FFA TRADE AND INDUSTRY NEWS

Volume 12: Issue 4 July-Aug 2019

By Liam Campling, Elizabeth Havice and Mike McCoy [1]

CONTENTS

Fisheries Trade

Fisheries Regulation

Fisheries Management

Tuna Industry

Tuna Price Trends

FISHERIES TRADE

Signs of convergence in WTO fisheries subsidies negotiations, but major differences remain

WTO members completed a seven-month programme of work on fisheries subsidies with the final cluster of meetings in Geneva this July. A number of new proposals have been submitted, mainly centred around three prohibitions on: (1) subsidies to IUU fishing, (2) subsidies to fishing on overfished stocks, and (3) certain subsidies that support overfishing and overcapacity. There is some convergence among members on the first two of these, which are largely environmental in scope, but for the third, which is more commercially wide-ranging, large differences remain.

A submission was made on IUU fishing in June by Argentina, Colombia, Costa Rica, Panama, Peru, Uruguay, Canada, Iceland, New Zealand and the United States. Soon afterwards, the ACP Group made its own submission. Unsurprisingly, there is broad agreement that subsides should not be provided to IUU fishing. The main areas of contestation are whether flag states play a role and the terms by which coastal state determinations of IUU activities can be challenged.

The ACP also submitted another proposal in June on disciplines to subsidies for fishing on overfished stocks, which followed on the heels of a long-standing submission by Australia reported on in a prior issue of *FFA Trade and Industry News*.[2] The main differences in the two proposals are between Australia's suggestion of a 'test' for whether a subsidy is having a 'negative effect' on an overfished stock and the ACP proposal which *presumes* that the subsidised fishing of overfished stocks has a negative effect, but carves out a number of subsidy types in a 'green box'.

A flurry of ideas were submitted to reduce subsidies to overcapacity and overfishing in this work programme. The most important are contrasting submissions on a 'cap-approach' led by the USA with Argentina, Australia and Uruguay on the one side, and China on the other. Each is essentially based on negotiated individual subsidy limits (national caps) based on current subsidies. The USA-led cap proposal has the most traction. While providing some degree of policy space for PICs, it does not guarantee an overall global subsidy reduction, risks locking in place the commercial status quo, albeit with individual reductions, and allows the largest subsidisers to agree flexibilities among themselves. For its part, the ACP has submitted a proposal for a general prohibition on *all* subsidies for capital and operating costs, with a carve out for developing members to subsidise within the national EEZ.

A proposal circulated by Argentina, Australia, Chile, New Zealand, United States, and Uruguay seeks to deal with distant water fishing and the high seas. It proposes the prohibition of subsidies where a programme is designed to support fishing *outside* of a Member's EEZ, but allows subsidised fishing beyond the EEZ where the programme is not *contingent* on such fishing. An issue here for PICs is to be able to ensure that a fleet from one PIC WTO member is able to follow tuna into another's EEZ, as per the current FSM Arrangement.

Further, WTO negotiators have yet to make any serious progress on the very large number of 'cross-cutting issues' yet to be fully discussed. These include special and differential treatment (S&DT) for developing and least-developed country members, dispute settlement mechanisms and transparency requirements, such as what types of information members will need to report on their subsidy programmes.

WTO members agree that subsidies should not be provided to activities associated with IUU or overfished stocks

Going forward, negotiators will meet once a month in September through to December 2019. It is increasingly unlikely that a deal will be struck before the end of 2019 and negotiators appear to be focussed on reaching agreement in time for the 12th WTO Ministerial Conference in June 2020. But the closer this deadline comes, the less likely it is that PICs will be able to influence outcomes. As such, the coming months are crucial ones for the Pacific Group at the WTO.

Negotiators are yet to seriously discuss a wide range of issues, including S&DT, transparency and dispute settlement

EU-Mercosur reach trade agreement, but threatened by environmental concerns

After 20 years of on-and-off talks, EU and Mercosur negotiators signed a free trade agreement (FTA) in June 2019. Officially known as the Southern Common Market, Mercosur consists of Argentina, Brazil, Paraguay and Uruguay (Venezuela is also a member, but was suspended in 2017). The FTA needs to be signed off by member state governments, as well as the European Parliament, and it is part of a larger, more complex Association Agreement, which includes cooperation on migration, labour and the environment, the text of which is yet to be agreed.

It is Mercosur's first FTA with a major trading partner, giving EU firms a potentially major first-mover advantage in these four countries' markets, which are often protected by commercially significant tariffs, saving EU exporters up to USD 4.5 billion a year.[3] In addition to improved market access for beer and sugar, Mercosur exporters are targeting EU seafood markets. Precise details on tariff reductions and rules of origin for tuna have not been released, but some Mercosur products such as hake will receive a zero tariff when the agreement enters into force, while others such as shrimp and canned fish will receive tariff reductions over four to ten years.[4] It is believed, for example, that Argentina's seafood industry will receive a boost as it exports around 95% of what it fishes, especially for red shrimp and hake.[5]

But in signs of the growing importance of environmental issues in shaping trade arrangements, France and Ireland have both threatened to not ratify the deal unless Brazil halts the rapid increase in burning of the Amazon Rainforest since President Bolsonaro came to power – what President Macron of France called 'ecocide'.[6]

The EU-Mercosur trade deal was heralded by its negotiators as a sign that trade liberalisation is alive and well in the context of growing protectionism and trade-based conflict (e.g. between the US and China, Brexit, and between Japan and South Korea). Whether or not European leaders are willing to renege on the deal with Mercosur because of deforestation in the Amazon will be a test of the extent to which trade agreements can be used as a tool of environmental policy.

FTA likely to boost Mercosur seafood exports, but increased burning of the Amazon may block implementation

FISHERIES REGULATION

Marshall Islands seeking EU market access; hopeful of removal from EU 'tax haven' blacklist

Marshall Islands Marine Resources Authority is in the process of becoming the EU-approved Competent Authority (CA) to implement the EU's IUU Fishing and Food Safety Regulations. Through inspections, laboratory testing and catch documentation MIMRA will verify that Marshall Islands-flagged fishing and carrier vessels, and onshore processing facilities meet EU market access requirements.[7] At present, four Pacific Island countries have EU market access for fish and fisheries products – Solomon Islands, PNG, Fiji and Kiribati.

In 2018, the Marshall Islands purse seine fleet total tuna catch was over 70,000 mt.[8] Marshall Islands has eleven purse seiners and one fish carrier registered on the WCPFC Record of Fishing Vessels under its flag.[9] There are two onshore facilities in Majuro. Pan Pacific Foods Ltd is owned by Shanghai Kaichuang and processes canning-grade frozen cooked loins. While Marshall Islands Fishing Venture Inc. is a longline handling operation owned by Chinese company, Luen Thai. Currently, fish caught or carried by Marshall Islands-flagged vessels or processed in Marshall Islands is not permitted to enter EU markets. Given the EU is the largest market for tuna in the world, gaining access will provide wider marketing options for Marshall Islands exports.

