



STANDING COMMITTEE ON ECONOMIC AFFAIRS

Report on Pacific Fishing Company Ltd 2015 Annual Report



PARLIAMENT OF THE REPUBLIC OF FIJI
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Table of Contents

Chair's Foreword.....	3
Introduction.....	4
List of Recommendations.....	5
Gender Analysis.....	6
Conclusion	7

Chair's Foreword

Upon scrutiny of the PAFCO Annual Report of 2015 the Committee noted with interest that consistent and sufficient supply of tuna remains to be a challenge for PAFCO. Relevant stakeholders are encouraged to pursue all avenues to assist PAFCO with this issue, one possibility being membership options for Fiji in becoming a party to the 'Nauru Agreement' which currently controls the vast majority of available stock in the region. Another avenue would be to re-visit dialogue with our neighbour Kiribati, who are renowned for their fish stocks. Talks with Kiribati were initiated back in 2010 with the aim to benefit PAFCO and in return enable Kiribati to benefit from PAFCO's expertise.

Other challenges faced by PAFCO are wharf and port handling fees. The Committee urges PAFCO to enter into dialogue with relevant authorities to seek concessions in these areas given the socio-economic benefits provided by PAFCO to the people of Lomaiviti. Approximately one thousand people are employed by PAFCO depending on the season and catch supply, making them the largest sole employer in this area of Fiji.

The Committee was pleased to note that PAFCO has recently renewed its agreement with Bumble Bee Foods LLC (Bumble Bee) for a further ten years. This is a positive move for the future of PAFCO who rely heavily on its relationship with Bumble Bee and the Committee recommends that this relationship be nurtured.

I thank the Committee Members, Hon. Vijay Nath, Hon. Dr Brij Lal, Hon. Viliame Gavoka and Hon. Prem Singh who were present in the production of this Report and also the Parliamentary Staff who assisted.

On behalf of the Standing Committee on Economic Affairs, I commend this Report to Parliament.



HON. LORNA EDEN
CHAIRPERSON

Introduction

Pacific Fishing Company Limited (PAFCO) began its operations in the mid to late fifties¹ as a joint venture between the Fijian Government and Japan's Ministry of Trade and Commerce. It later incorporated into a private company and the Fijian Government acquired almost full ownership in 1987 from the Japanese company and now holds up to 99.58% of shares with the balance held by private shareholders. Currently the company has a chairperson and two (2) directors.

PAFCO has its main processing plant functioning in Levuka, Ovalau while its headquarters is located in Suva, Fiji. The company is primarily involved with loin processing which is exported to the USA and fish canning for local distribution as well as to their island neighbours. PAFCO carries out the loining of the albacore tuna for one specific customer, Bumble Bee Foods LLC (Bumble Bee), with whom they have had a relationship since 1998. Following the success of the initial loin processing agreement, it has since been extended twice, with the current extension having been renewed in 2017 for the next 10 years.

¹ PAFCO's website -<http://www.pafcofiji.com>

List of Recommendations

1. The Committee fully appreciates the importance of Bumble Bee to PAFCO. According to the Chairperson of PAFCO, *“historically, if Bumble Bee had not stepped in when it did, PAFCO would have died”*. The Committee applauds the renewal of the Bumble Bee / PAFCO agreement signed on 23rd October 2017 for a period of 10 years.

The Committee recommends that everything possible should be done by all the relevant ministries (Ministry of Public Enterprises, Ministry of Fisheries, Ministry of Industry and Trade, etc.) to ensure the two entities, Bumble Bee and PAFCO work in harmony for the viability of the facility in Levuka.

