

**FFA**

FORUM FISHERIES COMMITTEE
ONE HUNDRED AND EIGHTEENTH MEETING

*Virtual***11 - 14 May 2021**

Agenda Item:	20
Paper Number:	FFC118-WP22
Title:	Harnessing comparative advantages

Summary:

At last year's FFC Ministerial meeting, and noting the impact that the COVID-19 pandemic had had on international trade:

"Ministers called on FFA to undertake a regional study on how FFA Members could harness their comparative advantage with respect to regional tuna resources and maximise the benefits that flow within the region. This could include initiatives to facilitate greater processing capacity and value-adding, cross-border investment, increased regional trade, improved transportation, and improved labour mobility." (FFCMIN17 Statement of Outcomes Para 27)

To progress this the Secretariat undertook consultations with regional experts, a review of relevant literature and an assessment of options to pursue this directive and provides the following considerations on which further guidance is sought:

- The scope of this directive is too broad and would be very costly to implement given the multi-disciplinary fields requiring diverse and specialised areas of expertise.
- Studies have been conducted on many of these topics previously and the usefulness of conducting further regional studies on these types of issues is debatable.
- That due to varying factors, including geography, demographics, utilities, cost structures and economies, a further regional study is unlikely to elicit new data which will benefit individual members.
- That resources for this initiative be directed to supporting Members in a specific context, to develop opportunities relevant and partial to their unique national circumstance and needs.
- A study looking at commercially viable value adding opportunities in the supply chain and their applicability to FFA members is recommended.

Recommendations:

The Committee is invited to agree to the Secretariat's proposal to progress work in the area of harnessing comparative advantages by:

- i. Conducting a study looking at specific value adding opportunities in the supply chain and their applicability to FFA members
- ii. Providing support to members to explore specifically the feasibility of national level projects or proposals.

Harnessing comparative advantages

Introduction:

1. At last year's FFC Ministerial meetings noting the impact that the COVID-19 pandemic had had on international trade:

"Ministers called on FFA to "undertake a regional study on how FFA Members could harness their comparative advantage with respect to regional tuna resources and maximise the benefits that flow within the region. This could include initiatives to facilitate greater processing capacity and value-adding, cross-border investment, increased regional trade, improved transportation, and improved labour mobility." (FFCMIN17 Communique Para 27)

2. To facilitate this work, three consulting firms with significant experience in the region were approached to scope the range of work to be engaged and the practicalities of gathering the required information in an environment with international travel restrictions. Feedback included:

- The scope of the consultancy is extremely broad and needs to be narrowed.
- It would not be practical to attempt this scope in one assignment.
- Some of this research has been conducted previously and is available in the public domain already. Examples include the WB Pacific Possibles Report – Tuna Fisheries 2016, WB Pacific Possibles Report – Labour Mobility 2017, WB Pacific Possibles Report – LT Economic Opportunities 2017, WB Doing Business 2020 Report, Tuna Processing Hub and Spoke Feasibility Study 2017, and the Fish Processing Hub Feasibility Study – Solomon Islands, MRAG 2018. FFA has also been party to studies and comparative analysis of costs and opportunities at a national level for several Members, however this data cannot be documented due to disclosure restrictions.
- The usefulness of conducting further regional studies on these types of issues is debatable, given the divergent circumstances that Members face, and that the required follow up actions are often not undertaken. The Regional Processing Hubs initiative is one example where considerable resources were expended with no evidential outcome.
- That real beneficial outcomes are more likely to be achieved by focussing on providing analysis and support in relevant areas for specific projects.
- It would be difficult to provide conclusive findings and recommendations in the absence of direct dialogue with industry and other stakeholders. This would require face to face engagement.
- The estimated cost for the full scope of this assignment as earlier directed, is substantial requiring expertise from several specialised economic and business disciplines. It is suggested that these resources would be more effectively allocated to supporting members directly in a specific context.

3. To facilitate an outcome, the decision was made to initiate this work internally and undertake the following actions:

- Conduct a literature review of studies conducted previously into the comparative advantages and disadvantages of tuna processing in the region.
- Assess what actions and resources can be accessed to create value adding opportunities in the supply chain.

- Assess the best approach to advancing work in relation to harnessing comparative advantages.

Progress to date:

4. While the initial review is incomplete, the following insights are tabled for discussion:

a) With regard to comparative advantage:

- There is evidence that processing can be undertaken profitably in the region, but is subject to volume and economies of scale and often dependent on securing significant concessions from the host country where in terms of access to fish resources or other concessions.
- Production costs are notably higher for both canning and loining relative to competitors in Thailand and the Philippines.
- Evidence also indicates marginally lower labour productivity in the region.
- Remote geography can have an adverse impact due to delays in equipment servicing as well as poor availability and cost of spare parts and supplies.
- The benefits of proximity to the resource are negated by comparatively higher production costs in almost all areas of process inputs, principally labour, electricity and fuel, freight, and repairs and maintenance
- While economies of scale are often cited as ways to produce efficiencies in production, these are not sufficient to overcome the relatively high labour/productivity costs in Pacific Island countries, and more so given the labour intensive nature of tuna processing.
- The only real significant comparative advantage is in relation to the proximity of the resources and the associated lower fish costs due to lower costs of delivering the fish to its destination.
- There is a wide variance in the circumstances between members and there can be a wide variance in the circumstance relating to different specific projects.
- Regional studies often require a follow up at national level which often does not occur or takes a long time to do so e.g. Regional Hubs for example requires strong regional political will to progress given the marginal viability of projects considered so far.

b) Assessment of actions and resources that can be accessed to create value adding opportunities in the supply chain.

- Given the competition evident from large scale processors outside of the region, cost disadvantages within the region and other challenges such as access to capital for larger scale ventures, the opportunity to extract greater value from processing lies in value adding concepts.
- New concepts such as fish extract, katsuobushi manufacture, and waste processing (for example, dog treats and burley bombs) are currently under development. These ideas are being collaboratively pursued with the private sector and include an end to end business model, with the added intent to source capital if required.

- Specialised resources, fisheries research and development experts, and technology owners have, and will continue to be engaged to provide expertise in the development of these concepts.
 - Efforts to link business with technology, markets and distribution will also continue, and joint venture prospects also considered in order to leverage this expertise.
 - A study looking at commercially viable value adding opportunities in the supply chain and their applicability to FFA members is further recommended.
- c) Assessing the best approach to advancing work in relation to harnessing comparative advantages.
- The scope of the original request is extremely broad and the best approach would be to focus on one or two specific areas through which comparative advantages can be harnessed.
 - One specific piece of work that would be worthwhile conducting is to examine specific value adding opportunities in the supply chain and their applicability to FFA members.
 - The best use of the available resources is to support members in developing or implementing specific projects.

Summary:

5. The conclusions drawn by the Secretariat from the consultations, reviews and assessments undertaken are that:
- The scope of the directive is too broad and to undertake a single region wide study examining all its components would be very costly given the multi-disciplinary fields requiring diverse and specialised areas of expertise.
 - Studies have been conducted on many of these topics previously and the usefulness of conducting further regional studies on these types of issues is debatable.
 - That due to varying factors, including geography, demographics, utilities, cost structures and economies, a further regional study is unlikely to elicit new data which will benefit individual members.
 - That resources for this initiative be directed to supporting Members in a specific context, to develop opportunities relevant and partial to their unique national circumstance and needs.
 - A study looking at commercially viable value adding opportunities in the supply chain and their applicability to FFA members is recommended.