CORPORATE DYNAMICS IN THE SHELF-STABLE TUNA INDUSTRY

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The content of this report (including all analysis and opinions) are solely the responsibility of the consultants and do not necessarily reflect the position or thinking of the Pacific Islands Forum Fisheries Agency.

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ACRONYMS

COSI  Chicken of the Sea International
CSR   corporate social responsibility
DoJ   US Department of Justice
EBITA Earnings before interest, tax and amortization
EC    European Commission
EEZ   exclusive economic zone
EPA   Economic Partnership Agreement
EPO   Eastern Pacific Ocean
ETA   Eastern Tropical Atlantic
EU    European Union
EUR   Euro
ESA   Eastern and South Africa
FAD   fish aggregation device
FCF   Fong Cherng Fishery Company Ltd.
FFA   Pacific Islands Forum Fisheries Agency
FIP   Fisheries Improvement Project
FTA   free trade agreement
FRN   Fishers’ Rights Network
FY    financial year
GBP   Great Britain Pound
GRT   gross registered tonnage
GGGI  Global Ghost Gear Initiative
GSP   Generalised System of Preferences
GSP+  EU Generalised System of Preferences Plus
GT    gross tonnage
HMR   home-meal replacement
IEPA  Interim Economic Partnership Agreement
ILO   International Labour Organization
IO    Indian Ocean
IOTC  Indian Ocean Tuna Commission
ISSF  International Seafood Sustainability Foundation
ITF   International Transport Workers
IUU   illegal, unreported, unregulated fishing
JV    joint venture
KFL   Kiribati Fish Ltd
M&A   mergers and acquisitions
MSC   Marine Stewardship Council
mt    metric tonne
NGO   non-government organisation
NOAA  National Oceanic and Atmospheric Administration (US)
PAFCO Pacific Fishing Company (Fiji)
PET   polyethylene terephthalate
PICs  Pacific Island countries
PNG   Papua New Guinea
POC   Pacific Operating Committee
PS    purse seine
PTM   Princes Tuna Mauritius
RFMO  Regional Fisheries Management Organisation
RFV   Record of Fishing Vessels of the WCPFC
RMI   Republic of Marshall Islands
RoO   Rules of Origin
SIOTI Sustainable Indian Ocean Tuna Initiative
SPC   Secretariat of the Pacific Community
STTC  South Seas Tuna Corporation
TDM   Thon des Mascareignes
THB   Thai baht
TIP   Trafficking in persons
TU    Thai Union
UK    United Kingdom of Great Britain and Northern Ireland
ULD   ultra-low temperature
USA   United States of America
USD   United States dollar
VDS   Vessel Day Scheme
WCPFC Western and Central Pacific Fisheries Commission
WCPO  Western and Central Pacific Ocean
WIO   Western Indian Ocean
WR    whole round
WWF   World Wildlife Fund
EXECUTIVE SUMMARY

This report provides FFA members with industry and market intelligence on the current status of the shelf-stable (e.g. canned) tuna processing industry. It offers a global overview of processing capacity (providing data on volume and value of activities), new developments and key issues shaping the sector. It then conducts a focussed analysis of five case-study firms (three ‘major’ and two ‘minor’) to demonstrate the range of industry dynamics currently in play in the sector and to draw out implications for Pacific Island countries. The case study firms are: Thai Union, Dongwon Industries and Dongwon F&B, Bolton Foods, Princes, and Bumble Bee. Primarily through desk-based research, the analysis details operations, ownership and management structures, vertical integration such as brand ownership, mergers and acquisitions (M&A), major markets, financial performance, sustainability and labour initiatives, recent changes and future developments, WCPO business interests and links with Pacific Island countries.

Global Overview and Key Developments

Between 2008 and 2017, global tuna processing capacity (whole round and cooked loins) increased 12-13%. Over the same period, the total number of processing plants increased from 144 to at least 215. Whole round fish represents around 85% of raw material throughput and frozen cooked loins account for around 15%. Loins are mostly used by processors in the US mainland, Spain and Italy. Estimated global canned tuna processing capacity is around 13,700mt/day, requiring around 3 million mt of whole round fish (skipjack, yellowfin and albacore). In 2017, the top five canned tuna processing countries by volume were: 1) Thailand (3,490 mt/day); 2) Ecuador (1,635mt/day); 3) Spain (1,275 mt/day); 4) Mexico (725 mt/day); and, 5) Philippines (510 mt/day).

Thailand remains the world’s largest canned tuna processor, accounting for around 15% of production. Thailand does not have a significant tuna fishing fleet and so relies heavily on raw material imports, mainly from the WCPO, which exposes Thailand-based processors to risk during periods of high tuna prices.

The European Union is the world’s largest market for canned tuna. The market is supplied by producers inside the EU, mainly Spain (67%) and Italy (21%), and by imports, especially from countries with duty free access. The top three foreign suppliers are Ecuador, Seychelles and Mauritius. Import volumes from the Philippines and from Papua New Guinea have increase by 48% between 2013-2017. PNG and Solomon Islands loin imports accounted for, respectively, 9% (12,093mt) and 5% (6,477mt) of the EU’s total loin imports; volumes sourced from Solomon Islands, largely for Italy, grew 64% between 2013-2017. Given that the UK is Europe’s largest imported canned tuna market, there is concern that Brexit might have a negative impact for exporters accessing that market.

The United States remains the second largest shelf-stable tuna market. The market is supplied by two canning-only plants (i.e. that import frozen loins) in the mainland and from the US territory American Samoa, where whole round is also processed, and by finished goods imports from around 35 countries. The top three foreign suppliers are Thailand, Ecuador and Vietnam. Frozen cooked loin import volumes have declined since 2013, with Fiji as a significant supplier of albacore loins in the range of 11,000-12,000mt/year.

Canned tuna processors continue to intersect with several long-standing concerns. The industry continues to struggle with overcapacity, with a majority of plants continuing to operate below full capacity, while new plant investments and expansions continue. Cyclical, short-term raw material price...
**volatility** continues to place pressure on processors in periods of higher prices, especially those that are not backward integrated into trading or fishing. Efforts to strengthen tuna fisheries management across all four ocean basins have not yet yielded long-term tightening of raw material supplies and associated long-term fish price increases. Canned tuna processors continue to face **increased costs of key production inputs** such as cans and ingredients such as olive oil; such costs are largely absorbed by processors because of the difficulty of passing cost increases on to consumers. The global canned tuna industry has continued to consolidate through mergers and acquisitions (M&A), which have taken place within the tuna and other seafood sectors and for both shelf-stable and frozen products. The rate of M&As is expected to slow as the most attractive deals have been completed or blocked by anti-trust regulation. Supermarkets continue to dominate retailed canned tuna sales globally, with **private label brands providing strong price competition to national brands**.

A number of countries with significant canned tuna and frozen cooked loin processing capacity that compete with Pacific Island processors in the EU market have concluded or are in negotiations for **preferential trade agreements with the EU**. The Philippines and Ecuador have gained duty free access to the EU and Vietnam has secured a quota for canned tuna and gradual liberalization of loins. Negotiations between the EU and Thailand, ASEAN countries and Indonesia are in various stages. The EU continues to issue **IUU yellow cards** as warnings that lack of compliance with the terms of the IUU regulation could lead to suspended market access. In the Pacific, Fiji, Solomon Islands, Vanuatu, PNG and Tuvalu have been issued yellow cards and subsequently had them lifted when compliance was demonstrated.

Several developments have emerged in recent years. Initiatives related to **sustainable fisheries, supply chain transparency, and ethical labour** are now permanent fixtures in the industry, though each initiative varies in scope and aims. Processors and brand owners are developing **innovative and value-added product lines** that use less tuna raw material to combat high raw material prices and meet changing consumer preferences. Some processors are diversifying into **high-quality pet food production** to expand into new market segments and improve profitability. Firms are diversifying packaging materials and marketing channels (e.g. online platforms) to improve returns and reach new markets.

**Case Study Firms**

**Thai Union** is the largest tuna company in the world. Its business is focussed on three seafood divisions: shelf-stable seafood; frozen and chilled seafood and related products; and, pet care and other ‘value added’ products. Thai Union’s business model is highly dependent on tuna and ensuring **stability of tuna supply** is critical for the firm. It is not backward integrated into fishing, so to stabilize supply it maintains a large raw material inventory in cold storage and has recently developed a **Global Procurement Team** to centralize its purchasing power.

Thai Union’s core business is the manufacture of seafood for its own brands and as a private label processor for clients. It owns extensive processing operations in Thailand that contribute to a total of 17 production facilities in North America, Europe, Africa and Asia. Over the last 20 years, one of Thai Union’s key corporate strategies has been to **forward integrate into brand ownership**, notably with the purchase of Chicken of the Sea (1997) and MW Brands (2010). Forward integration has enabled Thai Union to capture a greater proportion of value through brand rents. Thai Union’s major markets are the US, Europe, Thailand and Japan, with 15% of total sales made in emerging markets. Thai Union is expected to look to organic growth, selective M&As, and product diversification to boost sales and growth. Thai Union is emerging as a **leader in environmental and social responsibility**, internalizing
environmental and labour commitments and procedures and investing significant financial and human resources into monitoring and compliance.

Thai Union’s principal relationship to the WCPO is in its ongoing dependence on the region for tuna raw material supply, which is facilitated through Thai Union’s long-term relationship with the FCF trading company. Thai Union has increased its processing of co-branded Pacifical canned tuna for Northern European markets and the US market and is well positioned to supply growing demand for ‘sustainable’ canned tuna. Thai Union is a partner in Majestic Seafood Corporation in Lae, PNG, an investment that provides raw material supply to Thai Union, but that has not operated at full capacity.

The Dongwon Group is a sprawling South Korean industrial conglomerate. Through the inter-connected set of companies that make up Dongwon, the firm has comprehensive backward and forward linkages in the processing value chain and has the capacity to raise money to purchase supporting companies. Two of its subsidiaries are central players in the tuna processing industry.

Dongwon Industries Co., Ltd. is Korea’s largest deep-sea fishery company, owning 19 purse seine vessels. The firm has focussed on expanding vessel capacity and profitability, building seven new purse seine vessels since 2006, with two additional large vessels scheduled to join the fleet in 2018. These new vessels enhance annual per-vessel catch and are equipped with rapid cooling technologies and facilities to manage sashimi-grade handing and freezing. The vessels supply plants in Bangkok and sister company, Dongwon F&B’s processing plants. Dongwon Industries’ ULT longline fleet primarily supplies Japan for sashimi grade product. Dongwon Industries vertically integrated into brand ownership by purchasing Starkist (2008), the market leader in the US, and also owns processing facilities in American Samoa, Senegal and Ecuador. Starkist is also the leader in the higher profit pouch segment of the US market and is expanding into niche marketing and value-added products.

Dongwon F&B Co. Ltd is a branded manufacturer that controls 75-80% of the Korean canned tuna market through ownership of over 16 brands and three processing plants. Dongwon F&B has high exposure to raw material price increases; the firm is presently working to expand further into the domestic market and broaden its reach to international markets and develop value-added products, emphasizing the health and convenience of its products.

The broader Dongwon conglomerate exhibits a high degree of vertical integration, accomplished in part through M&As, where Dongwon’s affiliates integrate with each other and create opportunities for the Group as a whole to expand market and product reach. Strategic M&As that support the Group’s tuna processing business include mergers with or acquisitions of firms that specialize in tin can production for shelf-stable products, logistics, online retailing of ready-made meals, tuna processing and diversified seafood products. Reversing a long resistance to eco-certifications, Dongwon Industries has made several moves into the MSC certification market. Starkist has initiated the MSC process for US flagged longline vessels out of American Samoa, and Dongwon Industries has initiated MSC assessments for its purse seiners in the WCPO (which make a high proportion of sets on free schools) and longline operations in the WCPO and Eastern Pacific Ocean (EPO).

Dongwon has several important connections to the WCPO. Both Dongwon Industries and F&B are heavily dependent on the WCPO, particularly waters of the Parties to the Nauru Agreement (PNA), for raw material supply, and Starkist has a large processing plant in Pago Pago, American Samoa. Dongwon Industries has announced a collaboration to build a small tuna processing plant in Kiribati in an aim to secure access for highly competitive fishing days and market access to the EU (if rules of origin are met). It has also engaged in ongoing negotiations to build processing plants in exchange for access in PNG and Solomon Islands, though there has been no recent progress on these proposals.
**Bolton Foods** is part of Bolton Group – a large privately-owned company offering a wide range of consumer goods under five business units. Bolton Foods focuses on premium branded shelf-stable tuna products and has developed high quality product specifications. It wholly owns three canned tuna brands, holds shares in several other important brands and distributes tuna product to over 60 countries.

Since 1999, it has made several acquisitions to become more vertically integrated; diversified its portfolio of brands and processing operations geographically from Italy into other markets within and outside of Europe; and further secured access to raw material. Bolton’s purchase of the Saupiquet brand (1999) cemented its standing as the EU canned tuna market leader and integrated the firm into fishing with four large tuna purse seiners operating in the Atlantic and Indian Oceans. Supply from those vessels feeds non-branded processing plants in West Africa, Spain and Latin America that handle loins and finished goods production for Bolton. More recently, it purchased Calvo, acquiring Spain’s leading canned tuna brand and processing plants in Spain, El Salvador and Brazil, and a fleet of seven purse seine vessels. In 2013, it acquired a share in US global tuna trading company, Tri Marine, which strengthened its links to the WCPO and gave it access to supply, processing capacity, a niche brand in the US market and fishing vessels. Its 2015 it acquired Conservas Garavilla and its two brands, with presence in Spain, across the Americas and in North Africa, as well as processing plants in Spain, Ecuador and Morocco and four purse seine vessels.

Bolton also has processing capacity in Italy which relies on imported frozen loins. To retain competitiveness for processing facilities in Europe, Bolton pioneered the import of pre-cooked loins, and has continued to innovate mechanized canning facilities that require minimal labour. Bolton also sources some branded finished goods from processors in Spain, Thailand, Ecuador, Ivory Coast and Mauritius. It is presently focussed on growing its presence in international markets, expanding into online and convenience sales platforms. It continues to differentiate its products through premium quality and ingredients as well by developing value-added products. It has launched its ‘Responsible Quality’ programme, through which it undertakes a range of corporate social responsibility initiatives related to environment, health and labour. Partnerships with advocacy organization World Wildlife Fund (WWF) focus on sustainability and traceability.

Like other firms, Bolton is linked to the WCPO through its use of raw material from the region. It has direct links through its shareholding in Tri Marine, which owns a Solomon Islands’ flagged fleet of seven purse seiners and four pole and line vessels. Tri Marine is the majority shareholder of the Soltuna processing plant in the Solomon Islands, whose primary business is to process loins for Bolton. Tri Marine also owns six US-flagged purse seine vessels operating in the WCPO and Samoa Tuna Processors in American Samoa, which is presently not operating but leasing cold storage to Starkist.

**Princes Group** focuses on the import, manufacture and distribution of food and drink products to the grocery trade. It is a private company headquartered in the UK and owned by Mitsubishi Corporation; being a part of one of the world’s largest trading companies means that Princes has access to financial resources that enable it to act on M&A opportunities. It holds a wide portfolio of over 350 Princes’ own brand products, including Princes canned tuna, and also provides private label canned tuna for EU supermarkets. Over 70% of all sales take place in the UK, where Princes holds around 25% share of the canned tuna market, chasing Thai Union’s 35% market share with its John West brand. To improve profitability, Princes has reduced can size, and developed value-added products. Princes has high exposure to a concentrated number of buyers and is actively seeking new markets.
Princes is vertically integrated from canned tuna brand ownership into processing, with a major factory complex in Mauritius, making it a competitor to Pacific Island processors because of its duty-free access to the EU market. It complements supply with contract processing arrangements with firms in Ecuador, Thailand and the Philippines.

Princes is not planning any major changes and is remaining focussed on its existing core businesses. It is developing sales of value-added tuna products but remains constrained by price and promotional offers in the UK market in particular. Following poor performance on Greenpeace rankings, Princes committed to sourcing 100% of its supply from either pole and line fishing or purse seine fishing on free schools. Princes now sources MSC ‘wherever possible’ and is procuring fish from several MSC fisheries and several fisheries under Fishery Improvement Projects (FIP). Princes does not own boats, which makes it sensitive to raw material price fluctuations. It has no direct investments in the WCPO, but it is a leading partner with Pacific and was the first UK brand to sell tuna from the MSC certified PNA fishery.

**Bumble Bee** is a manufacturer and brander of seafood products with a focus on tuna, ready to eat meals and a range of other shelf-stable and frozen seafood and protein products in the US and Canada. It is owned by Lion Capital, a private equity firm focussed on the fast-moving consumer goods sector. In the US, the firm markets products under the Bumble Bee and Wild Selections brands and is the US leader in canned albacore, which has higher value than light meat product. It sells canned tuna, as well as a wide range of shelf-stable seafood and chicken products. In overall tuna product offerings, Bumble Bee is number two in the US market, accounting for 25% of the category in value sales. Connor Bros. is the Canadian marketing arm of Bumble Bee. It owns the Clover Leaf brand, Canada’s market leader in canned tuna, as well as Brunswick, Sweet Sue, and several other brands that sell tuna, other shelf-stable seafood and protein products.

Bumble Bee is not backward integrated into vessel ownership. Rather, to secure supply it has developed a global sourcing and production strategy that focuses on white meat product. Bumble Bee sources white meat loins from Fiji (PAFCO – Bumble Bee managed plant) and Mauritius and light meat loins from Thailand and Ecuador (and very small amounts from SSTC in Papua New Guinea), for its Santa Fe Springs plant on the west coast of the US. In addition to processing for its own brand, the Santa Fe Springs plant co-packs for Chicken of the Sea; while Chicken of the Sea’s plant located on the east coast of the US co-packs for Bumble Bee. Bumble Bee also has a strong historical relationship with trading company FCF. Bumble Bee has pursued and been the object of several M&As in recent years. It has been pursued by private equity funds seeking to increase the value of the brand before selling it for a profit. Thai Union attempted to acquire Bumble Bee, an effort that terminated in 2015 as antitrust clearance procedures stalled and opened the door to unfolding price fixing revelations among the US ‘big three’ canned tuna brands. In the wake of the US price fixing scandal, Lion Capital is unlikely to sell Bumble Bee in the near term.

Future developments focus on sustainability, traceability and product diversification, and on jump-starting the North American market after a prolonged decline. It has recently launched a catch-to-can, consumer-friendly tracking programme. In its effort to boost the stagnating US market, Bumble Bee has emphasised the health and quality attributes of its products, differentiated its products from lower quality competitors, and developed value-added product lines, including a move into the freezer aisle facilitated by its purchase of Anova Foods.

Bumble Bee has several direct links to the WCPO. It manages the majority government-owned PAFCO plant in Levuka, Fiji, which supplies its mainland US plant with albacore loins. In recent years, it has
offered PAFCO loans for cold storage and infrastructure upgrades, though high operating costs and supply concerns are ongoing. It has also purchased small volumes of loins from SSTC in PNG. Its 2013 purchase of Anova Foods deepened links to the Pacific as the firm sources from the Cook Islands and the Federated States of Micronesia, in addition to Indonesia. Anova has initiated sustainability initiatives in those locations. Bumble Bee has also announced a deal to bring Pacifical products to the US. Several exploratory initiatives, including for a loining plant in Samoa and for processing in Vanuatu, are yet to come to fruition.

**Implications for Pacific Island Countries**

Collectively, the five case study firms reveal a diversified set of strategies in the shelf-stable tuna sector. While all of the firms use M&As to expand the scope of their business portfolio, they do so in different ways and for different reasons. In some cases, this has deepened horizontal integration, expanding a firm’s traditional strength by, for example, purchasing processing plants in strategic locations, or acquiring brands that offer access to new markets. In others, they have enabled vertical integration outward from the processing node of the canned tuna value chain into direct marketing, branding, trading and/or fishing. Each firm has employed these strategies in distinct ways and to various extents.

The cases studies offer evidence of growing consolidation among leading firms with core competencies in processing and branding, though the pace of consolidation is likely to slow with many large mergers now complete or blocked by anti-trust regulation. There is a high degree of vertical integration between processing and branding, with some, but not all firms, also backward integrating into trading and/ or vessel ownership to secure supply. The large investments that several firms are making into brands offers evidence of brand rent in shelf-stable markets. This has relevance for efforts from Pacific Island countries, like Pacifical, to develop links into branding to improve returns in the region.

These features also relate to the degree in which each firm has exposure to raw material price, that is, the extent to which a firm’s profitability is influenced by fluctuations in canning-grade tuna price movements. Firms that are vertically integrated into fishing have lower exposure and may in fact benefit from raw material price increases. Processing-focussed firms with high exposure to raw material prices have adopted strategies such as investing in cold storage to hedge against such risks.

Several of the firms reviewed are financialized – that is, intertwined with transactions in which profit making and risk hedging occurs through financial channels, rather than only through trade and commodity production. Access to financial capital enables these firms to make strategic investments, counter hostile take-overs, and weather unexpected costs that might hit competitors with access to fewer resources.

In addition to these firm-specific dynamics, the analysis reveals several broader dynamics that are impactful industry-wide and have specific implications for Pacific Island countries.

As a group, branded-processors are able to weather fluctuations in raw material price, with variation among them. This might be explained by a combination of factors including (a) cross-subsidisation (e.g. boat ownership and/ or other business segments); (b) greater focus on cost control and/ or synergies from M&As; and (c) investment in new process technologies and value-added product innovation. There has been relative stability in aggregate branded-processor profit. This may relate to these firms’ market power and related ability to squeeze non-branded suppliers (of which there are many, in sharp competition among one another), capture brand rents, and ad hoc strategies such as the recent US price fixing scandal and the prior role of the Pacific Operating Committee in stabilising
canning-grade albacore price. The firms appear to have factored in, and adapted to, the PNA Vessel Day Scheme, and related WCPO initiatives such as high seas closures and limitations on and charges for FAD fishing.

Processing firms, as they form various degrees of forward and/or backward integration, continue to develop and rely on and create global procurement and production strategies to secure both raw material supply and market access. These strategies continue to be formulated around trade policy, labour productivity, and resource access.

**Product diversification** and development of value-added products is finally becoming more established in many of the major and emerging markets. If value-added products take fuller hold and spur market growth and improvements in profitability, all of those involved in the global value chain – including Pacific Island country resource owners and processing firms – will compete to capture the value added. There is an opportunity to increase yellowfin volumes caught from the WCPO – and/or to direct existing yellowfin that presently gets mixed into ‘light meat’ products – to substitute volumes supplied from the Indian Ocean to high value EU market segments, given the IOTC yellowfin stock is overfished and subject to overfishing, while WCPO stocks remain healthy.

One of the most significant recent developments in the canned tuna sector is the increasing focus on sustainability, eliminating IUU fish in supply chains, traceability and ethical labour practices. Many such efforts began as a result of external pressure from advocacy organisations and resulting demand from buyers. They have now been internalised within many firms, and/or are being developed through collaborations between firms and advocacy groups. Generally, these movements will present both costs (auditing, management and production changes) and opportunities (reputational gains, market access, potential price premiums) to fishing fleets, processors and branding and retail. It is not yet clear how these will shape raw material prices and related access fees.

Pacifical stands to be an important supplier of certified product but will also face increasing competition from other MSC certified fisheries as major fishing and trading companies (Tri Marine, FCF, Dongwon) obtain their own certifications for purse seine fishing operations in the WCPO. These competing certifications will likely have a different pricing structure which is more palatable to brand owners (i.e. MSC premiums payable on the cost of raw material (i.e. $/tonne) rather than the Pacifical model where a premium is charged on finished goods (i.e. % of gross sales value)). Competing certifications will not have compulsory labelling requirements, which is a key feature of the Pacifical model.

PICs needs to continue to conduct careful analysis of proposals from foreign companies expressing interest in investing in onshore processing developments. Companies considering making an onshore processing investment are usually doing so as a means to obtain beneficial access to fishing through guaranteed and/or discounted fishing licences. There are multiple cases of companies expressing interest in processing facilities in various Pacific Island countries which have not yet or are unlikely to come to fruition.
1. INTRODUCTION

1.1 Background

The purpose of this report is to provide industry and market intelligence to FFA members regarding the current status tuna processing industry. The analysis focusses on the light meat segments of the processing sector, but also addresses dynamics in the white meat segment where relevant. It aims to update and build on a major report published by FFA in 2011, *Market and Industry Dynamics in the Global Supply Chain*, which included a global overview of the canned tuna processing sector and profiled a number of key canned tuna processing sites.

Rather than a global overview, methodologically, this report largely focusses on five major case-study firms to demonstrate the range of industry dynamics currently in play in the processing sector. It identifies general dynamics for major processing companies and sites, and where possible, draws out the implications for Pacific Island countries. For the case-study firms selected, details are provided on operations, ownership and management structures, brand ownership and other vertical integration, mergers and acquisitions (M&A), markets, financial performance, sustainability and labour initiatives, recent changes and future developments, WCPO business interests and links with Pacific Island countries.

The report is intended for: i) general use by FFA Secretariat and FFA members to inform understanding of the structure of the tuna processing industry and key players; ii) direct use in relations with foreign investors for fisheries-development related projects; iii) understanding the dynamic interactions and discrete strategies of leading corporations in the industry, which will help Pacific Islands to differentiate between types of investors, their potential links to these firms (as suppliers, competitors, or indirectly in terms of shaping the market place); and, iv) aligning regional standards for terms and conditions of fisheries access, investment and employment with expectations of the industry, regulatory requirements and market demand.