2. During deliberations with the PAFCO Chairperson the Committee noted that due to the poor structural state of the facility, cyclone cover had been withdrawn in 2017. PAFCO has since hired a contractor to carry out remedial work. The Committee recommends that this project be completed at the soonest so that the facility is fully insured and that general maintenance be carried out in a timely manner to ensure this is not repeated in the future. This will also give comfort to the line ministry for future grant disbursements.
3. The Committee notes that tuna harvest within Fiji’s Exclusive Economic Zone (EEZ) is limited to 12,000 tons per annum whereas the capacity at PAFCO is 35,000 tons. This means that there is a need to buy from outside of Fiji’s EEZ. The Committee recommends that all efforts are applied by the relevant ministries (Fisheries, Industry and Trade, Public Enterprises, etc.) such as by way of attractive incentives to secure increased consistent supply for PAFCO.
4. Further to securing increased consistent supply of fish stock, the Committee appreciates that the majority of stock is controlled by member countries to the ‘Nauru Agreement’ of which Fiji is not a party. The Committee recommends that membership options for Fiji be looked into as soon as possible.
5. The Committee notes that supply of electricity and water are limiting factors for PAFCO in relation to its future operational needs. The Committee recommends that these issues be prioritised as ‘top of the list’ for future development plans for Ovalau.
6. The Committee notes that port charges and handling fees in general are prohibitive especially in light of the fact that most fishing vessels have particular

needs that can only be catered for in Suva. Rather than paying to stop and offload in Levuka then paying again to stop in Suva, these vessels go directly to Suva only and PAFCO is then responsible to transport the catch back to Levuka which increases their cost of production significantly. The Committee recommends that special concessions be considered on these charges in light of PAFCO's socio-economic benefits to Lomaiviti (approx. 1,000 people from Ovalau and surrounding islands are employed by PAFCO).

7. The Committee noted that in 2010, PAFCO had been in dialogue with the Kiribati Government (renowned for its tuna stock) for a joint operation which would enable Kiribati to benefit from PAFCO's expertise, and in return benefitting PAFCO. The Committee recommends that dialogue be revived and all leverages considered to enable this partnership.
8. The Committee notes that the demand for skilled labour for PAFCO operations cannot always be met in Levuka, and one of the reasons could be the lack of suitable facilities for learning i.e. vocational colleges etc. The Committee recommends that such institutions be encouraged for Levuka, not only to train specialised people for PAFCO but to also provide essential technical training for the youth of Lomaiviti Province.
9. The Committee notes that there are three Board members providing the stewardship for the company. The Committee recommends that this number be increased consistent with the leadership structure in similar Boards.

Gender Analysis

Gender is a critical dimension to parliamentary scrutiny. Under Standing Order 110 (2) the Committee is required to ensure full consideration to the principle of gender equality so as to ensure all matters are considered with regard to the impact and benefit on both men and women equally.

The Committee also notes that there were more women prevalent amongst the staff of PAFCO.

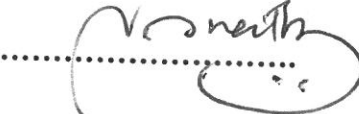
Conclusion

The potential for growth is hindered primarily by the limited supply of the albacore tuna and the Committee stresses that this issue be looked into by the participation of all stakeholders. Other issues such as the supply of utilities (water and electricity), and port charges and handling fees also need to be addressed with the various entities. The Committee believes that the future of PAFCO is promising if we are able to address the issues highlighted.

Hon. Lorna Eden (Chair)

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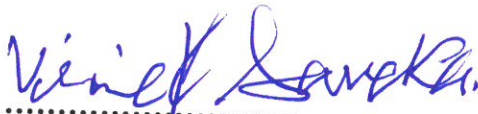

Hon. Vijay Nath (Deputy Chair)

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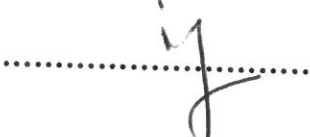
Hon. Brij Lal (Member)

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Hon. Viliame Gavoka (Member)

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Hon. Prem Singh (Member)

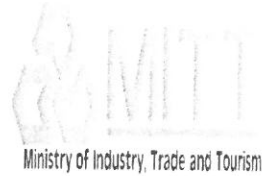
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APPENDICES



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07 December 2017

Honorable Lorna Eden
Chair Economic Affairs Standing Committee
Parliament of Fiji
Government Buildings
Suva

Dear Honorable Chair,

Ministry's Response to Questions Related to Pacific Islands Fishing Company Ltd Annual Report 2015

The Ministry of Industry, Trade and Tourism acknowledges the receipt of correspondence from Standing Committee on Economic Affairs dated 26 October 2017. We also take note of the Committees role in being allocated the task of looking into the Annual Report.

