



## SPECIAL FEATURE

### New FFA report on the tuna longline industry in the WCPO

The FFA's latest report 'The Tuna Longline Industry in the Western and Central Pacific Ocean and its Market Dynamics' was released in November 2017.<sup>2</sup> It describes and analyses the distant water tuna longline industries and fleets of Japan, Taiwan, South Korea, and China – their vessels have accounted for 75-83% of the total number of longliners active in the WCPO from 2011-2015. The report also examines global markets and value chains for longline-caught tuna. The study draws heavily on original research interviews with representatives of industry and government from the four longline industries.

The report is timely as much is changing in the East Asian longline sector, including the rise of the China-flagged fleet and new trends in sashimi product processing and its international trade. Japan continues to drive the sashimi-grade longline market and the US, the canning-grade albacore market, but they are both in decline or stagnant and the report identifies growing and nascent markets. Two new regulatory initiatives by the Pacific Island countries (PICs) also point to new management regimes (PNA's Longline Vessel Day Scheme (LL VDS) and the Tokelau Arrangement) that seek to capture larger benefits for the PICs. Also, continuing high seas transshipment is claimed by industry from Korea and Taiwan as critical to the viability of the fleets.

Japan pioneered the WCPO longline fishery but the number of vessels has continued to decline further since 2010: the offshore and distant water fleet fell from 160 boats to 111 in 2016 and the catch has similarly declined. It is unclear how many of these vessels are operating profitably and the decline in numbers can be expected to continue. High fuel prices, the ageing of experienced officers and problems recruiting young Japanese crew members were identified as the most serious factors that will continue to impact Japan's longline fleets into the future. Japan's distant water fleet is mainly active in the high seas areas in both the WCPO and EPO, with 25% of the tuna catch taken in the PIC EEZs in 2015 and even less in 2016.

Taiwan's flagged and beneficially owned boats (i.e. registered with countries that have an open vessel registry) are the largest component of the WCPO longline fleet. There are considerably fewer vessels on the FFA register than actively fished in the WCPFC Convention Area in 2015 (126 vs. 1,382). This is presumably because a large number of vessels, especially those in the small tuna longline category, are continuing to fish mostly in high seas areas and not FFA EEZs. The fleet is concerned about the commercial impacts of PNA's LL VDS. Although, in practice, this concern may end up not being actualised because most Parties would be pitching their VDS prices around the same level as the current cost of an EEZ licence.<sup>3</sup>

Some Taiwanese firms have good relationships with some PIC governments, but the history of Taiwan's longline industry as a specialized fishing fleet with no or minimal shore-based investment outside of Taiwan means there has been limited interest in onshore investment in PICs. These attitudes will probably continue to dictate the Taiwan industry's approach to such investment, at least under current economic and regulatory conditions.

The South Korean longline fleet of 148 boats (~100 in the WCPO) consists largely of large ultra-low temperature (ULT or -60°C) distant water vessels, typically 350-500 GRT in size. The fleet size has dropped from 276 in 1990 and is ageing (the average age is close to 30 years) and industry has no plans to replace or build new vessels; although there is some stated optimism in the short-medium term as these boats

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have been well maintained and repaired. This fleet has reduced its access to fishing grounds within PIC EEZs in reaction to the introduction of the LL PNA VDS and, in the case of Kiribati, the stated intention to introduce a catch management scheme, which the fleet feels are beyond its financial reach to subscribe to. It is worth noting that, given the likelihood that longline VDS prices will be pitched at the current cost of EEZ licences, the main implication of the new scheme is to do with control over the fishery rather than costs of access.<sup>4</sup>

As with Taiwan, South Korean industry is exposed to heavy reliance on a single market (Japan) where the price has been relatively stable but undermined by the depreciation of the yen against the US dollar, and downward pressure on profitability shaped by concentration among trading companies and big end buyers. The Korean industry has responded to this by processing domestically the majority of its catch as sashimi grade ULT products for export to Japan. The EU, US and China are minor ULT export markets, and significant volumes of landed product are supplied to the domestic sashimi market.

China's longline industry is the only one of the four that has grown and looks set to continue to increase its relative position in the WCPO fishery. The industry consists of a fresh tropical longline fleet (Luen Thai) and freezer longliners. The business model of several firms from China pivots on close relationships with PIC governments. China-flagged and beneficially-owned vessel owners have expressed less concern about PNA's LL VDS than the other East Asian fleets. Southern albacore catches by Chinese vessels have increased over the past five years. PIC fleets have experienced declining or fluctuating catches due to increased competition from subsidized Chinese vessels. Luen Thai has become the largest supplier to the Japan import market for fresh bigeye and yellowfin. As with Korea, Chinese industry processes and exports ULT product to Japan, and in increasing volumes that potentially threaten Korea's lead in this market.

For more information the full report can be downloaded at: <http://www.ffa.int/node/2025>

## PREFERENTIAL & FISHERIES TRADE

### WTO Members fail to agree to minimal, low ambition rules on fisheries subsidies

The WTO held its 11<sup>th</sup> Ministerial Conference (MC11) in Buenos Aires on 10-13 December 2017. Proposed disciplines on fisheries subsidies were, once again, flagged as a potential harvest from the otherwise doomed negotiations of the Doha Round. The lead up to MC11 saw an intense period of renewal of technical negotiations at the WTO on rules for low ambition fisheries subsidies and a flurry of activity by interested UN agencies and NGOs.<sup>5</sup>

WTO members failed to agree to rules, even on proposals to end subsidies to IUU fishing. China and India have been identified by some sources as having blocked agreement on fisheries subsidies, while the USA has been blamed for blocking a wider political declaration by the Chair of MC11.<sup>6</sup> For its part, China is reported to have intervened in November at the WTO, very late in the negotiation process, with several caveats to the ban on subsidies to IUU fishing.<sup>7</sup> With national elections in India forthcoming in 2019 set to be a close call, there were concerns that vulnerable coastal communities reliant on small-scale fishing would react negatively and vote against the current government if fisheries subsidies were removed.<sup>8</sup> A different view