Tuna caught by 11 Marshall Islands-flagged purse seiners will potentially be eligible for EU market access

In March 2017, Marshall Islands, together with 16 other countries including Samoa and American Samoa, was deemed by the EU to be a non-cooperative tax jurisdiction. The Marshall Islands operates major ship and corporate registries which are the primary focus of the EU. The European Commission assesses countries against three criteria: tax transparency; good governance and real economic activity; and, the existence of a zero corporate tax rate. Countries that have not committed or failed to deliver on their commitments to comply with the required good governance criteria are listed.

Marshall Islands was moved to the 'grey list' following commitments taken to amend national laws and regulations to comply with international standards. However, in March 2019, Marshall Islands was re-added to the negative list for not having adequately followed up on its commitments. Fiji, Vanuatu and five other countries were also added to the negative list.[10]

During a meeting in mid-July, the EU Code of Conduct Group positively assessed proposed amendments to the *Republic of the Marshall Islands Economic Substance Regulations*, which should warrant the removal of Marshall Islands from the list of non-cooperative jurisdictions for tax purposes, hopefully in late 2019.[11] The EU is continuing to develop a coordinated approach to sanctions to be applied to negative listed countries. Current counter measures that can be potentially applied by EU Member States include increased monitoring and audits, withholding taxes, special documentation requirements and anti-abuse provisions; EU legislation also prohibits EU funds being channelled through entities in countries on the tax negative list.[12] It is not apparent at this stage that being on the negative list results in loss of market access to the EU.

Taiwan's EU IUU 'yellow card' warning lifted

Marshall Islands hopes to be removed from the EU's 'tax negative list' by late 2019

Almost four years after receiving a 'yellow card' warning under the EU's IUU Fishing Regulation in October 2015, the European Commission made a decision on 27 June 2019 to lift Taiwan's yellow card. This likely comes as a great relief to Taiwan (and processors sourcing raw material from Taiwanese vessels), given Taiwan's long distance fishing fleet is the second largest in the world, and the Taiwanese tuna purse seine fleet (flagged and beneficially owned) is the largest supplier of canning grade raw material to Thailand's tuna processors.

The Taiwanese government has implemented an eleven-point IUU action plan covering four main areas: reform of laws governing distant-water fishing (for Taiwanese flagged vessels and Taiwanese beneficially-owned vessels which are flagged to third countries); improvement of oversight through the establishment of a central monitoring, control and surveillance system and other monitoring measures; improvement of the traceability of marine fisheries products; and, international collaboration with other nations. Following the lifting of the yellow card, Taiwan and the EU have established a joint IUU fishing task force to continue the enforcement of Taiwan's IUU reforms and continue dialogue and cooperation on relevant issues.[13]

In the WCPO, Vietnam and Kiribati are the two remaining countries with yellow card warnings in place, issued in October 2017 and April 2016, respectively. EU inspectors are expected to visit Vietnam again in October 2019. However, Vietnam's Agriculture Minister acknowledged in April that Vietnam has not effectively implemented four out of nine recommendations issued by the European Commission. Unless significant progress has been made since April, it is unlikely that Vietnam's warning will be lifted following the October inspection.[14] At the time of writing there were no additional updates available on Kiribati's status.

FISHERIES MANAGEMENT

IATTC annual meeting pushes major decisions to 2020, despite concerns for bigeye and yellowfin stocks

The Inter-American Tropical Tuna Commission (IATTC) held its annual meeting on 22-26 July in Bilbao, Spain. It reported preliminary estimates of total yellowfin catch (all gears) in 2018 at 239,000mt, a small increase compared to 2017, but 2% less than the prior five-year average (244,000mt). Skipjack catch was 289,000mt – a drop of 39,000mt compared to 2017, and a significant drop compared to the record EPO catch for this species of 343,000mt in 2016. Bigeye recorded the most worrying shift at 86,000mt, which represents a 16% decline compared to 2017, and the joint lowest annual catch volume in 20 years.[15]

IATTC closures do not appear to be enough to protect stock health

Importantly, IATTC's use of fishing closures – or 'veda' – does not seem to be addressing concerns from various quarters for the sustainability of current levels of fishing for yellowfin and bigeye stocks. For yellowfin there are contradictory signals in the current modelling which means that it is unclear whether indicators of stock health show a reduction in yellowfin abundance or that the fisheries are changing. For bigeye, increasing sets on FADs combined with the decreasing average weight of bigeye in the catch indicate increasing fishing pressure on EPO stocks, suggesting the need for measures *in addition* to current seasonal closures, such as limits on the number of FAD-sets.[16] The 2019 veda commenced on 29 July and ends on 8 October in the eastern tropical Pacific (the main regional supply for the Manta processing hub in Ecuador); and the second closure will run from 9 November to 19 January 2020. Vessels can decide which veda to stop fishing in.[17]

A wide range of conservation and management recommendations were suggested in advance by IATTC scientists, the International Seafood Sustainability Foundation (ISSF) and Pew Charitable Trusts. These included more rigorous regulation of FAD fishing by the purse seine fleet – in particular, a 30% reduction in the limit for active FADs; enhanced observer coverage (human and electronic); improved data on longline catches (including interactions with non-target species); and more transparent transhipment regulations.[18]

Yet, very little was achieved. IATTC members agreed to join the initiative of the International Commission for the Conservation of Atlantic Tunas (ICCAT) and Indian Ocean Tuna Commission (IOTC) to cross-list IUU vessels, and some progress was made on conservation of silky sharks and vulnerable species of sea turtles.[19] There was no agreement on limiting the use of FADs, which in effect kicks the issue into an already busy year. IATTC will have its work cut out in 2020 because the current tropical tuna measure is expiring and updated stock assessments for bigeye and yellowfin are due.

TUNA INDUSTRY

Impending changes to IMO fuel requirements are expected to increase costs for tuna transhipments

In 1973, the International Maritime Organization (IMO), the United Nations agency that is responsible for safety and security of shipping, as well as the prevention of marine and atmospheric pollution by ships, adopted the International Convention for the Prevention of Pollution from Ships, known as MARPOL. The MARPOL Convention addresses pollution from ships by oil, noxious liquid substances carried in bulk, harmful substances carried by sea in packaged form, sewage, garbage and air pollution.