1.2 Approach

Given the large volume of publicly available information on selected case-study firms and key developments influencing the global canned tuna processing sector, this study was largely desk-based, with some fact checking conducted with key industry contacts. The primary sources of information were industry press, company websites, company profiles, online databases (financial, mergers and acquisitions (M&A), international trade), an industry global processing capacity database, conference presentations and consultancy reports. This information was also supplemented by the consultants’ own knowledge, having been involved in the aforementioned 2011 FFA study (and various others), as well as providing bi-monthly updates on industry and market-related developments to FFA members via *FFA Trade and Industry News* since 2008.

Three major and two minor case-study firms were selected for this study on the following basis:
Table 1.1  Case study firms

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<tbody>
<tr>
<td>Thai Union</td>
<td>Major</td>
<td>Largest tuna company in the world (processing, brand owner – EU, US, Asia); significant M&amp;A activity; largest processor in Thailand; leader in sustainability and labour initiatives; investor in PNG processing plant</td>
</tr>
<tr>
<td>Dongwon Industries</td>
<td>Major</td>
<td>Large vertically-integrated tuna business (purse seine/longline fishing, processing, US and Korean brand owner); processing investments in Korea, American Samoa, Ecuador and Senegal; significant M&amp;A activity; interest in recent years in PIC investments (PNG, Solomon Islands, Kiribati)</td>
</tr>
<tr>
<td>Bolton</td>
<td>Major</td>
<td>EU canned tuna market leader; vertically integrated (fishing, processing, brand owner – EU, North Africa, Latin America, Canada); pioneer of loins processing; significant M&amp;A activity; shareholder in Solomon Islands fishing fleet and cannery</td>
</tr>
<tr>
<td>Princes</td>
<td>Minor</td>
<td>Owned by major Japanese conglomerate, Mitsubishi; competitor to PIC processors in EU market due to EU duty-free access; spot purchaser of raw materials from WCPO</td>
</tr>
<tr>
<td>Bumble Bee</td>
<td>Minor</td>
<td>One of ‘big three’ US brand owners; loin-only processing plant in US mainland; implicated in US canned tuna price-fixing and can under-filling cases; sources loins from Fiji, Majuro, Thailand</td>
</tr>
</tbody>
</table>

The report commences with an updated overview of global processing capacity and key developments and issues affecting the sector since 2011. Detailed commentary is then provided on the five case-study firms, with cross-cutting issues including the US price-fixing and can under-filling legal actions, sustainability and traceability developments, and labour issues elaborated in Boxes. The report concludes by identifying relevant implications of these branded-processing sector developments (generally and relating to the five case-study firms) for Pacific Island countries.

2  GLOBAL OVERVIEW

2.1  Global processing capacity

In 2017, global canned tuna processing capacity (whole round and cooked loins)\(^1\) was estimated to be around 16,000mt/day, representing a 12-13% increase on 2008 levels of 14,220mt/day (Table 1).\(^2\) The total number of processing plants has also increased from an estimated 144 in 2008 to at least 215 in 2017. Whole round fish represents around 85% of raw material throughput (~13,750mt/day). Frozen cooked loins account for around 15% (~2,282mt/day) and are mostly used by processors in the US mainland, Spain and Italy. Including loin-only processing capacity in estimates results in double-counting, as the capacity has already been captured in estimates of whole round production. Taking this into account, a more accurate estimate of global canned tuna processing capacity is around 13,700mt/day.Assuming a global average of 220 production days per year,\(^3\) the total global annual...\)

\(^1\) Based on current raw material throughput (mt/day)

\(^2\) Hamilton et. al. 2011

\(^3\) Total number of production days per year typically ranges from 200-250 days
Canning-grade raw material requirement is around 3 million mt of whole round fish (skipjack, yellowfin and albacore). Based on the 2016 global tuna catch of 4.8 million mt, an estimated 3.1 million mt would likely have gone into shelf-stable tuna production (almost 65% of total global catch); 2.9 million mt of which was skipjack and yellowfin sourced from purse seiners (~93%); 100,000-120,000 mt of longline-caught albacore, with the remaining small volume being skipjack and yellowfin from pole and line vessels.4

In 2017, the top five canned tuna processing countries by volume were: 1) Thailand (3,490 mt/day); 2) Ecuador (1,635mt/day); 3) Spain (1,275 mt/day); 4) Mexico (725 mt/day); and, 5) Philippines (510 mt/day).5

In WCPO, there were seven Pacific Island country processing plants operational in 2017 with a combined throughput of 595mt/day, representing 4% of global production. PNG has the largest capacity with four canneries in operation – RD Tuna Canners (80mt/day), Frabelle (55mt/day), South Seas Tuna Corporation (120mt/day) and Majestic Seafoods (60mt/day); followed by Solomon Islands’ Soltuna (130mt/day), Fiji’s PAFCO (120mt/day) and Marshall Islands’ Pan Pacific Foods (30mt/day).

Table 2.1 Global canned tuna/cooked loins production (mt/day), 2017

<table>
<thead>
<tr>
<th>Processing Site</th>
<th>No. of Processors</th>
<th>Total Production</th>
<th>Loin Only</th>
<th>Total Production less Loin Only</th>
<th>% of Global Annual Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>4</td>
<td>1,285</td>
<td>835</td>
<td>450</td>
<td>3%</td>
</tr>
<tr>
<td>Ecuador</td>
<td>20</td>
<td>1,635</td>
<td>0</td>
<td>1,635</td>
<td>12%</td>
</tr>
<tr>
<td>Mexico</td>
<td>17</td>
<td>725</td>
<td>0</td>
<td>725</td>
<td>5%</td>
</tr>
<tr>
<td>Rest of Central/South America</td>
<td>18</td>
<td>645</td>
<td>0</td>
<td>645</td>
<td>5%</td>
</tr>
<tr>
<td>Spain</td>
<td>9</td>
<td>2,030</td>
<td>755</td>
<td>1,275</td>
<td>9%</td>
</tr>
<tr>
<td>Italy</td>
<td>10</td>
<td>520</td>
<td>341</td>
<td>179</td>
<td>1%</td>
</tr>
<tr>
<td>France</td>
<td>4</td>
<td>136</td>
<td>45</td>
<td>91</td>
<td>1%</td>
</tr>
<tr>
<td>Portugal</td>
<td>4</td>
<td>135</td>
<td>46</td>
<td>89</td>
<td>1%</td>
</tr>
<tr>
<td>West &amp; East Africa/Indian Ocean</td>
<td>13</td>
<td>1,860</td>
<td>0</td>
<td>1,860</td>
<td>14%</td>
</tr>
<tr>
<td>North Africa</td>
<td>13</td>
<td>144</td>
<td>70</td>
<td>74</td>
<td>1%</td>
</tr>
<tr>
<td>Israel</td>
<td>4</td>
<td>120</td>
<td>120</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Turkey</td>
<td>4</td>
<td>65</td>
<td>20</td>
<td>45</td>
<td>0%</td>
</tr>
<tr>
<td>Thailand</td>
<td>28</td>
<td>3,540</td>
<td>50</td>
<td>3,490</td>
<td>25%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>13</td>
<td>365</td>
<td>0</td>
<td>365</td>
<td>3%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>12</td>
<td>420</td>
<td>0</td>
<td>420</td>
<td>3%</td>
</tr>
<tr>
<td>Philippines</td>
<td>7</td>
<td>510</td>
<td>0</td>
<td>510</td>
<td>4%</td>
</tr>
<tr>
<td>Korea</td>
<td>5</td>
<td>440</td>
<td>0</td>
<td>440</td>
<td>3%</td>
</tr>
<tr>
<td>Japan</td>
<td>12</td>
<td>184</td>
<td>0</td>
<td>184</td>
<td>1%</td>
</tr>
<tr>
<td>China</td>
<td>11</td>
<td>680</td>
<td>0</td>
<td>680</td>
<td>5%</td>
</tr>
<tr>
<td>Western &amp; Central Pacific Ocean</td>
<td>7</td>
<td>595</td>
<td>0</td>
<td>595</td>
<td>4%</td>
</tr>
</tbody>
</table>

Total: 215 16,034 2,282 13,752 100%

Source: Industry Database 2018

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4 Personal communication, industry source, June 2018
5 Industry database 2018
Thailand remains the world’s largest canned tuna processor (almost 3,500 mt/day), accounting for around 25% of global production. Given Thailand does not have a sizeable national tuna fishing fleet, it continues to rely heavily on raw material imports. From 2013-2017, Thailand’s total whole round imports have fluctuated between 650,000-750,000mt/year; the 2017 volume (676,770mt) was 9% lower than the 2013 volume of 747,169 mt; but was higher than the five-year low in 2015 of 656,463mt (Appendix 1.1). Import volumes dropped in 2017 due to slower catches and consequently, higher raw material prices (peaking at USD 2,100-2,200 in October 2017), resulting in processors running down existing inventories of lower-priced raw material in cold storage. Several fishing fleets also diverted some catch to other markets (i.e. Ecuador, China, Vietnam, Korea). Given high fish prices in 2017, demand from canned tuna buyers also slowed, resulting in a corresponding decrease in exports of finished goods from Thailand. In 2017, total canned tuna exports (including pouches) was 485,586mt, almost 12% lower than the 2016 level (554,002 mt) (and 10% lower than 2013). Thailand exports canned tuna to around 180 countries. In 2017, Thailand’s top three export markets were USA (89,375mt; 18%), Australia (39,943mt; 8%) and Japan (36,353mt; 7%) (Appendix 1.1). Thailand’s processors focus more on non-EU markets, given they have a 24% import duty disadvantage compared to some other major competing processing sites with duty-free access to the EU under various preferential trade agreements (i.e. Ecuador, Mauritius, Seychelles, Philippines, PNG) (see Section 2.2). Also, with the Thai Government implementing much stricter requirements relating to EU catch documentation in an effort to close out a ‘yellow card’ warning under the EU’s IUU fishing regulation, the volume of fish eligible for export to the EU has reduced.

The EU is the world’s largest market for canned tuna, consuming around 745,000mt in 2016. Approximately 360,000mt was produced by EU processors, with Spain still the largest producer in 2017, accounting for 67% of EU production (~240,000mt) and Italy, 21% (75,800mt). France and Portugal each produced 6% (~20,000mt). Of this production, only a small volume was exported out of the EU-region (~26,500mt; 7%); with the remainder consumed domestically or traded between EU-members (EU-intra community). In 2017, around 404,000mt of shelf-stable tuna was imported from third-countries into the EU (EU-extra community) (Appendix 1.2). The volume imported fluctuated during 2013-2017, between 395,000-410,000mt. Since 2013, there has been an overall 2% decline from 410,000mt. In 2017, the largest EU importers were United Kingdom (UK) (24%), France (15%), Germany (15%), Netherlands (13%), Spain (10%) and Italy (10%). The UK imported around 95,000mt, while France and Germany both imported around 60,000mt. Between 2013-2017, volumes imported into the UK and France declined by 8% and 22%, respectively. Conversely, imports into Netherlands and Spain increased by 35% and 42%. Minor declines were experienced by Italy (-3%) and Germany (-1%). Ecuador is the largest producer of canned tuna for the EU market, supplying 94,866mt (23%) in 2017, followed by Seychelles (51,761mt; 13%) and Mauritius (47,266mt; 12%). All three countries have duty-free access for canned tuna (and loins) to the EU. Notably, import volumes from the Philippines and Papua New Guinea (PNG) both increased by 48% between 2013-2017, while Thailand dropped considerably by 57%. In 2017, Philippines accounted for 11% of EU imports (29,931mt) and PNG and Thailand both 7% (27,748mt and 26,797mt, respectively). EU tuna processors also import frozen cooked loins to convert into finished goods. In 2017, a total of 135,152mt of loins were imported (approximately 320,000mt whole round equivalent)\(^1\), a 27% increase on volumes imported five-years earlier.\(^1\)

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\(^6\) Personal communication, industry source, June 2018  
\(^7\) Thai Customs 2018  
\(^8\) Personal communication, industry source, June 2018  
\(^9\) Vieites 2018; net finished goods weight  
\(^10\) Vieites 2018  
\(^11\) Assuming an average 42% loin recovery rate
prior in 2013 (106,207mt). Spain accounted for 61% and Italy 27% of imported loins in 2017, with small volumes into Portugal (5%) and France (4%). The majority of loins are supplied by Ecuador (51,940mt; 38%). PNG and Solomon Islands loin imports accounted for 9% (12,093mt) and 5% (6,477mt), respectively; volumes sourced from Solomon Islands, largely for Italy, grew 64% between 2013-2017.

The US is the world’s second largest shelf-stable tuna market, consuming over 30 million cases at a value of USD 1.8 billion in the 12-month period from March 2017-2018.\textsuperscript{12} Shelf-stable tuna products account for almost 75% of total shelf-stable seafood sales. Finished goods for the US market are sourced from two loin-only plants based in the US mainland and from the US territory, American Samoa. Finished goods are also imported from around 35 countries – the most significant suppliers being Thailand, Ecuador, Vietnam, Indonesia, Philippines, Mexico and China (Appendix 1.3). In 2017, 141,488mt\textsuperscript{13} of canned tuna and pouches were imported from third-countries. This represented an overall 10% decline since 2013 (157,613mt). Thailand remains the highest supplier of shelf-stable tuna products to the US market, accounting for 51% of total imports in 2017 (71,575mt), although the volume has declined 14% between 2013-2017. In 2017, Ecuador was the second highest supplier (19,914mt; 14%), with volumes increasing 21% since 2013. Imports from Vietnam remain fairly stable at 18,835mt. Frozen cooked loin import volumes have declined (-17% from 2013-2017), totalling 57,838mt in 2017. China and Thailand are the highest suppliers of loins (32% and 31%, respectively). Fiji is also a significant supplier of loins with stable volumes over the past five years of around 11,000-12,000mt/year.

2.2 Developments/key issues

There are a range developments and key issues which have impacted canned tuna processors globally – some of which have emerged over the past 3-5 years; several others are fairly long-standing and were identified in the former 2011 FFA study. A brief summary is provided below, with a number of these issues further discussed in firm case-studies and boxes (see Section 3).

- **Overcapacity:** The global canned tuna processing industry continues to suffer from overcapacity, with a majority of plants still operating below their full capacity. However, investment in new processing plants and expansion of existing plants continues to take place, exacerbating the overcapacity issue.

- **Raw material sourcing and pricing:** Despite efforts to strengthen management of tuna fisheries in all four oceans, global catch continues to rise. In 2011 (when the previous FFA study was published), global tuna catch was 4.25 million mt. In 2016, global tuna catch was 4.85 million mt, representing a 14% increase and was the second highest on record, after reaching 4.92 million mt in 2014.\textsuperscript{14} Hence, projected long-term tightening of raw material supplies and associated long-term fish price increases have yet to come to fruition. Cyclical short-term term price increases continue, which places considerable pressure on processors in times of higher prices. For example, in May 2018, the Bangkok skipjack price peaked at US $1,800/mt. Three months later, August 2018 contracts are closing at US $1,200/mt.\textsuperscript{15} Given the unfavourable stock status of yellowfin in the Indian Ocean and associated catch quota introduced to rebuild the stock, some processors, particularly in the Indian Ocean are facing yellowfin raw

\textsuperscript{12} Melbourne 2018  
\textsuperscript{13} Net finished goods weight  
\textsuperscript{14} SPC 2017  
\textsuperscript{15} Personal communication, industry source, June 2018
material shortages. Also, fishing fleets catching Indian Ocean yellowfin are currently unable to obtain MSC certification for yellowfin, which reduces the marketability of their catches to processors/brand owners with MSC-related sustainable sourcing policies in place.

- **Increasing operating costs:** Canned tuna processors continue to be faced with increases in the cost of key production inputs. Notably, the cost of empty cans has increased, given rising steel costs used to manufacture tin plate, as well as ingredients such as olive oil. Retailers typically push hard on processors and brand owners to minimise finished goods price increases which are difficult to pass onto consumers, given the high price elasticity of canned tuna. Hence, increases in production costs are largely absorbed by processors, who continue to look for innovative ways to cut costs.

- **Mergers & Acquisitions:** Consolidation of the global canned tuna industry has continued to take place through mergers and acquisitions (M&As). Much of the M&A activity has been carried out by a number of large multinational companies who dominate the industry, typically as a means of increasing their portfolio of brands, increasing processing capacity, expanding into new markets and/or minimising expansion of key competitors. M&A activity has taken place within the tuna and other seafood sectors, for both shelf-stable and frozen products (see Section 3 for M&A activity of case-study firms). However, future major M&As in the global tuna market are reportedly unlikely, as “the most attractive deals have already been done”, with the exception of Latin America, where there are still a number of sizeable, independent companies that might be suitable M&A candidates.

- **US legal challenges:** US canned tuna brands have faced legal challenges for under-filling cans and for collusion in a price-fixing scheme. In addition to costly fines and settlement claims and sentencing of company executives, the brands’ reputations have suffered in the market place (see Section 3.5, Box 3).

- **EU-preferential trade developments:** A number countries with significant canned tuna and frozen cooked loin processing capacity and who compete with Pacific Island processors in the EU market, have concluded or are in the process of negotiating preferential trade agreements with the EU. In 2013, Thailand (the world’s largest tuna processor) launched free-trade agreement (FTA) negotiations with the EU, however talks were suspended in 2014 due to the military takeover in Thailand. In 2014, Philippines obtained EU-GSP+ status and Ecuador concluded an FTA, providing both countries with a 24% duty-exemption for canned tuna and loins. In 2016, the Vietnam-EU FTA came into effect. In response to defensive lobbying by the European tuna processing industry, canned tuna and loins were deemed to be a ‘sensitive agricultural product’. Hence, rather than a full duty exemption on unlimited volumes, a tariff rate quota of 11,500mt was established for canned tuna imports from Vietnam (with any volumes above this being charged 24% import duty). The tariff on loins will be gradually liberalised (by 3% per year) from 24% in 2016 to 0% in 2024. In 2016, Indonesia and the EU launched FTA negotiations. In 2017, preparations began for EU-ASEAN to re-commence negotiations for a region-to-region FTA. With a precedent set with Vietnam, it is likely that canned tuna/loins will be treated as ‘sensitive’ for any future EU-FTA’s with ASEAN nations (and possibly, globally), resulting in limited preferential market access. However, any tariff liberalisation, whether full or partial, disadvantages PIC processors, who have considerably

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16 Undercurrent News, 26 June 2018
17 Intrafish, 29 May 2017
18 FFA Trade & Industry News - various
higher operating costs than most other developing tuna processing countries.

- **EU-IUU fishing yellow cards**: The EU has issued ‘yellow card’ warnings to a number of countries for being potentially uncooperative with the EU’s requirements for curbing illegal, unreported and unregulated fishing (IUU). If adequate improvements are not made to a country’s legislative and operational systems for dealing with IUU, the ‘yellow card’ warning is upgraded to a ‘red card’, with access to EU markets for fish and fisheries products suspended. In recent years, yellow cards have been issued to six Pacific Island countries. Fiji, Solomon Islands, Vanuatu, PNG and Tuvalu have all had their warnings lifted, while Kiribati’s still remains in place. A number of other countries with significant tuna fishing and/or processing interests have also been warned. Philippines’, Korea, Ghana and Panama’s warnings have been lifted, while Vietnam, Thailand and Taiwan’s remain in place.\(^{19}\)

- **Private label vs. branded products**: Supermarkets continue to dominate retailed canned tuna sales globally, with private-label house brands providing strong price competition to national brands. In the EU, the world’s largest market for canned tuna, private label dominates the market in Spain (65-75%) and Germany (no data available). Conversely, branded tuna sales are higher than private label in the UK (~60%), Italy (~80%), France (~60%) and the Netherlands (~85%).\(^{20}\) In the US and UK markets, brand owners have managed to regain some market share from private labels. For example, in March 2012, private label accounted for 16.8% in value terms of the US shelf-stable tuna market; in March 2018, private label’s market share had reduced to 11.8%.\(^{21}\) In 2014, private label sales in the UK market reduced by 16% in volume terms, while the two branded market leaders John West and Princes gained market share.\(^{22}\) In 2018, the UK private label market remained stagnant.\(^{23}\) US and UK brands have regained market share through investment in customer engagement initiatives (e.g. product and point of sale innovation, marketing campaigns on health benefits of tuna, sustainability initiatives, etc).

- **Sustainability, traceability and labour requirements**: In response to growing public concern and e-NGO lobbying, key tuna industry players have committed to, and made considerable investments in, developing dedicated initiatives relating to sustainable fisheries, transparency through comprehensive plate-to-catch traceability systems and ethical labour guidelines and practices (see Section 3 for case-study firm examples and Boxes 1 & 2). The growing ubiquity of such requirements suggests that they are now permanent fixtures of the industry and all players will intersect with them to some extent.

- **Product innovation and value-addition**: In recent years, there has been a significant effort on the part of processors and brand owners to develop innovative and value-added product lines, as a means of combatting high raw material costs and meeting changing consumer preferences. Products have been developed focussing on attributes such as health and wellness, convenience/on-the go, specialty/niche ranges and sustainability (see Section 3 for specific examples by case-study firms).

\(^{19}\) FFA Trade & Industry News - various
\(^{20}\) Hamilton et. al. 2011; obtaining updated figures was beyond the scope of the study’s terms of reference
\(^{21}\) Atuna, 22 June 2016; Melbourne 2018
\(^{22}\) Atuna, 3 June 2016
\(^{23}\) Brus 2018
Pet food production: Some processors, particularly in Thailand, are increasingly diversifying into high-quality pet food production, capitalising on the growing trend of ‘humanization of pets’, where pet owners elevate the status of pets to being a fully family member and seek high quality, natural, meat-based and nutritious food for them. Pet food markets in the US, Japan and some ASEAN countries are providing a higher value use for dark-meat (a by-product from cleaning loins), then selling for human consumption to lower-income consumers in countries such as PNG and Solomon Islands. While global production volumes of pet food are minor compared to that for human consumption, high quality pet food products can attract significant premiums. For example, in the US, at Walmart a 5oz (4oz drained weight) StarKist chunk light skipjack retailed for US $1.65 (US $0.33/oz), while a 3oz can of Purina Fancy Feast grilled tuna in gravy costs US $1.48 (US $0.50/oz) in December 2017.24

Packaging innovation: While packaging materials for shelf-stable tuna products are largely recyclable (i.e. glass jars, tin cans, cardboard outer packaging), some processors and brand owners are introducing changes to packaging to be more environmentally friendly and/or cost effective. Some examples include making cans thinner to reduce the amount of tin plate used, reducing plastic wrapping around finished goods during warehousing and using recycled cardboard for outer packaging.25

Marketing platforms: A number of brands are expanding their marketing platforms from traditional retail outlets to offer shelf-stable tuna products online (e.g. via Amazon), given the growth in internet shopping. Point of sale displays in retail outlets are also being modernised by some brands to differentiate themselves from competitors and to be more appealing to customers (see Section 3 for specific examples by case-study firms).

Brexit: Given the UK is Europe’s largest imported canned tuna market, there is some nervousness from processors and brand owners exporting shelf-stable tuna products to the UK on potential negative impacts of the UK’s withdrawal from the European Union (‘Brexit’). The implications for the tuna industry are not yet well understood, but areas of concern include how the UK intends to implement an IUU fishing regulation, preferential trade arrangements for developing countries benefiting from duty exemptions under Economic Partnership Agreements (EPAs), GSP and GSP+ schemes, import logistics including documentation (i.e. health certificates, certificates of origin), and food health, safety and labelling requirements and associated lists of approved third countries and establishments (i.e. vessels and processing plants).26
# CASE STUDY FIRMS

## 3.1 Thai Union

### 3.1.1 Company overview

Thai Union Group Public Company Limited and its subsidiaries (henceforth, Thai Union or TU) is listed on the Stock Exchange of Thailand. Almost 66% of its shares are publicly floated and the major shareholders are the families of the corporation’s founders and current executive managers (Chansiri Family 21.0%; Niruttinanon Family 6.9%), the Mitsubishi Corporation (7.3%), Thai NVDR, which issues Non-Voting Depository Receipts (7.4%), and the Thai Social Security Office (6.2%).

Thai Union’s strategic direction has tended to emphasise expanding sales, especially via M&As, and it has pursued aggressive sales targets oriented to positioning itself as the leading global seafood business. In 2010 it set the target of USD 4 billion in sales by 2015, which it achieved in 2017 (Figure 3.1); and in 2015 it set the target of USD 8 billion in sales by 2020.

In 2017, TU management shifted its strategic emphasis to focus more fully on profitability.

Thai Union organises its business into three divisions, all centred on seafood:

1) **Shelf-stable seafood** based on tuna, sardine, salmon, mackerel and herring. Sales in this category were THB 62.3 billion (USD 1.9 billion) in 2017, representing 46% of the Group’s total sales. Shelf-stable tuna products are TU’s leading product category, as they have been since Thai Union was founded in 1977 as a non-branded canned tuna processor. In 2017, around 57% of shelf-stable sales were of its own brands, with contract manufacturing of private label product making up the rest.

Thai Union is also a major buyer of loins.

Thai Union has emerged as the world’s leading canned tuna corporation through a process of investment in its factories and M&As (Figures 3.1 and 3.2). It produces around 18% of annual world production in volume of finished canned tuna. It owns the leading canned seafood brands in France and the UK, which are EU’s two leading import markets for canned tuna (see Section 2.1).

