IS PAPUA NEW GUINEA A THREAT TO THE EU CANNING INDUSTRY?

By Pedro (Pete) C. Celso
INFOFISH World Tuna Conference
Shangrila Hotel, Bangkok, Thailand
March 23-25, 2012

OUTLINE OF PRESENTATION

- BASES AND ASSUMPTIONS WHY PNG IS PERCEIVED TO BE A THREAT TO THE EU TUNA CANNING INDUSTRY—SIMPLISTIC ANALOGIES
- IS PNG INDEED A THREAT TO THE EU TUNA CANNING INDUSTRY? THE ANSWER IS NO AND THE REASONS WHY IT IS NOT.
- WHAT ARE THE REAL THREATS TO THE EU TUNA CANNING INDUSTRY?
- LESSONS FROM OTHER TUNA CANNING INDUSTRIES LOCATED IN OTHER PARTS OF THE WORLD
- CURRENT TRENDS IN THE TUNA INDUSTRY
- FORESIGHTS AND VISIONS OF THINGS TO COME
- CONCLUSION AND RECOMMENDATIONS

BASES AND ASSUMPTIONS WHY PNG IS PERCEIVED TO BE A THREAT TO THE EU TUNA CANNING INDUSTRY–SIMPLISTIC ANALOGIES

- The Benefits of the EU-IEPA to the Fishing and Processing Industry in Papua New Guinea especially the global sourcing provision privilege and the duty free access of PNG canned tuna exports to the EU.
- The Tuna Catch Statistics and Potential in PNG

  and the other PNA Countries—749,000 MT for PNG in 2010 and about 30%-35% of the world catch for the entire PNA.
- Current Processing Players and their Production Capacities (Exhibit A).
- Additional Potential Players in PNG and their planned production capacities (Exhibit B).
- Current push from the PNA Countries led by PNG.

EXISTING CANNERIES/PLANTS-EXH.A

Company	Type	Output Mt/Day	Employment (Direct)	Employment (Indirect)	Status
RD Tuna Canners - *Madang*	Cannery	200	3,000	7,500	Operational
South Seas Tuna Corporation -*Wewak*	Loin	130	1, 950	4,875	Operational
Frabelle PNG -*Lae*	Loin/ Cannery	150	2,250	5,625	Operational
TOTAL		**430**	**7,200**	**18,000**	

