PACKAGING TUNA PROJECTS

by

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At its inaugural meeting in Pago Pago in 1981, the Pacific islands Development Program was directed by the Standing Committee of the Pacific Islands Conference to evaluate the potential beneficial role of multinational corporations in the Pacific islands region. In 1984, the Standing Committee again addressed the question of multinational corporations and approved this study to be undertaken on a sectoral basis, with the tuna industry being the first sector to be examined.

The tuna industry was selected as the first sector for investigation by the Standing Committee because the tuna fishery and industry in the Pacific islands region affects all countries and territories. The broad objectives of the tuna sectoral study are (1) to analyze the current and future role of multinational corporations in the tuna industry in the Pacific islands region, and (2) to evaluate the potential contribution these corporations could make to industry development in the region. This is the first time that a comprehensive study of the tuna industry in the Pacific islands region will focus on regional and international issues affecting the industry from the perspective of all island countries.

A proposal outlining the tuna sectoral study was drawn up in 1984. This was done in consultation with the Forum Fisheries Agency and research commenced in January 1985. The study will produce a range of technical reports that will address issues critical to the development, management and expansion of tuna industries in the Pacific islands region.

This report, prepared by Ian D. Richardson, discusses the shortcomings of the conventional approach to establishing tuna ventures. Based largely on Papua New Guinea’s experience, the report suggests alternative ways of establishing ventures in which the host government rather than the foreign investor dictates its terms of establishment and operation.

The Pacific Islands Development Program's tuna study is financially supported by the East-West Center, the United Nations Development Programme, the Australian Development Assistance Bureau, and the United States Agency for International Development.

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ABSTRACT

In order to maximize the financial and social benefits offered by the exploitation of the living marine resources in its newly acquired exclusive fishing zone (EEZ), a developing country must acquire the fishing, processing and marketing skills within locally based companies.

Joint ventures offer one solution but many tuna joint ventures have failed to meet the expectations of the host government.

This paper reviews some of the problems that have been experienced by tuna joint ventures and suggests an alternate approach which relies on the government of the host country taking the initiative rather than the usual situation in which government is placed in a position of responding to unsolicited proposals from foreign interests.

Government identifies potential partners with a proven technical and commercial record in fishing, processing or marketing tuna, who are willing to participate and invest in a locally registered company, established and operated in a manner clearly determined by government. Government does not itself take a major financial stake or become involved in the direction of the company. Government does identify and encourage local entrepreneurs and bilateral and international funding agencies to provide equity and loan.

The government also insures that the long term interests of the State and its people are safeguarded and there is strong commercial direction by selecting the major equity holders and board membership accordingly.

Thus, unlike many tuna ventures, government's financial and management involvement in the joint venture company is strictly limited.
The purpose of this paper is to provide practical guidance for Pacific island governments that want to develop commercial tuna ventures. The paper will highlight the issues and areas, primarily from an administrative point of view, that governments must focus on in order to get a project approved to the implementation stage. Particular attention shall focus on, but not be limited to, the following areas of evaluation.

1. Project location, including arrangements by government to identify and secure site, infrastructure, relocation of existing facilities/services, etc.

2. Delination of intra-government responsibilities and authority for project assessment/implementation.

3. Selection of potential investors: methods, shortlisting, preliminary credit/financial checks, performance records, etc.

4. Pre-feasibility and feasibility studies.


6. Notification of shortlisted investors and obligations of selected developer.
INTRODUCTION

This paper highlights some of the issues and problems experienced in the past when attempts have been made in Pacific island countries to establish tuna fishing and processing ventures. The difficulties arise principally because of the need to harmonize the purely commercial objectives of the expatriate private sector investors, particularly when this is within a joint venture, with the long-term responsibilities and objectives of the State.

To illustrate the problems and suggest some solutions, reference is made to existing ventures and freely available accounts of the actions taken by governments, such as that of Papua New Guinea, to establish tuna ventures.

The desire to maximize the benefits from the natural resources of the State has posed particular problems to both developed and developing countries. The acquisition of exclusive rights within the EEZ to the ownership and exploitation of the living marine resources is a case in point, particularly in respect of internationally tradeable species such as tuna and prawn.

An obvious solution is to license access to, and exploitation of, the resource.

While countries may not have an immediate alternative to licensing, the full socioeconomic benefits cannot be realized by the State unless local industries are established.

To establish own capability, to exploit the resource, to process it, preferably in an added value form, and to market it on world markets, requires the acquisition of technical skills, managerial skills, marketing expertise and finance to meet the capital and operating costs of the project.

