



Krill Industry Report

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The Krill Industry Report provides reports, information and commentaries on the Antarctic krill industry.

Aker Applies for MSC Certification of its Antarctic Krill Fishing Operation

Norwegian krill fisher Aker BioMarine has applied to the London-based Marine Stewardship Council (MSC) to have its Antarctic krill fishing operations certified as sustainable under the MSC criteria. The fishery is in Area 48, the South Atlantic sector of CCAMLR. UK-based Moody Marine is the certification body that is being employed by Aker to assess the fishery.

This is a controversial assessment given the importance of krill in the Antarctic ecosystem and the ongoing work of CCAMLR, as yet incomplete, to manage the fishery in a sustainable manner. This is one of the few assessments that has a large high seas component, although it does include the fishing zones around South Georgia north of 60°S. It also involves only one company compared to the many operators in this fishery.

In this krill fishery, two other Norwegian companies (Ervik Marine Services and Krill Seaproducts) and vessels from seven other countries are also operating. However, the certification would only be applied to one company. No other Antarctic krill fishing operation has applied for certification.

Concurrently, MSC is considering the issues around certification of “forage fisheries”. The impact of fishing on these small to medium size pelagic fish has been the focus

of research by the “Sea-Around-Us Project” at the University of British Columbia, Canada. This project has raised serious concerns about the negative impacts on the food chain of fishing lower trophic levels.

CCAMLR is still trying to come to grips with managing the Antarctic krill fishery in an ecologically sustainable way. Parties have yet to agree to a process of allocating catch limits among Small Scale Management Units (SSMUs) to protect krill predators such as penguins, seals, and whales.

A number of stakeholders have expressed serious concerns about Moody Marine’s draft assessment report, which recommends certifying the fishery. These groups include the Antarctic Krill Conservation Project, ASOC, WWF, Oceana, and Greenpeace. In addition, one of two reviewers appointed by Moody’s to peer review the draft report had serious concerns over the certification and argued it was premature.

NGO concerns focus on the unresolved problem of fish larvae by-catch in the krill fishery, insufficient scientific information and monitoring to manage the fishery (including the lack of 100% scientific observer coverage), and the absence of specific measures to protect krill predators from localised depletion of krill (including setting catch limits for small-scale management units).

Update On Krill Catches

Catches of krill this year are not expected to exceed the record catches last year (2007-

08). Last year's catch was the highest since 1991-92. This year the catch is likely to be just over 100,000 tonnes.

In the current season, Norwegian catches are again expected to make up about 40% of the total krill catch with only two of their four notified vessels fishing. Smaller quantities have been caught by vessels from Korea, Japan, Russia and Poland. Ukraine did not fish in the current season (2008-09) but did fish in 2007-08.

One of the reasons catches this fishing season (2008-09) are not expected to exceed last year's is due to the anomalous environmental conditions around South Georgia. The UK has reported that water temperatures there were well above average and krill availability for predators was very low. Scientists have observed the lowest krill density on record at South Georgia in 2009, concurrent with well above average sea-surface temperatures and very low productivity by land-based predators.

The South Georgia authorities have advised that no krill was reported caught in waters around South Georgia, compared to a catch of over 54,000 tonnes last year.

The Norwegian vessel *Juvel*, (run by Ervik Marine Services) tried to find krill in Subarea 48.4 (South Sandwich Islands). In the past, small catches of krill have been taken in this CCAMLR Sub-Area, but the *Juvel* reported that there was no krill to be found.

Krill Notifications Down

Proposed krill fishing in CCAMLR waters in the coming year is down for 2009/2010. The total amount notified is 363,000 tonnes for 2008/2009, compared to 879,000 tonnes proposed prior to last year's CCAMLR meeting and 579,000 tonnes committed after the meeting. The number of vessels notified (14 from seven countries) is the highest in recent years. Norway's three vessels from three different companies make up over 45% of the notifications. The decrease in notified tonnage this year could be due to concerns expressed by CCAMLR members for

fishing nations to be more realistic about their notifications. Japan and some other countries have proposed charging fees on the basis of notified catches.

Ukraine is proposing again to fish with the *Konstruktor Koshkin*. Ukraine last fished in 2007/08. Japan, Korea, Norway, Poland and Russia are proposing to operate with the same vessels as in past years. There were no applications from the US, Vanuatu or the Cook Islands. The last two were controversial notifications in previous years.

For the first time China has proposed to fish for krill, notifying three vessels (the *An Ling Hai*, *Kai Li* and *Kai Xin*). These three vessels are understood to have been previously fishing for jack mackerel in the South Pacific just outside the Chilean EEZ. This fishery is subject to the negotiations of the South Pacific Regional Fisheries Management Organisation (SPRFMO).

Russia Orders for Potential New Krill Vessels Fall Through

Vladivostok-based Russian fishing company Rybsudprom's contract with Norwegian shipbuilder the Bergen Group to build two new large pelagic trawlers has fallen through. These vessels were to be delivered by 2011. The contract involved Russian companies Aqueda Shipping and Mariora Shipping and could have been worth an initial US\$453 million with options for a further two vessels.

The Bergen Group announced in early October that the Russian companies had failed to meet deadlines for financing the construction. Bergen reported that while the companies have the EUR 63 million in equity capital needed, they failed to get a guarantee worth 30% of the amount to satisfy Norwegian government agency responsible for guarantees and insurance of export credits.

The vessels were proposed to be 130 metres long and designed to fish for a range of pelagic species including mackerel in the South-East Pacific and krill in Antarctic

waters. The vessels were to be able to freeze up to 600 tonnes a day of catch and to be capable of producing high quality krill oil in on-board processing plants. They were also to be designed to undertake research, with up to 24 scientists on board.

