

ENVIRONMENTAL BENEFITS OF REMOVING TRADE RESTRICTIONS AND DISTORTIONS: THE FISHERIES SECTOR

Item 6 of the work programme

Note by the Secretariat

Addendum

1. This Note has been prepared in response to the request of the Committee on Trade and Environment (CTE) to keep it informed of the ongoing work related to fisheries and trade. The Note updates Section III of WT/CTE/W/167, of 16 October 2000, in order to provide a survey of the state of play of international discussions and recent work on sustainable fisheries management in relevant international fora, particularly with respect to subsidies.¹

STATE OF PLAY OF INTERNATIONAL ANALYSIS AND DISCUSSIONS

A. WORK IN INTERNATIONAL ORGANIZATIONS

2. This section reviews the work in APEC, FAO, OECD and UNEP. Discussions in the CTE continue to benefit from presentations and papers on the work of these organizations.

1. APEC²

3. Fishing is one of the major economic activities in the Asia-Pacific region. In many countries it forms a major part of the economic base, and in some of the smaller Pacific Island states it provides the only realistic opportunity for their future economic growth and prosperity. Against this backdrop, close cooperation is needed, particularly in the exchange of scientific and research data, in order to ensure that management decisions are based on the best scientific information available. Such cooperation among APEC Members will help to promote long term optimum economic utilization, based on sustainable management practices. In this way a sound basis will be provided for improvements in intra-Pacific regional trade.

4. The Fisheries Work Project seeks to maximize the benefits that APEC Members can draw from their fisheries resources through improved cooperation.

5. Members of the APEC Fisheries Work Project therefore agree that:

¹ The Secretariat has prepared this Note in cooperation with several international fora working on fisheries and is grateful for contributions from APEC, FAO, OECD, UNEP, as well as WWF and ICTSD. The Secretariat takes full responsibility for any errors in the Note and is prepared to revise it in the light of further information.

² This information was obtained from the APEC website: www.apecsec.org.sg.

- The cooperation endeavour of APEC Members is especially important given the significance of fisheries resources to their economies and the global significance of the Pacific Ocean fisheries resources;
- The optimum utilization of, and trade in, fisheries resources needs to be based on sustainable fisheries management practices;
- Due to the increasing economic interdependence of APEC Members in the exploitation, processing and trade in fisheries products, it is recognized that for the full economic potential and prosperity to be realized, ongoing cooperation will be essential.

6. The APEC Fisheries Working Group (FWG) therefore seeks:

- To facilitate and encourage cooperation in promoting fisheries in the Pacific by complementing and assisting work being done by appropriate international and regional fisheries organizations in the Pacific including other APEC working groups and the PECC task force on fisheries;
- To enhance dialogue and strengthen cooperation among APEC Members where there are fisheries management and related issues requiring international cooperation, both within Exclusive Economic Zones (EEZs) and/or 200 mile zones, and on the high seas. This requires cooperation to ensure through an appropriate framework the provision of catch and fishing effort statistics to support management regimes;
- The development of fisheries resources and the promotion of trade through enhanced training and education programs in fisheries management and marketing, improvements in value adding and technology transfers, and cooperation in human resources development generally;
- The development of regional cooperation and trade facilitation for fish and fish products to promote economic growth in the region; and
- To encourage private sector participation and cooperation, as appropriate, in Fisheries Work Project activities.

7. In 1999, the FWG completed the project "Free Trade and Investment in the Fisheries Sector of the Asia-Pacific Region: Economic Analysis of Tariffs". This project assesses the qualitative and quantitative economic impacts of tariff removal in the fisheries sector in the Asia-Pacific Region. The outcome is available at: www.apecsec.org.sg.

8. In 2000, the FWG worked towards completing Part II, on non-tariff measures, of the project "Trade and Investment Liberalization in Fisheries (TILF)." This project was originally designed in 1996 as a four-part study to cover tariff, non-tariff measures (NTMs) and subsidies, including investment liberalization.

9. In 2000, APEC also undertook a *Study into the Nature and Extent of Subsidies in the Fisheries Sector of APEC Member Economies*. The background to the study is the APEC Early Voluntary Sectoral Liberalisation proposal for fish and fish products. The proposal required, *inter alia*, that Member Economies eliminate subsidies contrary to the WTO Agreement on Subsidies and Countervailing Measures (SCM). It was subsequently proposed that a study be undertaken to assist Member Economies to identify such subsidies. The study is available at: www.apecsec.org.sg.

