

ECONOMIC ASSISTANCE MEASURES

Introduction

The Committee for Fisheries agreed, at its 58th Session, to include in its 1987 Programme of Work a study then entitled "Effects of Subsidies", later called "Economic Assistance to the Fishing Industry". This work was given a relatively low priority. Furthermore it was agreed that the term "subsidies" should be given as broad a definition as possible. The Committee agreed that the general objective should be to improve transparency on economic assistance. Providing information would not be the only objective; another aim should be to draw attention to the difficulties in assessing the effects of financial support and to provide analytical tools, which would help in understanding support policies.

The work on economic assistance to the fishing industry has, since then, been on the Committee's agenda and it is now given the highest priority of the non-Base activities in the Programme of Work. A number of documents have been discussed which focus on various aspects of economic assistance and its possible quantification. Furthermore, some Member countries have presented their views on the quantification of economic assistance. The work carried out by the Committee up to now can be summarised as follows. The first part of the activity, i.e. improving transparency on direct and indirect economic assistance, is almost finalised. The second part -- assessing the effects of economic assistance and providing analytical tools -- is advancing more slowly, due mainly to the different views that Member countries have on the scope of a quantification exercise, i.e. whether the definition of economic assistance should cover management measures, including the question of access to resources. Nevertheless, there is agreement in the Committee that the work on economic assistance is useful. The Committee has underlined the necessity of being open and flexible in its approach towards any quantification.

This document discusses the need for a quantification of economic assistance and the methodological problems involved. Furthermore, it contains an outline for a country case study, the aim of such a study is to help to find practical solutions to as many of the methodological problems as possible. Finally, it is proposed that an Ad Hoc Expert Group be set up. This Group should discuss mainly those technical questions which the Committee may not wish to deal with extensively in the Committee itself. This Group could make a first report to the Committee at its 67th Session.

The paper presented by the EC at the Committee's 65th Session raises some fundamental question on the quantification of economic assistance using the PSE methodology or similar approaches. The Committee will discuss this paper at its 66th Session. It should be recalled in this context that the Committee was presented with an analytical approach, which could be further explored. This would enable the Committee to evaluate the relevance of the two approaches vis-a-vis the fishing industry.

A country case study and the setting up of an Expert Group, as well as the continuation of the commodity case study on cod, should help to resolve some of the important problems related to the

quantification exercise. However, it is recognised that some particularly contentious issues, including the scope of the measurement exercise, will need close attention of the Committee itself for a final resolution.

Need for and objective of a quantification of economic assistance

The increasing interest during the last few years in quantifying economic assistance has been brought about by the distortion of international trade due to a wide variety of government measures in addition to tariffs, i.e. non-tariff measures (NTM). These measures do not only consist of border measures but also of domestic policy measures. The increased interest in measuring NTMs stems from a concern that they may undermine the international benefits achieved by tariff cuts. The trade distortions created by NTMs have led to a situation of increased tension in international economic relations. This concern has led OECD Member countries to undertake, for example, a deeper analysis of agricultural policies aimed at making policies more market-oriented.

The use of government measures in the form of tariffs as well as non-tariff measures (NTMs) in the fishing industry was analysed recently in the report "Fisheries Issues -- Trade and Access to Resources". The report found, inter alia, that even if tariffs for fish and fish products, in general, are relatively low in Member countries they could be a significant obstacle in the trade of certain Member countries and that tariff escalation constituted a special problem. Non-tariff barriers are more widely used than tariffs. Subsidies are recognised as being widespread in the fisheries sector and while it is difficult to measure the impact of these subsidies, the domestic policies of several Member countries could have an effect on their trade policies. The report concluded that the level of public support should, however, decline to the degree the fishery sector adapts to the process of positive adjustment. In the meantime, other adjustment assistance has to be more effectively employed if trade distorting measures are to be reduced. A summary of the findings of the report is found in Annex II to document , presented at the Committee's 65th Session.

