FFA

FORUM FISHERIES COMMITTEE

ONE HUNDRED AND EIGTHEENTH MEETING

Virtual

Agenda Item:	***27***
Paper Number:	***FFC118-WP.21***
Title:	Independent Review of Increased Economic Returns from Fisheries

Summary:

In 2015, the Pacific Islands Forum Leaders endorsed the Regional Roadmap for Sustainable Pacific Fisheries ("the Roadmap") and directed that increases in economic returns be achieved within five years. Leaders agreed that a joint taskforce of FFA, PNA and the Forum Secretariat (later joined by SPC) would lead the development of a programme to increase the sustainable economic returns of fisheries. The year 2020 marked the fifth year following the Leaders' decision and so an independent review was commissioned to examine the progress made on that decision. An inter-agency working group (IAWG) comprising of FFA, PIFS, PNAO and SPC was set up to oversee the Review.

The IAWG has now accepted the Final Draft Report of the Independent Review prepared by the consultants (***Annex 1***) and this is now tabled for consideration and comment by FFC. The Draft Report will also be considered by PNA Officials and Ministers. The IAWG will then prepare a cover report on the way forward based on the guidance and comments from FFC Officials and the PNA Officials and Ministers. The cover report will outline decisions and actions to be taken following the findings of the review. This will be presented to FFC Ministers at their meeting in July, ahead of the Forum Leaders meeting in August.

The Independent Review found that increases in aggregate economic returns were achieved between 2015 and 2019, but that neither the Roadmap nor the Economic Returns Work Programme (ERWP) that followed, made an identifiable contribution to that increase. Both plans were difficult to implement, lacked sufficient national-level consultation for success, and were weak in their political analysis of the challenges. The Review also found weaknesses in the reporting on the Roadmap and the ERWP, and concluded that that the Tuna Report Cards have provided little actionable information, and in some cases may have encouraged national-level policies that are counterproductive to increasing economic returns.

The Review prioritises the following recommendations:

- For regional agencies:
  - Establish a regional tuna business intelligence unit, which would report directly to Fisheries Ministers, Economic Ministers, and Leaders on the most important trends, changes and possibilities in the regional tuna industries (to replace the Tuna Report Card process)
  - Establish a fisheries sector enterprise survey

  - Place a capable regional tuna industry association on a secure financial footing
- For governments:
  - For countries that have or want domestic longlining fleets or onshore processing, commit to a long-term programme of investment climate improvement for the fisheries sector that focuses on locally binding constraints
  - Urgently protect domestic firms from the effects of COVID-19
  - For countries that want to create profitable employment in unloading, transhipping and sorting, creation of a national competent authority is the key prerequisite, although a wider strategy is needed
- For Parties to the Nauru Agreement:
  - Establish an annual reporting mechanism to PNA Economic Ministers on economic parameters of the purse seine fishery as a public asset
  - Continue to raise the price of days sold through the VDS, by making them more valuable to buyers
  - Develop a clearer understanding of risk related to the VDS asset and revenue stream

Recommendations:

The Committee is invited to:

i. **Note** the work of the IAWG in overseeing the Independent Review and the completion of the Final Draft Report by the consultants;
ii. **Comment** on the Final Draft Report prepared by the consultants; and
iii. **Provide further guidance** to the IAWG on the way forward.

Introduction:

An independent review was commissioned to review the progress made on the 2015 Pacific Islands Forum Leaders directive that increases in economic returns be achieved in five years. The Review highlighted important issues for consideration to ensure that sustainable economic returns from fisheries are maintained or improved.

2. The Review focuses on work at the regional level. It includes actions best led by national governments, but does not cover individual countries' circumstances or have country-specific recommendations. It has comprehensive coverage of both work that is currently underway and future opportunities, whether these were envisaged to be part of the Roadmap, ERWP or neither.

3. The Review found that the aggregate economic returns that Pacific islands have earned from their fisheries increased between 2015 and 2019, although at a lower rate than in the immediately preceding years. The increase was dominated by an increase in the annual revenue collected by PNA members from the purse seine VDS, accompanied by a similar rate of increase in overall fisheries sector employment.

4. The Review found minimal evidence that the Roadmap or the ERWP had any significant impact in terms of increasing revenues in the fisheries sector. To the contrary, the Review found a number of significant deficiencies in the design of both the Roadmap and ERWP, which made these instruments unwieldy to implement, especially at the national level. These challenges were compounded by the lack of consultations with national officials, which

discouraged buy-in by Members, and meant that implementation challenges were not adequately reflected or analysed. The complex political dimension was frequently overlooked.