PROPOSED NEW CANNERIES/PLANTS-EXH.B

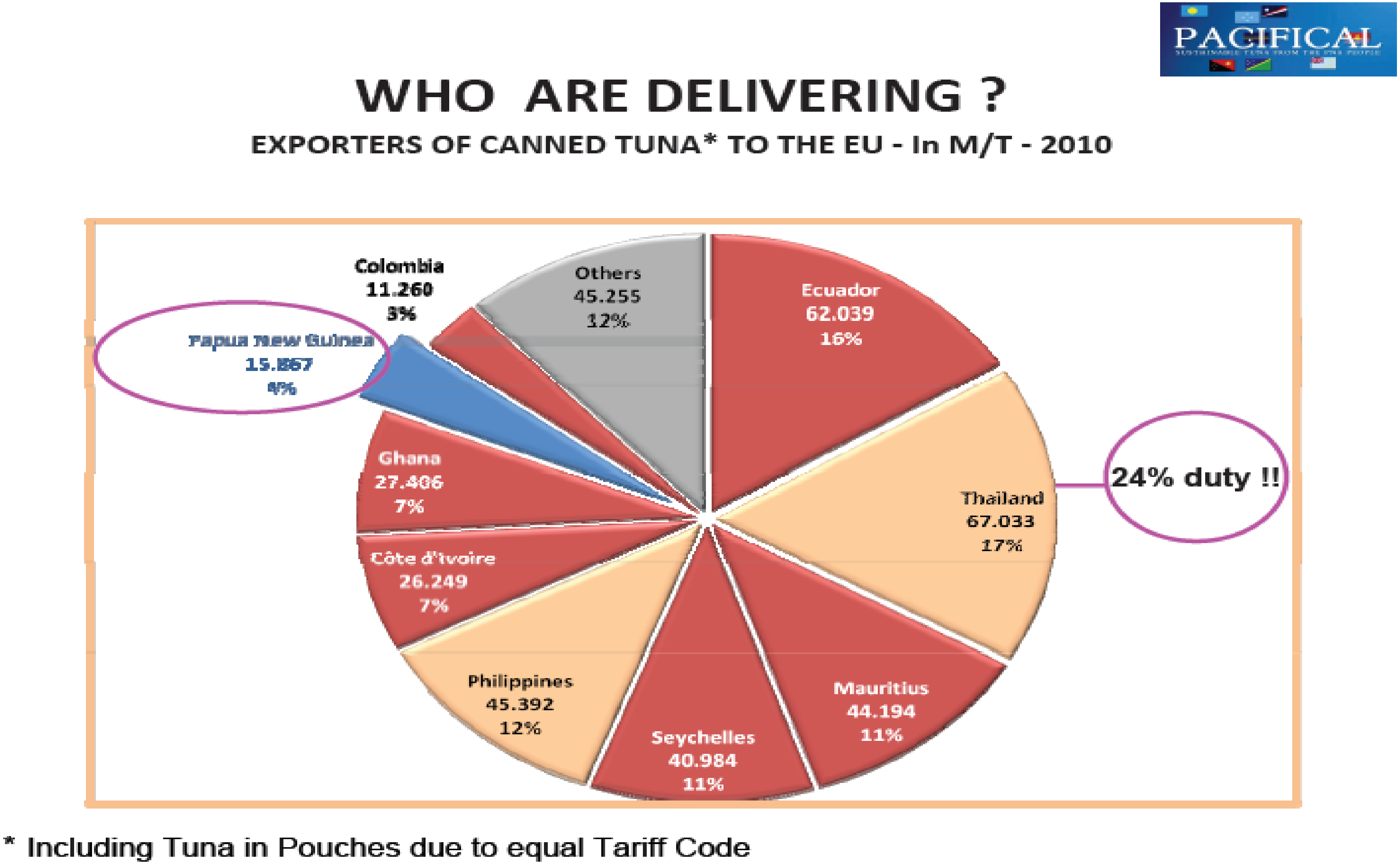
Company	Product Type	Output/Day (Target) MT	Employment		Status Estimated Dates
			Direct	Indirect	
Nambawan Sea Food, *Lae*	Cannery	150	2, 500	5,625	Construction Before end of 2012
IFC, *Lae*	Cannery	150	2, 000	5,000	Full operational June 2012
Majestic Sea Food, *Lae*	Cannery/ Loin	350	6, 000	15,000	Construction start: Jan 2011 Completion: June 2012
Niugini Tuna, *Madang*	Cannery/ Loin	200	3, 000	7,500	Construction Start: July 2012
TOTAL		**850**	**12,750**	**33, 125**	

IS PNG INDEED A THREAT TO THE EU TUNA CANNING INDUSTRY? THE ANSWER IS NO AND THE REASONS WHY IT IS NOT ARE:

- Tuna exports statistics to EU from PNG (Exhibit C).
- High cost of doing business in PNG and the lack of basic infrastructures and logistics' capabilities.
- While the Pacific or PNA for that matter are lucrative fishing grounds the major fishing companies operating in the area are not off-loading their tuna catch in PNG or in the Pacific for processing for various reasons.
- Stiff requirements for products entering into the

  EU market (Exhibit D).
- Advent of free trade and the possibility of the EU-IEPA becoming irrelevant to the tuna trade in PNG in due time.
- Expected rise of the PNG Kina currency arising out of the gas projects and the mineral resources boom.
- Worldwide Economic Realities playing a vital role.