10. There were 5 formal requirements for the study: (i) a comprehensive inventory of generic types of subsidisation employed globally in the fisheries sector, including multi-sectoral subsidies applying also to fisheries; (ii) an inventory list and categorisation of subsidies in the fisheries sector of APEC economies; (iii) an inventory of policy objectives underpinning subsidies; (iv) an assessment of subsidies in light of the SCM Agreement, which differentiates between "prohibited," "actionable," and "non-actionable" subsidies; and (v) three case studies illuminating the impacts of subsidies.

11. The main findings and conclusions from this research can be summarized as follows:

12. An inventory of subsidies and support programmes in the fisheries sector of APEC shows 162 entries across the 19 APEC economies for which information was obtained. The study identified financial transfers in six categories, or "modalities":

- Direct Assistance to Fishers and Fisheries Workers;
- Lending Support Programmes;
- Tax Preferences and Insurance Support Programmes;
- Capital and Infrastructure Support Programmes;
- Marketing and Price Support Programmes; and
- Fisheries Management and Conservation Programmes.

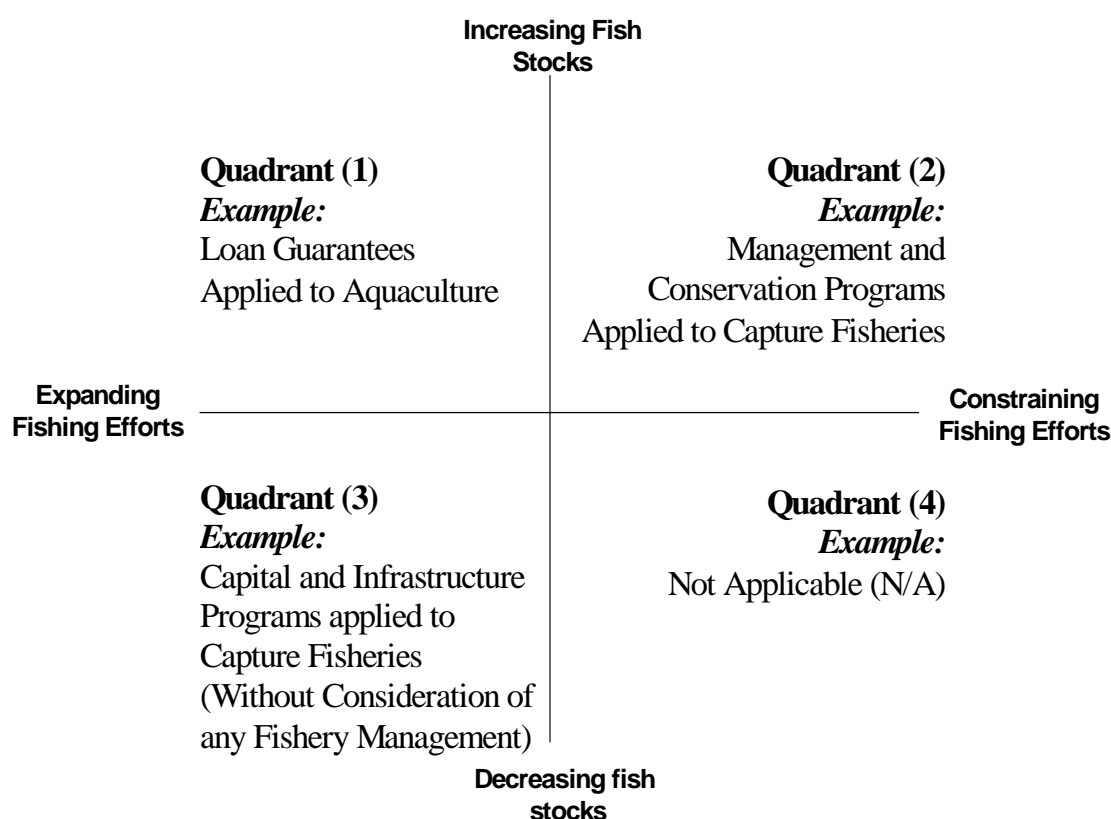
13. The overall profile of transfers shows that the most favoured in APEC are those using *Management and Conservation*, and *Capital and Infrastructure* modalities, applied to capture fisheries. The next most favoured are the same modalities but applied to aquaculture. There are scarcely any subsidies in the *Direct Assistance* modality, and very few for fish processing applications regardless of modality.

