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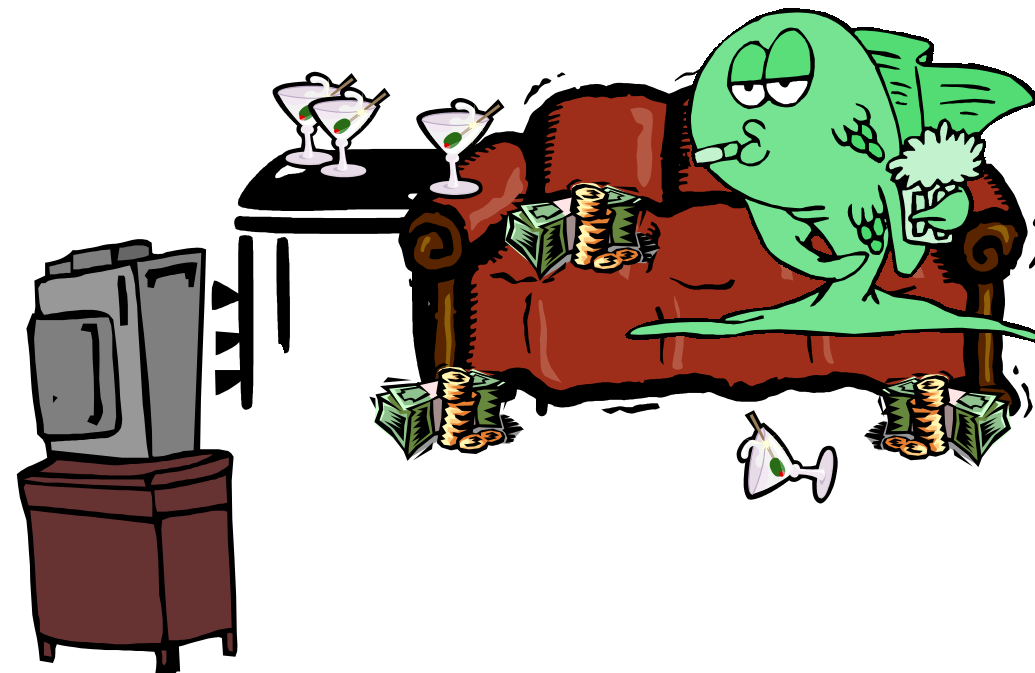
February 15, 2002

Issue 40

# SPOILED TUNA:

## "Foreign Ships in Micronesia"

A revised version of "Foreign Ships in Micronesia" is now available online. First published in 1978, this book lists all known visits of ships to the Carolines and Marshalls up to 1885. References are cited and an extensive bibliography appears at the end. Written by Fran Hezel, this book was the foundation of later historical works by the author. Visit our web site [www.micsem.org](http://www.micsem.org) to find out the names of the captains of the ships, hailing ports, purposes of the voyages and what significant events happened during each visit.



## A Fishing Industry Gone Bad

by **Matthew Jacobs**



## Introduction

There is no doubt that tuna and the FSM have a strong relationship. Traditionally tuna has been one of the primary sources of food and will most likely continue to be well into the future. Many Micronesians know how to fish. Their knowledge comes from a long line of forefathers who sought the tuna in the sea to feed their families, and to support their subsistence economy. As a cash economy became more widespread, tuna was useful because it was an easily tradable commodity. A Micronesian could catch tuna, get it to an available market, and immediately see the rewards of his time on the sea.

As the FSM gained independence and looked for ways to develop its economy, tuna took on a renewed importance. Tuna was no longer only looked upon to provide for a family, but to provide for a nation; the market was no longer down the road, but rather hundreds of miles away; the fishermen no longer fished for a day, but rather weeks or months at a time. The late 1980's were a time when the U.S. dollar was coming down from its inflated highs, foreign fleets roamed the FSM seas in search of bountiful tuna supplies, and Japan was an economic powerhouse. In other words, the timing was perfect for the FSM to start the export of fresh tuna to a lucrative Japanese market.

