

**FISHERIES SUBSIDIES: PROPOSED STRUCTURE OF THE DISCUSSION**

Communication from Japan

The following communication, dated 4 June 2004, is being circulated at the request of the Delegation of Japan.

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**A BLANKET BAN OR A BOTTOM-UP NEGOTIATION?**

1. The submission by New Zealand (TN/RL/W/154) dated 26 April 2004 proposed to make prohibition of the subsidies the primary discipline and to use a negative list approach for exceptions. New Zealand argued that a broad ban, along with a list of defined exceptions and transitional arrangements, would be more effective than a bottom-up negotiation on a list of prohibited subsidies.<sup>1</sup>

2. However, serious uncertainty exists on this argument under the current situation where no agreed definition of “fisheries subsidies” is present. If the ultimate goal of the discussion is a broad ban, significant difficulties are expected during a consensus building process to define “fisheries subsidies”.

**A NEED FOR A BALANCED DISCUSSION**

3. We have examined the proposed broad ban and negative list approach in the light of the Doha Ministerial Declaration, and have concluded that an alternative approach based on a bottom-up negotiation is desirable to build a fair consensus among the group.

4. First, relevant parts of the Doha Ministerial Declaration are:

- to clarify and improve WTO disciplines on fisheries subsidies, taking into account the importance of this sector to developing countries (paragraph 28),
- to reaffirm the commitment to the objective of sustainable development (paragraph 6),
- to encourage efforts to promote cooperation between the WTO and relevant international environmental and developmental organizations, especially WSSD (paragraph 6), and
- to confirm the collective responsibility to ensure internal transparency (paragraph 10).

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<sup>1</sup> Press Release of New Zealand dated 29 April 2004. (<http://www.Beehive.govt.nz>).

5. Second, relating to the third point above, the Plan of Implementation of the WSSD in September 2002 (paragraph 30(f)), required to “eliminate subsidies that contribute to illegal, unreported and unregulated (IUU) fishing and to over-capacity, while completing the efforts undertaken by WTO to clarify and improve its disciplines on fisheries subsidies, taking into account the importance of this sector to developing countries”.

6. Third, judging from the above, relevant focuses for discussion at the Negotiation Group on Rules are considered to be the following five elements. These are to:

- (i) clarify and improve WTO disciplines, including to prohibit subsidies related to IUU fishing and to overcapacity (e.g., red category of subsidy);
- (ii) ensure sustainable development (e.g., green category);
- (iii) take into account the importance of the fishery sector to developing countries;
- (iv) ensure transparency; and
- (v) encourage cooperation with other international organizations.

7. In conclusion, the proposed approach by New Zealand overly focuses upon an element of prohibition and lacks the overall balance of the five elements above. To take into account the balance of the five elements that appeared in the Doha Declaration, a bottom-up negotiation approach would be the better alternative structure for the negotiation. This is particularly true under the current situation where no consensus exists on the proper level of the regulation.

#### RED AND GREEN CATEGORIZATION OF SUBSIDIES

8. Based on the first two elements (4(i) and (ii) above), the Rule Negotiation Group should also discuss which subsidies are really problematic in terms of over-capacity and IUU fishery, and what sort of subsidies should be permitted in order to ensure the sustainable development of the fishery sector. However, the paper presented by NZ has simply jumped into an extreme conclusion without any clear discussions. The broad ban and negative list approach could lead to sweep too many different subsidies, including payments for capacity reduction or scientific research for aquatic resources, which could play critical roles for conservation and sustainable use of the resources. To avoid this risk, a bottom-up negotiation approach, taking into account various roles of subsidies, would be the better alternative structure for the negotiation.

9. In this connection, particular attention should be given to the fact that the Doha Declaration has encouraged to promote cooperation between the WTO and relevant international environmental and developmental organizations (see the fifth elements shown as 4 (v) above).

