MIDDLEMEN´S INFORMAL TRADING SYSTEM AND ITS LINKAGES WITH IUU FISHING ACTIVITIES IN THE PORT OF PROGRESO, MEXICO

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Why study middlemen’s socio-economic context?

- Because middlemen are **common actors** in the fishing activity,
- often they are **the only link** between fishers and markets, or
- they are a **source of credit**, 
- the middlemen’s trading system operates within a **wider economic** and **political environment** which can have crucial implications for the **fishing activity** in general and for **fish trading in particular**.
Purpose

- This research explores the economic environment which makes middlemen’s fish trading activities possible, the nature of these activities and how they are interconnected or might stimulate IUU fishing activities.

- The main argument presented is that middlemen’s fish trading activities have been developed within the scope of an informal sector which depends on the existence of structural and organizational factors such as:
  - a dual economic framework, making informality dependent of and subordinated to the formal sector, and a private socioeconomic network which supports the activity.
Methodology

- Middlemen in this region are a hidden population because the size and boundaries of the population are unknown and there are strong privacy concerns among the members of this social group because it is a predominantly informal activity.

- Thus, drawing a probability sample was not possible for this group since the characteristics of this population are unknown.

- For these reasons it was necessary to adapt a mixed methodology to plan and implement the survey strategy.

- The survey strategy was a non-probability sample that adapted and combined chain referral techniques.
Methodology

- The main focus of the interviews was:
  - **a)** the role of middlemen in fish trading, **b)** the nature and extent of their activities, **c)** their attitudes towards law enforcement and **d)** their strategies to avoid sanctions and to justify or perform their transactions.
  - Furthermore, for quantitative data questions about their **a)** trading volume, **b)** frequency of operations, and **c)** sales capacity were included.
  - This provided significant information on the socioeconomic status, motivations and *modus operandi* of middlemen in fish trading.
Informality framework

- Most Third World economies have dual economies, formal and informal (Hart, 1973) and a variety of institutions giving place to a number of different informal sectors which characteristics depend on the institutional rules that its members are trying to find a way to evade (Feige, 1990).

- However, the emergence of an underground sector is more common after an economic or fiscal crisis (Weiss, 1987), but it can also be the result of inefficiencies related to overregulation or distortive taxation (Mead and Morrisson, 1996).

- These inefficiencies would facilitate to unemployed people, unable to find a job in the formal sector, to find a way to auto-employ avoiding the costs associated with registration, because of the opportunity cost and the lower transaction costs resulting of the avoidance of formal obligations.

- In order to endure, the informal economic system there are linkages between the formal and informal sectors supported by an organization constructed in terms of a socio-economic network capable of keeping the backward and forward linkages in operation.
The context
The port of Progreso, Yucatan, Mexico

The state’s most important port has:

- The most important fishing infrastructure
- The largest fisher population
- The largest middlemen population
- Most of the large-scale fleet lands there
- Concentrates most of the state’s total catch (50%)

The most important products by volume are **octopus** (*Octopus maya* and *Octopus vulgaris*) and **grouper**, (*Epinephelus morio*), representing 40% and 30% of the state's catch respectively.
The actors in the network

- The **middlemen** or **pacotilleros**
  - They are locally called “*pacotilleros*” because they were originally the merchants who used to buy the “*pacotilla*” (by-catch and species of low commercial value)

- **Pacotilleros** are middlemen who are self-employed, itinerant and non-registered.

- All **pacotilleros** do not have vessels, have a small truck with a freezer and sell their products daily because they do not have storage or conservation infrastructure. They used to buy low commercial value species and currently they buy any type of seafood.
The actors in the network

Skippers

Fishers

Middlemen “Pacotilleros”

Fishing entrepreneurs

Local markets
Results
Pacotilleros’ multiple intervention

- Fishers
- Middlemen
- Markets
  - Fishing entrepreneurs
  - Alternative source of supply
  - Partner and Competitor
  - Alternative link of supply
  - Local market supplier
  - Credit purveyor
- Partners and Competitors with the market
Pacotilleros’ strategies:

- Trading
- Evading
- Surviving
Pacotilleros’ trading, evading and surviving strategies.

<table>
<thead>
<tr>
<th>Fishers</th>
<th>Fishing entrepreneurs</th>
</tr>
</thead>
<tbody>
<tr>
<td>To assure transactions:</td>
<td>To assure transactions:</td>
</tr>
<tr>
<td>• Money lending to fishers and skippers</td>
<td>• Share market and sourcing supply risks by eventually financing part of the travel coast</td>
</tr>
<tr>
<td>• Buying at landing time</td>
<td>• Sell and find any amount of seafood at any time</td>
</tr>
<tr>
<td>• Price</td>
<td>• Oral agreements without any legal documentation</td>
</tr>
<tr>
<td>• Oral agreements without any legal documentation</td>
<td>• Cash transactions</td>
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<tr>
<td>• Cash transactions</td>
<td>• Cash transactions</td>
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</tbody>
</table>
Pacotilleros’ trading, evading and surviving strategies.

- Registration (fiscal rules and costs)
- Reporting
- Law enforcement
- Trade control
- Conservation responsibilities
Pacotilleros’ trading, evading and surviving strategies.

**Short and long-term Survival mechanisms**

<table>
<thead>
<tr>
<th>Informal</th>
<th>Formal</th>
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<tbody>
<tr>
<td>• Itinerant (difficult to find)</td>
<td>• By performing entrepreneurial functions</td>
</tr>
<tr>
<td>• Non-registered</td>
<td>• They build relations with trading partners (cooperatives and fishing entrepreneurs)</td>
</tr>
<tr>
<td>• by selling their seafood products to informal entities such as fish shops or local markets.</td>
<td>• They obtain from the formal structure the means (invoices) to launder or to justify their transactions.</td>
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Findings

- Middlemen are a necessary evil because:
  - they represent an important alternative source of supply for freezing plants
  - an alternative buyer for fishers, and a money lender
  - they are the local markets suppliers
  - they can also be a competitor for fishing entrepreneurs or a business partner

- This is why the network of actors supports pacotilleros’ activities and helps them with the required legal documentation to launder their products and avoid to be sanctioned.
  - As a result, their organizational system has become invulnerable because it is not possible to sanction a middleman.
Implications

- **Policy and Management**
  - The absence of formal institutional mechanisms, of any formal contract and specific trading regulations creates the perfect environment for informality.
  - The socio-economic network provides the necessary social structural factors required to avoid institutional rules and create profit.

- **Socio-economic**
  - The number of self-employed pacotilleros and the people in the network who make a living from this informal fish trading system.

- **On Fish Resources**
  - Pacotilleros trade is not registered or reported, this can contribute to exceeding and altering the quota without even knowing.
  - The products they buy can include illegal sizes (juveniles) and protected species, which can be sold even during closed seasons.
Final remarks

- **IUU fishing activities** are part of the economic and political structure of informality because not reporting or reporting a smaller volume of fish is a way to avoid costs by evading fiscal obligations.

- The **operating structure of middlemen** has been developed with two aims: to protect themselves and their informal transactions from official supervision and to maximize their profit.

- Middlemen serve and become dependent on the formal structure in order to remain in business and at the same time can be complementary to it and their informal chain is possible due to the existence of a dual formal-informal economic system.

- Pacotilleros like other middlemen in small-scale fisheries also provide credits to fishers as a form of *informal oral contract* increasing their bargaining power.

- They also perform a **linking function** between fishers and the market, however, in addition pacotilleros **develop business partnerships** with fishing entrepreneurs by sharing price and production risk and by providing credits to them.
Thank you!