

## **SUBSIDIES IN THE FISHERIES SECTOR: UPDATE ON RECENT WORK CONDUCTED BY NEW ZEALAND**

Communication from New Zealand

### **I. SUMMARY**

1. The need for action to address subsidies in the fisheries sector which adversely affect trade and sustainable development has been recognised as an important objective by a range of developed and developing countries, particularly in the lead-up to the discussions at the Seattle Ministerial Meeting. Further analytical work in the general area of fisheries-related subsidization will be important to facilitate future negotiations aimed at addressing the problems that have been identified. New Zealand continues to study this area actively, and in this paper sets out a summary of recent research it has conducted as a contribution to the further deepening of analysis within the Committee on Trade and Environment. We would encourage other Members to share their own analyses as well as national experiences in order to deepen understanding within the WTO Membership of the issues underlying the discussion on fish subsidies.

### **II. BACKGROUND**

#### **A. INTRODUCTION**

2. Fish and fish products are the most international of all foodstuffs. Annually, more than 22 million tonnes, or roughly 40% of global fisheries production, is traded, with a value of about US\$50 billion (figures include intra-EU trade). No less than 195 countries export part of their production and some 180 countries import fishery products. The level of trade has been growing at an accelerating pace in recent years, reflecting increased production, particularly of aquaculture and increased demand.

3. Fishery exports by value are almost entirely (95%) composed of food products, although in terms of volume, fishmeal and oil account for a much greater share. Thailand was the leading exporter between 1993 and 1996, with exports reaching US\$3.2 billion in 1996 (around 6% of total exports), but was overtaken by Norway in 1997 with exports of US\$3.4 billion. The US is also a significant exporter. Overall, developing countries account for approximately half the value of total exports, and would be considerably more (roughly 60%) if intra-EU trade was excluded.

4. For some economies, the export of fish products is particularly vital to the national economy. In particular, for Iceland, the Faeroe Islands, Greenland, Maldives and Seychelles, fish products represent more than 75% of total merchandise exports. In a further 20 countries, including Chile, Ecuador, Kiribati, Madagascar, Mauritania, Morocco, Mozambique, Namibia, Peru and Senegal, fisheries exports account for more than 10% of total merchandise exports.

5. While no one country dominates the export of fish products, three economies dominate the import scene. Including the value of intra-EU trade in the total statistics, the European Community is the largest importer of fish products at US\$19.4 billion, followed by Japan, with US\$15.5 billion worth of imports in 1997 (or 30% of total imports). These two economies, along with the

United States, which absorbs 10% of world fish imports, import 75% of internationally traded fish products (approximately 70% if we make an estimation for intra-EU trade).

6. Against this background, the issue of reforms in the fish subsidies area has recently attracted much interest. Papers were submitted to CTE meetings during the course of last year prompting much discussion amongst Members.<sup>1</sup> In the preparations for the 1999 Ministerial Conference a number of Members expressed again their concern at the over-exploitation of fisheries resources caused by subsidies granted to the fishing sector.<sup>2</sup> At the 1 October informal WTO General Council session, Iceland submitted a proposal that Ministers agree to establish a working and negotiating group to identify and examine certain subsidies in the fishing area, with a view to developing and elaborating WTO commitments and disciplines for the reduction and elimination of such subsidies. A proposal that Ministers agree to establish such a programme of work was included in the draft Seattle Ministerial Declaration text and enjoyed wide support.

## B. OVERVIEW OF SUBSIDIZATION IN THE FISHING SECTOR

7. While the effects of fisheries-related subsidies on trade and sustainable development will differ depending on the nature of the measure, a necessary starting point for further analysis is the collection of all relevant material relating to the general state of subsidization in the fisheries sector. With this in mind, New Zealand recently commissioned a review into the levels and types of subsidies being provided to fisheries around the world. The review commissioned by New Zealand draws on previous studies by McLeod<sup>3</sup>, the World Bank<sup>4</sup>, the FAO, the OECD<sup>5</sup>, and country-specific information. The analysis follows the categories of subsidies set out in the World Bank study undertaken by Milazzo, this being the most detailed study thus far. Although the data generated by the review is still being assessed, New Zealand considered that the February 2000 CTE session would provide a useful opportunity to share some of its initial findings. At the same time, we would encourage other Members to share their own analyses as well as national experiences in order to deepen understanding within the WTO Membership of the issues underlying the discussion on fish subsidies.