This is clearly recognized by Pacific island countries. The problem is how to acquire these in a manner which is compatible with the long-term interests of the State.

The creation of joint venture companies or corporations offers one solution. There is no doubt that joint ventures have been successful, particularly in the manufacturing industries, agriculture/sugar/rubber/palm oil, etc. but fisheries joint ventures have not met with the same high degree of success. This paper attempts to analyze some of the reasons why success has not been achieved and suggest alternate ways of establishing joint ventures which more closely meet the objectives of the State and offers a greater degree of confidence while ensuring the long-term benefits will continue to accrue to the State and its people.

Before detailing a possible alternate approach to establishment of joint ventures, some of the problems which have beset past and existing joint ventures are reviewed.
The task is essentially to insure the transfer of essential technical and commercial know-how so that it is utilized in the long-term.

The principal requirements of the venture, include finance and skills (technical, processing, marketing and management). These must be acquired and practiced under suitable corporate arrangements and direction.

If, as might well be the case in a developing country, there is limited private capital and entrepreneurial initiative, government may provide the major part of the required finance; vessels and equipment may be purchased and the operational expertise acquired through agreements with foreign individuals or companies.

Experience has demonstrated that whereas such arrangements offer 100 percent control by the State and theoretically minimal dilution of financial and socioeconomic benefits to the country, they are rarely effective in the long-term and do not result in a cost effective enterprise.

The question is that, while recognizing that there must be external financial and commercial involvement, by whom and under what terms it is to be provided to insure the benefits to the State are maximized in the long-term.

Origin of tuna joint ventures

A salient feature of past tuna joint ventures is that the initiative has invariably come from foreign sources, either commercial or governmental, and of course that initiative is coupled with the vested interest of the foreign proposing the venture.

Interested external parties fall into the following two categories:

1) A commercial company wishing to gain access to the source of supply of raw material, viz rights to fish the tuna within the country's EEZ. The objectives are to supply its own canneries in the home country or canneries controlled by the foreign partner elsewhere and to service traditional markets. The profit center is offshore.

The interest of the State is to maximize benefits in the long-term which implies a transfer of technology, skills, etc., leading to a wholly locally operated fishing, processing and marketing venture with the full value of the product being returned to the host country indefinitely.

These two objectives are basically incompatible and a failure to recognize the different objectives of the foreign commercial concern as distinct from the State, and make appropriate arrangements, has been the origin of dissatisfaction in many past ventures.

2) It is not uncommon for a commercial venture in the host country to receive an offer of a joint venture in which the foreign company offers vessels or equipment as its contribution to equity.
vessels may no longer be economic when fishing traditional grounds. There are also instances of Pacific island countries being approached by foreign fishing companies, or shipbuilders, under the guise of foreign government bilateral aid. The vessels on offer may, or may not, be of appropriate design and size and they are often offered without the essential operational and maintenance back-up. Invariably the recipient government could find itself in an embarrassing situation having acquired vessels or equipment without the capability to operate them and with a large debt repayment obligation.

In many cases agreements to train and to employ locals have been made with a foreign partner in an attempt to insure localization and the transfer of technology. Similarly, management and marketing agreements can and have been made between foreign interests and the host State.

Invariably, with the passage of time, differences of opinion have arisen, resulting in dissatisfaction on the part of the host State with the performance of the foreign interests; for example a poor or non-existent training program, questionable marketing arrangements leading to a belief that the anticipated revenue have not accrued to the host country, etc.

Where the initiative is taken by a supplier of vessels or equipment, the possibility is that the government, as the signatory to the contract, has accepted a considerable financial commitment either as principal or as guarantor. The financial commitment may appear to be reduced by offers of favorable funding terms from the supplier or his government or by apparent capital cost reductions, although quite often the vessels and equipment may be unnecessarily expensive in relation to the operational requirement. On occasion the profit element on the sale of vessels and equipment has been used as the foreign partner's equity stake. Favorable financing terms may ease the financial burden, but not eliminate government financial exposure or guarantee the ability of the venture to generate repayments.

Technical operating, management and marketing agreements can, in theory, reduce the risk and generate confidence in a return on investment. However, the supplier of vessels and equipment does not necessarily have operational experience. Even if it does, its commitment to use that experience over the long-term is unlikely to be maintained unless steps are taken to make it conditional that repayments are spread over a long period and directly related to the success of the venture.