5. The result was that the Roadmap and ERWP had a minimal impact in influencing the pre-existing operational plans of regional agencies or national governments. However, substantial work has been done by regional and subregional agencies over the last five years to increase economic returns from the fisheries sector. The review has limited coverage of national-level achievements, although does note significant achievements and common trends.

6. Progress on the Roadmap and ERWP was reported to Leaders through two sets of Report Cards (one for tuna and one for coastal fisheries). The targets and indicators set by the Roadmap and ERWP were not clearly specified, but notwithstanding and taking this into consideration, the Tuna Report Cards have done a good job of providing the information that was requested. Unfortunately, the Tuna Report Cards have been of limited practical use, because some of the targets selected were weakly or possibly even negatively associated with increased economic returns, and the aggregation of data, which obscured important differences between countries and fisheries.

Background:

7. Fisheries was identified by the Pacific Island Forum Leaders as one of the five regional priorities under the Framework for Pacific Regionalism in 2015. To support the work under this key regional priority, Forum Leaders endorsed the Regional Roadmap for Sustainable Pacific Fisheries and directed that increases in economic returns be achieved within five years. Leaders agreed that a joint taskforce of FFA, PNA and the Forum Secretariat would lead the development of a programme to increase the sustainable economic returns from fisheries.

8. Following the Forum Leaders' decision in 2015, a Fisheries Taskforce was set up and developed the Economic Returns Work Programme (ERWP) that was endorsed by Forum Leaders in 2016. Progress on the Roadmap was tracked through a series of Report Cards that reported against the indicators used in the Fisheries Roadmap and the targets set by the ERWP. The year 2020 marked the fifth year after Leaders directed that steps be taken to ensure increases in economic returns from the fisheries sector be achieved in five years, hence the commissioning of the independent review on increased economic returns.

9. An inter-agency working group (IAWG) comprising of FFA, PIFS, PNAO and SPC was set up to provide oversight of the review. Following agreement by Members of the IAWG on the *terms of reference* for the independent review initially developed by the PIFS, the selection of the consultant(s) was then undertaken through the PIFS procurement process. All bids were received and assessed by the IAWG, which in the end selected the consultants to undertake the Review.

10. The first draft of the report was submitted to the IAWG for their review and comments. The IAWG considered the draft and provided initial feed-back to the consultants. A second draft was submitted and presented to the IAWG, and following consultations, a final draft was completed based on the comments and guidance from the IAWG. The IAWG accepted the final draft report at their fifth meeting on 30 April 2021, and which report will be submitted to FFC and PNA officials and Ministers' meetings for their input, as required under the terms of reference of the review.

Key Issues Identified in the Review:

11. There is evidence that for the period between 2015 and 2019, the aggregate economic returns that Pacific islands earned from their fisheries sectors had in effect, increased. This increase however was not wide-spread among the Members, but dominated by the increases in the annual revenues collected by PNA members under their Vessel Day Scheme. However, the rate of increase in economic returns from 2015 was significantly less than the rate of increase in returns during the immediately preceding years. The Review identified that there was almost no impact by the 2015 Forum Leaders' decision, or the Roadmap or the ERWP, on the level of subsequent economic returns achieved by Members.

12. The Review outlines key priority actions for consideration at the regional, sub-regional (PNA) and national levels. These key priorities include the following:

Regional Priority1: Tuna Business Intelligence Unit

13. The Review identified concerns about the need to maintain and improve the availability of information and advice on commercial and policy-related elements of tuna fishery development. Particular areas of note include commercial knowledge of the tuna industry and its international political economy (including in the Western and Central Pacific Fisheries Commission, WCPFC), the ways in which fisheries management shape commercial strategies, the technical economic and financial tools necessary to analyse the business-side, expertise on fisheries trade rules and their politics, and public and private market access issues and how they shape business dynamics.

14. The Report notes that pockets of expertise in these areas are currently spread across FFA, PIFS and PNAO, as well as a network of specialist consultants that the region draws upon on a regular basis, in ways that are not always conducive to regular cooperative action. The Review recommends the establishment of a **Tuna Business Intelligence Unit** to institutionalise commercial and political knowledge and analysis. This would be a small unit reporting to multiple regional agencies through a mechanism similar to the Inter-Agency Working Group (IAWG) set up to oversee the Review, but would be able to maintain commercial confidentiality on behalf of one or a subgroup of PICs. It would also provide a mechanism to deliver other recommendations of the Review. To keep running costs low and to reduce institutional-conflict over its location, the Unit would operate remotely, with the staff meeting on the side-lines of the region's various and regular tuna-related meetings.

