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Perception, Specialization and Cooperation

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Mr. Secretary General, Mr. Chairman, distinguished Ladies and Gentlemen, thank you for coming and thank you for having me. I have great respect for each of you and what you do. I want to speak about three things of vital importance to everyone in our business - and they are Perception, Specialization, and Cooperation. Let's begin with Perception. Why? Because I want to emphasize more than anything else that in our business, our product, tuna, is not just tuna as in bluefin, yellowfin, skipjack, or as in light meat, solid pack, can, or pouch. For tuna is perceived in different ways by different people in different places, and in different markets.

I have come here from California. In California, tuna is perceived as a low-cost, relatively low-calorie food packed in water, which Californians drain before adding an extremely high-calorie product like mayonnaise before spreading it between two slices of bread to give our children, as well as many of ourselves, something to fill stomachs at lunch time.

Now, in contrast, think of how a not too different product is perceived in Italy or Spain. In these markets, tuna means a moderately higher-priced, still relatively low-calorie product, packed in various ways that make it appetizing and enjoyable just as it comes from the container. In markets like these, the perception of tuna carries different meanings that have a strong influence on the value the consumer places on the product, and the price that will be paid.

What it amounts to is this: All of us have a vital interest in how tuna is perceived and how it is valued when it comes to the ever-changing human activity called eating. In fact, it seems to me that we should take as much interest in creating a relationship between eating and the perception of tuna as a company like DeBeers had in creating a relationship between a stone cleverly identified as a diamond and the human activity called loving. In this respect, please disregard the control of an embarrassingly abundant resource, diamonds, and consider what has been accomplished in the way human beings perceive diamonds - and what they are willing to pay for this perception.

How did this perception of diamonds come about? Why does the world think a diamond is forever? It's beautiful, yes, but how can a stone sell for more money than all the tuna sold to the average consumer in a lifetime?

One clear answer is the use of marketing, the use of advertising. Creative, imaginative marketing and advertising can have a dramatic impact on the perceived value of tuna. Our industry needs great marketing, great advertising. In fact, why aren't the great advertising agencies with us here right now? They should be after us, and we should be after them. We simply need to change the way tuna is

perceived almost everywhere, not just in California. But there is more to perception than just advertising, which all the great ad agencies know is one component of marketing. Before the commercials and the ads are created first come all the other factors - packaging, merchandising, market research - that belong to brand management. And to start to improve the perceived value of tuna, our industry must begin with brand management.

This takes us to my second point: Specialization. Yes, let's leave Cooperation to the last. We need to recognize that we are in an age of specialization. Recently, we saw one of the major tuna brands sell off its fleet. Perhaps they thought that vertical integration was not necessary. That's fine. Each and every one of us has to do a job where we are expected to do what we do best. So why shouldn't tuna brand owners contract for everything, except one thing - their core competency, and that is brand management.

We can see how successful brands use supply chain management to maximize the return on their investment in their brand equity. Look at the Mars Company. It's one of the largest privately held brand management companies in the world. One of the brands they own is Uncle Ben's. For years and years U. S. consumers have known Uncle Ben's as rice that comes in a box. OK - the brand manager for Uncle Ben's recently introduced a new line of frozen, meal-solution products - frozen bowls of rice with vegetables and meat or chicken. And they also have the same product with noodles instead of rice. Do you think that Mars owns any rice production assets? Or noodles? Do you think that they even own or control any of the processing plants that produce any of these products? No way. They contract for everything - including the distribution facilities.

Divestiture of non-core assets coupled with contracts for "just in time" inventory takes sophistication and trust. For example, recent innovations in information technology, internet-based virtual private networks, collaborative resource planning and replenishment software, supply chain management software, and so on, give complete visibility of the supply chain to the brand manager. The brand manager is then free to concentrate on other matters - and that particularly includes consumer perception.

