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Export Ban on Shrimp Exports from Pacifica

Disaster visited Pacifica a year ago November, in the guise of food inspectors from the European Union (EU). Pacifica had been a poster child for export-led growth. Its privately owned fish processors had established a lucrative niche selling frozen shrimp to wholesalers in the European market. The EU food inspectors uncovered substantial problems in the way that Pacifican firms prepared shrimp for market and imposed a temporary ban (beginning on 7 December 2003) on shrimp exports to the EU.

This temporary ban merited only a two-line report in EU documents, but it has had major negative ramifications for the fish processors and for the government of Pacifica. On 18 December the ruling junta called the Minister of Commerce onto the carpet, and has threatened severe (though unnamed) consequences if this dispute is not resolved before Christmas.

The Minister was still perspiring when he called in Rasca Christian, his senior advisor for international trade issues. Rasca's brief includes correspondence with EU regulators, and she accompanied the food inspectors on their November tour of shrimp exporters. As the Minister put it, her task now is quite straightforward: find a resolution to this dispute that restores both the volume of demand and the sales price of Pacifica shrimp to pre-disaster levels. If she can't do that by Christmas, she can join the Minister on the next flight out of the country...

Geography and History

Pacifica is a small nation-state, comprising a series of islands in the South Pacific. The country has a population of 675000, the large majority of whom live on the main island of Gilligan. The majority of the population is involved in subsistence agriculture or artisanal fisheries. The leading cash crops are spices, especially black pepper and vanilla. Agriculture and fisheries account for 40 percent of GDP. The manufacturing sector is small (accounting for 15 percent of GDP), with its leading component being that of fish processing. Services account for the remaining 45 percent of GDP. In recent years, Pacifica has developed a small tourism industry which now attracts about 10000 visitors per year and provides employment for a few hundred people. The total GDP of Pacifica was just under \$500 million in 2003, suggesting average per capita income at about \$700.

Over the years, Pacifica has had a large trade deficit. The country is a significant importer of machinery, oil, and an array of consumer products. Its traditional exports have been spices and guano (i.e. bird droppings used in the production of fertilizer). Exports of spices have fluctuated from year to year, while those of guano have fallen due to declining bird population on the outer islands. Since the early 1990s, increased exports of shrimp and other crustaceans have reduced Pacifica's trade deficit. In 2002, these fish-product exports reached \$60 million, accounting for nearly 75 percent of the country's merchandise exports.

For many years, Pacifica's fishing industry consisted of artisanal fishers operating just offshore with dug-out canoes. A range of small fish species was caught and sun-dried for sale to the local population. Limited quantities of tuna, mackerel, and crustaceans were caught for fresh sale to local hotels and to retailers serving the country's middle-income consumers. In 1992, an entrepreneur from Australia set up a small modern processing facility to freeze, pack and export the shrimp to Australia. Over the subsequent three years, four of Pacifica's leading hotel and property owners invested in modern shrimp processing facilities. They also invested in mechanized fishing vessels in order to pursue fishing in waters further off-shore. Exports of block frozen shrimp were diversified to the Hong Kong market. Two of the companies began to export consumer-pack frozen shrimp to the European Union where they obtained premium prices despite the long transport distances involved. The premium prices were attributable to the distinctive Lion Shrimp variety found in Pacifica's waters. Soon, all of these processors were directing the majority of their output to the EU market, yet still retained buyers in Australia and Hong Kong. These five relatively large companies established a Fish Processors Association in 1997 to deal with issues of mutual concern (i.e. taxes, availability of packaging material, and others).

During the late 1990s another fifteen Pacifica entrepreneurs entered into this field, mostly by converting existing warehouses and other buildings into fish processing facilities and by either investing in their own boats or entering into contractual and financing arrangements with an array of small fishers. Both to provide some collective perspective on the resource and ice issues and to serve as a counterweight to the influential Fish Processors Association, the smaller fish processors formed their own Shrimp Exporters Union in 2000.

Competition for available fish increased, driving up shrimp prices and leading the larger companies to send their fleets further off-shore. There, they were encountering Japanese freezer vessels catching shrimp under a licensing arrangement with Pacifica's Ministry of Fisheries. The terms and conditions of these licensing arrangements were not well known.

Resource constraints.

Pacifica ranks among the least-developed countries in the world, and it has many of the problems associated with those countries. A study undertaken by the Ministry of Finance in 2000 indicated that Pacifica ranked among the lowest 20 countries in the world with a primary-education completion rate of 33 percent and an under-five mortality rate of 130 per 1000. These were symptomatic, according to the study, of underfunded public health and education facilities. Even including foreign aid, per capita spending to these sectors in Pacifica is among the lowest observed worldwide.

A 1999 survey by the Ministry of Fisheries determined that the shrimp/crustacean resources within a 50 mile radius of Gilligan were heavily overfished. The Ministry imposed seasonal restrictions on fishing activity, although these restrictions were widely flouted as the Ministry lacked sufficient capacity to patrol Pacifica's waters and lacked the authority to impose penalties on those violating the restrictions. The rapid expansion of the industry also put pressure on the available supplies of ice (for post-catch and shell-peeling operations), driving up the price of ice plus leading some fishers

and firms to use less effective but cheaper techniques (i.e. using shaded areas and buckets of seawater).

Due to the fish resource constraint, Pacifica's shrimp exports peaked in 2000 at 35,000 tons and \$60 million and remained at essentially similar levels in 2001 through 2003. Due to the resource constraint, the industry as a whole was operating only at 50 percent of its installed capacity in these years, with some individual companies (including the two largest companies) operating at less than one-third of their installed capacity. This weakened the financial position of several companies—many of which were still servicing high-interest loans from their capital investments.