8. New Zealand's initial analysis has focussed on attempting to quantify the levels of support provided to the marine fishing industry in the US, Japan and the EU<sup>6</sup> in 1996. The selection of these three economies was not intended to suggest that these are the only countries that provide financial support for the fisheries sector, nor to suggest that all the support provided has adverse effects for trade and sustainable development. Rather, New Zealand's objective was to identify types and levels of financial transfers utilised in relation to the fisheries sector by a cross-section of major fishing countries. New Zealand plans to pursue further analysis in the future across a wider spectrum of fishing countries. New Zealand also hopes that the availability of more up to date statistical information in coming months may enable an assessment to be made of patterns of financial transfers to fisheries in the period since 1996. Further analysis leading to a better understanding of the types of financial support being utilised, which could then lead on to an analysis on the impact of such measures on trade and sustainable development, should facilitate a more focussed debate on key priority areas for further reform.

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<sup>1</sup>WT/CTE/W/111, 11 March 1999, Icelandic proposal on The Environmental Impact of Fisheries Subsidies; and WT/CTE/W/121, 28 June 1999, New Zealand proposal on the Benefits of Eliminating Trade Distorting and Environmentally Damaging Subsidies in the Fisheries Sector.

<sup>2</sup>WT/GC/W/303, Fisheries Subsidies proposal submitted by Australia, Iceland, New Zealand, Norway, Peru, Philippines and the United States; WT/GC/W/292, 5 August 1999, New Zealand proposal on the Elimination of Trade Distorting and Environmentally Damaging Subsidies in the Fisheries Sector.

<sup>3</sup>*Seafood Trade Access Study*, Rory McLeod, 1996.

<sup>4</sup>*Subsidies in World Fisheries. A Re-Examination*, Matteo Milazzo, World Bank Technical Paper No 406, 1998

<sup>5</sup>*1997 Review of Fisheries*, in press.

<sup>6</sup>The table in Annex I sets out a comparison of fisheries subsidies in these three countries for 1996.

### C. SUMMARY OF NEW ZEALAND ANALYSIS

9. Based on the data and material sourced by New Zealand, it is estimated that in 1996 Japan provided financial support of US\$4 billion to its marine fishing industry, with US\$1.8 billion provided in the EU, and US\$1 billion in the US.<sup>7</sup> These figures represent 32%, 21% and 27% of the landed catch value of each respectively. These figures do not, however, provide any indication of the types of financial support provided in relation to the fisheries sector, and it is necessary to look at the different types of the support to get a clearer picture of patterns of subsidization. There is clearly considerable variation between Japan, the EU and the US in regard to the types of financial support provided. In the US, for example, 61% of total support was provided in the form of government expenditure on research, resource management and enforcement, which Milazzo describes as the "Resource Rent" category.<sup>8</sup> While this category of support has also been estimated as the largest for the EU, it represented only 37% of total EU support and 5% of Japanese support. The proportion of direct budgetary support for fisheries in both domestic and foreign waters varied widely between the EU (45%), Japan (28%) and the US (6%).

10. Some Members have in the past highlighted the "positive" use of subsidies to reduce fishing capacity. The review carried out by New Zealand indicated that in the overall picture of fish subsidies, such support (classified under the "conservation" category) appears to be relatively small.

