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May 6, 2008

Midwater Trawlers Cooperative
PO Box 1434
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Re: 2008 Pacific Coast Hake (Whiting) Fair Market Price

Dear Sirs:

You have asked that I pull together market price information pertinent to the 2008 Pacific Coast hake fishery and that I provide some recommendations on ex-vessel fair market price for the coming whiting season. Our last update was two years ago when I noted that several of the important market price time series were not being updated and maintained by NMFS. This situation has gotten much worse.

MARKET PERSPECTIVE

Alaska pollock and west coast hake marketing have undergone some major changes in the past two years. In general these may be summarized as:

1. Japanese strong dominance in the pollock and west coast whiting markets has substantially ended.
2. European markets in general and Chinese markets are now major buyers which has greatly reduced product supplies into Japan mostly as surimi.
3. European markets for whitefish in general (cod, pollock and hake) have seen strong demand, decreased supplies and rising prices in most European countries.

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4. Chinese markets for headed/gutted/tailed (H/G/T) pollock and hake have developed and strengthened over the past 2-3 years. H/G/T markets in China benefit from cheap labor in the production of "twice frozen fillets." The H/G/T market for pollock and west coast hake is strong and it reduces supply of raw material that would otherwise go into surimi.
5. European markets for pollock and hake fillets and fillet block have been much more mainstream for consumers given decreased world supplies of their favored cod. Strengthened fillet markets have resulted in further reductions in surimi production, further reductions in surimi supply, and reductions of surimi sales to the huge kaniboko industries in Asia.
6. In combination, the above factors have generated very substantial changes in whitefish product marketing channels and pricing, especially during the past 5-6 months (November to present).
7. Given the general supply shortages of whitefish, the market diversification for products and competing demands for surimi and fillet forms, including "twice frozen," at present, buyers are on the hunt for product—B season 2008 Alaska pollock and 2008 west coast hake.

West coast hake ex-vessel prices have basically been out of sync with the world for many years. Constraints to better pricing include a hake species that is lower quality than many other hake species. The fishery for west coast hake is seasonal. Most west coast hake products are marketed during June-November. Pollock fillets and surimi are favored over hake fillets and surimi and the fishery has some by-catch concerns that could preclude further harvesting before quota achievement. Still recognizing these weaknesses, much stronger product demand and pricing justifies ex-vessel hake prices for the 2008 fishery being much higher than the 6-6.5 cents/lb typically paid during the 2006 fishery and much higher than the 7.5-8.5 cents/lb paid during the 2007 fishery.

MARKET UPDATE

West coast hake product prices track closely with Alaska pollock product prices. Hake surimi prices grade for grade are now about 94-95% of Alaska pollock surimi. Hake fillet prices, grade for grade, are about 90% of pollock fillets and H/G/T hake process are currently about 90% of pollock H/G/T prices. These market relationships are important because long-term hake market price trends are very limited or not available.

The Alaska pollock industry has basically moved away from annual price negotiations between catcher vessels and processors in favor of the establishment of ex-vessel prices by formula and end product sales value. Ex-vessels sources are established on a sliding scale of percentages of product price. Low range ex vessel percentages for lower market price fillets and surimi bottom out at about 12% and range up to more than 14% for fillets and surimi at higher market prices. H/G/T

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products have a different scale as they are cheaper to produce and have a higher product yield.

Surimi—Exhibit 1 and 2 provide a graphic and tabular tracking of SA and KA grade pollock surimi from January 2004 to April 2008 by month. During the past year (April 2007-2008 pollock SA surimi prices CIF Japan increased from \$1.37/lb to \$2.43/lb, a 77% increase. Also during the past year, KA surimi prices CIF Japan increased from \$.96/lb to \$1.87/lb which is a 95% increase. For the 2008 Alaska pollock A season grades of surimi sold on average for more than \$2.00/lb and for 2008 B season prices are projected to increase further.

H/G/T—Exhibit 3 provides a graphic and tabular price tracking for H/G/T west coast hake for sales from the 2006 and 2007 seasons together with current offer prices for the 2008 summer season. Price offers for the current 2008 hake season for H/G/T hake product now stand at \$1850/mt relative to prices in 2007 at \$1350/mt and in 2006 at \$1200/mt. The price increase in the past year for H/G/T west coast hake is 37%. H/G/T pollock prices are reportedly \$2200/mt.