10. For instance, at the UNEP Workshop on Fisheries Subsidies and Sustainable Fisheries Management held in Geneva, 26-27 April 2004, the relationship between environmental effects of fisheries subsidies and fisheries management schemes was reviewed using the “matrix approach”. A similar approach has also been presented at the OECD Committee for Fisheries, where a wide range of issues on fisheries subsidies is under review from the viewpoint of environmental, economical, and social perspectives (three pillars). The FAO also plans to host the Technical Consultation on the Use of Subsidies in the Fisheries Sector from 30 June to 2 July this year.

11. Outcomes of these activities could be a useful reference for the discussion at the Rules Group and, at least, such activities should be properly reviewed during the process of subsidy categorization.

Measures for continued cooperation with such international organizations would be another topic of discussion.

#### NOTIFICATION

12. One of the five elements in paragraph 4 above is “to ensure transparency.” This topic could be discussed in the context of improved notification of subsidies in general using the process of the bottom-up negotiation.

#### SPECIAL AND DIFFERENTIAL PROVISIONS

13. Another critical issue of the above five elements is “to take into account the importance of this sector to developing countries”. S&D provisions should be discussed in due course during the negotiation. In this connection, Japan welcomes the submission of the paper co-sponsored by Antigua and Barbuda, and the other seven members last year (TN/RL/W/136). Many of these small-island nations heavily depend on fish for people’s dietary needs with their per-capita consumption being well above the world average. Topics raised in this paper should be fully discussed during the process of the bottom-up negotiation.

14. At the same time, other developing countries have become dominant actors in commercial production and export of fishery products in the world. In 2000, the world’s largest fishery producer was China, followed by Peru, and the world’s largest exporter was Thailand, followed by China (FAO statistics).

15. How to reconcile diverse interests among developing countries could be an important topic and, therefore, the bottom-up negotiation approach would be suitable in order to allow sufficient time for consensus building toward a mutually acceptable solution on S&D issues among various stakeholders.

Appendix (only for reference)

FAQ on the Issue of Fisheries Subsidies

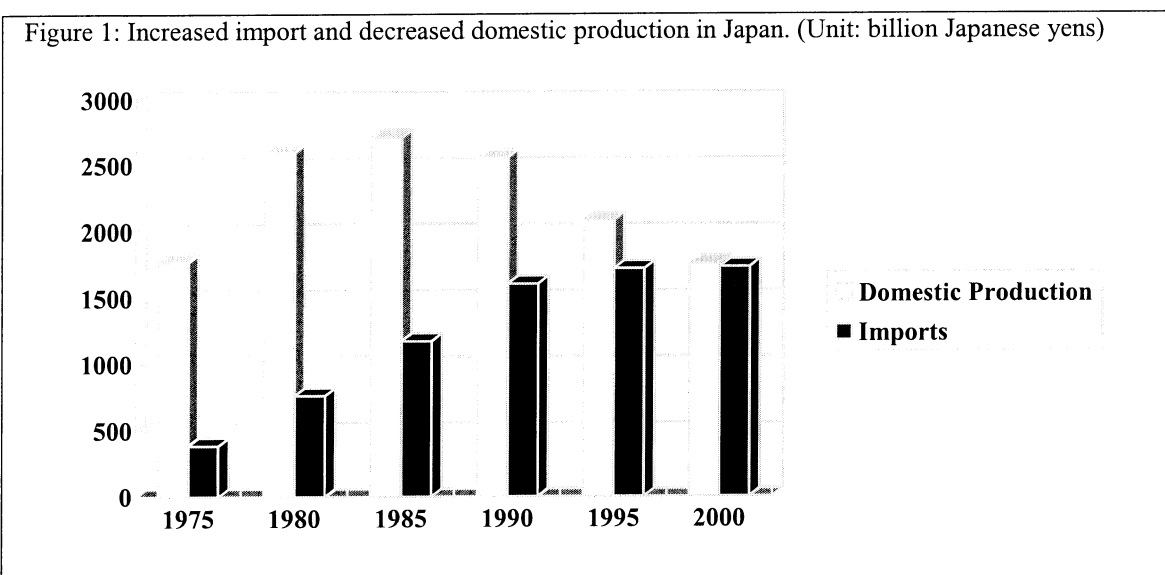
Question 1

Do Japan's fisheries subsidies cause trade distortions?

