

# **IMPACT OF PNA MEASURES ON GLOBAL TUNA MARKET: MANAGING PRODUCTION OR CREATING SCARCITY, OPPORTUNITIES FOR STRATEGIC PARTNERSHIPS**

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Mr Chairman, ladies and gentlemen.

Good afternoon. I am sorry I am unable to be here to deliver my paper. However, the Chairlady of the PNA is a most suitable candidate to present my paper.

This year is the 30<sup>th</sup> Anniversary of the PNA, since the signing of the Nauru Agreement in 1982. Also, for the first time in 30 years, the PNA has a female Chair. It is fitting she presents this paper on my behalf.

30 years spans a generation, and in that time PNA has been at the forefront of shaping international fisheries. However, it is only since 2010, and more recently, since the PNA free school skipjack fishery was granted MSC certification last year, that PNA has really come into prominence.

PNA shares the goals and aspirations of everyone in this room. We are resource owners; many of you in this room are resource takers. But we share a common goal. We want to see the tuna fishery sustainable, and profitable.

When the fishery is profitable, it is good for you, and it is also good for us. It is a win-win for both of us. But PNA have been advocating for some time now that we do not simply want to be bystanders. We also want to participate in the fishery.

The global community has been talking about the special aspirations of Small Island Developing States for some time. Processes such as the negotiations of Economic Partnership Agreements (EPA's), and the Pacific Agreement on Closer Economic Relations (PACER) are all endeavours directed at integrating the economies of Small Island developing States of the Pacific with Europe and Australia and New Zealand.

What better way to integrate the economies of Small Island developing States with developed countries, than by sourcing all your tuna supplies, both fresh and canned, from Small Island developing States in whose EEZs the tuna is taken?

This would create onshore jobs, ensure adequate cash flows into households and help meet the Millennium Development Goals (MDG). It would create stable economies, and foster greater political stability. Politically stable governments and countries would not become a haven for transnational criminals, and terrorism, and would need less aid from developed country taxpayers.

The problem is, Developed Countries, and most of the industries represented here, do not see it that way. They think that the tuna caught in our EEZs is theirs. They do not think that we, as resource owners, have a right to the tuna. Even in instances where their Governments have agreed to assist this integration with Papua New Guinea and Fiji through the Interim Economic Partnership Agreement (IEPA), we continue to hear misleading statements about how this is going to spawn IUU fishing.

A lot of this criticism is self-centred and economically based. In the same way as mineral resources are found in your countries, these tuna resources are found in our EEZs. Yet, unlike you, we do not seem to be at liberty to use these resources in our own best interest.

For 30 years we have constantly faced this battle. The dichotomy is epitomised in the WCPFC, where the difference between coastal States and fishing States is almost black and white. Yet the World talks about fairness, and sustainable development. There is nothing fair about this game. Industry wants to get its profits at any cost. Their flag States only pay lip service to the ideals of development. In the WCPFC, we see flag States raising objections after objections to proposals from coastal States. The converse is also true. But there is a fundamental political and economic difference. Small Island Developing States cannot move if the tuna in this region is exhausted. The fishing vessels of the rich developed countries can simply sail to the next ocean.

There is scope for a new partnership. At next month's Rio 20 Conference, there is a real opportunity for the international community to make radical changes. There is a real opportunity for the international community to declare the high seas as global commons. They should be closed to fishing, and preserved as global commons; perhaps, reserved as Marine Protected Areas (MPAs). All fish should be sourced from the EEZs, with developing coastal States supplying markets in developed countries. This should be the ultimate goal for global fisheries development and management. Herein also lies the ultimate goal of the PNA.

The PNA have instituted a number of measures over the past 30 years. These are known as the Implementing Arrangements. These subsidiary arrangements are binding measures under international law.

The one that most people are aware of, are the 3<sup>rd</sup> Implementing Arrangement. The 3IA instituted the 3 Months FAD closure, high seas pocket closure to vessels that are licensed to fish in the EEZs of the PNA, 100% Observer Coverage on all purse seine vessels that fish in the PNA EEZs, and 100% catch retention of all tuna. In addition, PNA have instituted measures prohibiting setting on whale sharks, imposing a minimum mesh size for purse seine nets, and prohibited fishing by licensed purse seiners in the high seas areas between 170° E and 150°W and 10°N and 20°S.

There are also two stand alone Arrangements which the PNA have. These are the FSM Arrangement that provides preferential access for domestic boats and those associated with onshore processing plants and the Palau Arrangement for the Management of the Western Pacific Tuna Fishery. The latter provides the legal framework for the Purse Seine and Longline Vessel Day Scheme, a rights based fisheries management tool that has had a transformative impact on the fishery.

What are the impacts of PNA measures on global tuna markets? As I argued at the Pacific Tuna Forum in Palau last September, PNA measures *per se* do not have a great impact on global tuna markets.

This is not to underestimate the importance of the PNA skipjack fisheries. We know what the proportion of the catch in PNA waters relative to the total catch in the WCPO is. It is about 70% of the total catch in the WCPO. We know that skipjack catch in PNA waters is about 30% of global skipjack catches. Hence, the leverage that PNA has to manage and effectuate conservation for skipjack cannot be underestimated.