It could be questioned as to what extent economic assistance to the fishing industry in Member countries has a distorting effect on international trade, bearing in mind that fisheries, in many respects, is quite different from other industries such as agriculture. A quantification of economic assistance to fisheries would show the extent of a possible distortion. There are two characteristics which undoubtedly will have to be taken into account when undertaking a quantification of economic assistance to the fishing industry, i.e. the natural resource-based nature of the product and the lack of clearly established ownership rights. Fish, being a renewable resource, can be exploited without endangering its future but the resource cannot be fished over and above a certain quantity, the maximum sustainable yield (MSY), in the long run. Some issues on fisheries economics relevant to the discussion on quantification are found in Annex II.

The other main difference between fisheries and other industries is the lack of ownership rights by the fishermen over the fish resources. To fish has, since time immemorial, been seen as a legal right to exploit a common resource. As a consequence, the costs of over-exploitation or depletion of fish resources do not directly affect the individual fisherman. This is the reason why a fisherman takes a short term economic view of his activities. If he reduces his fishing some one will immediately take over and the resource becomes over-used. Fishermen will continue to enter a fishery until all potential benefits are dissipated. This is why management is necessary. The resources have to be managed by various forms of Government regulations in order to secure a sustainable development. Government intervention aims at generating benefits to the fisherman in the form of increased profits and to society in the form of a more rational use of the resource.

At the Ministerial Meeting in May 1990, Ministers discussed reports on Progress in Structural Reform and in this context made the following general statement (cf. para. 10 of the Communiqué adopted at the meeting): "Ministers invite the Secretary-General and the relevant committees to continue to develop, deepen and strengthen the organisation's structural surveillance programme. To this end, they commit Member governments to provide the OECD with the requisite data. They emphasise the importance of such multilateral peer review as a means to foster the process of structural reform, including through identifying the costs of inaction and the most promising ways to overcome obstacles to change, and bringing this information to public attention." As concerns "Industrial Subsidies", the Ministers made the following statement (cf. para. 15 of the Communiqué): "Ministers therefore are firmly of the view that rigorous attention must be paid to the transparency and management of such assistance and that every effort should be made to eliminate or bring under enhanced discipline subsidies which have trade distorting effects." And further "... consider how this important data base might most effectively be used to strengthen the common international understanding of the economic effects of all types of industrial subsidies. This work could lead to the eventual definition of commonly-accepted OECD guidelines."

The Committee has, on several occasions, been unanimous in its view that the aim of a quantification of economic assistance would be improved transparency. It could prove helpful if the Committee, at this stage, discussed the meaning of "transparency". Does the Committee agree with an interpretation put forward at the last session, i.e. that in creating transparency the aim would be to deepen the Committee's understanding of Member countries' policies and to provide Member countries with tools to analyse the effect of the assistance? The numerical evaluation of economic assistance would not be the only benefit of the exercise, but the process for arriving at the values could, in many respects, be as important. Bearing this in mind, the Committee should consider how it could increase transparency by analysing the effects of various forms of assistance on trade and production in the fishing industry. A critical question is the method to be used to achieve increased transparency by the Committee. This decision is influenced by a number of more or less technical factors, one being the data available to carry out a quantification process, another being the special characteristics of the fishing industry. An important aspect is also the resources available within the Secretariat.

Methodological problems

Introduction

The feasibility of quantifying budget payments to the fishing industry was discussed in document . It was shown that there were no major obstacles associated with this approach, while some efforts were required to make the budget payments comparable across the frontiers. Furthermore, transparency on policies of a direct budget payment nature has been provided in document . However, this presents only a partial view since other measures also provide assistance by raising prices to fishermen.

The following presents the main conclusions of the work undertaken so far, which has concentrated on two different approaches to quantification, i.e. the so-called accounting approach, consisting of two methods, the duty collected and the price wedge, and the so-called analytical, or matrix, approach. There are problems with all of these methods. The major problems are discussed below, together with some proposals on how to find solutions.

"Accounting" approach

The duty collected

This approach was presented in submissions by the United States and Canada at the Committee's 65th Session cf. document FI/305 Addendum 1 and Addendum 2]. The aim of this method is to calculate the market price support in the form of tariffs. The amount of duties collected, together with those support programmes which can be evaluated by means of the budget approach, would give the total amount of support in those Member countries where there is no form of non-tariff barriers.

The duty collected approach has two serious limitations. The first one is that it only catches that market price support provided by tariffs, while other mechanisms such as import quotas, export refunds, two price systems, etc. are not included. Neither does this approach capture various forms of direct and indirect income support. Earlier studies by the Committee, including "Fisheries Issues - Trade and Access to Resources", have shown that very few, if any, of the OECD Member countries support their fishing industry by only using tariffs and budget payments.