*Korea's longline industry is the leading processor of ULT sashimi products for export to Japan*

*China continues to invest in its longline fleet and looks set to dominate the WCPO fishery in the future*

*China and India have been identified as contributing to the failure to reach agreement on fisheries subsidies*

suggests that this claim is ‘disingenuous’ given that over 80% of subsidies in India are given to industrial fishing and instead argues that fisheries subsidies disciplines were the causality of a disagreement between the USA and India over the latter’s food security aim of government stockpiling of food, which the USA blocked.<sup>9</sup>

Instead a WTO declaration was made to continue to negotiate in the lead up to MC12, which will probably take place in 2019.<sup>10</sup> Because of the need to include phase-in periods, this would not give enough time to formally meet the UN Sustainable Development Goal 14.6 of, by 2020, using the WTO to prohibit ‘certain forms of fisheries subsidies which contribute to overcapacity and overfishing’ and ‘eliminate subsidies that contribute to [IUU] fishing and refrain from introducing new such subsidies’.<sup>11</sup> Meanwhile, the Secretary General of the United Nations Conference on Trade and Development (UNCTAD) has suggested that UN platforms could be used to discipline harmful fisheries subsidies and that this would be up for discussion at the Second Oceans Forum in June 2018.<sup>12</sup>

While some diplomats saw the MC11 declaration to keep on talking as a positive outcome,<sup>13</sup> the media has largely ridiculed the institution of the WTO for its ‘cop-out’, with The Economist calling it ‘shameful’.<sup>14</sup> The outcome may be one of the many victims of the general unworkability of multilateralism in the current configuration of global politics; a political problem that is unlikely to change substantially by 2019.

Kicking the possibility of proposed disciplines into the medium-term future will be seen as positive by some. At the same time, Undercurrent News pointed out that immediately following the news of no deal at the WTO, the China state-owned CNFC Overseas Fisheries ordered seven new tuna longliners from a state-owned ship yard.<sup>15</sup> These are likely to replace existing vessels in its fleet in an industry that is widely recognized as highly subsidized.<sup>16</sup>

## FISHERIES REGULATION

### US announces that it will begin SIMP with an ‘informed compliance’ approach

The US Government’s new traceability rule, known as the Seafood Import Monitoring Program’ (SIMP), is set to enter into force at the start of 2018. The US National Marine Fisheries Service (NMFS) began testing pilot software in early October 2017, and since that time, software providers have been rushing to get brokers ready to enter SIMP-required data through Customs and Border Protection’s Automated Commercial Environment (ACE) and International Trade Data System (ITDS), the platform required by the rule. However, as late as December, the industry association representing brokers expressed concern that the pilot was off to a slow start and that brokers were facing many technical problems. The association urged a ‘soft compliance’ policy that would enable filers to request and input the data from importers without causing a disruption in imports.<sup>17</sup>

In late December, NOAA announced that it will take an ‘informed compliance’ approached when the programme begins on 1 January 2018.<sup>18</sup> This means it will not initially impede shipments whose records may be misconfigured or missing information at the time of entry. If submissions with SIMP data are rejected and cannot be resolved in a timely manner, they may be re-filed under the same entry without the SIMP data message set. As long as all requirements for other (non-SIMP) NMFS programs and those required for other agencies are correct, they will be released with the following warning message: ‘PGA DATA MSNG FOR HTS –

*The failure undermines the goal of meeting the UN SDG on fisheries subsidies by 2020*

*SIMP will start with an ‘informed compliance’ period; filers urged to comply immediately*

NO ACTION REQD', indicating that SIMP-related data is missing for the particular harmonised tariff schedule product code, but no action is required. NMFS has not specified the length of the 'informed compliance' period, and is urging all filers to aggressively assure they are in compliance immediately.

## FISHERIES MANAGEMENT

### WCPFC14 adopts new tropical tunas management measure for 2018-2021

On 3-7 December 2017, the Fourteenth Regular Session of the Western and Central Pacific Fisheries Commission (WCPFC14) was held in Manila, Philippines.

The most pressing issue on the agenda was the bridging conservation and management measure (CMM) for tropical tunas, given the existing measure (CMM 2016-01) was due to expire at the end of 2017. For two years, WCPFC members have been negotiating a new measure, intended to serve as a bridge, while the Commission adopts harvest strategies for bigeye, yellowfin and skipjack stocks and/or fisheries. During this two-year period, various members have held strongly divergent positions on key elements of the bridging measure and, moving into WCPFC14, little compromise had been achieved.

Throughout the course of WCPFC14, the bridging measure was discussed in plenary and in a series of smaller working groups, with consensus finally reached in plenary at 3 a.m. on the final day of the meeting for a new three-year measure from 2018-2021 (CMM 2017-01). Several WCPFC members used the most recent bigeye stock assessment, that included new growth data and found that the stock was healthier than was previously estimated, to argue that WCPFC14 should override the advice of its Scientific Committee, SC13, because of the greater uncertainty in the latest assessment recommended 'as a precautionary approach that the fishing mortality on bigeye tuna stock should not be increased from the current level to maintain current or increased spawning biomass until the Commission can agree on an appropriate target reference point (TRP)'. However, the new Tropical Tuna CMM weakens several measures applied in 2017 relating to FAD management, high seas purse seine effort controls and longline bigeye catch limits. These contentious provisions will be applicable for one year only and reviewed again at the end of 2018 by WCPFC15.

In 2017, the previous tropical tuna measure applied a three-month FAD closure and optional fourth month FAD closure or a total annual limit on the number of FAD sets in EEZs, plus full closure of the high seas for FAD fishing. CMM 2017-01 weakens the in-zone FAD closure to the limit established back in 2009 of three months; the high seas FAD closure is reduced from twelve months to five months in 2018. In addition, the US has negotiated a potential extra 100 purse seine fishing days in high seas to alleviate the economic hardship of American Samoan canneries, who largely rely on raw material supply from US-flagged purse seiners (discussed further below), as well as Cook Islands which may charter purse seine vessels that can fish up to 100 days in adjacent high seas.