When the FSM first created the 200-mile fishery zone (Exclusive Economic Zone, or EEZ) in 1979 to affirm some degree of financial independence during the Compact negotiations, the nation's leaders had no thoughts of establishing a domestic fishing industry at the time. Their interest was in obtaining revenue from other nations fishing within FSM waters. Since the creation of the EEZ, foreign owned fishing fleets have paid a total of \$170 million in fishing access fees, the permits needed to fish in FSM waters. In 1999 alone, tuna fishing access fees and other fishing related licenses sold to foreign vessels fishing in the FSM accounted for \$16.7 million, or 22% of the total national government revenue<sup>1</sup>.

<sup>1</sup>Robert Gillett, "Tuna Underwrites FSM Economy," *Pacific Magazine*, April 2001, 22.



amended, this would take years and millions of dollars that the FSM economy can no longer afford.

The FSM is not the only nation facing this problem, as experience in the broader Pacific illustrates. Nonetheless with little industry, opportunity for employment, and the desperate need for economic growth, FSM understandably regarded the fishing industry as the most logical choice for investment. Yet, past experience has proven that this choice was more difficult than many thought possible. Although there are many hard choices to make concerning the publicly owned fishing industry it is clear that the government should distance itself from making those choices. The fishing industry is difficult enough without adding political and bureaucratic barriers. For this reason the FSM decided in 1996, to move toward letting the private sector run the fishing industry.

In the eyes of some leaders, the decision to remove the fishing industry from under the control of the government was a sign of failure. Politicians saw the move toward privatization as a mark of surrender, something like leaving a boat untethered in a storm. This may be the reason why no publicly owned fishing company has ever been sold, transferred, or divested to the private sector and seen as a good deal. But, with the governments scrambling for more money and the pot of investment money constantly shrinking, the need to invest more wisely becomes more apparent with each dip in the pot.

Simply put the FSM does not have the money to keep bailing out its failing fishing companies with "government money", yet with no solutions in sight, massive operating losses, and the Compact tap slowly closing, something must be done soon.

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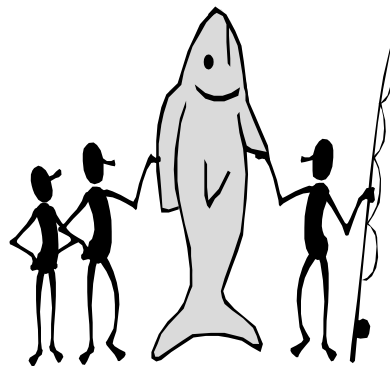


Other ways the publicly owned sector fishing companies hurt the FSM is:

- In 1999 Yap Fresh Tuna needed a larger loan from the FSM Development Bank to pay off an existing loan from YCA, a private company, and to pay off a private contractor that was never compensated for his work.
- Kosrae Sea Ventures and NFC have several law suits filed against them due to environmental damage done when two of their ships, on separate occasions, ran aground on Pohnpei's reef.
- As an example of mismanagement of public funds the U.S. pointed to the publicly owned fishing companies, thus hurting the FSM's position in re-negotiation.
- Loan money used to pay for the failing fisheries is taken away from the private sector companies that can effectively use low interest loans.
- Valuable real estate (usually dockside) is under-utilized.

### *Where to Go from Here*

**A**lthough the publicly funded fishing industry was created for political as well as economic purposes, it has not lived up to expectations in those areas. Management and politicians still have hopes that the fishing industry can be turned around, but with all the legislation, loan approvals, and political and legal agreements that must be created or



For several years Micronesians saw foreign fishing companies spending millions on fishing fees and licenses and still turning a profit. Finally, with the implementation of the Compact of Free Association and the attainment of full independence, the Micronesian people judged that the time had come to venture out into the fishing industry.

### *The Rise of the Fishing Industry*

**I**n the early 1990's the FSM and state governments were riding high, with the largest annual assistance of Compact funds at their disposal. Many government officials, aware of the potential of deep-sea fishing, erected large storage and warehouse facilities to accommodate the boom of the fishing industry. Each of the four states of the FSM had its own transshipment center that was created to support, supply, and refuel the foreign and domestic fishing fleets. Both the states and national governments purchased boats from eager sellers and created fishing ventures to cash in on the seemingly endless supply of tuna.