A new annex (Annex VI) was added in 1997 that contains regulations for the prevention of air pollution from ships by minimizing airborne emissions. Annex VI entered into force on 19 May 2005, with a revision adopted in October 2008 that significantly tightened emission limits beginning 1 July 2010 in an effort to reduce greenhouse gas emissions.[20]

In October 2016, the IMO set a new global limit for the amount of sulfur to be allowed in fuel oil used onboard ships after 1 January 2020 ("IMO 2020"). That limit, set at 0.50% by weight, equivalent to 5,000 parts per million (ppm), applies globally except for certain 'Emission Control Areas' such as the area within 200 miles of the coast of North America where limits are even lower (0.10%). The 0.50% global (i.e. "open seas") limit will affect the largest portion of the approximately 3.9 million barrels per day of global marine fuel use. The 0.50% limit is a reduction in the current limit of 3.5% in effect since 2012. The pre-2012 level was 4.5%.[21]

A new limit on the amount of sulfur allowed to be used in ships becomes effective 1 January 2020, that will affect the WCPO tuna transhipping industry

Tuna fishing vessels, including purse seiners and longliners, are not expected to be affected since they typically use a fuel, marine gas oil (MGO), that already meets the 0.50% limit. However, ships engaged in the carriage of tuna in the transhipment business, (i.e. refrigerated carrier vessels ("reefer carriers")) and container ships are expected to be affected by the latest requirement to use low sulfur fuel oil (LSFO).

The new lower sulfur content limits have operational and financial implications for ships that currently use what is termed intermediate fuel oil (IFO). Although cheaper than MGO (or even the next heavier grade, marine diesel oil (MDO)), the sulfur content of IFO fuel is higher than the January 2020 limit allows. IFO will not disappear because vessels will have the option of installing and utilizing approved "scrubbers" in their exhaust systems to limit sulfur emissions from the use of IFO. Current cost of the installation of what is technically an exhaust gas cleaning system, has been cited by the UK logistics firm Lodestar as between US$3 million to US$5 million.[22] Such an installation, including the required shipyard down-time, may not be an economical option for reefer carriers of the sizes currently in use in the WCPO (1,500 to 5,000 gross tonnes). It is also not likely that LSFO will be available to reefer carriers from the at-sea refueling tankers, since their service to tuna fleets in the WCPO is based on the use of MGO.

The impacts on reefer carriers are thus expected primarily in fuel supply and fuel cost. The marine fuel supply chain has been preparing for the introduction of the new limits, and according to those in the industry it is expected that LSFO will be first be available in major shipping ports such as Bangkok, Singapore, and Busan. In the short term, carriers may need to plan ahead for voyages that may terminate in ports where LSFO is not available and require refueling.

The bulk of transshipped purse seine-caught fish is sent to Thailand where LSFO is expected to become available, however this is not expected to be the case for all processing destinations. A 2012 FFA survey of tuna transshipment in the major Pacific Island ports found that over a period of several years reefer carrier departures included destination fish processing ports in Mauritius, Ecuador, South Korea, Japan, Philippines, Papua New Guinea, Solomon Islands, Mexico, Indonesia, Vietnam, American Samoa, and China.[23]

According to an industry source, at least some reefer carriers habitually operating in the Pacific Islands tuna transshipment trade have tankage aboard for both IFO and the lighter MGO. IFO is obtained in large ports of discharge such as Bangkok and used whenever possible. If situations arise that require the use or purchase of MGO, the vessels are able to switch fuel grade usage.

Impacts of the new IMO 2020 requirement on transshipment costs are difficult to assess. The differences in costs between the fuel grades can be significant and must be considered in calculating freight costs. One online industry source quoted 29 August 2019 Singapore per tonne spot prices for IFO 180 at US$458 and MGO US$582.[24] There are no posted prices for the new 0.50% LSFO, although a few of the largest ports offer 0.10% Ultra LSFO (presumably for ships intending to enter one or more of the Emission Control Areas on their voyage). One estimate in May 2019 suggested the LSFO premium starting in 2020 will be around US$200 per tonne above heavy fuel oil.[25] An added element in the equation is that fuel prices and the differences between the grades can be volatile. For example, Singapore spot price differences between IFO 380 (a heavier intermediate fuel than 180 that is used by the majority of large, ocean going ships) and higher cost low sulfur MGO fluctuated from US$130 to US$237 over the course of two weeks in August 2019.

Reefer carriers operating in the Pacific Islands tuna transshipment trade may have to revert to even higher cost MGO if LSFO is unavailable

The carriage of tuna on reefer carriers in the tuna transshipment trade operates on several different financial models: carriers that are wholly owned by the fishing company, carriers that are bareboat chartered by the trading companies, and space purchased by trading companies on other carriers being the most common. The financial impact of IMO 2020 requirements may be different in each case. Generally, freight costs for reefer vessels chartered by tuna traders are calculated to cover charter costs, port charges, insurance, provisions and other costs, as well as fuel. In setting cargo rates, the objective is to recoup costs but also try and keep freight costs competitive to attract business.

One industry source estimates that an increase of $15 per tonne on current tuna transshipment costs would eventuate if LSFO ends up costing around $150 more per tonne than the IFO currently in use. If LSFO is not readily available and reefer carriers have to operate on the more expensive MGO, the increase in freight cost can be expected to be larger.

Container freight rates are expected to rise, affecting containerized frozen fish

According to one source, only about 16% of the ocean carrier global fleet representing about 1/3 of total cargo carried will be equipped with exhaust scrubbers by January 2020, although that number is rising.[26] The requirements of IMO 2020 will thus impact container rates for all cargo shipped into and out of the Pacific Islands, including frozen fish landed by fishing vessels for processing elsewhere. The pricing mechanism most commonly used by the shipping industry in such circumstances is a bunker adjustment factor (BAF). The use of a BAF is applied in situations involving fuel increases and decreases in the seaborne freight business. Either way, by reefer carrier or container shipment, it is highly likely that the increased costs associated with IMO 2020 will end up being paid by tuna vessel operators in transshipping fleets and those that land their catch for containerization and processing elsewhere.

Bolton Group fully acquires Tri Marine

In early July 2019, Bolton Group, a large, privately-owned Italian fast-moving consumer goods company, fully acquired global tuna trading company, Tri Marine. As reported in *FFA TIN April-May 2019*, Bolton and Tri Marine have worked together as strategic partners for more than 25 years, with Bolton obtaining an unpublished significant minority shareholding in Tri Marine in 2013. Tri Marine exclusively supplies Bolton Group's subsidiary Bolton Foods' with frozen cooked loins for production of finished goods under leading European canned tuna brand, Rio Mare.[27]

Bolton has strategically acquired elements of Tri Marine's business linked to raw material supply, trading and processing which best meet Bolton's goal of continued growth for the company. Included in the sale was Tri Marine's US-based corporate headquarters, subsidiary offices in Singapore, Panama, Spain, Italy, Thailand, Taiwan and China, Solomon Islands tuna fishing company, and full/partial shareholdings in processing facilities in Ecuador, Solomon Islands and Colombia.[28] With Bolton's acquisitions of Tri Marine (US), together with previous acquisitions of Saupiquet (France), Calvo and Grupo Conservas Garavilla (Spain), the company now has a fishing fleet of 22 purse seiners and 4 pole and liners operating in all four oceans; processing plants in Italy, France, Solomon Islands, Ecuador, Spain, Ecuador, El Salvador, Brazil and Morocco, and eight tuna brands – Rio Mare, Saupiquet, Palmera, Isabel, Cuca, Calvo, Gomes de Costa and Nostromo - marketed throughout Europe, Latin America and North Africa.[29] The Tri Marine acquisition has further strengthened Bolton's position as one of the leading global tuna companies in the world, alongside Thai Union.

