

Around US\$1.95 billion is added annually to the Pacific island economies from the fisheries sector.¹ The tuna industry is the substantial contributor, but other offshore fisheries, coastal fisheries, freshwater fisheries, and aquaculture are also important. Returns have grown slowly and many governments have sought various means to extract greater economic benefits from the industry. The success or otherwise of these actions provide a wealth of lessons.

This note examines how government has sought to gain financial and economic benefits from the fisheries sector—through access fees, employment creation, vessel ownership, growth of processing and ancillary services to the fishing industry, as well as the development of niche fisheries

markets. It sets out some clear “do’s” and “don’ts” which have been drawn from the real experiences of Pacific nations.

Maximizing the Benefits from Fisheries

Access fees

Fisheries access agreements allow the fleet of a distant water fishing nation to fish in the exclusive economic zone of a Pacific nation. Worldwide fisheries access agreements involve financial compensation of 2-17% of the value of the catch, with an average of 6%.² The nature of fisheries access agreements is constantly evolving, and increasing emphasis is being placed on stock conservation measures and providing increased benefits to host states.

DO

- Treat access fees as a revenue stream. As such, Ministry of Finance should lead negotiations with those seeking access, with Ministry of Fisheries being solely a technical adviser.
- Train negotiators and ensure they operate within well understood and pre-agreed negotiating parameters.
- Generate competition for access among distant water fishing nations to ensure the largest returns.
- Offer access to a larger resource through negotiating as part of a group of adjacent nations to extract the largest total return.
- Recognize that attaching conditions to fishing licenses—such as requirements for nationals as crew, forced catch landing, forced refueling—will result in a reduction in willingness to pay for such conditional licenses. Thus the direct national revenue is reduced, while the privately captured economic benefits increase. The trade-offs being made need to be analyzed and understood.

DON'T

- Allow national interest to be subverted by the potential of individual gain. The fisheries industry is susceptible to corruption and must be closely monitored by authorities. Public transparency of fisheries agreement can reduce the risk

The US Treaty

The Multilateral Treaty on Fisheries Between Certain Governments of the Pacific Island States and the Government of the United States of America (commonly referred to as the “US Treaty”) commenced in 1987. It has been renewed on two occasions, with the last renewal in 2003 agreeing the US Treaty will run for a further 10 years until 2013. The US Treaty enables a maximum of 40 US purse seine vessels to fish in the waters of the 16 Pacific Island Parties which are: Australia, Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, New Zealand, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.

In return for access the US State Department and the US fishing industry contribute an agreed annual amount, regardless of catch. The USA has paid US\$276 million to the Forum Fisheries Agency (FFA), in the first 16 years of the treaty’s operations. This is a relatively lucrative agreement for the Pacific states involved, as much as an estimated 23% of catch value, but also because the US has not made use of its full allocation, some of which has then been re-allocated to other distant water fishing nations. After FFA retains a small administration fee these funds are divided among all Pacific island parties so as to provide each with a fixed minimum payment and the major a catch-related payment component. In practice 79% of the money has gone to five countries (Federated States of Micronesia, Kiribati, Nauru, Papua New Guinea and Tuvalu) reflecting the uneven distribution of tuna fish stock in the region.

The US Treaty has played an important role in providing (i) medium term certainty about the basis of fee payments; (ii) A US Government undertaking to enforce the terms and conditions of the treaty including, for example, good fishing practices; and (iii) provision for member-state observers on US vessels to monitor compliance with the treaty.

Sources: Asian Development Bank and Commonwealth Secretariat. 2005. *Toward a New Pacific Regionalism*. Pacific Studies Series. Volume 3: Working Papers. Working Paper No. 4: South Pacific Forum Fisheries Agency: Benefits and Costs. Manila. Oxfam New Zealand. 2006. *Fishing for a Future: The Advantages and Drawbacks of a Comprehensive Fisheries Agreement between the Pacific and European Union*

1 Value of fisheries and aquaculture production, 2007 for Cook Islands, Federated States of Micronesia, Fiji Islands, Kiribati, Nauru, Marshall Islands, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu taken from ADB. 2009. *Fisheries in the Economies of the Pacific Island Countries and Territories*. Pacific Studies Series. Manila. page xxiii.

2 Mwikya, S. M. 2006. *Fisheries Access Agreements: Trade and Development Issues*. Issues Paper No. 2 International Centre for Trade and Sustainable Development. Switzerland.

Bilateral Agreements with the European Union (EU)

In July 2006 the European Community and the Republic of Kiribati negotiated a 6 year bilateral Fisheries Partnership Agreement. This Agreement provides fishing possibilities, exclusively for tuna, for 16 EU vessels fishing in the waters of Kiribati. The annual EU financial contribution will amount to €478,000, coming both from Government and vessel owners. The EU indicated that this agreement occupies a key position in the future network of tuna agreements to be set up in the Pacific Ocean, together with the agreements with the Solomon Islands and Micronesia, which at that time were initialled and awaiting formal ratification.

