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ENVIRONMENTAL AND TRADE BENEFITS OF REMOVING SUBSIDIES IN THE FISHERIES SECTOR

Submission by the United States

Item 6

1. There is increasing international recognition that fisheries resources are greatly overused, with increasing risk to the viability of many stocks. A part of the cause is that many countries provide subsidies to the fisheries sector. These subsidies promote over fishing and undermine the sustainability of the resource. These subsidies also distort trade leading to less efficient production.

I. GLOBAL FISHERIES RESOURCES ARE OVERUSED

2. Recent trends in world fisheries (increased harvesting levels and indications that stocks are becoming stressed) have generated considerable and growing concerns about this sector's economic viability and environmental sustainability. In addition to concerns regarding increases in harvest levels, there are many indications that fishing effort and harvesting capacity are at excessive levels, and must be restrained if global fisheries are to be managed sustainably. U.N Food and Agricultural Organization (FAO) work in this area indicates that: (i) for the last two or more decades, the number and aggregate size of fishing vessels has increased at a significantly greater rate than world harvests; (ii) very few of the world's largest fish resources are undeveloped; and (iii) the harvests of traditional highly valued species are declining, while harvests of less preferred species are increasing.

3. FAO's fisheries experts have prepared consistently pessimistic analyses of the state of the world's fish resources, and advocate significant reductions in global harvesting capacity and subsidies: "The depletion of various fish stocks has occurred in virtually all coastal states throughout the world. Indeed […] this is an inevitable outcome unless appropriate controls are adopted." (See *Marine Fisheries and the Law of the Sea: a Decade of Change*, Rome, FAO Fisheries Department, 1993). Most recently, FAO estimated that two-thirds of the world's 200 major fish resources are either "senescent" (showing declining yields) or "mature" (at maximum exploitation levels).

4. The economic consequences of over-utilization of a renewable natural resource are clear. Without proper adjustment to achieve a sustainable rate of utilization, the viability of a given fishery as an ecological link and source of food, economic wealth and export earnings will be jeopardized. Declining yields (output per unit of effort) in the face of ever improving technological capability for harvesting fish is a clear sign of a resource in stress and the need for adjustment in the industry.

5. These concerns about the health of the resource have been widely echoed in a number of international meetings and agreements, including the 1992 Rio "Earth Summit"; the 1995 Kyoto meeting on the contribution of sustainable fisheries to food security; the recently negotiated UN fisheries agreements; and a number of FAO fisheries technical and policy conferences.

II. SUBSIDIES TO THE FISHERIES SECTOR ARE SUBSTANTIAL

6. In 1993, FAO analyzed global costs and revenues in world fisheries, and concluded that total costs, including operating and capital cost, exceed revenues by $54 billion. Specifically, they identified global costs of $124 billion and revenues of $70 billion, and inferred that some substantial share of this disparity was covered by subsidies. At current levels of capacity, global revenues fall far short of costs. FAO has estimated that global fishing capacity would have to be cut significantly for industry revenues to cover all costs.

7. More recently, reports prepared by the Governments of New Zealand *(Seafood Trade Access Study*, 1996, by Rory Macleod) and the United States (National Marine Fisheries Service, National Oceanic and Atmospheric Administration, and Department of Commerce, *Analysis of the Potential Economic Benefits for Rebuilding U.S. Fisheries*, April 1992) show that fisheries sector subsidies are substantial; assume a wide variety of forms; figure significantly in the national fisheries policies of a number of countries; and are provided mainly to the harvesting sector, as opposed to other sectors (processing, aquaculture, marketing, etc.) of the fishing industry. Subsidies include direct government payments for the construction of fishing vessels as well as loan guarantee programmes that minimize the risk incurred by private sector lenders. In addition, income support programmes and fuel subsidies are provided in some countries.

III. SUBSIDIES TO THE FISHING SECTOR ARE UNDERMINING THE SUSTAINABILITY OF THE RESOURCE

8. Global commercial fisheries rely heavily on a "common pool" wild resource with inadequate access controls. It is difficult to effectively manage the resource due to the lack of access controls. Subsidization further exacerbates this condition by encouraging over fishing and structural overcapacity in the fishing sector. Many fisheries experts believe that ineffective management is the most fundamental problem in this sector. Ineffective management leads to overcrowded fisheries, and thereby strengthens pressures for subsidies. Subsidies tend to exacerbate the over fishing and overcapitalization common in the world's commercial fisheries.

9. The majority of global fisheries subsidies increase harvesting operations and capacity. Therefore, most subsidies in fisheries have a negative impact from a conservation standpoint because they:

(a) encourage the movement of additional capital into an economic sector that is already overcapitalized;

(b) promote over fishing by vessels already in the fisheries;

(c) exacerbate and compound the already difficult problems of fisheries management; and

(d) represent a misallocation of Government financial resources that could otherwise be employed more efficiently.

10. The negative impacts of subsidies on resource conservation can be seen in many parts of the world. For example, there has been a sharp decline in the harvest of traditional highly-valued species and a decline in the health of these stocks. As a result, there has been a shift to utilization of lower-valued, previously abundant species. The recent increase in the volume of the world-wide catch masks the problem – depleting one species and moving on to another cannot be sustained.