Now it's time for the subject of Cooperation - high time, I don't mind saying. If we are going to specialize and free ourselves to do what we do best, we are all going to have to cooperate with one another more than we ever have. In fact, I see no other issue as being more immediately important to us here today. Cooperation is vital to our industry. I think you must know why.

More than ever, our markets, production plants, fishing areas, and boats are all inter connected. Access to better fishing grounds can shift entire fleets to other oceans. Shifting fleets and fishing efforts can cause major interruptions and surpluses in supply of raw material. A change in the E.U. import duty regulations can cause a tuna plant to close in Italy and a loin plant to open in Colombia. A court decision by one country can halt the import of canned tuna from its neighboring country.

I will spare you the numbers. And I have spared you any slides. All you have had to put up with is me. But if you are interested in numbered statistics, please refer to the technical notes, below . The statistics are all there and what they tell us is we

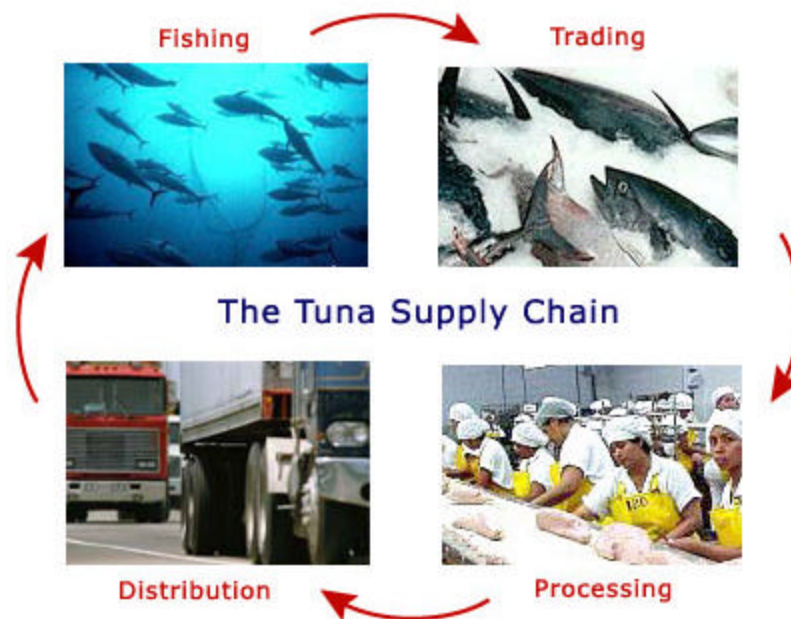
are in a time of tremendous change. Look at the markets. See how the trade flows have changed. These are changes that involve real people, real livelihoods, and real futures. If these changes are to be managed at all, if they are to be cushioned, traded, accounted for, and dealt with in any rational manner, we must find the way to cooperate as much our laws permit.

None of us wants to be dictated to. This is part of our humanity. And perhaps not wanting to be dictated to is what has driven our industry to vertical integration and is an obstacle to specialization. However, if our industry is going to begin to concentrate on what I say is the name of the game, Perception, we absolutely must cooperate with one another. We cannot go on being in this business for ourselves.

And now my own personal perception is I have talked long enough, so thank you all, and thank you, Mr. Chairman.

End Speech

Technical Notes



As my good friend Mr. Edmund Gann says, "Everything starts with the raw material". From there, a very effective supply chain would contain the following elements:

- Good fishing vessels and crews
- Access to productive fishing grounds
- Limited entry to avoid market congestion
- Proximity of production capacity
- Cost effective and productive labor
- Diligent Quality Control
- Socio-economic stability
- Port infrastructure and competitive transportation services
- Favorable duty in destination markets
- Information technology
- Financial resources

Therefore, it is important to first focus on access to productive fishing grounds. The fleet fishing these grounds must be efficient and capable of delivering good quality. This means excellent equipment and refrigeration, discipline to stay away from large sets, small fish, etc.