In 2018, longline bigeye catch limits for non-SIDS will revert to 2015-2016 limits, which is an almost 10% increase on the 2017 bigeye catch limit. On the positive side, while non-binding, WCPFC has followed suit from the other tuna RFMOs (IOTC, ICCAT, IATTC), with the new measure encouraging members to utilise non-entangling design and natural or biodegradable materials in the construction of FADs. (Though there is some doubt about whether entangling and non-biodegradable FADs are

*Leading into WCPFC14, members had strongly divergent positions on key elements of a new tropical tunas measure*

*The new tropical tunas measure has weakened provisions for FAD management, high seas purse seine effort control and longline bigeye catch limits*

in prevalent use in the WCPFC region.) In addition, like ICCAT and IATTC, a limit has been established on the number of activated instrumented buoys that can be deployed at sea at any one time to no more than 350 drifting FADs per purse seine vessel; WCPFC15 will review whether this number is appropriate at the 2018 annual session.

The text of the new measure also removes several ambiguities present in the previous measure, particularly in relation to US-flagged vessels operating under charters agreements with its Participating Territories, as well as domestic (flagged and chartered) vessels granted an exemption to the three-month FAD closure under the PNA's Third Implementing Arrangement. CMM 2017-01 will be provisionally applied from 1 January 2018 until its entry into effect on 6 February 2018.<sup>19</sup> The weakened tropical tuna measure was criticised by PNA and several NGOs.

For several years running, WCPFC members failed to reach agreement on a new measure for south Pacific albacore or a target reference point. China remains a major opponent and, as in 2014, calling for the results of the 2018 stock assessment before any catch limiting mechanisms can be established and expressing concern about FFA's CMM proposal to establish a total allowable catch for the stock with separate in-zone and high seas components. China's concerns about the FFA proposal for a fishery target that would produce a 10% increase in catch-rate by 2028 and a 17% increase by 2038 were shared by Taiwan and Japan.<sup>20</sup> Instead, members agreed to the formation of a virtual intersessional working process, to be led by New Zealand, to develop a Roadmap which will take into account the results of the 2018 stock assessment and make recommendations on an overall limit for the fishery, an allocation process and actions required to achieve both biological and economic stability in the fishery. The intersessional group will also consider monitoring and reporting priorities and gaps for all fisheries taking south Pacific albacore. Members also agreed to work together in advance of WCPFC15 to develop target reference point proposals for adoption by WCPFC15.<sup>21</sup>

After some deliberation by members on the inclusion of binding vs. non-binding language regarding the International Convention for the Prevention of Pollution from Ships (MARPOL) and how to treat fishing gear (which includes FADs), a proposal submitted by Marshall Islands for the establishment of a new CMM on marine pollution was adopted (CMM 2017-04) which will be implemented from 1 January 2019. The CMM encourages CCMs to ratify the annexes of MARPOL and the London Protocol and prohibits fishing vessels from discharging plastics; it also encourages CCMs inter alia to prohibit fishing vessels discharging oil and fuel, garbage (including discarded fishing gear) and sewerage, as well as encouraging fishing vessels to retrieve abandoned, lost or discarded fishing gear and ensuring that ports have adequate facilities to receive such waste from fishing vessels.<sup>22</sup>

FFA and Japan's proposal on minimum standards for port state measures was adopted (CMM 2017-02), despite the EU's concerns that the proposal allows too much flexibility and will not be as effective as implementing a standardized 'regime' for port inspections in WCPO ports. The measure establishes processes and procedures for CCMs to request that port inspections be undertaken on fishing vessels suspected of engaging in IUU activities.<sup>23</sup>

## **IOTC and ICCAT introduce harvest control rules**

Recent months have seen some regulatory victories for conservation advocates. Historically, at the Indian Ocean Tuna Commission (IOTC), there have been no

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catch limits on any of the 16 species falling under its mandate. However, in 2016, in response to increasing risk of overfishing, the IOTC implemented a catch reduction for yellowfin tuna by 15 per cent for major fleets. IOTC has also recently agreed to introduce a harvest control rule for skipjack, one of the largest tuna fisheries in the world with annual total catches of between 400,000-600,000 mt.

IOTC's harvest control rule consists of a set of management responses to various triggers, such as change in stock status. It will calculate an annual catch limit based on the stock abundance and harvest rates. The results of a recent stock assessment will be used in the calculation and the catch limit will apply for the next three years, beginning in 2018. The rule will determine the quota for catch in the Indian Ocean, but not how it will be allocated among countries and fishing companies – this will be determined by IOTC members for their respective fleets.<sup>24</sup> IOTC members have committed to giving due consideration to the aspirations and special requirements of Developing Coastal States and Small Island Developing States. However, a recent EU proposal seeks to limit claims by Developing Coastal States and SIDS.<sup>25</sup>

Meanwhile, in their recent Commission meeting, the International Convention on the Conservation of Atlantic Tunas (ICCAT) members boosted Atlantic Bluefin quota from 22,705 mt to 36,000 mt by 2020 (in keeping with scientific recommendations), avoided action on tropical tunas and took inadequate actions to manage mako shark populations. However, conservation organisations applauded the adoption of a harvest control rule (HCR) for northern albacore. The HCR will allow the total allowable catch of the stock to be set in an automatic way;<sup>26</sup> if the spawning stock biomass falls below certain triggers, ICCAT will implement management action to reduce mortality rates.<sup>27</sup>

