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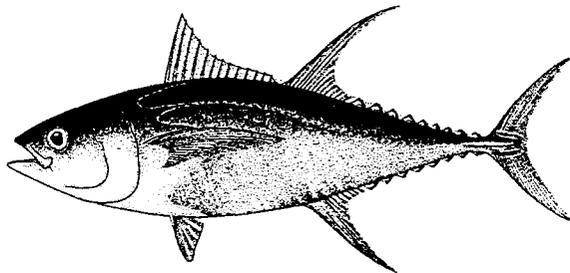
STANDING COMMITTEE ON TUNA AND BILLFISH

5-8 August 1994

Koror
Republic of Palau

INFORMATION PAPER 4

ECONOMIC OVERVIEW OF TUNA INDUSTRY DEVELOPMENTS



Thunnus albacares

Forum Fisheries Agency
Honiara, Solomon Islands
July 1994

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Summary

In 1993, the value of tuna catches in the waters within and adjacent to the fishing zones of FFA member countries is estimated to have reached US\$1,470 million, an increase of 11% compared to the previous year. The majority of the revenue was split fairly equally between the purse seine and longline fleets, which earned US\$665 million and US\$660, respectively. The pole and line fleet earned the remaining US\$145 million.

The vast majority of the harvest is taken by foreign licensed vessels, with locally owned or joint venture vessels currently accounting for only around 5% of the total value of the catch. Compared with the 1,200 foreign fishing vessels operating in the region, the locally based fleet is tiny, with a total of 21 purse seiners, around 30 small scale longliners and 42 pole and line vessels. There is, though, a rapidly growing fleet of small scale, foreign owned longliners, numbering in excess of 450, based in Micronesian ports.

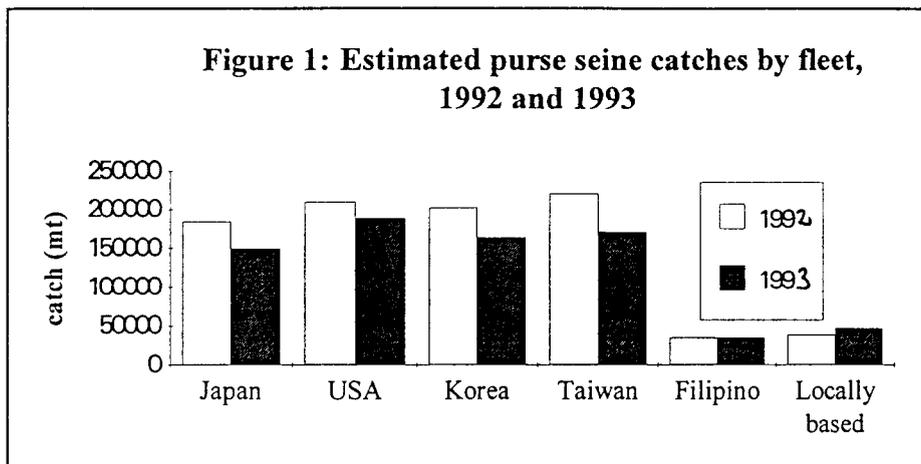
Few economic benefits, other than access fees, have generally been derived by FFA member countries from foreign fishing in their waters. There is little employment of local people as crew members and the foreign operators have seldom used local ports for refuelling or provisioning their vessels or for processing their catches. Nor has there been any significant transfer of fishing, marketing or enterprise management skills or fishing technologies to Pacific island nationals. Dissatisfaction with the rate of domestic industry development prompted FFA member countries to recently announce a progressive phase down of the number of licences available in the region for foreign purse seiners, while increasing the licence allocation to domestically based purse seiners. An internal multilateral agreement is also currently being developed amongst PNA countries to allow the preferential access of locally based purse seiners into each other's zones to further promote the development of the domestic tuna industry.