Renato Curto, Tri Marine's CEO and former majority shareholder, will establish a new business unit comprised of a number of Tri Marine entities excluded from the sale to Bolton including six US-flag tuna purse seiners (the 'Cape Fleet') and three small coastal pelagic purse seiners and associated wetfish processing plants in San Pedro, USA (Tri Marine Fish Company) and Ensenada, Mexico (Baja Marine Foods). Curto will also retain Samoa Tuna Processors in American Samoa, which is currently leased by Starkist for ten years, The Tuna Store, Tri Marine's US-marketing arm and Conservas de las Americans, a warehouse facility in Peru.[30]

Bolton will retain the name 'Tri Marine' and has appointed Juan Corrales, CEO of Garavilla and former ISSF Chairman as Tri Marine's CEO; Renato Curto will continue in the role of CEO for a transition period.[31] As was the case when Bolton first acquired shareholdings in Garavilla and Calvo, it is anticipated that Tri Marine will continue under a 'business as usual' approach, with no major changes to personnel or the business model in the short-term.[32]

Bolton is currently also the front runner to acquire Bumble Bee's Canadian shelf-stable seafood business, including leading tuna brand, Clover Leaf and sardines brands, Brunswick and Beachcliff.[33] Bolton already supplies small volumes of Rio Mare into the Canadian market; purchasing Clover Leaf will cement Bolton's presence in North America. If successful, this acquisition has obvious synergies with Tri Marine's trading business which would be able to supply albacore and skipjack tuna to Clover Leaf and may also justify Bolton maintaining Tri Marine's corporate headquarters in the USA.

On 30 July 2019, a public announcement was made that the planned sale of Tri Marine Fish Company's coastal pelagic processing facility in San Pedro, California to Silver Bay Seafoods has been cancelled. Hence, Renato Curto will retain ownership

Bolton has acquired Tri Marine business units that support a growth strategy

Bolton is the front runner to acquire Canada's leading tuna brand, Clover Leaf, which would cement its market position in North America of Tri Marine Fish Company, which handles up to 300mt/day of squid, sardines, mackerel and tuna. The reasons for the cancellation of the sale have not been publicly disclosed, however a media report indicates this decision was not linked to Bolton's acquisition of Tri Marine. The sale was first announced in October 2018 and if concluded, would have been a "strategic growth move" for Silver Bay Seafoods, with wetfish unloading and processing facilities located in both North and Southern California.[34]

Thai Union's growth gambles on innovative seafood lines and by-products

Thai Union (TU) is the world's leading shelf-stable tuna company. But it has encountered difficult times due to its role in the US price fixing scandal, leaving it with fines of over US$100 million, as well as broader, well-documented labour abuses in Thailand's seafood industry.[35] While a diversified business, TU remains largely dependent on tuna and shrimp for raw material needs, while principal markets for canned tuna are stagnant or in decline. As such 'innovation' in TU's existing core competencies is the leading edge of its growth strategy.

Thai Union is pushing premium, tuna-based snacks in USA and UK

TU aims to boost revenue and profitability by developing new value-added, tuna-based products at its new Global Innovation Center in Bangkok with over 150 researchers, and in processing high-quality by-products at the Marine Ingredients unit in Thailand and the recent Marine Nutrients factory in Germany. TU hopes that innovation will contribute 10% of total revenue by 2020.[36]

TU has gone on the offensive in the US market by launching two new shelf-stable premium product lines under the Chicken of the Sea brand. 'Wild Catch' tuna and salmon was launched in August 2019 and is pitched as 'responsibly wild-caught seafood'. This complements the national roll-out earlier in the year of Chicken of the Sea's 'Infusions' line, which are snack pots of tuna in olive oil, mixed with herbs and/or spices that come with a plastic fork to eat 'on-the-go'.[37]

In the UK, under its John West brand, TU relaunched in May its line of spreadable 'Cracker Toppers' and expanded the 'Steam Pots' line of flavoured tuna with couscous or rice. It is worth noting that, in 2018, TU created an entirely new product of ready-to-eat yellowfin slices, which won an award at the Boston Seafood expo, and, while still mainly being sold via food service channels in 2019, is being promoted in EU and US retail markets.[38]

TU is set to commercialise tuna by-products for sale as pharmaceutical grade oil and calcium supplements

In all markets, these product lines are designed to tap into growing consumer demand for high protein, low-fat, snack-based convenience food, and all lines command a far higher margin than standard canned tuna.

In terms of by-products, TU hopes to break into entirely new markets, including inputs into pharmaceutical products and baby food. TU is producing calcium supplements from tuna bones which are set to be produced on a commercial basis soon. It is also the only company in the world currently making high-grade tuna oil, on which TU holds a patent.[39] The high-quality by-products side of the business suffered a set-back in June when the Germany-based factory producing tuna oil caught fire. It is expected to be rebuilt by mid-2020.[40]

It remains to be seen as to whether TU can pull off this innovation-driven strategy in an industry and product segment that is largely based on a mass-produced commodity. If it does, the volumes of tuna that it procures may well reduce and its profits will rise.

Social standards proliferate in the global tuna industry

Following on the heels of FFA Members' new harmonised minimum terms and conditions (MTCs) for crew on tuna fishing boats, as reported in the last issue of *Trade and Industry News*,[41] labour standards remain a hot topic in the seafood industry media, policy circles and private procurement strategies.

Working conditions, forced labour and slavery were major topics at the SeaWeb Seafood Summit held in June 2019.[42] Industry executives, supermarket buyers, government officials, NGOs and labour organisations met for four days in Bangkok to discuss ways in which to improve working conditions and enable workers' voices in the seafood industry. The stakes at play were put into sharp relief in an interview with Thai Union's Global Director - Corporate Affairs and Sustainability, Dr. Darian McBain, who cited the "'genuine fear'" that exports from Thailand would be banned in the USA as a result of labour abuses.[43] Such a ban would have been a commercial disaster for Thai Union and have necessitated a reconfiguration of the global tuna supply chain.

Despite major reforms by a small number of leading seafood firms such as Thai Union,[44] major labour abuses remain in Thailand and elsewhere as documented in a succession of recent reports by advocacy organisations. Major studies of labour standards in the fishing industry in Thailand have been undertaken by Human Rights Watch and the International Labour Organisation in 2018 – each documenting serious abuses despite reforms by the Government of Thailand.[45] An Environmental Justice Foundation report released this June argues that there is a direct link between volatile tuna prices and the recruitment of cheap migrant labour in Pacific Ocean tuna fisheries. It also decries that 18 observers from PNG working on tuna boats in the WCPO region have disappeared over the last five years.[46]

New research by the Business & Human Rights Resource Centre surveyed major companies with tuna supply chains utilising catch from the Pacific Ocean. It found that almost all companies lacked sufficient policies and procedures to identify modern slavery in their supply chains, most do not have rigorous human rights due diligence processes, and only one company – Thai Union – cited a trade union in terms of their engagement with external stakeholders.[47] A searchable database of survey responses by Pacific Ocean tuna companies is available here.

