



PREFERENTIAL TRADE AGREEMENTS

European Commission releases review of PNG's 'global sourcing' Rules of Origin²

The European Commission has released a report reviewing the 'global sourcing' Rules of Origin derogation for canned tuna and cooked loins (HS 1603/1604), utilised by Papua New Guinea under the Pacific-ACP Interim Economic Partnership Agreement (IEPA) with the European Union. (Full disclosure: FFA Fisheries Trade News Editors, Amanda Hamilton and Liam Campling were two of the authors of this report, together with Dr. Antony Lewis).

Global sourcing permits PACPs to source raw material from any vessel regardless of flag or where it was caught, provided it has been 'substantially transformed' by a PACP-based processing facility into canned tuna or frozen cooked loins for duty free export to the EU. This global sourcing provision was a one-off and specific exception to the normal rules of origin (RoO) that accompany EU trade agreements. It was offered exclusively to PACPs because of their historical lack of RoO compliant fish under the prior RoO (due to limited fishing capacity of PACP fishing fleets), limited processing capability (due to physical and economic factors), geographical isolation and distance from the EU market, as well as a low identified risk of destabilising production and market dynamics in the EU.

The PACP-IEPA text (Protocol II, Art. 6) required a review of the global sourcing provision no later than three years after a PACP lodges notification to utilise the provision – PNG submitted its notification on 13 March 2008.

The review considered the following issues in the context of global sourcing:

- development effects on PNG economy, in particular, long-term income and employment generation;
- effective conservation and sustainable management of fishing resources in PNG and the Western and Central Pacific more broadly (including compliance with sanitary and phytosanitary (SPS) regulations and support for combating illegal, unregulated and unreported (IUU) fishing in the Western and Central Pacific Ocean (WCPO)); and

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- impacts of the RoO derogation on the EU canned tuna market and EU fishing and canned tuna processing industries.

The study concluded that global sourcing is yet to be used to its full potential, as PNG's existing processing facilities have had adequate supplies of originating fish to meet their processing needs. As such, developmental impacts on the PNG economy as well as impacts on the tuna resource and the EU industry and market stemming from global sourcing have been limited.

However, over the medium-longer term, global sourcing will play an increasingly important role in the development and survival of PNG's tuna processing industry. Duty free market access to the EU, coupled with global sourcing, makes onshore investment in PNG a more attractive prospect, given PNG's competitive constraints relative to other lower cost sites of production also supplying the EU market (i.e. Thailand, Philippines). Currently, commitments are in place for five new processing plants, which will result in additional employment and income generation opportunities for the PNG economy, if these developments come to fruition.

The review highlighted the need for improvement to ensure fishing effort level restrictions are fully respected under current fisheries management systems. It also concluded that the impacts of global sourcing on the EU fishing and processing industries are likely to be minimal – the main impacts will instead be felt by South East Asian processors who also rely on raw materials from WCPO waters and will compete with PNG for supply. Even if export volumes from PNG to the EU increase to projected levels, PNG will remain a minor market player, with little likelihood of destabilising the EU canned tuna market.

On 24 February 2012, EC and PNG authorities met during the Second EU-Pacific EPA Trade Committee meeting to discuss the results of the review and agreed to continue to monitor progress in three key areas:³

Plans to further strengthen the sustainable management of fish stocks;

PNG's review of domestic labour legislation to bring it fully into line with the eight core International Labour Organisation conventions; and,

Existing measures and further steps to improve environmental monitoring.

A review of PNG's global sourcing Rules of Origin derogation found that it is yet to be utilised to its full potential, but will play an important role in the medium-longer term development of the industry

Impacts of global sourcing on the EU industry and market are likely to be minimal



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The review is available for download at: http://trade.ec.europa.eu/doclib/docs/2012/february/tradoc_149137.pdf

New Pacific Islands Chief Trade Advisor is appointed

The Vanuatu-based Office of the Chief Trade Advisor (OCTA) has welcomed Dr. Edwini Kessie as the new Chief Trade Advisor (CTA) to the Pacific Island countries. This position became vacant in September 2011, following the resignation of the former CTA, Dr. Chris Noonan, with OCTA operating under interim arrangements in the meantime.⁴

Dr. Kessie, a Ghanaian international trade law expert formerly based in Geneva, comes to the region following 17 years experience at the World Trade Organisation. His most recent role was Regional Coordinator for Africa at the WTO Institute for Training and Technical Cooperation.