Economic conditions in the tuna industry

Catches

Despite a 135,000 mt reduction in the 1993 purse seine catch to around 750,000 mt, the total value of the catch is estimated to have increased slightly, by around 3% compared to 1992. The reduction in catch was primarily the result of the implementation by FFA member countries of a ban on the transshipment at sea of tuna catches by purse seiners to carrier vessels. By forcing purse seiners to tranship their catches in ports, the turnaround time for unloading the vessels has been increased, resulting in a loss of fishing days and a consequent decline in catches. The Taiwanese and Korean fleets which, over the past few years, routinely transhipped their catches at sea, have been most adversely affected by the ban. Poor fishing conditions in Micronesian and Kiribati waters in early 1993 also played a role in reducing purse seine catches, particularly those of the Japanese and US fleets. The relative sizes of the catches of the various distant water purse seine fleets for both 1992 and 1993 are illustrated in Figure 1.

As of March 1994, 181 purse seine vessels were licensed to operate in the region. The number of foreign purse seiners operating in 1994 has been reduced due to the sinkings of two US seiners and two Korean seiners in 1993 and by the retirement of 6 of the 7 Japanese group seiners which previously operated in Micronesian waters. Catches in 1994 could well be lower than in 1993 as the Taiwanese and Korean fleets experience the effect of having to tranship in port all year round, compared to the six month period during 1993.



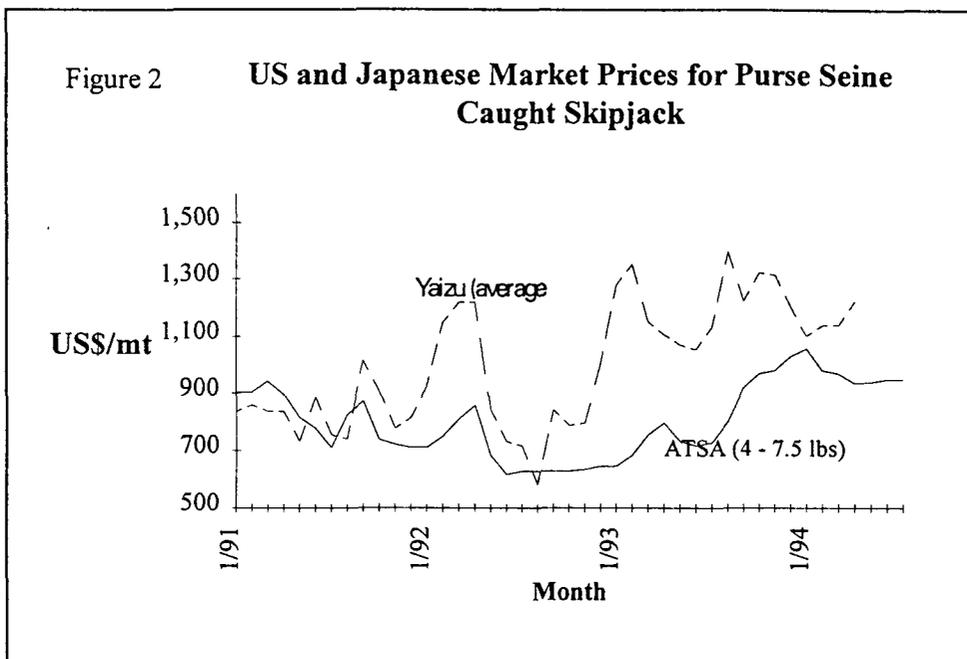
The Japanese fleet continues to dominate the longline fishery in the region with about 400 vessels licensed by FFA member countries in 1993. The catches of the longline fleets are thought to have increased slightly in 1993 due to additional vessels, mostly from the People's Republic of China, entering the fishery. The total catch is estimated at around 124,000 mt, the vast majority of which is composed of yellowfin and bigeye tunas.

There continues to be substantial growth in the locally based fleet of foreign and domestic longliners. Around 450 vessels of 100GRT or less were based in Palau, the Federated States of Micronesia and the Marshall Islands in 1993, landing their catches in chilled form for airfreighting to the Japanese sashimi market. Nearly all of these vessels are from Taiwan and the People's Republic of China. The total supplies of fresh tuna to the Japanese market by vessels based in the region increased by an estimated 75% in 1993 to around 12,000 mt. Supplies from FFA member countries now account for around 15-20% of the total quantity of fresh tuna imported by Japan.