In France, Thai Union owns Petit Navire for seafood and Parmentier for sardines (totalling ~36% market share); and the brand John West which is important in the UK (~37% market share), the Netherlands and Ireland. In the USA, TU owns Chicken of the Sea (with 14% share, it is the third largest US canned tuna brand) and King Oscar (~79% share of the shelf-stable sardine market). In Italy it owns Mareblu, which is now the second largest brand on the high-value Italian canned tuna market with 6% share, and in 2017 diversified into tuna value-added products.

2) **Frozen & chilled seafood and related products** based on shrimp, salmon, lobster, and others. Sales in this category were THB 56.1 billion (USD 1.7 billion) in 2017, around 41% of the Group’s total sales. Contract processing of food service products is the leading sub-segment. But its own brand retail

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27 Thai Union Frozen Products PCL (TUF) was changed to Thai Union Group PCL (TU) in 2015 and subsidiaries MW Brands SAS and Thai Union International Inc. were changed to Thai Union Europe and Thai Union North America, respectively.

28 Thai Union 2018a, p.51

29 Thai Union 2015, p.11

30 Thai Union refers to this category as ‘ambient’. For consistency, ‘shelf-stable’ is used throughout this report.

31 Thai Union 2018b, p.57

32 Thai Union 2016a, p.8

33 Market share data from TU, AC Nielsen and IRI as cited by RHB Securities 2017, p.6; Melbourne 2018; Atuna, 1 June 2017
and food service products, such as Chicken of the Sea Frozen Foods, total around 35% in value.\textsuperscript{34} TU also processes and markets shrimp feed under this division and is Thailand’s second largest producer with an annual capacity of 330,000mt.\textsuperscript{35}

3) \textbf{PetCare, ‘value-added’ and others} represented 13% (THB 18.1 billion or USD 0.5 billion) of the Group’s total sales in 2017. Thai Union’s own brands only accounted for about 9% of this division, with the rest contract manufactured for clients.\textsuperscript{36} This division is broken down into four sub-segments, many of which command higher margins than the prior two divisions:

\textit{Pet food}: Wet seafood-based cat food and dog food contributes the largest share in this division uses tuna meat not used in principal market human consumption (e.g. dark meat). This is an important strategic item in terms of using ‘waste’, but it also means that when tuna price is high TU’s pet food lines are less profitable compared to competing animal proteins.\textsuperscript{37}

\textit{Ready to eat and value-added products}: For example, surimi-based fish snacks, canned cod liver, ready meals, cooking sauce, bakery products, and fish and shrimp by-products (further processed into fish meal and fish oil).

\textit{Inputs}: Empty cans for shelf-stable seafood, printing for can labels, etc.

\textit{Marine Ingredients}: Developing high-quality by-products from fish skin and bone from its own processing facilities, sold to manufacturers of infant formula, cosmetics, dietary supplements and clinical nutrition.

Thai Union is a highly diversified seafood business that is largely dependent on two species: tuna and shrimp. TU is generally able to rely on greater certainty of raw material supply in its shrimp business, which is based on aquaculture.\textsuperscript{38} Ensuring stability of tuna supply is crucial. TU maintains a large raw material inventory (around 30% of total assets in 2017),\textsuperscript{39} which introduces storage costs and, while it offsets risk of poor supply, it also introduces risk that TU will have to absorb raw material price declines. Vulnerability to shifting global tuna supply appears to have contributed to TU’s various attempts to diversify into other processed seafood segments in recent years (i.e. reducing risk of exposure to tuna raw material movements and simultaneously playing to the company’s core strength as a world-class processor).

In 2017, Thai Union set up a \textbf{Global Procurement Team} in response to the risks associated with tuna supply (i.e. reduced catch rates in the Eastern Pacific Ocean (EPO) and Western Indian Ocean (WIO)), increased regulation such as the Western and Central Pacific Ocean (WCPO) fish aggregation device (FAD) closure, and attempts by coastal states to process onshore). The logic is to centralise its purchasing power – which already exhibits a high degree of influence – and to better ensure traceability in the context of growing demands for sustainability in many markets.\textsuperscript{40}

On a different tack, TU is seeking to better valorise its business, especially by developing new value-added products (such as deli-style yellowfin tuna slices, launched in the US in 2017 and forthcoming in the USA) and processing high-quality by-products at the Marine Ingredients unit noted above. TU management aims to have these kinds of ‘innovation’ contribute 10% of total revenue by 2020.\textsuperscript{41}

\begin{flushright}
\begin{tabular}{l}
34 Thai Union 2018b, p.58 \\
35 Thai Union 2016a, p.11 \\
36 Thai Union 2018b, p.58 \\
37 Thai Union 2018, p.139 \\
38 Thai Union 2016a, p.11; except major disease outbreaks such as the Early Mortality Syndrome epidemic in Thailand in 2013-2014 which effectively halved shrimp production and from which the Thai industry had still not recovered in 2017 (Thai Union 2018, p.83 and 139). \\
39 Thai Union 2018b, 140 \\
40 Thai Union 2018b, p.139 \\
41 Thai Union 2018b, p.8 and 13; Atuna, 18 April 2018
\end{tabular}
\end{flushright}
3.1.2 Company strategies

**Vertical integration**

Thai Union’s core business is the manufacture of seafood for its own brands (36% of total 2017 sales) and as a private label processor for clients (52%). Branded shelf-stable seafood sales are estimated to contribute as much as 70% to TU’s gross profit. It is also involved in food services (12%), most recently and significantly via the acquisition of the North American Red Lobster chain of over 700 seafood restaurants. Buying factories has given TU strategic access to raw material and processing facilities in the Eastern Tropical Atlantic (ETA) and WIO oceans, duty-free access to the EU through Ghana and Seychelles’ respective IEPAs, and allowed it to ‘tariff hop’ when accessing the US via the former COSI factory in American Samoa and, when it divested there in 2009, in its new canning-only factory in Georgia in the mainland US. The Ghana and Seychelles canneries are also strategic because TU can shift emphasis of EU-centred production according to regional fluctuations in raw material availability and prices. Thai Union owns 17 production facilities in North America, Europe, Africa and Asia. Several of these are tuna processing factories, including:

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42 Thai Union 2018b
43 Atuna 2 August 2016 and 1 May 2017
44 Here TU followed a familiar strategy – it had been a major supplier to Red Lobster for around 20 years meaning that it has a good understanding of its business before investing.
45 In 2017, TU invested another USD 1.4 million in improvements at the Georgia facility. Atuna 08 August 2017
46 Hamilton et al. 2011
Thai Union is no longer backward integrated into boat ownership. It put its small fleet of purse seiners up for sale in 2016 – acquired when it bought MW Brands in 2010 – and completed divestment in 2017. These boats were relatively old and reportedly not profitable. This also allows TU to pass on the commercial and reputational risks of boat ownership, but it is not able to cross-subsidise when the tuna price is very high, as in 2017.

A central pillar of Thai Union’s corporate strategy over the last 20 years has been to forward integrate into brand ownership (see Table 3.1), most notably in 1997 with Chicken of the Sea and 2010 with MW Brands (now, Thai Union Europe). Forward integration enables TU to capture a greater proportion of the value in the global supply chain through brand rents: gross profit from TU’s branded shelf-stable seafood sales was 19% in 2017, 22% in 2016 and 24% in 2015, compared with 11%, 10% and 12% respectively for its private label sales.

In 2015, TU attempted to acquire Bumble Bee Seafoods from Lion Capital. TU was motivated to conclude the sale because Bumble Bee had “a better margin than the rest – this is the most attractive part of it”, and to counter Starkist’s ongoing category leadership in canned light meat in the US market (see Section 3.2). Thai Union set out an offer of USD 380 million in preferred stock to existing shareholders to finance the estimated USD 1.51 billion acquisition of Bumble Bee. Given TU already owns Chicken of the Sea and would extend market power from the merger, the US Department of Justice (DoJ) launched an antitrust investigation. A subsequent class-action lawsuit on price fixing against the big three US canned tuna brands in August 2015 (see Box 3) further undermined the M&A. TU and Lion Capital agreed that the regulatory issues facing the M&A would be challenging (at best) and terminated the arrangement. Following this, the DoJ Antitrust Division stated that “Consumers are better off without this deal. ... [T]he market is not functioning competitively today, and further consolidation would only make things worse”. This outcome resulted in a short-term fall in the value of TU shares and a stumbling block in reaching the planned USD 8 billion in sales by 2020.

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47 Seaman 2015a
48 Thai Union 2017, p.38 and 2018a, p.39
49 Personal communication, Thai industry source, 24 April 2015.
50 Ono 2015; Reuters 2015. Holders of preferential shares would have been entitled to dividends before those paid to common stock holders (listed above) are issued.
51 Smith 2015
52 FIS, 4 December 2015
53 Department of Justice 2015

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Table 3.1  Thai Union – corporate timeline, with a focus on tuna and M&As

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1977</td>
<td>Thai Union Manufacturing Co. Ltd. Founded – an export-oriented canned tuna processor</td>
</tr>
<tr>
<td>1981</td>
<td>Subsidiary Songkla Canning PCL established</td>
</tr>
<tr>
<td>1988</td>
<td>Thai Union Frozen Products PCL founded – produces and exports frozen seafood</td>
</tr>
<tr>
<td>1992</td>
<td>Strategic partnership with Japan’s Hagoromo Foods and, especially, Mitsubishi</td>
</tr>
<tr>
<td>1994</td>
<td>Listed on the Stock Exchange of Thailand as Thai Union Frozen Products PCL (TUF)</td>
</tr>
<tr>
<td>1997</td>
<td>Acquires Chicken of the Sea in partnership with Tri Marine International and Edmund A. Gann (a US boat owner)</td>
</tr>
<tr>
<td>2000</td>
<td>Acquires full ownership Chicken of the Sea</td>
</tr>
<tr>
<td>2003</td>
<td>Acquires Empress International Ltd. to improve seafood distribution capacity in the U.S.</td>
</tr>
<tr>
<td>2005</td>
<td>Chicken of the Sea Frozen Foods established to market frozen seafood in the U.S.</td>
</tr>
<tr>
<td>2008</td>
<td>Majority stake in Vietnam-based canned shellfish and tuna producer, Yueh Chyang Canned Food Ltd (YCC)</td>
</tr>
<tr>
<td>2009</td>
<td>Established joint-venture (JV) in PNG - Majestic Seafood Corporation</td>
</tr>
<tr>
<td>2010</td>
<td>Acquires MW Brands for €680 million (now Thai Union Europe), producer and distributor of private label and branded shelf-stable seafood (John West, Petit Navire, and Mareblu)</td>
</tr>
<tr>
<td>2014</td>
<td>Acquires MerAlliance SAS, the largest producer of smoked salmon in France and the fourth largest Europe-wide</td>
</tr>
<tr>
<td>2014</td>
<td>Acquires King Oscar AS of Norway, the number one canned sardine brand in USA, Norway and Australia</td>
</tr>
</tbody>
</table>

Note: M&As refer to mergers and acquisitions.
Markets

Thai Union’s major markets are the USA (38% of 2017 sales), Europe (32%), Thailand (10%) and Japan (6%) – proportions that have remained relatively stable over the last five years, except for a 2014 uptick in the USA (see Figure 3.2). The remaining sales (15% in 2017) are made in a diversity of emerging markets (see below).54

TU’s shelf-stable tuna sales were USD 1.4 billion in 2015 (37% of total sales), which was led by its brands with 55% of total shelf-stable sales.55 This represents a significant diversification from 2013 where tuna constituted 47% of TU’s total sales.56 The company sought to address the problem of rising raw tuna material prices by increasing the average selling price of its shelf-stable products by 3.2% in 2017. However, this had the unintended consequence of reducing the volume of shelf-stable sales by 3% as consumers bought less, especially in Europe, possibly substituting with other types of animal protein.57

While the Chicken of the Sea brand was the largest US seafood company by revenue in 2015, including the top importer of frozen shrimp and pasteurized crabmeat,58 it remains in third position in the US canned tuna market in volume and value. It has, however, improved this position from 13% of value share in 2015 to 14.9% in 2017.59 Nonetheless, Chicken of the Sea remains a low-margin follower brand, especially vis-à-vis StarKist with whom it competes more directly on canned light meat (especially skipjack), with Bumble Bee tending to specialise in canned white meat (albacore). As one Thai executive put it: ‘Starkist drives the light meat market and Chicken of the Sea has to follow below its price point’.60

Thai Union is better positioned in Europe, where canned tuna consumption grew by 3% between 2016 and 2017.61 Thai Union Europe (former MW Brands) is TU’s largest single division by sales. John West UK increased its UK retail market share from 29.9% in 2013 to 37.1% in 2015 through a combination of successful new products (e.g. ‘No drain’ tuna in 2013, flavoured ‘infusion’ tuna in 2015) and an award-winning rebranding and advertising campaign.62 Nonetheless, competition remains brutal in UK grocery retail (see also Section 3.5). In July 2016 Tesco stopped selling 20% of John West tuna products in its UK shops, justifying the delisting with its sustainability policy. A John West spokesperson countered that this ‘was driven by commercial negotiations as much as sustainability considerations’, an opinion that is borne out by evidence of Tesco’s mistreatment of suppliers.63 The UK-based John West Foods did almost 80% of its 2016 turnover in the UK, and the rest in other countries, especially the Netherlands and Ireland, where it is market leader. John West reported record gross profits of 14% in 2015, which dropped to 10.2% in 2016 following the post-Brexit devaluation of the Sterling, but with a 7.6% increase in turnover driven by higher volume sales.64 TU is hoping to use its take-over of Rügen Fisch (Table 3.1) to better leverage its way into Germany, the EU’s fastest growing canned tuna market, but its attempt to market John West there faces stiff competition with Bolton’s leading Saupiquet brand (section 3.3) and the dominance of private label.65

54 See also Campling 2015 for detail on several emerging canned tuna markets.
55 Thai Union 2016a, p.6
56 Thai Union 2014, p.23
57 Thai Union 2018b, p.146
58 Thai Union 2018b, p.16
59 Melbourne 2016 and 2018.
60 Personal communication, Thai industry source, 24 April 2015.
61 Vietes 2018
62 Thai Union 2016b, p.27; John West 2012
63 Rodionova 2016; Havice et al. 2016
64 John West 2017, p.4; Atuna, 14 September 2016
65 Havice and Campling 2017; Atuna, 21 December 2015
TU has also benefitted from booming sales of canned tuna in the French market (see Section 3.5), where TU’s France business recorded USD 310 million in volume-driven sales in 2017, a 10% growth on 2016. However, TU’s Director General has expressed concerns around WIO supply, especially of yellowfin, which remains crucial to its Petit Navire brand, even though it announced a 20% voluntary reduction in use of this species in 2016 for sustainability reasons.\textsuperscript{66}

**Figure 3.2** Thai Union total sales by geographical region, 2013-2017

![Bar chart showing Thai Union's total sales by geographical region from 2013 to 2017.](source)

Given that approximately 90% of Thai Union’s sales are in foreign currencies (mainly in USD, EUR, GBP and JPY), the company’s profitability is sensitive to political-economic dynamics effecting exchange rates. 2017 was difficult for TU: Brexit saw the GBP fall against the THB, EUR and USD (the three currencies in which TU pays for raw material and processing costs), which impacted John West’s import costs and product pricing. Across the Atlantic, the policies of the Trump Administration have contributed to a weakening of the US dollar against TU’s other main currencies, especially the THB.\textsuperscript{67} Combined with high tuna raw material prices, this negatively impacted TU’s gross profit margin for shelf-stable seafood from 17% in 2016 to 15.5% in 2017, which was TU’s principal explanation for the drop in gross profit across the Group as a whole.\textsuperscript{68} Despite this, TU still achieved an uptick in net income (profit) in 2017 (Figure 3.1), which it attributed to cost control, foreign exchange hedging, tax planning and reforms (e.g. a major cut in corporate tax by the Trump administration), and income from the new Red Lobster business.\textsuperscript{69}

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\textsuperscript{66} Atuna, 1 February 2018 and 20 April 2016
\textsuperscript{67} Thai Union 2018b, p.142 and 145
\textsuperscript{68} Thai Union 2018b, p.146; Thai Union 2018a, p.23
\textsuperscript{69} Thai Union 2018b, p.146; Atuna, 1 May 2017
3.1.3 Links to WCPO

Thai Union’s principal relationship to the WCPO is ongoing dependence on the region for tuna raw material supply for its facilities in Thailand and Vietnam, and for its suppliers of pre-cooked loins. In recent years, up to 80% of TU’s raw material is sourced through trading companies; although this may change with TU’s new Global Procurement Team. TU has long had an indirect alliance with the Taiwanese purse seine fleet through its close working relationship with the FCF trading company, which was reputed to be TU’s largest supplier of raw material and in mid-2018 TU re-iterated that it will continue to procure from FCF. While FCF sources from all three oceans, its commercial focus for skipjack and yellowfin is the WCPO at around 80% of its total trading volume in canning grade light meat tuna. Importantly, in June 2018, FCF was granted MSC certification for the Western and Central Pacific Skipjack and Yellow Fin Free School Purse Seine Fishery, with almost 30 FCF-associated purse seiners set to be accredited providing a potential annual supply of up to 100,000mt of MSC raw material. Presumably, TU will be a major buyer of this potential new source of MSC supply.

Thai Union also procures pre-cooked loins, largely from suppliers in Thailand, but also from China and Vietnam. It has tended to use suppliers in Thailand ‘because all of the operators are in place’. All of these loin suppliers source the vast majority, if not all, of their tuna from the WCPO. Thai Union procures albacore globally. Bangkok is a major market for albacore, taking approximately 50% of the albacore traded by Tri Marine from the WCPO.

Pacifical is an increasingly important connection between Thai Union and PICs (Box 1). Thai Union has increased its processing of co-branded Pacifical canned tuna both for clients, including Northern European supermarkets (e.g. Figure 3.3), and in the USA in February 2018 under its niche Genova brand. Huge room for growth remains and Thai Union could use its role as a leading owner of canned tuna brands in Europe and the USA and as a contract processor to push Pacifical brand recognition further. For example, given that Walmart has settled with Chicken of the Sea over the US price fixing scandal (Box 3), TU’s US subsidiary is well placed to provide Walmart with MSC Pacifical product, potentially allowing America’s largest supermarket to meet its 2017 commitment to procure ‘sustainable’ canned tuna by 2025. Walmart defines ‘sustainable’ as MSC (or comparable) certified or ‘actively working toward certification or in a Fishery Improvement Project (FIP)’. This is certainly the hope of the PNA Office, which has shown Walmart representatives around the region.

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70 Hamilton et al. 2011; Seaman 2018a
71 Business Wire 2018
72 Personal communication, Thai industry source, 23 March 2018
73 Personal communication, Thai industry source, 24 April 2015
74 Campling, Lewis and McCoy 2017
75 Pacifical, 27 February 2018
76 Atuna, 22 May 2018
77 Walmart 2017. Walmart does, however, potentially, mitigate this commitment with the preamble that the policy will be ‘based on price, availability, quality, customer demand’
78 Undercurrent News 14 November 2017; Seaman 2018b
TU is a one-third owner of Moresby International Holdings (Majestic Seafood Corporation) (Table 3.1), in partnership with Century Canning Corporation Ltd. and Frabelle Fishing Corporation Ltd. The operation has run into difficulties and even with the advantage on the price of fish, high overheads (especially electricity and water), the need to import all non-tuna inputs, and (crucially) relatively lower labour productivity has meant that Majestic has not been a commercial success as a processor, to date.\textsuperscript{79} It has, more controversially, been a successful source of raw material supply to its owners. Thai Union was explicit in its 2013 Annual Report that this investment was “to operate tuna fishing and production in that country for increased access to tuna and tax privileges”.\textsuperscript{80} Recently, PNG’s shift from a system in which firms with domestic processing companies received discounted fishing licenses to one in which domestic processing companies receive a rebate of USD 400/mt of tuna caught in PNG waters and processed in PNG (the ‘rebate system’) led to rumours that Majestic Seafood might halt operations or merge with Frabelle’s independent processing plant in PNG.\textsuperscript{81} At the time of writing, no outcome had been confirmed, but the tumult challenges the use of access to achieve domestic employment goals.

### 3.1.4 Recent changes and future developments

Following the failed acquisition of Bumble Bee, Thai Union is likely to continue to engage in M&As as a component of its growth strategy, but only of relatively smaller sized firms. It has set aside up to USD 720 million should opportunities arise.\textsuperscript{82} However, engaging in several medium-sized acquisitions may expose TU to greater risk and tie-up management time and resources. As such, TU is likely to slow down its prior level of intensity of M&As.\textsuperscript{83}

\textsuperscript{79} Personal communication, Thai industry source, 24 April 2015  
\textsuperscript{80} Thai Union 2014, p.26  
\textsuperscript{81} Campling et al. 2018  
\textsuperscript{82} Srimalee 2017; Atuna, 24 November 2016 and 10 April 2017  
\textsuperscript{83} Atuna, 27 July 2017b
Organic sales growth is predicted to boost TU’s total sales growth to a nine-year high in 2018. However, organic growth alone is highly unlikely to be sustainable in current conditions of slow and stagnant growth in shelf-stable seafood consumption in Europe and North America (Figure 3.2). TU will continue to benefit from the profit advantages of domestic shrimp production and value-added processing in Thailand, which in part balances out the volatility of tuna price movements, but it may be difficult to build this business much more than the current height. As such, TU will continue to target emerging markets such as China, Southeast Asia (especially Thailand, where it owns local brands), the Middle East (where John West has created a niche alongside Rio Mare), and Latin America (where TU has identified potential M&As in canned seafood). Yet, emerging markets are expected to produce only up to USD 200 million in sales by 2020 (almost half of which in China); some way from the volumes necessary to boost sales to USD 8 billion. Despite China’s huge market and that TU owns the leading canned tuna brand there, sales remain stubbornly small, though there is greater ongoing growth potential for its King Oscar brand (e.g. lobster). TU’s 45% stake in Russia’s leading canned fish group, DPR, and its various brands (Table 3.1), still only offers annual sales of around USD 45 million.

TU is also likely to further build on its diversification into new seafood segments and food service. Fresh and chilled seafood segments are growing in Western Europe where TU plans to consolidate MerAlliance smoked salmon sales with a range of chilled seafood under its Petit Navire brand; and in China selling (non-tuna) fresh Chicken of the Sea products, including with Alibaba’s Tmall online platform. In the food service sector TU has the opportunity to forward integrate to supply consumers directly – a strategy that is off limits in the concentrated European and North American supermarket sector. Barriers to entry in Western retail perhaps convinced TU to use part of its M&A war chest to buy into a local retail supplier specialised in distributing seafood in Thailand, allowing TU to take one step closer in directly its growing range of value-added products.

TU’s most important growth strategy is the move to better valorise raw material through its Global Innovation Incubator, which is focussed on generating a higher profit rate from value-added seafood and higher-grade by-products (such as the world’s first tuna oil factory, which it is opening in Germany). The Incubator received THB 900 million (USD 27 million) in investment during 2015-17, and in 2018-20 TU will invest an annual average of THB 300 million (USD 9 million) on R&D. TU hopes that this will contribute up to USD 800 million in sales by 2020. Rapid year-on-year growth in the value-added segment of the business in 2016 and 2017 suggests that the strategy is working.

High tuna raw material price in 2017 ate into TU’s profitability and contributed to a two-year low in share price. The biggest risk facing TU’s shelf-stable tuna business is the stability and security of raw material supply, especially that which complies with sustainability and regulatory requirements. TU is
involved in several measures to seek to mitigate this including contributing to the establishment of 11 new FIPs.\textsuperscript{96} One of the largest is alongside Princes in the Indian Ocean (see Sections 3.4.2 and 3.4.4), but the race to fish in the WIO and subsequent raw material shortages at TU’s Seychelles factory is putting a planned USD 37 million investment in the factory into question.\textsuperscript{97}

Thai Union is emerging as a leader among the world’s largest canned tuna firms in terms of environmental and social sustainability (see Boxes 1 & 2). This was initially externally driven by environmental campaigns and, often connected, investigations into labour abuses in the Thai seafood industry (see Box 1), but has since been internalised in corporate decision making.\textsuperscript{98} TU’s budget spend on corporate social responsibility (CSR)-related activities – monitoring the supply chain, engaging in FIPs, etc – will continue to increase, eating into profitability and TU will be more constrained in terms of its commercial room for manoeuvre. But given that TU’ leading shareholders include the corporation’s top managers, Thai strategic investors, and Mitsubishi (which is also invested for the long term), Thai Union may well be able to weather the initial costs of this corporate transformation and emerge as a world leading player in terms of environmental and social sustainability. If it does, it will leave behind its competitors, such as StarKist which are far less invested in this aspect of the business and consolidate its position in EU and North America where sustainability increasingly dictates market entry.

**Box 1  Labour standards and the tuna industry - from a Thailand focus to a global issue**

Until 2014, labour standards in the global tuna industry were the focus solely of trade unions and the International Labour Organisation and rarely considered by industry and media. Investigations by The Guardian in 2014 and the Associated Press in 2015 (which won a Pulitzer Prize) changed that landscape, showing that fish were caught by what they called “slave” or slave-like labour and could be traced to principal market products. Further, in 2014 and 2015, the US government placed Thailand in Tier 3 – the lowest rank – in its Trafficking in Persons (TIP) report, including in relation to its seafood sector.

The use of categories such as ‘slavery’ and ‘human trafficking’ only address the most extreme cases, while ‘in reality the majority of workers [in Thailand’s seafood sector] want better working conditions and labor mobility rights’. An estimated 50-60% of the labour force in Thailand’s tuna canneries were from Myanmar in 2006 and 2010. Thai government encouraged employment of migrant workers in its allocation of Board of Investment status to firms. This allocation allowed individual firms to sponsor immigrant workers, but the government work permit was non-transferable between firms, which, given the (then) highly repressive situation in Myanmar, meant these workers were disciplined by either doing an ‘efficient’ job or being legally compelled to return home. These day-to-day issues of poor working conditions and worker representation motivated other, less public, labour campaigns in the tuna industry, such as the International Transport Workers’ (ITF) ‘Catcher to Counter’ campaign, which played a role in promoting independent trade unionism in PNG’s tuna canneries.