14. The overall profile of subsidies in terms of concentrations in the fisheries sector within APEC remains relatively the same, regardless of whether drawn on the basis of the number of programmes in each category, or on the number of APEC economies represented by programmes in each category. This suggests a considerable harmony of policies and programmes in the fisheries sector across APEC. There is some evidence that a major structural shift may be under way in terms of the "mix" of programme modalities. Newer programmes appear to favour *Management and Conservation*, whereas older ones appear to have been more *Capital and Infrastructure* oriented.

15. The research team has endeavoured to estimate the dollar value of APEC subsidies in the fisheries sector according to how they relate to the broad policy objectives set out in four quadrants as identified in Exhibit 1. The quantification of the total dollar value of all APEC programmes and subsidies is estimated at approximately US\$12.6 billion. Of this sum, the best estimate is that programmes and subsidies that would fall unambiguously into Quadrants (1) and (2) (which includes such programmes and subsidies as Management and Conservation Programmes Applied to Capture Fisheries, and Loan Guarantees Applied to Aquaculture) would amount to US\$4.2 billion.

16. However, even accepting that Quadrant (4) is not applicable, the research team could not estimate for certain that the balance of US\$8.4 billion only relates to Quadrant (3). (This Quadrant includes such programmes and subsidies as Capital and Infrastructure Programmes Applied to Capture Fisheries). This is because, exactly as stated in Exhibit 1, such programmes could be taken to act to decrease fish stocks only without consideration of any Fishery Management. In other words, there may be offsetting interactions between Quadrant (3) policies, and Quadrants (1) and (2) policies. The critical issue remains whether the possible negative effects of some kinds of transfers can be offset by coherent resource management policies. Accordingly, the figure of US\$8.4 billion represents solely the theoretical maximum upper potential for Quadrant (3), and cannot be quoted in isolation. The perception, by the research team, is that there is a structural shift underway in favour of relatively more *Management and Conservation* modality programmes. This suggests that the management context of the fisheries sector within APEC economies is changing in favour of sustainability. As well, it should be noted that subsidies could have a different effect in practice from their intended objective. Accordingly, there should be no conclusion that any APEC fisheries subsidies are necessarily "bad" from these figures.

Exhibit: Fishing Effort or Expansion of Aquaculture Operation Versus Fish Stocks



17. Very few programmes and subsidies would seem to be incompatible with the SCM Agreement. Only ten out of 162 are assessed as being potentially "actionable," with a medium or high risk of challenge. Of the 162, 29 are viewed as probably "non-actionable". Of the remaining 133 that might conceivably be "actionable", 123 have a very low or low risk of challenge. Accordingly, only ten programmes are viewed as both conceivably "actionable" and with a medium or high risk of challenge. The risk of challenge is a major determining factor. Many more subsidies and programmes might, in principle, be "actionable", but are too small-scale, excusable as regional development, or are some form of environmental adjustment, which is exempt.

18. The estimate of dollar values in the APEC study suggests that the ten programmes identified as least "compatible" with the SCM Agreement carry a total value of approximately US\$370 million. This is a surprisingly low proportion of the total US\$12.6 billion estimated for the entire APEC inventory.

19. Case study analysis shows that the effects of subsidies on trade are not always self-evident. This is because of the distinctive, backward-sloping supply curve in the fisheries sector beyond the point of maximum sustainable yield (MSY) of the fishery. Regrettably, even subsidies designed to enhance fish stocks, or vessel buy-back programmes designed to constrain fishing efforts, all of which are intended to be positive for fisheries sustainability, cannot be guaranteed to have precisely the intended positive effect. However, subsidies to expand fishing efforts may turn out to be compatible with sustainability, provided the point of MSY has not been reached in a given fishery.

20. Of the ten programmes identified as appearing least compatible with the SCM Agreement, no fewer than six fall into just two positions (out of 18) in the Modality/Applications matrix. There are

three programmes in the category of *Capital and Infrastructure* applied to capture fisheries; and three in the category of *Marketing and Price Supports* applied to fish processing. Accordingly, these two categories appear to be the least compatible with the SCM Agreement.

