

FISHERIES SUBSIDIES

Submission from New Zealand on Paragraph 32(i) of the Doha Declaration

I. PURPOSE

1. This paper notes findings from a recent research paper that appear relevant to discussion in the Committee on Trade and Environment on the issue of fisheries subsidies.

II. BACKGROUND

2. Over the past decade subsidies to the fishing industry have attracted increasing attention from researchers and policy-makers. There has been concern about both the environmental impact (insofar as subsidies contribute to over-fishing) and the impact of subsidies on markets and trade.

3. In the WTO context there was regular discussion of the issue in the Committee on Trade and Environment under Item 6 of the agenda¹. Ministers decided in Doha on the basis of discussion during the preparatory process to proceed with negotiations on fisheries subsidies. Those negotiations are to take place in the Rules Negotiating Group. It is, however, likely that there will continue to be parallel discussion in the Committee on Trade and Environment in the context of paragraph 32(i) of the Doha Ministerial Declaration.

4. Developing countries have a large share of global trade in fisheries products and for many of them fisheries are an important industry and food source. These factors give the fisheries subsidies issue an important development dimension which is recognised in the Doha mandate.

III. SIGNIFICANCE OF SUBSIDIES IN RELATION TO OVERFISHING

5. In considering the causes of damaging over-fishing one of the issues that has generated debate in the CTE has been the relative importance of subsidies and of deficiencies in fisheries management. Some have argued that inadequate management regimes and uncontrolled or illegal fishing activity are the main cause of problems, and that subsidies specifically designed to reduce capacity will actually be beneficial. Previous studies focusing on fisheries subsidies have typically assumed that certain categories of subsidy should be regarded as neutral or beneficial in their environmental and possibly their trade effects.

IV. RECENT FINDINGS ON THE IMPACT OF CERTAIN TYPES OF SUBSIDY

6. A recent research paper challenges some of these earlier assumptions. *Subsidies and their potential impact on the management of the ecosystems of the North Atlantic* (Munro and Sumaila,

¹ (the effect of environmental measures on market access, especially in relation to developing countries, in particular to the least developed among them, and environmental benefits of removing trade restrictions and distortions).

University of British Columbia, 2002) provides a technical analysis of the economics of subsidies' impact on fisheries management and sustainability. (An abstract is attached as an annex).

7. It is beyond the scope of this note to attempt any review of the economic analysis set out in the paper. It should be noted, too, that the paper's focus is impacts on marine ecosystems and their management rather than on markets and trade. However in the context of long-running debate in the CTE on fisheries subsidies as an issue with trade, environmental and developmental aspects some of the conclusions in the paper are of interest.

V. IMPACT OF SUBSIDIES UNDER DIFFERENT CONDITIONS

8. Munro and Sumaila analyse the theoretical impact of subsidies under several conditions of access and management and for several categories of subsidy.

9. A situation of pure open access, they demonstrate, will lead to overexploitation of the resource; and the introduction of subsidies which from the perspective of fishers increase the price of harvested fish or reduce the cost of fishing effort or vessel capital will result in more intense exploitation of the bio-mass and thus make a bad situation worse.

10. In a situation where there is effectively a private property rights fishery (with individual transferable harvest quotas, for example, but in a situation where the government has essentially relinquished resource management rights) the introduction of subsidies will again, according to their analysis, lead to overexploitation of the resource. It undermines what would otherwise be a socially optimal resource management program by introducing a new set of perverse incentives.

11. The researchers finally examine the case of a fishery with regulated open access (i.e. where the annual harvest is controlled but where that limited annual harvest becomes the "common pool"). The key subsidy question identified in this situation is when the resource manager (government) reacts to the emergence of excess capacity by introducing a buyback or decommissioning scheme. Such schemes have generally been characterised in previous analysis as environmentally benign. The authors cite evidence that such schemes are not, in fact, generally effective over the long run in reducing capacity and that they are likely to destabilize rather than stabilize the fishery. They conclude that in practice such schemes threaten the ability of the resource manager to control total harvest.