Source: <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/06/1039&format=HTML&aged=0&language=EN&guiLanguage=en>

Kiribati's Fisheries Training Centre

The Kiribati Fisheries Training Centre was established in 1989, with Japanese aid support, to provide training for employment on largely Japanese fishing vessels. Japan provided funding for the training of up to 72 crew annually. Hiring of the trainees is through two locally-based recruitment agencies: Kiribati Fisherman's Services Ltd, which is 99% owned by the Federation of Japan Tuna Fisheries Cooperative Associations; and Central Pacific Producers. In 2005 about 400-500 Kiribati fishermen were employed on overseas fishing vessels. Kiribati fishing crew serving on foreign vessels remit over US\$ 0.8 million per year in wages back to Kiribati. Of this some 80% goes to the outer islands, making a significant contribution to their local economies.

Sources: Barclay, K. 2007. *Capturing the Wealth from Tuna*. ANU Press. Canberra. Australia. FAO. 2002. *Profil De La Pêche Par Pays*. <http://www.fao.org/fi/oldsite/FCP/en/KIR/profile.htm>

of corruption.

- Exchange a sustainable long term industry for short term financial gain. Ensure the outcome promotes a sustainable industry with reputable operators.
- Underestimate the costs involved in the value chain between fisheries access and market. A 2003 estimate for the Pacific was that access fees were equivalent to 5-6% of the final market value of tuna.³ The appropriateness of this level cannot be considered without information on the costs incurred in fishing, processing, transport and marketing.

Employment of seafarers

Seafaring, including on fishing vessels, can be a lucrative career, which enables the extended family to be supported. Seafarers are also an important source of foreign exchange to a country.

DO

- Support access to training by nationals to ensure the skill base needed by the fishing industry is there.
- As the benefits of training are captured by an individual strong consideration should be given to charging for the training. Charging could occur once the person has gained employment.

DON'T

- Require fishing companies to take on nationals as employees as a condition of their access or licensing. Well trained locals should have a natural geographic advantage in accessing job opportunities.

Fishing effort

As at September 2010, FFA had registered 1168 foreign flagged vessels for fishing in its members' waters. The most financially successful companies operating in the

Pacific are multi-vessel, vertically integrated companies, with an involvement in land-side transport and even in restaurants. For an individual vessel the tuna catch can fluctuate significantly from year to year and profits in one year may be followed by several bad years. Integration and diversification allows the company to survive the years where returns on fishing effort are poor. Small players don't typically have this capacity.

DO

- Provide a business environment in which private investors want to operate.

DON'T

- It is not the core business of government to fully or partially own fishing companies or vessels. These are commercial ventures which should be left solely to industry professionals.

Processing, Transshipment and Ancillary Services

A line must be drawn between the role of the government and that of the private sector. Experience shows that activities related to production and postharvest are better undertaken by the private sector. Pacific countries face significant challenges in the development of competitive processing plants that could help retain a greater amount of fisheries revenue. Infrastructural barriers include a lack of handling and shipping infrastructure, insufficient water supplies; stable supply of electricity, and poor transport networks. The long distance to market, and from supplies (such as cans, machinery, and so on), are also factors, as are problems with fluctuating local currencies.⁴ More recently, increasingly stringent food safety standards have required significant investment in improved processing facilities, and monitoring and certification systems. The impact and benefits for local communities and landowners, the implications of the use of resources such as power and water, and the impact on the environment all need careful consideration and oversight.

3 Josie Tamate, 'Access Agreements: South Pacific Forum Fisheries Agency' in FAO Fisheries Report No. 732, Supplement, *Papers Presented at the Workshop and Exchange of Views on Fiscal Reforms for Fisheries – To Promote Growth, Poverty Eradication and Sustainable Management* Rome, 13-15 October 2003. Available at <http://www.fao.org/docrep/007/y5718e/y5718e07.htm>

4 Oxfam New Zealand. 2006. *Fishing for a Future: The Advantages and Drawbacks of a Comprehensive Fisheries Agreement between the Pacific and European Union*.

Government Owned Fishing Companies

The Government of Kiribati established Te Mautari Limited (TML) in 1981 to develop a pole-and-line tuna fishery in Kiribati's EEZ. Technical and economic difficulties associated with Kiribati's remoteness, lack of infrastructure and variability in resource abundance plagued TML's operations. The company rarely made a profit, and required continued Government support. The company was provided with assets and technical assistance valued in excess of US\$14 million. In 1991, following the accumulation of losses totaling approximately US\$7 million the company's board suspended operations. The company eventually ceased operations in 2000.