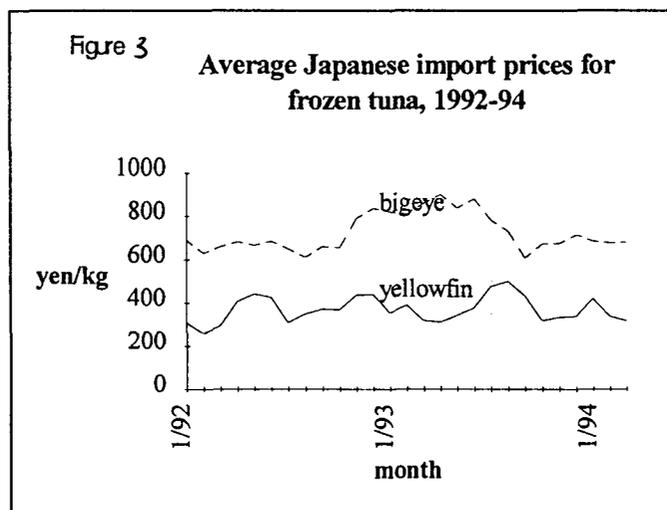
The Japanese distant water pole and line fleet operating in the region has stabilised at 38 vessels, after the completion of a buy-back/scraping programme run by the Japanese Government. The Japanese distant water pole and line catch in the region in 1993 is estimated at around 68,000 mt, while the domestic pole and line fleets in the region, based mainly in the Solomon Islands and Fiji, caught around 25,000 mt.

Markets

The prices paid for canning tuna from purse seiners increased rapidly in the latter half of 1993 after a prolonged slump. In January 1994, the average price paid in American Samoan canneries for medium sized skipjack reached US\$1050 per mt, an increase of almost 50% over the price in early 1993. Since January, prices have fallen and stabilised at around US\$950 per mt for 4-7.5lbs canning grade skipjack. Figure 2 shows the average prices paid by canneries in American Samoa and Japan for medium sized skipjack. According to industry sources, the rise in prices since mid 1993 is largely attributable to the reduction in tuna supplies resulting from the ban on transshipment at sea in the region.

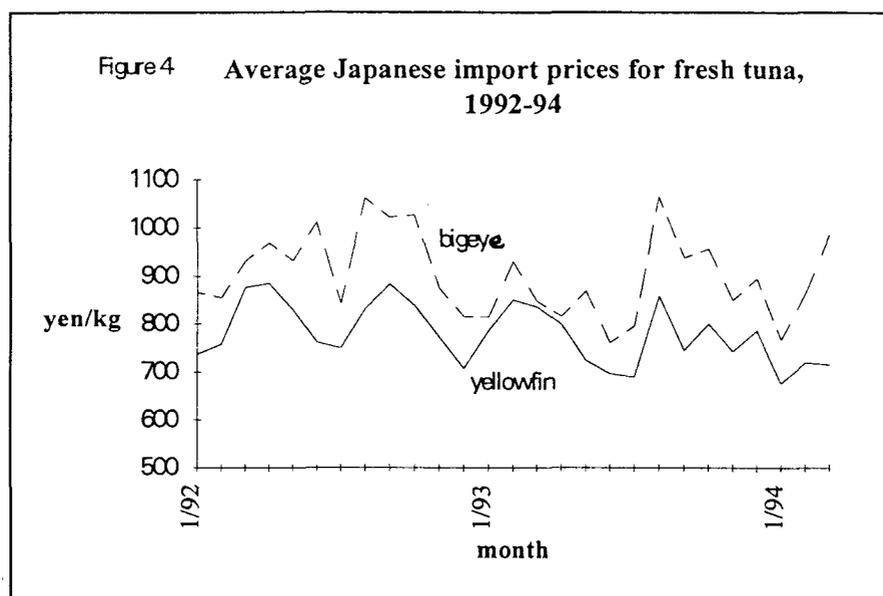


The weighted average prices for frozen tuna on the Japanese market were stable in 1993 and early 1994 despite a substantial growth in the quantity of imports, especially from Taiwanese longliners operating in the Indian Ocean (see Figure 3). However, due to the strong appreciation of the yen, the average prices received by non-Japanese suppliers to the Japanese market for frozen bigeye and yellowfin increased, in US\$ terms, by 16% and 13% respectively, in the year ended March 1994 compared to the previous 12 month period.