VI. IMPACT OF DIFFERENT CATEGORIES OF SUBSIDY

12. Using OECD data the authors examine fisheries sector subsidies from countries in the North Atlantic region. They characterise three major categories (fisheries infrastructure, investment and modernization and tax exemption) as likely to be negative in their impact upon fisheries resources. They further argue that, on the basis of their earlier analysis, any positive impact from decommissioning subsidies and subsidies to gain access to other countries' waters is likely to be only fleeting and that, in many cases, such subsidies will prove to be decidedly negative in their impact. They finally include income support and unemployment insurance subsidies with those likely to be negative in their impact. They do not include subsidies arising from price supports (the data is not available from OECD estimates).

13. The authors set out their conclusions as follows:

"We conclude, tentatively, that just under 50 per cent of the North Atlantic fisheries subsidies are benign, or neutral, in terms of their impact. We also conclude that just under 50 per cent are decidedly damaging, or are to be viewed, at best, with deep suspicion. The remainder, just over 5 per cent, we cannot classify on the basis of available information.

“There is wide acceptance of the view that subsidies used in vessel decommissioning (buyback) programs also have a positive impact upon fisheries management and sustainability. By reducing fleet capacity such subsidies will reduce economic waste in the fisheries and reduce pressure on the resource, or so the argument goes. We take sharp issue with this widely held view. Such subsidies, if they come to be anticipated by industry, can and will have a decidedly negative impact.

“Subsidies in fisheries, to the extent that their impact is negative, are seen as exacerbating the problems arising from the “common pool” nature of many capture fisheries. We do not question this claim. We do, however, raise the question of whether the subsidies would continue to have a negative impact if the characteristics of the fishery were removed, i.e. by the establishment of effective property rights. The answer is unquestionably yes.”

VII. COMMENT

14 The economic analysis in the paper is highly technical. As noted above, it is beyond the scope of this note to review the data or the analysis used. The analysis is also selective in its scope: it is largely confined to impacts on fisheries stocks and their management; market and trade impacts are not the focus of the paper. It considers a limited range of parameters. And the section of the paper that looks at actual subsidies is limited to OECD data on North Atlantic fisheries. The weight to be placed on the conclusions should be limited accordingly.

15 With those caveats, some of the paper’s findings are of interest given that they go against prevailing assumptions about the benign or damaging nature of certain types of subsidy. To the extent that they challenge the environmental benefits of certain categories of subsidy they potentially reinforce the case for improving WTO disciplines over subsidies which can be demonstrated to have negative trade impacts.

ANNEX

Subsidies and their potential impact on the management of the ecosystems of the North Atlantic

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ABSTRACT

This paper provides both an estimate and assessment of subsidies in fisheries in the North Atlantic. The subsidies are estimated, on the basis of data taken from an OECD study and the Sea Around Us Project database, to be in the order of U.S.\$2.0 to 2.5 billion per year. The assessment of the impact of the subsidies upon resource management and sustainability requires an examination of the underlying economics of subsidies in fisheries. There is general agreement, to which we subscribe, that fisheries subsidies do great harm by exacerbating the problems arising from the “common pool” aspects of capture fisheries. Many economists, however, believe that, if the “common pool” aspect of a fishery could be removed by, for example, establishing a fully-fledged property rights system, the negative impact of fisheries subsidies would prove to be trivial. This paper demonstrates that the aforementioned comfortable belief is unfounded. Fisheries subsidies can be seriously damaging, even if the “common pool” aspects of the fishery are removed. There is also a widely held belief, among economists and government officials, that subsidies used for vessel decommissioning schemes, far from being harmful, actually have a beneficial impact upon resource management and sustainability. About twenty per cent of the fisheries subsidies in the North Atlantic are directed towards these purposes. In this paper we argue that these seemingly beneficial subsidies can, in fact, be highly negative in their impact.