The Government of Tonga set up Sea Star Fishing Company Limited (SSFCL) in 1990 with the objective of further developing the infant albacore tuna fishing industry, which had been identified as a high priority under the Fifth Five year Development Plan. The Cabinet determined that the fishing company should operate at arm's length from the Government and should be fully privatized as soon as possible. Subsequently ADB provided loan and technical assistance support over a 10 year period. SSFCL traded at a loss for most of this period. In mid-1998 ADB recommended privatization of SSFCL. A Government review in mid-1999 recommended that management of the fishing operations should be out-sourced and that the Government should provide further working capital. The Government did not actively promote private investment in SSFCL and has not sold its own shareholding. There was a subsequent drastic downturn in the operational and financial status of SSFCL and in 2008 its assets were sold.

The Micronesia Longline Fishing Corporation (MLFC) was formally established as a private shareholding company at the initiative of the Federated States of Micronesia National Fisheries Corporation (NFC) in 1991 and an ADB sovereign loan of \$6.5 million was provided. The main activity of MLFC was commercial fishing, targeting yellowfin and bigeye tuna for export to overseas sashimi markets. MLFC actually remained in government hands, with NFC providing 98% of authorized capital. MLFC's performance was plagued by many factors outside its control – poor enabling environment for private sector investment and activity; an overly bureaucratic operational environment; resistance to the privatization of state-owned entities; administrative constraints imposed by differing national and state agendas; expensive services (e.g., dry-docking); expensive and unreliable airfreight services. Other drivers of its subsequent position of insolvency by 2002 was the overestimate of catch rates and the failure to address the financial implications of the shift from use of new to secondhand vessels.

The National Fishing Company of Tuvalu (NAFICOT) was established as a public corporation in 1987 to carry on business generally in the exploitation, processing and marketing of marine resources. NAFICOT carried out commercial fishing using vessels supplied by Japanese grant-aid, it also operated a small retail fish outlet, and participated in the operation of the outer island fishery centers. NAFICOT faced commercial difficulties since its inception, and the Government is required to service a A\$1 million loan secured by NAFICOT in 2003 to purchase fishing vessels. A temporary suspension of the corporation was issued in February 2006, the remaining 4 staff transferred to the Fisheries Department, and the Board of Directors was dissolved. Nonetheless it has not been shut down and activities are still being undertaken in NAFICOT's name.

Sources: FAO. 2002. Profil De La Pêche Par Pays. <http://www.fao.org/fi/oldsite/FCP/en/KIR/profile.htm>
ADB. 2001. Project Completion Report. Manila. ADB. 2009. TA4899-TON: Rationalization of Public Enterprises Phase III. Technical Assistance Completion Report. Manila.
ADB. 2002. Project Completion Report on the Fisheries Development Project (Loan 1257-FSM [SF]) in the Federated States of Micronesia. Manila.
<http://www.adb.org/Documents/Reports/Consultant/41180-TUV/41180-01-TUV-TACR.pdf>. ADB. 2007. Tuvalu 2006 Economic Report: From Plan to Action. Manila.



DO

- Encourage active participation of the private sector in the development of fisheries, particularly in the areas of processing, marketing, and exports.
- Facilitate involvement of the private sector by the privatization of government-owned production and processing facilities.
- Provide the policy, institutional, and regulatory framework to support private sector operations.

DON'T

- Allow Government to be a risk taker with public monies through direct involvement in commercial ventures.
- Enter a race to the bottom through the use of investment incentives and subsidies. Scrutinize subsidies to ensure they are appropriate and timebound.

Aquaculture and Aquarium Trade

Aquaculture production, which implies farming techniques, comes from a limited range of activities in the Pacific: private sector pearl culture and shrimp culture, tilapia, milkfish and giant clam culture. Aquarium exports—including reef fish and corals—from the region is becoming an important source of income and employment for local communities in the Pacific. The high unit price of some aquaculture and aquarium products makes their production in more remote locations economic. Indeed in some locations these are the only viable income earning fisheries activities.

DO

- Regulate to ensure environmental sustainability and compliance with international treaties, such as the UN convention on international trade in endangered species (CITES).
- Provide the policy, institutional, and regulatory framework to support private sector operations, for example supporting efforts to meet biosecurity requirements.

DON'T

- Allow the coral reef resources to be irreparably damaged through weak enforcement of regulations.

