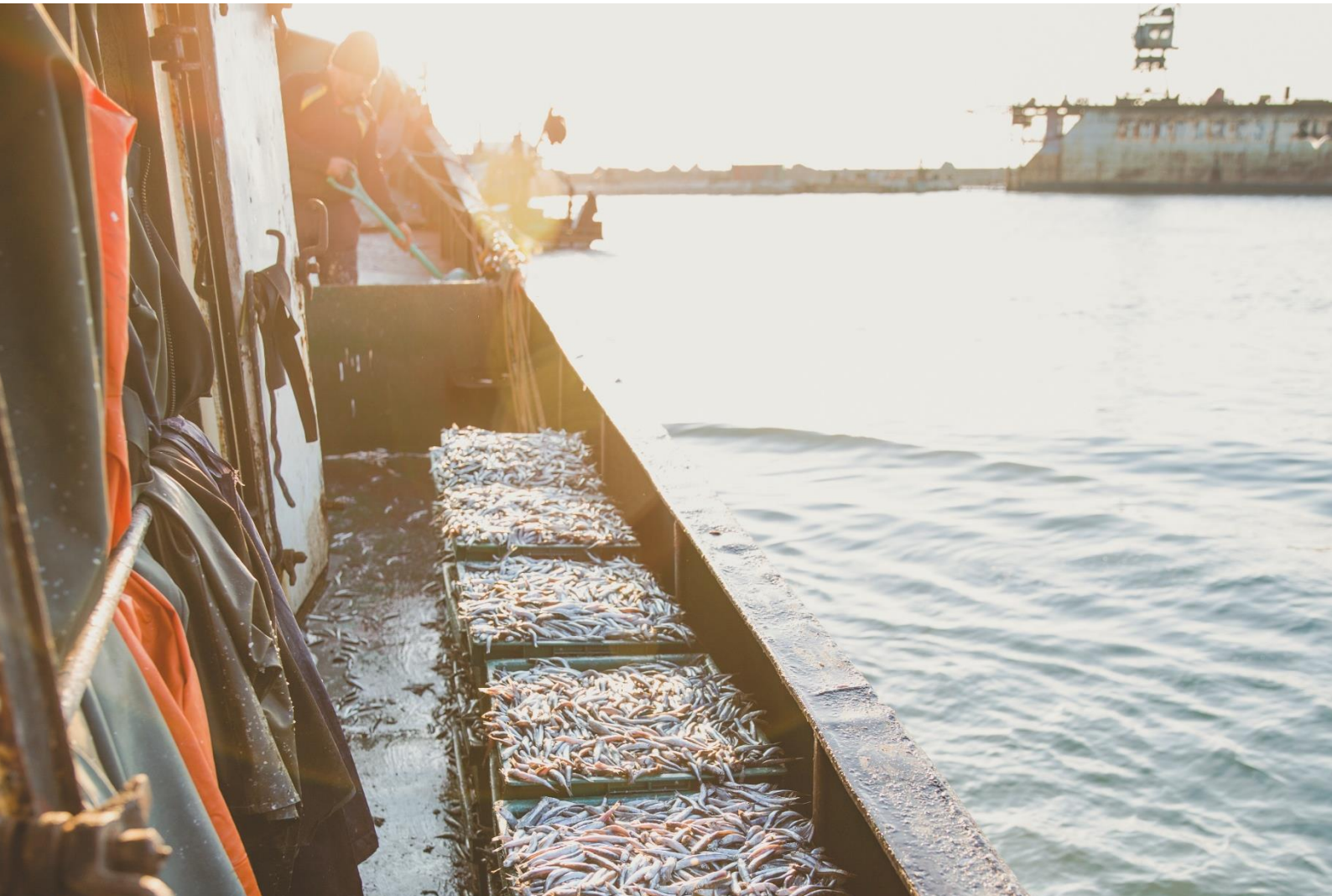




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SUSTAINABILITY AND INNOVATION IN THE MARINE FISHING INDUSTRY

CONFERENCE BY THE GEORGIAN MARINE FISHING CLUSTER

Samegrelo-Zemo Svaneti, Georgia; 28 April 2023

Conference Report



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BACKGROUND AND OBJECTIVES

Cluster Background

Georgian Marine Fishing Cluster (GMFC) is represented by small-scale fishing companies (SMFCs), engaged in fish-catching activities, License Holder Companies (LHCs), combining fish catching and fish processing, and supporting institutions, such as the Association of License holder companies, Fishermen Union, and Maritime Academy - Poti Branch. Georgian Marine Fishing fleet provides fresh fish (mostly European Anchovy) to local markets and is the main supplier for fish processing factories. Their continued presence provides much-needed employment for local fishermen, sailors and crew, while also playing a critical role in the state's coastal heritage and culture. However, Georgian fishermen are not able to fully exploit the annual quota, so the LHCs have to invite Turkish seiners, represented by larger ships, to the Georgian waters to reach a higher level of capacity utilization. Competition with Turkish seiners leaves Georgian fishermen at risk of being squeezed out of the market.

Georgian marine fishing companies were supported by Enterprise Georgia in 2019 with affordable loans to replace old and depreciated ships with high-technology, modern ships to expand their fish-catching capacities. Both SMFCs and LHCs became beneficiaries of the program. UNIDO has mediated between the Georgian fishermen, Enterprise Georgia, banks and the shipbuilding company in Turkey to facilitate the process of negotiation and the delivery of outstanding orders. Most ships have already been delivered to their customers since then. Modernization of the Georgian Marine Fishing fleet is crucial to expanding capabilities for Marine Fishing Companies and pushing the sector forward.