Answer

Japan does not have export subsidies in fishery products. Also, judging from the continued increase of Japan's import in fishery products during the past decades, Japan's fisheries subsidies do not result in reducing import.

From the 1970s, the import of fishery products has drastically increased, and the value of import and domestic production have become even in recent years (see Figure 1).



In fact, Japan has become the world's largest importer of fish products. According to the FAO, 37% of the world's fishery production is exported, and Japan's imports account for one quarter of it. As Japan's export of fishery products is relatively very small (less than 10% of the import), the net import value (difference between exports and imports) in Japan has become quite significant. Japan is the world's leading importer of fishery products from developing countries. In 2002, 62%<sup>2</sup> (JPY 669 billion) and 9% (JPY 30 billion) of its imported fishery products came from developing countries and least-developed countries (LDCs) respectively. The current average tariff on fishery products in Japan is approximately 4.1% (weighted average).

Japan's subsidies also do not result in maintaining market price. The average price of fishery products at ten (10) central wholesale markets in large cities fell continuously over the decade from JPY904/kg in 1991 to JPY798/kg in 2001.

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<sup>2</sup> 62% is a value-based figure. An amount-base figure is 60%. These calculations were made using import statistics in 2002.

## Question 2

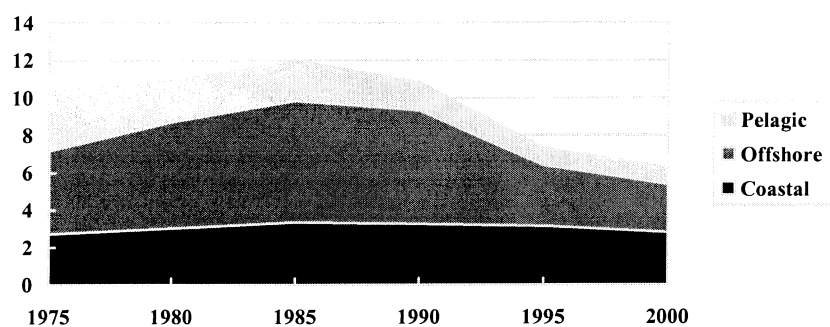
Do Japan's fisheries subsidies cause over-harvest or over-capacity?

### Answer

Judging from declining fishery harvest and capacity, Japan's fisheries subsidies do not result in the increase of its domestic fishery production or capacity.

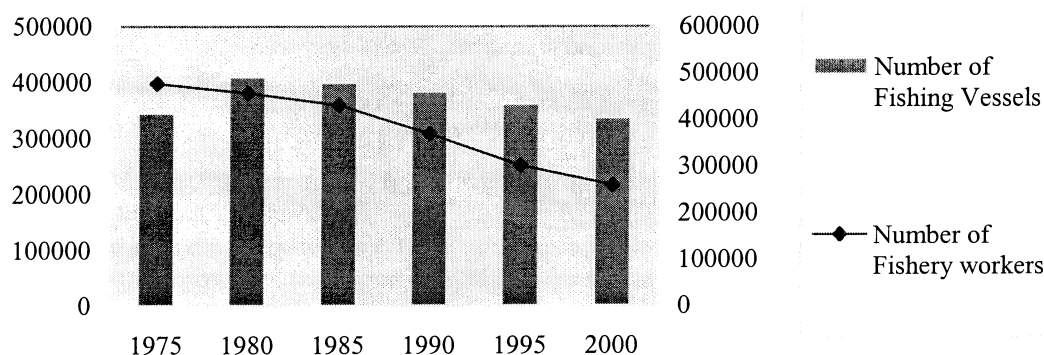
Japanese fishery production has steadily declined in the past two decades. Current production is about half its peak in the 1980s. However, it is considered that harvest decline is not the adverse effect of subsidies. Tighter international regulations after the creation of the 200-mile zones in the mid-1970s accounts for some of the causes. In fact, during the last quarter century, Japan's distant water fishery catch has declined to one-fourth, from 3168 thousand metric tons in 1975 to 855 thousand metric tons in 2000. Offshore catches have also dropped, probably reflecting a cyclical fluctuation of sardine stocks. Coastal fisheries, in contrast, have been keeping the same level of production for many decades.