21. Conversely, the modalities of *Direct Assistance to Fishers* and *Management and Conservation* appear to contain no programmes within APEC (regardless of area of application) that would appear to have poor compatibility with the SCM Agreement. Accordingly, these two categories are assessed as most compatible with the Agreement. This is a surprising result in the case of *Direct Assistance to Fishers*; the explanation lies in the small scale of the APEC programmes in this category, and the fact that they appear to be acting in practice as a means to adapt to new environments.

22. The results of this research also provide a framework for each economy to review its own programmes.

2. FAO³

23. The FAO held an Expert Consultation on Economic Incentives and Responsible Fisheries in Rome, 28 November – 1 December 2000.⁴ The Consultation defined four sets of subsidies and recommended that these "Sets of Subsidies" be referred to in future discussions and analysis of subsidies.

- Set 1 Subsidies are government financial transfers that reduce costs and/or increase revenues of producers in the short-term;
- Set 2 Subsidies are any government interventions, regardless of whether they involve financial transfers, that reduce costs and/or increase revenues of producers in the short term;
- Set 3 Subsidies are Set 2 Subsidies plus the short-term benefits to producers that result from the absence or lack of interventions by government to correct distortions (imperfections) in production and markets that can potentially affect fisheries resources and trade; and
- Set 4 Subsidies are government interventions, or the absence of correcting interventions, that affect the costs and/or revenues of producing and marketing fish and fish products in the short-, medium-, or long-term.

24. In addition to the "Sets of Subsidies", the experts defined "Categories of Subsidies", which are divided into two broad headings: cost-reducing and revenue-enhancing subsidies. In other words, various government interventions (or lack of interventions) are categorized according to whether they primarily tend to either reduce the cost of producing and marketing fish or increase the revenue of producing and marketing fish. However, the effects on costs and revenues of some interventions are either ambiguous or else they depend on the other conditions. These are grouped into a broad category named Miscellaneous/Unspecified. Each of these broad categories is then broken down further into subcategories that relate to the form and function of influences on fish production, trade and resource sustainability.

25. The subcategories identified for resource sustainability differ from those identified for trade issues. The experts chose to divide the two broad categories into different subcategories. Table 1 lists some (not all) of the subcategories used by the experts in the examination of the impacts of subsidies on trade and resource sustainability.

³ The FAO provides the CTE with regular briefings on its work, see WT/CTE/W/135; W/126; WT/CTE/M/21: pp.15-16; M/22: p.7; M/23: p.9; M/24: p.31; and M/25: p.25.

Table 1. Categories of Subsidies related to Impacts on Trade and Resource Sustainability

Trade	Sustainability
Cost Reducing	Cost Reducing
Investment cost reductions	Capital expansion
Input price reductions	Labour cost reduction
	Misc. cost reductions
	Tax waivers & deferrals
	Loans & insurance cost reductions
Market interventions	Market interventions
	Fisheries science and management
Revenue Enhancing	Revenue Enhancing
Output price increases	Output price supports
	Compensation programs
Sales promotions	Sales promotions
	Equity infusions
Trade measures	Trade measures
Miscellaneous/Unspecified	Miscellaneous/Unspecified
Actions to reduce fishing effort	Fishing capacity reduction programs
Management and regulatory actions	Fisheries science & management

Source: Report of the Expert Consultation on Economic Incentives and Responsible Fisheries, Rome: FAO Fisheries Report No. 638, 2000.

26. Given that empirical knowledge of the impact of subsidies on fisheries was considered to be weak, the Consultation identified priorities for further research. In respect of the impact on fishery resources, priority for future study was given to the following categories: 'capital expansion', 'tax waivers and deferrals', and 'price support'. With respect to the impact on trade, the experts assigned priorities to future study of actions that 'reduce the relative price of inputs', 'reduce fishing effort' and to 'management and regulatory actions'. The experts also discussed the methods that would be best suited to carry out these studies.