Filletts—Alaska pollock fillet forms maintained a fairly steady market price between the fall seasons of 2006 through the summer of 2007. During the October/November/December period of 2007, pollock fillet prices started to increase. Exhibit 4 provides a tracking of pollock pin bone out skinless pollock block prices for the 2007 B season C&F Europe relative to prices for the 2008 A season and offer prices for the 2008 B season. In the past year (2007 B actual - 2008 B offer), pollock block prices have increased from \$2950/mt to \$4200/mt or 42%.

FAIR MARKET EX-VESSEL PRICE

From a very basic position, ex-vessel shore side prices for west coast hake in 2007 were mostly in the range of 8-8.5 cents/lb and we all know that this price was less than fair market. Prices paid for Canadian or Makah hake reportedly reached 10 cents/lb. during the 2007 season.

For surimi, H/G/T and fillets taken across the board, one can easily argue that end product prices in the past year have increased 50%—a minimum of 77-95% for surimi, 37% for H/G/T, 42% for fillets. A straight prorated increase in ex-vessel price for the 2008 season brings us to a 2008 season ex-vessel price of 12-12.5 cents/lb if we do not consider the Canadian or Makah ex-vessel price.

If we look at likely 2008 hake surimi (KA grade only) at 94% of KA pollock surimi or \$1.75/lb, and reduce back to FOB West coast, we are looking at end product of about \$1.62/lb. If we add a likely hake fillet price of 90% of pollock fillets and again reduce back to FOB west coast we are looking at about \$3500/mt or \$1.58/lb for hake fillets. At an average fillet/surimi price of \$1.60/lb and a 12% fair market price share, the ex-vessel price equals 19 cents/lb. Ex-vessel 2008 A season Alaska pollock prices excluding the roe bonus will substantially exceed 20 cents/lb.

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Given all the above and accounting for the constraints to the West Coast whiting fishery, I would place the 2008 fair market ex-vessel shore side market in the range of 12-14 cents/lb. The mothership ex-vessel market price has typically been below shore side for a variety of reasons and I would place that price in the range of 10.5-11.5 cents/lb.

The ex-vessel fair market prices recommended above may cause a "bit of a stir" in the processing sector. However, this stir is over-due. I believe that the recommended prices are more than justified by overall industry price trends, by recent end product market prices and by the Alaska price model now being used to calculate ex-vessel fair market price. Good luck with your negotiations.

Sincerely,

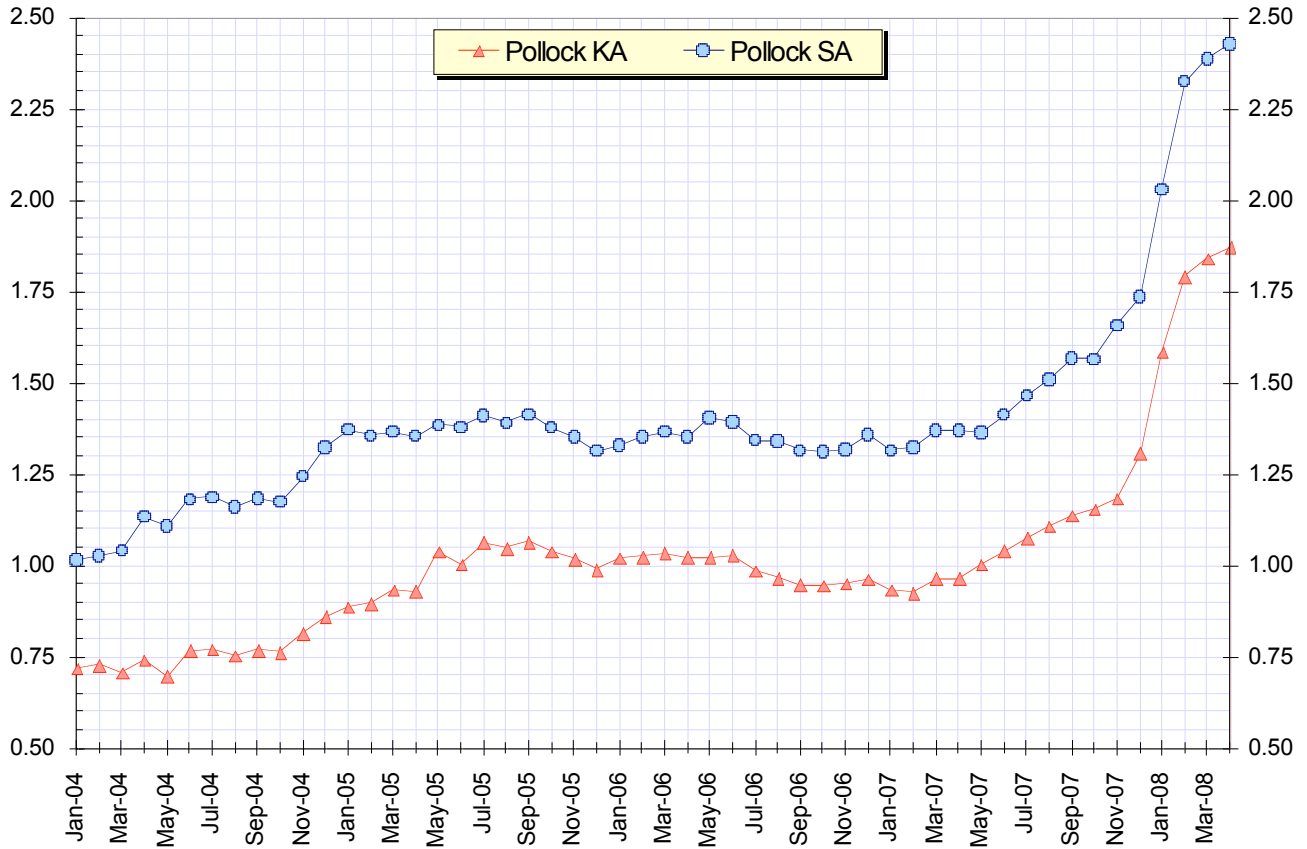
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Steve Hughes, President