The Marine Stewardship Council (MSC) has sought to respond to the growing awareness of labour abuses in the seafood sector by launching in March 2019 a new set of requirements for on-shore seafood operators to ensure that forced and child labour were not used to make MSC labelled products. In particular, the certificate "can become invalid... [i]f a company is found to have been successfully prosecuted for violations of laws on forced or child labour in the last two years".[48]

This is a very high bar. Academic research on trade, supply chains and labour standards has made clear that formal prosecutions such as this are very difficult to achieve, especially in jurisdictions where there may be close connections between business and government.[49] Indeed, the MSC's approach is a long-way behind the more forward looking approach to social standards raised at the SeaWeb Seafood Summit and currently being pursued by industry leaders in social standards such as Thai Union.

In a statement released in opposition to the MSC's approach to social standards, a number of environmental and labour organisations including Conservation

NGOs highlight links between low tuna price and labour abuses; and decries the disappearance of PNG observers

The Pacific Ocean tuna industry lacks rigorous policies and procedures to combat slavery, protect human rights or to engage trade unions

MSC social standards subject to major criticism for lack of depth

International, Greenpeace and Human Rights Watch raised three further objections.[50] First, for forced and child labour, the risk assessment is done on a country-basis, not looking at a particular supply chain. Where a country is seen as 'low risk', certification is possible without due labour diligence, which is problematic because several countries with known abuses are considered 'low' risk. Second, where a country requires a risk assessment, the MSC's approach relies on third-party certification by programmes with known weaknesses. Third, the 'snapshot' provided by a social audit rarely exposes deeper labour violations. MSC has responded that it is not seeking to become a social standard setting body and that it works with other organisations who are specialised in this area.[51]

In parallel, FisheryProgress.org, the leading information provider on tracking Fishery Improvement Programmes (FIPs), has also developed an interim policy on the most severe abuses of labour standards (i.e. forced labour, child labour, or human trafficking).[52] The process is as follows:

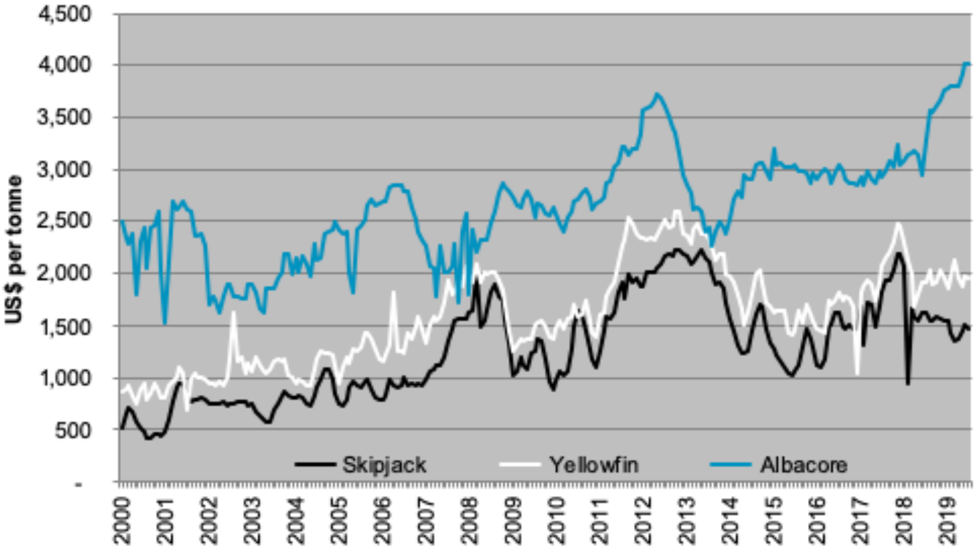
- If a credible labour abuse allegation is made against a FIP participant, the FIP's FisheryProgress.org profile will be updated to note the allegation.
- FisheryProgress.org will begin gathering information from NGOs, trade unions, FIP participants and other stakeholders.
- If credible evidence is not received, the notice will be removed.
- If an allegation is substantiated, FisheryProgress.org will give the FIP 30 days to remedy the problem.
- If the FIP has been unable to secure a signed statement from an independent and credible third party that the problem had been remediated, FisheryProgress.org will move the FIP to inactive status.

This is more ambitious and potentially wide-reaching than the MSC standard. It allows for a range of stakeholders to make an evidence-based complaint (rather than requiring a formal prosecution), while giving the operator concerned reasonable opportunity to respond. Nonetheless, it retains a narrow view of social standards compared to the industry leader, Thai Union.

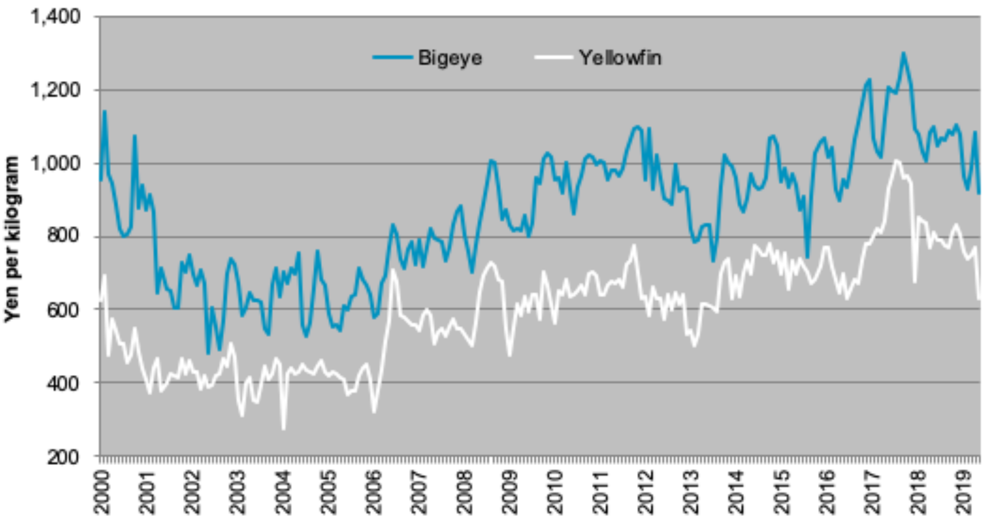
Fishery Improvement Programmes subject to wide-ranging reporting and procedural policy on social standards

TUNA PRICE TRENDS[53]