Where the initiative is taken by a foreign marketing and/or processing company, the motivation is clearly and openly to obtain supplies and maximize its own profits. It is usual for the foreign interests to insist on taking a marketing contract which often permits the foreign partner to accept or reject the raw material on the basis of quality. In addition it is usual for the foreign partner to require exclusive rights to buy at prices which are not necessarily competitive. Such arrangements reduce the potential benefits to the host country and may be reinforced by a failure on the part of the foreign partner to strengthen local capability through training.
The Pacific islands country must, of course, accept some loss of benefits which reflects their need to acquire technical, managerial and marketing skills from outside the country, but it is essential to determine an acceptable level of "cost" from the outset. Then the venture must be structured in such a manner as to insure no excessive long-term siphoning off of profits outside the country and that, ultimately, the venture can operate, and be run, as a local operation.

Role of government

In many developing countries there is a lack of finance and entrepreneurial spirit in the private sector. Even where these exists, the State may well have to play a catalytic role, particularly in primary producing ventures—viz agriculture and fisheries—where risks are high; where there is a long-term run-in period to full production; where infrastructure costs are high, and where there is a shortage of local people with the necessary expertise.

As a result government finds itself the prime point of contact for foreign interests and playing a leading role, not only in the setting up of the venture, but often with a significant financial involvement and participation in ongoing management, at least at the board level. This usually occurs when the approach is initially made by foreign private or governmental interests or when development agencies or bilaterial donors are involved who normally operate on a government to government basis.

It is suggested that in many past joint ventures long-term success or failure can be correlated with the level of government involvement in the financing and management of the venture. Furthermore, the extent of government's continued financial and management involvement is the major determinant in the likely future success of the venture.

It can be argued that in both developed and developing countries, State-run enterprises have not always been as cost effective as private enterprises. Nevertheless, in certain situations, the State must accept the responsibility for operating ventures, particularly when there is no alternative or when social services are involved. It is, however, generally accepted that their mode of management differs significantly from that of a purely commercially orientated venture. Understandably, because of the different objectives and operating philosophy of each, a joint venture in which government and private interests are involved together in management is likely to experience difficulties. Providing the necessary safeguards of the interest of the State and people can be assured, government might be well advised to encourage its setting up, but stand back from participating in the ongoing direction of the commercial venture.
AN ALTERNATE APPROACH TO SETTING UP TUNA JOINT VENTURES

An approach which recognized the problems so far discussed, and many others which have arisen in fisheries and agriculture joint ventures, was adopted by Papua New Guinea after experiencing a number of unsatisfactory approaches from foreign tuna fishing and processing companies and suppliers of vessels and equipment, sometimes supported by overseas governmental or statutory agencies. The principal features of the strategy may be summarized as follows:

1. The government acts as catalyst in establishing tuna fishing and processing ventures for the purpose of exploiting and benefiting from the tuna resource within the 200-mile EEZ.

2. One or more joint venture companies would be based in Papua New Guinea and are registered as a Papua New Guinea company operating within the existing legal and fiscal regulations and subject to all taxes, controls, and benefits available to local companies exporting at least part of the product.

3. Those technical and marketing skills which did not exist locally would be acquired by attracting companies with a proven track record to participate in the joint venture.

4. These companies are expected to subscribe between them up to 49 percent of the equity as a demonstration of commitment to the ongoing success of the venture.

5. Local entrepreneurs/companies would be encouraged to participate in the company and to take an appropriate share of the risk.

6. The government's financial exposure would be severely limited but government would attempt to secure and pass on the benefits of bilateral and international development funds.

7. The government would rely on existing legislation to insure that the company operated in the interests of the State and the people and would, with certain safeguards, permit management to be in the hands of the equity holders.

8. The government would provide the infrastructure and services and all the incentives and assistance offered to new industries as promulgated in the laws of the country.

Essential to this strategy is that government takes the lead and defines the terms and operating strategy of the joint venture company and acts as the catalyst, attracting companies to "bid" for participation in a venture run strictly on commercial lines according to fiscal and legal regulations of the host country. In addition governments, acting on behalf of the State and people, insures that the company is structured in a manner which will insure that any "hidden" benefits or advantages could not accrue to any one partner, to the detriment of the company or the State.
government's assistance would be limited as far as possible to provision of infrastructure and loan funds to the company on favorable terms.

While the above summarizes one possible strategy, it is recognized that in practice there are alternates which might be adopted to insure the benefits are equitably distributed between all partners to the venture.