Aker BioMarine Borrowing \$15.5 Million

Aker BioMarine plans to borrow up to \$US 15.5 million from its parent company, industrial holding Aker. Aker owns 82.85% of Aker BioMarine - 74.6 million shares.

Initially, a loan of up to \$US 8.6 million will be drawn. An additional \$US 6.9 million will be made available when Aker BioMarine has presented and received Aker's approval of a refinancing plan. The loan will be secured against Aker BioMarine's major assets.

Aker BioMarine will pay commercial rates and the loan will fall due on 15 May 2010. Aker BioMarine is looking to strengthen its balance sheet as its largest shareholder will not contribute additional equity. In the coming months, Aker BioMarine is to clarify key commercial issues that will affect its capital structure.

In 2009, Aker BioMarine posted a second quarter loss of \$US 8.3 million, compared to a loss of \$US 7.9 million in the same quarter of 2008 and a first quarter loss in 2009 of \$US 13.9 million. The company's six month result this financial year was for a loss of \$US 22.2 million compared to \$US 16.4 million in the same period last financial year.

According to Aker BioMarine, there is growing demand for its krill oil supplements and krill feed. Last year, Aker BioMarine's income was predominantly attributed to krill feed sales to the aquaculture industry. Operating revenues were up on the first six months of its last financial year, but operating expenses were also up 20%.

Overall Aker's krill harvest was down 8% for the first half of the current fishing year when compared with last year. The company reports that this was due to adverse fishing

conditions in the South Atlantic in the first quarter of the year.

While it has two vessel licences from the Norwegian Government to fish for krill, Aker BioMarine is now operating only one vessel, the *Saga Sea*. Aker BioMarine has until 31 December 2009 to activate the second licence or apply for an extension. As the original four vessel licences granted by Norway to Aker, Ervik Marine Services and Krill Seaproducts were keenly sought, it is unclear whether an extension would be granted.

In addition, there have been a number of high-level personnel changes at Aker BioMarine. Fredrik Nygaard is the company's new Chief Financial Officer (CFO) replacing Aaron Kramer, who has become President in charge of Aker BioMarine's pharmaceutical and omega-3 operations. Fredrik Nygaard has worked for the Aker group of companies since 2001.

Aaron Kramer has been an Aker BioMarine executive since 2007, and he initially served as CFO of the company. He has experience in major pharmaceutical companies in the US.

Aker Reports Sales of Krill Oil

In the first half of 2009, Aker BioMarine reported sales of 8.5 tonnes of krill oil, which included 1.5 tonnes in Norway, 5.5 tonnes in the US market and 1.5 tonnes in other countries.

In the second quarter of the year Aker reported shipping 15 tonnes of the oil to the US. Aker has produced over 30 tonnes of oil this year.

US-based Jedwards International is acting as a major distributor of Aker's krill oil in North America. Jedwards International has a 20 metric tonne order of krill oil to sell in North America. In the second half of this year Aker intends to try direct sales to retailers in the US. Aker BioMarine has also been involved in publishing research this year on the possible benefits of the use of krill oil.

Neptune Signs With Bayer To Develop Krill Oil Products

Canadian-based krill nutraceuticals producer Neptune Technologies and Bioresources, has signed an agreement with Bayer Healthcare for the commercialization of Neptune products in the US. Neptune's products include *Omega Gen* oil.

Neptune already has research and development deals with large food companies such as Nestle and Yoplait, and Croda Health Care in health supplements. According to Neptune it obtains its krill from Japanese krill fishers.

Neptune's sales for its first quarter financial report of the 2009-2010 year were down by 8% compared to the same quarter last year and its net losses were up by 10%. In the last quarter of the 2008-09 financial year (up to 28 February) it reported a 31% increase in sales and positive earnings compared to last year.

Neptune reported a net profit for the last three months of 2008-2009 of just \$US 65,000, compared to a net loss of \$US 818,000 for the three-month period that ended on 29 February, 2008. Revenues also increased by 20.5% to \$US 7.93 million, during the nine-month period that ended on 28 February 2009, compared to the same nine month period in 2007-08. The company's net loss position improved by 46% to \$US 1.74 million for the same nine month period compared to a net loss of \$US 3.23 million for the previous fiscal nine-month period.

A change in Neptune's financial year makes direct comparisons of financial performance with previous years complicated.

Neptune has recently appointed Jean Claude Debard to its board of directors. Mr. Debard is the President of Hyundai Automobile France.

Neptune closed down its processing operation for seven weeks in April and May to expand its plant. It was expecting to reach full capacity in August with the expanded plant designed to produce 90 tonnes of product annually. This close-down led to a legal dispute on krill product supply with Schiff Nutrition Group that is now before the Utah District Court.

Schiff Nutrition International advised in September that it had signed an exclusive deal to source all its krill oil products from Aker BioMarine.

Third Norwegian Krill Fisher

The third Norwegian krill fisher, Krill Seaproducts, is proposing to start fishing with its refitted vessel, the *Thorshovdi*, in the next fishing year. The company is advertising for first delivery of krill products in the first quarter of 2010.

This vessel was rebuilt in Lithuania and the new krill processing equipment was fitted in Norway near the port of Alesund.

Enzymotec Extends Krill Capacity

Israeli-based nutraceuticals formulation company, Enzymotec, has recently expanded its capacity. A new plant was opened in July in Northern Israel which includes increased capacity to produce a krill oil formulation focused on cardiac health. Enzymotec sells products into Europe and North America.

Disclaimer: *The material In this newsletter is intended to assist people in understanding the nature of the krill industry. While we try to ensure that information is accurate and up to date, the Antarctic and Southern Ocean Coalition gives no warranty as to its accuracy.*

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