Dr. Kessie's primary responsibilities as Chief Trade Advisor will be to provide leadership to the OCTA in serving its members and guiding the region through PACER Plus negotiations with Australia and New Zealand. The newly appointed CTA has indicated that his first priorities will be to meet with the OCTA Governing Board members and national focal points for PACER Plus negotiations to identify issues that should receive priority attention and discuss a way forward for negotiations. At an upcoming PACER plus negotiation meeting scheduled for late March, Dr. Kessie will be an observer and take the opportunity to meet PIC negotiators, as well as those from Australia and New Zealand.⁵

Dr. Kessie has indicated that he is "determined to ensure that OCTA effectively advises the PICs so as to ensure that they conclude an agreement which would pave the way for their full integration into the global economy".⁶

TRADE REGULATION

US files final appeal against Mexico's favourable WTO ruling on 'dolphin safe' labelling

Two days before the final appeal deadline, the US lodged an appeal against the WTO's Dispute Settlement Body panel ruling, which was largely in favour of Mexico in the US-Mexico tuna 'dolphin-safe' labelling dispute. The US challenged the WTO panel report finding that deemed the US tuna labelling requirements as being more trade restrictive than necessary to protect dolphins and inform consumers on several grounds.⁷

New Chief Trade Advisor will assist PICs conclude an agreement under PACER Plus that paves their full integration into the global economy



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Firstly, the US Government will maintain its position that labelling laws are voluntary, since they do not need to be met for tuna products to enter and be marketed in the US, as opposed to the panel ruling that the label is 'defacto mandatory', since it prohibits all alternative labels that make 'dolphin-safe' claims that use a different standard. The US also argues that the panel failed to objectively assess the evidence that US labelling measures fulfil legitimate objectives of informing consumers and protecting animal health, rather than serving as technical barriers to trade. Further, the US disagrees with the panel's conclusion that the Agreement on the International Dolphin Conservation Program (AIDCP) labelling scheme could fulfil the objectives at the same level as the labelling law currently in place does, and hence, disputes that it could also be used in tandem with the existing law.⁸

In turn, Mexico will file a counter-appeal to the WTO dispute panel arguing that the dolphin-safe label is discriminatory, because it affects Mexico more than any other exporter. Mexico maintains that other countries fishing outside the Eastern Tropical Pacific (ETP) only require verification from independent observers that no dolphins were killed or seriously injured to obtain the US dolphin-safe label, while Mexico, whose vessels fish in the ETP, must meet considerably higher requirements.⁹ This is because tuna and dolphin naturally school together in the ETP, but not in other regions.

Normally, an appellate report in which the final legally binding ruling will be delivered is expected within 90 days of the appeal, Mexico's Economic Minister has indicated that if the US appeal is upheld and restrictions on imports of Mexican tuna continue, that the Mexican Government will consider imposing trade reprisals.¹⁰

FISHERIES MANAGEMENT

OPRT study echoes PITIA concerns over rapid increase in small tuna longliners

In late 2011, concerns were raised by the Pacific Islands Tuna Industry Association (PITIA) with Japan's Organisation for the Promotion of Responsible Tuna (OPRT) regarding the rapid expansion in small tuna longliners (50-150 GT). OPRT responded by commissioning a study into the issue, conducted by Japan's National Resource Institute of Far Seas Fisheries. The results of this study were presented at OPRT's fourth annual seminar in Tokyo on 10 February, 2012 by Mr. Jiro Suzuki.¹¹

The US Government has lodged a final appeal two days before the deadline opposing the panel ruling which favours Mexico

If the US appeal is upheld, the Mexican Government will consider imposing trade reprisals



An investigation into state of the industry in all oceans indicated that, with the exception of the Indian Ocean, the real status of the small-scale longline fishing industry is currently not well understood by RFMOs. Mr. Suzuki estimated that up to 5,400 small longline vessels could be operating globally; 1,800 of these within WCPFC waters. An additional 50-60 Taiwanese small long-line vessels with on-board super-refrigeration status are reportedly currently under construction in Taiwan.¹²

According to Mr. Suzuki, the burgeoning of small-scale vessel numbers stems from several factors:¹³

- various Pacific Island Countries are accommodating additional fishing vessels, in conjunction with their growing drive to develop their tuna fishing industries;
- former Taiwanese shark-finning vessels are converting to albacore vessels due to prohibitions introduced on shark-fin fishing;
- vessel construction and operation of small-medium sized longliners is far more economical compared to large-scale longliners, which by comparison are in decline; and
- traditional refrigerated carriers are being gradually replaced with more versatile individual super-refrigerated (-60°C) cargo containers, which are well-suited to accommodating small catch consignments; super-refrigerated storage capacity has also been developed on vessels.