\textsuperscript{96} Thai Union 2018c
\textsuperscript{97} Atuna, 7 June 2018 and 27 March 2018
\textsuperscript{98} See for example Thai Union 2018c, where the company sets out its plan to invest USD 90 million on its sustainable tuna commitment
Following negative publicity on working conditions and labour standards in Thailand in general and specifically in Thai Union’s supply chain, including from major supermarkets such as Costco and Walmart in the USA, and Tesco and Sainsbury in the UK, Thai Union began to transform its approach to labour standards in its supply chain. The multifaceted reform involves changes in Thai national regulation, TU internal employment policy, and the conditions of access to and monitoring of the TU supply chain. Among the most important are:

- TU brought over 1,200 workers in-house from the third-party pre-processing (‘peeling sheds’) segment of its shrimp supply chain, and stopped outsourcing this activity to suppliers.
- TU became the first Thai seafood firm to apply a ‘zero recruitment fee’ for migrant workers, generally paid to labour intermediaries to avoid forcing workers into ‘debt bondage’.
- Thai Union launched SeaChange in 2015, which includes commitments to ‘safe and legal labor’, compliance with labour regulations, and Business Ethics and Labor Code of Conduct.
- TU reached agreement with Greenpeace on environmental and social sustainability in July 2017, the progress of which will be reviewed by an independent third-party at the end of 2018. Labour conditions in the agreement include: (i) a 12-point vessel code of conduct on working conditions for all TU suppliers, which includes annual audits and a commitment to a Vessel Improvement Program should a boat not comply with all clauses; (ii) Thai Union reaffirming support for freedom of association and collective bargaining in its own facilities and throughout its supply chains.
- Fishers’ Rights Network (FRN) – an independent trade union in Thailand for fishing boat crew established in May 2018. This is relevant to TU because of the supply of ‘trash fish’ in its shrimp feed supply chain – a key issue highlighted in the Associated Press investigation. FRN’s is demanding the elimination of labour recruitment and related fees; increased wages and improved working conditions; basic first aid training and kit; and that the Thailand government ratify, among others, ILO Convention 188 (see below) and allow migrant workers the rights to freedom of association and collective bargaining, among other things.

However, according to ITF which has been working ‘on the ground’ in Thailand in 2017 and 2018 with migrant fishers from Cambodia and Myanmar, “little has changed. Labour and human rights abuses remain ingrained in the industry”. This sentiment echoed in recent investigations by the Environmental Justice Foundation and a Walmart Foundation funded study by the Issara Institute (a Thai NGO) and the International Justice Mission (an anti-slavery organisation).

Before the scandal hitting Thai Union, Princes Tuna Mauritius was the first global supplier of canned tuna to hold the SA8000 certification for social accountability. While far from comprehensive, the SA8000 does measure labour rights, working conditions and practices including all of the ILO core conventions. Some other firms appear to be less well positioned to address labour concerns. For example, Dongwon Industries’ brand StarKist was ranked last in the Greenpeace USA’s 2017 Tuna Shopping Guide. FCF is the focus of a 2018 report by Greenpeace; an investigation that builds on prior assessments of poor working conditions and labour rights abuses in the Taiwanese tuna industry. Taiwan’s 2016 Act for Distant Water Fisheries, which introduced minimum requirements
3.2 Dongwon Enterprise Co., Ltd.

3.2.1 Company overview

**Dongwon Enterprise Co., Ltd.** is a sprawling South Korean industrial conglomerate that is majority held by Nam Jeong Kim. Through its subsidiaries, it provides integrated logistics services; extracts, processes and distributes marine products; provides cold storage and warehousing; and processes, distributes and brands food products, in addition to a range of other business operations worldwide. Several of the firm’s subsidiaries have important connections to the tuna processing sector.

**Dongwon Industries Co., Ltd.** was established in April 1969; today, its primary business activities are commercial fishing, fish processing and branding. It is Korea’s largest deep-sea fishery company, in recent years owning between 36-40 vessels that are active throughout the Pacific, Eastern Atlantic and Indian oceans. Of these, 19 are tuna purse seine vessels, including several new vessels equipped with rapid cooling technologies and facilities to manage sushi-grade handling and freezing that together aim to modernize the fleet and expand its volume and profitability. In 2018, Dongwon had 12 purse seine vessels listed on the WCPFC Record of Fishing Vessels, seven of which have been built since 2006. Five of these vessels in the ‘younger’ portion of the fleet have roughly 2,000GT of capacity, while the two built in 2015 have 1,000GT of capacity. Dongwon reports that two additional seiners will be

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99 Lee Hyo-Sik 2016  
100 WCPFC Record of Fishing Vessels; accessed July 2018
joining the fleet in 2018 will each have 2,200GT of capacity. Recent modernization of the fleet has reportedly increased the firms’ average annual per-vessel catch to 10,800mt in 2016 up from 7,500mt in 2013. Products from the purse seine fleet are primarily offloaded in Bangkok to supply processing plants there, and in Korea to supply sister company Dongwon F&B’s processing plants (see below).

Dongwon Industries owns 15 longline vessels that have slurry, blast and -60°C freezing capabilities, are able to handle 8-10 mt of fish per day, with ULT storage of the frozen product. High quality freezer capability and associated engineering maintenance skills are key features of the operations; as such this fleet supplies primarily sashimi grade markets, rather than the shelf-stable market segment. The vessels operate from a home base in Busan, transship in selected ports, within EEZs and on the high seas. High quality ULT product is processed in ULT cold storage plants prior to export in the home ports, mostly Busan, and some landings are for domestic consumption. Bigeye and yellowfin are the target species in the WCPO, with minor albacore catches. Seventy per cent of the product landed in Busan is re-exported, primarily to the Japanese market. In addition to these fishing vessels, the firm owns three reefer carriers for sales and distribution.

Dongwon Industries also owns Starkist, a canned tuna processing and branding firm that is one of the ‘big-three’ brands in the United States market. Starkist was founded in 1917 as the ‘French Sardine Company’, and first marketed tuna under the Starkist brand in 1942. H.J. Heinz purchased Starkist in 1963, and sold it to Del Monte Foods in 2002. In 2008, Dongwon Industries purchased the Starkist brand in 2008. Starkist is the market leader in the US with 37% share of the US canned tuna market in total and 30% of the albacore market, second in the latter to Bumble Bee. Starkist is also the market leader in the pouch segment, which despite an overall decline in shelf-stable tuna sales in the US, has been growing with around 17% of all shelf-stable tuna sales coming from pouches by 2016, up from 13% in 2013. The firm sells products directly to food retailers, grocery stores, and food service operators. In addition to branding, Starkist owns processing facilities in American Samoa, Ecuador, and Thailand (see below).

Legal disputes and associated reputational concerns related to Starkist’s role in the price fixing scandal and payouts related to allegations that Starkist was under-filling its cans have reportedly rattled investor confidence in Dongwon Industries. As of mid-2018, Dongwon Industries shares were performing well, with steady or rapid growth in both revenue and net income since 2015, boosted by new purse seine vessels during a period of increasing skipjack prices (Figure 3.4).
Figure 3.4  Dongwon Industries, revenue and net income, 1995-2017

Source: Bloomberg 2018

Dongwon F&B Co., Ltd. was established in November 2000 as a Dongwon division engaged in food, feed and beverage production. Dongwon F&B markets itself as a company devoted to health food and as contributing to Korea’s national health.\textsuperscript{109} Dongwon F&B controls 75-80\% of the domestic canned tuna market in Korea, selling its products under mainly 16 brands under its umbrella. Canned tuna is its leading product, though it sells a wide range of shelf-stable and frozen seafood products. Reports indicate that domestic appetite for the product is growing rapidly, and an upturn in export figures shows that third markets are also being targeted.\textsuperscript{110} Dongwon F&B also owns and operates two domestic processing plants,\textsuperscript{111} which are supplied by Dongwon Industries’ purse seine vessels. Dongwon F&B profitability is expected to improve sharply in the second half of 2018 and into 2019 on the back of decline in raw material input prices.\textsuperscript{112} Recent years’ high raw material prices have harmed Dongwon F&B profits (Figure 3.5).\textsuperscript{113}

\textsuperscript{109} Dongwon F&B 2018 t
\textsuperscript{110} Atuna, 7 April 2017a
\textsuperscript{111} Industry database 2018
\textsuperscript{112} Atuna, 5 June 2018
\textsuperscript{113} Atuna, 2 August 2017
Figure 3.5  Dongwon F&B, revenue and net income, 2002-2017

Source: Bloomberg 2018
Table 3.2  Dongwon – corporate timeline, with a focus on tuna and M&As

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1969</td>
<td>Dongwon Industries established to engage in deep sea fishing and food product businesses</td>
</tr>
<tr>
<td>1973</td>
<td>Establishes overseas base in Ghana</td>
</tr>
<tr>
<td>1975</td>
<td>Launches Dongsan, a 5,000 ton factory ship</td>
</tr>
<tr>
<td>1982</td>
<td>First diversification into financial sector through acquisition of Dongwon Securities (former Korea Investment Securities)</td>
</tr>
<tr>
<td>1989</td>
<td>Listed on the Korea Stock Exchange</td>
</tr>
<tr>
<td>1997</td>
<td>Founds a logistics corporation with Mitsubishi; and RESKO, a logistics JV with Japan</td>
</tr>
<tr>
<td>2000</td>
<td>Spins off its food business and 59% of net assets to establish Dongwon F&amp;B</td>
</tr>
<tr>
<td>2002</td>
<td>Establishes Qingdao Dongwon F&amp;B Co., Ltd. in China for canned tuna production</td>
</tr>
<tr>
<td>2003</td>
<td>Opens Tokyo office</td>
</tr>
<tr>
<td>2004</td>
<td>Opens Sihwa distribution centre</td>
</tr>
</tbody>
</table>
2006
Acquires RESKO, a logistics company

2008
Acquires StarKist

2011
Acquires SNCDS of Senegal; renamed S.C.A. SA

2014
Builds new purse seiners: Segyero and Miraero

2015
Builds Baegam logistics centre

2016
Builds new purse seiner: Hanara

2018
Two new purse seiners expected

2008
Dongwon F&B acquired 96.9% of Dongwon Homefood. Co., Ltd.

2010
Opens Cheonan factory
Mitsubishi Corporation and related party sell 6.6% stake, and no longer hold any interest in the company

2013
Acquires Hanjin P&C.

2015
Acquires Kumchon co., ltd. Minority stake (12.5%) in Silver Bay Seafoods
3.2.2 Company strategies

**Vertical integration**

Seafood and tuna processing is just one small segment of Dongwon’s expansive business interests. The recent growth of the tuna sector in Dongwon (since the founding of Dongwon F&B and the acquisition of Starkist) has benefitted from forward and backward linkages with other subsidiaries in the group. The conglomerate’s ability to raise money to purchase supporting companies has also contributed to such integration and to the expansion of product offerings and market penetration.

Dongwon Industries has one of the world’s largest fleets of purse seine vessels and longliners. The addition of new purse seine vessels with expanded capacity and upgraded technologies has increased total catch for the firm. Notably, given the large size of the fleet, Dongwon Industries’ profitability has experienced volatility over the last several years which correlates to raw material price (see Figure 4.1). Investors have responded favourably to announcements that the firm was expanding and modernizing its fleet. Dongwon Industries has outperformed other leading stock-market listed Asian tuna players, such as Thai Union and Century Pacific which are more concentrated in processing and therefore, have been vulnerable to high raw material costs, while fish firms have benefitted from those high raw material prices. However, Dongwon F&B – which focuses on processing – can see profitability decline when raw material prices are high.

Tuna processing capacity is held in both Dongwon Industries and Dongwon F&B, giving the firm a global processing presence. Dongwon F&B has three processing plants in Korea: Changwon (190mt/day), Mokpo (90mt/day), and Masan (190mt/day) – note that processing capacities are estimates and represent current throughput. Starkist has processing facilities in American Samoa (450mt/day) (see section on WCPO links for more on this plant), Senegal (50,000mt/year; currently 80mt/day throughput), Ecuador (max 180mt/day, with a focus on pouches). Dongwon carriers also offload in Ecuador. In the mid 2000s, Starkist reported working consistently in Thailand with processing firms ISA, CMC and occasionally SK Foods and Thai Union indicating, ‘long terms understandings’.

**Mergers and Acquisitions**

- M&As are a key tool for Dongwon firms to integrate with each other and create opportunities for the Group as whole to expand market and product reach. Dongwon firms have used M&As to achieve a range of goals, examples of which are summarized here. These are not a comprehensive review of M&As, but have been selected to highlight the scope of M&A strategies across Dongwon.

- **Can-making**: Dongwon Systems, a subsidiary company of Dongwon Enterprise is a manufacturer of plastic PET bottles, cans, glass bottles and aluminium, has purchased can-making companies. It purchased the American Samoa-based operations of Ardagh metal packaging for USD 26 million in 2014. At the time, the American Samoa based operations generated sales of USD 692 million and a net income of USD 3.8 million. Also in 2014,
Dongwon Systems fully acquired Techpack Solutions, Inc., a Korean large-scale bottle, PET and metal packaging company, enhancing the firm’s ability to produce steel containers for canned tuna products.\textsuperscript{121}

- **Logistics**: Dongwon Industries turned to debt markets to raise funds to acquire a full stake in Dongbu, South Korea’s third largest logistics firm, a move that would help to integrate its fishing, food and packing material businesses.\textsuperscript{122}

- **Market penetration**: Dongwon F&B moved into the ‘home meal replacement’ (HMR) market. It acquired Dongwon Home Food and ‘side dish’ (online HMR businesses) as well as the Banchan brand, which specializes in prepared food. Dongwon has built a plant that will focus on expanding ground in the home shopping, prepared food-for-delivery market for homes and businesses.\textsuperscript{123}

- **New markets**: In 2011, Dongwon Group purchased the SNCDS (now renamed S.C.A. SA) tuna cannery in Senegal for its strategic proximity to fishing grounds, low-cost labour force, and access to markets in Europe and the Middle East. Following a restructuring of the business model and steady raw material supply from Dongwon vessels, in 2018 the firm was reported to be processing 15,000mt of raw material/year and employing 600 workers.\textsuperscript{124} Notably, the plant reportedly had direct employment of over 1,300 workers prior to the acquisition.\textsuperscript{125}

- **Product diversification**: Dongwon F&B and Starkist teamed up to acquire a 12% share in a major US salmon processor, Silver Bay Seafoods, that operates five domestic processing facilities throughout Alaska and the US West Coast. Prior to this move, Starkist competitors in the US market already had a presence in shelf-stable salmon products; Dongwon was already offering shelf-stable salmon in the Korean market.\textsuperscript{126}

### Markets

As noted above, the primary market for Donwon Industries’ ULT longline products is Japan for sashimi grade product. The Korean market is reportedly growing and there are also exports to the EU, US and China. High quality tuna intended for export is often processed in cold storage plants in Busan before being exported. Japan remains the main market for Korean sashimi tuna, accounting for approximately 70% of Korean frozen (sashimi quality) exports, with remaining exports aimed at the EU market and minimal volumes to the US and China. Thirty percent of frozen, sashimi quality catch from the Korean longline fleet goes to the domestic Korean market.\textsuperscript{127}

In the Korean market, Dongwon F&B offers canned tuna under multiple brand names, and offers an extensive range of value-added, flavoured canned tuna products, as well as frozen offerings of packaged tuna steaks, sashimi production, loins for sashimi, and value-added products with frozen tuna cubes accompanied with sauces, vegetables and rice for complete meals. Dongwon F&B has diversified into salmon products and other seafoods including mackerel, flat fish and others in value-added offerings. It faces domestic competitors including from Sajo, which is also investing in product

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\textsuperscript{121} Atuna, 13 August 2014
\textsuperscript{122} Atuna, 20 October 2016
\textsuperscript{123} Lee Hyo-Sik 2017; Zephyr Database, accessed June 2018
\textsuperscript{124} Atuna, 3 May 2018a
\textsuperscript{125} Hamilton et al., 2011
\textsuperscript{126} Atuna, 10 November 2014; Atuna, 20 January 2015
\textsuperscript{127} Campling et. al 2017
diversification and is vertically integrated into fishing.\textsuperscript{128} The domestic market provides 97.9% of the firm’s revenues.\textsuperscript{129}

In recent years, Dongwon F&B has positioned itself to grow domestically and in international markets. It is developing new value-added products and expanding online channel distribution. It has launched products in the US market, and is making a major push for expansion into the Chinese market. This effort has been supported by a South Korean Government-certified initiative called ‘K-Fish’ that promotes ‘premium’ Korean tuna products. K-Fish labelled Korean products were released in the US market in 2017\textsuperscript{130} and have since been promoted at promotional events in China, including Walmart stores in Shanghai. The Korean government is looking to continue to promote K-Fish in Asia, Europe, South America and the Middle East in 2018.\textsuperscript{131} 2017 data indicates that 0.6% of revenues are generated in Japan and 0.5% of revenues come from the US market.\textsuperscript{132} Financial data demonstrate dramatic growth in revenues, which indicates increase in sales volumes since 2010, through profitability has been more tempered and volatile, including in relation to raw material price.

Dongwon Industries’ Starkist brand is the market leader in the US, controlling roughly 37% of the canned tuna market. Though 90% of its sales still come from canned tuna, the higher value-added pouch segment is an important, and growing, market segment. Starkist cites product innovation as a key vehicle for growth, and in recent years has continued to introduce new products into its range, with a focus on pouched, value-added, flavoured products. In 2015, it introduced five new products including a product range aimed at children and diversifying product offerings beyond tuna into salmon and chicken pouch products.\textsuperscript{133} More recently, it is has introduced ‘spicy’ flavours to its pouch line, catering to the growing demand for international flavours in an effort to reach younger demographics.

Niche marketing also is an emerging component of Starkist’s portfolio. Starkist introduced two seemingly independent and artisanal brands. Bella Portofina offers solid albacore and yellowfin products in extra virgin olive oil and markets them as high quality and wild-caught, with products retailing for roughly USD 1.99/can. In 2016, Starkist released the ‘Blue Harbor’ branded line of MSC-certified albacore products, looking to access the profitable segment of the US market that has otherwise mainly been dominated by small US-based companies, including Wild Planet and American tuna. The line offers pouched and canned albacore products, fished by longline vessels in the WCPO and emphasizes the traceability of the product. Several observations are notable. First, for both the Bella Portofina and Blue Harbor products, product branding does not make clear to the consumer that the can is a Starkist product, rather it presents an ‘artisanal’ feel (Figure 3.6). This suggests that Dongwon/Starkist is introducing products that are de-coupled from its primary brand whose product has a poor-quality reputation, as well as a general reputational decline from lawsuits over under-filling cans\textsuperscript{134} and price fixing (see Box 3).
Figure 3.6  Blue Harbor and Portofino product imagery

Photo credits: Buy Bulk America (via Google images); Bella Portofino

Second, both products are marketed on environmentally-friendly attributes. Blue Harbor is an MSC certified product and it marketed as ‘Line Caught’, language very close to ‘Pole and Line’, but in this case, references longline caught.\textsuperscript{135} Third, both products present opportunities for price diversification in the US market that is known for its stubborn low-price imperative (see Table 3.3).\textsuperscript{136}

Table 3.3  Price comparison Starkist, Blue Harbor, Bella Portofino\textsuperscript{137}

<table>
<thead>
<tr>
<th>Brand</th>
<th>Pouch</th>
<th>Can</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starkist brand albacore</td>
<td>USD1.38 (2.6oz)</td>
<td>USD1.24 (5oz)</td>
</tr>
<tr>
<td>Bella Portofino brand albacore</td>
<td>n/a</td>
<td>USD2.06 (4.5oz)</td>
</tr>
<tr>
<td>Blue Harbor brand MSC albacore</td>
<td>USD2.69 (3oz)</td>
<td>USD3.49 (4.6 oz)</td>
</tr>
</tbody>
</table>

3.2.3 Links to WCPO

Dongwon has direct links in fishing and processing in the WCPO. Dongwon’s purse seine fleet is heavily dependent on access to WCPO waters, particularly PNA waters. In the early 2010s, the Korean fleet as a whole had access agreement with all PNA members except Palau and fished widely throughout the region. The fleet had only 207 purse seine fishing days allocated in the WCPO high seas.\textsuperscript{138} In 2016, 25 Korean purse seine vessels were active in the WCPO, notably catching over 278,000mt vs. roughly 170,000mt caught by 26 Korean vessels in 2000 and reflecting (in part) the surge in capacity

\textsuperscript{135} Atuna, 10 August 2016.
\textsuperscript{136} Atuna, 27 July 2017a
\textsuperscript{137} Atuna, 10 August 2016; prices on Amazon.com (June 2018)
\textsuperscript{138} Hamilton et al. 2011; Atuna, 11 April 2018
and advances in fishing efficiency from Dongwon’s new vessels.\textsuperscript{139} The Korean fleet makes the highest proportion of sets on unassociated schools (reportedly around 65% in the early 2010s), which positions the fleet well for its upcoming push for MSC skipjack free school certification (see below).\textsuperscript{140} The fleet transships in multiple ports including in Pohnpei, Majuro, Tarawa, and Honiara, with Dongwon-owned carriers. The early 2010s saw Dongwon undertake a controversial reflagging of two purse seine vessels to two US subsidiaries (Pacific Breeze LLC and Majestic Blue LLC) to gain access to fishing licenses under the US Treaty. One vessel sunk, a second filed for bankruptcy and was reportedly scrapped after Dongwon Industries was accused of having the intention to falsely register the two vessels to gain access to the WCPO.\textsuperscript{141} Dongwon’s longline fleet is also active in the WCPO, though not exclusively. In 2016, the Korean longline fleet caught a total of 24,249mt, and the Korean longline fleet is not a player in the WCPO for canning grade albacore.\textsuperscript{142}

Starkist has a large processing plant in Pago Pago, American Samoa with a long history. The plant has historical strengths in access to raw material, lower wages than mainland US, the ability to meet rules of origin to supply US government contracts, and duty-free access to the US market.\textsuperscript{143} However, volatility has been a hallmark of production in Pago Pago, stemming from instability in tax provisions,\textsuperscript{144} growing competition and potential for preference erosion. In 2016 and 2017, the American Samoa plant faced a series of supply shortages that forced the plant into temporary closures, as did lack of compliance with environmental regulations (i.e. waste-water disposal).\textsuperscript{145} Limited cold storage capacity, as well as wharf space that can accommodate only 1-2 vessels at a time, has reportedly complicated efforts to maintain supply consistency and introduced inefficiencies for purse seine vessels offloading directly at the canny, forcing some to wait for weeks docked in Pago Pago to unload.\textsuperscript{146} The plant purchases 80% of its light meat tuna from US-flagged seiners that are primarily based in American Samoa and deliver there – this enables Starkist to comply with US RoO and qualify for US government military and institutional (e.g. school lunch) contracts. Dongwon Industries’ Korean-flag purse seine fleet supply fish to processing plants in Korea and Thailand.\textsuperscript{147} Albacore is supplied by regional longline fleets, but shortages have emerged in recent years. In mid-2018, the firm made progress in easing the tensions. First, it signed supply arrangements with two Chinese-owned firms: Ping Tai Rong Ocean Fishery Company (26 longline fishing vessels) and Luen Thai Fishing Ventures with boats based in Independent Samoa.\textsuperscript{148} Around the same time, Starkist signed a 10-year lease agreement with Tri Marine International to use Samoa Tuna Packing’s cold storage.\textsuperscript{149}

Dongwon has flirted with several potential investments in processing in the WCPO in order to secure fishing access fees. It is notable that several of these are joint-proposals that envision more than one firm will invest in a single plant. Proposals include:

- **Kiribati:** In October of 2015, a suite of firms, including Dongwon Industries announced a collaboration to build a tuna processing plant in Kiribati with initial estimates aiming for

\textsuperscript{139} WCPFC 2016
\textsuperscript{140} Hamilton et al. 2011
\textsuperscript{141} Atuna, 3 January 2018; Atuna, 23 January 2018
\textsuperscript{142} WCPFC 2016; Hamilton et al. 2011; Campling et al. 2017
\textsuperscript{143} Campling and Havice 2007a; Campling and Havice 2007b
\textsuperscript{144} Atuna, 21 December 2017
\textsuperscript{145} Atuna, 6 January 2016; Atuna, 14 September 2017
\textsuperscript{146} Atuna, 21 March 2018
\textsuperscript{147} Atuna, 20 August 2015
\textsuperscript{148} Ramsden 2018
\textsuperscript{149} Seaman 2018c
the plant to produce 30mt of tuna loins per day aimed at the EU market. Reportedly, the proposed investment emerged in response to high operating costs and was inspired by increase demands for investments in plants in PNG in exchange for fishing access in that country’s EEZ. The move is designed to secure access to Kiribati’s waters, for which there is high competition, though Kiribati has limited infrastructure to support on shore processing. Investors would include Dongwon Industries, Frabelle and Thai Union Group. The joint venture would offer Dongwon fishing access for highly competitive fishing days, and duty-free access to the EU market under the Everything But Arms arrangement, if rules of origin are met. To date, Dongwon has entered into joint ventures with Kiribati Government, reflagging two vessels under Kiribati flag.