Economics argue for the direct deliveries of the fish to the plants thereby eliminating the need for transshipment and ocean freight. This also means that the fishing grounds cannot be too far from the plants least the fishing boats spend too much of their potential fishing time in transit. To be efficient the boats have to maximize their fishing days. Obviously, if you have access to productive fishing grounds that are close to the processing plant, you will be able to maximize fishing days while eliminating ocean freight expense deductions from your fish proceeds. These are the best possible operating assumptions for the boat owner.

As for the processing plants, proximity to productive fishing grounds will minimize the risk of raw material shortages and also provide opportunities for "below market" fish purchases. This occurs when boats will accept a discount in the prevailing price for a fast turnaround to allow them to return to the fishing grounds for a "quick trip". However, plant location with respect to the fishing grounds is but one factor when considering criteria for tuna processing plants. The other important criteria are the relative cost of labor, the socioeconomic stability of the location and, sometimes most important, the cost of duty in the target market relative to competing sources of product.

Take the EU market for example. The cost of duty on frozen cooked tuna loins and canned tuna is 24%. However, if the product has qualifying origin and complies with various rules, the duty is zero. This is a major difference. Considering that labor is usually less than 10% of the cost in loins or cans, you can see that duty savings is much more important than labor cost.

The other thing to remember is that supply chain optimization must consider reliability. The lowest cost source will never be a significant part of a major brand's procurement strategy if there is a history of work stoppages and shipping schedule interruptions. Reliability is worth a lot. To be a major part of someone's supply chain, you have to be reliable.

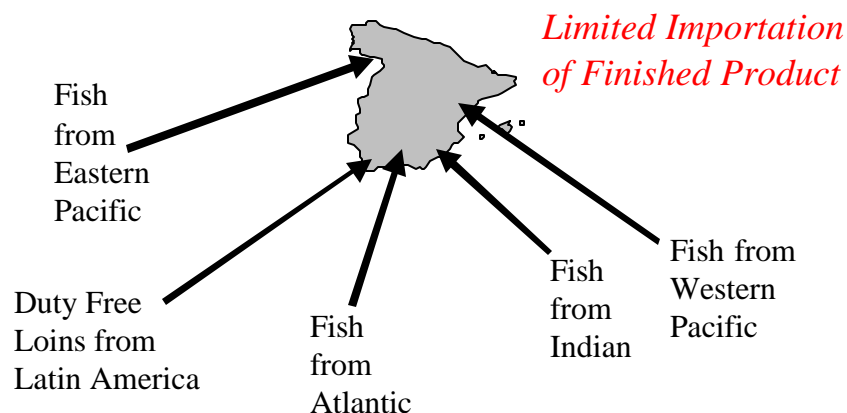
Degree of reliability and relative cost also apply to logistics considerations, especially the transportation solution from the processing plant to the brand owner's distribution center. The cheapest and most stable source of finished product is worthless if it can't reach the market. This is especially relevant to prospective plants on remote islands with infrequent and expensive transportation service. The fact that the very nature of our business depends on fishing should make us rather risk averse when it comes to supply chain planning. Logically, we will need more than one source to manage the risk of fishing and other factors beyond our control. The larger and more valuable our brand, the more important is our need to diversify the supply chain.

Of course, this is all theoretical. It may be impractical or otherwise impossible to diversify sources of supply. In the real world, requirements change. It is difficult to negotiate "requirements" contracts with suppliers. Plants need to operate at capacity for maximum economic efficiency. Enter the role of the spot market. Producers and users can enter into annual or even longer-term contracts for part of their business and leave the balance to the spot market.

We cannot expect the supply chain solution that is optimum today to remain so tomorrow. Some major factors can change quickly, e.g., duty and access. Others change more slowly. In any case we need to constantly review relative costs and reliability so as to continuously optimize our supply chains.

Now let's look at some real world examples of supply chains on a country basis.