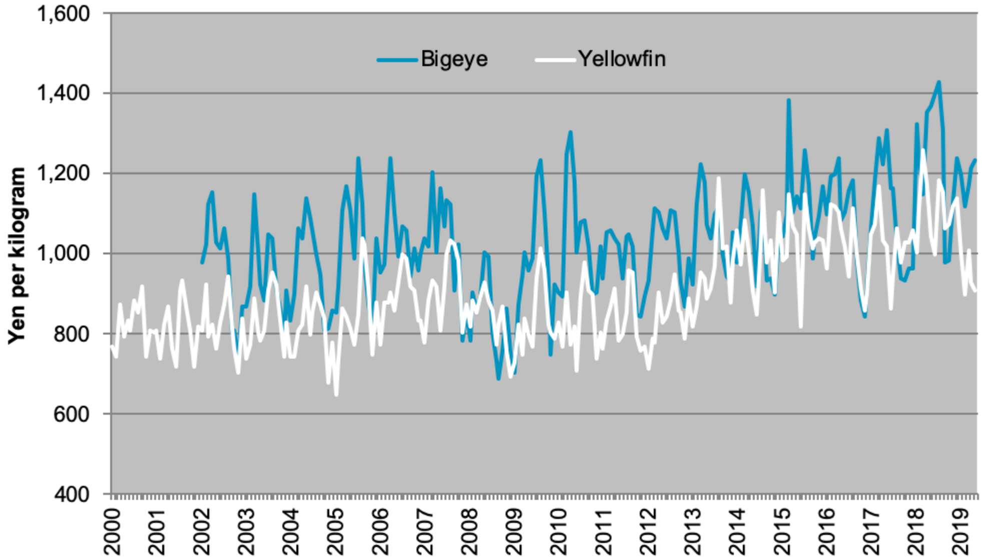
Bangkok canning-grade prices to July 2019[54]



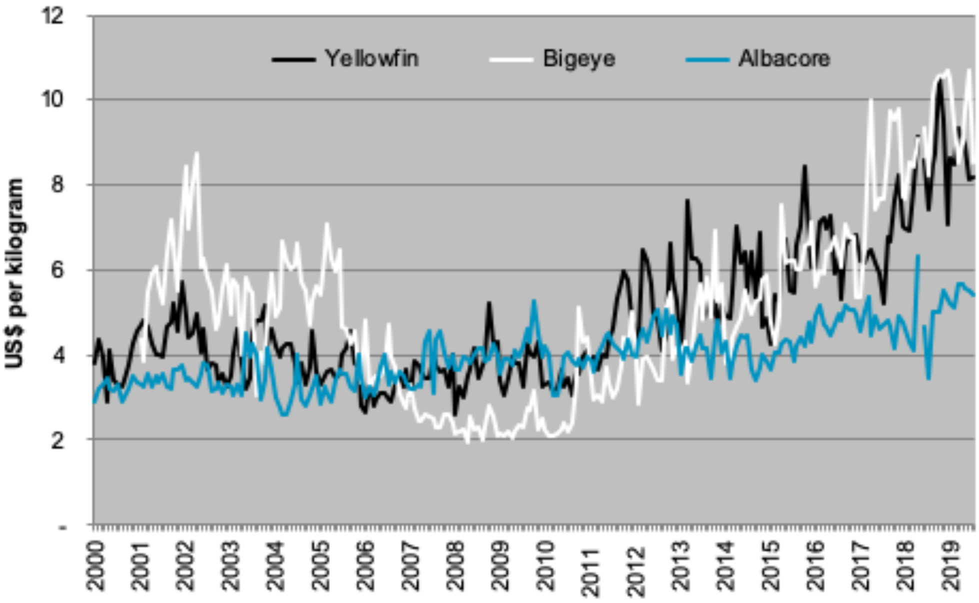
Japan frozen sashimi prices (ex-vessel, Japanese ports) to May 2019[55]



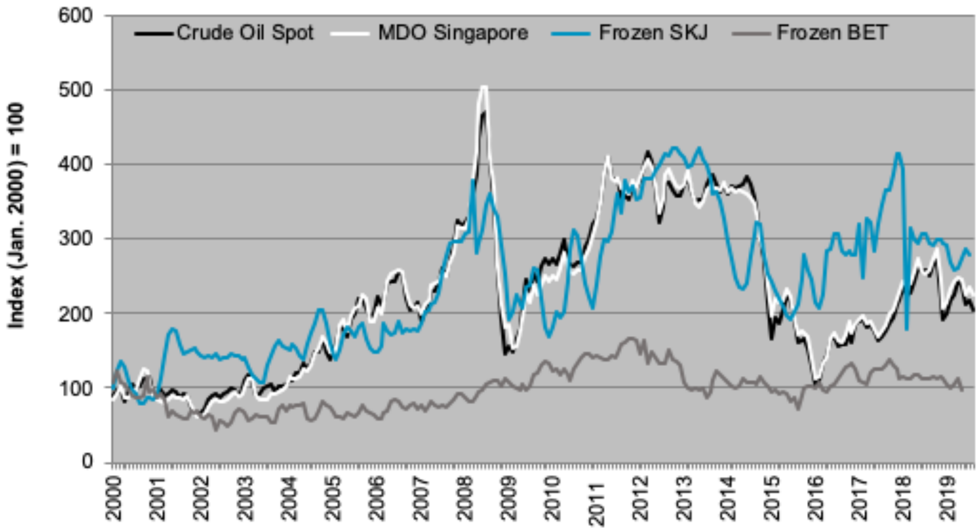
Japan fresh sashimi prices (origin Oceania) to July 2019[56]



US imported fresh sashimi prices to July 2019[57]



Crude oil, canning-grade frozen skipjack (SKJ) and frozen bigeye (BET) price index to August 2019[58]



[1] 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 Len Rodwell Batty 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.

[2] Elizabeth Havice, Liam Campling and Mike McCoy 2019, 'WTO fisheries subsidies negotiations heat up', *FFA Trade and Industry News* . 12(1): January-February. Available at: https://www.ffa.int/trade_news

[3] *Euronews*, 'What's in the historic EU-Mercosur free-trade deal?', 1 July 2019. Available at: https://www.euronews.com/2019/06/28/eu-and-mercosur-strike-historic-free-trade-deal-after-20-years-of-talks; Maria Ramirez Uribe and Caitlin Hu 2019, 'After 20 years of negotiations, EU strikes trade deal with Mercosur', *CNN*, 29 June 29. Available at: https://edition.cnn.com/2019/06/28/world/mercosur-eu-trade-agreement-intl/index.html; Mercosur 2017, 'Suspensión de Venezuela en el MERCOSUR', 5 August. Available at: https://www.mercosur.int/suspension-de-venezuela-en-el-mercosur/

[4] The texts of the agreement are available here: http://trade.ec.europa.eu/doclib/press/index.cfm?id=2048; Nelson Saldivia 2019, 'Caution in the fisheries sector over Mercosur-EU free trade agreement', *FIS*, 1 July. Available at: https://fis.com/fis/worldnews/worldnews.asp?monthyear=7-2019&day=1&id=103452&l=e&country=0&special=&ndb=1&df=0