- **Solomon Islands**: Ongoing negotiations have continued for a proposed Dongwon processing plant in Guadalcanal. The proposal suggests that the plan will employ upwards of 3,000 people in exchange for requisite fishing licenses.

- **Papua New Guinea**: In 2015, Dongwon Industries committed to building a new cannery in Lae, Papua New Guinea with a planned capacity of 200mt/day. The deal involved requirements that 10 Korean purse seiners operating in PNG waters under domestic and locally based foreign flag conditions that would be associated with supplying raw material tuna to the new factory.

### 3.2.4 Recent changes and future developments

In 2016, Dongwon F&B resigned from ISSF participation, making it the first major member to exit the organization. Reportedly, it was the company’s own decision to leave ISSF, and it cited that nearly 100% of its products are consumed within Korea (despite, as noted above, that it is actively seeking to expand into international markets), where the firm says that it works closely with NGOs to support natural resources and environmental protections. It left ISSF to focus on environmental conservation activities within Korea. However, Dongwon Industries’ Starkist will remain an ISSF member and indicates its desire to play a leading role among the organization’s membership.

Dongwon Industries has made several moves into the MSC certification market, a significant move after a long period of reluctance to brand products with certification or FAD-free claims. Starkist initiated the MSC process for the US flagged longline vessels operating out of American Samoa. With the successful conclusion of the certification, Starkist has increased sustainable-certified supply for albacore and yellowfin products. Dongwon Industries has also initiated two separate MSC assessments. One is for purse seiners operating in the WCPO, and the other if for its longline operations that are operations in WCPO and EPO. The purse seine assessment will cover only free-school sets, and it is significant that at the time of writing from February 2019, all tuna purse seine fisheries entering assessment must simultaneously pursue certification on their free school and FAD sets together to enable mixed set types in a single trip. As noted above, the Korean fleet has historically focused on free schools in a higher proportion than other fleets, giving it an advantage in this arena. In the longline assessment

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150 Atuna, 12 October 2015
151 Ramsden, Neil 2015
152 Atuna, 5 November 2015
153 Atuna, 17 Feb 2016
154 Atuna, 16 December 2016; Atuna, 24 November 2017b
the MSC certification will target catches of albacore, yellowfin, and bigeye; this product is likely aimed to fill the Blue Harbor brand.\textsuperscript{155} This is an important shift for the firm that has faced accusations from retailers of being part of a US market conspiracy to not sell FAD-free catch that emerged along with the price fixing allegations. The firm is hoping for the outcome of the MSC assessment in early 2019.\textsuperscript{156}

3.3 Bolton

3.3.1 Company overview

Bolton Group is a privately-owned company offering a wide range of fast-moving consumer goods under five business units – food (85% of which is canned fish)\textsuperscript{157} (57%); household and laundry care (13%); personal care and well-being (14%); adhesives (11%); and beauty care products (5%). Bolton’s products are sold mainly in Western Europe, especially – Italy (44%); France (14%); Spain (10%); Germany (5%); and Benelux\textsuperscript{158} (5%); with the rest of Europe at 8% and the rest of world at 14%. Bolton first commenced its business trading canned tuna in Italy. Over seven decades it has expanded its product base to cover the five business units noted above, owning 50 brands and 12 plants, with products distributed in 139 countries and offices established in 45 countries.\textsuperscript{159} While its financial headquarters are in Netherlands, Bolton is principally an Italian-owned company, with an average annual turnover of € 1.5-2 billion (USD 1.7-2.3 billion), and little debt.\textsuperscript{160}

Bolton was founded in Italy in 1949 by a Greek-Jewish born entrepreneurial immigrant, Mr. Joseph Nissim. Nissim was born in 1919 and settled in Italy after WWII. He commenced his career in Italy with the US multinational consumer goods company, Proctor and Gamble, prior to establishing Bolton. Nissim has stayed closely involved in major company decisions until very recently, when he handed overall responsibility for the company to his daughter, Marina Nissim. Throughout his career, Mr. Nissim has been a very private man – he has not permitted interviews or photographs. His quest for privacy has extended to the business itself, with very little information in the public domain about the company’s financial performance or future plans. Bolton has been run as a family business, with a business model focussed strongly on relationships. For example, Bolton has had a 25-year relationship with Tri Marine, its exclusive frozen cooked loins supplier; the Nissim family are also apparently close friends with the Calvo and Garavilla families (see below).\textsuperscript{161}

Bolton Alimentari, recently renamed Bolton Foods, is based in Italy and handles Bolton’s tuna and other food businesses. Bolton focuses on selling premium branded shelf-stable tuna products and has some of the highest quality production specifications in the world. Bolton wholly owns three canned tuna brands distributed to over 50 countries – Rio Mare, Saupiquet and Palmera. Rio Mare was Bolton’s first canned tuna brand, launched in Italy in 1966, using the distinctive salmon pink-coloured can which is still used today. In 1970 it became the Italian brand leader and remains so today, capturing around 40% market share. It has three main brands:

\textsuperscript{155} Atuna, 4 April 2018
\textsuperscript{156} Atuna, 9 April 2018
\textsuperscript{157} Seaman, 22 June 2016
\textsuperscript{158} The Benelux Union is a politico-economic union of Belgium, the Netherlands, and Luxembourg.
\textsuperscript{159} Bolton Group 2018
\textsuperscript{160} Seaman 2015c; Note: The annual turnover figures quoted should be treated as indicative only, given Bolton does not readily publish financial results
\textsuperscript{161} Seaman 2015c; personal communication - industry source, June 2018
# Rio Mare: In 1978, Bolton started distributing Rio Mare outside of Italy in Greece; with time it has expanded its market coverage to over 50 other countries. To maintain premium quality, Bolton predominately uses yellowfin tuna and high-grade olive oil for Rio Mare tuna products. Its tuna product range currently includes cans, fillets in glass jars/club cans, steaks, pouches, salads, spreads, pastas and tuna in sauces. Rio Mare brand also includes canned sardines and mackerel products.

# Saupiquet was established in France in 1891 producing canned sardines. Following a sardine shortage during the 1920s, it diversified into canned tuna, mackerel and vegetable production. In 1990, Saupiquet opted to exclusively focus on canned fish production, selling off its canned vegetable operations. In 2000, the French brand was purchased by Bolton to expand its presence into France. Saupiquet has grown to be the leading canned tuna brand in Germany and second in France (the market leader is Thai Union’s Petit Navire). Saupiquet products are also marketed in Belgium, Austria, Eastern Europe, French overseas territories and Vietnam. Saupiquet uses skipjack tuna for its product range (cans, fillets in club cans, salads and tuna in sauces).

# Palmera: In 2008, Bolton added Palmera brand to its portfolio which is a traditional ‘Italian-style’ canned tuna using skipjack which is sold in Italy.

To date, Bolton’s wholly owned brands have only a minor presence in the UK market and are available in the US through Amazon and speciality stores stocking Italian/French food products, rather than through large retailers. However, Rio Mare has a sizeable market presence in Canada.

**Figure 3.7 Rio Mare, Saupiquet and Palmera product imagery**

![Photo credits: Amazon.it, Coop, Just Food websites (via Google images)](image)

In 1965, Bolton built a tuna processing plant in Cermanate, Italy, which today processes 100% imported frozen cooked loins (supplied by Tri Marine) into its range of Rio Mare, Saupiquet and Palmera tuna products. The plant uses state-of-the art technology and is one of the largest in Europe.

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162 ‘club can’ is a rectangular-shaped can with rounded edges typically used for sardine and mackerel fillets
163 Rio Mare 2018
164 Saupiquet 2018
165 Personal communication - industry source, June 2018
producing more than 3.5 million cans/day (around 75,000mt/year).\footnote{Intrafish, 31 May 2017} Bolton also owns Saupiquet’s fish processing plant in Quimper, France. Saupiquet has a fleet of four large-scale tuna purse seiners operating in the Atlantic and Indian Oceans. Catch from these vessels is supplied to processing plants in West Africa (also to Spain and Latin America) handling loins and finished goods production for Bolton. Bolton also sources some of its branded finished goods from tuna processors in Spain, Thailand, Ecuador, Ivory Coast and Mauritius.\footnote{Personal communication - industry source, June 2018}

Alongside Thai Union, Bolton is a leading consolidator in the shelf-stable tuna industry. In 2012, Bolton acquired a 38.6% share in Calvo, Spain’s canned tuna market leader. In 2013, Bolton acquired an undisclosed significant minority share in US global tuna trading company, Tri Marine. In 2015, Bolton became the majority shareholder (55%) in Conservas Garavilla, owner of Spain’s second largest brand, Isabel and premium brand, Cuca (see Section 3.3.2).

From 2007-2016, Bolton Alimentari’s sales revenue (covering all food products) has fluctuated between USD 700-955 million (Figure 3.7). Similarly, its net income has fluctuated between around USD 50 – 90 million.\footnote{Bloomberg database – accessed June 2018; Note: These figures should be treated with caution, given Bolton does not readily publish financial results.} In 2013, Bolton Alimentari’s turnover was € 930 million (USD 1 billion); 85% of which was generated by its canned fish division.\footnote{Bolton Alimentari 2014} While little information is available on Bolton’s financial performance, it is regarded as a stable, financially healthy company, turning strong profits with little debt.

**Figure 3.8 Bolton Alimentari sales and net income, 2007-2016**

![Graph showing Bolton Alimentari sales and net income from 2009 to 2016](image)

Source: Bloomberg 2018
Table 3.4 presents a timeline of key developments of Bolton Foods (Alimentari), with a focus on tuna and mergers and acquisitions.

Table 3.4 Bolto Foods (Alimentari) – corporate timeline, with a focus on tuna and M&As

- **1949**: Bolton Group established in Italy
- **1965**: Bolton builds Cermanate canned tuna processing plant
- **1970**: Rio Mare becomes the Italian canned tuna
- **1986**: Rio Mare launches its ‘Isalatissime’ (tuna salad) product range
- **1999**: Bolton acquires Saupiquet in France, becoming the European canned tuna market leader
- **2010**: Bolton’s loses out to Thai Union to acquire MW Brands
- **2012**: Bolton launches its first canned tuna product with a sustainability claim (i.e. pole and line) under Rio Mare/Saupiquet brands
- **1960**: Bolton enters the Italian canned food business with Manzotin brand (canned beef)
- **1966**: Bolton launches Rio Mare canned tuna brand in Italy
- **1978**: Rio Mare is first distributed outside of Italy in Greece
- **1996**: Rio Mare launches its Rio Mare Snack (now tuna paté) range
- **2000**: Rio Mare paté becomes a market leader; release of ‘Rio Mare Tuna Loins’ (discontinued) and ‘Rio Mare Tuna Steaks’
- **2011**: Bolton launches its ‘Responsible Quality’ project (sustainability and people)
- **2012**: Bolton acquires a 38.6% share of the Spanish canning firm, Calvo (Calvo, Nostromo, Gomes da Costa brands)
3.3.2 Company strategies

Vertical Integration/Mergers & Acquisitions

Since 1999, Bolton has made several significant tuna-related acquisitions to: become more vertically integrated; diversify geographically from Italy into other markets, both within and outside of Europe (in terms of expanding its portfolio of brands, as well as processing operations); and secure access to raw material. Bolton was also reportedly strategically attempting to block Thai Union from further expansion, and Dongwon from gaining a strong foothold, in the European and Latin American markets.

In 1999, Bolton purchased 100% of Saupiquet to obtain a strong market presence in canned tuna markets in France (second in market), Germany (branded market leader, but private label dominates this market) and Belgium. The Saupiquet acquisition cemented Bolton as Europe’s canned tuna market leader. It also enabled Bolton to vertically integrate into the tuna fishing sector with the acquisition of Saupiquet’s purse seine fleet (France flag).

In 2012, Bolton acquired a 38.6% share in Calvo, Spain’s leading canned tuna brand. Calvo also owns Nostromo, Italy’s third-ranked canned tuna brand and Gomes da Costa, the leading canned sardine and tuna brand in Brazil and Argentina. Calvo owns processing plants in Spain (230 mt/day; 50,000mt/year) (processing Calvo and Rio Mare products), El Salvador (150 mt/day) and Brazil (50,000mt/year sardines; 30,000mt/year tuna and salmon). Forty to fifty per cent of Calvo’s raw material needs are met by its own fleet of seven purse seiners which operate in the Atlantic, Western and Eastern

Sources: MarketLine 2017, Saupiquet 2018, Rio Mare 2018, various media releases

170 Seaman 2015c
171 Saupiquet 2018
172 Zephyr database; accessed June 2018
173 Calvo 2018
Pacific oceans (under El Salvador, Cape Verde and Spain flags).

Bolton’s investment in Calvo has strengthened its market dominance in Italy, expanded its production base and market coverage to Spain and Latin America, as well as increasing access to raw materials from Calvo’s fleet.

Bolton acquired an undisclosed (but significant) minority shareholding in US global tuna company, Tri Marine in 2013. Tri Marine has been in a strategic partnership with Bolton for 25 years, with its trading arm sourcing raw materials for Bolton. Tri Marine is Bolton’s exclusive supplier of frozen cooked loins for its processing plant in Cemanate, Italy (in part, from Solomon Island’s processing plant, Soltuna). Bolton’s investment in Tri Marine helps to secure raw material access and global processing for its brands, given Tri Marine’s extensive network of supplying fishing vessels and processors in all four ocean areas. Tri Marine also owns a niche, high-quality canned tuna brand in the US, Ocean Naturals, but to date, its sales volumes have been fairly low.

In 2015, Bolton outbid Thai Union and Dongwon to acquire a 55% shareholding in Spanish firm, Conservas Garavilla, which owns the canned tuna brands, Isabel and Cuca. Cuca is Garavilla’s premium Spanish brand, while Isabel is the Spanish market leader and is also sold in South America (notably, Colombia, Ecuador and Chile, where Calvo is not present), Central America, North America and North Africa. Garavilla has two processing plants in Spain (135 mt/day; processing Isabel and Cuca, as well as some Rio Mare products) and one in Ecuador (Isabel; 130mt/day; processing Isabel and Bolton brands) and Morocco (Nouvelle Cosarno; 18mt/day; loin only). It also has four purse seiners operating in the Eastern Pacific Ocean. Bolton’s investment in Garavilla has strengthened its foothold in the Spanish branded canned tuna market (15-20% with Calvo and Isabel sales combined), in an attempt to combat a growing, very strong private label market (about 75% of the market). Investment in Isabel also strengthens Bolton’s market presence in North Africa, amongst others.

In 2010, Bolton was outbid by Thai Union in an attempt to purchase MW Brands (see Section 3.1.2) and despite rumours, publicly denied interest in purchasing Bumble Bee to enter the US market.

The companies Bolton have acquired shares in have a number of common characteristics with Bolton’s business model. They are family-controlled firms, owning strong brands (with the exception of Tri Marine) with no interest in private label. Their growth strategies focus on brand strengthening via expanding markets and product innovation. They are also industry leaders in sustainability and ethical labour initiatives. All are vertically integrated into fishing, processing and brand ownership.

Currently, there is no public speculation of potential new acquisitions by Bolton. If any of Bolton’s current partners were looking to sell off additional shares, it could logically be assumed that Bolton would consider further increasing its shareholdings. Following suit from its previous acquisitions, it may also be likely that if Bolton were to make any new acquisitions it would be in firms with similar ownership/management structures, growth strategies and ethics.

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174 Osorio 2018
175 Atuna, 1 January 2017
176 Personal communication – industry source, June 2018
177 Tom Seaman 2015b
178 Industry database; personal communication - industry source, June 2018
179 Seaman 2015b
180 Seaman 2015b
181 Stewart 2014
**Markets**

Bolton’s primary market is Italy (over 40% market share) with its Rio Mare and Palmera brands, and Calvo’s Nostromo brand.\(^{182}\)

In recent years, Bolton has focused on growing its presence in international markets, given the Italian and Spanish canned tuna markets are quite mature, with stable demand. Between 2015 and 2017, Bolton’s sales in markets outside Europe (across all five business units) increased from 6% to 14%.\(^{183}\) Presumably, this trend is also reflective of international growth of Bolton’s tuna business. Through its own Rio Mare and Saupiquet brands, together with Calvo’s (Calvo and Gomes da Costa), Garavilla’s (Isabel) and Tri Marine’s (Ocean Naturals) brands, Bolton products are now sold in 60 countries covering Europe, Middle East, North Africa, North America, Central America, Latin America and French Overseas Territories. In contrast to Thai Union and Dongwon, Bolton’s presence in Asia to date is relatively small, with small volumes of Saupiquet products marketed in Vietnam.\(^{184}\) Calvo is also trying to grow its Asian business, targeting China and India.\(^{185}\)

From the outset, Bolton has differentiated its canned tuna products in the marketplace by focusing on premium quality, using superior ingredients. As mentioned, Bolton has extremely high-quality production specifications for its loins and finished goods. For Rio Mare and Saupiquet products, loins need to be double-cleaned by hand (i.e. cleaned twice), whereas other brands typically require only single (or at best, one-and-a-half times) cleaned loins. Bolton specifications also require pink-coloured loins which are uniform in colour. Yellowfin is mostly used for Rio Mare products given its superior quality and colour to skipjack and the long-standing preference of Italian consumers for this species. Bolton also exclusively uses high quality olive oil for its oil packs. To ensure its strict production specifications are consistently met, Bolton closely monitors quality control in the processing plants it sources loins and finished goods from.\(^{186}\)

**Competitiveness**

Bolton is regarded as the pioneer of using frozen pre-cooked tuna loins for canned tuna production. To combat high canned tuna production costs in Italy stemming from uncompetitive labour costs, as well as high freight costs and quality losses associated with shipping raw materials long distances from fishing grounds, Bolton opted to outsource the most labour-intensive aspects of canned tuna production. Fish butchering and cleaning is conducted in developing country processing sites outside of Europe which have lower labour costs and are geographically closer to fishing grounds. Vacuum-packed bags of frozen-cooked tuna loins are then imported by refrigerated container into Italy for thawing and feeding into Bolton’s highly-mechanised, state-of-the art canning facility in Cermanate, which requires minimal labour. To combat the 21.5-24% import duty payable on loins (and cans), Bolton’s strategy has been to source loins from processing sites with EU duty-free access (e.g. Solomon Islands, Philippines, Ecuador) and to make use of the EU’s single duty autonomous quota on loins which allows up to 22,000mt to enter the EU annually on a first-come, first-served basis, which is typically taken up by Southeast Asian processors in Thailand, Vietnam, Indonesia and China. As mentioned, Bolton has also started sourcing finished goods directly from lower-cost processors in Thailand and elsewhere.\(^{187}\)

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\(^{182}\) Seaman 2015c  
\(^{183}\) Bolton 2018; Seaman 2015c (from Bolton website 2015)  
\(^{184}\) Saupiquet 2018  
\(^{185}\) Seaman 2012  
\(^{186}\) Personal communication - industry source, June 2018  
\(^{187}\) Personal communication - industry source, June 2018
3.3.3 Links to WCPO

Bolton has a number of links to the Western and Central Pacific Ocean and FFA members, mostly through its long-term partnership, and more recently, significant minor shareholding in Tri Marine. As mentioned, Tri Marine is one of three major global tuna trading companies operating in the WCPO, trading several hundred thousand tonnes of fish annually caught in the region from its own and client vessels. In Solomon Islands, Tri Marine owns a fleet of seven purse seiners and four pole and line vessels and is the majority shareholder (51%) of the local tuna processing facility, Soltuna, whose primary business is to process loins for Bolton. Tri Marine also owns six purse seine vessels operating under US flag in the WCPO and Samoa Tuna Processors in American Samoa (which ceased processing operations in December 2016, with its cold storage now leased to Starkist for 10 years).

Through its raw material trading business, Tri Marine sources frozen cooked loins for Bolton from a number of Asian processing sites using fish caught in WCPO waters. Tri Marine also supplies some WCPO raw material to Garavilla and Calvo’s plants. In addition, Bolton sources some finished goods directly from processing plants in Thailand (for Rio Mare and Saupiquet), which largely rely on WCPO raw material, some of which is traded by Tri Marine.

3.3.4 Recent changes and future developments

Bolton Foods’ Sustainable Development Director, Mr. Luciano Pirovano, recently warned the global tuna industry that one of the major threats to canned tuna is commoditization and a consumer perception that it is an ‘old-fashioned’ product. To combat this, Bolton’s main tuna business growth strategies in recent years have largely centred on product differentiation and value creation through innovation and sustainability.189

Bolton Foods (and Bolton’s other branded partner companies) have launched new and innovative shelf-stable tuna products focusing on four key characteristics:190

- Health and wellness (e.g. ‘Leggero’ – contains one drop of olive oil; no drain ‘Natura’ – contains one drop of water; under Rio Mare/Isabel brands)
- Specialty (e.g. Saupiquet’s tuna rillettes (i.e. paté) with herbs; Rio Mare’s patés and tuna in olive oil with chilli)
- Instant/convenient (e.g. tuna salads under Rio Mare and Isabel’s ‘Insalatissme’ range)
- Sustainable (e.g. differentiated fishing methods/certifications/species including MSC-certified, pole and line/handline, FAD-free, purse seine-caught with well-managed FADs, artisanal (i.e. Rio Mare’s MSC-certified ‘Linea Bio’ range; Saupiquet’s pole-and-line canned tuna)).

Bolton has also expanded its marketing platforms from traditional retail outlets to online and convenience platforms. In 2015, Amazon launched an online platform in Italy selling food and other

188 Author’s own knowledge; personal communication - industry source, June 2018
189 Pirovano 2018
190 Pirovano 2018
household products, including Rio Mare tuna. In 2016, Bolton signed a deal for two ‘on-the-go’ Rio Mare ‘Insalatissime’ tuna salad products to be available in vending machines across Italy. Bolton’s future point of sale displays in supermarkets will also be innovative, likely capturing the ‘fish-to-can’ concept, with nautical-themed decorations and shelving, information displays on product provenance, video screens providing serving ideas etc. and co-marketing of complimentary products (e.g. olive oil, pasta).

Sustainability is one of Bolton Foods’ strategic pillars and the company is striving to become a leading point of reference in the canned tuna industry, taking a “global, scientific and systematic approach”. Bolton Alimentari was a founding member of the International Seafood Sustainability Foundation (ISSF), established in 2009 by a collaboration of scientists, industry and e-NGOs focussed on sustainable global tuna fisheries. Bolton continues to be an active member (as well as Tri Marine and Conservas Garavilla) and its Sustainable Development Director, Luciano Pirovano, currently holds the position as ISSF Chairman. In 2011, Bolton launched a dedicated sustainability program for its entire supply chain, entitled ‘Responsible Quality’. Through this program, Bolton undertakes a range of corporate social responsibility initiatives related to four key focus areas: i) protection of the health of marine ecosystems; ii) respect for the environment; iii) respect for people; and, iv) correct nutrition. In 2017, Bolton established a partnership agreement with the World Wildlife Fund (WWF) on seafood sustainability and traceability, committing to source 100% of its tuna supply from MSC-certified or robust FIP tuna fisheries by 2024, acknowledging that MSC is the best practice standard for sustainable fishing. To date, rather than committing to only sourcing from a particular ‘sustainable’ gear/set type (e.g. pole-and-line) and then later running into supply issues, as has been the case for some other brands/retailers, Bolton has acknowledged that there are issues with all gear types which need to be improved and has opted to source from a range of fishing methods, including FAD-free purse seine and purse seine with well-managed FADs (in line with ISSF FAD-initiatives). To combat marine plastic pollution, Bolton is engaged in the Global Ghost Gear Initiative (GSSI) through its partnership with Tri Marine.

Bolton has also been a leader in traceability initiatives, being amongst one of the first companies to be certified in accordance with the ISO22005 standard for traceability in the feed and food chain. Online ‘net-to-plate’ traceability systems have been established for Rio Mare and Saupiquet, where consumers can request detailed information on the provenance of tuna purchases by submitting can codes to Bolton via the brands’ websites.

In 2016, Bolton implemented a Group Code of Ethics and Human Rights Policy; Bolton Foods has developed a tuna-specific human rights policy. Through Tri Marine’s Ethical Sourcing Policy and membership of Seafood Task Force which is establishing auditable social standards for fishing vessels, Bolton will ensure its tuna has been caught in line with international labour requirements such as the Work in Fishing Convention 2007 (No. 188).
In recent years, with increasing pressure from e-NGOs and growing consumer awareness, key industry players throughout the canned tuna supply chain – fishing operators, traders, processors, brand owners and retailers – have responded to strong calls for long-term sustainable use of tuna resources.

Some major companies have been the target of Greenpeace campaigns publicly calling them out for supporting unsustainable fishing practices (e.g. Starkist/Dongwon; Bumble Bee; Thai Union/Chicken of the Sea, John West UK, Petit Navire, Mareblue, Sealex; Simplot/John West Australia; Sealord; Princes, Tesco, Walmart etc.). To combat this negative publicity, and avoid this in the case of prominent companies who are yet to be targeted, companies are investing significant resources to develop comprehensive and robust sustainability programs (e.g. Thai Union’s ‘SeaChange’ (Box 1) and Bolton’s ‘Responsible Quality’ (Section 3.3.4) programs).