Regional Priority 2: Fisheries Sector Enterprise Survey

15. The Review notes that investment climate reform is very much a national process with limited opportunities for regional agencies to contribute. One area where regional agencies can help is by identifying priority business environment constraints, which allows governments to make an informed decision whether to devote resources to resolving them. This is particularly useful where dialogue between government and the private sector is weak, which does appear to be a challenge based on the evidence collected during the review.

16. In response, the Review recommends establishing a **Fisheries Sector Enterprise Survey** of PICs who opt into the process, on a regular basis. The survey could be conducted by the proposed Intelligence Unit, or, in the absence of such a unit, be led by FFA with input

from a national industry association (or a regional industry association) to guide the design of the survey.

Regional Priority 3: Regional Tuna Industry Association

17. Public-private dialogue is an important driver of effective investment climate reform and a regional association can play an important support and backstopping role. The Pacific Islands Tuna association (PITIA) was the primary regional industry for the sector, however it appears to have ceased activity in June 2019. It is recommended that PITIA or a newly established regional industry association, should be placed on a secure financial footing, reporting to a board comprising national industry associations and large domestically embedded firms. This is urgent due to the important role that this association has in advocating for industry during the coronavirus pandemic.

Regional Priority 4: Longline fishery

18. The Review notes the considerable work led at the regional level to improve control of the **longline** fishery in the last decade, including efforts to establish catch limits in the southern albacore fishery under the Tokelau Arrangement, the creation of effort limits in the tropical longline fishery under the PNA's longline VDS, and more or less constant efforts to establish meaningful controls on longlining within the WCPFC. The Review concurs with the widely held perspective that the limited progress in these areas — particularly when compared to the purse seine fishery — is due to two factors:

- The fundamental nature of the longline fisheries, in which it is commercially viable for a vessel to fish only in high seas areas, which greatly weakens the leverage of coastal states, even when working together effectively; and

- A difficult political economy environment for the Tokelau Arrangement, in which the aspirational ambitions of both Pacific islands and other resource owners have frustrated efforts to agree meaningful catch limits that could form the basis of effective collective action.

19. Against this background, the review concludes that there is a question mark over the relative merits of expending further regional time and effort in the medium-term on seeking to improve economic returns from the distant water longline fisheries. This is because these fisheries are widely recognised as low profit, with limited potential to capture greater rents, and that PICs have less actual and potential control compared to the PS VDS.

20. On domestic longlining, the Review prioritises improvement of the business environment and investment climate, noting the point that the business environment is ignored means that domestic longline development is made less likely, both for genuine domestic firms and for distant water fleets who may be seeking to domesticate.

National Priority 1: Investment Climate Reform

21. The Review supports the ERWP identification of the importance of a conducive investment climate, in laying the groundwork for the private sector to make investment that will result in broader economic returns from the sector. It recommends that countries that have

or want domestic longlining fleets or onshore processing, commit to a long-term programme of investment climate improvement for the fisheries sector that focuses on locally binding constraints.

National Priority 2: Impacts of COVID-19

22. **COVID-19** has hit the longlining sector much harder than the purse seine, because of the combined negative impacts of declining consumption of fresh and frozen fish in major markets (e.g. Japan) and the reliance on air freight for export of fresh fish, which has become less abundant, less flexible and much more expensive during the pandemic. The industry is in crisis, and there is a risk that the development of broader economic returns from domestic longline firms *could be set back decades* if a lack of support leads to bankruptcy of the majority of firms that lack access to foreign credit. The result is likely to be a further expansion of fishing by foreign firms with no interest in establishing a domestic footprint.

23. The Review recommends that Governments urgently protect domestic firms from the effects of COVID-19, identifying strategies available to government including negotiating payment deferral between firms and banks, and making emergency changes to fisheries regulation that enable firms to earn enough through asset sale to survive. Regional agencies can provide support by raising funding or connecting governments with donors interested in preserving the domestic private sector, and providing technical guidance on how governments should select and target genuinely domestic firms. In both the purse seine and longline fisheries, the risk of crew infection is an important operational risk and the Review advises that there are very good reasons to prioritise crew members in vaccination programmes.