[5] Matt Craze 2019, 'Argentina's seafood sector receives boost as EU approves Mercosur trade deal', *Undercurrent News*, 1 July. Available at: https://www.undercurrentnews.com/2019/07/01/argentinas-seafood-sector-receives-boost-as-eu-approves-mercosur-trade-deal/

[6] Julian Borger, Jonathan Watts, and Tom Phillips 2019, 'G7 leaders to hold emergency talks over Amazon wildfires crisis', *The Guardian*, 24 August. Available at: https://www.theguardian.com/environment/2019/aug/23/ireland-could-oppose-trade-deal-brazil-fails-stop-amazon-fires-leo-varadkar

[7] Giff Johnson 2019, 'Marshall Islands drives tuna initiatives', *Radio New Zealand*, 22 July 2019. Available at: https://www.rnz.co.nz/

[8] MIMRA 2019, Annual Report to WCPFC Part 1 – Republic of the Marshall Islands. Available at: https://www.wcpfc.int/node/42723

[9] WCPFC Record of Fishing Vessels; accessed 27 August 2019. https://www.wcpfc.int/record-fishing-vessel-database

[10] 'Fair Taxation: EU updates list of non-cooperative tax jurisdictions', European Commission, 12 March 2019, Brussels. Available at: https://europa.eu/rapid/press-release_IP-19-1606_en.htm

[11] 'Registrar of Corporations Announces Republic of the Marshall Islands to be Removed from EU List of Non-Cooperative Jurisdictions', *Hellenic Shipping News in World Economy News*, 18 July 2019. Available at: https://www.hellenicshippingnews.com

[12] European Commission, 12 March 2019.

[13] 'Government, EU establish illegal fishing task force', *Taipei Times*, 5 July 2019. Available at: http://wwwtaipeitimes.com; 'Illegal fishing: EU lifts Taiwan's yellow card following reforms', *European Commission*, 27 June 2019. Available at: https://europa.eu/rapid/press-release_IP-19-3397_en.htm

[14] Toan Dao 2019, 'EC to evaluate "yellow card' for Vietnam in late October', *Seafood Source*, 3 July 2019. Available at: http://www.seafoodsource.com

[15] DOCUMENT IATTC-94-01, Report On The Tuna Fishery, Stocks, And Ecosystem In The Eastern Pacific Ocean In 2018, pp.4-5, 26. Available at: https://www.iattc.org/Meetings/Meetings2019/IATTC-94/Docs/_English/IATTC-94-01_The%20tuna%20fishery,%20stocks,%20and%20ecosystem%20in%20the%20Eastern%20Pacific%20Ocean%20in%202018.pdf

[16] IATTC-94-01, p.50 and 64

[17] Tom Seaman 2019, 'Bangkok skipjack prices up $200/t; yellowin to EU leaps', *Undercurrent News*, 2 August. Available at: https://www.undercurrentnews.com/2019/08/02/skipjack-yellowfin-prices-in-sharp-increase/

[18] *Undercurrent News*, 'ISSF wants more FAD limits, observers to protect bigeye, yellowfin stocks', 22 July. Available at: https://www.undercurrentnews.com/2019/07/22/issf-wants-more-fad-limits-observers-to-protect-bigeye-yellowfin-stocks/; *Undercurrent News*, ' Pew issues IATTC advice ahead of July meet', 19 July 2019. Available at: https://www.undercurrentnews.com/2019/07/19/pew-issues-iattc-advice-ahead-of-july-meet/

[19] *Undercurrent News*, 'ISSF bemoans lack of progress made at IATTC tuna meet', 2 August 2019. Available at: https://www.undercurrentnews.com/2019/08/02/issf-bemoans-lack-of-progress-made-at-iattc-tuna-meet/

[20] IMO 2019, Air Pollution, Energy Efficiency and Greenhouse Gas Emissions, IMO website accessed August 2019. Available at: https://www.imo.org/en/OurWork/Environment/PollutionPrevention/AirPollution

[21] U.S. Energy Information Administration, Tighter marine fuel sulfur limits will spark changes by both refiners and vessel operators, 30 November 2016. Available at: https://www.eia.gov/todayinenergy/detail.php?id=28952

[22] Wackett, M. 2019 More carriers, even the doubters, are turning to scrubbers for IMO 2020. 29 May 2019. Available at https://theloadstar.com,

[23] McCoy, M. 2012, *A survey of tuna transshipment in Pacific Island countries: opportunities for increasing benefits and improving monitoring*. Pacific Island Forum Fisheries Agency, Honiara, Solomon Islands.

[24] Bunker Index, accessed 29 May 2019. Available at: http://www.bunkerindex.com

[25] Wackett, M. 2019 More carriers, even the doubters, are turning to scrubbers for IMO 2020. 29 May 2019. Available at https://theloadstar.com,

[26] Ibid.

[27] Campling, Havice & McCoy, 'Bolton buyout of Tri Marine? Implications for Solomon Islands, *FFA Trade & Industry News*, Volume 12 (2), March-April 2019. Available at: http://www.ffa.int

[28] Campling, Havice & McCoy, March-April 2019; industry representative pers. comm., July 2019.

[29] Havice & Campling 2018, *Corporate Dynamics in the Shelf-Stable Tuna Industry*, Pacific Islands Forum Fisheries Agency. Available at: http://www.ffa.int

[30] Tom Seaman, 'Bolton inks deal to take control of Tri Marine's tuna supply business', *Undercurrent News*, 6 July 2019. Available at: https://www.undercurrentnews.com

[31] Cliff White, 'Tri Marine sold to Bolton Group', *Seafood Source*, 8 July 2019. Available at: http://www.seafoodsource.com; Tom Seaman, 'Bolton tasks Spanish tuna veteran with running former Tri Marine operations', *Undercurrent News*, 17 July 2019. Available at

[32] Industry representative, pers. comm., July 2019.

[33] Tom Seaman, 'Bolton tipped as favourite for Clover Leaf as Bumble Bee brings in turnaround advisor', *Undercurrent News*, 22 July 2019. Available at: https://www.undercurrentnews.com

[34] Cliff White, 'Tri Marine's sale of processing plant to Silver Bay Seafoods nixed', *Seafood Source*, 31 July 2019. Available at: https://www.seafoodsource.com; Dean Best, 'Silver Bay Seafoods move for Tri Marine plant called off', *Just-Food*, 6 August 2019. Available at: https://www.just-food.com

[35] Jason Smith 2019, 'Thai Union's price-fixing bill exceeds $100m as most settlements reached', *Undercurrent News*, 9 August. Available at: https://www.undercurrentnews.com/2019/08/09/thai-unions-price-fixing-bill-exceeds-100m-as-most-settlements-reached/