These moves reflect growing acceptance of HCRs – which NGO actors such as Pew, ISSF and Marine Stewardship Council advocate – as a science-based management tool that can sidestep controversial quota-based negotiations. HCR management actions are taken in response to changes in stock status, and include biologically based reference points that are based on either monitoring data or models. They are the operational component of a management strategy evaluation that has pre-agreed guidelines that determine how much fishing can take place. HCR's seek to proactively set management goals, rather than responding to ecological changes and population declines. It should be noted that FFA strongly supports the implementation of the Harvest Strategy Approach, including HCRs, in the western tropical Pacific, and welcomes the growing acceptance of this management approach in other tuna RFMO regions.<sup>28</sup>

## FISHERIES DEVELOPMENT

### **PNG to replace discounted fishing licences with a processing rebate system**

Effective 1 January 2018, PNG's Cabinet has instructed the National Fisheries Authority (NFA) to introduce a new system where domestic tuna processing companies will receive a rebate of US\$400 for every metric tonne of tuna processed which was caught in PNG waters, in an effort to promote development and employment in its tuna sector. The rebate will be offered to incentivise vessels to offload fish locally, rather than export, given PNG's processing operations are typically vertically-integrated with fishing operations.<sup>29</sup> This will replace PNG's long-standing system of offering discounted fishing licences to domestic and foreign-flagged vessels associated with PNG-based processing plants.

*IOTC and ICCAT introduced harvest control rules for skipjack and northern albacore, respectively*

Despite State Agreements being established between the PNG government and processing companies stipulating the intended capacity of the plants and associated number of fishing licences to be provided to meet the plants raw material supply needs, PNG's processing plants have operated well-below the agreed capacity, with around 80 per cent of raw material caught in PNG waters exported, most notably to processing plants in General Santos, Philippines. Reportedly, the value of foregone revenue from discounted fishing licences has reached more than US \$100 million per year. Under the new rebate system, based on current processing levels (around 65,000 mt/year), it is estimated that US \$70 million revenue will instead be generated in 2018 in the tuna sector through onshore employment and downstream benefits. The \$400/mt rebate will be offered for two years to assist the processing sector, including to help offset higher operating costs relating to labour, utilities and freight relative to competing Southeast Asian processing sites and to develop infrastructure such as cold stores and processing lines.<sup>30</sup>

This policy change has been met with concern by the Philippines government, representing the interests of its own processing sector, which reportedly receives 40% of its raw material needs from Philippines-owned vessels fishing in PNG waters. Philippines' President, Rodrigo Duterte has appealed to PNG's Prime Minister, Peter O'Neill to continue to permit the partial export of PNG-caught tuna back to the Philippines for processing and in exchange, has offered for Philippines to assist PNG in expanding its rice and coconut industries.<sup>31</sup> PNG's Fishing Industry Association (FIA) has indicated that PNG's existing six tuna processing plants are considering closing down if the system of discounted fishing licences is discontinued and replaced by the processing rebate scheme.<sup>32</sup>

## TUNA INDUSTRY

### Stable supply a key focus for American Samoa

In 2016 and 2017, the StarKist processing facility has experienced several closures. The most recent was a five-week shutdown, during which time the facility upgraded tuna waste disposal processes after the US Environmental Protection Agency found that it has been violating its permit.<sup>33</sup> Prior closures related to fish shortages, and as a result, there are now several efforts underway to stabilise supply for the plant in the future. Two efforts target albacore supply. First, the Western Pacific Regional Fishery Management Council has taken initial action allow vessels 50 feet in length or larger to operate outside of 12 nautical miles around Swains, Tutila and Manu'a Islands to improvement the competitiveness of the fleet and its ability to supply albacore to the cannery. Current regulations require that this size of vessel fish outside of a 50 mile limit. The restriction was passed in 2002 to protect American Samoa's fleet of 40 alia longline vessels, however by 2015, that fleet had declined to only a single active vessel as many were damaged or destroyed in the 2009 tsunami. The relaxation of this rule aims to improve the competitiveness of the larger longline fleet targeting albacore and to increase supply to the cannery.<sup>34</sup> Continuous supply of albacore is particularly valuable to Starkist since higher value albacore products (relative to 'light meat') mean that the duty free access to the US market offers more of an edge over competing firms that pay a tariff to access the US market.

Meanwhile, in recent 'Two Samoa' talks held in Apia, representatives from American Samoa requested that Samoa consider measures to direct Samoa longliner albacore catch to the Starkist cannery, instead of to buyers in Asia. Recommending that the matter be further discussed with the private sector, the proposal emphasized the importance of processing operations to Samoa, given that 80 per cent of Starkist workers in Pago Pago are Samoan citizens.<sup>35</sup>

*To incentivise local landings of fish, PNA is introducing a US\$400/mt tuna processing rebate*

In December, WCPFC agreed that Samoa domestic tuna fishing boats be exempted from the WCPFC Record of Fishing Vessels (RFV), provided that their only activity outside the Samoa EEZ was transiting to Pago Pago to land fish. Without this exemption, it had reportedly been economically difficult for Samoan longliners to get fish to the American Samoan canneries. An entry in the RFV is otherwise required for all vessels that operate outside their Flag State's area of national jurisdiction.<sup>36</sup>

To enhance the US purse seine fleet's fishing access and ability to supply the American Samoa cannery, the US Government continued its appeal to the WCPFC for expanding its fishing effort in its own EEZ and on the high seas.<sup>37</sup> As reported in prior issues of Trade and Industry News, the US government has sought measures to shift its allocated effort in the combined in-zone and high seas areas, known in federal regulations as the Effort Limit Area for Purse Seine (ELAPS), into the high seas, despite a hard WCPFC limit being in place for high seas fishing.<sup>38</sup>

At the 2017 WCPFC Commission meeting, the US Government unsuccessfully proposed expanding its total purse seine fishing effort limits (between 20°N and 20°S) from 1,828 days in 2017 to 2,588 days/year from 2018-2020.<sup>39</sup> However, in acknowledgement of the economic hardship of American Samoa, particularly its canneries, the new tropical tuna measure (CMM 2017-01) permits the United States in 2018 to transfer 100 vessel days of unused effort within its EEZ to its high seas effort allocation. If the US has reached its EEZ limit by 1 October 2018, an additional 100 days will be granted, which presumably, can then be transferred into high seas days. This special provision was granted to the United States, with the expectation that catch taken by US-flagged purse seiners and landed in American Samoa in 2018 is no less than the volume landed in 2017, increased by 3,500 short tonnes and that any increased high seas effort is not used in high seas west of 180 degrees.<sup>40</sup>