Concerns were raised in the study about the sustainability of bigeye and yellowfin stocks – the mainstay species of Japan's sashimi industry and also target species for longline vessels. The Japanese industry, like PITIA members, are concerned about the growing catch capacity of small-scale vessels and subsequent competition for their already suffering longline industry. In his presentation, Mr. Suzuki appealed to the Japanese Government to show initiative in regulating the growth of small-scale longliners to protect tuna resources from over-exploitation,¹⁴ in the hope that other RFMO members also follow suit.

ISSF introduces a resolution banning shark finning¹⁵

The International Seafood Sustainability Foundation (ISSF) has passed a resolution (Resolution 12-01) which prohibits shark finning. The resolution requires that all ISSF participating companies (currently 20) establish and publish company policies that ban shark finning by June 2012. In addition, by

OPRT study confirms that concerns are founded regarding the growing number and catching ability of small-scale longliners



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September 2012, processors, traders, importers, transporters and others involved in the seafood industry must refrain from transactions with fishing companies that engage in shark finning or do not have a public policy in place prohibiting shark finning.

In addition to appealing to industry, ISSF is working with RFMO member nations to strengthen management and enforcement measures relating to sharks, as well as implementation at the national level.

The introduction of this resolution by ISSF provides an example of enhanced fisheries management being driven by concerned parties outside the RFMO mechanism.

TUNA MARKETS

MSC-certified PNA skipjack tuna on shelves by earliest mid-2012¹⁶

PNA Office and its marketing arm, Pacifical are currently working towards obtaining Chain of Custody (CoC) certification under the Marine Stewardship Council Certification (MSC) process to enable free-swimming skipjack caught in the PNA region to be eligible to carry MSC's eco-label. While certification of the fishery has been approved, product traceability through the entire supply chain must first be verifiable to ensure that only fish caught by FAD-free fishing methods by approved participating vessels carry the MSC label and Pacifical co-brand. It is anticipated that CoC certification will be achieved by April 2012, following a large-scale training exercise involving PNA on-board observers, fishing captains and crews of participating vessels, carrier companies and cold storage handlers.

Once CoC is achieved, it will likely take at least three months before the first can of MSC-certified PNA skipjack arrives on European retailers' shelves, given it could take up to a month after catching for tuna to be processed and a further two months or so to ship finished product to Europe from the Pacific Region. Hence, the PNA Office and Pacifical estimate that the earliest time that product will be available on shelves will be the end of July or early August 2012.

By September, ISSF members will be required to implement company policies banning shark finning, as well as refraining from transactions with shark-finning companies

Once Chain of Custody certification is achieved, MSC certified PNA skipjack could be on retailer shelves within three months



Dongwon bids for prominent European tuna brand, Calvo

As part of its strategy to become the world's largest tuna processor, Korean tuna industry giant, Dongwon, has expressed an interest in purchasing a 50 per cent shareholding (estimated to be worth up to US\$ 200 million) in Spain's leading canned tuna brand company, Luis Calvo Sans, SA (Grupo Calvo). Calvo, a branded processor which is also integrated into fishing, is 78% owned by the Calvo Pumpido Family and 22% by three Spanish savings banks.¹⁷

If Dongwon is successful in its bid to become Galician-based Calvo's majority shareholder, it will acquire its first European canned tuna brand and distribution infrastructure.¹⁸ Calvo brand accounts for around 10% of the Spanish canned tuna market, and Nostromo brand, also owned by Calvo, is the third largest Italian Brand. In addition to European markets, Calvo has also moved into the US and Chinese markets, as well as Latin America, and is particularly strong in Brazil, where its Brazilian brand, Gomes da Costa accounts for 45% market share.¹⁹ Calvo owns four processing facilities - two in Spain, one in Brazil and one in El Salvador, as well as six purse seine fishing vessels.²⁰

In the 1980's, Dongwon established Korea's first and largest canned tuna processing operation (170mt/day). The company also owns a large purse seine fleet, currently comprised of 17 vessels, fishing predominately in WCPO waters. In 2008, Dongwon made its first foray into the international canned tuna processing arena, when it purchased major US brand, Starkist from Del Monte Foods and in doing so, acquired the world's largest processing plant in American Samoa, together with two processing facilities in Ecuador.