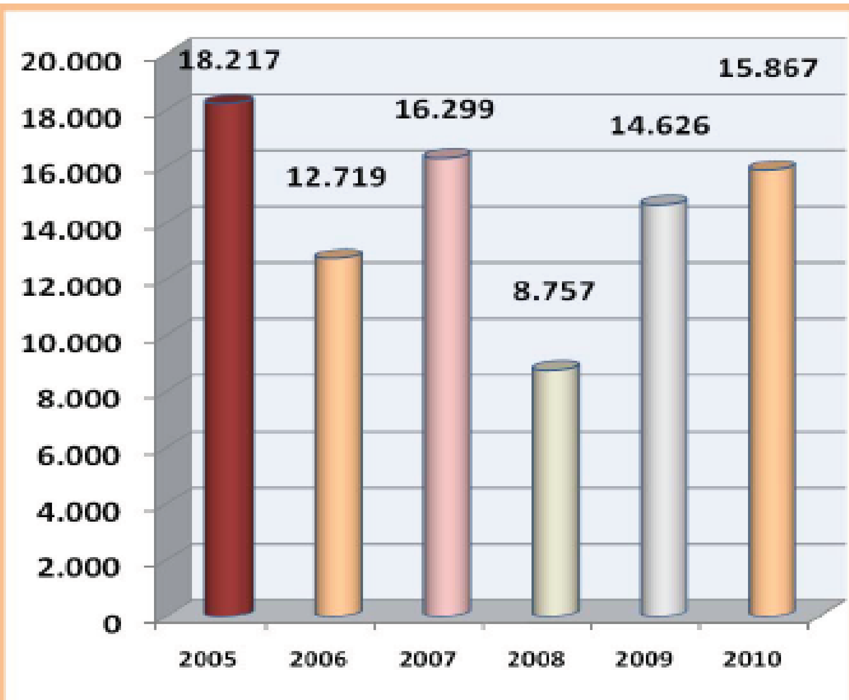
TUNA EXPORTS STATISTICS TO EU FROM PNG (EXHIBIT C).