The VDS has been the most significant transformative agent in the fishery in recent years. The application of rights based instrument has entrenched the rights of the PNA, strengthened their bargaining role in access negotiations, and created a seller's market. The VDS is both a sustainability tool and an economic instrument. It supports sustainability of the western and central Pacific skipjack purse seine fishery by setting a limit on Total Allowable Effort (TAE) expressed as Vessel Days. The TAE is subdivided into Party Allowable Effort limits (PAEs) and it is the responsibility of each Party to ensure that their PAE is not over-fished, thereby ensuring the integrity of the TAE as a fisheries management measure.

The VDS has transformed the fishery by changing the trajectory of the relationship between resource owners, and resource buyers.

The clarity in the rights should provide greater security in investment, both for PNA and industry. It also affords an opportunity to be innovative about the way in which these rights can be used.

As you all know, investments in the fishery is conditional upon access to the tuna resources. This is a necessary pre-condition. Access to days over a longer-term gives investors greater security of investment. This is the reason why, in my presentation at the Pacific Tuna Forum, I called on investors to "Shape up or Ship Out". I meant that in a positive sense. Those that are investing in days in PNA will be securing long-term access to the resources.

And these investments do not have to be only in onshore processing, joint venture fleets, and jobs on fishing vessels. They can be across a subregion, through pooling, and cross border investments and equity in processing plants linked to secured days.

The power of ideas in business and realising these challenges in an innovative way is represented in this room. I call on you to draw upon the reserves of your entrepreneurial skills to work alongside PNA countries.

There are challenges however. As businesses you are inevitably concerned about the fishery. We continue to be challenged about what we do in this fishery. Some would argue that we should manage production through capacity limits. It is argued that the VDS should be used as a market tool by controlling production by capacity limits.

While these are good and well, the PNA is just one of the areas supplying tuna to the international market. It is for these reasons that I argued that on their own, PNA measures do not necessarily have an impact on the global tuna market.

Indeed, they are not necessarily designed to do that. What is in PNA's interest, however, is in ensuring that the VDS can operate by meeting some defined production levels that creates scarcity while also having a competitive market at the same time. Herein lies the problem for PNA with the argument that VDS should only be used to manage production by capacity limits. This is because creating scarcity by managing production levels by capacity limits or catch quotas for boat owners without a competitive market will tend to leave the extra profits with the boat owners, not PNA – which requires a competitive market for access.

Two years ago, skipjack prices of US\$1,000/mt was considered a good price. Even at US\$800/mt, vessels were making a profit. Two years ago, US\$1,200/mt for skipjack was considered a good target. Average prices have been higher. There are different reasons for this, but demand for tuna continues to grow with prices at an all time high of US\$2,200/mt.

It is not quite clear whether these prices are a result of production changes from the PNA which has been relatively stable over the past 3 years at around 1.2 million m/t. It is doubtful that this is the case.

The effect on prices on production changes depends on the elasticity which, for our region, has been estimated as at 0.5, that is, 1 % decrease in production causes a 0.5% increase in price. With PNA providing about 1/3<sup>rd</sup> of global canning supplies, this means that a 1% decrease in global supply brings about a 1.5% increase in prices, which is about right, but it would take a 3% cut in global tuna production to get a 1.5% rise in prices.

But as we are seeing in the market, there are also other factors at play which is impacting on tuna prices.

The importance of the PNA fishery, however, lies in its growing importance, and what happens in other Oceans. As the PNA share of global tuna increases, the response of global prices to PNA production will strengthen. As the scope for production in other regions declines because of resource limits, the response of global prices to changes in PNA tuna production will increase further. For now though, the impact of PNA production on the market place is that this elasticity is not likely to be higher than 0.5 although it is argued that this percentage should be higher as this analysis was done some years ago when PNA production was less important to global supply. This is why PNA management should be aimed at managing production through capacity limits and creating scarcity through the VDS.

The decisions taken recently by the PNA on the VDS have implications locally, regionally and globally. All fishing in the PNA EEZs will now come under the TAE.

The application of non-fishing days will be harmonized closing some loopholes in the VDS, and there are clearer ground rules for the application of PAEs. This will make the TAE and PAEs a more effective management instrument for fishing in PNA waters. But it will also be a platform for improving the management of the regional purse seine fishery and skipjack fishing throughout the WCPO.

The further development of the PNA Fisheries Information Management System (FIMS) will further strengthen management efforts.

These efforts will increase the value of PNA's resources and access to them which will surely promote an increase in the value of vessel days both in terms of access fees and in terms of increasing the leverage PNA have to promote domestic development.

Already PNA can see the increase in value is clearly reflected in the returns from access agreements. The application of the PNA US\$5,000 minimum benchmark price for a day has roughly doubled fees, and some days have already been traded at prices up to US\$8,000. The increased value in the fishery is also reflected in potentially greater returns from the Treaty with the US. The decisions taken at the PNA Annual Meetings provides the basis to work to conclude a highly valuable outcome with the US.

Progress with the MSC certification and Pacifical should add an additional premium to the value of the fisheries.

These steps remind us that as global tuna supplies tighten, and global tuna demand strengthens, it adds further potential growth in the value of our fisheries, and affords Industry the opportunity to work with PNA.

It is time for you to re-think your partnership, move away from seeing Small Island Developing States as an unnecessary appendage, but as true business partners through the rights now inherent under the VDS.

This is the opportunity that some in this room have already taken up. So my final message is, you either get on board, or you will miss the trip.