Last year, in an effort to expand its presence in the Atlantic Ocean and gain a stronger foothold in the European canned tuna market, Dongwon purchased two French purse seine vessels, as well as a canning operation, Societe Nouvelle de Conserves due Senegal (SNCDS), in Senegal. These investments enable Dongwon to supply duty free canned tuna into the EU under preferential market access enjoyed by ACP states.²¹

As reported in previous editions of *FFA Fisheries Trade News*, Dongwon has also been negotiating to establish a processing facility in the Solomon Islands (100 mt/day), and has expressed an interest in investing in Papua New Guinea.

The purchase of Calvo, together with Dongwon's existing

Dongwon is bidding to purchase Spanish-branded processor, Calvo to strengthen its foothold in the European canned tuna market



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and potential new interests, would strengthen Dongwon's rival position to Thai Union, the most dominant player in the global tuna industry, and help to fulfil the company's global expansion strategy. It would also contribute to the significantly deepened level of corporate concentration in recent years in the global canned tuna processing sector.

Thai Union focussed on mergers and acquisitions to meet revenue growth targets

The world's largest canned tuna processor, Thai Union, has set an annual revenue growth target of 18-20% to reach USD \$5 billion by 2015 and US \$ 8 billion by 2020. This follows from a record high net profit achieved in 2011, up 77% from 2010. In order to fuel this growth, Thai Union is considering potential mergers and acquisitions in Europe, seizing on opportunities stemming from the European debt crisis.²²

Interestingly, in spite of the global canned tuna industry already suffering from production overcapacity, Thai Union is also considering a major expansion to its Thailand-based operations, having purchased an additional plot of land in Samut Sakhon, where its existing operations are located. Currently, Thai Union's two Bangkok-based tuna processing facilities can process up to 1,000 mt/day.²³

Thai Union has buffered itself from the scheduled 30 per cent increase in minimum wages to 300 baht/day (around US \$10) by injecting considerable capital into automating the production lines and increasing production efficiency. Accounting for only 10% of total costs, it is anticipated that increased wages costs will not greatly impact profitability.²⁴

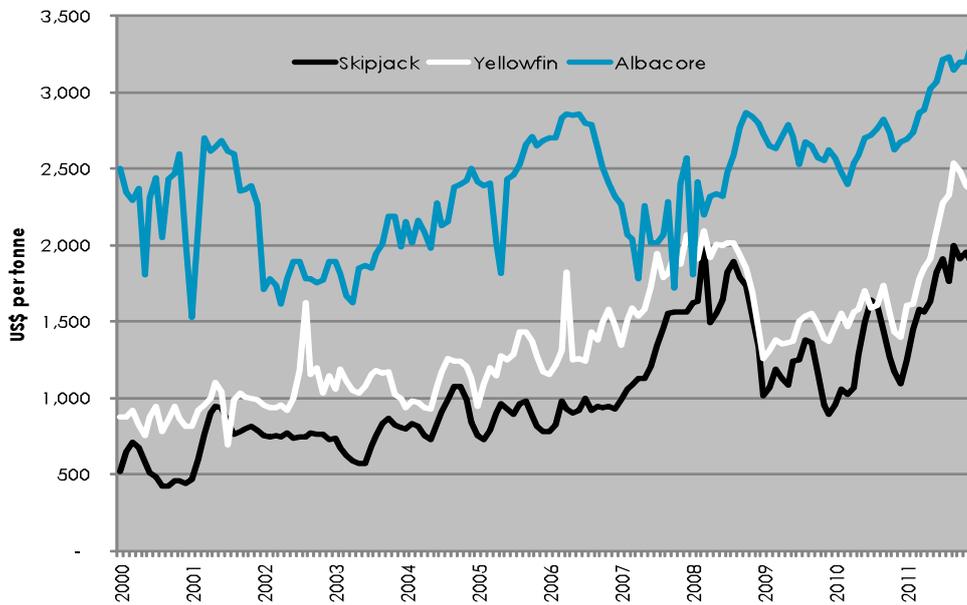
Dongwon's rival position is strengthening with Thai Union, the most dominant player in the global tuna industry

Thai Union is aiming for 18-20% annual revenue growth driven by mergers and acquisitions in Europe and expansion to its Thailand-based processing facilities