Collaboration between the small and large-scale firms with the Georgian government created the environment for the formation of the Georgian fishing industry. To tighten the collaborative efforts within the industry even more, the Georgian Marine Fishing Cluster was officially founded in August 2022 with the support of the European Union (EU) and the United Nations Industrial Development Organization (UNIDO). Since then, the cluster has played a notable role in advocacy efforts and supported member fish-catching companies mediate between national and international counterparts, such as the ship-building company in Turkey, Maritime Transport Agency, National Environmental Agency, State agency Enterprise Georgia, and the banking sector. Moreover, through the proactive advocacy effort of the cluster, an amendment to a legal act was issued and approved by the Georgian Government that has allowed fishing companies to exploit newly leased ships, owned by lessor banks, for fishing in the Black Sea.

However, the road to sustainability is filled with roadblocks and difficulties for Georgian fishermen, which require public-private consensus and initiatives to address these problems. This is why the conference was necessary to provide a greater arena for cluster members to put their concerns on display and raise awareness among stakeholders, especially with Government counterparts.

The conference was held on 28 April 2023, organized under the EU4Georgia project on Innovative Action for Private Sector Competitiveness in Georgia, funded by the European Union with a budget of Euro 6 million and implemented by four UN agencies – the United Nations Development Programme (UNDP), the Food and Agriculture Organisation of the United Nations (FAO), the United Nations Industrial Development Organisation (UNIDO) and the International Organisation for Migration (IOM).

Main Purpose of the Conference

Now is the time for Georgian fish-catching companies to maximize capacity utilization, thus creating grounds for better economic sustainability. The newly procured vessels have to be put to use as soon as possible to generate returns enough for the fishermen, their employees, but also for the creditor banks to repay the loans. However, certain barriers make it difficult for fishermen to make the most of their new ships. The conference was used to address the main concerns that inhibit the progression of the marine fishing industry today.