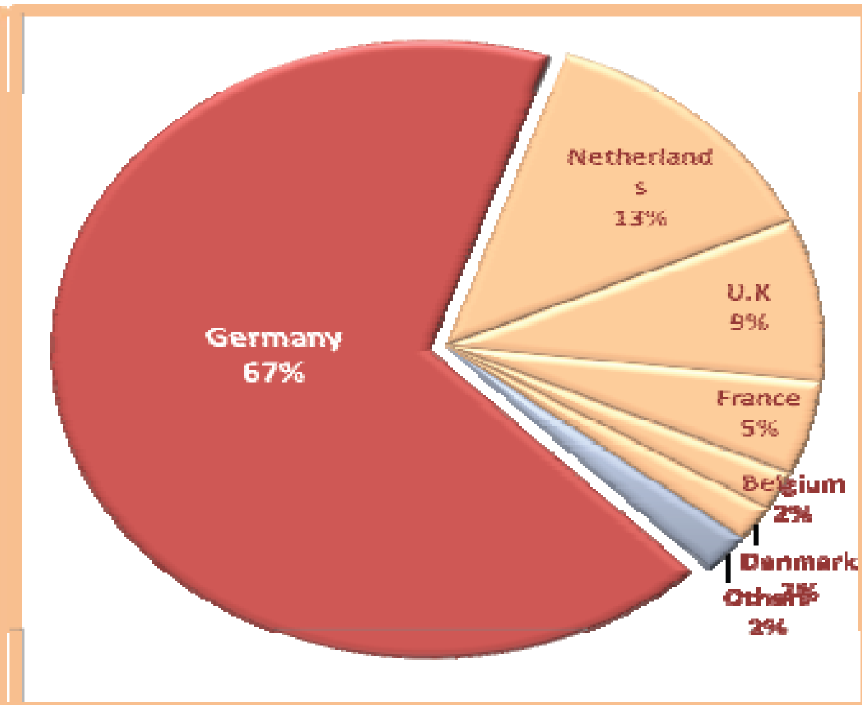


TUNA EXPORT STATISTICS TO THE EU-2

PNG RECOVERING - STRONG FOCUS ON GERMANY

CANNED TUNA* EXPORTS TO THE EU
2005-2010 in M/T

