

STANDING COMMITTEE REPORT NO. 15-59

RE: C.R. NO. 15-33/R&D

SUBJECT: RATIFYING THE AMENDMENTS TO THE PALAU ARRANGEMENT FOR THE
MANAGEMENT OF THE WESTERN PACIFIC PURSE SEINE FISHERY.

NOVEMBER 22, 2007

The Honorable Isaac V. Figir
Speaker, Fifteenth Congress
Federated States of Micronesia
Third Special Session, 2007

Dear Mr. Speaker:

Your Committee on Resources and Development, to which was referred
C.R. No. 15-33 as transmitted to Congress by to Presidential
Communication No. 15-52, entitled:

"A RESOLUTION RATIFYING THE AMENDMENTS TO THE PALAU ARRANGEMENT
FOR THE MANAGEMENT OF THE WESTERN PACIFIC PURSE SEINE FISHERY.",

begs leave to report as follows:

The intent and purpose of the Resolution are expressed in its title.

A Resolution approving the proposed amendments to the Palau
Arrangement was originally submitted to the Fourteenth Congress as
C.R. No. 14-107. No action was taken by that Congress and it has now
been re-introduced to the Fifteenth Congress as C.R. 15-33.

The essence of the Amendment is the substitution of a "Vessel Day
Scheme" ("VDS") of allocating fishing licenses among parties to the
Arrangement for the prior limitation based the number of vessels. On
January 10, 2007 a detailed hearing was held by the Fourteenth
Congress Special Committee on Fisheries specifically relating to the
"Vessel Day System." Portions of the Report of that Committee as
adopted by the Fourteenth Congress on January 20, 2007 are reproduced
below for background and explanation.

January 10, 2007 hearing report:

"1. The proposed changes to the Palau Arrangement

Mr. Thoulag summarized the background to the proposed changes to the
Palau Arrangement (PA). Essentially, in 1995 the PA amended the
Nauru Agreement (1982) by regulating the amount of purse seine vessels
in the region. This worked for a number of years, but the purse seine
vessels are now catching twice as many fish as they did in the mid
1990s.

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A study was commissioned to investigate how to better ensure the sustainable exploitation of tuna resources. It recommended that instead of limiting the number of vessels permitted to fish, the total number of days the vessels could fish for be regulated instead. This is the proposed Vessel Day Scheme (VDS). The proposed amendment to the PA is simply to replace Annex 1 (the number of vessels and their country of origin) with the new VDS annex. The VDS annex allocates the number of fishing days each party has. If the amendment to the PA is ratified, it will come into effect in January 2008.

To calculate the number of fishing days permitted in the Exclusive Economic Zones (EEZs) of each of the parties to the PA, 2004 data was used to calculate the total number of days fished per year. The total was 33,856 days. To ensure the US treaty and the FSM Arrangement obligations are upheld, 3,362 and 2,025 days respectively were reserved, leaving a total of 28,469 days to be divided among the parties. This was done based on a 50/50 weighting between effort and biomass in each party's region. The FSM has been allocated 6,253 days, the second highest amount after Papua New Guinea. The Partnership Agreement with the European Community anticipates this change to VDS.

2. Benefits of the VDS

Benefits of the proposed VDS are that it will provide the ability to limit, or control the catches of tuna better- the current scheme is not working as advances in technology allow the same number of vessels catch more and more fish. Mr Thoulag pointed out that the VDS is intended to meet two seemingly opposing criteria - the conservation of resources and increase in revenue. By making the licenses scarcer (by regulating days not vessels), less tuna will be caught, driving demand up and ensuring higher prices for the day licenses.

Further, the FSM will have the ability to negotiate and sell the days allocated to it as it pleases. The days do not have a set rate under the VDS, and each country may sell its days for whatever amount (and to whomever) they please. Further, this also means that if the fish are not in FSM waters due to unforeseen events (El Nino etc) the FSM can sell their days to another party, or hold onto them and roll them over to the next year.