The second factor which limits the use of the Duty Collected approach is the extensive need for data. A recent preliminary review by the Secretariat indicated that only a few Member countries had the statistics needed for the calculation of the duties collected. The most serious lack of data was for the processing industry and, in particular, for raw material inputs and their subsequent transformation.

It seems that the Duty Collected approach could be used in only very few cases, if the aim of a quantification of economic assistance is to evaluate all forms of support to the industry. The report "Fisheries Issues - Trade and Access to Resources" found that tariffs are less important in present trading conditions than other measures such as NTBs. Furthermore, in many of those countries where tariffs are relatively high, their effect has, to a large extent, been reduced by the application of various agreements or favourable trading conditions, e.g. tariff quotas have been applied on a unilateral basis.

The price wedge approach

This approach has been used particularly within the agricultural sector. The basic idea is to establish a domestic producer price and compare this with a reference price. The reference price should, as far as possible, not be distorted by the policies being considered. The price wedge, being the difference between the domestic price and the reference price, will indicate the extent to which the domestic price is influenced by various policies such as tariffs, NTBs, price setting mechanisms, restrictions on fishing, i.e. management, etc.

In earlier documents, e.g. attention has been drawn to certain technical problems associated with using the price wedge method within the fishing sector. One such problem is the definition of the reference price, which should be an unsupported domestic or external price. It might, however, be difficult to find such a price, since prices may contain an element of management. Furthermore, international trade in fish products is characterised by a great number of products which are very heterogeneous. The markets are segmented, which makes it difficult to find a "world market price". But many of these problems also apply to agriculture and they have not proved insurmountable.

The "bench-mark" problem was also discussed in the Australian submission as well as in the submission by the EEC. The definition of the bench-mark in these two papers is, to a large extent, identical. According to the definition in the first paper the bench-mark should be unassisted prices for

inputs and outputs and the establishment of a management scheme, which maximises the economic returns from the fishery. The EC paper goes a step further and claims that all fishermen, irrespective of origin, should be able to purchase the ITQs at a market determined price.

It would seem that the question of how to define the reference price or the bench-mark is one of those questions of a technical nature which could be referred to an Expert group.

Another problem with the price wedge approach, related to the problem of defining the reference price, is the question of how to interpret the price wedge. When the price wedge is used, the different policies which work simultaneously in the fishing sector cannot easily be identified and interpreted. This problem has also been discussed in earlier documents. It could thus be assumed that besides management, for example, market structure and institutional organisations are two factors which have an influence on the fishing sector and then also on the price wedge. The Secretariat proposed, in its draft Programme of Work, 1991, that these questions should form the object of a special study, but the Committee did not discuss this proposal in depth. An alternative solution would be to study closely those factors in a country case approach.

A further problem which has been given special attention is management of fish resources and the effects of management on various factors. This question is closely linked to the bench-mark problem and the problem of interpreting the price wedge. However, it is particularly complex since some Member countries, i.e. the coastal States have, so far, been very firm that management measures are not trade-related and should thus be excluded from any analysis on economic assistance. Other Member countries, i.e. the flag States, consider that management measures, including access to resources etc., should be taken into account since they may have an effect on price. The question of where and how management comes into a quantification process when using the price wedge seems to be a good example of those questions suited for discussions in an Expert Group.

In its contribution, the EC claims that the use of the PSE approach in the fishing sector raises some fundamental questions. The two most important are that this methodology does not catch the effects of restrictions on access to fish resources or on the free movement of labour and capital. The Committee will discuss the EC submission at its 66th Session.

In brief, it is evident that the use of the price wedge approach is not without problems. The Secretariat proposes, together with the contribution of the commodity case study on cod, two parallel approaches in order to find a solution to these problems, i.e. a country case study and an expert group. Undertaking a country case study should assist the Committee in finding a practical solution to most problems and should help the Committee to see where the limits are in using the price wedge approach. Earlier experiences from the PSE work in agriculture have shown that such a study has many merits. An outline of a country case study is presented below. The Ad Hoc Expert Group should discuss, and hopefully solve, those problems of a technical character referred to it by the Committee.