Finally, as reported in prior issues of Trade and Industry News, fishing lobbies, including the American Tunaboat Association that represents the US purse seine fleet, have raised concerns over fishing restrictions in Marine Monuments throughout the Pacific, and the Trump Administration initiated a review of these protected areas.<sup>41</sup> In early December, the US Interior Secretary conducting the review released recommendations to alter three marine national monuments.<sup>42</sup> Recommendations include revising the boundary of the Pacific Remote Islands Marine National Monument and Rose Atoll (though it did not specify specific boundary changes) and allowing the regional fishery management council to make fishery-management decision for fishing in each area. These recommendations, if taken up by the administration, would allow for the re-opening of these areas to commercial fishing. Zinke's final recommendations did not recommend changes to the Papahānaumokuākea Marine National Monument, which also includes several islands and atolls just northwest of Hawaii. A final decision on regulations is still pending, though Congresswoman Aumua Amata expressed her support for the recommendations, in part because of the support that they will offer to US fishing fleets that feed the Pago Pago cannery and economy.<sup>43</sup>

## Taiwan shipyard financial woes spill over to fishing vessels

Two Taiwanese purse seine vessels were ordered to be arrested by the High Court in Majuro in late November 2017 at the request of creditors in Taiwan and elsewhere. Although cash flow problems can occur from time to time and affect businesses including fishing enterprises, the ownership of the vessels involved, and their connection to the largest private shipyard in Taiwan, which is experiencing its own serious financial and legal problems, makes this an unusual situation.

Several initiatives seek to stabilise supply to Starkist's Pago Pago cannery

The arrests in Majuro of the two Taiwan-owned but Vanuatu-flagged vessels occurred after requests from Taiwan banks and Hansen Helicopters Inc. were lodged with the court. According to published reports, the two purse seiners are Fong Seong 696 and Fong Seong 668. Fong Seong 696 and its owning company were sued by Bank Sinopac of Taiwan, that claims it is owed over \$2.25 million in delinquent loan payments. Fong Seong 668 and its owning company were sued by First Commercial Bank of Taiwan for over \$15.1 million in delinquent loan payments. Hansen also filed suit, claiming it is likewise owed money (\$225,000) by both vessels for helicopter services. About a week after the arrests in Majuro, lawsuits were filed by an attorney in Majuro representing Japan's Itochu Corporation against both Fong Seong vessels and their parent companies, claiming that it also held mortgages on the vessels and had fish purchase and sales agreements (since terminated) that had resulted in significant advances to the vessels.<sup>44</sup>

A third vessel, Taumoana, owned by Tuvalu Tuna FH Co. Ltd., a joint venture between Government of Tuvalu and a company owned by the Taiwan owners of the two Fong Seong boats, had earlier been arrested in Majuro after it was sued by Hansen for non-payment for helicopter services.<sup>45</sup>

The vessels above are linked to Ching Fu Shipbuilding Company, which was established in 1989 and is owned by the well-known Chen family in Kaohsiung which has been in the fishing and shipbuilding business since 1965. Ching Fu has built commercial vessels as well as fishing boats and in 2003, proposed siting a floating drydock in the Delap area of Majuro lagoon. The project was subsequently abandoned due to significant local opposition and the inability of the RMI Government to identify an alternate site after the Marshall Islands Environmental Protection Agency's finding that the original site chosen was unsuitable.<sup>46</sup>

The patriarch of the Chen family, Shui-Lai Chen, was one of the founders of Fong Cherng Fishery Co. (FCF) in 1972, which has become one of the largest tuna trading companies in the world.<sup>47</sup> Ching Fu and its associated shipyard, Fong Kuo, are noted for having built at least eight large super seiners since the 1990s based on a US design. All of the vessels, including two that are owned by a branch of the family based in the U.S. and operate under the U.S. Tuna Treaty, have operated successfully in the WCPO tuna purse seine fishery.

Ching Fu has been in the news since August 2017, when authorities questioned company executives suspected of defrauding banks and using money that was intended to fulfill a Taiwan navy contract to build six minesweepers for other investment purposes in China.<sup>48</sup> The largest loan was for NT\$20.5 billion (US\$1.4 billion) from a consortium of nine banks headed by state-run First Commercial Bank, one of the creditors of the Fong Seong vessel arrested in Majuro. The heart of the case is that Ching Fu's Chairman and his son who is vice-Chairman, who are the son and grandson respectively of the founder, used fraudulent receipts and forged documents from shell companies to falsify their financial statements and obtain loans from a consortium of twelve Taiwanese banks. The two were later arrested and have been released on bail while the case progresses.

The actions of the Ching Fu executives and the subsequent investigation leading to their arrests set off a chain reaction in Taiwan that has affected politicians, Taiwan banks, bank executives and the Taiwan Navy. Two investigative teams, one from Taiwan government prosecutors and one from the Executive Yuan (parliament), began investigations in early November 2017. The Executive Yuan released a report detailing negligence by the Ministry of National Defense and First Commercial Bank and irregularities in the bidding process for the Navy contract.<sup>49</sup> The Taiwan

## Arrested Taiwanese purse seiners have linkages to Ching Fu Shipbuilding Company

Ching Fu has  
been accused of  
fraud by Taiwan  
Authorities and  
is reportedly  
on the brink of  
bankruptcy

Government's Financial Supervisory Commission eventually fined eight banks a total of NT\$40 million (US\$1.34 million) for poor internal controls related to the loan. Six banks received non-monetary punishments. Total exposure of the banks to the shipyard reached NT\$23.4 billion as of 30 November 2017, with maximum total losses from the loan default amounting to NT\$17.2 billion (US\$573.7 million).<sup>50</sup>

