

After quota auctions in Russia, new “crab king” emerges

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A powerful new player has emerged out of the results of

controversial government-run auctions for crab quotas in Russia.

Gleb Frank is now being referred to as “The Crab King” by Russian media outlets after his company, Russian Fishery Company (RFC), won more than one-third of the quotas up for auction in October. The auctions, which collectively handed out 15-year fishing rights to around 50 percent of Russia’s total allowable catch for crab, or around 46,000 metric tons (MT).

According to the Russian Federal Agency for Fisheries, 41 lots were offered, with 31 one of them covering fishing in the Russian Far East – primarily in the Sea of Okhotsk – and the remaining 10 for the Northern Fishery Basin, the Barents Sea. Of the total, 36 lots were sold, with the other five – all for deep-sea fishing – were considered too risky regarding their commercial attractiveness. Out of 23 bidders in the auction, 18 won some share of the quotas on offer.

The cumulative starting price was RUB 120.9 billion (USD 1.89 billion, EUR 1.7 billion), with the outcome netting RUB 142.4 billion (USD 2.22 billion, EUR 2.01 billion) in total for the Russian government. That's lower than the RUB 160 billion (USD 2.5 billion, EUR 2.26 billion) the government was discussing back in 2017 when weighing in the prospect of the auctions. Of the total, RUB 99.5 billion (USD 1.56 billion, EUR 1.4 billion) was paid for Far Eastern quotas, and RUB 42.8 billion (USD 669.64 million, EUR 600.44 million) was paid for the northern ones.

The winners of quota in the Far East crab fishery are Merlion, Pacific Crab, Ostrovnoy Crab, Sever, TRK, Mag-Sea International, Voskhod, Aqua-Invest, Kamchatka Crab, Antey, Atlantic Crab, and Dalnevostochnoe Poberezhie; in the Northern basin – Antey Sever, Eta-Trade, Froster, Karapax, and Alfa-Trade. Some of the bigger winners included the Antey Group, which has a long history in the crab market in Russia. The company successfully bid on five lots in the Barents Sea, agreeing to pay RUB 18.2 billion (USD 284.74 million, EUR 257 million). The North Western Fishery Consortium also won bids on five lots for a combined RUB 24.6 billion (USD 384.87 million, EUR 347.4 million).

But Frank appears to have benefitted the most from the auctions. Three of the companies winning bids – Pacific Crab, Kamchatka Crab, and Atlantic Crab – are reportedly owned by Russian Crab Group, which itself is owned by RFC and Gleb Frank. These companies won 10 lots overall, paying RUB 38.3 billion (USD 599.2 million, EUR 540.8 million), and making Frank one of biggest crab quota owners in the industry. With quotas for catching 10,000 to 12,000 MT of crab, Frank now owns around 15 percent of Russia's entire crab quota, according to Alexander Savelyev, head of the Russian Fishery News Agency, speaking with the Kommersant business paper.

Frank may have benefitted from a behind-the-scenes move that originally gave Russian President Vladimir Putin the idea to move 50 percent of Russia's crab fishery quota into auctions. In late 2017, Putin received an anonymous letter urging the government to make the move to auctions and away from a quota distribution system based on historical catch, which had a mandate that was set to expire in 2019.

The old system generated very little revenue for the federal government. In fact, Putin saw evidence of this in May 2017, when a crab firm that had run afoul of fishing regulations had its quota auctioned off by the government. The sum paid for the quota exceeded by several times the amount paid in taxes by the entire crab sector in 2016. One of the winners of the May 2017 auction was RFC, which purchased 2,600 metric tons (MT) of crab quota for RUB 10 billion (USD 156.5 million, EUR 141.3 million).

After the anonymous letter became public, numerous media outlets in Russia, citing industry sources, attributed the letter to Frank. While RFC directly denied to SeafoodSource that Frank was the author of the letter, the quick acceptance of its premise by Putin triggered an intense debate that ended when Putin formalized the move to auctions earlier this year.

Without addressing the controversy caused by the auctions, Ilya Shestakov, head of the Russian Federal Agency for Fisheries, said in his comments to media after the auction that he was pleased with the results.

"Everything went rather positively," he said. "We didn't see competition for every lot, but some of them were in high demand, which led to the establishment of [a] fair price."

He added that part of the sum paid for quotas will be allocated for the development of the Russian fishery sector, primarily for fighting illegal fishing, boosting trade, and the construction of a new scientific fleet to boost national catch.

Alexander Duplyakov, president of the Far East Crab Catchers Association, expressed less enthusiasm.

"The withdrawal of half the quotas, as well as the fact that they have gone to a limited number of companies, will have negative consequences," Duplyakov told Vostok Media. "Our work will become more difficult. We had been talking about negative consequences before the law on crab auctions was enacted, now we have to face them. We don't know how things will go."

Georgiy Martynov, president of the Primorye Fisheries Association, predicted in his comments to Vostok Media that small- and medium-sized companies that lost their quotas will go bankrupt or be forced to sell their businesses. Some of them are going to switch to fishing squid, according to Martynov.

"It's [a] rather costly business," he said.

According to Martynov, the Russian crab industry seems to be on the path to consolidation. Prior to the reorganization of the national crab quotas this year, no one company had been in control of a large part of the resource. Now things have started to change, with new players like Frank and Russian Crab Group coming in and quickly moving into a position of dominance in the market.

That could have repercussions in Russia's economy, especially in its rural areas where fishing is the dominant business, according to Kozlov, the president of the Association of Fisheries of the Sakhalin Region. Kozlov

complained during Parliament hearings on the development of the fishing industry held in Sakhalin recently that while the federal budget got RUB 142.4 billion (USD 2.22 billion, EUR 2.01 billion), local businesses lost out on much more.

“The loss of the Sakhalin region fisheries is 10,000 MT of crab a year, which was fished and processed by a workforce of no less than 2,000, including those working in related industries,” Kozlov said.

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