Spain's Tuna Supply



By any measure, Spain is a leading tuna country. They have a significant domestic market and export a tremendous volume of canned tuna to their EU neighbors. Despite its significant size and importance, only a minor part of the tuna is actually landed directly by fishing boats in Spain. With the exception of Bonito del Norte catch and possibly some light meat from the Atlantic, the majority of all raw material for the Spanish tuna industry arrives by refrigerated container or carrier, most of it having been transshipped from Spanish or foreign flag purse seiners.

The very productive Spanish purse seiner fleets can be found in the Indian and Atlantic Oceans as well in the Eastern Tropical Pacific (ETP) and the Western Pacific. Some of this fish is transshipped by carriers back to Spain. Some is delivered to foreign canneries. The most interesting is the fish that is delivered to processing plants in EU duty-exempt, low labor cost countries for conversion into cooked loins and canned product. Conservas Garavilla's plants in Ecuador and Colombia and Calvo's pioneering efforts in Venezuela are noteworthy in this regard. As further evidence of the economic viability of this extension of Spain's tuna supply chain is news of the planned investment by the Albacora Group as well as additional important initiatives by Calvo, all in Central America.

The supply chain from Latin America to Spain emphasizes the following elements:

1. Access to productive fishing grounds
2. Plants with low cost labor
3. Duty-free access to the EU market
4. Cost effective transportation

Imports of Frozen Cooked Tuna Loins by Spain				
From	Ecuador	Colombia	Venezuela	Total
1997	9,890	435	334	10,659
1998	8,261	296	486	9,043
1999	12,219	2,509	2,946	17,674
2000	13,076	11,382	0	24,458

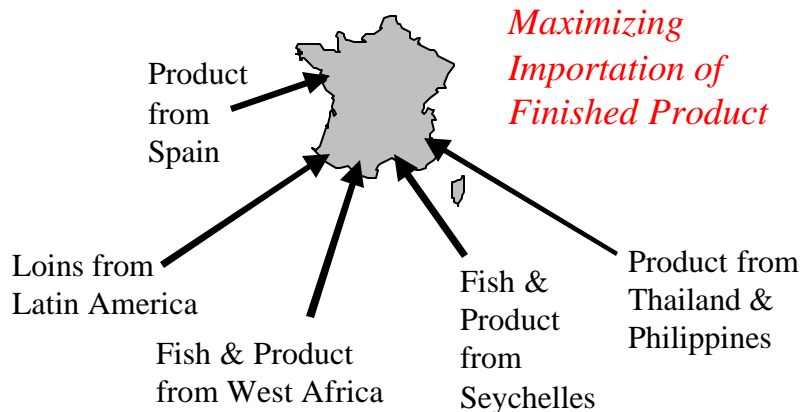
Source: Eurostat

Finally, note that the efficiency of the Spanish tuna industry, in conjunction with its location, makes Spain an important supplier of canned tuna and frozen cooked tuna loins for other major tuna markets in Europe. This is perfect for customers requiring Just in Time inventory replenishment. It is easy to understand how Spanish tuna exports jumped more than 37% in year 2000 compared to 1999 as reported by ANFACO.

2000 Exports by Spain (tonnes)			
Export To	Canned Tuna	Tuna Loins	Totals
Italy	29,125	2,088	31,213
France	5,349	2,764	8,113
UK	1,910	58	1,968
Portugal	3,304	7	3,311
Total	39,688	4,917	44,605