Also, positive sustainability partnerships/agreements are starting to develop between major companies and key e-NGOs. For example, after several years of negative campaigning from Greenpeace, Thai Union and Greenpeace established a formal agreement in July 2017, which serves as an extension of Thai Union’s existing sustainability, IUU fishing and labour initiatives (Section 3.1 and Box 1). The commitments laid out in the agreement relate to longline fishing, transhipment, FAD management and labour. Greenpeace and Thai Union will meet every six months to assess the company’s progress and at the conclusion of 2018, an independent third-party will conduct a review which will be published. Presumably, other large companies like Bolton will follow suit and also establish similar agreements with Greenpeace. In 2017, Bolton established a partnership agreement with World Wildlife Fund (WWF) on sustainability and traceability, which involves regular progress reviews conducted by WWF (see Section 3.3.4).

Companies are making significant investments in establishing comprehensive sustainability programs and entering into NGO-partnerships. Such investments might be difficult to recoup through premiums charged on tuna products. Rather, investment in sustainability initiatives is becoming the norm and in the case of mature markets, is becoming almost a pre-requisite to maintain access. Thai Union reports that it is investing USD 90 million in SeaChange initiatives, and will require an additional five staff and an investment of USD 750,000/year to implement the Greenpeace agreement.

Prominent industry players are engaging in pre-competitive collaboration on initiatives relating to sustainability, traceability, plastic ocean waste, labour etc. For example, in 2017, ISSF coordinated an outreach letter to all four tuna RFMOs with 83 signatories, many of whom are prominent industry players, calling for action on key sustainable tuna fisheries issues. Around 65 companies, including all five case-study companies covered in this report, signed the ‘Tuna 2020 Traceability Declaration: Stopping illegal tuna from coming to market’ under the United Nation’s Sustainable Development Goal 14.4 which commits to full end-to-end traceability into major commercial tuna markets by June 2020. Thai Union and Tri Marine have become members of the Global Ghost Fishing Initiative (GSSI) to tackle plastic ocean waste from discarded/lost fishing gear and FADs.
Major brands and retailers continue to make public sustainable sourcing commitments for their canned tuna covering a range of gear types/attributes (e.g. pole-and-line, handline, FAD-free, purse seine with FAD management, MSC certified, Friend of the Sea certified, ISSF ProActive Vessel Register). Notably, an emerging commitment is sourcing from MSC certified or fisheries engaged in robust (credible) Fisheries Improvement Projects (FIPs), seeking to obtain MSC certification within five years. Both Bolton and Thai Union have made these commitments.

An emerging challenge for purse seine fisheries which are currently MSC certified or plan to enter into full assessment relates to recent changes introduced by MSC to its fisheries certification standard. MSC has received heavy criticism that its current Unit of Assessment (UoA) rules permit vessels to catch fish from the same stock using both certified and uncertified fishing gear/methods on a single trip. In the case of tuna purse seiners, net sets are made on MSC-certified free-schools, as well as non-MSC certified drifting FADs in the same trip, on the same target stock. The new UoA rules only permit vessels to use MSC-certified fishing/gear methods in a single trip. Unless significant advances are made in FAD management in the next 1-2 years resulting in drifting FAD sets being able to pass a full assessment, then MSC certification for purse seiners will be rendered useless.

It is uneconomic, and hence, highly unlikely, that vessels would switch to targeting only free-schools, either entirely or on single trips, except during mandatory FAD closure periods. This will constrain companies sourcing purse-seine caught tuna which is MSC certified. Fisheries entering assessment for the first time after February 2019 need to comply with the new UoA requirements; existing fisheries have until August 2021 to transition to the new requirements.

Sources: Greenpeace 2018; Thai Union 2018; ISSF 2017; World Economic Forum 2017; MSC 2018
3.4 Princes

3.4.1 Company overview

Starting out as a fish canning company in the 1880s in the UK and as a brand in 1900, the Princes foods company has a long heritage. It first entered the European market in 1960 with a base in the Netherlands. Today, the Princes Group focusses on the importation, manufacture and distribution of food and drink products to the grocery trade. Headquartered in Liverpool, UK, Princes is a private company and Mitsubishi Corporation has owned it since 1989.\(^{199}\)

Being a part of one of the world’s largest trading companies means that Princes has access to vast financial resources. The company has historically been able to rely on Mitsubishi Corporation Finance for access to capital when its UK-based management team has identified an M&A opportunity (e.g. Table 3.5 below).\(^{200}\) Its private ownership structure protects the company from hostile M&A bids and thus allows management to focus on their core business as opposed to the difficult – and at times highly opportunistic – demands of meeting quarterly increases in shareholder value. Princes’ management has expressed scepticism in the past over the growing role of private equity in the food industry and, in contrast to Lion Capital (see Section 3.4), it uses financial instruments solely to manage the risks of foreign exchange transactions.\(^ {201}\)

The Princes Group holds a wide portfolio of over 350 Princes’ own brand products, including Princes canned tuna, and 17 other brands. All are household names in their national markets. The Group also supplies customers with their own brand products (e.g. private label canned tuna for EU supermarkets).

Table 3.5  Princes corporate timeline of major M&As and tuna-related activities

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>Mitsubishi Corporation buys Princes</td>
</tr>
<tr>
<td>2001</td>
<td>Acquires Napolina brand of Italian food</td>
</tr>
<tr>
<td>2011</td>
<td>Acquires Crosse &amp; Blackwell soup brand and UK factories market leader</td>
</tr>
<tr>
<td>1999</td>
<td>Princes acquires controlling share of tuna cannery in Mauritius</td>
</tr>
<tr>
<td>2004</td>
<td>Acquires bottled water brand Aqua Pura and plant</td>
</tr>
</tbody>
</table>

\(^{199}\) Princes 2016a  
\(^{200}\) Watson 2007; Princes 2013, p.12  
\(^{201}\) Personal communication - Princes executive, May 2007; Princes 2017, p.2
Princes Group has interests across several core category branded products which enhances its bargaining power with supermarket buyers. They can offer retail buyers a ‘mixed truck’ (i.e. several products in a single order), allowing buyers greater flexibility and reducing their transaction costs. Given the complexity and diversification of Princes product categories, it is difficult to discern from Princes’ financial data the relative importance of its tuna-related business, but one estimate puts canned tuna and other seafood at around one-third of the Group’s total sales.\textsuperscript{202}

Princes sales revenue increases in 2017 are mainly due to increased raw material prices (strongly influenced by tuna) which were passed on in UK retail prices, as reflected in a 1.3% increase in the cost of sales as a percentage of total revenue. High raw material prices and foreign exchange instability almost halved the Group’s pre-tax profit from \pounds 54.4 million to \pounds 28.7 million between 2016 and 2017.\textsuperscript{203} This makes FY2017 the third year running that Princes has recorded a drop in net income and a decline in sales revenue, especially in the UK (Figure 3.8 and Table 3.6). Moreover, The Group’s post-tax profit for FY2017 was only \pounds 0.52 million, compared to \pounds 45.3 million in 2016. This is leading to some internal discussion around the closure of manufacturing sites, albeit not its Mauritius tuna facilities.\textsuperscript{204} It has certainly contributed to the drop in Princes position from 46 in 2017 to 56 in The Grocer’s 2018 ranking of Britain’s biggest brands.\textsuperscript{205}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{timeline.png}
\caption{Timeline of Princes Group's key events.}
\end{figure}

\textsuperscript{202} Atuna, 3 January 2018
\textsuperscript{203} Princes 2017, p.3
\textsuperscript{204} Perrett 2018
\textsuperscript{205} The Grocer 2018
3.4.2 Company strategies

**Vertical integration**

Princes sources products from a network of more than 2,400 direct suppliers in over 40 countries. It also operates 15 manufacturing facilities, 11 of which are in the UK and the others are in Mauritius, Italy and Poland. The Group employs around 6,900 people full-time and ~700 sub-contracted/agency workers, of which around 35% work at two factories operated by Princes Tuna Mauritius. These are:

- Princes Tuna Mauritius (PTM) Riche Terre is a technologically-advanced processing facility, in part to offset the relatively higher labour costs of Mauritian workers compared to Southeast Asia. It produces around 800,000 cans of tuna per day, around 70% of which are exported to the UK and the rest sent to other EU markets. This cannery also produces for EU supermarket’s private label (at around 45% of total production in the late 2000s, mainly to the UK), although the volume has dropped in recent years as private label has lost share to the two big brands because of the narrowing of price differences between them with the rise in raw material cost.

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206 Princes 2017, 2018a  
207 Atuna 3 February 2014  
208 Personal communication - Princes executive, July 2007; Atuna, 9 November 2015
PTM Marine Road (formerly Thon des Mascareignes) has an estimated capacity of 200mt/day. The majority of production is pouches for foodservice and industrial customers, with the rest consisting of tuna loins for export to canneries in the EU and USA.\textsuperscript{209}

PTM has been experiencing raw material shortages because of tightening regulation of yellowfin quota by IOTC, reducing average purse seine catch by an estimated 15% and encouraging a ‘race to fish’ before quota are used up.\textsuperscript{210} In response, PTM has increased cold store inventories, thereby increasing storage costs and commercial risk, should price later drop. Given the importance of PTM to the national economy, the Mauritian government is pursuing three strategies to address this. First, a new reciprocal access arrangement between Mauritius and Seychelles allows for 15 purse seiners, 20 longliners and seven supply ships to catch in each countries’ EEZ to secure volume to the canneries in both countries over the period 2017 to 2019.\textsuperscript{211} Second, Mauritius has been pushing for an additional derogation from EU RoO for 4,000mt on top of the automatic derogation provided under the ESA IEPA shared between Madagascar, Mauritius and Seychelles of 8,000mt of canned tuna and 2,000mt of tuna loins.\textsuperscript{212} Historically, the EU’s process for applying for derogations can be slow and countries do not always receive the full amount that they request.\textsuperscript{213} Third, the government has been arguing at the IOTC for alternatives to quota such as slowing effort, limiting the number of FADs and supply vessels, and even restricting longliners.\textsuperscript{214}

Princes has also always complemented its supply of product from PTM with contract processing arrangements from firms in Ecuador, Thailand and Philippines.\textsuperscript{215} In the context of raw material supply constraints in the WIO, Princes has been procuring a greater volume from Ecuador in 2017, which is reportedly able to supply finished product more cheaply than Mauritius.\textsuperscript{216} As a result of WIO raw material constraints, price competition from alternative suppliers, and partial retail market stagnation (see below), Princes has imported less to the EU from Mauritius in 2016 and 2017, which fell to third place supplying less volume and value, with TU’s factories in Ghana and Seychelles in first and second place respectively. Importantly, Spain has emerged as a major supplier to the UK in 2016 in volume and value (it was 7\textsuperscript{th} in 2015).\textsuperscript{217}

Princes has undertaken 22 M&As since being incorporated with Mitsubishi in 1989 (8 since 2007), which combined with ongoing organic growth, has allowed the firm to diversify and become one of Europe’s leading grocery suppliers.\textsuperscript{218} In relation to the tuna industry, Princes major M&A in recent years was a joint venture with Thon des Mascareignes (TDM) which joined its factory with PTM, with Princes as the majority overall owner. The former TDM factory had been under pressure from the EU’s enlarged quota for pre-cooked tuna loins which allows competitors such as Thailand to supply up to 22,000mt of loins at zero duty. This commercial pressure appears to have been one of the reasons that TDM’s owners agreed to combine with Princes. The merger certainly reduced management costs and gave Princes greater processing capacity, which may have been a strategic consideration given the growing market power of its major competitors Thai Union and Bolton Group.\textsuperscript{219}

\begin{itemize}
\item \textsuperscript{209} Princes 2018a, p.24
\item \textsuperscript{210} Atuna, 2 May 2017
\item \textsuperscript{211} Atuna, 1 March 2017
\item \textsuperscript{212} Atuna, 30 October 2017
\item \textsuperscript{213} Campling 2012
\item \textsuperscript{214} Atuna, 2 May 2017
\item \textsuperscript{215} Atuna, 28 March 2018
\item \textsuperscript{216} Atuna, 25 February 2014
\item \textsuperscript{217} Seafish 2018, p.3
\item \textsuperscript{218} Watson 2007; Princes 2018a, p.8
\item \textsuperscript{219} Atuna, 25 February 2014, 15 December 2014, 16 February 2015 and 4 March 2015
\end{itemize}
Markets

Princes Group’s principal market is the UK, accounting for over 70% of all sales over the last 5 years (Table 3.6). The UK is the EU’s largest import market for canned tuna where Princes is the follower brand with around 25% market share compared to the category leader in canned seafood – John West – which has around 35% share (owned by Thai Union, see Section 3.1). The remaining 40% consists of supermarket private label, as well as small, niche brands. Princes is also Thai Union’s main direct competitor in the Netherland’s branded canned fish market.220

In 2016, UK import volume of shelf-stable tuna increased by 4%, which includes food service. However, in retail, Nielson data show that shelf-stable tuna fell by-2.5% over the 52 weeks ending 17 June 2017 to GPB 267 million.221 Alternative data from Kantar suggest a more positive picture and Princes has stated that it thinks volume sales are generally stable.222 One strategy Princes has deployed to capture more value has been to reduce can size, a long-standing practice in the USA designed to make canned tuna appear cheaper per can, which means that while the total volume of tuna sold at retail may have declined, the number of actual cans – and profit per unit – may not have.

Princes has mimicked John West’s ‘No drain’ (launched in 2013) canned tuna with ‘Drained Tuna’, launched in 2017.223 According to Neil Brownbill, Princes Marketing Director, this gave a major boost to Princes sales.224 In 2017 it also re-launched ‘Tuna Fillers’, targeting younger shoppers at lunchtime and it continues to promote a range of tuna salads and pasta. The data on sales of these products are mixed and while no clear trend is discernible Princes, Thai Union and Seafish (the UK national industry body) have identified value-added as a growth area.225

Princes was dependent upon only 10 buyers for 61.6% of its total sales in 2017. These are major supermarkets with huge sales volumes and buying power. While this remains a high level of exposure to a concentrated number of buyers, Princes’ management has been actively seeking new markets and reduced this exposure from 70.5% in 2015.226 This strategy may, in part, be a response to the tough business environment in the UK supermarket sector. Supermarkets play branded firms off each other through the practice of ‘slotting’: a branded-firm pays a fee for premium shelf space for a period, and even then may be squeezed for additional revenue within that period to maintain their retail ‘real estate’. As one manager of a major UK tuna brand put it, supermarkets are asking: “What is it worth for you to be on the shelf?”.227 Supermarkets also have the power to discontinue (or ‘de-list’) a brand if it does not provide a sufficient return to the supermarket. A large number of Princes products, including canned fish, were de-listed from the leading two supermarkets: Asda in 2007 and Tesco in 2013-14.228 Both events had significant impacts: Princes fell from 48th position in the UK’s Top 100 brands in 2006 to 66th in 2007 and sales revenue dropped between 2013 and 2014 (Figure 3.6). Further, some UK supermarkets such as The Co-op, Tesco and Waitrose have put pressure on

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220 Princes also owns the Vier Diamanten brand which has a 50 percent share of the market in Austria. This is touted as a very high quality canned skipjack product.
221 Seafish 2018, p.3
222 Atuna, 1 August 2017
223 Princes 2018a, p. 26
224 Atuna, 7 April 2017b
225 Atuna, 13 June 2017 and 1 August 2017; Seafish 2018
226 Princes 2017, 2016, p.3
227 Personal communication - Princes executive, May 2007
228 Talking Retail 2008; The Grocer 2013; Bamford 2014
canned tuna brands to source all tuna raw material from fisheries that are MSC certified or in a Fishery Improvement Project (FIP) by the end of 2018.\textsuperscript{229}

In this challenging commercial context, a major new market targeted by Princes is France, a “venture [that] began with the supply of canned tuna” according to Princes former Managing Director Mike Easterbrook and followed up with other Princes canned food.\textsuperscript{230} Given the intense competition in the branded market between historic French brands and the similarly powerful role of French supermarkets as in the UK, the prospects are likely to be challenging.\textsuperscript{231}

Princes is also a follower brand in the Netherlands with 18.7% market share in 2009/10 where it is chasing John West (which is number one with 43.5%) and Deep Blue (22.3%). In contrast to the UK, private label is small in the Netherlands, consisting of only around 15% of canned tuna sales.

The Group also owns the Vier Diamanten brand which has a 50% share of the canned fish market in Austria, selling canned tuna, mackerel and anchovy. It also sells value-added tuna salads: tuna mixed with quinoa, bulger wheat, and cereals, and a canned product which is 50% skipjack mixed with vegetables/fruits and a sauce.

Princes strategy of reducing its dependence on the UK market appears to be bearing progress. The data do not differentiate markets, but as a whole the Group has diversified its sales to the rest of Europe for 25% of its sales in FY2017 compared to 16% in FY2013 (Table 3.6). It is likely that canned tuna has played a role here given its role in the Dutch and Austrian markets and that it was used as a lead product market entry into France. The shift may also be part explained by the devaluation of GBP to the Euro since the announcement of Brexit in 2016 and that Princes reports its accounts in GBP. Nonetheless, in sum, Princes is heavily dependent on the UK and European markets and has little diversification into emerging markets.

\textsuperscript{229} Atuna, 26 January 2017; Atuna, 7 April 2017
\textsuperscript{230} Atuna, 19 January 2016
\textsuperscript{231} It appears that Princes decision was in part motivated by a consumer survey suggesting limited brand loyalty among French consumers and a stated willingness to switch to Princes (Atuna, 9 July 2014)
Table 3.6  Princes Group sales revenue by location, 2013-17*

<table>
<thead>
<tr>
<th></th>
<th>2013 GBP’000</th>
<th>2014 GBP’000</th>
<th>2015 GBP’000</th>
<th>2016 GBP’000</th>
<th>2017 GBP’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>1,268,601</td>
<td>1,251,224</td>
<td>1,165,017</td>
<td>1,065,415</td>
<td>1,068,076</td>
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<tr>
<td></td>
<td>78%</td>
<td>77%</td>
<td>76%</td>
<td>72%</td>
<td>71%</td>
</tr>
<tr>
<td>Rest of Europe</td>
<td>251,723</td>
<td>279,767</td>
<td>305,583</td>
<td>333,103</td>
<td>372,350</td>
</tr>
<tr>
<td></td>
<td>16%</td>
<td>17%</td>
<td>20%</td>
<td>22%</td>
<td>25%</td>
</tr>
<tr>
<td>Rest of World</td>
<td>96,226</td>
<td>86,610</td>
<td>69,013</td>
<td>86,471</td>
<td>66,355</td>
</tr>
<tr>
<td></td>
<td>6%</td>
<td>5%</td>
<td>4%</td>
<td>6%</td>
<td>4%</td>
</tr>
<tr>
<td>Total</td>
<td>1,616,550</td>
<td>1,617,601</td>
<td>1,539,613</td>
<td>1,484,989</td>
<td>1,506,781</td>
</tr>
</tbody>
</table>

* Financial year ending 31 March
Sources: Princes 2017, 2016b, 2014

3.4.3 Links to WCPO

Princes does not own boats\(^{232}\) and it has no direct investments in the WCPO region. It is, however, a leading partner with Pacifical. Princes announced in October 2016 that it would expand its MSC range in cooperation with Pacifical.\(^{233}\) It was the first UK brand to sell tuna from the MSC certified PNA fishery, in early 2017. While Pacifical was already present in the UK market in the food service sector, May 2017 was the first time that the co-brand has been seen in the retail sector in the form of Princes tuna chunks (160g cans) and selected four packs of tuna chunks.\(^ {234}\) The raw material is being transhipped to the Princes Tuna Mauritius cannery for processing.

3.4.4 Recent changes and future developments

Princes management has publicly stated that it is not planning any major changes and is focussing on its existing core business.\(^ {235}\) As is clear from Figure 3.8, the Group has not increased sales much since 2011 – and 2016 levels are largely back to that of 2007. Given the high level of exposure to the UK market, a major commercial concern is around Brexit. Princes’ management is assessing the implications for its UK and wider ‘global’ markets. No new M&As are reported.

Princes is focusing on developing sales of value-added tuna products, but its marketing director has emphasised that price and promotional offers remain the principal factors shaping consumer

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\(^{232}\) Mitsubishi used to own purse seiners active in the Western Indian Ocean that supplied the cannery in Mauritius, but it sold them in the 1980s (Campling 2012)

\(^{233}\) Pacifical, 7 October 2016

\(^{234}\) Atuna, 18 May 2017

\(^{235}\) Princes 2017, p.2
purchasing decisions when they are in the fish aisle. But of course, if a product is excluded from the aisle because of a supermarket’s sustainability policy, it cannot be sold, and so sustainability standards (whether MSC or FIP) can be seen as major drivers for any change in Princes’ business.

Princes was ranked poorly in the Greenpeace 2011 tinned tuna league table and in response committed to sourcing 100% of its supply from either pole and line fishing or purse seine fishing on free swimming schools (i.e. non-FAD caught tuna). Today, it is Princes policy to source MSC ‘wherever possible’ and a number of its salmon, mackerel and, increasingly, tuna products use raw material that is MSC certified. In terms of tuna, Princes procures raw material from:

- the Maldives MSC certified pole and line skipjack fishery;
- MSC tuna from the PNA fishery, the Solomon Islands and Tri Marine certified fisheries;
- the New Zealand Skipjack purse seine FAD free fishery, part of which is certified to the MSC standard;
- suppliers from Indonesia’s Fishery Improvement Project (FIP), which started in 2014;
- the Senegal pole and line tuna FIP started in late 2017 and in which Princes is involved alongside its competitor TU alongside several other partners;
- the TUNACONS FIP in the Eastern Tropical Pacific; and
- the Brazilian pole and line tuna FIP.

Aside from the Maldives, none of this raw material supply, is from within the Western Indian Ocean region, where Princes Tuna Mauritius is based. As such, Princes is a leading participant alongside TU in the Sustainable Indian Ocean Tuna Initiative (SIOTI) – started in April 2017 – which is working towards meeting MSC sustainability standards. The SIOTI covers skipjack, yellowfin and bigeye tuna caught by around 40 French and Spanish owned purse seiners (which include boats flagged by Mauritius and Seychelles). After one year, no formal progress was recorded in the 28 indicators, which were the same as when the FIP was launched; although a formal progress report was expected in July 2018. The FIP is scheduled to end in March 2022 with transition to MSC or MSC-equivalent eco-label. However, FIPs often fail to complete the transition to full MSC certification in the timeframes set, which was recognised by David McDiarmid, Corporate Relations Director at Princes, in noting that “FIPs require close attention until they deliver fully-certified MSC tuna”. Whether or not the SIOTI will transition to MSC certification is a major consideration for the PNA MSC and the Pacifical co-branding project. If it does, then the major EU-centred processing capacity in Mauritius and Seychelles may erode the Pacifical advantage in EU markets.

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236 Atuna, 1 August 2017
237 At the end of 2017, Princes reports that 100% of the large purse seine vessels it purchased tuna from were registered on the ISSF’s PVR, and 97% of all of its tuna purchased in that year was from boats on the PVR (Princes 2018b)
238 Greenpeace 2011
239 Princes 2018a, p.18
240 The core list draws from Princes 2018b and details are supplemented by various other sources.
241 Fisheryprogress.org 2018
242 Atuna, 30 January 2018
3.5 Bumble Bee

3.5.1 Company overview

Founded in 1899, today, Bumble Bee Foods, LLC. is a manufacturer and brander of seafood products with a focus on tuna, ready-to-eat meals and a range of other shelf-stable and frozen seafood and protein products in the US and Canada. In 1960, Bumble Bee Seafoods, Inc. was formed as a wholly owned subsidiary of Castle & Cook, a Hawaii-based seafood company. In 1999, it purchased BC Packers, a company that canned Clover Leaf, the leading brand of tuna and salmon in Canada. In 2000, the firm was purchased by agrifood giant, Conagra, and became Bumble Bee Seafoods. In 2004, it combined with Connors Bros. Income Fund to become the largest branded seafood company in North America. In 2008, Centre Partners Equity Fund acquired the company and it was sold again in 2010 to Lion Capital, a private equity firm focussed on the consumer sector, which is the present parent company. In 2014, processing giant Thai Union and owner of the Chicken of the Sea Brand attempted to purchase Bumble Bee, a deal that would have given Thai Union control over 38% of the US shelf-stable tuna market. In 2015, as complications around anti-trust and (later) price-fixing revelations emerged from the attempted acquisition, the deal collapsed and Bumble Bee remains under Lion Capital’s ownership.

In the US, the firm markets products under the Bumble Bee and Wild Selections brands and is the US leader in canned albacore, which is a higher value product than ‘light meat’ product. It sells canned tuna as well as a wide range of shelf-stable seafood and chicken products. In overall tuna product offerings, Bumble Bee is number two in the US market, accounting for 25% of the category in value sales and 23% in volume. In its broader portfolio of seafood products, it is the leading player overall in the US fish and seafood market segment, generating a 7.5% share of the market’s value, with Starkist following close behind at 7%. Notably, while the US shelf-stable market has been seen shrinking sales in recent years, Bumble Bee’s share of volume has stayed relatively stable. Connor Bros. is the Canadian marketing arm of Bumble Bee and owns the Clover Leaf brand, which is the market leader in canned tuna in Canada, as well as Brunswick, Sweet Sue, and several other brands that sell tuna, other shelf-stable seafood and protein products.

Bumble Bee is not backward integrated into vessel ownership. Rather, to secure supply it has developed a global sourcing and production strategy that includes ownership of a plant in the mainland US, and investment in Sea Value, a Thai plant. It has well-established supply relations with plants in the Pacific, Ecuador and the Indian Ocean and has recently moved into sustainability issues and product offerings. Bumble Bee sources raw material (whole round/loins) primarily through the world’s largest tuna trading company, FCF, as well as smaller volumes through Itochu and Tri Marine.