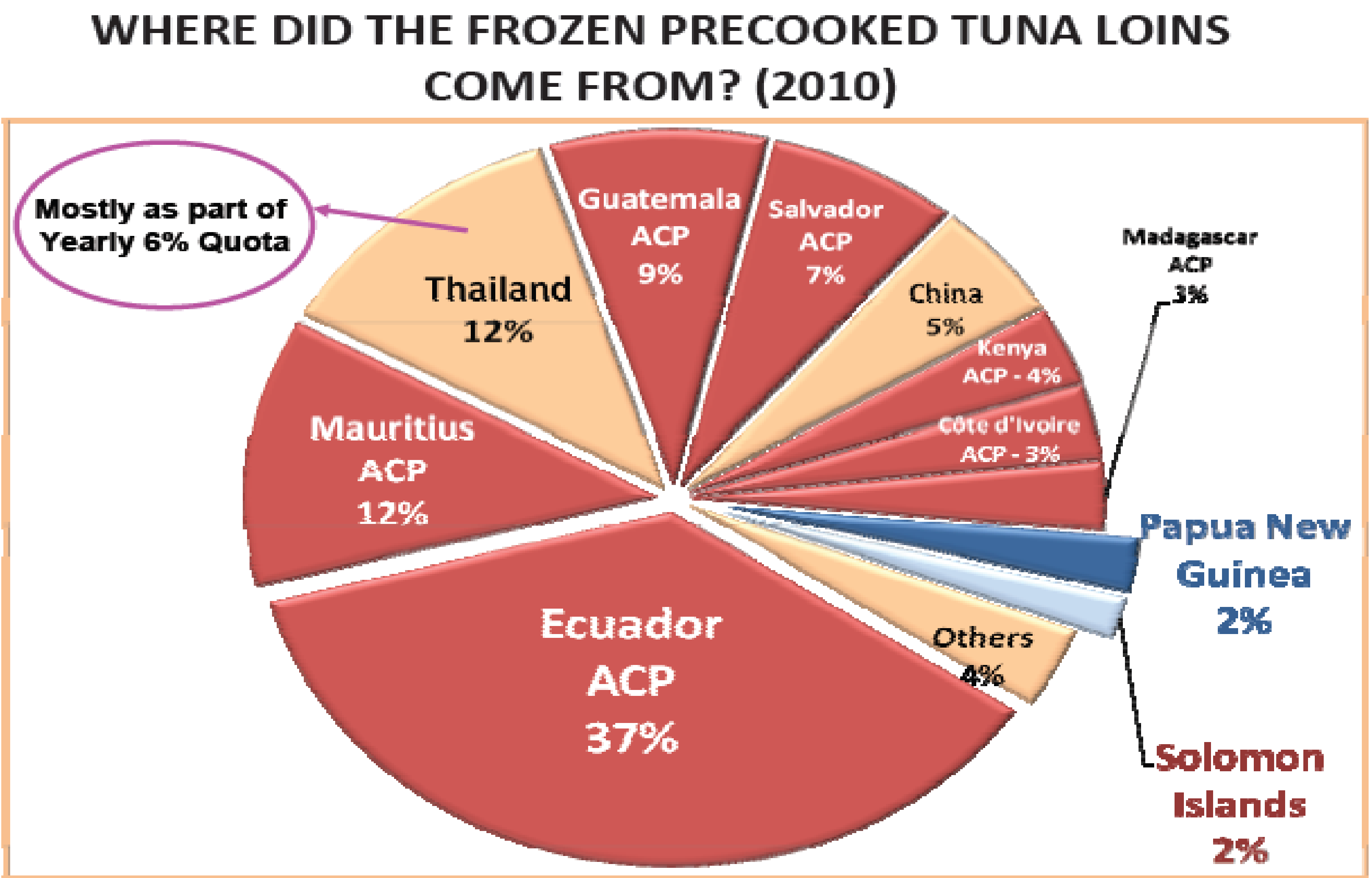




Only One plant had EU approval #

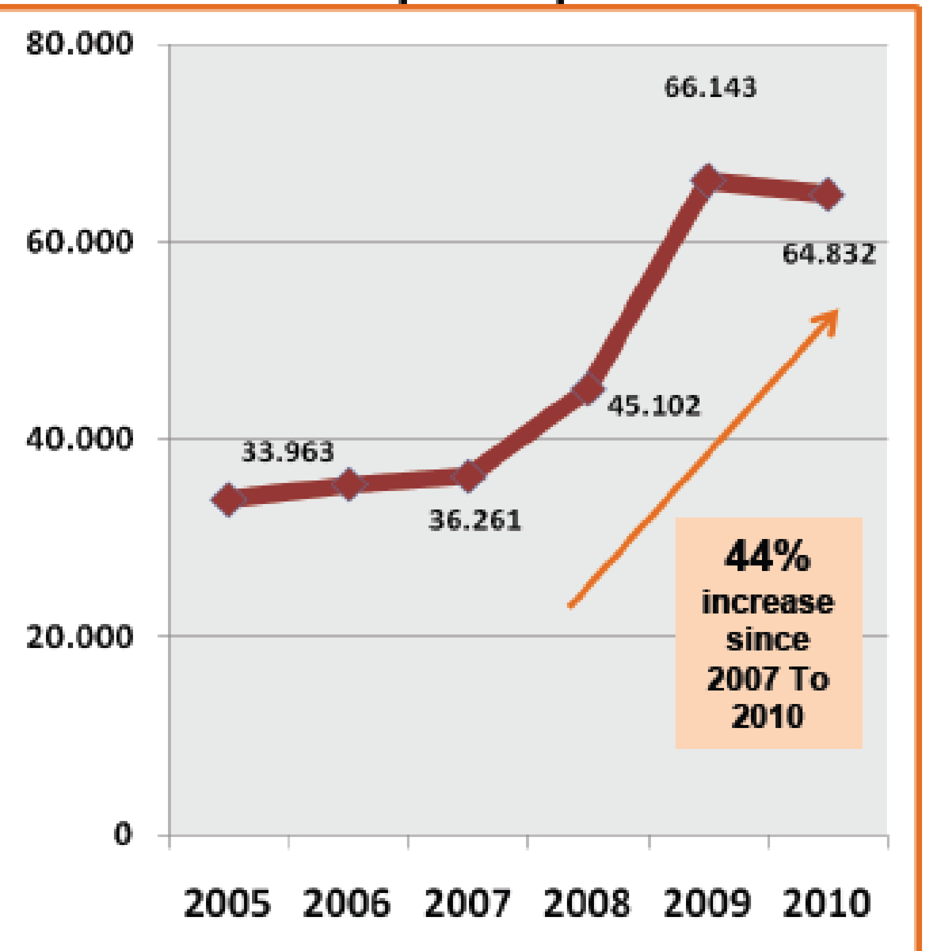
* Including Tuna in Pouches due to equal Tariff Code