Between 1993 and 1998 the FSM has invested roughly \$56 million in the fishing industry. Slightly more than half of these investments are loans and stock equity facilitated or bought by the governments of the FSM<sup>2</sup>. The other half is subsidies and investments in fixed assets (building, vessels, etc.). For the years 1993 to 1998, the price tag of the attempts to start a public fishing industry amounted to nearly half of all the money brought in by fishing fees. This investment can also be expressed as \$70 per person per year in the FSM.

<sup>2</sup>All financial information was taken from state and national public audits, which are available to the public. Since these are publicly owned enterprises, citizens may request to review these audits.



Between 1993 and 1995 the public sector fishing industry peaked, employing more than 350 Micronesians full-time. It seemed as if all the investments were beginning to pay off. After 1995 however, the bottom fell out. In 1995 Ting Hong, a Taiwanese corporation, the largest fishing fleet in the FSM with almost 350 vessels in operation and the main provider for transshipment, left the FSM. Some of the reasons for Ting Hong's departure were: the inability of the company to secure land on which to build permanent structures; the heavy fines and fees imposed on the company; and direct competition by the FSM Government against the company. After Ting Hong left, FSM exports from 1995 to 1996 dropped from \$44.3 million to \$14.5 million, a drop of more than 67%.

After Ting Hong's departure other fishing vessels still porting in the FSM encountered still other difficulties. In 1997 the fishing industry received another blow as the Asian markets collapsed, bringing with them the economy of Japan, the main sashimi market. When the yen, once strong against the dollar, fell, making exported fish from the FSM still more expensive, exports dropped once again from \$14.5 million to \$8 million<sup>3</sup>. Some Japanese fleets went completely under. Most of the surviving foreign fleets were forced to leave the FSM due to the high costs and low quality of the on shore facilities owned and managed by the FSM governments. Taiwanese long liners left for other ports, Palau and the Philippines, which had cheaper airfreight and better services. With the high costs of air freighting tuna, the FSM has been at a competitive disadvantage with other areas in the Pacific.

Currently, the size of the foreign fleets that port in the FSM are a fraction of what they used to be. The domestic fleet, the boats owned by the FSM, that ports in the FSM consists of only 24 long-line ships and three purse seining ships, all of which account for less than 10% of the total catch in FSM waters<sup>4</sup>.

<sup>3</sup>1999 Statistical Yearbook. FSM Department of Statistics, 61.

<sup>4</sup>1999 Micronesian Maritime Authority Annual Report



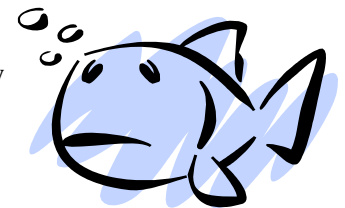
have it overturned by the board on political merits alone. In essence, then, there are sometimes three or four managers to a company: the general manager hired to run the business, the board of directors (many of whom have never worked for a successful fishing company), the National Fisheries Corporation Board (in the case of a national/state joint-venture between a state and national government) and the state legislature or governor, who appoints and removes the board members.

### *How It Affects Us All*

Currently, the Pohnpei Fishing Corporation (PFC), which employs 33 people (down from 80 in 1994) has never made a dime, shows a cumulative operating loss of \$8 million over the past few years, and owes approximately \$700,000 to Pohnpei Utility Corporation (PUC). In short, each employee costs more than \$21,000 of debt to PUC alone. Rather than shut the plant down, the Pohnpei State Government adamantly refuses to let PUC shut PFC's power off. This caused PUC to find the lost revenue elsewhere, namely by raising rates and enforcing bill collections of average households.

If private companies were to carry these massive amounts of debt with no way of repaying them, they would be out of business. Due to the fact that the publicly owned companies are managed by the state and national governments, these companies are not shut down but continue to run on "government money".

"Government money" is often interpreted as someone else's money, but in actuality the money is the owned by the citizens of the FSM. Instead of paying for schools, road repairs, better equipment for the hospital, or a raise in a teacher's salary it is used to pay for the failing public sector fishing companies, which contribute only an estimated 2.4% to the economy. This is only one cost to the public that the fishing industry creates.