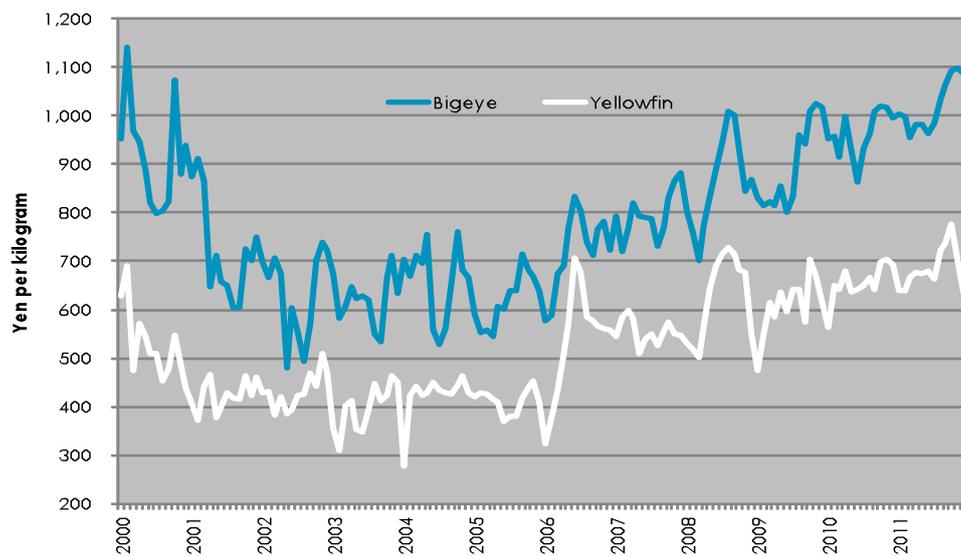


TUNA PRICE TRENDS²⁵

Bangkok canning-grade prices to December 2011²⁶

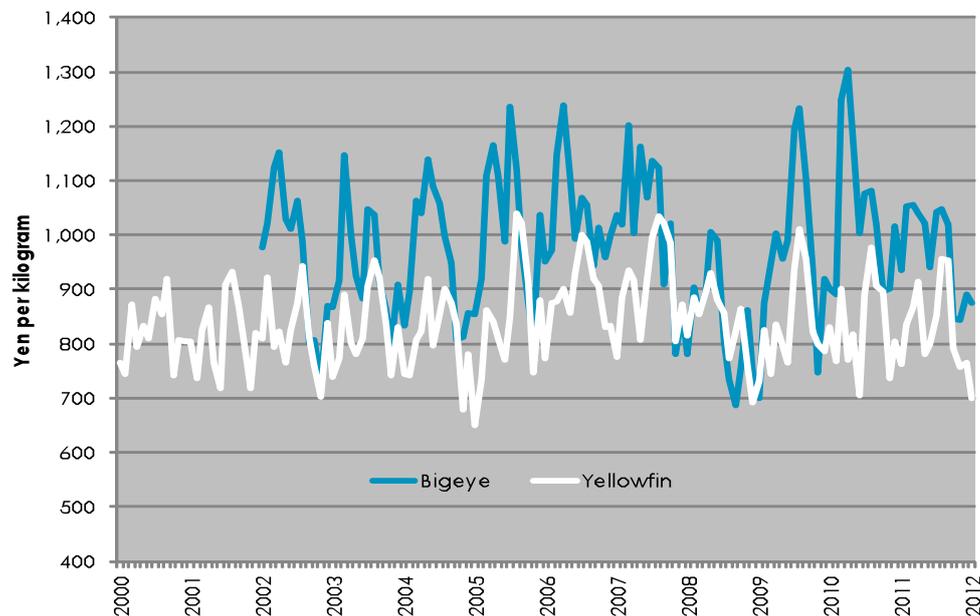


Japan frozen sashimi prices (ex-vessel, Japanese ports) to December 2011²⁷

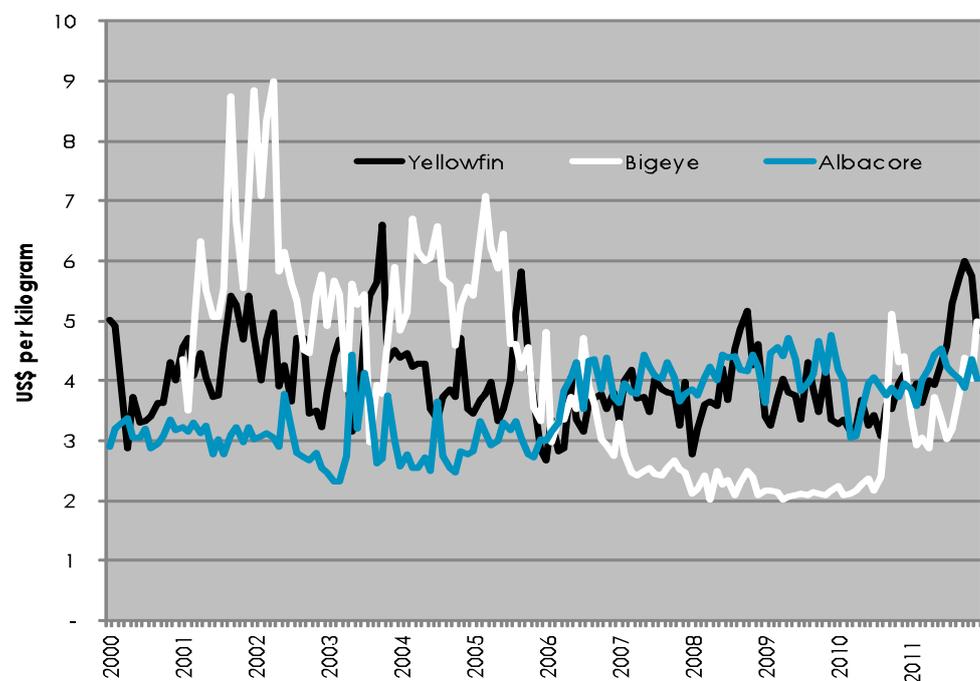




Japan fresh sashimi prices (origin Oceania) to January 2012²⁸

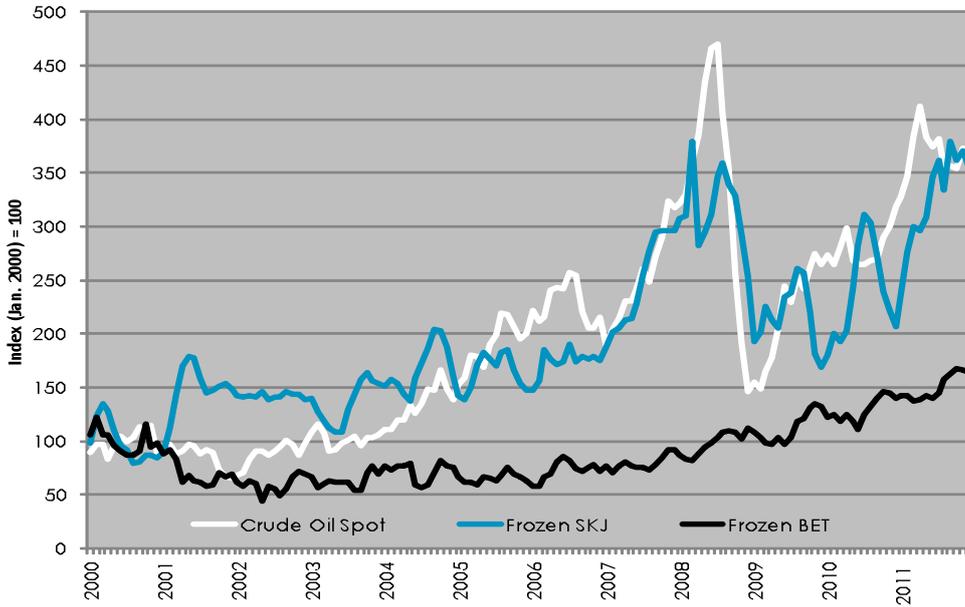


US imported fresh sashimi prices to December 2011²⁹





Crude oil, canning-grade frozen skipjack (SKJ) and frozen bigeye (BET) price index to December 2011³⁰





- ¹ Prepared for the FFA Fisheries Development Division by Liam Campling, Consultant Fisheries Trade Analyst, FFA and School of Business and Management, Queen Mary, University of London, Amanda Hamilton, independent consultant and Elizabeth Havice, University of North Carolina at Chapel Hill. Desktop publishing by Antony Price. The authors would like to thank Hugh Walton for his input on an earlier draft of this briefing. The contents of this briefing (including all analysis and opinions) are the responsibility of the authors and do not necessarily reflect the positions or thinking of the FFA Secretariat or its Members.
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