11. In terms of developing countries, a recent FAO study has observed "that the number of subsidies in developing countries has been greatly reduced in recent years. The remaining subsidies are for off-shore fishing, artisanal fisheries and fisheries cooperatives as well as fishing operations in remote and underdeveloped areas. They were mainly available in the form of capital subsidies and reduced duty on fuel, and even these were in the process of being further reduced."<sup>9</sup> In a brief summary of work done for the FAO COFI Sub-Committee on Fish Trade in 1998, the FAO Fisheries Department concluded that the evidence indicated "very low subsidies in the developing world: not more than US\$1,200 million/year, mainly in Asia. Subsidies in fisheries are practically unknown in Latin America and Africa."<sup>10</sup> A more recent FAO technical paper concluded that "in most developing countries in Asia, West Africa and Latin America, subsidies are no longer available."<sup>11</sup>

### D. WORK IN OTHER RELEVANT ORGANIZATIONS

12. As part of its recent analysis, New Zealand also undertook a review of work on to fisheries subsidization which is being carried out within relevant international fora. Some of the relevant organizations have already updated the CTE on their activities, and the provision of further regular information to the Committee would be useful. A brief summary of work in progress in the OECD, FAO and APEC follows. To the extent that any of the details therein may require further updating, New Zealand would welcome both observer organizations providing their views to the Committee.

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<sup>7</sup>cf Annex 1 table.

<sup>8</sup>The extent to which "resource rent" expenditures are, or should be, regulated under the SCM Agreement has been the subject of differing views. See for example Milazzo, op. cit. page 61; *Too Many Fishing Boats, Too Few Fish*, Chris Stone, Ecology Law Quarterly, Vol 24, 1997, page 525ff; and *Fisheries Subsidies, Overfishing and Trade*, Gareth Porter, Environment and Trade 16, UNEP, Geneva, 1998, page 63, for a comparison of views.

<sup>9</sup>*The State of the World Fisheries and Aquaculture*, 1998, FAO, Rome, page 50.

<sup>10</sup>*Issues of International Trade, Environment and Sustainable Development: Fisheries Management, Subsidies and International Fish Trade*, Document No. COFI:FT/VI/98/4, Sub-Committee on Fish Trade, FAO, 1998, paragraph 8.

<sup>11</sup>*Economic Viability of Marine Capture Fisheries*, FAO Technical Paper 377, FAO, page 23.

(i) *The OECD*

13. The OECD Committee for Fisheries was established in the early 1960s. In 1999 OECD Council Ministers noted that "Effective and sustainable management of fishery resources and the relationship between resource management and trade require timely international agreement and action" and "endorsed OECD's ongoing examination of the impacts of government financial transfers and other relevant factors on fishery resources sustainability, including overfishing". In this context, the Committee for Fisheries is either carrying out or proposing work on the impact of fisheries resource sustainability of government financial transfers (GFTs), GFTs and trade issues, and GFTs and fisheries management costs.

(ii) *The FAO*

14. The FAO Committee on Fisheries (COFI) was established in 1965. The FAO Fisheries Department published a Special Chapter in the 1992 edition of *The State of Food and Agriculture*. A non-mandatory Code of Conduct for Responsible Fisheries was part of a growing response to concern about resource sustainability. In March 1999 the International Plan of Action for the Management of Fishing Capacity was adopted at the FAO Ministerial Meeting on the Implementation of the Code of Conduct for Responsible Fisheries in Rome. The Plan includes a commitment by each country to develop its own national plan by 2005 for the management of capacity, and capacity reduction if necessary, including the assessment of subsidies to the fishing sector. The FAO is currently undertaking a short-term programme aimed at reviewing the role of subsidies in relation to international trade of fish and fish products and fishery resource sustainability. The findings of this review are intended to be examined by a FAO Expert Consultation on Economic Incentives and Responsible Fisheries on December 2000. The technical documents from this consultation are to be submitted to the next session of COFI.