Figure 2: Changes in the catch of coastal, offshore, and distant-water fisheries in Japan (unit: million metric tons).



The number of fishing vessels, as well as fishery workers, has also been declining these past two decades (Figure 3).

Figure 3: Changes in the number of fishing vessels and fishery workers.



Japan sets mandatory upper limits on fishing capacities and efforts through (i) regulations on the construction, registration and inspection of fishing boats, (ii) a fisheries licensing system, and (iii) a right-based management system<sup>3</sup>. Also some of major fishery outputs are regulated through the total allowable catch (TAC) system. Because of these multiple layers of regulations, Japan's fishing capacities and efforts are hard to raise regardless of the existence of subsidies.

Although not as rapid as the decline of large-scale industrial fisheries, the number of coastal small fisher-folks is also decreasing. The number of people engaged in coastal fisheries is 220,000, or 85% of all Japanese fishermen<sup>4</sup>, and the role of coastal fisheries in the remote local economy is rather significant. About 6,200 fishing villages exist along Japan's coastlines, extending 35,000 km. They are mostly distributed in geographically disadvantaged areas such as peninsulas and remote islands, where fishery is one of the most important sources of revenue in these communities.

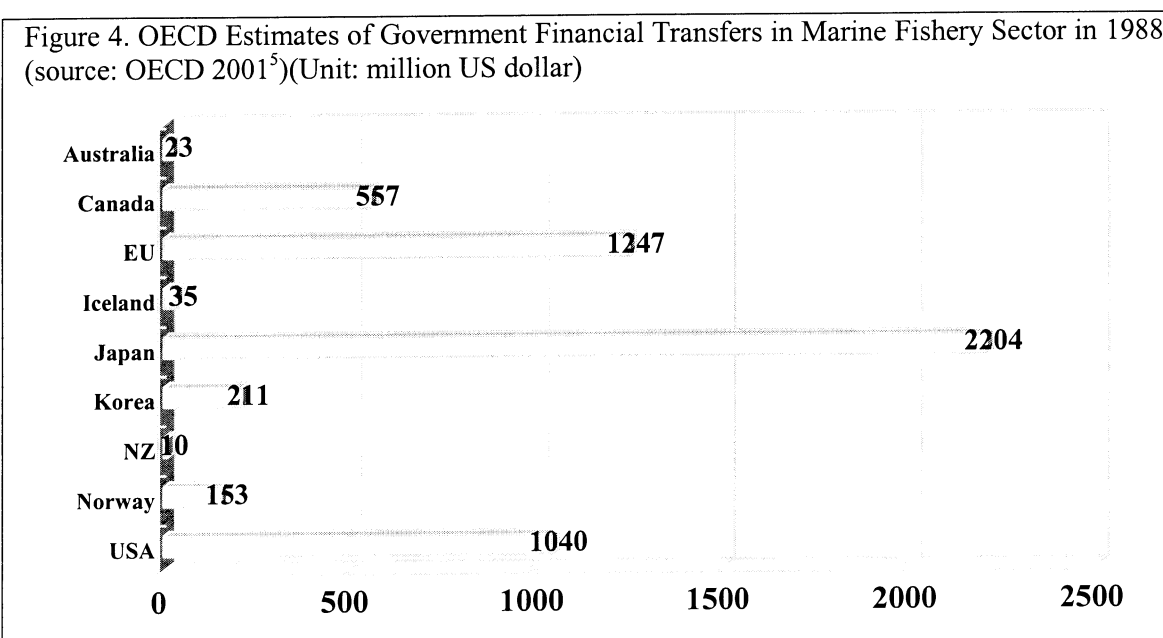
The number of new entrants into the fishery sector job market in such communities has continued to decrease, and the percentage of fishery workers of over 60 years old increased from 28% in 1990 to 45% in 2000, indicating the ageing of the fishery workforce population. Much of the fishery budget is expended to support such fisher-folks and their communities. In this sense, Japan's fishery budget can be characterized as rural development or social adjustment transfers.

