

ADVERSE TRADE AND CONSERVATION EFFECTS OF FISHERIES SUBSIDIES

Communication from the United States

The following communication, dated 14 October 2002, has been received from the Permanent Mission of the United States.

I. INTRODUCTION

1. The United States is a strong supporter of the WTO negotiations on clarifying and improving disciplines on fisheries subsidies launched at Doha, and recent developments have further underscored their importance. At the recent World Summit on Sustainable Development (WSSD) in Johannesburg, South Africa, World leaders recognized the critical role the fisheries sector can play in sustainable development, and the need for action to maintain or restore world fish stocks to sustainable levels. The WSSD Plan of Implementation recognizes that harmful fisheries subsidies can further exacerbate the overexploitation of fish stocks and calls for countries to eliminate such subsidies, "while completing the efforts undertaken at the WTO to clarify and improve its disciplines on fisheries subsidies, taking into account the importance of this sector to developing countries".¹

2. Despite the multilateral outcomes at Doha and Johannesburg, which involved Ministers and even Heads of State, some WTO Members continue to question whether there is a connection between fisheries subsidies and adverse trade and conservation effects.² The United States is submitting this paper to help clarify certain aspects of the relationship.

II. GLOBAL HARVESTS, TRADE, AND SUBSIDIES

3. Fisheries are distinct, complex and fragile. For fisheries biologists, finding answers to why fish stocks are likely to fluctuate, and between what range, is a difficult task. Fisheries economists have developed graphic illustrations to help explain why and at what point a limited, renewable natural resource, such as fish, will decline if harvests exceed a maximum sustainable yield (MSY). Even taking into account these imprecisions, it is clear that many commercially important stocks have collapsed in the last two decades. As these stocks were depleted, other stocks, often located much further away from traditional fishing centers or containing previously undesirable species, were exploited. Overfishing, biological limits, natural fluctuations and the substitution of one formerly commercially viable stock for another have contributed to the fact that – following decades of strong growth – global wild (capture) fishery harvests began to level off from 1990-93 and have, since 1994, remained more or less the same (Table 1).

¹ WSSD Plan of Implementation para. 30(f).

² TN/RL/W/17 is the most recent such submission.

4. This trend in stock health and landings precipitated the concerns raised at the 1992 World Environmental Summit in Rio, and led to the negotiation of a number of international agreements in the fishery sector, including the United Nations Food and Agriculture Organization (FAO) Code of Conduct for Responsible Fisheries, the UN Fish Stocks Agreement, and the FAO Compliance Agreement. As is clear from the attention given to fisheries issues ten years later at the WSSD, there is little reason to believe that this trend has been reversed. According to FAO data³, harvests from capture fisheries have developed as follows:

Table 1

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
	(Million of metric tons)									
World Total	85.5	84.5	85.4	86.6	91.6	91.9	93.5	93.8	86.9	92.9
Marine Fisheries				80.0	84.9	84.6	86.1	86.3	78.9	84.6
Inland Fisheries				6.5	6.7	7.3	7.4	7.5	7.9	8.3

5. Globally, fish has become a highly traded commodity, with approximately one-third of total fisheries product being sold in foreign markets.⁴ However, after impressive growth in the 1970s and 1980s, growth in global fisheries trade appears to have slowed since 1994. The latest FAO data (Table 2) show that the quantities of fish products that were traded actually decreased from 1994 to 1999 (46 to 43 million metric tons).⁵ Other FAO data indicate that the total global value of fisheries trade also fluctuated in a fairly narrow range of \$45 to \$53 billion during that same period, with total exports of fishery products by 55 “low income food deficit” countries (almost all in Africa) remaining level at \$2.5 billion annually throughout the second half of the 1990s.⁶ This means that while global catches have remained stable in recent years, they have done so as some of the last available underutilized stocks world-wide have been exploited. If FAO data trends continue, catches will be expected to decline.

Table

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
	(Million of metric tons)									
Total exports	33.2	33.7	34.8	39.4	46.4	44.7	44.5	46.2	38.6	42.8

6. While many factors have doubtless contributed to the leveling off of harvests and trade (including ineffective fisheries management regimes in many cases), global levels of subsidies have played a significant role in the decline of certain stocks. As discussed in the Committee on Trade and Environment, and mentioned in a recent paper submitted in this Negotiating Group (TN/RL/W/3), the OECD and APEC have done or commissioned significant work in estimating the levels of subsidies benefitting their members.

7. The **OECD** examined government financial transfers (GFTs) in the form of “direct payments” and “cost reducing transfers”, and concluded that these categories of GFTs totaled approximately \$1.5 billion annually in the period 1996-1999, representing 4 to 5 per cent of total

³ FAO, Fishery Statistics: Capture Production, Vol. 88/1 (1999).

⁴ FAO, Fishery Statistics: Commodities, Vol. 89 (1999).

⁵ FAO, Fisheries Statistics.

⁶ *Ibid.*

landed value in OECD countries.⁷ However, despite the fact that reporting on government financial transfers was meant to cover the range of government policies, many OECD members reported only budgeted programs and failed to include unbudgeted assistance measures. In view of the fact that these types of programmes are considered subsidies under the WTO Agreement on Subsidies and Countervailing Measures, these programmes should be examined as well.⁸ Thus, subsidy levels among OECD members are likely higher – and higher by a significant amount – than those reported.