National Priority 3: National competent authority

24. The ERWP correctly identified that a large share of the opportunities for increased economic returns lie with national governments rather than regional agencies. The Review is therefore limited by its minimal coverage of national actions over the last five years. Individual PICs that want to understand how successful they have been at capturing broader economic returns, and what realistic opportunities are yet to be explored, would benefit from a systematic national analysis, looking at elements such as discounted access, quality of employment, import leakage, taxation and incentives. The Review did not gather sufficient country-level information to offer prescriptive recommendations to individual PICs, but it signposts the importance of a EU-compliant **competent authority** for creating employment in encouraging activities such as transshipment and sorting, where high PIC business costs present far less of an impediment to profitability.

PNA Priority 1: Annual reporting mechanism to PNA Economic Ministers

25. The Review notes that there are differences in the extent to which PNA Ministers of Finance are involved in maximising revenue obtained from the purse seine VDS and appraising economic options for the use of that money. The Review concludes that there is a need for the level of economic analysis and scrutiny of both revenue and expenditure from the purse seine VDS by PNA Ministries of Finance and relevant Ministers to be improved. The Review considers that this requires improved reporting to Economic Ministers on the purse seine fishery to enable the Economic Ministries’ analytical capability to be brought to bear to maximise revenue, and manage risk in accordance with the government’s overall risk appetite

and tolerance, and recommends establishing an annual reporting mechanism to PNA Economic Ministers on economic parameters of the purse seine fishery as a public asset.

PNA Priority 2: Increasing price of days through the VDS

26. It is difficult to overstate the success of the PNA's **purse seine VDS** over the last decade, especially when the many political and economic efforts to undermine it are taken into account, or when it is compared to similar attempts at South–South cooperation in other fisheries (or other sectors). A great deal of research and analysis has been done on the wide range of options available to individual Parties, sub-groups, or PNA members as a whole to further increase their income by making vessel days more valuable to buyers or by extending greater control over the competitive fringe, including the high seas, and to strengthen collective action by increasing the gains from cooperation. However, experimentation and uptake of these options has not been as forthright as it could have been, particularly in the last few years. It is up to Parties individually to decide to explore those opportunities.

27. The Review considers that there are important opportunities for individual Parties to increase their revenue remain unexplored or in process, but it concludes that there has been little tangible progress in moving towards initiatives that the Consultants consider are well understood to have a high chance of increasing average revenues. This is of concern not merely because Parties may be losing out on increased revenue, but also because the process of discovering ways to increase mutual benefits through information, collaboration and tighter integration would act in itself to strengthen solidarity. The Review recommends that VDS participants continue to raise the price of days sold through the VDS, by making them more valuable to buyers. Any of these initiatives would need to be led by individual Parties.

PNA Priority 3: Risks related to VDS asset and revenue stream

28. The Review recommends that the PNA develop a clearer understanding of risks related to the VDS asset and revenue stream. This recommendation follows from the Review's conclusion that the highest priority in goals for the regional tuna fishery should be the protection and extension of the public asset of the Pacific tuna fishery. The Review argues that the public asset should be the pre-eminent goal because all other goals are in some way dependent on it, and the more the value of the public asset can be built, the greater the resource that is available to achieve them. Viewing the fishery as an asset means considering risk in a new way because then 'Protection' of the public asset means identifying and reducing or eliminating any substantial threat to the future value of the asset.

29. For PNA, the Review emphasises the importance of risk in the calculations of options to increase price of days— for governments to understand their own risk appetite and risk tolerance so that they can decide which expected economic returns are worth the risk, and how to limit their overall exposure to risk. This is an important area in which risk analysis tools used by economic ministries can offer insight that will enable more confident experimentation (above).

Next Steps

30. FFC is encouraged to review and provide their comments on the Final Draft Report-before it is submitted to FFC Ministers. Noting that some of the recommendations were

specific to the PNA, the Final Draft Report will also be presented to the PNA Officials and Ministers at their meeting in June.

31. The IAWG will prepare a cover report to the Forum Leaders on the way forward based on the guidance and comments from FFC Officials and the PNA Officials and Ministers. The cover report will outline decisions and actions to be taken following the findings of the review. This will be presented to the FFC Ministers at their meeting in July, ahead of the Forum Leaders meeting in August.

32. Information papers on the Independent Review will be provided to the Forum Economic Ministers at their meeting on 13 – 14 July and also to the Forum Foreign Ministers at their meeting on 27 July.

33. The cover report will be presented to the Forum Officials Committee (FOC) at their meeting scheduled for 22 – 23 July 2021 before it is presented to the Forum Leaders for their consideration.