To remain viable, some firms began to 'cut corners', employing less expensive (yet less qualified) staff for certain functions, cutting back on their use of cleaning materials, doing less frequent maintenance work on their boats and factory equipment, and so on.

Government oversight of the shrimp industry was fragmented among the Ministries of Commerce, Fisheries and Health. The Ministry of Fisheries was responsible for shipboard activities, including the hygienic on-ship storage of catch. The Ministry of Commerce was responsible for licensing and inspecting fish processing facilities. The Ministry of Health was the only ministry of the three equipped to run laboratory tests for bacteria and other potential contaminants of the shrimp. All three ministries had very small field staffs to conduct audits of health-related practices. Staff members encountering infractions of the Pacifica Food Safety Code were typically given inducements by the shipowner or firm to "look the other way".

Here and there, the European clients were issuing complaints or quality claims against consignments of Pacifica shrimp, yet these attracted little official attention in Europe. Pacifica remained one of the preferred sources, especially because of its distinctive Lion Shrimp variety.

Health crisis.

On 16 November 2003, three consignments of Pacifica shrimp were detained by health officials at the Rotterdam port in Holland because of their off color. Subsequent tests confirmed the presence of very high levels of bacteria in the shrimp. That same week, two consignments of Pacifica shrimp were detained by French officials for similar reasons and subsequent tests also confirmed the presence of high bacteria counts. These developments triggered communications through the EU Rapid Alert system, leading officials at five other European ports to detain and test Pacifica shrimp consignments. Three of the ten consignments tested were also found to have high bacteria counts, leading to the destruction of these consignments. One consignment was found to have excessive levels of residues from sulfur dioxide, a disinfectant.

The repeated incidence of problematic consignments was deemed to be of sufficient concern to warrant a temporary ban on Pacifica shrimp entering the EU. An inspection team was to be sent to Pacifica the following week. Further actions would be determined based on their findings.

The three-person EU inspection team arrived in Gilligan City on November 26. They spent two weeks meeting with government officials, visiting fish landing sites, inspecting peeling sheds and processing factories. This had been the first such official inspection visit from an EU team as Pacifica exports were of very limited scale until recent years. (The EU had been more concerned with addressing food safety hazards associated with several of the larger fish suppliers to the Union.) The inspection team issued its draft report on 10 December 2003. That report documented a long series of apparent violations of regulations and directives governing third-country fish suppliers to the EU. The team recommended that the temporary ban on Pacifica shrimp be maintained until appropriate remedial measures were taken. The ban could not be lifted until a new inspection team certified that such measures had been taken.

The EU bill of particulars.

The EU complaint against Pacifica shrimp characterized a majority of Pacifican firms as having inadequate processing equipment and methodologies. The mission concluded that only two of the twenty private companies were compliant with EU standards applicable to fish suppliers. It attributed the continuing substandard operation of these firms to bureaucratic disorganization and deficient inspection procedures.

Non-compliant firms. The majority of shrimp processing factories does not comply with 91/493/EEC with respect to water testing, factory layout, and general hygienic conditions. Of the eighteen companies in violation, the mission participants concluded that

- Three companies will probably only require modest capital investment (i.e. <\$10000) and modest changes in quality-assurance management systems to become EU-standards compliant.
- The other fifteen companies will probably require much larger capital investments (i.e. >\$50000) and/or radical changes in operating and management systems. This was especially true for smaller companies.

Bureaucratic disorganization. The government has been negligent in its oversight of this sector. Specifically,

- Pacifica lacks a clearly designated “competent authority” on matters of fish product safety. Various functions are divided between the Ministries of Commerce, Fisheries, and Health.
- Pacifica’s fish legislation is deficient, particularly with respect to the powers of inspectors, the penalties for food safety infractions, standards for water quality, and the lack of reference to Hazard Analysis Critical Control Point (HACCP) requirements.

Deficient inspection procedures. There are major weaknesses in the fish-facilities inspection program due to inadequate inspection staff, weak reporting requirements on inspections and virtually no laboratory testing of sanitary controls.

- Pacifica does have a reasonably well equipped lab at Gilligan University, but laboratory management and quality control is weak. There is also evidence of use of incorrect testing methods.
- The majority of Pacifican shrimp-processing factories has not yet implemented a HACCP program.
- Several of the landing sites visited featured inadequate hygienic conditions.

Pacifica faces an especially difficult challenge because the country is not eligible for financial or technical assistance from the European Union, partly because of concerns about democratic institutions—there was a military coup in Pacifica two years ago and elections have been repeatedly postponed—and partly because of an unresolved procurement scandal associated with a late 1990s EU-supported Guano Development Project.

Immediate aftermath.

Prior to the ban, some 80 percent of Pacifican shrimp exports were shipped to the EU, 10 percent to Australia, and 10 percent to Hong Kong and other Asian countries. With the ban in place, several Pacifican exporters have tried to re-market their EU-bound product to these other markets. Unfortunately, the only contracts available in those markets were at discounted prices because of the temporary market glut (and also because of Asian consumer resistance to the distinctive Lion Shrimp variety). Proposals to retailers in North America have brought interest only at sharply lower prices than were paid by the EU pre-November. The EU ban has led to great caution among these retailers, and they are waiting to observe the Pacifican response before committing to bulk purchases.

Time to work.

Rasca Christian has her marching orders, but she has little time. Can she resolve this dispute before Christmas in a way acceptable both to her superiors and to the EU?

If not, does she want an aisle seat – or a window?

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