### Question 3

Which country is providing large amounts of fisheries subsidies?

### Answer

The data released by OECD indicates that the amount of Japan's financial transfer to marine capture fisheries exceeds the amount of other major countries (see below).

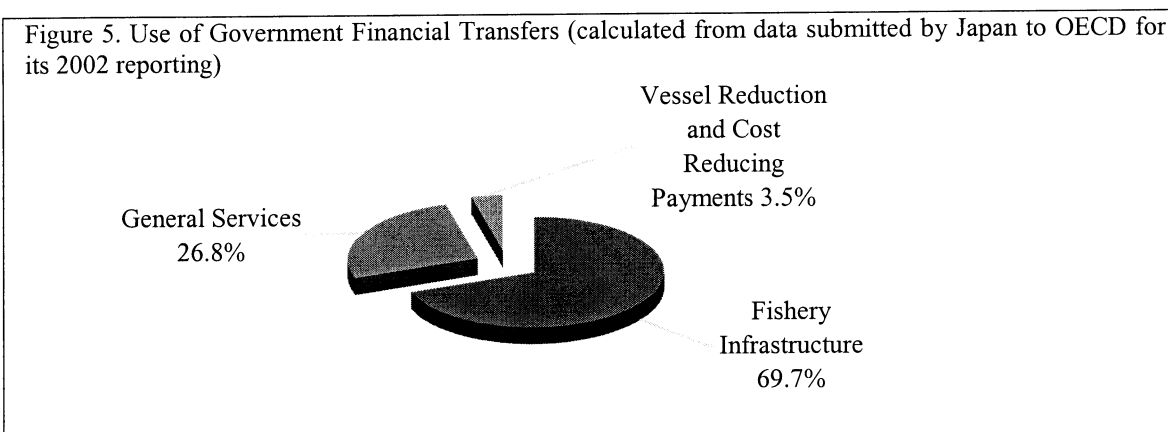


<sup>3</sup> Detailed explanations of the right-based management are given in the section on coastal fishery.

<sup>4</sup> Calculated using data from the *Annual Fishery Dynamics Statistics*, Ministry of Agriculture, Forestry, and Fisheries, Japan

<sup>5</sup> Review of Fisheries in OECD Countries. OECD 2001.

However, most of Japan's fisheries budget does not constitute financial transfers from the government to the fishery sector. Approximately 70% of the budget is for infrastructure construction companies under a government plan on development and maintenance of fishery infrastructure such as fishing ports and public utilities of fishing villages (Figure 5). As of April 2003, there are 2,928 fishing ports, and they are located in geographically disadvantaged areas. The port construction/maintenance budget is not designed for boosting industrial outputs of the fishery sector, but rather characterized as rural development transfers.



Approximately 27% of the budget is expended as a cost for general services of the government (such as salaries for government officials in the Fisheries Agency, scientific research, surveillance and control, official foreign development aids, etc.) (see Figure 5 above).

It should be also noted that, while certain gray areas exist on the coverage of fisheries subsidies (such as infrastructure or payments for access to other countries' fishing grounds), Japan's reports to the OECD covers all areas of government financial transfers, including gray area items and other general services. The amount of such areas of government transfers is not always well reported by other countries and, therefore, simple comparison between Japan's figures and those of other countries does not necessarily bring an accurate picture. Japan has also made efforts to keep a high level of transparency of its fisheries subsidies through WTO notification based on the provisions of the SCM Agreement, and related question/answer sessions at the WTO Committee on Subsidies and Countervailing Measures.