The Ministry has gone through the allocated questions and prepared response accordingly. Enclosed to this Memorandum is the response to the questions.

For any further clarification do contact either Ms. Deepika Singh or Ms Shinal Cynthia on phone 3305411 or email deepika.singh@govnet.gov.fj/ shinal.prasad@govnet.gov.fj.

Yours sincerely

Shaheen Ali
Permanent Secretary for Industry Trade and Tourism

Ministry of Industry, Trade and Tourism

- 1. Given that the USA is the sole market for Tuna Loins from Levuka, what opportunities are there to value add in Fiji and export canned products to the US?**

There is not many opportunities in the USA for tuna loins as the Tariff rate is 35%, hence it makes it incompetitive to export value added tuna to the USA.

However, the Government through the Interim Economic Partnership Agreement (IEPA) is exploring opportunities for tuna exports in the European Union (EU) market. The Government has submitted a formal notification for global sourcing for IEPA to the EU.

- 2. Is there a possibility of increasing trade with other island countries to enable Fiji to secure better supplies for PAFCO from their catch?**

Yes, there are opportunities, the Government's objectives are to develop and implement a coherent plan for the expansion of Fiji's fishing industry, based on the concept of a "win-win" scenario for both Fiji and neighboring states, benefiting the latter by allowing them to take advantage of Fiji's processing facilities and transport links.

The Ministry has Trade Commissions in Papua New Guinea (PNG) and in Australia and New Zealand, hence PAFCO can partner with the Trade Commissions to enhance further trade and expansion opportunities in the Oceania Pacific region.

- 3. For canned products at PAFCO are they allowed into the EU under the current EPA?**

Under the IEPA, canned products may EU market, provided they meet the Sanitary and Phytosanitary (SPS) requirements.

- 4. Are you aware of any future plans for an additonal cannery to be established outside Viti Levu?**

The Government is working towards securing global sourcing provisions in the rules of origin from cooked and canned fish to fresh, frozen and chilled fish with the EU. Once we have fully secured the EU market and other market, opportunities for establishing additional cannery would be feasible.



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File Ref: 34/1

Date: 02/11/2017

Honourable Lorna Eden

Chairperson

Economic Affairs Standing Committee

Parliament of Republic of Fiji

Dear Honourable Minister,

Greetings from the Ministry of Fisheries. Thank you for the invitation to present to the Committee in regards to the PAFCO 2015 Annual report.

Enclosed are the Ministry's answers to the questions we were forwarded which is the basis to our submission.

Respectfully submitted.

S.V. NAQALI

Permanent Secretary for Fisheries

Ministry of Fisheries – Questions and Answers

1. The Committee would like to have a brief of the suppliers who supply fish to PAFCO i.e. the point of origin, regularity of supply, seasonality, fishing grounds etc.

The “administration of the purchasing supply to PAFCO” needs to be understood before work can be done to address the issue of irregularity of supply amongst other things.

For one, the purchase of raw materials for PAFCO is done by FCF. This is the administration arm that secures and negotiates the purchase price from vessel owners on behalf of Bubble Bee. All arrangements by FCF and all value adding (semi process) done by PAFCO is sent out for to Bumble Bee for Export. This arrangement amounts to at least 80-90% of whole production.

Suppliers range from locally-based foreign fishing vessels to Fiji fishing vessels. There are various points of origin known as designated ports. Fiji's typical ports in relation to tuna landings include Levuka, Lautoka and Suva.

Additionally, it is important to understand that PAFCO only runs an Albacore (export) and Skip Jack (local) line. Vessels that come in for resupply PAFCO cannot be paying tax levy (\$450) on other species that are transhipped because they are not value added.

Levuka is also isolated, vessels find it hard to land in Levuka and then burn fuel to land other catch in Suva. This also hinders the whole process of landing.