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Exhibit 1. Chart of monthly export prices (\$/lb, CIF-Japan) of Alaska pollock surimi (grades KA and FA), January 2004 to current. Source: NRC.



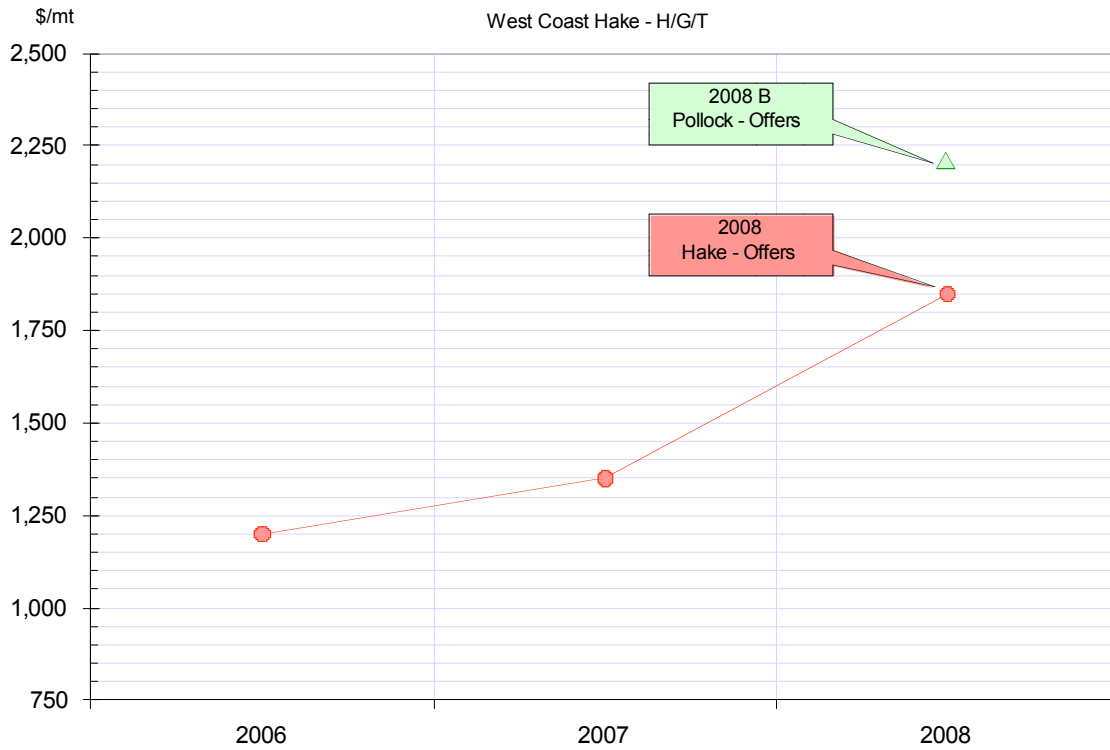
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Exhibit 2. Table of monthly export prices (\$/lb, CIF-Japan) of Alaska pollock surimi (grades KA and FA), January 2004 to current. Source: NRC.