On 14 December 2017, the Taiwan Ministry of National Defense cancelled the NT \$35.85 billion (US\$1.19 billion) contract Ching Fu had won in 2014 to build six minesweepers. Ching Fu was found unable to fulfill its obligations, including a failure to pay more than US\$36 million it owed to subcontractors and was said to have suspended operations since January 2017. The Ministry confiscated NT\$2.4 billion (US\$81 million) that Ching Fu had deposited with the Ministry to continue the project, as well as NT\$4.8 billion (US\$162 million) received as an advance payment guarantee and NT\$1.7 billion (US\$57.4 million) from a performance bond. As a result of these actions, as well as moves by banks to attach Ching Fu's assets, Ching Fu was reported in mid-December 2017 to be "on the brink of bankruptcy".<sup>51</sup>

In addition to the domestic fall-out in Taiwan such as loss of employment that such a bankruptcy could entail, some activities of companies involved in WCPO purse seining could also be affected. Several companies in the WCPO tuna purse seine fishery are known to utilise Ching Fu's dry dock facilities. Tuvalu has been lobbying Taiwan for some time to approve a second purse seiner, and that effort will likely not see fruition any time soon. Tuvalu's future operation of its joint venture purse seiner with one of Ching Fu's associated companies is also likely at an end and no doubt requires action to protect Tuvalu's interests, including continued operation of the vessel by finding a new JV partner.

### **Marine Stewardship Council's relevance for tuna fisheries continues to grow**

Tuna fisheries continues to turn to MSC certification to signify that they can meet market demand for sustainable tuna products. Most recently, the American Samoa longline fleet secured MSC certification for albacore. Starkist funded and managed the process in an effort to promote sustainable practices in the fishery, working with members of the Taitai-O-Samoa Longline and Fishing Association, other independent US vessels owners, the Western Pacific Region Fisheries Management Council, and others.<sup>52</sup> Starkist sought the certification to seek new competitive opportunities. The fleet was maintaining high sustainability standards, partially to comply with stringent US laws. The costs of doing so had put the fleet at a disadvantage to lower cost competitor fleets.<sup>53</sup> Starkist aims to use the certification to stabilise the fleet and supply to its Pago Pago cannery (see related story), and has introduced new tuna products with the MSC-logo into the US market under its Blue Harbor Fish label, which it brands and advertises as a boutique label.<sup>54</sup>

Japan's Ishihara Marine Products Co. has entered its pole-and-line skipjack and albacore tuna fisheries under assessment. While providing less than 2,000 mt, the move is significant in that the firm has been supplying fresh and processed tuna for over 50 years. It cites growing demand for environmentally friendly products as providing the incentive for undertaking the certification process. For its part, MSC welcomed the assessment, pointing to growing Japanese demand for sustainable product.<sup>55</sup>

Meanwhile, as noted in a prior Trade and Industry News issue, a group of organisations forming the 'On the Hook' campaign have objected to the recertification of MSC-

*Walmart's support for research and policy on trafficking reveals growing intolerance for labour abuses in global value chains*

*Tuna fisheries continue to seek MSC certification*

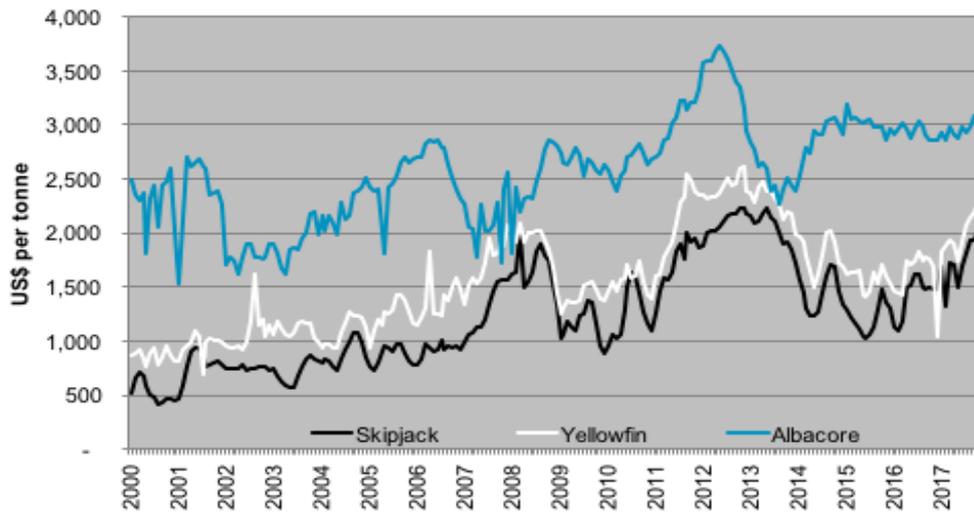
*MSC faces a potential consumer fraud case over PNA's re-certification*

certified PNA free-school skipjack because of the ‘compartmentalisation’ issue, in which a vessel can catch certified sustainable fish and non-certified fish on the same fishing trip.<sup>56</sup> They argue that the MSC is allowing certification in fisheries that allows unsustainable fishing.<sup>57</sup> In early December, the MSC was called to a parliamentary meeting with UK Fisheries minister and nine Members of Parliament supporting the ‘On the Hook’ campaign, specifically raising the spectre of a consumer fraud case. The ‘On the Hook’ MPs argue that the MSC is misleading consumers by putting its logo on tuna where the same vessels and nets that are supplying certified fish are used in the same fishing trip to fish on non-compliant tuna.<sup>58</sup> To date, the MSC has indicated only that it will not interfere with an ongoing certification process.

