

# PNGTUNA INDUSTRY CONSULTATION

## Holistic Tuna Fisheries Development – how do we do it?

### Rebate Scheme

By: Rodney Kirarock, 23<sup>rd</sup> Feb 2022

# Outline

- 1 what are rebates?
- 2 why rebates in PNG tuna industry?
- 3 impacts: Effectiveness and efficiency
  - 4 sustainability
  - 5 way forward

# 1 what are rebates?

- **Supply side policy intervention by Government**
  - Essentially a production “subsidy”
- **Goals**
  - to positively affect production side of the economy – influences capacity to produce with long term goals of economic growth
- **Economic Growth in the long run**
  - Jobs, taxes, efficiency gains, improved BOP/Trade, social well being
  - Short run gains (macro social indicators) not visible
- Production depends on private enterprise

## 2 why rebates in tuna industry?

### Before Rebates 2015 Review

- Significant leakages
  - High volume of whole round tuna exports
  - Low production throughput, ~65,000mt pa on ave OR 23% of catch (2015)
- Linking boats to processing facilities/VDS to production output
  - High licenses (more days sold), BUT low landing& production
  - State Agreement used as “front” for access
- Loss of revenue through VDS discounts (1:3:5)
  - Loss of revenue compared to benchmark PNA price - \$133 million & GDP K462 mill (est. 2015)
  - Failure to sell days (ENSO)
- High costs of business
  - Cost of utilities, - labour, freight, power, water, fuel -> high COG manufacturing
  - Bureaucratic red taps – Labour & Immigrations, NMSA
  - Offset the cost differential in PNG , Philippines & Thailand ~\$500,\$230, \$270, est. 2015
- All above are interlinked

# 3 impacts: effectiveness & efficiency

## Effectiveness (key benchmark indicators)

- **Production**
  - 2017: 85,000 mt | 2020: 111,000 mt
- **Exports**
  - 2017: 135,000mt | 2020: 220,000 mt
  - Still significant export of WRT (~70% in 2020)
- **Revenue**
  - 2017: K317m | 2020: K508 m
- **Unintended consequences**
  - Positives: visibility into plant operations (production)
  - Negatives: institutional deficiencies (VDS, Licensing, FIMS, Accounts); utilities costs (masked)
- **Trickle down effects** – pending study
- **Overall:** positive impact on indicators BUT still high volume of WRT is a concern

# 3 impacts: effectiveness & efficiency

## Efficiency (production/operational)

- **Production**
  - increased, probably now saturated
  - **some** plants underperforming per design capacity, current prodn per day below ave.
- **Productivity/yields (labour, waste, machine/technology)**
  - Industry data needed
  - Probably NOT in some areas
- **Underlying structural issues remain – affecting efficiency**
  - High cost of business still remain, affecting COG manufacturing
  - Rebates “mask” the realities – high utility costs, high overheads (fuel, power, freight, water)
- **COVID-19**
  - Some negative impacts initially – short downs, labour force
  - Companies responded swiftly with containment measures
  - Supply & Demand: supply-side issues & increased global demand

# 4 sustainability

## Short run policy intervention

- **Economically & Politically** - not sustainable in the long run
- not meant to be a LR intervention – designed to increase prodn
- ave. cost K9.5-10 mill per month

## Lifespan

- Initially for 6 years, 3 year review done; Need 6 year review NOW
- Initial rate set 130% (\$400/mt); **current rate \$308/mt**

## 2019 Review (3 yr review)

- Positive impacts on benchmark indicators
- Costs of rebate highlighted as an issue
- Recommendation –
  - reduce **rate to \$250/mt**
  - phase out rebate overtime
  - Investigate Options increase sales (VDS) and revenue
  - Review & strengthen State Agreements

## 4 sustainability

Period	Rebates \$	Prodn (mt)
B'line: '18-19	400	107,000
P1 '20-21	308	107,000
P2 22-23	250	120,000
P3 20-25	180	140,000
P4* '26-'28	150	170,000