The aim of the conference was to set a precedent of establishing a platform for direct communication and collaboration between producers and the main stakeholders in the fishing industry. Thanks to the conference, GMFC facilitated the engagement and discussions between fishing companies, State agencies, stakeholders, and counterparts that play a part in the development of the Marine Fishing sector, which is what was demanded by the members of the cluster themselves. The main results of the conference are as follows:

- Raised awareness about the Georgian Marine Fishing Cluster and its mandate to represent the marine fishing sector in Georgia.
- Facilitated exchange of information, networking, cooperation, and coordination between the cluster, its partners, public and private stakeholders.
- Advocated for the interests of the members and raised awareness about their needs.
- Sought solutions to challenges faced by fishing companies by finding common grounds with state counterparts.
- National Environmental Agency and Enterprise Georgia representatives promised to consider the concerns raised by the Georgian fishermen and make decisions accordingly.

The Conference and This Report

The Conference in Grigoleti - Sustainability and Innovation in the Marine Fishing Industry 2023 - organized by the United Nations Industrial Development Organization (UNIDO) and Georgian Marine Fishing Cluster (GMFC), physically hosted 38 guests (not including the UNIDO project manager and the hosts) from different private, non-governmental and governmental sectors, such as policymakers, state representatives, the donor, fishermen union and fishermen themselves. The Conference was held on 28 April 2023 at the Grigoleti Beach Resort, Trademark Collection by Windham in Samegrelo-Zemo Svaneti region of Georgia, and consisted of keynote speeches, one panel discussion, workshop, and an award ceremony in the end.

An overview of the keynote speeches is presented below:

- *George Gogitidze, GMFC Director*: Welcoming speech about the cluster, the conference and what it aims to achieve.
- *Fabio Russo, UNIDO Project Manager*: UNIDO and its contribution to the foundation of the Georgian Marine Fishing Cluster.
- *George Gogitidze, GMFC Director*: presentation about the GMFC, its foundation, accomplishments and implementation of cluster collective activities.
- *Giorgi Andguladze, UNIDO National Project Coordinator*: presentation about the project, its implementation and details about UNIDO and its work across the world.

- *Ada Nardaia, Representative of the European Union Delegation in Georgia:* Mrs. Ada delivered a keynote speech about the support of the EU to the Georgian economy and continued assistance to the Georgian Marine Fishing Cluster.
- *Archil Talakvadze, Member of the Georgian Parliament:* Mr. Archil delivered a keynote speech about the importance of clusters and the need to continue supporting the Georgian fishermen. He stressed on why the project is so important and thanked the EU and UNIDO for project implementation.

The topics discussed during the panel discussion and working session included:

Panel Discussion - Clusters as an Effective Tool to Support Growth and Innovation

- The impact that the partners and cluster members can have together on the industry
- How the cluster can be an effective tool to support growth and innovation
- The development of effective communication channels for sustainability
- How the cluster can mediate between the fishermen and the regulatory agencies
- The cluster can advocate for the creation of a working group between the fishermen and LHCs
- How the cluster can advocate for the interests of its members with Enterprise Georgia

Workshop and Working Session - Problem-Solving Exercise: Uncover the Systemic Challenges

- Challenges posed by the Turkish fleet in the Georgian waters
- Insufficiency of space in the docks of the Poti port
- Too much fishing undermines fish availability and sustainability in the future
- Inflation and economic volatility have put some Georgian fishermen on the verge of insolvency.
- Banks in Georgia have increased interest rates and support is needed with the refinancing component of the loans.
- There are not enough available zones for Georgian fishermen to catch fish
- LHCs could exploit the license quota with new ships, that they purchased thanks to the support program of Enterprise Georgia, thus reducing reliance on independent fish-catching companies.
- Need to seek linkages between old and new supporting programs released by Enterprise Georgia to maximize the effect of the project on fisheries.
- Need to map the sea aquaculture development zones, so as not to reduce fishing area.

This conference report is not intended to review all the topics or issues discussed at the meeting. Rather it focuses on the key outcomes from the Conference using discussion material from the meeting to support the recommendations.

KEY RECOMMENDATIONS

1. Work with Georgian Fishermen Union and License Holder Companies to decide on a ship quota for non-Georgian ships to ensure sustainability.