Action

The capture, processing and marketing of fish are highly specialized and companies which have been involved in joint ventures are highly experienced in negotiating the terms on which joint ventures are established. It is therefore advisable for government to contract the services of independent consultants to strengthen their negotiating position.

Independent fisheries consultants should be assigned tasks of (1) identifying potential partners, (2) advising government on a shortlist of possible partners, (3) evaluating and, where appropriate, suggesting modifications and amendments to the development proposals formulated by interested parties and, (4) assisting government in structuring the company in a manner which will safeguard the interests of the State.

The following is a description of the action taken by Papua New Guinea to identify partners. To preserve confidentiality reference is made only to freely available documents. Later discussions of company structure and negotiating strategy are not necessarily representative of Papua New Guinea's policy.

Phase 1

Consultants were hired by the government to publicize its intention to establish one or more tuna fishing/processing ventures, and notices were placed in the principal fishing newspapers, and economic journals to request expressions of interest by potential partners. An example of such a notice issued by government of Papua New Guinea is:

**ADVERTISEMENT**
**TUNA INDUSTRY DEVELOPMENT**
**PAPUA NEW GUINEA**

The government of Papua New Guinea is seeking prospective investors to participate in the development of the nation's tuna industry. Two separate shore-based processing facilities possibly with associated fishing fleet are planned; one at Kavieng, New Ireland, and the other at Lombrum, Manus Island.

The resource

Papua New Guinea has extensive tuna resources and proven fishing grounds for long-line, purse seine and pole-and-line operations.
The projects

The two proposed projects could involve a range of processing options. Fish supply may be from either associated or independent fleets. Staged development of the projects will be considered.

The sites

Prime development sites in Kavieng and at Lombrum, adjacent to the major fishing grounds, are available. Some infrastructure is available at these sites.

Expressions of interest

Companies and others who can demonstrate a sound financial and technical background and an appreciation of the requirements of establishing a viable tuna industry in Papua New Guinea are asked to register their interest with Fisheries Development Limited who will be pleased to provide further information.

Letters should be marked "P.N.G. Tuna Project" and addressed to:

Fisheries Development Limited
Birmingham Road
Saltisford
Warwick CV3 4 4TT
England
Telex: 31565 ULG G

In addition, consultants directly approached fishing companies, processing companies and bilateral and multilateral funding agencies known to have the experience and capability required of a joint venture partner.

Phase 2

Because a large number of the respondents would not have the expertise or the financial resources to participate in a joint venture, respondents were asked for details of their company's financial standing and operational experience and willingness to prepare a feasibility study, or investment prospectus, if requested to do so. To assist them with background information a brochure incorporating information provided by government (both national and provincial departments) was sent to each respondent.

The brochure is an important component of the "alternate" strategy. It provides the opportunity for government to describe their objectives and provide the potential investors with clear guidelines as to the critical components of the venture and as such it "sets" the stage. It avoids government being placed in a position of having to react to unsolicited proposals and establishes government as the dominant party.
In addition to identifying the sites favored by government as the fishing/processing bases, together with background information on local services, contained chapters on: company law, fiscal/legal matters affecting the establishment and operation of the company, export/import taxes, tariffs, etc., labor laws, rates of pay, environmental impact considerations.

The brochure contains the following four components:

1. A brief description of government's objectives and proposed program of action, i.e. to establish one or more tuna joint venture fishing/processing companies with one or more foreign companies or institutions, financing agencies, etc.

2. A request for initial expressions of interest supported by background information as detailed in the brochure on the size, financial standing, expertise of the company or institution and its affiliates and associates, etc., and any other information which would favor the group as a partner in a tuna joint venture.

3. A statement that following receipt of expressions of interest, a shortlist of not more than five lead companies would be selected to prepare a feasibility study or investment proposal.

4. Guidelines for the preparation of the study, including topics to be covered, were provided in the brochure. By this means those expressing interest were made aware that the time and cost involved in the preparation of the study proposal, should they be selected to submit a proposal, would be considerable and therefore only to be undertaken by serious potential partners.

In the feasibility study or investment proposal, companies were to incorporate the following details, plus any additional topics deemed relevant by the proposer:

- Identification of preferred location and identification of necessary essential infrastructure to be provided by government.

- Proposal for procurement of fish, including proposed number, size of vessels, fishing method, projected catch rates and landings, seasonality, crewing arrangements, arrangements for fleet management and maintenance, landing facilities, capital and operating costs.