27. The Report of the Expert Consultation was reviewed by FAO Members during the 24th Session of the FAO Committee on Fisheries (COFI), Rome, 26 February – 2 March 2001. The Committee agreed that future FAO work on fisheries subsidies should aim to determine the quantitative and qualitative effects of subsidies on trade in fish and fishery products and on the sustainability of fishery resources. The study of the trade aspect should be of a technical nature and be closely coordinated with the WTO, as the competent body for trade disciplines.

28. COFI further agreed that FAO work on fisheries subsidies should be closely coordinated with, and complementary to, the work being carried out by other intergovernmental organisations. It was recommended that FAO, as a global and multi-disciplinary organisation, take a lead role in the promotion of such cooperation and in the coordination of work on fisheries subsidies, and the relationship with responsible fisheries.

29. COFI agreed that a second Expert Consultation be organised by FAO in the last quarter of 2002, comprised of a wider range of experts having relevant practical and multidisciplinary experience in fisheries management and trade issues. Governments will be consulted in the selection of the

⁴ FAO Fisheries Report No. 638, Rome 2000 at www.fao.org/FI; The Report also has been issued as WT/CTE/W/189.

experts. In addition, the Consultation should reflect a regional and topical balance of the issues to be considered.

30. It was also agreed that the Expert Consultation would be followed by a Government Technical Consultation on the issue in part as a means of quickly disseminating information both to Members and to other intergovernmental organisations.

31. To this end, the FAO Fisheries Department organised an *Ad Hoc* meeting with intergovernmental organisations on fisheries on 21 – 22 May 2001, with the participation of representatives from FAO, OECD, SADC, UNEP and the WTO.⁵ The meeting reviewed the work programmes related to fisheries subsidies of the attending intergovernmental organisations and identified opportunities for cooperation in implementation of the respective work programmes.⁶

3. OECD⁷

32. As part of its programme of work for 2000-2002, the OECD Committee for Fisheries will analyze issues relating to fisheries management costs, trade and investment liberalization in fisheries, and indicators for monitoring sustainable fisheries development. In addition, the Committee will continue its work on the Review of Fisheries, a publication which monitors fisheries policies, including government financial transfers.

33. As part of the work on market liberalization, the Fisheries Committee will explore world and regional fish trade flows, issues and problems. This will include an analysis of how fisheries trade and production are likely to be affected by reductions in present tariff levels and by changes in non-tariff barriers. In addition, the study will explore the effects of change on restrictions on investment, access to services, subsidies in the fisheries sector, as well as other relevant factors.⁸

34. Work so far on the Market Liberalisation Study has concentrated on collecting and presenting information related to trade policy instruments including tariff and non-tariff barriers, investments and services. This information has been collected on a country by country basis.

35. At its meeting in March 2001, the Committee for Fisheries considered a first draft of a preliminary assessment of trade policy instruments in use among OECD countries. In addition the Committee considered a consultant's report entitled "Effects of Liberalising Trade in Fish, Fishing Services and Investment in Fishing Vessels" by Professor Rögnvaldur Hannesson,⁹ as well as a first attempt to provide an analytical classification of trade policy instruments and their effects on trade and resource sustainability. Professor Hannesson notes that the most important conclusion emerging from the paper is the critical role of fisheries management with respect to the effect of market liberalization, whether for trade in fish products, investment, or trade in fishing services.

36. The Committee for Fisheries is scheduled to meet on 15-17 October 2001 and will consider further drafts of work underway for the market liberalisation study and a first draft of a synthesis report for its study on fisheries management costs.

4. UNEP

37. The aim of the UNEP Workshop on Fisheries Subsidies on 12 February 2001 was to build understanding and consensus on fisheries policy reform in order to contribute to sustainable fisheries

⁵ APEC contributed to this inter-agency process, but was unable to attend the meeting.

⁶ The Report of the meeting is contained in *FAO Fisheries Report* No. 649, www.fao.org/FI.

⁷ The OECD provides the CTE with regular briefings on its fisheries work, see WT/CTE/M/23; M/25.

⁸ OECD (2000), *Transition to Responsible Fisheries: Statement by the OECD Committee for Fisheries*. Directorate for Food Agriculture and Fisheries. Paris, 26 April. <http://www.oecd.org/agr/fish/index.htm>.