To decide on what the quota should be to disallow more than the maximum number of ships to fish in the Georgian sea at a time during fish catching seasons. To propose the quota to the National Environment Agency and advocate for stiff control. To control the number of ships, present at a time and enforce the quota, ensuring better fish availability and sustainability.

The need to set a quota arose from the challenges posed by Turkish seiners that are invited every year by LHCs to exploit the fishing quota. The Turkish ships are much larger and more modern, with the capacity of catching much more fish than the Georgian ships can. One such ship can allegedly catch up to 1000 tons of fish in one go, while old Georgian seiners can exploit only a maximum of 50 tons, as claimed by the Georgian fishermen.

Furthermore, the more ships there are in the sea the less the availability of the fish. The ships interfere with one another, thus, making it difficult to find fish. Participants in the audience stated that the Turkish vessels interfere and bring down fish availability in the Georgian Sea. The more Turkish ships enter Georgian waters the fewer fish will migrate that year, because excessive hunting for fish ultimately prevents migration of fish into the Georgian seas. Consequently, it was concluded that the uncontrolled number of ships and excessive fishing reduces the fish availability year-on-year, thus undermining the continuity and sustainability of the Georgian marine fishing sector.

The regulatory agency which sets and controls fish-catching quotas in the Georgian Sea is the National Environmental Agency of the Ministry of Environmental Protection and Agriculture (MEPA). Currently, the agency cannot set the quota for ships, because it does not have sufficient information, or competence to make an informed assessment of the maximum number of ships that should be allowed. This is also partly caused by the fact that fish availability changes from year to year, making it difficult to forecast how much capacity the Georgian sea will offer in a given season. This makes it even more difficult to decide on the maximum number of ships for fishing, since the risk of misjudgment is high.

What is needed:

- Create a working group comprised of Georgian fishermen.
- Deliberate on the issue and decide on what the quota should be.
- With the help of the GMFC, present the ideas to the National Environmental Agency.
- Present the concerns that the Georgian fishermen have regarding Turkish ships to the working group on Georgia-Turkey discussions in the Georgian parliament.
- Lobby the interests of the Georgian fishermen in the Georgian Parliament to prioritize Georgian ships over Turkish fleet.

2. Mapping the aquaculture development zones in the Georgian Sea and keep the Georgian Marine Fishing Cluster informed.

To identify specific areas and zones for the aquaculture development, so as to not inhibit the process of catching fish. To study the Georgian Sea and map specific areas in the sea as zones for aquaculture. To help fish-catching companies proceed with fishing on the predefined routes and support the development of sea farms.

One of the demands that the Georgian fishermen had towards the government, was that the Georgian fishermen should be allowed to fish in all areas of the sea where there are no fish-catching cages and fish farms. However, the Georgian government was not able to propose specific areas where fishermen could be invited to engage in fish catching.

Once the Georgian Sea is mapped into specific fisheries management zones, the regulatory agencies will be able to invite Georgian fishermen to fish specifically in these zones. In addition, the government will be able to manage the individual needs and the nature of each of the zones by customizing catch limits and seasons, tailored to the specific characteristics of each zone. This will improve fish availability in the sea, helping to re-establish fish populations, and will help adjust fishing seasons for different climates, allowing for more productive fishing.

Currently, the National Environmental Agency is working with Food and Agriculture Organization of the United Nations (FAO) and international experts to identify the zones in the Georgian waters. Additionally, a process has been initiated to draft an aquaculture law, which will include information about the zones too. It has to be clear where fishing is allowed to take place and where it isn't. Identification of the fishing zones will make it possible for cargo ships not to interfere with marine fishing ships, ensuring better, smoother and uninterrupted process of fish catching. Furthermore, once specific zones are identified where aquaculture is allowed, more investments will be attracted to exploit those exact areas. Information about the zoning proposals have been shared to both Fishermen Union and the association of License Holder Companies. The agency estimates that around 9,000 hectares of area will be categorized as fisheries management zones in total. Georgian Marine Fishing Cluster has to be involved in the process as well.