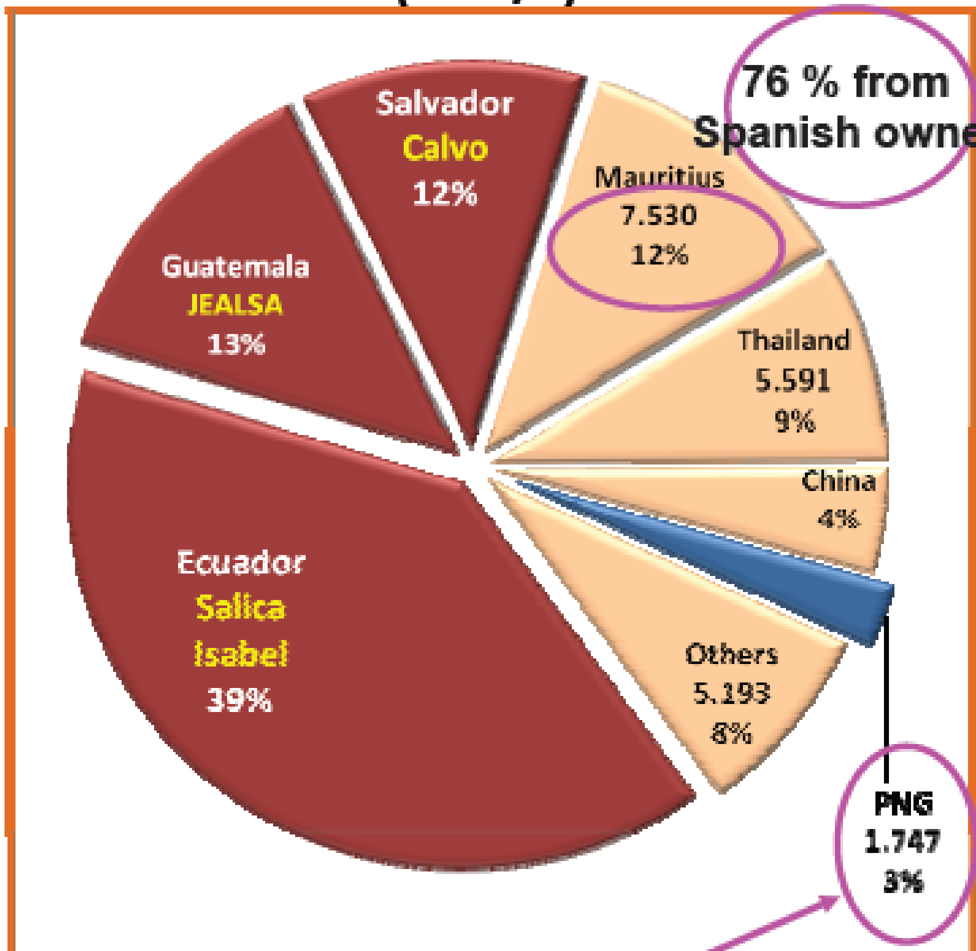
TUNA EXPORT STATISTICS TO THE EU-3



Spanish Canners Prefer to have their tuna cleaned at their own Latin American Affiliated Plants

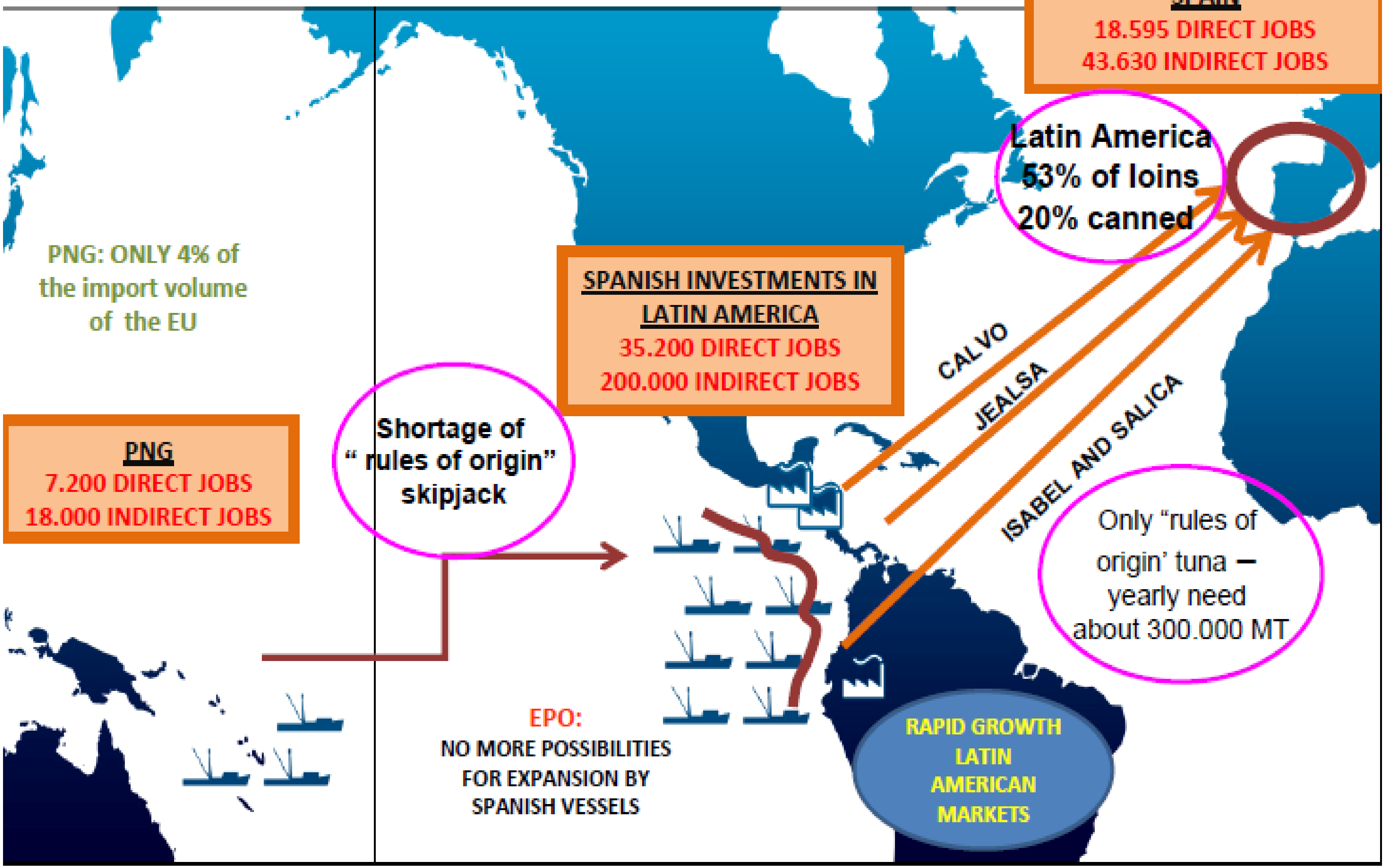
Imports Spain Frozen Precooked Tuna Loins (in M/T)