NORMA anticipates that the VDS will result in more competition for the days, and higher returns to the FSM. Mr. Thoulag acknowledged that initially there may be a slight loss in income to the FSM while the

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scheme is introduced, but believes this will then lead to increased revenue for the FSM. He also stated that the fee for days should not be set, perhaps with a minimum fee stated only. The FSM has the ability to withdraw from the arrangement if it isn't working. Under the PA, a period of one year's notice is required."

At the conclusion of the hearing in January, 2007, the Special Committee requested further information as to how the scheme will be managed and how the day licenses will be sold (auction? NORMA's discretion?)

November 21, 2007 Hearing

Your committee held a public hearing on the Resolution commencing at 11:30 am on Wednesday, November 21, 2007. Present were Chairman Dion G. Neth, committee members Peter Sitan, Joseph J. Urusemal and Paliknoa K. Welly. Also in attendance were Senators Moses Nelson and Fredrico O. Primo. Present by invitation was the Executive Director of Norma, Mr. Bernard Thoulag.

After welcoming remarks, Chairman Neth yielded the floor to Mr. Thoulag who provided an abbreviated summary of the background of the Palau Arrangement, the Amendment and particularly the details of the "VDS."

During his presentation Mr. Thoulag explained the way in which the scheme will be managed. All vessels authorized and licensed will be required to have on board Automatic Location Communicator and will be monitored closely. All days or portions of a day during which a purse seine vessel is in the waters of a Party to the Arrangement and outside of a port counts as a "fishing day." Daily communication exists between Party nations concerning movements of vessels in and out of ports. Bi-weekly reporting will be provided.

The allocation of "vessel days" was also explained. The FSM was allocated 6,253 days. Mr. Thoulag reported that the yearly average number of "fishing days" for all licensed purse seiners within FSM waters for the last five years was about 4,934.

There are several different approaches that NORMA could take in selling fishing days including competitive bidding, a "non-restrictive approach", restricting fishing effort to annual allocation or limiting fleets to their historical effort in the FSM EEZ. Because the

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historic vessel day use is less than the FSM allocation, he stated that NORMA intends to continue its present practice of licensing vessels for unrestricted use while monitoring actual vessel day use. If the allocation is approached, other options, including purchasing vessel days from another Party will be considered. As the limit is approached in the future, a bidding process will be given full consideration by the Authority as a means of maximizing the financial return from its sale of licenses.

In response to questions, Executive Director Thoulag confirmed that NORMA continues to have the power to impose limits on the tuna harvest from its waters under the new arrangement. He characterized the VDS as "good for resource owners."

In answer to a question concerning anticipated fisheries revenues under the new scheme, Mr. Thoulag confirmed that one of the objectives is to enhance revenues to the Party nations. It is hoped that competition for vessel days will ultimately lead to that result.

Mr. Thoulag emphasized the importance for Congressional action on the ratification of the proposed Amendments during the Special Session stating that the Amendments are due to take effect on January 1, 2008.

Chairman Neth closed the hearing by summarizing the two primary purposes promoted by the Amendments to the Palau Arrangement as conserving the fisheries resource while increasing the revenue realized from it.

CONCLUSION:

Your committee is satisfied that the ratification of the Amendments to the Palau Arrangement whereby the Vessel Day Scheme of licensing purse seine fishing vessels within the EEZ will be implemented is in the best interest of the Federated States of Micronesia. It will promote the conservation of one of its most valuable natural resource while ultimately leading to increased revenues.

Your Committee on Resources and Development is in accord with the intent and purpose of C.R. No. 15-56 and recommends its adoption as requested by the President in Presidential Communication No. 15-52.

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Respectfully submitted,

/s/ Dion G. Neth
Dion G. Neth, chairman

/s/ Setiro Paul
Setiro Paul, vice chairman

/s/ Resio S. Moses
Resio S. Moses, member

/s/ Peter Sitan
Peter Sitan, member

/s/ Joe N. Suka
Joe N. Suka, member

/s/ Joseph J. Urusemal
Joseph J. Urusemal, member

/s/ Paliknoa K. Welly
Paliknoa K. Welly, member