American Samoa's tuna canning industry

At its peak American Samoa's tuna canning industry exported around US\$500 million worth of canned tuna and accounted for approximately one-third of all employment in the territory, employing workers from nearby Pacific countries, such as Samoa and Tonga. The September 2009 closure of the Chicken of the Sea Samoa Packing plant cost the jobs of more than 2,000 workers in the U.S. territory. This provides a salient lesson that the competitiveness of an industry such as fish processing can be finely balanced when located in the Pacific. American Samoa provided the dual advantages of preferential access to the sizeable US market and low local wage rates. Chicken of the Sea cited a 2007 US federal law that mandated annual minimum wage hikes in the territory until the federal minimum wage of \$7.25 an hour was reached as the basis for the closure. The law was also cited by StarKist Co. in its decision to lay off 800 workers at its cannery this year as was increasing utility and transport costs.

Other Fish Processing Experiences

There are many years of experiences in fish processing in the Pacific. Preparing tuna for canning is a labor intensive process and has become very expensive in countries with high wages. Tuna canneries in Europe, for example, now mainly import loins (cooked, cleaned tuna fillets), which are prepared in factories nearer to the fishing grounds. This saves on both labor and freight costs. This has required a shift in Pacific operations towards loining rather than canning. Substantial capital investments have been required which in many cases has required increased private sector involvement.

PAFCO—Fiji Islands

Pacific Fishing Company (PAFCO) is a 99.5% government-owned company which processes and exports fish loins and other related products. It operates from Levuka on the island of Ovalau. Originally a cannery, more recently its main product has been albacore loins for export to the USA (where the loins are then canned). The Pacific Fishing Company Limited (PAFCO) has a current 3 year supply agreement with the US firm Bumble Bee Foods Limited, the largest producer of canned food in North America. This arrangement has seen Bumble Bee make capital investments to update and modernize the company's equipment.

Soltai—Solomon Islands

Solomon Taiyo Ltd. (Soltai) began in the 1970s as a joint venture between the Solomon Islands Government and the Taiyo Gyogio Fishing Company of Japan. It established a new fishing base and cannery in Noro, Western Province. During the civil disturbances of 2000/01 the Japanese company gave its shareholding to Western Province. This saw Soltai owned 51% by Solomon Islands Government and 49% by Western Province. By early 2010 a financial restructuring plan was required to enable S\$100 million to be raised to both reduce the cost of long term debt and refurbish and expand its facilities to raise processing throughput to 80 tonnes per day by single shift. The increase in authorized share capital has seen a change in company's ownership - Tri Marine, a private company, becomes majority owner (51%), Solomon Islands National Provident Fund (29%), while Solomon Islands Government and the Western Province now have 10% shares each. The new business plan forecasts a return to profitability.

Private Investment in Republic of Marshall Islands

The fresh water, power and freight situation in Marshall Islands is more viable for tuna industries than many other Pacific atolls. Nevertheless, there have been mixed experiences in fish processing. A tuna-processing facility, Fishbase, was established on Majuro in 1985 under a JICA project. After initial Government management there were two successive private managing contractors but the facility was closed temporarily before a contract was given to a private company with operations in marketing and trading of fish. The PM&O loining plant, built in 1999, produced cooked tuna loins, and by 2004 employed about 500 local people, about 80 per cent of whom were women. In 2005, the facility had closed down, apparently due to persistent quality and financial problems after a change in management. In 2008, Chinese purse-seine fishing company Shanghai Deep Sea Fisheries commenced its first phase of establishing the new tuna processing plant costing \$8.5million. It is envisaged that the processing of tuna will provide over 300 jobs.

Sources: American Associated Press. 2010. 6 October 2010.

<http://fis.com/fis/worldnews/worldnews.asp?l=e&id=30807&ndb=1> and Ministry of Public Enterprises, Tourism and Communication. 2009. Annual Corporate Plan and Business Plan 2010. Suva.

Solomon Times Online. 2010. "NPF and Tri Marine Invest in Soltai Fisheries". 12 September.

http://epress.anu.edu.au/capturing_tuna/pdf/ch06.pdf

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Kiritimati Marine Aquarium Trade

Kiritimati (also called Christmas Island) has few commercial enterprises. The marine aquarium industry began in the late 1970s and now is worth at least US\$1.5 million annually. It is the biggest income earning activity and source of livelihood for the local people. However, while there had initially been just one highly reputable supplier by the 1990s there were 10 companies. With the increased operators and lack of controls and regulations a trend developed towards large numbers of fish exports. The result was poor management practices and the decline in overall quality of marine aquarium fish from Kiritimati. This in turn caused a drop in prices, from US\$25 a unit to US\$1 per unit in the case of the signature export, the flame angelfish. Government, in concert with regional organizations, is now focusing on improving industry practices, resource monitoring, and use of culture methods. The aim is a secure resource and a sustainable industry.

Source: Secretariat of the Pacific Community. 2010. "Developing a sustainable marine aquarium trade industry on Kiritimati Island". Fisheries Newsletter #131 – January/April. Noumea.