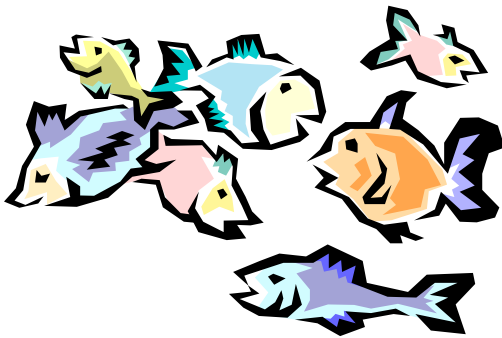




The current low market price of the tuna sold is also a negative factor. This usually affects the purse seining fishing boats that, unlike the long-liners who sell in an auction, must sell their catch to canneries at world market prices. In the past year the price of fish caught by purse seining vessels was at a 34-year low<sup>6</sup>. Many fleet managers who find themselves operating under these pricing conditions choose not to fish. There are two main reasons for this decision: the more fish supplied the lower the price, and the cost of a working vessel is much greater than a vessel docked. This means that for each fish caught purse seiners are actually losing money.

Micronesians must also face the difficulties of operating large companies in an industry that has many competitors. Micronesians who believe they are the only ones who know how to fish soon realize that they not only do not understand the fishing industry but that they are being out-fished by foreign vessels. Many foreign fleets have state of the art equipment, years of professional fishing experience, solid management, and intricate knowledge of the fishing industry.

Another reason that the public fishing industry struggles so much is that the management structure of a public sector fishing company is far more complicated than that of a private company. A private company normally has a manager and board that have only one concern, the value of the company. A publicly owned company, however, has several parties with different and sometimes conflicting concerns. A manager may make a decision based on good business sense, for instance, only to



<sup>6</sup>Fili Sagapoluele, "Pago Fishermen Suffer Through Price Drought," *Pacific Magazine*, April 2001, 20.



## *Elements in the Local Fishing Industry*

**T**oday the FSM is involved in four activities that make up the fishing industry:

**Purse Seining:** This method of fishing involves catching surface schooling fish such as skipjack, mackerel, sardines, horse mackerel, and tuna with the use of nets. These ships are often out at sea for months at a time filling their hulls with fish, and the fish caught are often unloaded into a cannery. FSM companies that are involved in purse seining include; Caroline Fishing Corporation (Pohnpei), the Diving Seagull (Yap), and, *Nien Feioch*, owned by Chuuk State.

In the past both Chuuk and Yap states entered joint ventures with foreign based fishing operations only to learn difficult lessons. Yap had one joint venture company, Yap Fishing Corporation, which is insolvent. Chuuk State made a deal with West Pacific Partnership Limited (West Pac), an American company. The venture has not made money and one ship sank, causing a legal battle between Chuuk and its venture partner.

In 1992 the purse seining market also dropped due to the opening of the Indian Ocean fisheries. The new supply of fish caused a flood of tuna to enter the market bringing about a drop in the price of tuna worldwide. This, coupled with the advances in new technology, allowed ships to catch more thereby driving the price down further. The older FSM purse seining ships, with already high costs, have not fared well in the new market climate.

**Long-line Fishing:** This method involves using long fishing lines with hooks, lures and bait. The fish often caught are used for fresh sashimi in the Japanese market. These ships often port after only one to three weeks at sea and require a place to transship their catch. Micronesian Long-line Fishing Corporation, Kosrae Sea Ventures Industries, Yap Fishing Authority, and National Fishing Corporation conduct this type of fishing.

**On Shore Facilities and Processing:** This does not involve catching



fish but instead revolves around stevedoring, supplying, maintaining, and handling the fishing boats and their cargo of fresh fish. These facilities only cater to long-line fishing since they frequently need to port. The on-shore facilities (usually including a dock-side warehouse, ice machines, and a freezer) include Chuuk Fresh Tuna, Yap Fresh Tuna, Pohnpei Economic Development Authority, and Pacific Tuna Ventures Inc.