- Proposals for processing tuna, product form, proposed throughput, yields, production process, packaging, proposed design of plant and equipment, capacities and layout, staffing and management proposals and manning levels, capital and operating costs.

- Proposed target markets and pricing structure for the domestic and world markets.
Details of all capital and operating costs to be included, together with financial projections, including profit and loss accounts, projected balance sheets, cash flows, financial rates of return.

Economic analysis - financial and social benefits.

Proposed company organizational and financial structure, financial plan, operational, technical and administrative policy, use of local labor, training and localization program.

Proposed action to reduce environmental impact.

Phase 3

From the descriptions of the companies and their activities a shortlist of some 5 or 6 companies were requested to prepare detailed feasibility/investment proposals.

In practice some companies' strength lay in operation of fishing vessels and others in the processing and marketing of fish. Given the general practice of separating the catching sector from processing/marketing sector as well as the different expertise, different infrastructure requirements, different financing requirement and higher degree of financial risk in the catching sector, it is more appropriate to separate the two activities and establish separate companies for each activity. This does not preclude a common equity holding in catching and processing companies. It does, however, permit each to be regarded, and judged, as an independent profit center without any possibility of cross subsidization. Consequently, separate shortlists, one for each sector, were made.

Two or three companies in each sector—catching and processing—might be asked to prepare proposals. An acid test of commitment is whether, when requested to prepare a study, the shortlisted candidates do so. In the case of Papua New Guinea, some of those selected did not send representatives to see the proposed sites or acquaint themselves with local conditions and as a result were not considered to be appropriate partners.

To insure a very clear understanding of the conditions under which the venture would have to be established, (as was done in Papua New Guinea), to provide the potential partners with a list of the institutions, government departments, individuals, and private interests who might be involved in the venture either in an official capacity, as contractors or as coinvestors, and support this with a collection of all relevant Acts of Parliament, regulations, labor laws, etc.

Phase 4

Commercial companies are not usually required to prepare feasibility studies or investment proposals with the breadth of coverage and in the...
detail called for by bilateral and international funding agencies or
governments. Consultants therefore have an important role to play by
pointing out any shortcomings in the studies and, while not influencing the
basic proposals, they can indicate where additional detail and
justification in support of the proposal is required.

Several aspects of the proposals requiring clarification and in
certain areas, particularly where there is an apparent incompatibility
between the policies of the State and the potential partners, and there
will also be technical points which are not necessarily acceptable.

At this stage government, with the assistance of consultants, will
discuss each point with the proposer and request revisions to make the
proposal more acceptable. For example, if one of the proposals has been
prepared by a company whose interest lies in the construction and sale of
vessels it would be essential that the suitability and cost of the vessels
was justified and competitive. Similarly, the processing equipment and the
proposed design capacity must be shown to be the most cost effective for
the particular situation; the proposed marketing strategy was not
restrictive and was in the best interests of the host country; the level of
foreign staffing was acceptable, and the proposed training and localization
program met government's objectives and would be carried out in practice.

It is at this stage that government and its advisors can, in direct
discussions with the individual proposers, assess the company's degree of
flexibility and willingness to adapt to local conditions and requirements.
Following such discussions a final selection of the most acceptable joint
venture partners can be made and detailed negotiations begun (Phase 4).
Such negotiations would involve the structure, financing and operation of
the joint venture companies.

The approach described above is in contrast to the more usual one
adopted by most funding agencies. In their case, once the project is
identified, a prefeasibility is prepared, followed by full feasibility
study. This is then used as the basis on which to proceed to
implementation and search for appropriate partners.

Criticisms of this approach have been made on the basis that a
feasibility study undertaken by a funding agency tends to stress the
economic benefits rather than the financial return and tends not to
appreciate the commercial investor's modus operandi.

The approach, described earlier, which requires the potential investor
to prepare the feasibility study, has merit, not least because it
 guarantees the interest and commitment of the investor. He would not spend
the time and money necessary for the preparation of a competitive proposal
without a strong desire to proceed to implementation and a commitment to
the future. Thus it permits the government to evaluate the sincerity and
intentions of the investor. Secondly, it provides the State with the
opportunity to clarify its objectives and those features which the State
would wish to be incorporated in the venture. By detailing the contents of
the feasibility study which is requested from the investor and providing
background information on the structure and method of operation of the

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venture and its role in the community, the government gives priority and encouragement to those investors likely to be in harmony with its objectives.

Having achieved an understanding of the nature of the joint venture, the government has still to insure that the long-term interests of the State are protected within the framework of a commercially viable venture. To this end negotiations must be initiated with the selected foreign partners and other interests which may be involved.