DANGER ???

SO…WHO THREATENS WHO ?



Source: ANFACO

WHY ARE THE MAJOR PLAYERS NOT OFF LOADING IN PNG OR IN THE PNA?

- Most of the players are not offloading but merely transshipping their catch in the PNA areas. A major reason is the generally slower and inefficient unloading of fish in PNG due to lack of/inefficient infrastructure.
- They need the fish to be shipped somewhere else due to previous contracts' commitments with fish traders, bigger cannery operators and for their own needs.
- Even if they want to, many of them are either not EU accredited, not IUU and EII compliant hence not passing the raw materials eligibility requirements for exports to the EU.
- A good number of the fishing companies are not keen in seeking those accreditations anyway as they are allergic to many of those eligibility requirements.

STIFF REQUIREMENTS FOR PRODUCTS ENTERING INTO THE EU MARKET (EXHIBIT D).

- Sources of Raw Materials should be caught from boats with EU accreditation.
- Strict compliance with the EU-IUU Law.
- Boat should have dolphin safe accreditation.
- Many boats fishing in the Pacific are still not in compliance with either, a combination or all of the above.
- Very strict health and safety monitoring/ inspection procedures.

WHAT ARE THE REAL THREATS TO THE EU TUNA CANNING INDUSTRY?

- The deteriorating economic conditions in the EU region and worldwide. This can affect EU financial institutions' capability to assist when needed.
- The inherent high cost of doing business in the EU--especially labor cost--versus the competitors.
- The deteriorating tuna stock situation in the fishing grounds nearer the EU factories where the EU boats are fishing.
- New and established brands now owned and controlled by non-original EU companies. Sourcing of those products can come from non EU-owned canneries located all over the world and not necessarily from PNG.
- The industry's competitive edge is heavily reliant on the protective tariff being imposed on imported tuna products. Hence, the possibility of WTO trade liberalization and zero rated or at least very much reduced duty regime accorded to the bigger players can be a real threat. PNG is such a minor player to play a vital role in these threats even with the projected expanded capacity.

LESSONS FROM OTHER TUNA CANNING INDUSTRIES LOCATED IN OTHER PARTS OF THE WORLD

- Other canneries e.g. those located in Australia have closed down their factories due to uncompetitive costs. They have realized their fate and futile efforts to compete thus the reason for closing down while focusing on other industries where they are strong and have better chances of succeeding.
- Canneries that are farther from tuna raw materials source are having sourcing and productivity constraints.
- Companies suffering from management failures coupled with financial constraints are slowly closing down.
- Others are expanding or setting up instead in areas nearer to the fishing grounds and whose labor costs and other overhead structures are competitive enough. Others are expanding to create economies of scale but in areas where it make sense to do so.
- Others are focusing to market their products in countries having economic boom i.e. with increasing purchasing power and whose currencies are rising.
- Value adding/enhancing the value of tuna products makes sense especially due to the continuing increase in the price of raw materials.