8. APEC in 2000 commissioned a study of fishery sector subsidies and other “support programmes” among its Pacific Rim members (2000)⁹, which includes a number of Asian and Latin American countries that are not OECD members. This study estimated that APEC member subsidies and support programs totaled approximately \$12.6 billion. While as discussed above the OECD study’s definition of subsidies may have been too narrow for present purposes, the formatting of the APEC study was in some respects relatively broad: certain programmes that were included, such as “management and conservation” and “infrastructure,” are not so easy to categorize as either harmful or beneficial. Like the OECD study, the APEC study also suffered from data challenges: data on many potentially relevant programs were not submitted or unavailable to the authors (and only 10 of 21 APEC members submitted any responses). Nevertheless, the APEC study was able to conclude that, of the total, programs that promote increases in effort and therefore may undermine stock abundance account for \$8.4 billion – twice as much as the \$4.2 billion accounted for by potentially beneficial programmes.

9. Given the definitional and data limitations described above, the global level of subsidies is almost certainly higher than reported by the OECD and APEC studies: a level of between \$10 to \$15 billion may be a conservative estimate.¹⁰ Since the total value of world capture fishery harvests have fluctuated between \$70 and \$80 billion (in dock-side revenues) from 1993 to 1999, we may reasonably conclude that global subsidies amount to somewhere between *15 and 20 per cent* of aggregate dock-side revenues. It is important to note that this aggregate, global incidence of subsidies provided to fishing fleets is three to four times higher than the five per cent threshold for presuming “serious prejudice” under the now lapsed Article 6.1 of the SCM Agreement.

10. In the large majority of the world’s capture fisheries, the failure adequately to control and manage fisheries has allowed more harvesting effort and capacity than is appropriate. Subsidies amounting to 15-20 per cent of total first-sale revenues appreciably reduce costs and/or increase revenues, and, therefore, inevitably encourage even more added effort and investments in over-fished and depleted fisheries, which tend to predominate in the developed world. Therefore, subsidies that promote effort and capacity have contributed meaningfully to the erosion of resource sustainability of those fisheries. That same excess capacity is now being exported to previously undesirable fisheries and to fishing grounds off of many developing countries. These countries may have the desire to develop their own fisheries but are prevented from doing so by overfishing by distant-water fleets and a lack of law enforcement resources to effectively monitor fishing in their waters. On the other hand, subsidies that do not promote effort and capacity have not had these undesirable outcomes.

⁷ OECD Review of Fisheries 2001

⁸ FAO, Report of the Expert Consultation on Economic Incentives and Responsible Fisheries, Rome, 28 November-1 December 2000. *See, generally*, FAO Fisheries Department, Marine fisheries and the law of the sea: a decade of change, FAO Fisheries Circular No. 853 (Rome 1993).

⁹ APEC, Study into the Nature and Extent of Subsidies in the Fisheries Sector in APEC Member Economies (2000).

¹⁰ Steenblik, R. and Wallis, P., “Subsidies to Marine Capture Fisheries: the International Information Gap”, in *Fishing in the Dark, A Symposium on Access to Environmental Information and Government Accountability in Fishing Subsidy Programmes*, World Wildlife Fund, Endangered Seas Campaign, Washington, DC (2001), at 17-39; Hard Facts, Hidden Problems: A Review of Current Data on Fishing Subsidies, World Wildlife Fund Technical Paper (Oct. 2001).

11. Subsidies that promote effort and capacity also have implications for prices, and, in a sector in which almost half of global harvests are sold in foreign markets, these implications affect trade. In the management environment most prevalent globally, subsidies that reduce fixed and variable costs, or increase revenues, distort trade and undermine competition in global seafood markets.

12. In sum, an emerging consensus among fisheries economists is that effort- and capacity-enhancing subsidies tend to aggravate the most fundamental problem in most fisheries in many parts of the world, *i.e.*, the absence of clearly defined and enforceable harvest rights. One recent study concludes: "The economics of the world's marine fisheries are heavily distorted not only by the externalities coming from the common property problem but also by direct and indirect government subsidies to the fishing industry Thus, fisheries subsidies generally exacerbate the common property problem".¹¹

13. Global fisheries subsidies in the present range stimulate the building and operation of more harvesting capacity than a rational and efficient use of available resources would dictate. Excess investments in harvesting capacity, in turn, encourages a tendency to "free ride" and "cheat", which serve to undermine effective management. In the fisheries sector, such behavior assumes many forms, including non-compliance with fishing regulations (quota busting), illegal operations, or reluctance to accept the judgments of scientists regarding resource sustainability. Notably, the WSSD Plan of Implementation expressly acknowledges the linkage between these practices and subsidies by calling for countries to "eliminate subsidies that contribute to illegal, unreported and unregulated fishing and to over-capacity," in conjunction with the fisheries subsidy negotiations in the WTO.¹²

14. Thus, while it is undoubtedly true that management problems are inevitable in a sector as poorly policed and geographically disaggregated as fisheries, it is equally true that subsidies have made these management matters even more difficult to address. As one authority has put it: "If subsidies are not the root cause of the intimately linked problems of resource overexploitation and overcapitalization, there is no question that subsidies seriously exacerbate both. Indeed, their impact is probably more pervasive and malign than has been realized heretofore."¹³

15. Finally, this paper has not addressed the many studies that focus on particular fisheries and specific national subsidies. We believe that it would be useful to consider these in future discussions, particularly to clarify the kinds of situations that could be usefully addressed through these negotiations.

¹¹ Arnason, R., "Fisheries Subsidies, Overcapitalization and Economic Losses," in Overcapacity, Overcapitalization and Subsidies in European Fisheries, Proceedings of the first workshop held in Portsmouth, UK (28-30 October 1998), at 27-49.

¹² WSSD Plan of Implementation para. 30(f).

¹³ Munro, G., in "A Theoretical Framework for Examining Interactions between Subsidies, Overcapitalization, and Resource Overexploitation: Short-Term and Long-Term Consequences," in PECC Task Force on Fisheries Cooperation and Development, workshop on "The Impact of Government Financial Transfers on Fisheries Management, Resource Sustainability, and International Trade," Manila (August 1998), at 19.