⁹ Available on www.oecd.org/agr/fish, recent publications.

management. Over 120 participants from governments, international organizations, experts and NGOs participated. The study prepared for this Workshop has been further revised and updated, based on the outcome of the Workshop and comments received by participants, including both trade and environment officials. The study, together with the two country studies undertaken in Argentina and Senegal, which were also presented at the February Workshop, will be published in 2001. The Chairman's summary of this Workshop can be accessed along with the other papers prepared for the meeting at: www.unep.ch/etu. The Chairman's summary also has been circulated in the CTE as WT/CTE/W/187.

38. The Workshop, which was convened in close cooperation with the WTO, provided a platform for transparent and open dialogue between the participants. The Workshop was attended by trade and environment Government officials, intergovernmental organizations, such as the FAO and OECD, and non-governmental organizations, such as the World Wide Fund for Nature (WWF), the World Conservation Union (IUCN), the International Centre for Trade and Sustainable Development (ICTSD), and the International Collective in Support of Fishworkers (ICSF). As a follow-up to this Workshop, UNEP has been encouraged to convene similar events. If financial support is forthcoming from interested Governments and foundations, UNEP will convene another workshop later in 2001. UNEP is exploring closer collaboration with the WTO, OECD and FAO in conducting this workshop. UNEP has also joined the inter-agency process on fisheries, coordinated by FAO, which follows up on recommendations emanating from the FAO Committee on Fisheries.

B. WORK IN NON-GOVERNMENTAL ORGANIZATIONS

39. The World Wide Fund for Nature (WWF) is taking the lead in an international effort to reduce fisheries subsidies that contribute to over-fishing, under its Endangered Seas Campaign.¹⁰ On 28 – 29 November 2000, WWF organised a symposium entitled "Fishing in the Dark: A Symposium on Access to Environmental Information and Government Accountability in Fishing Subsidy Programmes," in Brussels, which brought together stakeholders interested in reforming fisheries policies with those interested in promoting government accountability. WWF has published the papers presented at this symposium.¹¹ From the perspective of WWF, the symposium provided support for the following basic conclusions:

- Access to information about fishing subsidies is a critical issue, not only for those seeking to reduce and reform harmful fishing subsidies, but for all stakeholders concerned with fisheries management policies.
- Currently, public access to information about fishing subsidies – and structures for public participation in the setting and administration of fishing subsidies – is far from adequate. In particular, it is not generally possible to obtain information about the specific applications of fishing subsidies sufficient to judge their real impacts on fish stocks or on fishing communities.
- While there are some rules and institutional mechanisms in place to promote access to information about fishing subsidies, these are in general poorly implemented and are often inadequate even on paper. Current trends are toward building and strengthening these mechanisms, but there is still little assurance that effective changes will come soon.
- The obstacles to improved transparency are both technical and political. Significant work remains to be done to build on existing structures. But more fundamentally, in many cases a change of institutional culture will be required if real openness is to be achieved.

¹⁰ See www.panda.org.

¹¹ WWF (2001), *Fishing in the Dark*, Symposium Proceedings, at: www.fishing-in-the-dark.org.

40. In a letter to the SCM Committee Members dated 30 April 2001, WWF requested the SCM Committee at its May meeting to take action to address the continuing failure by many WTO Members to comply with WTO rules requiring notification of subsidies to the fishery sector under Article 25 of the SCM Agreement. In the letter, WWF also offered to brief the SCM Committee on its experience in promoting the transparency of fishing subsidies, and to learn from the Committee directly how members of civil society can support more effective action by the WTO in regard to this matter. Further to this offer, preparations are underway for a fisheries subsidies workshop for WTO Members and other interested participants in early July 2001.

41. The International Centre for Trade and Sustainable Development (ICTSD) is continuing its series of stakeholder policy dialogues on fisheries, sustainable development and trade. On 23 October 2000, immediately prior to the discussion on fisheries subsidies in the CTE, ICTSD, in cooperation with IUCN and UNEP, organised a dialogue on "Fisheries, International Trade And Sustainable Development: Assuring Trade Rules Affecting Fisheries are Supportive of Sustainable Development", aimed at bridging the gap in discussions in different fora and in constituencies working in these areas. The dialogue addressed fisheries topics from a broad view, including resource management and livelihoods, market access and subsidies. Participants - including fisheries and trade experts from the UN system, the WTO, major fishing nations and NGOs - welcomed the opportunity for an informal and open exchange of views.¹²

¹² See www.ictsd.org.