[36] Elizabeth Havice and Liam Campling (2018), *Corporate Dynamics in the Shelf-stable Tuna Industry*, Honiara: Pacific Islands Forum Fisheries Agency. Available at: https://www.ffa.int/node/2113; See also, Dan Gibson 2019, 'Thai Union innovation centre plots reversal in processed tuna's global fortunes', *Undercurrent News*, 24 June. Available at: https://www.undercurrentnews.com/2019/06/24/thai-unions-innovation-center-plots-reversal-in-processed-tunas-global-fortunes/; and *The Nation* (Thailand), 'Princess opens Thai Union's Global Innovation Centre', 11 June 2019. Available at: https://www.nationthailand.com/Corporate/30370933; *Undercurrent News*, 'Thai Union opens innovation center', 10 June 2019. Available at: https://www.undercurrentnews.com/2019/06/10/thai-union-opens-innovation-center

[37] Thai Union Group Public Company Limited, 'Management Discussion and Analysis for 2Q19 Results', ended 30 June, 2019; Available at: https://investor.thaiunion.com/newsroom/060820191709300876E.pdf; Christine Blank 2019, 'Chicken of the Sea expands tuna cup line nationwide', *Seafoodsource*, 21 February. Available at: https://www.seafoodsource.com/news/foodservice-retail/chicken-of-the-sea-expands-infusions-line-nationwide; and Christine Blank 2019, 'Chicken of the Sea's three-year plan hinges on "very robust innovation pipeline" ', *Seafoodsource*, 28 May. https://www.seafoodsource.com/news/foodservice-retail/chicken-of-the-sea-three-year-plan-hinges-on-very-robust-innovation-pipeline

[38] *Grocery Trader*¸ 'John West launches Cracker Toppers and extends Steam Pots range', 2 May 2019. Available at: https://grocerytrader.co.uk/john-west-launches-cracker-toppers-and-extends-steam-pots-range/; TU press release, 'Thai Union's Yellowfin Tuna Slices Wins Top Award at Boston's Seafood Expo North America', 28 March 2018. Available at: https://www.thaiunion.com/en/newsroom/press-release/795/thai-unions-yellowfin-tuna-slices-wins-top-award-at-bostons-seafood-expo-north-america

[39] Darana Chudasri 2019, 'TU banking on innovation to spur growth', *Bangkok Post*, 8 June. Available at: https://www.bangkokpost.com/business/1691376/tu-banking-on-innovation-to-spur-growth

[40] Neil Ramsden 2019, 'Thai Union begins Germany plant rebuild, aims for July 2020 opening', *Undercurrent News*, 15 August. Available at: https://www.undercurrentnews.com/2019/08/15/thai-union-begins-germany-plant-rebuild-aims-for-july-2020-opening/

[41] Elizabeth Havice, Liam Campling and Mike McCoy 2019, 'FFA Ministers agree to minimum terms and conditions for crew employment', *FFA Trade and Industry News*, 12(3): May-June. Available at: https://www.ffa.int/trade_news

[42] See the full programme here: https://www.seafoodsummit.org/conference-program/ Also: Rachel Mutter and Lola Navarro 2019, 'SeaWeb Seafood Summit 2019: Slavery tops the agenda in Bangkok', *IntraFish*¸ 10 June. Available at: https://www.intrafish.com/events/1803190/seaweb-seafood-summit-2019-slavery-tops-the-agenda-in-bangkok

[43] Lola Navarro 2019, 'Thai Union exec: US, EU pressure crucial in path to end slavery, IUU fishing', *IntraFish*¸ 10 June. Available at: https://www.intrafish.com/fisheries/1803600/thai-union-exec-us-eu-pressure-crucial-in-path-to-end-slavery-iuu-fishing

[44] Elizabeth Havice, Liam Campling and Mike McCoy 2018, 'Thai Union takes a lead on labour standards; Thai government improves but lags', *FFA Trade and Industry News*, 11(4): July-August 2018. Available at: https://www.ffa.int/trade_news

[45] International Labour Organization 2018, *Ship to Shore Rights: Baseline research findings on fishers and seafood workers in Thailand*, Bangkok: ILO Country Office for Thailand, Cambodia and Lao People's Democratic Republic. Available at: https://www.ilo.org/asia/publications/WCMS_619727/lang--en/index.htm; Human Rights Watch 2018, *Hidden Chains: Rights Abuses and Forced Labor in Thailand's Fishing Industry*, New York: HRW. Available at: https://www.hrw.org/sites/default/files/report_pdf/thailand0118_report_web.pdf

[46] EJF 2019, *Blood and water: Human rights abuse in the global seafood industry*, London: EJF. Available at: https://ejfoundation.org/reports/blood-and-water-human-rights-abuse-in-the-global-seafood-industry

[47] Business & Human Rights Resource Centre 2019, *Out of Sight: Modern Slavery in Pacific Supply Chains of Canned Tuna*. Available at: https://www.business-humanrights.org/sites/default/files/Out%20of%20Sight%20Modern%20Slavery%20in%20Pacific%20Supply%20Chains%20of%20Canned%20Tuna_4.pdf

[48] MSC March 2019, 'Get Certified: Your guide to the MSC and ASC Chain of Custody certification process', p.18. Available at: https://www.msc.org/for-business/supply-chain/chain-of-custody-certification-guide

[49] Liam Campling, James Harrison, Ben Richardson and Adrian Smith 2016. 'Working Beyond the Border? A New Research Agenda for the Evaluation of Labour Standards in EU Trade Agreements', *International Labour Review*, 155(3): 357-382; and Harrison J, Barbu M, Campling L, Richardson B and Smith A 2019, 'Governing labour standards through free trade agreements: limits of the European Union's Trade and Sustainable Development chapters'. *Journal of Common Market Studies*. 57(2): 260-277. (Available from Campling on request.)

[50] 'Public Statement from Human Rights and Environmental Organizations: MSC's Revised Chain of Custody Certification Fails to Adequately Address Forced Labor and Child Labor in Seafood Supply Chains', 10 June 2019. Available at: https://laborrights.org/publications/public-statement-mscs-revised-chain-custody-certification

[51] Demi Korban 2019, 'MSC answers NGO criticism of its labor requirements', *IntraFish*, 10 June. Available at: https://www.intrafish.com/fisheries/1803748/msc-answers-ngo-criticism-of-its-labor-requirements

[52] FisheryProgress.org, 'Interim Policy on Forced Labor, Child Labor, or Human Trafficking', 7 August 2019. Available at: https://fisheryprogress.org/how-use-site/appeal-fip/interim-policy-forced-labor-child-labor-or-human-trafficking

[53] All databases are provided by the Fisheries Development Division at FFA.

[54] Customs Department, Thailand. http://www.customs.go.th/Statistic/StatisticIndex.jsp

[55] FFA database

[56] Japan Customs. http://www.customs.go.jp/toukei/info/index_e.htm

[57] US National Marine Fisheries Service. http://www.st.nmfs.gov/st1/trade/index.html

[58] US Energy Information Administration. http://tonto.eia.doe.gov/dnav/pet/pet_pri_spt_s1_m.htm