There is only one processing plant in the FSM, Pohnpei Fishing Corporation, which uses non-export grade sashimi for the frozen tuna loins market in the U.S. This company has never made a profit.

**Transshipment:** This activity does not involve fishing directly but rather the carrying of fresh tuna to the Japanese market by jet airplane. The National Fishing Corporation (NFC), a publicly owned company, provides this service with the help of heavy subsidies from the Japanese government. The NFC, however, is not the only provider of these services. Leuenthai, a transshipment and sashimi broker, also provides this service to many of the Chinese vessels porting in the FSM.

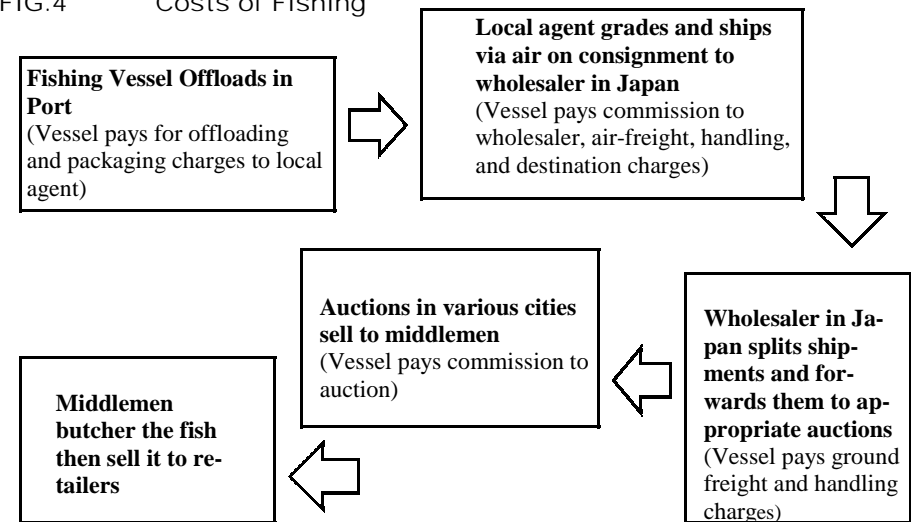
Major transshipment points coincide with the on-shore facilities in operation in the FSM. All of the fish transshipped from the FSM goes to Guam where it is removed from the plane, remains on the ground, and then is placed on another plane to Japan. It is good to remember that the poorer the handling of the fish and the longer the trip to market, the less the vessels receive for their catch. The trip from the FSM to Guam is an extra leg for some fishermen and therefore an extra cost.

### *Downturns in the Fishing Industry*

**W**ith new advances in fishing technology and a more competitive market, the fishing industry has changed throughout the world. In 1999 Japanese fleets reduced their high seas long liners by 20%, representing 165 vessels permanently taken out of operation. The Korean purse seining fleet dropped from



FIG.4 Costs of Fishing



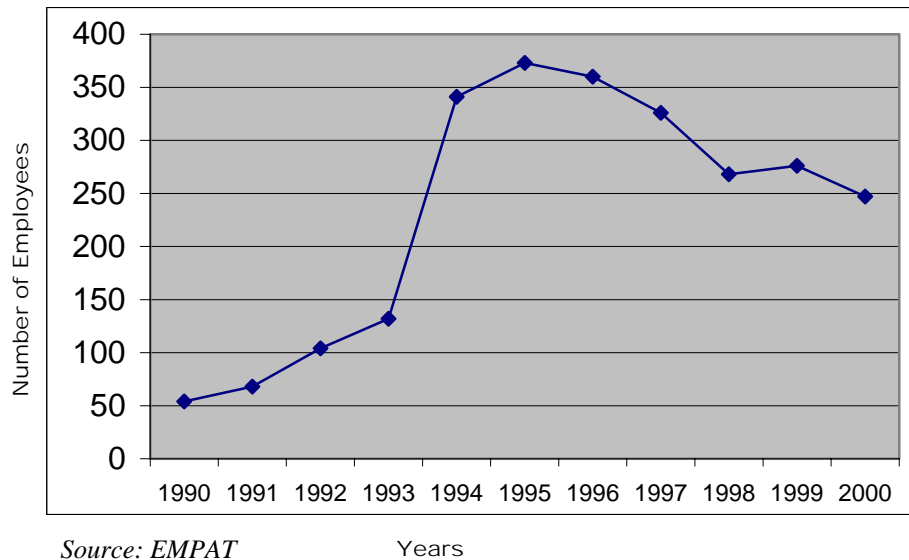
Many long-line fishing companies have a small margin for profit (the difference between the cost of catching and selling the fish compared to the money actually made on the fish). This means every fishing vessel must pay several costs before actually seeing a small return on each fish (see FIG.4). The higher each of these costs, the lower the profits that the vessels and, in turn, the company owning the vessels will realize. Even the most well financed and experienced fishing companies still take big financial risks to make a profit.

