase Government’s revenue from the sector, thus offering the chance to stimulate investment and manufacturing activities by public kick-off finance in the sector. Furthermore, higher revenue could be used to improve the effectiveness of “Namibianisation” policies,

⁵⁶ Angola, Madagascar, Mauritius, Mozambique and Seychelles have a fishery agreement with the EU.

⁵⁷ As stipulated in the Cotonou Agreement, Art. 3.3 (European Commission 2000).

e.g. by improving the training of Namibians to be recruited by the fishing companies as well as the communication and cooperation between companies and trade unions. Though the discussion in section 2 showed that the revenue paid does often not cover the full costs of foreign access, such as unreported fishing activities, it must be considered that Namibia shows excellent monitoring and surveillance methods to supervise foreign fishing activities. It can therefore be expected that the price negotiated for access would reflect world market prices.

As stipulated in the Cotonou Agreement, Namibia is entering into an "Economic Partnership Agreement" (EPA) with the EU in a SADC framework from 2008 on. EPAs comprise a free trade agreement between the EU and regional frameworks in southern Africa and are supposed to liberalise around 90% of trade within 10-12 years. The SADC EPA includes seven SADC member countries, namely Angola, Botswana, Lesotho, Mozambique, Namibia, Tanzania, and Swaziland, and is observed by South Africa that has already entered into an FTA with the EU in 2000. Namibia is the only coastal country of the SADC EPA, which has not concluded a fishery agreement with the EU yet, so the pressure to compromise accordingly is likely to increase.⁵⁸

7. Conclusions and Policy Recommendations

At present, it is increasingly difficult for African countries to compete successfully in the global market, which is highly dominated by trans-national companies. There must be a stern examination of how, if at all, African countries can be integrated into the global value-added chain. So far, African countries export mainly unprocessed fish to the EU and have to a large extent not been able to manage their resources effectively (Tall 2002, Acheampong 1997). The Namibian fishing industry must be seen as a positive exemption in this respect, which has been able to manage its domestic fisheries in a responsible manner and develop it to be sustainable in the long-term.

However, despite the successful management and the attraction of considerable investment, the industry has not increased its manufacturing activities as envisaged and has not been able to diversify towards new activities, such as the marketing and distribution of its products. It is therefore challenging whether Namibia can

⁵⁸ The coastal SADC EPA countries are interested to enter into a sustainable fishery agreement with the EU that would call of existing fishery agreements and allow them to develop their own domestic fishery industry. However, such an approach is difficult due to different national interests. Thus, the efforts of coastal SADC EPA countries to harmonise their rules of origin for fishery products have not been successfully yet (MFMR 2004b). Moreover, the EU has already announced that it does not see any need to harmonise its fishery relations with southern African countries on a regional level but prefers country specific arrangements (European Research Office 2003:17).

perpetuate, enlarge and upgrade its domestic fishing industry. Thus, the allocation of quota and the quality of catches are, together with the exchange rate, still the decisive factors for the development of profits. The appreciated exchange rate in the years 2002/03 resulted in declining profits since fishermen were not able to negotiate higher Euro prices though the demand for their products was high. This can, on the one hand, be explained by the fact that their EU counterparts were mainly large, trans-national retailers and wholesalers. On the other hand it was also the exchangeability of their products (frozen fish), which decreased their bargaining power. Thus, producers of commodities that are highly exchangeable become themselves increasingly exchangeable in the international production process. It is therefore important for a producer of exchangeable products to develop relevant core capabilities that aggravate the dislocation of production, including the extension of activities towards an all-embracing product development and –marketing (Wohlmuth 2003:48-9). Namibian fish is a highly valuable product, which is shown by the low price elasticity of demand. However, so far many Namibian fishermen have not taken the natural limitation of their resource sufficiently into account but relied on the export of offshore processed goods. To limit their dependency on fluctuations of stocks and EU preferences, to reduce the lopsided negotiation power of their EU counterpart, and to increase domestic value addition, it is important to increase manufacturing activities in the industry.

Though most of the companies' representatives interviewed in this sample said that they are dedicated to upgrade their products and processes, the discussion in the paper showed, there is still a considerable potential for Namibian fishing companies to upgrade their activities. Only four companies surveyed sold retail products and only two of them had introduced their own brand.