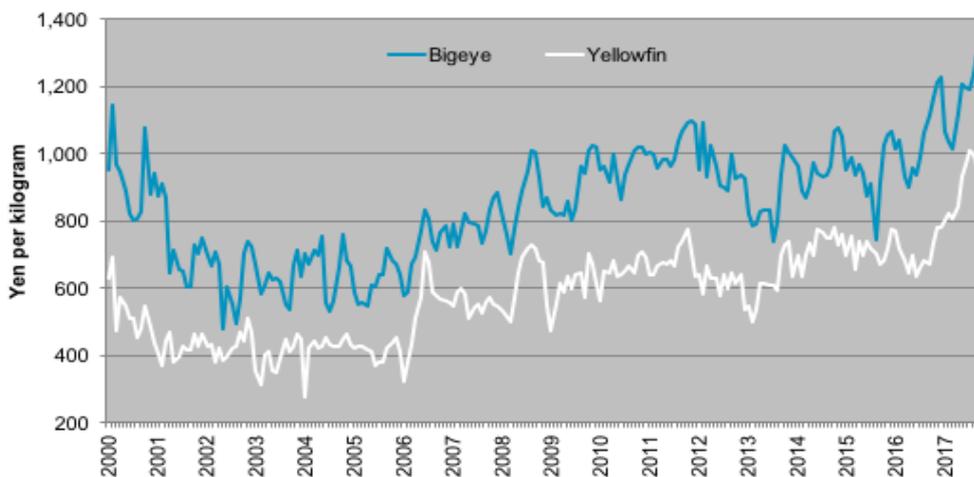
For its part, the PNA points out that its Chain of Custody process, which includes 100 percent observer coverage, is rigorous and that the premium that the MSC label affords to non-FAD caught fish has allowed many vessels to reduce FAD-dependency.<sup>59</sup>

## TUNA PRICE TRENDS<sup>60</sup>

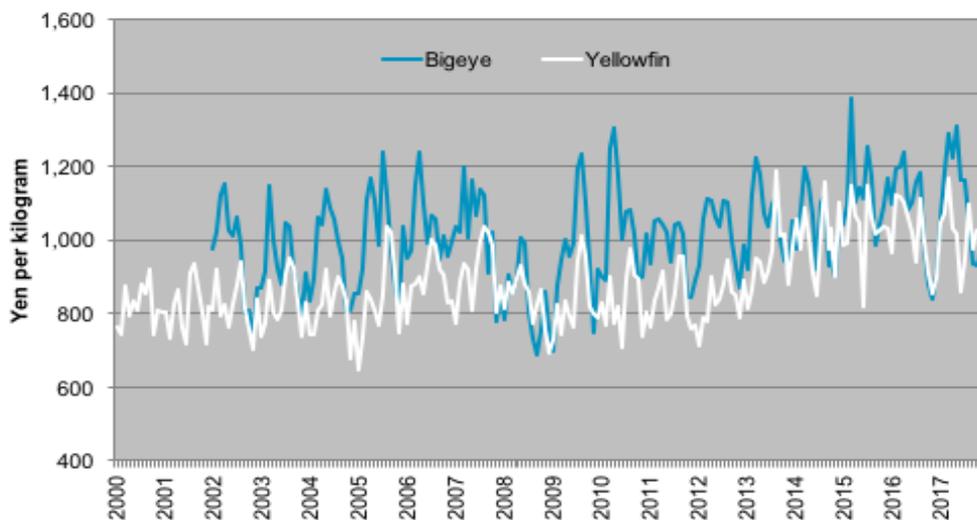
Bangkok canning-grade prices to December 2017<sup>61</sup>



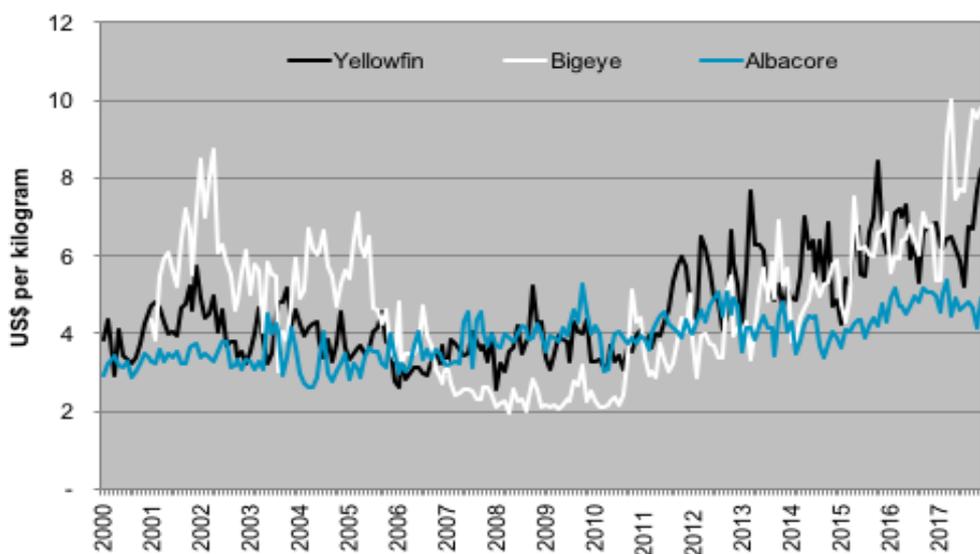
Japan frozen sashimi prices (ex-vessel, Japanese ports) to November 2017<sup>62</sup>