Bumble is privately held by Lion Capital, and as such, financial data are not publicly available. However, the firm’s M&As offer indicates that over the past 15 years, the valuation of the firm has steadily grown. When Connors Brothers Income Fund merged with Bumble Bee Holdings in 2004, the merged entity was estimated to have a market capitalisation of USD 700 million. Lion Capital’s 2010 purchase of the firm was valued at USD 980 million. Five years later, Thai Union and Bumble Bee were engaged
in a binding agreement for the purchase of Bumble Bee for USD 1.5 billion, prior to the cancelation of the deal. In the lead up to the deal, Bumble Bee disclosed annual sales of roughly USD 1 billion and an EBITA of USD 145 million in 2014.\textsuperscript{250} The 2017 price fixing criminal charges have resulted in a large financial hit to the firm: Bumble Bee initially faced a USD 136 million fine following its guilty plea; however, this fine was reduced to USD 25 million on account that a higher fine would jeopardize the firm’s future.\textsuperscript{251}

**Table 3.7  Bumble Bee timeline, focus on M&A**

1899  
Bumble Bee founded

2006  
Bumble Bee invests in Thai processor Sea Value

2010  
Lion Capital acquired Bumble Bee

2012  
Divestment from Trinidad and Tobago plant

2013  
Purchased Anova

2004  
Purchased by ConAgra

2008  
Purchased by Centre Partners Equity Fund

2012  
Closed Puerto Rico plant

2015  
Thai Union acquisition of Bumble Bee cancelled

\textsuperscript{250} The New York Times 2014  
\textsuperscript{251} Smith 2017a
3.5.2 Company strategies

Bumble Bee’s **global sourcing and production strategy** focuses on white meat (albacore) product. Bumble Bee sources white meat loins from Fiji (PAFCO – Bumble Bee managed plant) and Mauritius (Bumble Bee managed plant) and light meat loins from Thailand and Ecuador (and very small amounts from SSTC in Papua New Guinea), for its Santa Fe Springs plant on the west coast of the US. In addition to processing for its own brand, the Santa Fe Springs plant co-packs for COSI; COSI’s plant located on the east coast of the US also co-packs for Bumble Bee, filling the gap from Bumble Bee’s now-closed Puerto Rico plant. The Santa Fe Springs plant specializes in canning imported pre-cooked loins at a volume of 475mt of loins per day. In 2006, Bumble Bee purchased a stake in Thai Processor Sea Value to formally establish a processing footprint in Thailand for canned tuna and frozen loins and to innovate process technologies. Sea Value has supply arrangements with all three tuna trading companies: FCF, Tri Marine and Itochu, – a practice that is common for all of the large Thai packers as it enables them to spread their volume and pricing risk across all three traders. Sea Value operates three processing facilities with a total processing capacity of 1,000mt/day.

To secure white meat supply, Bumble Bee has developed long-term supply contracts that include management of processing facilities in Fiji (PAFCO) and Mauritius. Recent years have seen Bumble Bee streamlining its albacore sourcing and production. In 2012 it divested from the plant in Trinidad and Tobago and closed its Puerto Rico processing plant. The plant in Trinidad supplied albacore loins to the Puerto Rico plant, which in turn supplied the east coast of the US market. According to a Bumble Bee representative, “We don’t have concerns about the supply of loins. For light meat, we buy on the open market. There is plenty of supply and we buy based on the cheapest price point at our desired specifications. Albacore is different. We don’t own the albacore plants, but we are very heavily involved in managing the whole process. We control the plants”. The elements of this global sourcing and processing strategy are designed around supply considerations, labour costs and market access considerations.

Bumble Bee has pursued, and been the object of, several **mergers and acquisitions** in recent years. It has been pursued by private equity funds seeking to increase the value of the brand before selling it for a profit. As mentioned, Thai Union’s effort to acquire Bumble Bee terminated in 2015 as antitrust clearance procedures stalled and opened the door to unfolding price fixing revelations. In the wake of the price fixing scandal, Lion Capital is unlikely to sell Bumble Bee, as doing so in the next five years would dramatically increase Bumble Bee’s criminal fine from USD 25 million to USD 81 million. In the meantime, rumours have circulated that Lion Capital is interested in selling the Connor Bros. marketing arm of Bumble Bee and frozen fish firm High Liner has been named as an interested buyer. As mentioned, Bumble Bee itself has made strategic purchases, including acquiring a shareholding in Thai processing firm Sea Value in 2006, and the 2013 purchase of Anova Foods (see below).

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252 Personal communication - industry source, May 2014  
253 Personal communication - industry source, May 2014  
254 Industry database 2018  
255 Best 2006  
256 Sea Value Group 2018  
257 Personal communication - industry source, May 2014  
258 Atuna, 4 December 2015  
259 Atuna, 21 July 2017
3.5.3 Links to WCPO

The PAFCO plant located in Levuka, Fiji, and majority owned by the Fijian Government, has an historical strength in processing pre-cooked albacore loins. At present, PAFCO employs 1,000 people, has a processing capacity of 120mt/day and is supplied fish by FCF trading company. The processing operations are managed by Bumble Bee and coordinated as a supply contract. The plant supplies 50% of pre-cooked loins to Bumble Bee’s Santa Fe Springs plant in the mainland US. In recent years, PAFCO’s operations have faced several challenges and received several boosts. In 2011, PAFCO reportedly faced losses, attributed to supply concerns and high transportation expenses, but has bounded back to make financial gains in recent years. PAFCO reported being profitable in 2014 (USD 400,200) and 2015 (USD 625,000). However, supply remains an ongoing concern and Fiji Government officials raised concerns of supply constraints and the mismatch between albacore catch in Fijian waters and the demand in the plant. To help assuage supply concerns, in 2015, Bumble Bee leant PAFCO USD 7 million to build a new 4,000mt cold storage facility, the Fijian Government allocated an additional USD 9 million for the project, helping to stabilize supply. Bumble Bee also offered an additional USD 4 million loan for equipment and machinery upgrading. Funds were further complemented by USD 6 million loan from ANZ Bank to improve the plant’s infrastructure.

Bumble Bee indicates that it is committed to keeping operations on the island, primarily out of a sense of social responsibility for jobs and the economy in Levuka. Citing high operating costs, it has requested that the Fijian Government offer relief from a USD 219/mt tax on tuna unloaded in Fiji to help PAFCO with raw material supply and to encourage foreign vessels to offload to supply the plant.

Bumble Bee has three additional business relations in the Pacific.

- It has historically purchased light meat loins from SSTC in Papua New Guinea and the demand from Bumble Bee was originally a part of the business plan behind the SSTC project. In recent years, volumes have declined as SSTC has sold only non-EU-qualifying product to Bumble Bee.
- Bumble Bee’s 2013 purchase of Anova Foods (distinct from Anova EU) deepened the firm’s links to the Pacific. Anova sources yellowfin from Indonesian handline fisheries and has expanded supply and sustainability initiatives into the Cook Islands and Micronesia (see below).
- In 2016, after a period of resistance to sustainability labels, Bumble Bee announced a deal with Pacifical to bring MSC certified and traceable free-school skipjack to the US. Pacifical products will be sold under the Bumble Bee label and the Wild Selections brand. However, it is likely that in the future, Bumble Bee will source MSC from FCF’s recent MSC certification.

Bumble Bee has explored other investments in the Pacific, though to date, none have come to fruition. Bumble Bee has been in negotiations with the Samoan Government over a loining plant. In 2014, Bumble Bee announced it was set to begin operations and to create 1,000 local jobs; plans were put on hold during the potential acquisition of Bumble Bee by Thai Union. There is ongoing speculation that the move is simply an effort to put pressure on the Fijian government, which owns PAFCO.
potential Samoa investment raises questions for the Starkist plant in neighbouring Samoa, which has recently begun to seek albacore from longline vessels based in Samoa and which has long relied heavily on Independent Samoans as the core of its labour force. Bumble Bee has also expressed interest in processing in Vanuatu, where a joint venture between the Vanuatu government and China National Fisheries Corporate (CNFC) has been established for potentially processing frozen albacore landed in Port Vila. At the time of writing, FFA confirmed this plant was not operational, although work is underway to get it up and running.

3.5.4 Recent changes and future developments

Future developments in Bumble Bee’s portfolio focus on sustainability, traceability and product diversification, and on jumpstarting the North American market after recent decline, including as a result of reputational damage from ongoing lawsuits against the ‘big three’ US brands (see Box 3).

In the realms of sustainability and traceability, Bumble Bee regularly emphasises its leadership as a founding member of ISSF and has launched its Pacifical initiative alongside a complementary catch-to-can tracking system that enables consumers to see where and how their fish was caught, on which vessel and where it was processed. Bumble Bee has also focused on the health and quality attributes of its products. The former has involved promoting canned tuna in response to a report that Americans are not consuming enough seafood and encouraging pregnant women to eat tuna while side stepping the controversy over mercury content of tuna products. On the latter, Bumble Bee has sought to distinguish its albacore products with an advertising campaign delineating its solid white albacore product from poor quality ‘suspicious’ and ‘soupy’ low-priced chunk light tuna that makes up more than half of US market by volume (see Figure 3.9).

**Figure 3.10** Advertisement delineating quality of Bumble Bee albacore from ‘chunk light’ tuna

Source: Bumble Bee Facebook page 2018

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266 Atuna, 29 April 2015
267 Atuna, 28 October 2015
268 Atuna, 7 May 2018c
269 Atuna, 8 February 2016; Melbourne 2018
270 Bumble Bee 2018
Bumble Bee has made a large push in tuna product diversification with higher price points than traditional canned tuna. It has introduced new varieties in its shelf-stable lines, including flavoured ‘prime fillet’ canned albacore lines which are sold in 5oz cans and retail for roughly USD 2.00, tuna pouches with flavouring and sold with a spoon in 2.5oz pouches of light tuna retailing for roughly USD 1.00, and ‘snack’ kits with flavoured light meat tuna and crackers retailing for roughly USD 1.00 for 3.35oz packages (weight includes crackers and can).271 Cloverleaf, the leading canned tuna brand in Canadian market has launched an ‘all natural’ campaign for tuna in water product.272

Bumble Bee purchased Anova to launch new freezer product lines, the most recent of which are frozen yellowfin cubes that can be used to create poke. The 9oz kit consists of 8oz of yellowfin cubes and 1oz of sauce and has a recommended retail price of USD 7.99. The product is identified as coming from “credible FIPS in the WCPO longline fishery”,273 tapping into the poke trend in the US.274 Anova has been recognized for its initiative to secure MSC certification of Indonesian handline yellowfin tuna fisheries by means of a FIP, has launched the first Fair Trade USA Certified seafood, and expanded sustainability efforts to the Cook Islands and Micronesia.275 Together, this collection of product developments and marketing strategies suggests a firm-wide effort to improve on the quality and reputation of Bumble Bee products that have been facing stagnating interest (at best) in the US market in recent years.

At the time of writing, Bumble Bee’s corporate image and operations were constrained by its role in the price fixing scandal (see Box 3). Bumble Bee has pleaded guilty in the criminal proceedings on price fixing, and its CEO, Chris Lischewski, has been indicted. Lion Capital has also been named as a defendant.276 Additional legal claims include a lawsuit in which plaintiffs allege that Bumble Bee misled consumers about the health benefits of Bumble Bee tuna.277 The criminal fine revealed financial limits for Bumble Bee, as the firm refinanced its debt at the time that it was required to pay a USD 25 million criminal fine. Notably, the fine will increase if Bumble Bee is sold off within five years, a move that is likely to prevent Lion Capital from selling it into another M&A deal.278 Court filings reveal that Bumble Bee made over USD 1.3 billion in revenue from tuna sold during the alleged conspiracy period of 2011-2013.279

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271 Atuna, 16 March 2016; Atuna, 20 February 2017
272 Atuna, 19 March 2018
273 Atuna, 20 March 2018
274 Campling and Havice et. al. 2018c
275 Bumble Bee 2013; Fishwise 2017
276 Atuna, 12 April 2018
277 Atuna, 28 February 2017
278 Atuna, 21 August 2017
279 Atuna, 3 August 2017
FFA Shelf-Stable Tuna Dynamics Study

Box 3  
US price-fixing and can under-filling cases

The US market for canned tuna has long been reputed for its stubbornly low price point and for the extensive discounting of canned tuna that retailers use to draw in customers. Related, the US market is often singled out for a concomitant set of coping strategies that industry has developed to contend, including the lowering of product quality, decreasing the volume of tuna in each can (and labelling the cans accordingly), and using hydrolyzed protein flavour enhancers, and the additive pyrophosphate. While these strategies are legal, the lowering of product quality has coincided with a flattening and decline in demand for canned tuna products in the US market.

More recently, US tuna brands have faced legal challenges over corporate practices designed outside of the parameters of the law to enhance corporate profitability. The first is a series of lawsuits that alleged that Starkist and Wild Planet tuna brands were selling cans of tuna that contained less tuna than advertised – a violation of federal guidelines. Starkist agreed to pay USD12 million to settling claims for all US residents who bought Starkist productions between 19 February 2009 and 31 October 2014. A more recent lawsuit has made a similar claim. Wild Planet, a smaller brand that promotes itself as a producer of healthy food and sustainably harvested seafood, also reached a USD 1.7 million settlement for under-filling its cans. Federal Agency tests of the product found the cans to be roughly 30% below the federally mandated minimum fill for the category volume it was advertising.

The second series of lawsuits related to allegations that the ‘big three’ US tuna brands colluded in a years-long price fixing scheme. There are two distinct legal processes underway. First, more than 100 retailers, grocers, wholesales and suppliers are alleging damages from a price fixing conspiracy. At the time of writing, the plaintiffs had requested becoming a ‘class’, which would allow the group to have common legal counsel and pool resources to pay bills for expert witnesses and lawyer fees. The trial is not expected to commence until 2019 at the earliest. In the meantime, Thai Union’s COSI has recently reached a settlement in the civil lawsuit filed by large retailer WalMart. Under the terms of the agreement, COSI will pay a cash settlement and the two companies will participate in a series of programmes and new product promotions in Walmart stores. The specifics of the settlement are confidential, but aim to resolve the dispute while also finding new ways to re-market a declining product and improve the reputation of the segment. COSI has indicated hopes of further settlement negotiations with other plaintiffs.

Simultaneously, the US Department of Justice is conducting a criminal probe into the allegations. In the criminal case, Bumble Bee has pleaded guilty and been mandated to pay a USD 25 million fine, two former Bumble Bee executives have pleaded guilty, as has one former Starkist employee though they have not yet been sentenced. Bumble Bee CEO, Chris Lischewski had been indicted on criminal charges but has maintained his innocence.

Thai Union, owners of Chicken of the Sea, announced that COSI has received conditional leniency for its role as whistle blower and in exchange for continued cooperation with the investigation. Reportedly, Bumble Bee, Starkist and COSI employees directly sent confidential, unannounced price increases and price guidelines decisions, supplied price lists, and leaked internal prices lists or strategy to third parties with the understanding that the message would be passed along to competitors.

These allegations, as well as the emerging proposals to resolve them, are indicative of the fall out of decades of cut-throat competition in the US canned tuna market. These market conditions have arguably contributed first to a decline in product quality, and related reputational challenges for the well-recognized US brand leaders. The recent Walmart-COSI settlement, as well as the sector-wide focus on product innovation, pouches, and ready-made healthy meals seem to point to a reboot for a declining sector.

Sources: This box draws on coverage from Campling, Havice et. al. 2017a and 2017b; also Smith 2017b; Higgins 2017; Ritenbaugh 2018
4. IMPLICATIONS FOR PACIFIC ISLAND COUNTRIES

This section offers two forms of analysis with the intention of drawing out implications for Pacific Island countries in their broad pursuits to increase socio-economic benefits from tuna fisheries. The first is a cross-cutting analysis of the key trends and dynamics observed in the five case study firms presented above. The aim of the synthesis is to demonstrate the distinct and varied operating strategies and strengths and weaknesses of these key players in the processing sector, and to examining how these features connect (or do not) to the WCPO. The second is an analysis of general findings and key drivers in the processing sector as they relate to existing and potential opportunities for Pacific Island countries.

4.1 Case Study Firms

The analysis of the five case study firms reveals a diversified set of strategies in the shelf-stable tuna sector (for a high level summary, see Table 4.1).

All of the firms reviewed employ the strategy of using **mergers and acquisitions** to expand the scope of their business portfolio. In some cases, this has deepened **horizontal integration**, expanding a firms’ traditional strength by, for example, purchasing processing plants in strategic locations, or acquiring brands that offer access to new markets. In others, they have enabled **vertical integration** outward from the processing node of the canned tuna value chain into branding, trading and/or fishing. Each firm has employed these strategies in distinct ways and to various extents.

**Thai Union** has purchased processing facilities around the globe and forward integrated into brand ownership to access markets and capture brand rents in Europe and the US. It is not backward integrated into fishing. Its revenues and sales have grown dramatically as it has expanded. **Dongwon**, given its large, integrated business structure, has used M&As to deepen its processing capacity, expand into new shelf-stable tuna markets and market segments, forward integrate into brand ownership, and backward integrate into businesses that offer services and supplies that support its processing sector. Its acquisition of Starkist in the late 2000s lead to a massive boost in revenues for Dongwon Industries. The firm is also backward integrated into fishing. **Bolton Foods**, which owns processing plants in Italy and France, and through recent M&As in Spain, Latin America and Solomon Islands, has recently focused on purchasing additional brands to expand its production base and market coverage in Europe and Latin America. It is vertically integrated into fishing and gained a presence in trading by acquiring a share in Tri Marine, which also owns vessels, processing capacity and a small brand. In general, Bolton Food’s revenues and profits have been very steady, although it is not known the extent to which there is any cross-subsidisation among entities in the wider, highly diversified Bolton Group. **Bumble Bee** has acquired stakes in processing in Thailand and recently, purchased Anova Foods to expand into frozen tuna products, but has otherwise focused on its own processing brand and securing supply through long-term contract relationships. Potential M&As and sales have been on hold as the firm deals with legal challenges from the price fixing scandal. **Princes**, owned by Mitsubishi, has undertaken more than 20 M&As since 1989 in order to deepen its core business operations with are centrally focused on processing facilities and ownership of a range of brands targeting primarily a single market: the UK.

Overall, the cases studies offer evidence of growing consolidation among leading firms with core competencies in processing or processing and branding (though analysts suggest that the pace of consolidation is likely to slow with many large mergers now complete or blocked by anti-trust
There is a high degree of vertical integration between processing and branding, with some, but not all firms, also backward integrating into vessel ownership and/or trading to secure supply. The large investments that several firms are making into brands (and the concomitant increases in revenue, and in some cases, profitability) offers strong evidence of brand rent in shelf-stable markets. This has relevance for efforts from Pacific Island countries, like Pacifical, to develop links into branding to improve returns in the region.

These features also relate to the degree in which each firm has exposure to raw material price, that is, the extent to which a firm’s profitability is influenced by fluctuations in canning-grade tuna price movements. Figure 4.1 plots net profitability alongside annual average skipjack prices. However, it must be stressed that correlations cannot be interpreted as causation, given that fish price is only one of a plethora of dynamics (though an important one) that shapes firms’ profitability. Firms that are vertically integrated into fishing have lower exposure, and in fact, benefit from raw material price increases. For example, Dongwon Industries profitability has increased with recent high skipjack prices and news that the firm was expanding its fleet. Thai Union, heavily invested in processing, and dependent upon supply contracts with trading companies, tends to see more tempered profitability in periods of high fish price. Bolton, a firm deeply integrated across the supply chain, is positioned to weather price spikes, whereas Princes, highly focused on processing and branding, can see decline in profitability in times of high raw material prices (and vice versa when prices are low). Processing-focussed firms with high exposure to raw material prices have adopted strategies such as expanding cold storage (at a cost) to hedge against such risks.

**Figure 4.1 Skipjack Price and Net Profit of Case Study Firms**

*Annual average Bangkok 1.8-3.4kg (in USD)

Sources: Tuna price data, industry source; net income data, Bloomberg, except Princes 2017, Thomson Reuters Eikon; all net income data is for FY ending 31 December, except for Princes where FY ends 31 March.

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Intrafish 2017; Lin 2012
Several of the firms reviewed are also financialized – that is, intertwined with transactions in which profit making and risk hedging occurs through financial channels, rather than only through trade and commodity production. For example, Bumble Bee has now been owned by two private equity firms that used debt to purchase the company, restructure it, and then sell it for a profit. Dongwon is a sprawling conglomerate and has the ability to issue notes to raise capital to fund strategic acquisitions. Many family-controlled conglomerates in South Korea (known as chaebols) use the practice of circular shareholding between legally separate entities which may mask financial performance; a governance practice that is currently the target of Korean government reform. Thai Union’s role as a leading player on the Thai stock exchange gives the firm access to finance capital including through the potential issuance of preferential shareholding. Princes ownership by Mitsubishi gives it preferential access to vast financial resources for acquisitions and to manage the risk of foreign exchange transactions. Access to financial capital is important because it enables these firms to make strategic investments, counter hostile take-overs, and weather unexpected costs that might hit competitors with access to fewer resources.

### Table 4.1 Case study firm strategies

<table>
<thead>
<tr>
<th></th>
<th>Thai Union</th>
<th>Dongwon</th>
<th>Bolton</th>
<th>Princes</th>
<th>Bumble Bee</th>
</tr>
</thead>
<tbody>
<tr>
<td>M&amp;A</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Financialized</td>
<td>Medium</td>
<td>Medium</td>
<td>Low</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Vertical &amp; horizontal integration</td>
<td>Medium (brands, full processing not fishing)</td>
<td>High (brands, fishing and services)</td>
<td>High (brands and some canning-only/trading)</td>
<td>Low (branding and some full processing)</td>
<td>Medium (branding, canning-only, partial control of other canning and joining facilities)</td>
</tr>
<tr>
<td>Raw material price exposure</td>
<td>High</td>
<td>Medium (Industries benefits, F&amp;B hurts)</td>
<td>Medium</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Market expansion orientation</td>
<td>High</td>
<td>Medium</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
</tr>
</tbody>
</table>

### 4.2 General Processing Industry

In addition to these firm-specific dynamics, the analysis reveals several broader dynamics that are impactful industry-wide and have specific implications for Pacific Island countries.

The combined annual net profitability of four of the case study firms profiled here for which comparative data are available (i.e. Bolton Alimentari, Dongwon Industries, Princes and Thai Union) has remained relatively stable through the eight-year period 2009 to 2016 at an annual average of USD 366.5 million (a low of USD 333 million and a high of USD 425 million). These profit data are not just about tuna, they mask the different degrees of diversification among the firms, and accounting

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281 Harris and Song Jung-a 2018
techniques may include transfer pricing between corporate entities for tax planning purposes. But the trend does indicate a degree of relative stability at an industry level for branded-processors. This suggests a number of analytical points:

- As a group, branded-processors are able to weather fluctuations in raw material price, albeit with sometimes considerable variation among them (Figure 4.1). This is despite the doubling of skipjack price between 2009 and 2012, and its uptick again in 2016 onwards. This might be explained by a combination of factors including (a) cross-subsidisation (e.g. boat ownership and/or other business segments); (b) greater focus on cost control and/or synergies from M&As; and (c) investment in new processing technologies and value-added product innovation (see below).

- There may also be other explanations for relative stability in aggregate branded-processor profit to do with these firms’ market power such as squeezing non-branded suppliers (of which there are many, in sharp competition among one another), the capture of brand rents, and ad hoc strategies such as the recent US price fixing scandal and the prior role of the Pacific Operating Committee in stabilising canning-grade albacore price.282

- Consequently, the role of the PNA Vessel Day Scheme, and related initiatives such as high seas closures and limitations on and charges for FAD fishing, in bumping up global canning-grade tuna price appears to have been factored-in to business models and, to a degree, smoothed out.

The steady rate of profit may also be a result of general stagnation in several principal markets.

Processing firms, as they form various degrees of forward and/or backward integration, continue to develop and rely on global procurement strategies to secure both raw material supply and market access. These strategies continue to be formulated around trade policy, labour productivity, and resource access. In the present context in which several major markets continue to protect their domestic manufacturing with tariffs, the demand for canned tuna and loins from contract processors continues to exist. Pacific Island countries continue to have important connections (through both ownership and contractual relationships) to filling this demand, though competitiveness continues to be a key parameter in this market segment.

After many of years of processing and branding firms suggesting that they are moving into the area of value-added products, product diversification is finally becoming more established in many of the major and emerging markets. Value-added products, such as flavoured and meal-ready shelf-stable and freezer aisle tuna products are being marketed at higher price points than more traditional canned tuna in oil and water. In addition to potentially improving profitability in the processed tuna market, firms aim to use value-added products to re-ignite interest in tuna products that have seen stagnant or slowed consumption patterns in large, mature markets. If value-added products take fuller hold and spur market growth and improvements in profitability, all of those involved in the global value chain – including Pacific Island country resource owners and processing firms – will compete to capture the value-added. One specific area that the WCPO might capitalize on is the sustained demand for high quality canned yellowfin products, especially in the European market. For example, Bolton’s main brand Rio Mare almost exclusively uses yellowfin. An opportunity exists to increase yellowfin volumes caught from the WCPO – or to direct existing yellowfin that presently gets mixed into ‘light meat’ products – to substitute volumes supplied from the Indian Ocean, given the IOTC yellowfin stock is overfished and subject to overfishing, while WCPO stocks remain healthy.