The government must determine its policy in relation to the level of investment and financial risk which it wishes to take and whether government wishes to play a continuing role in the direction of the company. The purpose of this paper is not to dictate government policy but rather to point to the advantages and disadvantages of government taking the catalytic role with minimal ongoing involvement as distinct from an exposed financial position with long term management responsibilities.

The assumption is that government is not well equipped to invest in and manage commercial ventures; the personal responsibility and rapid decision making associated with own investment in equity is not a characteristic of government, but where local investment funds and company management skills are not readily available government may have to make other arrangements to insure the State's long-term interests are secured.

This can be achieved through ensuring an appropriate equity mix and therefore representation of experienced direction at board level. The company directors would not necessarily have to be provided from local sources but might be foreigners whose outlook is known to be in harmony with the State.

It follows that parallel with the search for foreign technical and commercial partners and local sources of finance and direction during Phase 1, 2 and 3 described early, government will seek to identify bilateral and international financial institutions, who might take an equity or loan stake in the new venture, and provide ongoing monitoring and direction; for example International Finance Corporation, Commonwealth Development Corporation, and similar international funding agencies.

Because the proposed venture will incur higher capital and operating costs than similar ventures in developed countries which will militate against its commercial viability, government should seek to identify and interest those bilateral and international agencies which offer equity and loan to new ventures on favorable, non-commercial, terms. This may well involve, but not be restricted to, loans from government agencies in those countries supplying vessels or equipment as well as the affiliates of the international funding agencies which can offer finance to commercial ventures.

Finally, government will recognize the non-commercial expenditure related to provision of infrastructure, quays, roads, services, etc., and will seek the necessary finance to provide the infrastructure from agencies, such as World Bank, Asian Development Bank, European Development Program or bilateral agencies.
By the time the final negotiations are due to start, the host government should have determined the most appropriate equity distribution and board representation considered necessary to safeguard the interests of the country.

In addition to deciding the financial and management structure of the joint venture company, government must insert appropriate clauses in the articles of the company and in the shareholders agreement to insure that the obligations of the company are clearly recognized and observed in practice, both in the short- and long-term.

Because of the nature of their business, different aspects and different safeguards will have to be incorporated into a company concerned with catching tuna as distinct from one processing and marketing tuna.
Joint venture fish catching ventures are, often a device for a foreign company to gain access to a supply of raw material for its own processing facility situated outside the host country and there are many instances where transfer pricing has been practiced and the true value of the catch has not been remitted to the host country.

It is essential that the catch is landed in the host country whether it is to be processed in that country, or re-exported as whole round fish. This permits a first degree of control but, as discussed later, the surest safeguard is to make it mandatory for the fishing venture to operate as a locally based company landing all fish in the host country and operating under the rules and regulations for locally registered companies.

Given the capital and operating cost of fishing vessels coupled with the highly variable catch rates, leading to a much higher risk than incurred in processing and marketing, makes it critical to take all available measures to insure that financial exposure is minimized and the debt burden has a real chance of being serviced. Indeed, it is wise to require a demonstration of appropriateness of the vessel and capability of the crew before entering into a large long-term commitment.

The cost of providing the infrastructure, harbors, jetties, cold stores, maintenance facilities, and back-up services is higher than demanded by the processing sector. Fortunes of the venture are likely to be more cyclical, reflecting variations in availability of fish, weather, etc. Local employment opportunities will, however, be larger than in the processing sector.

As an interim measure and where there is a lack of infrastructure and particularly, freezing and/or cold storage facilities, it may be necessary to land the catch onto freezer, motherships, or reefer vessels. In itself this is acceptable although it may in the long-term be more expensive than constructing and operating shore installations. The processing sector is not subject to the high costs of the catching side nor is it subject to variations in fortune outside the control of the company. Providing there is an adequate supply of raw material at an acceptable cost, variables such as quality, product form and market penetration, are within the control of management. Areas of concern arise if the partner is a supplier of equipment, in which case his interest may be short-term and directly related to the sale of equipment or, if the partner is a processor, that the supply is not diverted to his own plant outside the host country and that the true sale price of the produce accrues to the local company.