By moving strongly towards retail products the companies would not only employ more people, improve their manufacturing capabilities and create increased domestic value addition but would in the long run also be enabled to create their own product brand and become engaged into marketing and distribution activities. The Namibian fishing industry has few problems to enter the EU market, as it offers admittedly good quality fish, which is increasingly demanded and cannot be satisfied by the EU. Since the EU requirements for quality and health standards but also environmental and social aspects become more and more important, Namibian fishing companies should use the chance and market their fish actively. However, it is very difficult for the Namibian fishing industry, which is tiny in international terms, to diversify its product range and activities since the trade channels in the EU market are centralised and difficult to enter. Moreover, the industry has to import the majority of inputs for processing activities, struggles with high investment costs and missing backward- and forward linkages, a low level of labour productivity and a worker-employer relationship that is often stamped by mistrust. The Government intends to promote manufacturing activities in the fishing industry and has introduced a “60% onshore quota” for hake production as well as several manufacturing incentives. However, so far these attempts have not satisfactorily helped to diversify the fishing exports.

According to the sample it was those companies that are part of an international network, which have successfully upgraded their activities towards the production of retail products, the development of an own label and efforts to market and distribute their products. Though the Government acknowledges the positive contribution of joint-venture agreements to the overall economic performance of Namibian fishing companies, it still favours Namibian owned enterprises in comparison to joint-ventures. This policy, which aims to improve the "Namibianisation" of the industry, should however be evaluated and discussed controversially. So far, it is not clear whether newcomer companies are suitably operationally involved in domestic-owned companies than in joint-ventures. If joint-ventures contribute more to employment, investment and product diversification, as this study suggest, it would be recommendable to promote joint-venture cooperation in order to boost the international competitiveness of the Namibian fishing industry.

In addition to joint-venture cooperation, it is also a fishery agreement with the EU, which could theoretically help the Namibian fishing industry to benefit from technical assistance and knowledge transfer with an advanced partner. However, so far it is not sufficiently ensured that these agreements are multi-beneficial. The sustainable exploitation of natural resources that benefits Namibian fishermen, the Government, and, most of all, the people, is only possible if the EU shows a long-term commitment. This is not the case with current access agreements, which do not regulate the modalities of cooperation sufficiently. The present concept of EU fishery agreements does not help Namibia to expand its processing facilities, since the EU is not interested in processing the fish in Namibia but in keeping its own processing facilities engaged. For Namibia, the benefits of such an agreement would be limited to increased revenue and employed labour but would not offer the chance to improve companies' management capabilities, to diversify the product range and to enter into new product-related activities.

Namibia emphasises the importance that any agreement with the EU is in line with the principle of its national fishing policy, namely the "Namibianisation" policy and the promotion of sustainable fishing. The Minister of Fisheries and Marine Resources, Dr. Abraham Iyambo, states *"...too many fishermen chasing too few fish'... This is because gross fishing overcapacity has been allowed to develop. The inescapable fact is that it is the industrialised nations that have created this mess. ... Reducing over-capacity through a real reduction in vessel numbers is the only way to reduce pressure on stocks ... Moving excess capacity to the developing world through destructive access arrangement is not a solution."* (Iyambo 2003b). Since Namibia complains that its companies face increased competition as well as decreasing prices in their main export markets due to industrialised countries' subsidies, indirect promotion of the trade distorting effects of subsidies by entering into a fishing agreement with the EU would - from the Government's point of view - undermine Namibia's political credibility. On the other hand, the well-established management of the industry as well as the EU's high interest in entering into a fisheries agreement with Namibia, might offer the chance for negotiating a fisheries agreement that sufficiently accommodates Namibia's concerns. Furthermore,

Namibia might be able to use a fishery agreement with the EU as pledge to reach that its market access for agricultural and agro-processed products, which are currently constrained by several NTBs, is improved.⁵⁹ Considering further that the EU is increasingly under pressure to resolve the development inconsistencies of its fishery agreements with developing countries, Namibia should keep open the options to negotiate a sustainable fishery agreement with the EU.

⁵⁹ See Meyn (2004:8-10) for a discussion of Namibia’s difficulties to enter new market niches in the EU successfully.

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