Source: Eurostat

France's Tuna Supply



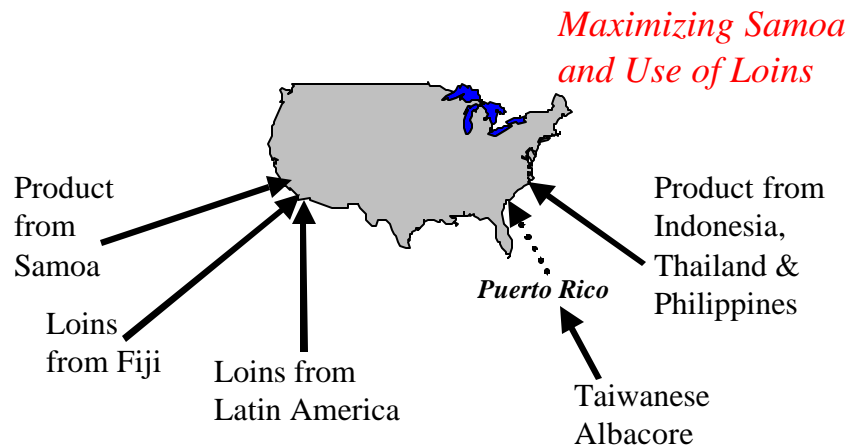
Unlike Spain, France imports relatively little frozen tuna or loins for processing in France. Rather, they import finished product, most of it from the controlled tuna factories in West Africa.

2000 Tuna Imports by France			
Import From	Canned Tuna	Tuna Loins	Totals
Cote d'Ivoire	7,936	2,972	10,908
Spain	5,349	2,764	8,113
Ecuador	145	912	1,057
Kenya	0	984	984
Other	6,508	5,598	12,106
Total	19,905	13,230	33,168

Source: Eurostat

Comparative data show that the West African factories are losing share of the French requirement. Spain's volume to the French market increased 61% from the previous year. One would expect that Spain will continue to grow in importance as a source of tuna loins and finished product due to price competitiveness, and the convenience of intra-EU shipping and documentation.

US Tuna Supply



The US tuna supply chain is complex and it is changing. About 50% of the U.S. market is supplied from American Samoa where the majority of the raw material is delivered directly by U.S. flag purse seiners. The labor in Samoa is relatively expensive compared to Thailand and the Philippines, but the canneries enjoy tremendous economies of scale and they are able to efficiently produce canned tuna that is duty-free for the U.S. market.

Puerto Rico had been an important part of the U.S. tuna supply chain but high labor costs in combination with higher light meat raw material costs resulted in the closing of all but one of the plants there.

Actually, from a supply chain perspective, the closing of the plants in Puerto Rico is more interesting when considering albacore than light meat. The duty savings from production in Puerto Rico are higher on albacore than light meat. And one could argue that the cost of Indian Ocean and South Atlantic albacore delivered by carrier to Puerto Rico is cheaper than the cost delivered by container to alternate ports. The industry is now waiting to see how the U.S. supply chain for canned albacore will look.

2000 Imports by U.S. (tonnes)				
Import From	Canned Tuna	Tuna Loins	Frozen Tuna	Totals
Thailand	79,928	7,706	32	87,666
Philippines	35,251	628	1,386	37,265
Ecuador	2,378	31,855	2,351	36,584
Indonesia	13,391	184	1,247	14,822
Taiwan	13	-	28,493	28,506
Other	10,998	6,929 ¹	22,198	40,125
Total	141,959	47,302	55,707	244,968

Source: U.S. Department of Commerce; National Marine Fisheries Service

¹ Includes Colombia 3,410 tonnes and Fiji 3,089 tonnes

Loins play an important part of the US market for canned tuna. Bumble Bee's plant in California is the main user with controlled plants in Ecuador supplying most of the loins.

As you can see from the trade data, Mexico seems to be missing. Although the trade embargo on Mexican tuna has been lifted, the US brands and the majority of importers follow a policy of only purchasing from suppliers that are dolphin safe in accordance with the old definition (no intentional sets on dolphins, regardless of mortality or injury) Meanwhile, the North American Free Trade Agreement provides for progressive reduction and then elimination of the duty on canned tuna imported into the U.S. from Mexico. Should the dolphin issue be somehow resolved, we should expect to see Mexico becoming an important part of the U.S. tuna supply chain.