If one of the potential partners is a supplier of equipment it is essential to insure that the equipment is the most appropriate for the venture, that it is not overpriced, that maintenance and spares will not cause stoppages in production, etc., and this needs to be checked out by an independent assessor. If the prospective partner is processing and/or marketing tuna he will obviously be anxious to acquire additional supplies and in itself this is a perfectly valid reason for his being a partner to
the venture. But in the same manner as suggested above for the fishing venture, and discussed in more detail later, it is essential to safeguard the long-term interests of the company and State and in particular that eventually the company will have the capability to process and market independently of the expatriate partner.
To encourage a balanced long-term management and one which seeks to insure that there is no imbalance of benefit in favor of the foreign company, it is preferable to have a majority of equity participants entitled to a seat on the board, who are sympathetic to the State's long-term interests. This, coupled with the suggested limitation on government's financial exposure, will determine the financial package.

A 40/60 equity/loan ratio is a normal and desirable target and it is anticipated that external commercial partners will accept responsibility for a significant share of the equity such that their faith in, and continued involvement with will insure the success of the project.

The precise equity distribution is a matter for discussion but to insure ultimate control over policy the foreign commercial partner(s) should not be permitted to subscribe more than 49 percent, and probably around 25 percent, with the remaining equity held by a number of interests as discussed earlier.

If necessary, government might take some equity, at least as a temporary measure, and assign the monitoring function to reliable commercially experienced individuals or selected sympathetic equity holders.

As suggested earlier some of the 51 percent equity, in addition to that subscribed by local interests, might be held by such organizations as the International Finance Corporation of the World Bank or the similar affiliate of the Asian Development Bank. Other equity holders may include those organizations existing in many of the developed countries which are charged with investing in new ventures overseas as part of their country's development assistance. In the case of Papua New Guinea the Danish Fund for Industrialisation and the Commonwealth Development Corporation of the United Kingdom are organizations who might be approached to take equity and that, because of their experience in new commercial ventures, could exert a strong role on direction and management of the company.

As a result the State's exposure will be reduced and independent experienced company direction will be available to the host country.

The loan component might also be provided by the type of institution mentioned earlier and additionally loan funds are likely to be made available from the countries supplying equipment and services. In some cases the loans can be made directly to the company. In others they will be made on a government to government basis with the host government standing as guarantor and on-lending to the company. It should be noted that this is quite different from government receiving a loan for purchase of equipment or vessels which government will operate. This would incur considerably greater debt repayment obligations and considerably greater risk.

Whichever of the above sources of loan funds are utilized, the terms on which the loan is made available are likely to be very much better than
could be obtained on the commercial market, viz attracting a lower interest rate and a moratorium on repayments, and a long repayment period. This may be vital to the success of a new venture which is exposed to higher than normal costs due to the "greenfield" situation. It will also limit government's financial exposure and risk.

Government is likely to be faced with heavy costs for infrastructure, quays, roads, services, etc., as well as additional social services, housing, schools, hospitals, etc., which are vital to the success of the venture but could not be supported within the commercial investment and must be accepted as an obligation of government. For this purpose financial assistance in the form of soft loans might be requested from a number of bilateral and international agencies.

To limit the level of borrowing it is essential that there is a clear understanding of the immediate and likely long-term infrastructure needs of the new venture. For this purpose financial assistance in the form of soft loans might be requested from a number of bilateral and international agencies.

To limit the level of borrowing, it is essential that there is a clear understanding of the immediate and likely long-term infrastructure needs of the new venture. The danger is that facilities greatly exceeding the requirements of the venture, both in size and sophistication, could be provided and unnecessary expense and debt liability incurred by government.
OPERATIONAL STRUCTURE

Reference has been made to technical, management and marketing agreements which have been commonly used in tuna joint ventures. These may no longer be required if the venture is established as a locally registered company with a well thought out financial structure and board of directors made up of commercially experienced, sympathetic persons. However, as a safeguard, a number of aspects of such agreements should be specifically mentioned in the articles of the company and the shareholders agreement.

For example, neither the equity structure nor the board of directors should be changed without agreement of the government who will seek at all times to insure representation of local interests (although not necessarily through locally subscribed equity). In this respect it is relevant to note that most of the organisations mentioned earlier are not long-term equity holders: they take the view that their equity is to be sold to local interests once the venture is operating successfully.

If the management, technical, or marketing expertise is to be provided from one or more of the foreign partners this should be by agreement that requires details of any action taken to be available to the board. Any staff provided under such agreements should be directly responsible to the board through clearly established administrative reporting channels and these should be specified.

Both the contractor and all staff supplied by him must act in the interests of the company and be accountable through clearly defined lines of responsibility to the board. The board should retain the right to require any individual to be substituted by another and in the ultimate to suspend the agreement with the contractor in favor of other arrangements and other contractors.