Month/Year	¥/Kg		¥/\$	\$/Lb	
	Pollock SA	Pollock KA	ExRate	Pollock SA	Pollock KA
Jan-04	240	170	107.4	1.01	0.72
Feb-04	240	170	105.96	1.03	0.73
Mar-04	250	170	109.09	1.04	0.71
Apr-04	260	170	104.04	1.13	0.74
May-04	270	170	110.52	1.11	0.70
Jun-04	285	185	109.41	1.18	0.77
Jul-04	285	185	108.85	1.19	0.77
Aug-04	285	185	111.48	1.16	0.75
Sep-04	285	185	109.25	1.18	0.77
Oct-04	285	185	110.03	1.17	0.76
Nov-04	290	190	105.81	1.24	0.81
Dec-04	300	195	102.92	1.32	0.86
Jan-05	310	200	102.44	1.37	0.89
Feb-05	310	205	103.66	1.36	0.90
Mar-05	315	215	104.56	1.37	0.93
Apr-05	320	220	107.23	1.35	0.93
May-05	320	240	104.81	1.38	1.04
Jun-05	330	240	108.55	1.38	1.00
Jul-05	345	260	110.94	1.41	1.06
Aug-05	345	260	112.53	1.39	1.05
Sep-05	345	260	110.71	1.41	1.07
Oct-05	345	260	113.53	1.38	1.04
Nov-05	345	260	115.74	1.35	1.02
Dec-05	345	260	119.16	1.31	0.99
Jan-06	345	265	117.68	1.33	1.02
Feb-06	350	265	117.36	1.35	1.02
Mar-06	350	265	116.18	1.37	1.03
Apr-06	350	265	117.48	1.35	1.02
May-06	350	255	113.06	1.40	1.02
Jun-06	345	255	112.43	1.39	1.03
Jul-06	340	250	114.92	1.34	0.99
Aug-06	340	245	114.96	1.34	0.97
Sep-06	340	245	117.21	1.32	0.95
Oct-06	340	245	117.7	1.31	0.94
Nov-06	340	245	117.01	1.32	0.95
Dec-06	345	245	115.33	1.36	0.96
Jan-07	345	245	119.02	1.31	0.93
Feb-07	350	245	120.02	1.32	0.93
Mar-07	355	250	117.53	1.37	0.96
Apr-07	355	250	117.56	1.37	0.96
May-07	360	265	119.77	1.36	1.00
Jun-07	380	280	122.1	1.41	1.04
Jul-07	395	290	122.32	1.46	1.08
Aug-07	395	290	118.71	1.51	1.11
Sep-07	400	290	115.83	1.57	1.14
Oct-07	400	295	115.91	1.57	1.15
Nov-07	420	300	114.87	1.66	1.18
Dec-07	425	320	111.02	1.74	1.31
Jan-08	500	390	111.71	2.03	1.58
Feb-08	545	420	106.3	2.33	1.79
Mar-08	545	420	103.57	2.39	1.84
Apr-08	545	420	101.77	2.43	1.87

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Exhibit 3. Headed, gutted and tailed (H/G/T) frozen block export price trend (\$/lb and \$/mt) for West Coast hake, 2006-2008, projected 2008 B season prices for H/G/T Alaska pollock and 2008 hake. Source: NRC.



Year/Season	\$/mt	Product
2006	1,200	Hake
2007	1,350	Hake
2008	1,850	Hake - Offers
2008 B	2,200	Pollock - Offers

Exhibit 4. Recent and projected prices for Alaska pollock fillet blocks (CIF-Europe, pinbone out, skinless) and 2008 projected hake price.



Year/Season	\$/mt	Product
2007 B	2950	Pollock
2008 A	3400	Pollock
2008 B	4200	Pollock - Projected
2008	3800	Hake - Projected

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