- VDS Options (VDS Options WG)
  - Finding a win-win for industry & Govt
  - Hybrid approach preferred as PACKAGED APPROACH
  - Key Feature: Linking production & access (VDS)
    - discounts offered @\$6000/day Domestic & \$9000 LBF vessels
    - NFA still make \$360-400 million (estimates)
    - But CONDITIONAL – production targets set (MOU/MOA)
    - WRT levy
    - Proposed phasing-out schedule (P1 – P4)
- NFA/Govt has come good?? Industry??
  - Production?? Exports??
  - Some companies doing well
  - Days concessional rates \$6000 (domestic) & \$9000 (LBF)



# 5 way forward

## Short run (Direct NFA influence)

1. Implement 6 year review ASAP, with **Industry** and team of experts
2. Phase out rebate – political & economic impacts; can not have rebates & discounts
3. Institutional aspects of the scheme (strengthen)
  - Data collection;
  - Systems & processes (M&E, Compliance, etc)
4. **Industry Relationship – invest in trust bank**
5. **Responsiveness to Industry dynamics –**
  - predictable policies, yet responsive to a dynamic industry
  - Status quo NOT the same as in 2015
  - NEC Decision can be reviewed and adjusted

# 5 way forward

Medium – long term (NFA+ influence)

## 1. Review & strengthen State Agreements

- Downstream processing function with DCI (MOU)
- **Link or delink** production & access (licenses + VDS)
- Modernise St. Agmt

## 2. Address underlying structural challenges through strategic approaches

- Partnerships – SOEs
- Infrastructure Funds (JV with private investment)
- Superfunds?

## 3. Realizing FSP aspirations

- Conventional vs innovative Strategies/Approaches
  - **Investments through equity, shares, capital markets**
  - **Endowment/Capitalisation Funds – future proofing govt revenue**
  - **VDS Capitalisation: multi-zone days**

# 5 way forward

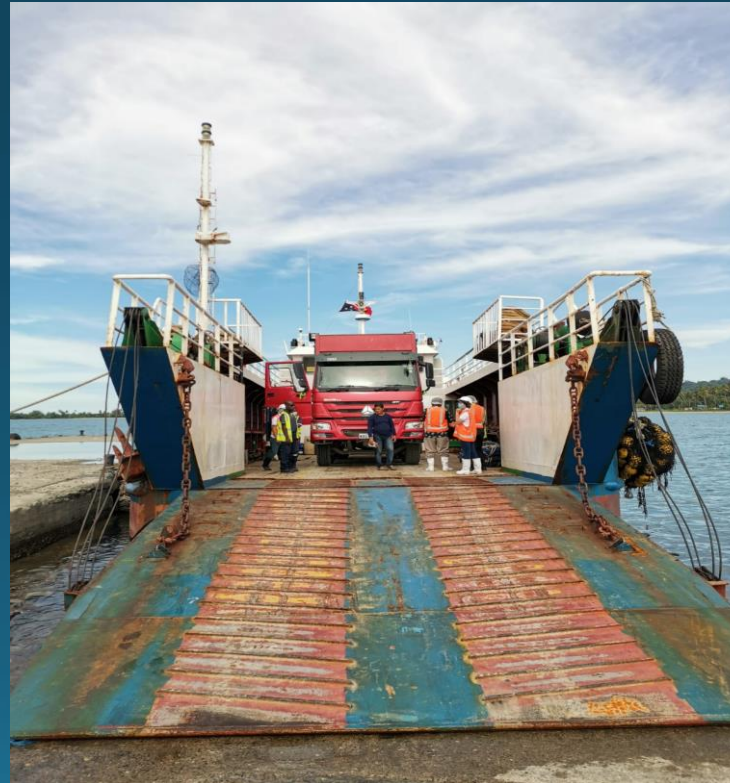
## Long- run (Out of NFA influence)

1. Economic clusters/growth centres – economies of scale (PMIZ??)/Spokes w/out hubs
2. Address underlying structural issues – whole of Government approach
  - Power & Water
  - Wharf/berthing/stevedoring

### Biggest obstacle - Wharf



- The Wharf is connected to the shore by a 500-meter long causeway.
- The wharf capacity is designed to berth a vessel with maximum 73 meter of length and 12.1 meter of width.



**Together We Can**

**Em tasol!**