The average auction prices for fresh tuna airfreighted to the Japanese market declined in 1993, probably in response to increasing supplies, particularly from the western Pacific. The average import price of fresh yellowfin tuna in Japan fell by 8% and that of bigeye by 6% in the year ended March 1994 compared to the previous 12 months (see Figure 4). Again, the appreciation of the yen insulated

non-Japanese suppliers from the downward market trend with yellowfin and bigeye prices increasing, in US dollar terms, by 6% and 10% respectively over the period.



Economic performance of the fleets

The latter half of 1993 appears to have marked a turnaround in the economic performance of the purse seine fleets after three years of consistently low tuna prices. Although the introduction of a ban on transshipment at sea initially put increased financial pressure on some of the purse seine fleets, the resulting rise in prices has, in most cases, more than compensated for the reduction in per vessel catches.

The Japanese purse seine fleet, despite recording a decline in catches, enjoyed relatively high prices for its catch, an effect which resulted in average per vessel returns increasing substantially compared to 1992. With newly negotiated access agreements with Kiribati, the Marshall Islands and Nauru the operational flexibility of the Japanese purse seine fleet has been significantly improved.

The total value of the longline catch in the region, in US dollar terms, is estimated to have risen by around 20% in 1993, due to an increase in the average prices paid for frozen yellowfin and bigeye on the Japanese market and a modest increase in the quantities supplied.

Although the large majority of the longline catch is taken by Japanese, Korean and Taiwanese vessels and sold in frozen form, the catches of locally based foreign vessels are rapidly gaining in importance. The addition of at least 100 vessels from the People's Republic of China to the longline fleet based in the region is likely to have increased the quantity of tuna airfreighted fresh to Japan and, to a lesser extent, to Honolulu and the US west coast, by around 5,000 mt in 1993. This increase in supplies, although relatively small in comparison to the total import supply to the Japanese fresh tuna market, may have contributed to the decline in average prices for fresh tuna experienced in 1993-94.

Management of the purse seine fishery

In 1992, the 'Palau Arrangement for the Management of the Western Pacific Purse Seine Fishery' was signed by the eight parties to the Nauru Agreement. By placing limits on the number of both foreign and domestic purse seiners licensed to fish in the region, the Palau Arrangement provides a

framework for the effective management of the fishery. Although there are productive pockets of high seas within the fishery, they are unable to support year round fishing activities due to the movements of the fish stocks in and out of the fishing zones of FFA member countries. Purse seine vessels need to enter these zones to operate viably. Placing a limit on the number of vessels licensed within zones is, under these circumstances, an effective method of limiting the number of vessels active in the fishery as a whole.

The numbers of licences available to the various foreign fleets under the Palau Arrangement are shown in Table 1. Also shown are the numbers of licences which will be available to each fleet in 1997, as the result of the first phase of a progressive reduction in foreign purse seine fishing in the region.

Phase down of foreign purse seine fishing

In 1993-94, there has been a substantial increase in the number of purse seiners operating under locally based joint ventures, with at least eight vessels added, or about to be added, to the fleet in the Federated States of Micronesia, Papua New Guinea, the Solomon Islands and Kiribati. However, none of these vessels were previously licensed in the region so it would appear that growth in the size of the domestic fleet has not, so far, led to any corresponding decrease in the number of licensed foreign vessels.

The reluctance of existing foreign operators to change the nature of their fishing activities through the development of locally based enterprises indicates that additional incentive is required to encourage them to make this transition. The Palau Arrangement is a useful tool in this context as it allows FFA member countries to control the number of both foreign and domestic purse seine vessels operating in the region.

As it is clearly not the intention of the Palau Arrangement to constrain domestic industry development, FFA member countries agreed that, in view of the continuing growth in the number of locally based purse seine vessels, there is a need to make more licences available for these vessels while containing the overall size of the purse seine fleet operating in the region.