CURRENT TRENDS IN THE TUNA INDUSTRY

- Traceability, environmental and sustainability issues are becoming bigger concerns. The world is now pushing for more reforms and becoming more involved in terms of these issues. The PIC's, especially the PNA in particular, are classic examples.
- Countries--where tuna stocks are being caught--are gradually pushing for more share of the economic benefits out of the fish caught in their waters.
- While the RFMOs are working very hard, more meaningful reforms remain to be seen due to the consensus decision making process and understandably/arguably conflicting vested interests of all parties concerned.
- The price of tuna has increased to record levels. It remains to be seen though how long this will remain.
- All players are now working at better ways to improve their competitiveness to address those challenges.

FORESIGHTS/VISIONS OF THINGS TO COME-1

- More economic troubles and challenges happening all over the world especially in the Western countries within the next decade or so. Hence, the target market will be more of the East and those countries with better purchasing and affordability levels.
- More push happening from PIC's in terms of sustainability reforms and increased share of economic benefits out of the tuna resource.
- More stringent measures being imposed by the West in terms of sanitary and traceability standards.
- More value-adding/value-upgrade out of tuna raw materials will eventually happen though the canned tuna mode will still remain in significant volumes.
- EU tuna players will ultimately set-up facilities in countries with better source of raw materials and with better cost competitive edge.
- Cost engineering will naturally happen with the increasing cost of raw materials side by side with improvement in packaging qualities.

FORESIGHTS/VISIONS OF THINGS TO COME-2

- The fishing companies will initiate better quality control (e.g. better handling, selective catching and ULT) of the fish caught to increase and elevate its value as a better way forward.
- The tuna game will be more competitive and complex as a result of the demand and supply realities.
- Inefficient and uncompetitive operations both for the fishing and processing sectors are consolidating with further push to go direct to the consumers to eliminate/minimize the cut in the revenue slice and thus enable them to maintain if not improve profitability.
- The bigger players will push further to make their presence felt through various means thus possibly cleansing up the industry to eliminate inefficient and uneconomical players.
- More canneries that cannot sustain and address existing challenges to the industry may ultimately have to close down thus trimming the processing sector of excess capacity.

CONCLUSION AND RECOMMENDATIONS1

- With or without the EU, PNG will aspire and continue to develop its own tuna industry until such time better economic benefits out of its tuna resources are significantly accorded by the country for its own people.
- Therefore, instead of viewing PNG as a threat the EU should make concrete efforts to work hand in hand and in partnership with PNG and the rest of the PNA Countries. For after all most of the tuna raw materials are being caught in this region. The EU can in fact look at PNG as a major partner not only in tuna but in other trades relying heavily on raw material resources abundantly available in PNG.
- As what is already being initiated and done--the EU players can increase their imports of fresh and frozen loins from PNG at sufficiently attractive/competitive prices to sustain the raw material needs of the former's processing industry while at the same time reduce the very high labor cost component of the EU made canned tuna products. This will also reduce the capacity of PNG based canneries to produce canned tuna products.

CONCLUSION AND RECOMMENDATIONS2

- The EU may want to consider the fishing access rights to PNG and the Pacific as part and parcel of the EPA negotiating issues. This will further enhance their own raw materials sourcing capabilities.
- The EU players are most welcome to invest in the PNG processing industry and/or be in partnership with existing and potential players as way forward. This way, the EU investors can reach out as well further by selling products through canneries they own or co-own to other lucrative markets all over the world.
- Most of the branded canned tuna products being sold in the EU are still EU based and/or owned by the Europeans except those that have lately been acquired by Asian investors. Hence, brand reality will still play a vital role in the marketability of the products irrespective of where the fish is being processed. Focusing on this will enable the EU players to retain their market share if not improving same within their region. In fact they can even expand and market their brands all over the world by using highly competitive cost efficient products produced elsewhere with the same quality but sold at competitive prices.

THANK YOU FOR LISTENING