But these costs also hurt another part of the FSM's fishing industry, the on-shore facilities. These facilities must be able to compete with the other ports in the area. Some key things long-line fishing fleets look for is good quality handling of fish, low costs of supplies and provisions, reliable transshipment to Japan, close proximity to the "hot" fishing spots, and low cost fuel. Many of the FSM ports lack these factors so ships would rather port in Guam or any other port besides the FSM. This ultimately creates fishing transshipment facilities that are under utilized and stagnant while waiting for customers that may never come.



employment is set against its cost of investment and historical operating costs, the current price for each employee of the FSM public fishing industry comes to about \$300,000.

FIG.3 Total Employment in the Public Sector



### Why the Losses

A question asked often by many Micronesians in regard to the fishing industry is this: Micronesians know how to fish. The FSM has fish. Why then, does the FSM lose so much in its fishing investments?"

Unlike the old family fishing businesses in which someone would get into the family's small boat and catch the fish, then walk it to market, large fishing companies must pay the high costs of supplies, fuel, port fees, and transshipment in order to get it to market.

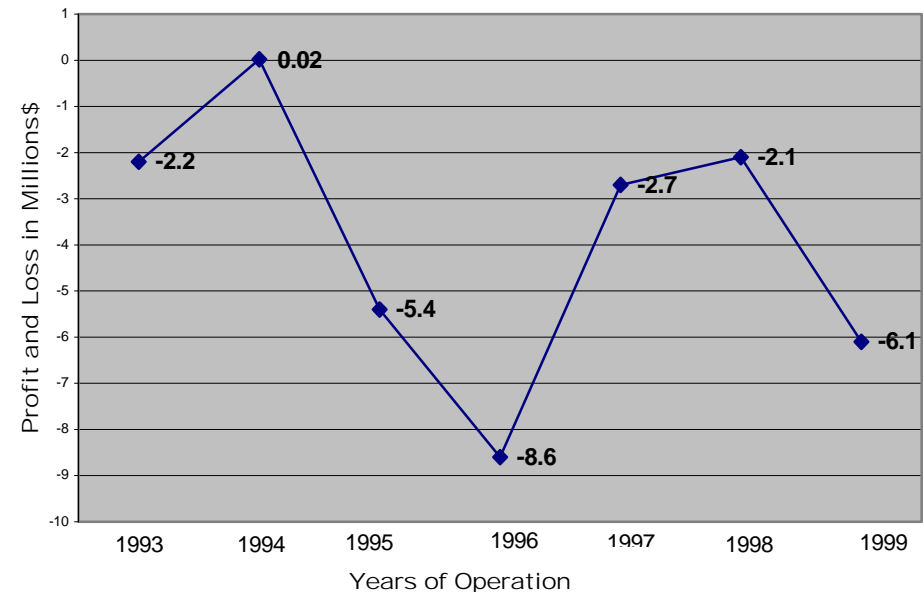


almost 40 vessels to 23 vessels. The U.S. purse seining fleet has lost 19 vessels during the last two years.

These trends confirm what many who have studied the subject already know: that the modern fishing industry is not a painless business. For those who decide to fish for a living on such a large scale, sacrificing time and money is the easy part. The high amount of personal risks involved in fishing, as always, span from vessels sinking to the death of a crew member on the job. Fishing is by no means the easiest way to make a living, but it can be financially rewarding if operations are well managed.