For purposes of discussion only, I am presenting what I believe to be representative costs of comparative supply chains. The intent is to show the trade-off between raw material, labor, and packaging, transportation costs for alternate sources of supply. First, we will look at the U.S. market.

Cost of Light Meat - 170g x 48			
Assuming \$800/tonne Bangkok Market			
Cost	Thailand	Samoa	Mexico
Fish @ 85 cases per tonne	9.40	8.80	8.80
Variable Cost	1.00	1.00	1.00
Packaging	3.20	3.30	3.30
Direct Labor	.50	2.00	1.00
Overhead	.50	.50	.50
Sub-total	14.60	15.10	14.60
Duty (Rate)	12.5%	0%	5.8%
Duty per Carton	1.82	None	.85
Shipping	.75	.65	.50
Total	\$17.17	\$16.25	\$15.95

I assume that Samoa and Mexico have a \$50/tonne advantage on the cost of raw material as both receive the majority of their fish by direct delivery. Labor in Bangkok is cheaper than both Mexico and Samoa. Samoa has a significant advantage with no duty. Once the duty on Mexican products is eliminated under NAFTA, Mexico should be the low cost producer of tuna for the U.S. market. This cost advantage, coupled with its geographic advantage and the possibility for Mexican trucks to be allowed to deliver the products directly to retailers, will make Mexico an excellent tuna supply chain partner for the U.S. market.

The next table looks at the European market for canned tuna based on two different sources of supply: Ecuador and the Philippines.

Cost of Light Meat - 170g x 48		
Assuming \$800/tonne Bangkok Market		
Cost	Philippines	Ecuador
Fish @ 75 cases per tonne	\$10.00	\$10.67
Variable Cost	1.00	1.00
Packaging	3.30	3.30
Direct Labor	.50	.50
Overhead	.50	.50
Sub-total	15.30	15.97
Duty (Rate)	24.0%	0%
Duty per Carton	3.67	None
Shipping	1.00	.75
Total	\$19.97	\$16.72

I am assuming that the cost of raw material in Ecuador is equivalent to Bangkok and that Philippine packers pay less (\$50/tonne) than the Bangkok market. Shipping is assumed to be more expensive to Europe from the Philippines than from Ecuador. The big cost difference, however, is in duty PROVIDED that the fish has qualifying origin. Without the duty advantage, supply from Ecuador would be more expensive than from the Philippines.

Market Evolution

Raw material, duty and labor cost considerations are shifting Europe's tuna supply chain away from the Philippines and Thailand to Spain and Latin America. And loins are playing a major part in this shift.

Cost of Light Meat - 170g x 48 Assuming \$800/tonne Bangkok Market			
Country	Canned Tuna	Tuna Loins	Totals
Italy	42,793	27,256	70,049
Germany	46,408	71	46,479
France	19,035	13,230	32,265
UK	28,189	146	28,335
Spain	1,612	19,334	20,946
Total	138,037	60,037	198,074

Source: Eurostat

The traditional canned tuna producing countries of Italy, Spain and, to some extent, France have the cannery infrastructure to allow them to substitute or augment the importation of round fish with loins. The loin-sourcing objective then becomes one of identifying potential loin plants that have lower raw material, labor and other production costs than the importer.

The supply chain is improved if costs, including inventory, are lowered without compromising reliability and integrity.

The market can then be expected to evolve as follows:

1. Domestic canning using local or imported catch
2. Importation of cooked loins for domestic canning
3. Importation of finished product

Economic factors will eventually drive the higher labor cost, mature canned tuna markets to import finished product from lower cost producers. The pace of this evolution, however, is unpredictable and even, in some cases, reversible. It depends on tuna market growth, raw material resources and external factors. Some of the factors that influence changes to or the evolution of the market are controllable. Others are not. For example, I submit that market growth is somewhat controllable. Factors like raw material, access to fishing grounds and duty regimes are less so. Together, we should cooperate with one another in ways that are permissible under anti-trust laws to influence and even manage these factors for the benefit of the tuna industry.