As a result, a meeting of the parties to the Nauru Agreement, held in May 1994, agreed that there would be a phased reduction in the number of licences available to foreign purse seine operators. Specifically, the first phase will involve a 10% reduction in the allocation of bilateral licences to each foreign fleet, to take effect in early 1997, and a corresponding increase in the number of licences available to domestic vessels. It is anticipatedplanned that the additional domestic licences will become available in late 1994, prior to the implementation of the reduction in foreign licences, so it is possible that the total number of vessels operating in the region could temporarily increase above the current limit. However, the number of licences available will return to the current level in early 1997.

The three year time frame for the phased reduction gives foreign operators adequate time to adjust the nature of their enterprises to become locally based in the region with a view to qualifying for domestic licences. Although the licence allocation criteria for domestic vessels are still being developed, the agreed objective is to licence the vessels which are likely to offer the greatest long term economic benefits to their host countries. There are a number of characteristics of an enterprise which will affect the extent of economic benefits derived by the host country and which could be taken into account in the licensing criteria. These characteristics include the flag state of the vessel, the degree of ownership by Pacific island nationals, the level of employment of Pacific island nationals, the value of onshore investments and the degree to which fishing inputs, such as provisions and fuel, are purchased locally. Incorporating such characteristics into the licensing system for domestic vessels, will in effect, create a template for future foreign participation in the development of the domestic purse seine industry.

Preferential access for domestic purse seiners

A closely related issue to the phased reduction in foreign purse seine licensing is the current development of an internal multilateral agreement between FFA member countries on the preferential access of domestic purse seine vessels to their waters. This agreement, when signed (probably in late 1994), will allow domestically licensed vessels operating under the Palau Arrangement to fish in the waters of PNA countries, in addition to their host country, at a substantially lower cost than would be possible under a series of bilateral arrangements. Such an arrangement will also increase the operational flexibility of the vessels, allowing them to follow the tuna schools around the region without suffering the delays and administrative difficulties inherent in gaining bilateral licences.

The purpose of the proposed arrangement is twofold. Firstly, it is to support the operations of the fledgling domestic purse seine enterprises. Some of these enterprises find it difficult to afford the bilateral licences, often priced at the same level as those sold to foreign fishermen, which are necessary to enable them to access the waters of other FFA member countries and maintain viable catch rates.

Secondly, it is to stimulate the further development of the domestic purse seine industry. Preferential treatment by FFA member countries of each others domestic purse seine vessels will provide additional incentive for foreign operators to base their vessels in local ports and to establish local enterprises which would be eligible for domestic purse seine licences under the Palau Arrangement.

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TABLE 1

AGREED PURSE SEINE LICENCE NUMBERS

The maximum number of licences for purse seine vessels agreed to by the 13th Annual Meeting of the Parties to the Nauru Agreement, Honiara, Solomon Islands, 27 - 29 April 1994 is as follows. It is agreed that this revised table amends the understanding reached between the Parties at the 12th Annual Meeting of the Parties at Palau in May 1993 and shall remain in effect until further amended by the Parties or by a Management Meeting under Article III of the Palau Arrangement for the Management of the Western Pacific Purse Seine Fishery. It is further agreed that the Parties will aim to increase the number of domestic and locally-based licences and achieve a reduction over a period of three years of 10% in the number of licences allocated to bilateral foreign access.

Category	Single Purse Seine	Group Purse Seine	Total	Reduction	Increase	Target, April 1997
1. Multilateral Access						
U.S. Treaty	55		55 ^(a)			55
2. Bilateral Foreign Access						
Japan	32	7	39	- 4		35
Taiwan	44		44	- 4		40
South Korea	32		32	- 3		29
Philippines	11		11	- 1		10
Sub-total (1+2)	174	7	181	- 12		169
3. Domestic / Locally-based						
All parties	23	1	24		+ 12	36
Total ((1+2) + 3)	197	8	205	- 12	+ 12	205

^(a) As agreed in relation to an extension of the Treaty on Fisheries Between the Governments of Certain Pacific Island States and the Government of the United States of America