(iii) *APEC*

15. New Zealand and Japan are co-sponsoring an APEC study into the Nature and Extent of Subsidies in the Fisheries Sector of APEC Member economies. The purpose of this study is to identify subsidies used in the fisheries sectors of APEC economies and to identify how the Subsidies and Countervailing Measures Agreement applies to these subsidies. The contract has been awarded to Price Waterhouse Coopers and the results of this study are expected to be ready by mid-2000.

E. CONCLUSION

16. As noted above, New Zealand is continuing to pursue analysis in this area as a contribution to the identification of subsidies in the fisheries sector that impact detrimentally on environment, development, and trade, and to the development of appropriate strategies in this regard. New Zealand will endeavour to make its further analyses available to Members, and would welcome further contributions and national experience sharing in this regard.

17. A number of international organizations are pursuing activities on fisheries subsidies, and this work can usefully complement the ongoing discussions in the WTO on the issue. In New Zealand's view, the WTO has an essential role to play on this issue, given that in the absence of concerted unilateral action by members to reduce and eliminate fisheries subsidies that adversely impact on trade and sustainable development, additional WTO rules in this area will need to be considered. Equally, it is important that the WTO keep abreast of work in other relevant fora given the contribution that this work can make to the work that we hope to see advanced within the WTO.

## ANNEX 1

### Comparative Table

Estimates of Governmental Support Related to Fisheries for 1996 (US Million)						
	EU		Japan		USA	
Category	Value	% Total	Value	% Total	Value	% Total
<b>1. Budgeted</b>						
(a) Domestic	464	26%	876	22%	45	5%
(b) Foreign Access	350	19%	245	6%	14	1%
<b>2. Unbudgeted</b>						
(a) Lending	nc	nc	26	1%	20	2%
(b) Tax Preferences	nc	nc	91	2%	150	15%
<b>3. Cross-Sectoral</b>						
(a) Aid to Shipbuilding*	124	7%	86	2%	126	13%
(b) Infrastructure	37	2%	2,473	61%	nc	nc
<b>4. Resource Rent</b>	660**	37%	191	5%	600	61%
<b>5. Conservation</b>	170	9%	35	1%	28	3%
<b>Total</b>	1,805	100%	4,015	100%	983	100%
Total Landed Value	8,800		12,700		3,600	
<b>As a % of Landed Value</b>	21%		32%		27%	

nc=not calculated

#### Sources:

**EU:** World Bank study and McLeod

**Japan:** World Bank study, McLeod, WTO notification G/SCM/N/38/JPN

**US:** World Bank study, Federal Fisheries Investment Taskforce Report to Congress, July 1999, WTO Notification G/SCM/N/16/USA

#### Notes:

\*The World Bank study estimated total world support of US\$1 billion provided through ship building subsidies. This has been allocated among countries according to their share of the world fishing fleet over 100 Gross Registered Tonnes..

\*\*Following the World Bank study's analysis an estimate of EU expenditure on research, management and enforcement is made on the basis of 7.5% of the value of the landed catch. After analysing research, management and enforcement expenditure in several countries for which the information was available, Milazzo concluded that expenditure on this category was on average 5-10% of the value of the landed catch.

Description of Categories of Financial Outlays Included in Comparative Table:

In accordance with the methodology set out in the World Bank Study prepared by Milazzo, the various categories of support in the comparative chart are as follows:

**Budgeted:** This includes subsidies identifiable in government budgets, normally those of fisheries agencies, to assist fisheries in both domestic and foreign waters. This includes programmes for market price supports.

**Unbudgeted:** This includes subsidized lending and tax preferences.

**Cross Sectoral:** This includes subsidies that indirectly benefit fisheries, such as subsidies to shipbuilding, and infrastructure subsidies such as expenses incurred on public works that benefit the fisheries sector.

**Resource Rent:** This includes expenditure related to research, resource management and enforcement action.

**Conservation:** This includes expenditure on programmes designed to enhance the fisheries resource base and foster "cleaner" harvesting technologies, such as vessel and permit buy-backs, stock enhancement, retraining of fishermen and research and development in clean harvesting gear.

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