Micronesia is no different from the rest of the world when it comes to fishing commercially. FSM's investments, planning, and management of the fishing industries have shown a cumulative loss amounting to \$21 million from 1993 to 1998. The graph below shows revenues minus operating expenses, plus or minus other non-operating costs or incomes.

FIG.1 Profit and Loss in FSM Fisheries







If these losses are added to the original investment, the money spent on the public fishing industry during the 1990's reaches a total of \$77 million, an average of \$12.8 million a year, or over \$120 per FSM citizen per year<sup>5</sup>.

### *How Bad Are the Losses*

The largest problem of the public fishing industry is the loss of working capital. Working capital is the difference between the current assets (cash, accounts receivable, anything that can be turned into cash within a year) and currently liabilities (accounts payable, accrued wages payable, anything that needs to be paid within a year). This makes working capital the life-blood of any company. In other words a company that has more payables than the money to pay for those payables is failing.

The table on the next page (FIG.2) shows the amount of working capital each publicly owned fishing company possesses. The greater the amount of working capital the greater the chance the company will be able to pay off its debt, expand, make money, and keep from going into receivership. As the table shows, the picture is not good. Many of the companies' working capital is negative, meaning they owe more than they can possibly pay. In 1998, for instance, the publicly owned fishing companies combined owed an estimated \$4.1 million in payable accounts.

This reinforces something that many private business owners in the FSM know all too well: do not extend credit to any government agency or entity because they may never pay it back. These payables are just that; credit or promises of payment that may never be met. The costs are usually passed on to the consumer because the business must recoup its losses through higher prices for paying customers.

Although the publicly owned fishing industry is still touted as

<sup>5</sup>Using a population of 105,000 FSM citizens



the breadwinner in Micronesia, the truth is that it has fizzled. The fact that wages and employment in the fishing industry have slowly dwindled reflects the inability to keep its promise of "sustained" employment. Those jobs that have been created can no longer be paid for due to constant operating losses.

FIG.2 Working Capital of Fishing Companies (in millions \$)

Company	Base	1994	1994	1995	1996	1997	1998
Chuuk Fresh Tuna Inc.	CHK	0	- 0.61	-0.26	-0.83	-0.95	-1.03
Kosrae Sea Ventures Ind.	KSR	0	0.63	0.05	-0.20	0.02	-0.47
Yap Fresh Tuna	YAP	0	0.17	-0.81	-1.23	-2.13	-2.57
National Fishing Corp.	PNI	- 1.41	-4.49	-7.07	-7.91	-5.14	-1.42
Yap Fishing Authority	YAP	1.17	0.56	0.19	0.26	0.15	0.15
Pohnpei Fisheries Corp. <sup>1</sup>	PNI	0.72	-1.13	-2.21	-0.54	-1.89	NA
Pacific Tuna Ventures Ind. <sup>2</sup>	KSR	0	0.11	0.25	0.32	NA	NA
Micronesian Long Line Fishing <sup>3</sup>	PNI	NA	NA	NA	0.06	0.07	-0.02
Carolines Fisheries Corp. <sup>4</sup>	PNI	NA	NA	NA	NA	NA	1.24
Yap Diving Seagull <sup>5</sup>	YAP	NA	NA	NA	NA	NA	1.27
Yap Fishing Corporation <sup>6</sup>	YAP	NA	NA	NA	NA	NA	NA

<sup>1</sup>Pohnpei Fisheries Corporation did not complete a 1998 Public Audit

<sup>2</sup>Entered into Receivership 1997 (Receivership appoints a receiver or receiver/manager who will take, or has taken possession of all of: the inventory, the accounts receivable, or the other property of an insolvent company pursuant to a security agreement or an order of the court.)

<sup>3</sup>Started Operation in 1996

<sup>4</sup>Entered into Receivership in 1997, then given to Pohnpei State

<sup>5</sup>Started Operation in 1998

<sup>6</sup>Entered into Receivership 1994

The chart on the following page (FIG.3) shows a sharp incline in 1994, when many of the fishing companies began operations, followed by a slow decline in employment as the companies ran into financial problems. If the public sector's