2. How does the Ministry ensure that all these supplies are caught in the ambit of the law?

The Ministry employs various monitoring, control, and surveillance (MCS) – including enforcement- methods and tools. These are seen through the use of enforcement and authorised officers, observers, vessel monitoring systems, and stringent reporting mechanisms and requirements which together seek to ensure that vessel operators operate within the parameters set by national law as well as measures implemented through regional fisheries management organisations (RFMOs).

Additionally, there are mandatory requirements for all vessels to request for port entry. The request for entry will include vessel name, type, crew list and catch on board. This allows Fiji Fisheries to conduct background checks on all vessels before allowing them entry to enter Fiji waters and use Fiji port.

Lastly, boarding officers are stationed in all designated ports that conduct mandatory inspection documentation, gears and equipment prior to supervising catch that is landed.

The authority to do the above comes from, Offshore Fisheries Management Decree, 2012 and its Regulations (Offshore Fisheries Management Regulations 2014).

3. How many vessels flying the Fiji flag are there supplying PAFCO?

The figures vary from time to time but as many as 15 vessels operating in areas beyond national jurisdiction (ABNJ) – on the high seas and/or in other jurisdictional waters – land their catches to PAFCO. In 2016 only 5 Fiji flagged vessels landed its catch in PAFCO.

4. What are the criteria for the Ministry to allow foreign operators to fly the Fiji flag?

Foreign operators can only fly the Fiji flag through domestication of the company. This means complying with Fiji's investment criteria under FTIB (requirement of 30% local shares to allow for a locally registered company. This forms the basis for taxation and other annual mandatory requirement.

After investment requirements are met the company will then apply through the Department to register as an "Offshore Fishing Company" before applying to acquire a vessel to be flagged in Fiji.

The Ministry of Fisheries will conduct background checks to ensure that the vessel being purchased is free from IUU¹ before the Permanent Secretary for Fisheries endorses the authorisation of purchase whereby the flagging process is administered by the Maritime Safety Authority of Fiji (MSAF).

¹ Illegal, unregulated and unreported fishing.

5. It is believed that some foreign vessels flying the Fiji flag sell to Fiji only when they cannot find buyers elsewhere. What is the Ministry doing about this?

Foreign vessels do not fly the Fiji flag – they fly the flag of their Flag State. Foreign vessels may however be licensed to operate within Fiji. To date the only issues brought forward by industry is that local prices fall short of foreign market prices and so there is a preference to export rather than supply locally – a pure business decision. But the question itself may highlight a potential issue of 'last resort' with PAFCO being the tail of business options. This however, may need to be looked into further.

6. What is Fiji's total export and everything being equal what could be the potential?

Fiji's total exports are reported annually. For 2016, a quantity of around 31,873 metric tonnes of tuna was exported. The potential could be a number of things, one of which is (under ideal circumstances) that value-added exports have all value-additions done in Fiji. Although not everything can be equal, what is considered a base level from which to pursue various business and development undertakings would be to increase landings to Fiji ports coupled with increased capacity to process and add higher value to fish as compared to the status quo. The potential can stem from such circumstances. Fiji's total allowable catch is 12,000 tons and our licence cap is 60.

7. What would it take to motivate the other Small South Pacific Island Countries i.e. Tuvalu, Kiribati to sell their stock exclusively to Fiji?

To achieve this Fiji will have to provide these countries with incentives to match the current benefits these countries are getting. Fiji should offer them better opportunities that they could match against what they are currently facing.

The issue of 450 FJD levy is seen as a barrier due to many reasons (across all species), we could be flexible on this and only set of percentage of catch for value adding.

An important thing to note that vessels that Fish in SID's waters are opting to tranship in small ports rather than visiting Fiji due to levy and additional fees.

A first step may be to use existing regional or sub-regional arrangements, through diplomacy, or establish a new one, to set a mechanism that would allow for mutually beneficial fishery engagements at various levels including fish landings and processing. Services, prices, value addition, and stable market access are but some of the considerations that may need to be negotiated through bilateral or multilateral channels.