What is needed:

- Work with NEA experts to decide on the aquaculture development areas and identify fishing zones.
- Identify specific characteristics and needs for each zone to utilize fishing potential in limited areas.
- Set catch limits and seasons for each fishing zone.
- Control the passage of cargo ships to avoid interference with fish catching process.
- Complete the aquaculture development law by sharing the draft with the GMFC.
- Reflect the comments and concerns of the cluster in the aquaculture development law.
- Support with attracting investments to develop fishing in Georgia.

3. Helping Georgian fishermen avoid financial problems.

To support Georgian fishermen with the refinancing component of their loans. To work with the Ministry of Sustainable Development and Economy on devising a financial subsidy package and help Georgian fishermen avoid insolvency due to increased interest rates and extend the subsidy period.

The Georgian fishermen who participated in the previous support package of Enterprise Georgia need support with the refinancing component of their loans. Unforeseen circumstances have worsened the financial standing of the Georgian fishermen. Inflation, growing cost of materials, high fixed costs, increasing price for new ships, and growing interest rates have all pushed the fishermen to a vulnerable position.

Marine fishing was one of the few sectors that received strong support from Enterprise Georgia and 13 ships were ordered from a shipbuilding company in Turkey in 2020 thanks to the subsidies and loan guarantees of the agency. However, Georgian fishermen did not anticipate the high rate of inflation, which pushed material prices up in Turkey. The inflation made the final price for ships grow significantly, while also pushing interest rates up in Georgia. Such contingencies created a new context, in which some of the Georgian fishermen are facing the risk of insolvency. Therefore, the fish-catching companies are demanding from the Enterprise Georgia to support them with the refinancing component of their loans.

As of now, Enterprise Georgia is launching a new program, whereby 11% interest funding and 15% cashback on investment is offered to fish-catching companies. The program can be used for purchasing both new and used ships. In addition, up to 800 thousand Gel is offered as loan guarantees to participating banks. Very few sectors, the Georgian marine fishing sector among them, are being offered the cashback component. However, this is a new product, offered by Enterprise Georgia and it does not affect older investments and past programs. Georgian fishermen need to be supported with repaying the currently outstanding loans first to bring them to financial health again, after which applications to the new program can be considered. The head of Enterprise Georgia stated that, considering the new reality of the situation, the proposal will be discussed with the Minister of Economy.

What is needed:

- Propose to the Minister of Economy that the refinancing component of the loans for Georgian fishermen who participated in the Enterprise Georgia program in 2020 should be subsidized.
- Invite representatives of the creditor banks to hold a meeting with representatives of the Ministry of Economy and Sustainable Development and the Georgian Marine Fishing Cluster to renegotiate the refinancing component of the loans.
- Provide business educational program to the owners of the Fish Catching companies to raise their level of financial literacy.
- Work with the Georgian Fish Catching companies to draft sound business plans with direct involvement of owners.

- Support Georgian Fish Catching companies to exploit the opportunity to apply to the new support program launched by the Enterprise Georgia to benefit from the cashback, interest funding and loan guarantees.

CLOSING STATEMENT

Overall, it is undeniable that the Georgian fishermen and fish-catching companies have considerable challenges before them, both from the perspective of market forces, competition from more modern Turkish vessels, and volatile financial and economic circumstances, all of which worsen their financial standing vis-à-vis creditors and banks.

To remove the aforementioned stumbling blocks and address the concerns of Georgian fishermen effectively, it is necessary that the Government bodies, regulatory agencies, creditor banks and the fish-catching companies work together to reach a consensus on the best way forward. UNIDO and the Georgian Marine Fishing Cluster will continue mediating between the cluster and national counterparts, trying to help them reach a point of reconciliation. This will require the stakeholders to unite under the banner of a common vision and choose a direction which will ultimately lead the Georgian Marine Fishing industry towards better competitiveness and economic, financial and social sustainability.



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