11. On the other hand, there is a positive role for subsidies intended to reduce effort and capacity in fisheries, i.e., environmental subsidies. A number of Governments, including the EU, Japan, Canada, and the United States, are turning increasingly to environmental subsidies as a means of addressing resource conservation problems. Examples of environmental subsidies in fisheries include: vessel and fishing permit buybacks to bring vessels out of production; retraining of fishermen; stock enhancement; and R&D in "clean" harvesting technology.

12. In sum, it appears that the majority of subsidies in fisheries have a negative impact on the resource. On the other hand, some subsidies may play a useful role, but there is disagreement and uncertainty regarding their effectiveness as economic and conservation instruments.

IV. SUBSIDIES DISTORT TRADE IN THE FISHERIES SECTOR

13. While the impacts of subsidies on trade in fish have not been carefully studied, there is little doubt that these subsidies distort trade and put unsubsidized fleets at a competitive disadvantage. World trade in fish products has grown significantly, and about one-third of production from capture fisheries harvests and aquaculture is traded. Trade in fishery products increased substantially in the 1970s and 1980s, but the rate of growth appears to have slowed in recent years. Currently, global fisheries trade amounts to $40 to $45 billion annually.

14. After the worldwide move to 200-mile Exclusive Economic Zones (EEZs), which occurred in the 1970s, the resource-rich including many developing countries, have had the advantage in fish trade. The 200-mile EEZs allowed countries to exclude non-domestic fishing vessels from their EEZs and to turn over the fisheries sector to domestic industry. Currently, the resource-rich nations (e.g. Canada, Norway, Iceland, Chile) have become net fish exporters. Conversely, nations that are not as rich in fish resources have become significant net importers.

15. Fisheries exports play a major role in the economies of a number of mainly developing countries. Three nations (Somalia, Seychelles and Iceland) depend on seafood for 60 to 80 percent of the value of their total exports; and seven (Cape Verde, French Guiana, Guinea-Bissau, Maldives, Mauritania, Mozambique, and Senegal), depend on seafood for 40 to 59 percent of the value of their total exports. In summary, 10 of the world's 41 "vulnerable single-commodity-dependent economies" in the agricultural and fisheries sector rely on seafood for at least 40 percent of the total value of their exports.

16. Subsidies in fisheries are provided primarily to alleviate the operating and capital costs of the harvesting sector. Among the most common forms are: grants, loans, and loan guarantees for vessel construction; fiscal benefits related to fuel taxes and depreciation allowances; and payment by governments of foreign access fees on behalf of their fishing industries.

17. These subsidies are provided to an industry that harvests a renewable, publicly managed resource both inside and outside the waters under the jurisdiction of the industry's coastal state. Therefore, subsidies in fisheries have two broad international impacts: (i) on trade; and (ii) on the harvesting operations themselves.

18. The economic consequences of subsidization mirror the conservation effects described above in that they promote over-production and delay market-balancing adjustment.

(a) *Fisheries subsidies promote a misallocation of economic resources*. They encourage over-production and hinder market exit. Subsidized fleets thus tend to be too big and fish too much. Subsidies represent resources that could be more efficiently used

elsewhere in the economy. Eliminating them can provide an advantage for strapped budgets.

(b) *Subsidies induce a distorted market equilibrium.* They usually lower costs and tend to encourage fishing activity, lower prices and stimulate demand. Since these distortions tend to push short-term production beyond yield levels which are sustainable over the longer term, the inevitable market correction is delayed and risks are much more severe (e.g., the collapse of a fishery as an economic resource).

(c) *Subsidies promote structural overcapacity by delaying exit from the market.* In a situation of structural excess fishing capacity, the rationally expected response would be exit from the market by the least efficient producers. However, subsidies can serve to keep these producers from exiting the market, thus sustaining chronically inefficient fleets. This creates a permanent lobby for continued assistance.

(d) *Subsidies affect trade by shifting the burden of adjustment onto non-subsidized producers.* By removing market pressures to equate revenues with long term average costs, domestic subsidies tend to shift the burden of adjustment in overcapacity situations to foreign suppliers. This response further exacerbates the market distortions listed above.

(e) *Subsidies can make it more difficult for developing countries to take full economic advantage of the fish resources in their own EEZs.* When paid to distant water fleets, subsidies promote operations that often target highly migratory and straddling stocks. As a result, stocks that straddle the EEZ of a country but also exist in the high seas may be exploited on the high seas by a subsidized distant water fleet. These subsidized operations thus take resources that would be taken by other unsubsidized fleets, often of developing countries, operating in their own EEZs.

19. Generally, subsidies support marginal, often economically unviable coastal fleets. In addition, when subsidized fleets harvest resources that are shared, transboundary, or on the high seas, the more efficient producer is displaced from the market.

V. CONCLUSION

20. Fisheries is a good example of a natural resources sector where removing subsidies will generate significant benefits for trade and the environment. Subsidies tend to reduce internal costs and thereby exacerbate the problems of overcapacity and over fishing. This problem is perhaps more acute for developing countries whose economies are less diversified and who are therefore more dependent on export earnings from their natural resources. Subsidies also distort trade, affecting prices and distorting sources of supply. Removing subsidies would thus provide a double dividend for both the environment and the global economy.