8. What is the regulatory framework in place for granting of fishing licences to local and foreign countries?

Offshore Fisheries Management Decree, 2012 and its Regulations (Offshore Fisheries Management Regulations 2014). Together, they provide that legal basis for the Ministry to have the principal function and authority for the conservation, management and development of the fisheries resources in fisheries waters, including the facilitation of licences to fishing vessels, and monitoring thereof.

Questions-PAFCO

1. On PAFCO's core business in five years as outlined in the CEO's report (CEO's report page 2) there is an expectation to can Bumblebee Foods in Fiji. How realistic is this to be achieved by year 2020 given trade issues etc.?

Bumble Bee used to have a canning operation at the plant whereby the Clover-Leaf brand of Tuna was fully processed at the facility in Levuka and exported to the market in Canada and US. This arrangement was terminated by Bumble Bee.

PAFCO has been in discussions with Bumble Bee to consider value adding at the facility. While PAFCO management continues to pursue options to enhance its revenue base, there are other low-cost operators such as those in Thailand that are able to provide canning services at a cheaper price and become preferred choice of value adding for companies in the Tuna business.

2. On page 3, unusual transaction, in the event of good in transit being lost is there any insurance cover?

All goods in transit are insured. Items lost in the Suilven Incident were all insured. PAFCO received full payment in 2016.

Breakdown of claims as follows:

Description	Amount (VIP)
Canned Tuna	\$379,238
Water Bluster	\$6,600
Hydraulic Cylinder	\$5,320
Empty Containers	\$40,000
Fish Oil	\$68,842

3. On page 9 of the report under non-current liabilities an item is listed as deferred income (4.8 million), could you explain?

Deferred income is explained on page 26 of the Financial Report. This is the balance of the grant from AUSAID after amortization over a period of time.

Total Grant Received	\$13,765,070
Less Amortization	\$9,006,718
Net Deferred Income	\$4,758,352

4. The make-up of the board is one chairperson and two directors. Is this sufficient for the proper leadership of the company?

Company will welcome new directors with appropriate experience and attitude.

5. On page 23, trade receivables, could you explain Punjas payment plans as they seem to have large amounts outstanding in the 90 plus days?

PAFCO had a total trade receivable of \$2,759,747 as at 31st December 2015. Out of this, Punja's had a balance of \$977,368 which was in **current status**. PAFCO's term with Punja's is to pay within 30-day period.

6. What type of insurance do you carry and are you fully protected for any eventuality? The Committee notes that PAFCO suffered a damage estimated cost of amounting to \$4.635M affecting the operations of the company yet on note 23 it is stated that the company is adequately insured for risk of losses. Please explain.

PAFCO Insurance covers as follows:

Material Damage and Business Interruption
Marine Cargo and Local Goods in Transit
General Products Liability
Workmen's Compensation
Directors and Officers Liability
Fire and Perils
Motor Vehicle
Personal Accident
Medical
Travel

Note:

Cyclone insurance cover has been discontinued from 2017 and after the effects of TC Winston. PAFCO buildings do not have cyclone certificates.

The Insurance company provided a lump sum cyclone cover for the buildings which was withdrawn in 2017.

PAFCO is now in the process of appointing a contractor to carry out required structural works before cyclone certificates can be obtained.

An estimated \$4.635M was incurred during the cyclone Winston. Urgent repair works were carried out in a period of 8 weeks and production resumed immediately after these repairs. The building, equipment, stock and losses in gross profit were all covered by insurance.

PAFCO has submitted a total claim of \$9.04M of which \$2.70M has been paid. The balance of the claim is pending. There have been continuing discussions with the broker. However, the claim is yet to be concluded.

7. Please explain the nature of relationship you have with Bumblebee. What are your binding constraints (if any) under this contract with Bumble Bee.

Bumble Bee is PAFCO's major customer. PAFCO does Loin Processing operations for Bumble Bee under a contractual agreement. Bumble Bee has a Tuna supplier (FCF of Taiwan) based in Suva. FCF procure and send the Tuna to PAFCO where we process the Tuna into Loins. The Loins are then shipped by Bumble Bee to their plant in Santa Fe Springs in the US for further processing and canning.