282 See Havice and Campling 2017; Campling et al. 2007; Hamilton et al. 2011
One of the most significant developments in the canned tuna sector in the past few years is the increasing focus on sustainability, eliminating IUU fish in supply chains, traceability and ethical labour practices. A number of prominent processing companies and brand owners have been pro-active in these areas making public, auditable commitments. To remain competitive in markets with strong demand for tuna with these attributes (i.e. EU, US, Australia, New Zealand), fishing and processing operations in the WCPO will need to invest resources to ensure that they comply with such requirements, or risk losing access to these markets. Markets which continue to be comparatively lax about sustainable and ethical sourcing (e.g. Middle East) are not economical to supply from PIC processors due to unfavourable tariff preferences and high freight costs. Generally, these movements in the sector on sustainability and labour will present both costs (auditing, management and production changes) and opportunities (market access, potential price premiums) to fishing fleets, processors and branding and retail. It is not yet clear how these will shape raw material prices and related access fees.

Pacific Island countries have already demonstrated their ability to lead and innovate on sustainability and labour, through for example, the development of Pacifical and the Social Accountability Guidelines for purse seine vessels. Pacifical stands to be an important supplier of certified product but will also face increasing competition from other MSC certified fisheries as major fishing and trading companies (TriMarine, FCF, Dongwon) obtain their own certifications for purse seine fishing operations in the WCPO. These competing certifications likely have a different pricing structure which is more palatable to brand owners (i.e. MSC premiums payable on the cost of raw material (i.e. $/tonne) rather than the Pacifical model where a premium is charged on finished goods (i.e. % of gross sales value). Also, these competing certifications will not have compulsory labelling requirements, which is a key feature of the Pacifical model. Further, any purse seine fishery (and processors/brands currently sourcing MSC-certified purse seine-caught tuna) with existing MSC certifications or entering into full-assessment will be constrained by the MSC’s recent changes to its fisheries certification standard which will only permit MSC-certified set types taking place in single fishing trips, unless significant advances in drifting FAD management takes place in the next 1-2 years, enabling this set type to pass an MSC assessment.

Finally, PICs needs to continue to conduct careful analysis of proposals from foreign companies expressing interest in investing in onshore processing developments. Historically, Pacific Island countries have been typically uneconomic sites for canned tuna processing due to high production costs (particularly utilities and packaging costs) and relatively low labour productivity, despite having competitively priced labour and duty-free market access to the EU. Hence, any company considering making an onshore processing investment is usually doing so as a means to obtain beneficial access to fishing through guaranteed and/or discounted fishing licences. There are multiple cases of companies expressing interest in processing facilities in various PICs which have not yet or are unlikely to come to fruition.
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## APPENDIX 1 TRADE DATA – THAILAND, US, EU

### APPENDIX 1.1 – THAILAND TRADE DATA

#### THAILAND - FROZEN WHOLE ROUND CANNING GRADE TUNA IMPORTS (MT), 2013-2017

<table>
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<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Taiwan</td>
<td>146,110</td>
<td>149,810</td>
<td>125,211</td>
<td>146,317</td>
<td>117,290</td>
<td>17%</td>
<td>-20%</td>
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<tr>
<td>United States</td>
<td>112,760</td>
<td>115,726</td>
<td>91,411</td>
<td>87,838</td>
<td>71,325</td>
<td>11%</td>
<td>-37%</td>
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<tr>
<td>PNG</td>
<td>3,633</td>
<td>11,782</td>
<td>50,291</td>
<td>91,041</td>
<td>69,229</td>
<td>10%</td>
<td>1806%</td>
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<tr>
<td>Korea</td>
<td>78,824</td>
<td>40,974</td>
<td>85,995</td>
<td>98,731</td>
<td>62,896</td>
<td>9%</td>
<td>-20%</td>
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<tr>
<td>Kiribati</td>
<td>26,695</td>
<td>26,955</td>
<td>70,003</td>
<td>64,963</td>
<td>58,589</td>
<td>9%</td>
<td>119%</td>
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<td>Indonesia</td>
<td>45,357</td>
<td>47,889</td>
<td>36,923</td>
<td>19,409</td>
<td>47,673</td>
<td>7%</td>
<td>5%</td>
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<td>Maldives</td>
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<td>22,410</td>
<td>24,451</td>
<td>21,265</td>
<td>39,422</td>
<td>6%</td>
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<td>FSM</td>
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<td>8,428</td>
<td>10,234</td>
<td>25,412</td>
<td>37,022</td>
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<td>China</td>
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<td>46,860</td>
<td>49,386</td>
<td>31,025</td>
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<td>Japan</td>
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<td>Spain</td>
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<td>16,196</td>
<td>10,272</td>
<td>24,156</td>
<td>20,893</td>
<td>3%</td>
<td>131%</td>
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<td>Seychelles</td>
<td>1,926</td>
<td>6,993</td>
<td>2,274</td>
<td>18,921</td>
<td>17,075</td>
<td>3%</td>
<td>787%</td>
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<tr>
<td>Solomon Islands</td>
<td>10,163</td>
<td>6,257</td>
<td>6,726</td>
<td>8,134</td>
<td>16,172</td>
<td>2%</td>
<td>59%</td>
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<td>Marshall Islands</td>
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</table>

Source: Thai Customs 2018

#### THAILAND - FROZEN WHOLE ROUND CANNING GRADE TUNA IMPORTS (THB '000), 2013-2017

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<td>Taiwan</td>
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<td>-21%</td>
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<td>3,694,596</td>
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<td>113%</td>
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<td>3,210,825</td>
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<td>17%</td>
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<td>1,184,888</td>
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<td>-31%</td>
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<td>1,279,605</td>
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<td>103%</td>
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<td>1,130,284</td>
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Source: Thai Customs 2018
### THAILAND - CANNED TUNA EXPORTS (MT, NET WEIGHT), 2013-2017

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<td>Japan</td>
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<td>34,744</td>
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<td>7%</td>
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<td>Egypt</td>
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<td>60,403</td>
<td>70,329</td>
<td>62,218</td>
<td>28,685</td>
<td>6%</td>
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<td>33,536</td>
<td>27,701</td>
<td>29,756</td>
<td>26,523</td>
<td>5%</td>
<td>-11%</td>
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<td>37,363</td>
<td>33,729</td>
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<td>30,685</td>
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<td>27,167</td>
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<td>-4%</td>
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</tr>
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<td>12,101</td>
<td>10,684</td>
<td>7,361</td>
<td>11,820</td>
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<td>29%</td>
</tr>
<tr>
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<td>8,636</td>
<td>13,653</td>
<td>10,132</td>
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<td>8,902</td>
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<td>35%</td>
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<td>536,875</td>
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<td>554,002</td>
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<td>-10%</td>
</tr>
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</table>

Source: Thai Customs 2018

### THAILAND - CANNED TUNA EXPORTS (THB '000), 2013-2017

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<tbody>
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<td>United States</td>
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<td>10,912,199</td>
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<td>-12%</td>
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<td>5,525,088</td>
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<td>-33%</td>
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<td>50%</td>
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<td>1,587,726</td>
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<td>203%</td>
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<td>147%</td>
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<td>1,459,047</td>
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<td>21%</td>
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<td>69,754,317</td>
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Source: Thai Customs 2018
## APPENDIX 1.2 – EU TRADE DATA

### EU 28 (EXTRA) - CANNED IMPORTS BY EU MEMBER (MT), 2013-2017

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<td>103,370</td>
<td>95,974</td>
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<td>57,553</td>
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<td>Germany</td>
<td>60,262</td>
<td>55,738</td>
<td>58,754</td>
<td>49,991</td>
<td>59,820</td>
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<td>-1%</td>
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<td>-3%</td>
</tr>
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<td>12,738</td>
<td>9,194</td>
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Source: Eurostat 2018

### EU 28 (EXTRA) - CANNED IMPORTS BY EU MEMBER (EUR), 2013-2017

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<td>383,460,893</td>
<td>354,550,181</td>
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<td>268,814,729</td>
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<td>28,690,313</td>
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</tr>
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<td>20,707,817</td>
<td>28,112,148</td>
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</tr>
<tr>
<td>Others</td>
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<td>125,657,776</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>1,776,684,926</strong></td>
<td><strong>1,557,404,355</strong></td>
<td><strong>1,499,961,480</strong></td>
<td><strong>1,398,127,052</strong></td>
<td><strong>1,647,307,468</strong></td>
<td><strong>100%</strong></td>
<td><strong>-7%</strong></td>
</tr>
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</table>

Source: Eurostat 2018
## EU 28 (EXTRA) - CANNED IMPORTS BY PRODUCER (MT), 2013-2017

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<tbody>
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<td>Ecuador</td>
<td>84,105</td>
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<td>19,224</td>
<td>20,019</td>
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<td>48%</td>
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<tr>
<td>Cote D’Ivoire</td>
<td>33,502</td>
<td>23,844</td>
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<td>27,348</td>
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<td>-19%</td>
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<td>35,893</td>
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<td>8,688</td>
<td>7,937</td>
<td>6,000</td>
<td>7,313</td>
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<td>-5%</td>
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<td>El Salvador</td>
<td>3,694</td>
<td>4,421</td>
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<td>6,856</td>
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<td>92%</td>
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<td>1,107</td>
<td>2,242</td>
<td>2,546</td>
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<td>148%</td>
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<tr>
<td>Peru</td>
<td>1,704</td>
<td>1,700</td>
<td>2,572</td>
<td>1,773</td>
<td>3,370</td>
<td>1%</td>
<td>98%</td>
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<tr>
<td>Others</td>
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<td>6,225</td>
<td>5,745</td>
<td>3,687</td>
<td>3,902</td>
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<td>-31%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>410,486</td>
<td>402,537</td>
<td>394,028</td>
<td>385,842</td>
<td>404,052</td>
<td>100%</td>
<td>-2%</td>
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</table>

*Note: Eurostat 2018. Note: Totals do not match for EU Extra 28 canned tuna imports by producer and importer due to rounding.*

## EU 28 (EXTRA) - CANNED IMPORTS BY PRODUCER (EUR), 2013-2017

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<td>Ecuador</td>
<td>375,870,262</td>
<td>330,426,219</td>
<td>262,457,832</td>
<td>271,036,070</td>
<td>381,570,354</td>
<td>23%</td>
<td>2%</td>
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<tr>
<td>Seychelles</td>
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<td>240,956,996</td>
<td>211,113,579</td>
<td>229,159,790</td>
<td>228,205,464</td>
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<td>-14%</td>
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<td>Mauritius</td>
<td>231,230,247</td>
<td>211,337,304</td>
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<td>193,248,848</td>
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<td>-16%</td>
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<tr>
<td>Philippines</td>
<td>101,731,703</td>
<td>89,691,517</td>
<td>117,244,520</td>
<td>105,041,397</td>
<td>160,581,002</td>
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<td>58%</td>
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<tr>
<td>Ghana</td>
<td>96,010,016</td>
<td>103,493,545</td>
<td>152,648,164</td>
<td>144,108,157</td>
<td>126,150,003</td>
<td>8%</td>
<td>29%</td>
</tr>
<tr>
<td>Cote D’Ivoire</td>
<td>150,818,972</td>
<td>111,852,479</td>
<td>119,244,892</td>
<td>110,325,835</td>
<td>123,020,934</td>
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<td>-18%</td>
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<tr>
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<td>236,290,702</td>
<td>181,843,245</td>
<td>167,707,269</td>
<td>127,659,414</td>
<td>111,504,084</td>
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<td>-5%</td>
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<tr>
<td>Papua New Guinea</td>
<td>78,505,053</td>
<td>67,808,818</td>
<td>72,930,862</td>
<td>72,885,217</td>
<td>100,077,452</td>
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<td>27%</td>
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<tr>
<td>Colombia</td>
<td>53,885,994</td>
<td>43,281,462</td>
<td>31,519,048</td>
<td>28,576,857</td>
<td>44,746,287</td>
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<td>-17%</td>
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<tr>
<td>El Salvador</td>
<td>16,635,023</td>
<td>20,426,449</td>
<td>22,770,340</td>
<td>31,919,433</td>
<td>36,327,006</td>
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<td>95%</td>
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<tr>
<td>Vietnam</td>
<td>42,139,109</td>
<td>37,299,301</td>
<td>33,205,610</td>
<td>26,984,566</td>
<td>32,284,709</td>
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<td>-23%</td>
</tr>
<tr>
<td>Madagascar</td>
<td>33,880,972</td>
<td>33,281,717</td>
<td>26,830,999</td>
<td>21,668,179</td>
<td>28,982,371</td>
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<td>-14%</td>
</tr>
<tr>
<td>Others</td>
<td>90,406,661</td>
<td>85,783,735</td>
<td>80,230,491</td>
<td>65,854,415</td>
<td>80,618,786</td>
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<td>-11%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>€1,776,684,926</td>
<td>€1,557,482,787</td>
<td>€1,499,961,480</td>
<td>€1,398,127,052</td>
<td>€1,647,317,300</td>
<td>100%</td>
<td>-7%</td>
</tr>
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</table>

*Source: Eurostat 2018. Note: Sums for value of imports by EU member and producer do not match due to rounding.*
### EU 28 (EXTRA) - FROZEN COOKED LOIN IMPORTS BY EU MEMBER (MT), 2013-2017

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</thead>
<tbody>
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<td>Spain</td>
<td>63,063</td>
<td>62,944</td>
<td>78,146</td>
<td>64,057</td>
<td>82,840</td>
<td>61%</td>
<td>31%</td>
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<tr>
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<td>32,369</td>
<td>32,540</td>
<td>33,473</td>
<td>35,819</td>
<td>36,622</td>
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<td>13%</td>
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<tr>
<td>Portugal</td>
<td>2,936</td>
<td>6,324</td>
<td>3,289</td>
<td>5,508</td>
<td>6,390</td>
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<td>118%</td>
</tr>
<tr>
<td>France</td>
<td>6,340</td>
<td>4,532</td>
<td>5,651</td>
<td>4,984</td>
<td>6,082</td>
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<td>-4%</td>
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<tr>
<td>Others</td>
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<td>1,704</td>
<td>1,356</td>
<td>1,932</td>
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<td>115%</td>
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<td><strong>TOTAL</strong></td>
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<td>108,049</td>
<td>122,115</td>
<td>112,300</td>
<td>135,152</td>
<td>100%</td>
<td>27%</td>
</tr>
</tbody>
</table>

Source: Eurostat 2018

### EU 28 (EXTRA) - FROZEN COOKED LOIN IMPORTS BY EU MEMBER (EUR), 2013-2017

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</thead>
<tbody>
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<td>321,697,964</td>
<td>259,160,346</td>
<td>290,006,600</td>
<td>256,361,826</td>
<td>394,496,229</td>
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<td>23%</td>
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<tr>
<td>Italy</td>
<td>193,495,426</td>
<td>176,631,673</td>
<td>183,971,958</td>
<td>180,795,668</td>
<td>215,984,186</td>
<td>32%</td>
<td>12%</td>
</tr>
<tr>
<td>France</td>
<td>30,695,509</td>
<td>20,204,055</td>
<td>28,122,452</td>
<td>22,670,529</td>
<td>30,833,041</td>
<td>4%</td>
<td>0%</td>
</tr>
<tr>
<td>Portugal</td>
<td>15,242,713</td>
<td>27,040,668</td>
<td>12,974,947</td>
<td>18,697,391</td>
<td>30,055,725</td>
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<td>97%</td>
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<tr>
<td>Others</td>
<td>7,511,548</td>
<td>7,814,134</td>
<td>5,831,833</td>
<td>7,454,571</td>
<td>14,202,809</td>
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<td>89%</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td>€ 568,641,160</td>
<td>€ 490,851,078</td>
<td>€ 520,907,790</td>
<td>€ 485,979,985</td>
<td>€ 685,571,590</td>
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Source: Eurostat 2018

### EU 28 (EXTRA) - FROZEN COOKED LOIN IMPORTS BY PRODUCER (MT), 2013-2017

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</thead>
<tbody>
<tr>
<td>Ecuador</td>
<td>35,796</td>
<td>25,366</td>
<td>39,544</td>
<td>38,871</td>
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<td>45%</td>
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<td>7,259</td>
<td>7,073</td>
<td>12,680</td>
<td>12,528</td>
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<td>63%</td>
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<td>9,782</td>
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<td>8,572</td>
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<td>24%</td>
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<td>5,379</td>
<td>7,570</td>
<td>9,608</td>
<td>6,088</td>
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<td>41%</td>
</tr>
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<td>6,697</td>
<td>7,680</td>
<td>6,344</td>
<td>6,477</td>
<td>5%</td>
<td>62%</td>
</tr>
<tr>
<td>Guatemala</td>
<td>7,056</td>
<td>5,324</td>
<td>5,877</td>
<td>4,701</td>
<td>5,994</td>
<td>4%</td>
<td>-15%</td>
</tr>
<tr>
<td>El Salvador</td>
<td>7,347</td>
<td>7,242</td>
<td>5,472</td>
<td>3,748</td>
<td>3,579</td>
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<td>-51%</td>
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<td>147%</td>
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<td>3,674</td>
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<td>7,240</td>
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<td>5%</td>
<td>-30%</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td>106,207</td>
<td>108,049</td>
<td>122,115</td>
<td>112,300</td>
<td>135,152</td>
<td>100%</td>
<td>27%</td>
</tr>
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</table>

Source: Eurostat 2018
### APPENDIX 1.3 – USA TRADE DATA

#### USA - CANNED TUNA AND POUCH IMPORTS (MT, NET WEIGHT), 2013-2017

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<tr>
<td>Thailand</td>
<td>83,014</td>
<td>79,592</td>
<td>70,110</td>
<td>65,767</td>
<td>71,575</td>
<td>51%</td>
<td>-14%</td>
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<td>Ecuador</td>
<td>16,428</td>
<td>16,042</td>
<td>18,275</td>
<td>17,432</td>
<td>19,914</td>
<td>14%</td>
<td>21%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>19,080</td>
<td>17,990</td>
<td>18,931</td>
<td>19,314</td>
<td>18,835</td>
<td>13%</td>
<td>-1%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>7,696</td>
<td>7,557</td>
<td>8,634</td>
<td>9,141</td>
<td>9,015</td>
<td>6%</td>
<td>17%</td>
</tr>
<tr>
<td>Philippines</td>
<td>3,606</td>
<td>5,657</td>
<td>5,028</td>
<td>5,920</td>
<td>6,872</td>
<td>5%</td>
<td>91%</td>
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<tr>
<td>Mexico</td>
<td>16,568</td>
<td>20,107</td>
<td>15,694</td>
<td>8,555</td>
<td>6,759</td>
<td>5%</td>
<td>-59%</td>
</tr>
<tr>
<td>China</td>
<td>8,680</td>
<td>5,713</td>
<td>2,927</td>
<td>3,107</td>
<td>2,946</td>
<td>2%</td>
<td>-66%</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>420</td>
<td>379</td>
<td>554</td>
<td>1,264</td>
<td>2,419</td>
<td>2%</td>
<td>476%</td>
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<tr>
<td>Others</td>
<td>2,122</td>
<td>2,109</td>
<td>1,993</td>
<td>2,097</td>
<td>3,153</td>
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<td>49%</td>
</tr>
<tr>
<td>Total</td>
<td>157,613</td>
<td>155,146</td>
<td>142,145</td>
<td>132,596</td>
<td>141,488</td>
<td>100%</td>
<td>-10%</td>
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</table>

Source: NOAA 2018

#### USA - CANNED TUNA AND POUCH IMPORTS (USD), 2013-2017

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</thead>
<tbody>
<tr>
<td>Thailand</td>
<td>399,691,861</td>
<td>326,870,097</td>
<td>267,535,373</td>
<td>247,488,954</td>
<td>308,941,330</td>
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<tr>
<td>Ecuador</td>
<td>107,049,778</td>
<td>101,995,964</td>
<td>101,512,754</td>
<td>90,977,648</td>
<td>109,740,577</td>
<td>17%</td>
<td>3%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>90,621,894</td>
<td>78,036,486</td>
<td>80,148,197</td>
<td>73,472,190</td>
<td>88,071,345</td>
<td>14%</td>
<td>-3%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>35,067,106</td>
<td>31,457,502</td>
<td>33,173,370</td>
<td>35,351,466</td>
<td>36,849,318</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>Philippines</td>
<td>67,746,083</td>
<td>72,920,077</td>
<td>51,929,316</td>
<td>30,331,409</td>
<td>28,863,876</td>
<td>5%</td>
<td>-57%</td>
</tr>
<tr>
<td>Mexico</td>
<td>16,060,567</td>
<td>22,650,135</td>
<td>17,477,436</td>
<td>20,029,091</td>
<td>24,860,162</td>
<td>4%</td>
<td>55%</td>
</tr>
<tr>
<td>China</td>
<td>31,226,640</td>
<td>18,634,538</td>
<td>9,917,904</td>
<td>11,604,468</td>
<td>11,747,560</td>
<td>2%</td>
<td>-62%</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>3,587,247</td>
<td>3,428,104</td>
<td>4,731,041</td>
<td>4,740,883</td>
<td>6,626,918</td>
<td>1%</td>
<td>85%</td>
</tr>
<tr>
<td>Others</td>
<td>10,575,178</td>
<td>11,056,160</td>
<td>10,545,479</td>
<td>10,376,524</td>
<td>16,949,323</td>
<td>3%</td>
<td>60%</td>
</tr>
<tr>
<td>Total</td>
<td>$761,626,354</td>
<td>$667,049,063</td>
<td>$576,970,822</td>
<td>$524,372,635</td>
<td>$632,650,409</td>
<td>100%</td>
<td>-17%</td>
</tr>
</tbody>
</table>

Source: NOAA 2018
### USA - Frozen Cooked Loin Imports (MT), 2013-2017

<table>
<thead>
<tr>
<th></th>
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<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>14,307</td>
<td>22,814</td>
<td>20,273</td>
<td>15,328</td>
<td>18,761</td>
<td>32%</td>
<td>31%</td>
</tr>
<tr>
<td>Thailand</td>
<td>22,061</td>
<td>26,106</td>
<td>19,440</td>
<td>19,957</td>
<td>17,916</td>
<td>31%</td>
<td>-19%</td>
</tr>
<tr>
<td>Fiji</td>
<td>11,598</td>
<td>10,571</td>
<td>11,437</td>
<td>12,435</td>
<td>11,379</td>
<td>20%</td>
<td>-2%</td>
</tr>
<tr>
<td>Mauritius</td>
<td>7,463</td>
<td>8,058</td>
<td>7,162</td>
<td>7,571</td>
<td>6,277</td>
<td>11%</td>
<td>-16%</td>
</tr>
<tr>
<td>Colombia</td>
<td>9,511</td>
<td>6,236</td>
<td>2,013</td>
<td>2,841</td>
<td>1,212</td>
<td>2%</td>
<td>-87%</td>
</tr>
<tr>
<td>Others</td>
<td>4,852</td>
<td>4,033</td>
<td>3,834</td>
<td>2,173</td>
<td>2,293</td>
<td>4%</td>
<td>-53%</td>
</tr>
<tr>
<td>Total</td>
<td>69,792</td>
<td>77,817</td>
<td>64,159</td>
<td>60,305</td>
<td>57,838</td>
<td>100%</td>
<td>-17%</td>
</tr>
</tbody>
</table>

Source: NOAA 2018

### USA - Frozen Cooked Loin Imports (USD), 2013-2017

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>84,432,792</td>
<td>98,315,909</td>
<td>87,577,695</td>
<td>67,683,925</td>
<td>96,689,845</td>
<td>31%</td>
<td>15%</td>
</tr>
<tr>
<td>Thailand</td>
<td>127,294,008</td>
<td>127,639,128</td>
<td>87,677,578</td>
<td>86,599,543</td>
<td>98,299,470</td>
<td>31%</td>
<td>-23%</td>
</tr>
<tr>
<td>Fiji</td>
<td>61,534,497</td>
<td>57,099,097</td>
<td>65,077,979</td>
<td>68,515,339</td>
<td>63,699,971</td>
<td>20%</td>
<td>4%</td>
</tr>
<tr>
<td>Mauritius</td>
<td>43,467,670</td>
<td>42,789,937</td>
<td>39,943,681</td>
<td>40,161,169</td>
<td>34,122,710</td>
<td>11%</td>
<td>-21%</td>
</tr>
<tr>
<td>Colombia</td>
<td>52,697,931</td>
<td>38,674,988</td>
<td>12,314,495</td>
<td>16,674,412</td>
<td>7,320,956</td>
<td>2%</td>
<td>-86%</td>
</tr>
<tr>
<td>Others</td>
<td>27,734,616</td>
<td>21,541,692</td>
<td>20,628,273</td>
<td>13,305,116</td>
<td>14,652,065</td>
<td>5%</td>
<td>-47%</td>
</tr>
<tr>
<td>Total</td>
<td>$397,161,514</td>
<td>$386,059,938</td>
<td>$313,219,701</td>
<td>$292,939,498</td>
<td>$314,785,017</td>
<td>100%</td>
<td>-21%</td>
</tr>
</tbody>
</table>

Source: NOAA 2018
This report provides FFA members with industry and market intelligence on the current status of the shelf-stable (e.g. canned) tuna processing industry. It offers a global overview of processing capacity (providing data on volume and value of activities), new developments and key issues shaping the sector. It then conducts a focused analysis of five case-study firms (three ‘major’ and two ‘minor’) to demonstrate the range of industry dynamics currently in play in the sector and to draw out implications for Pacific Island countries. The case study firms are: Thai Union, Dongwon Industries and Dongwon F&B, Bolton Foods, Princes, and Bumble Bee. Primarily through desk-based research, the analysis details operations, ownership and management structures, vertical integration such as brand ownership, mergers and acquisitions (M&A), major markets, financial performance, sustainability and labour initiatives, recent changes and future developments, WCPO business interests and links with Pacific Island countries.