The matrix approach

Contrary to the price wedge approach, the matrix approach does not necessarily imply calculations and hence does not require the same availability and quality of data which is a precondition for the various accounting approaches. The matrix approach reviews various measures, including border measures, and examines their impact on a range of variables, e.g. employment, prices, production, trade, etc., with a view to assessing the existence of a distorting effect. The Committee, at its 63rd Session (15-16 February 1989), was presented with a matrix on which the effects of different financial support

measures to the harvesting and the processing sectors within the industry could be analysed from the standpoint of a number of different variables. The matrix was constructed with a view to providing an overview of possible effects of a given economic assistance measure on a number of important variables, e.g. landings, income, stock situation etc.

When introducing the matrix, the Secretariat claimed that one of the advantages of this approach was that the specific characteristics of the fishing industry could be taken into account. Thus, it could be employed with confidence, even when statistical data were lacking. Furthermore, the effects of various forms of assistance could be analysed at different levels and degrees of detail in line with policy-makers requirements when assessing the consequences of adjustment policies and the measures used.

The Committee found the matrix approach and the matrix as presented by the Secretariat, a somewhat theoretical model. However, some Member countries found it to be a good start and that it could be used for further studies. They proposed that as many elements as possible should be added to the model, especially management and employment. Other Member countries felt that the matrix drew attention from the real aim of the study on economic assistance, i.e. to look at market distorting measures.

If the Committee finds the work on the matrix approach worthwhile, this could be pursued in parallel with the work on accounting approach. The primary step would aim at concretising the matrix while the final end would be to provide Member Governments with a decision/consequence document.

Outline of a country case study

As indicated earlier, a country case study would be a way of facilitating the progress of the work on quantification. The main aim of such a study would be to find practical solutions to as many problems as possible and, at the same time, illustrate to the Committee the possibilities and limitations of using the price wedge approach within fisheries. The major part of the work on a country case study would be undertaken by the Secretariat, with the Member country in question providing information on policy details as well as statistical data. At a later stage in the process, when a draft report is considered, more country input would be required.

The first part of a country case study would contain a description of general economic development as well as a short historical description of the fishing sector and include a more detailed picture of the fishing sector (fleet, manpower, production value and volume, imports and exports).

The second part would deal with the objectives and measures of the fishing policy. The fishing policy objectives could be described and discussed and a summary of how policies and objectives are formulated in the political process could be provided. Most of the information required for this part should be readily available in the Reviews or in the special publications made over the past years, as well as various documents. The policy measures, i.e. the measures implementing the objectives, could be divided between those measures which act through i) the market price and ii) budget payments. Sub-headings under i) will then include trade policy measures (tariffs, quotas, minimum import prices etc.), market regulations (withdrawal systems) and, of course, the management system and its effects. Under ii) sub-headings can be as proposed in document.

The last and most important part of a country study would concentrate on the evaluation of the assistance to the sector. Whether the work, at this stage, will be qualitative or quantitative will not be a critical question until later in the process. The methodological problems for the quantitative evaluation of assistance will gradually be solved with the work on methodologies being carried out in parallel.

Establishment of an ad hoc expert group

One of the conclusions to be drawn from the section on Methodological Problems is that there are some problems of a technical character which should be overcome. To this group of conceptual problems could be referred the bench-mark problem and effects of non-optimal management, etc., i.e. problems raised in the Committee but which have not been tackled. The Committee has, so far, only been able to take note of the problems due to the fact that the Committee meets only twice a year, often with a heavily booked agenda.

In order to facilitate the work of the Committee and to make progress with the study, it is proposed that an Ad Hoc Expert Group be established. The purpose of this Group would be to prepare the issues for the Committee in a coherent form. The Group should consider those problems which are referred to it by the Committee. It should be open to all interested Member countries and should meet between or immediately prior to the sessions of the Committee. It is assumed that only very few meetings would be necessary. It is proposed that the Group has a first meeting immediately prior to the 67th Session of the Committee, which will probably take place in February-March 1991, and report to the Committee at that session.

If the Committee considers this to be a practicable way to make progress, the Secretariat intends to employ a consultant, who should assist the Secretariat in preparing the documentation for the meeting of the Expert Group.