Constraints

1. Contracted volume less than the factory's capacity
2. Albacore Loin processing restricted to Bumble Bee only, PAFCO cannot process Albacore loins for other customers
3. Inconsistent supply of Tuna
4. Changes in food safety, quality and customer audits adding to the cost of operations

8. How do you see PAFCO increasing its revenue base?

The plant is designed to operate at a capacity of 28-30,000MT Tuna annually. The current processing is around 20-22,000MT Tuna only. The major constraint is the supply of Tuna. Bumble Bee only processes Albacore Tuna.

PAFCO has over the last few years, focused on improving the canning operations and has been purchasing and stocking Tuna for its own use when available. Supplies of flakes and whole round Tuna have also been sourced from neighboring countries to be used in the canning operations.

In order to further increase its revenue base, the company has to secure more fish for its own use. The company is considering acquiring some fishing licenses and chartering fishing vessels to improve the supply to PAFCO.

9. **Also on the core business in 5 years, fish oil extraction will continue but is there possibility of refining this in Fiji through value adding?**

The volume of fish oil produced is too small and it will not be economically viable to invest in further processing.

10. **The CEO's report also highlights that loin processing is labor intensive, are we comfortable that the supply of labor will continue to be available?**

Unskilled workforce is generally available on the Island and the company does not see this a major issue. However, if the urban drift continues, labor may become an issue.

11. **The CEO highlights that its growth will be capital based with substantial investments of its infrastructure, plants and equipment i.e. the operation is technically intensive. Going forward, how are we training our people in Levuka and Lomaiviti to be skilled in the highly specialized areas relating to plant and machinery?**

PAFCO has invested in the Apprenticeship and Graduate Trainee programs in order to enhance its skill base. There are 8 apprentices in various trade disciplines and all of them have been recruited from villages around Ovalau and neighboring Islands. There are 6 graduate trainees in areas of quality control and operations management.

12. **PAFCO is a relatively large organization by Fijian standards and employs around 1200 people (70% of whom are women). What are the regulatory risk compliance?**

There are no compliance issues.

13. **On capacity based growth, the CEO highlights that we are not able to meet local demands for Tuna because of unavailability of suppliers. Now with the commissioning of the 4000MT refrigeration plants; will this enable the company to meet local demand?**

PAFCO is the major local supplier canned Tuna in Fiji. There is one other local canned tuna supplier and other small imported brands. The new cold storage facility will enable the company to buy and stock raw material when available. However, PAFCO's canned Tuna production is largely dependent on the flakes from the loining operations. The highest demand is for the Sunbell Red brand— this product is directly dependent on the loin operations.

14. Can the Committee be told about the reasons given by the Ports Authority for the port charges?

No reasons were given to us, we believe it was a commercial decision.

15. On page 31, despite a loss on disposal of fixed assets, PAFCO still managed to produce a profit of more than \$1.3m over 2014, could you please explain how this was achieved?

The level of profit depends on the production. In 2015, 20,405 MT Tuna was processed for loining compared to 19,501 MT in 2014.

16. On the issues regarding fresh water, what other options are available to the company to fully meet its need for the supply of water as opposed to relying on the public source?

Desalination plant is an option but this has so far not been seriously considered. The plant itself will have capital and operational cost.

17. Are there any other challenges that you wish to share with the Committee?

1. Tuna supply
2. Direct export of Tuna from ports in Suva , no value adding
3. High cost of operating on a remote island
4. Water supply – an issue during long periods of drought.
5. Cost of fuel – PAFCO has to import direct from Suva
6. Unrealistic port charges, in spite of no berthing facilities in the Government wharf. PAFCO unloads in its own ramp or wharf. Pilot charges are quite high compared to the same services in ports on the main land.
7. Lack of public transport
8. Cost of freight of empty containers Levuka/Suva
9. Duty on equipment considered by FRCS not to be processing equipment.

18. We note that a 10 year agreement is being negotiated with Bumblebee (effective from March, 2017), are there any impediments that could impact on the agreement?

The agreement was signed on the 23rd October, 2017 after it had been vetted by the Solicitor Generals Office.