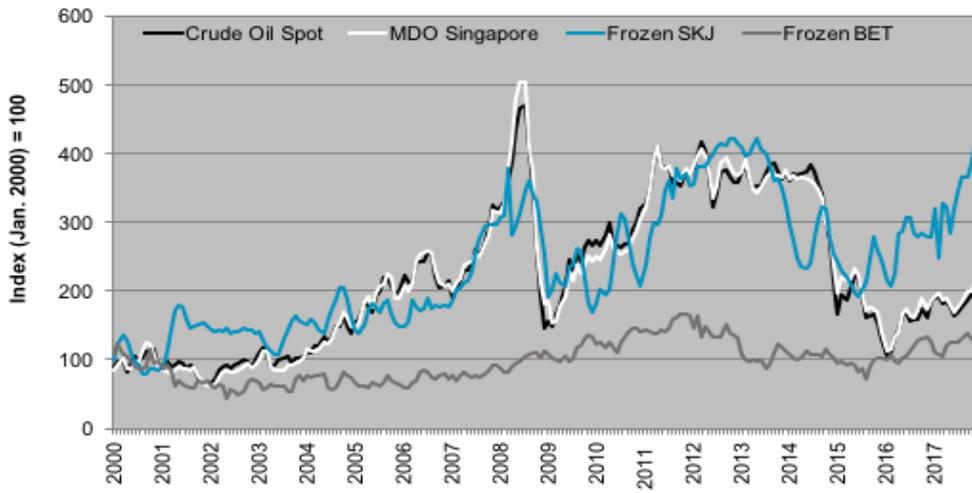
### Japan fresh sashimi prices (origin Oceania) to November 2017<sup>63</sup>



### US imported fresh sashimi prices to November 2017<sup>64</sup>



Crude oil, canning-grade frozen skipjack (SKJ) and frozen bigeye (BET) price index to November 2017<sup>65</sup>



<sup>1</sup> Prepared for the FFA Fisheries Development Division by Dr Liam Campling, School of Business and Management, Queen Mary University of London, Dr Elizabeth Havice, University of North Carolina at Chapel Hill and Mike McCoy, independent consultant, all Consultant Fisheries Trade and Market Intelligence Analysts, Fisheries Development Division, FFA. Desktop publishing by Antony Price. The authors would like to thank Tim Adams and Len Rodwell for their 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.

<sup>2</sup> All information cited in this story draws from this report unless otherwise specified> Campling, Liam, Antony Lewis, Mike McCoy 2017, *The Tuna Longline Industry in the Western and Central Pacific Ocean and its Market Dynamics*, Honiara: Pacific Islands Forum Fisheries Agency. Available at: <http://www.ffa.int/node/2025>

<sup>3</sup> Personal Communication, international fisheries management expert, January 2018.

<sup>4</sup> Personal Communication, international fisheries management expert, January 2018.

<sup>5</sup> For summaries see Liam Campling, Elizabeth Havice and Mike McCoy 2017, 'Update on fisheries subsidies debates in the lead up to the 11th WTO Ministerial', *FFA Trade and Industry News*, 10(6), July – August, which identified the (then) strategic silences of China and India as pessimistic indicators for reaching a deal at MC11. Available at: <http://www.ffa.int/node/2004>; Pacific Network on Globalisation 2017, 'Policy briefing on Fisheries Subsidies', PANG; and the WTO Negotiating Group on Rules, RD/TN/RL/29/Rev.3, 'Unofficial Room Document Fisheries Subsidies Non-Paper', 29 November 2017, which sets out potential alternative language being debated among WTO members.

<sup>6</sup> Maxine McClean 2017, 'WTO talks collapse, Caribbean disappointed', *NationNews* (Barbados). Available at: <http://www.nationnews.com>; Third World Network 2017, 'US blocks outcomes, collapsing MC11 like house of cards', 15 December. Available at: <https://www.twn.my>

<sup>7</sup> Tom Miles 2017, 'China makes WTO offer on fishery subsidies, but bait not taken', *Reuters*, 1 November. Available at: <https://uk.reuters.com>

<sup>8</sup> Asit Ranjan Mishra 2017, 'Why India opposed deal to end fisheries subsidies at WTO', *live mint*, 27 December 2017. Available at: <http://www.livemint.com>

<sup>9</sup> *The Economist*, 'A shameful failure to tackle overfishing - Depths of despair', 19 December 2017. Available at: <https://www.economist.com>

<sup>10</sup> WTO 'Fisheries Subsidies Ministerial Decision of 13 December 2017', WT/MIN(17)/64, 18 December 2017.

<sup>11</sup> Available at: <https://sustainabledevelopment.un.org/sdg14>; Leah Worrall 2017, 'Reducing fishery subsidies to support trade and transformation: where next?', *Supporting Economic Transformation*, 22 December 2017. Available at: <https://set.odi.org>

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<sup>16</sup> For an overview and references see Section 6.2 of Liam Campling, Antony Lewis, Mike McCoy 2017, *The Tuna Longline Industry in the Western and Central Pacific Ocean and its Market Dynamics*, Honiara: Pacific Islands Forum Fisheries Agency. Available at: <http://www.ffa.int/node/2025>

<sup>17</sup> Chris Gillis, 2017. 'Brokers seek "soft compliance" for seafood import monitoring', *American Shipper*, 7 December. Available at: <http://www.americanshipper.com>

<sup>18</sup> 'NOAA Fisheries implements "informed compliance" approach for Seafood Import Monitoring Program', *NOAA Memo*, available at: <http://www.iuufishing.noaa.gov/RecommendationsandActions/RECOMMENDATION1415/Implementation.aspx>

<sup>19</sup> Conservation and Management Measure for Bigeye, Yellowfin and Skipjack in the Western and Central Pacific Ocean (CMM 2017-01), *Western and Central Pacific Fisheries Commission*. Available at: <https://www.wcpfc.int>

<sup>20</sup> Pers. comm., WCPFC14 attendee, December 2017.

<sup>21</sup> Provisional Outcomes Document, WCPFC Fourteenth Regular Session, Manila, Philippines, 3-7 December 2017. Available at: <https://www.wcpfc.int>

<sup>22</sup> Conservation and Management Measure on Marine Pollution (CMM 2017-04), *Western and Central Pacific Fisheries Commission*. Available at: <https://www.wcpfc.int>

<sup>23</sup> Conservation and Management Measure on Minimum Standards for Port State Measures (CMM 2017-02), *Western and Central Pacific Fisheries Commission*. Available at: <https://www.wcpfc.int>

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