In short the contractor would act as a consultant, the executive function remaining in the company.

The contractor will naturally expect to be remunerated for all costs incurred, including staff supplied by him, and in addition it would be acceptable to provide an incentive payment linked to the company's overall performance. In the early days the incentive may be linked to turnover rather than profit. The principal remuneration of the foreign investor must be, as for all other investors, the declared dividend of the company, whether or not the investor has accepted a management, technical supervision, marketing or training contract or contract for any other form of service.

The principal of company autonomy within the laws and regulations of a locally registered company should be clearly established in the articles and such requirements as the program for localization, for training the ratio of foreign and local staff etc. should be specified.

It will be appreciated that the company will benefit from any assistance provided for under existing regulations to locally based companies, new enterprises and companies earning foreign currency. The
foreign investors will be subject to taxation, repatriation of funds, etc., as indicated in the initial call for a feasibility study.

During final negotiations government may, however, offer special short-term concessions as an added attraction to foreign investors whose skills and funds are required to establish and successfully operate a new venture in a greenfield site but at all times the requirement is for the host government to determine and endorse the company structure and operating policy, utilizing the technical and commercial acumen of the foreign partners.
CONCLUSIONS

The program of action which has been outlined is designed to permit the government of the host State to overcome those problems which have been experienced in many tuna joint ventures in the Pacific island where the benefits to the host country and the foreign partners have not always been equitable.

It proposes that government (rather than foreign interests) takes the initiative and identifies potential partners who can offer the operational technical and marketing expertise and additionally would be willing to make a substantial financial commitment to a joint venture.

The requirement for the selected potential partners to prepare, at their own cost, a feasibility study or investment prospectus on the lines detailed by government is a demonstration of commitment and a recognition of the constraints in which the company will be expected to operate.

It is proposed that government will then negotiate with the foreign partners and other potential partners, including local entrepreneurs, bilateral and international financial and development institutions, to structure a company which will be registered and operated according to the laws and regulations of the host country. The company or companies would be vehicles for the acquisition of the expertise and capability to exploit, process and market the resources of the country to the benefit of the country and its people. It is suggested that government should not be a principal investor or be involved in the direction of the company once established, but that government’s role should be to insure that the company is financed and structured in a manner which will insure that it is operated and directed by a board of directors selected for their commercial experience and weighted to safeguard the long term interests of the islands country. The foreign equity interests will be encouraged to insure the success of the company through provision of technical, marketing and other expertise on repayment terms.
EAST-WEST CENTER

The East-West Center is a public, nonprofit educational institution with an international board of governors. Some 2,000 research fellows, graduate students, and professionals in business and government each year work with the Center’s international staff in cooperative study, training, and research. They examine major issues related to population, resources and development, the environment, culture, and communication in Asia, the Pacific, and the United States. The Center was established in 1960 by the United States Congress, which provides principal funding. Support also comes from more than 20 Asian and Pacific governments, as well as private agencies and corporations.

Situated on 21 acres adjacent to the University of Hawaii’s Manoa Campus, the Center’s facilities include a 300-room office building housing research and administrative offices for an international staff of 250, three residence halls for participants, and a conference center with meeting rooms equipped to provide simultaneous translation and a complete range of audiovisual services.
PACIFIC ISLANDS DEVELOPMENT PROGRAM

The Pacific Islands Development Program (PIDP) at the East-West Center helps meet the special development needs of the Pacific islands region through cooperative research, education, and training. PIDP also serves as the Secretariat for the Pacific Islands Conference, a heads of government organization involving leaders from throughout the Pacific region, and for the Pacific Islands Conference Standing Committee, which was established to ensure follow-up on development problems discussed at the 1980 Conference.

PIDP's research, education, and training activities are developed as a direct response to requests from the Standing Committee. PIDP's projects are planned in close cooperation with the Committee to ensure that the focus and the organization of each project address the needs identified by the heads of government on the Committee, a process which is unique within the East-West Center and in other research and educational organizations serving the Pacific.

A major objective of the program has been to provide quality in-depth analytical studies on specific priority issues as identified by the Pacific island leaders and people. The aim is to provide leaders with detailed information and alternative strategies on policy issues. Each island country will make its own decision based on national goals and objectives. Since 1980, PIDP has been given the task of research in eight project areas: energy, disaster preparedness, aquaculture, government and administrative systems, nuclear waste disposal, business ventures development and management, roles of multinational corporations, and regional cooperation.