

Subsidies: a Way Towards Sustainable Fisheries?

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Introduction

Governments pay out some USD 6 billion a year to support the fisheries sector in OECD countries. This money, variously called subsidies, support or financial transfers, is used to help manage fish stocks, to modernise fishing fleets, and to help communities and regions that can no longer make a living out of fishing to develop other economic activity. The money is also intended to assist in resolving problems of over-fishing and over-capacity that affect many parts of the OECD fishing industry.

But are subsidies really helping to achieve a sustainable fisheries sector? Or is it encouraging too many vessels and people to stay in a fishing industry that may not be able to support them in the medium to long term?

These questions underlie the efforts being made by many governments to look at the way they support their fisheries sector, as part of moves towards more sustainable and responsible fisheries. Changes to the rules governing support payments to fisheries are also a key element of the negotiations underway at the World Trade Organization as part of the Doha Development Agenda multilateral trade talks.

This *Policy Brief* looks at whether changes in support to the fisheries sector might help to make fisheries more sustainable in all three pillars of sustainable development: economic, social and environmental. ■

Why change the rules on support for fisheries?

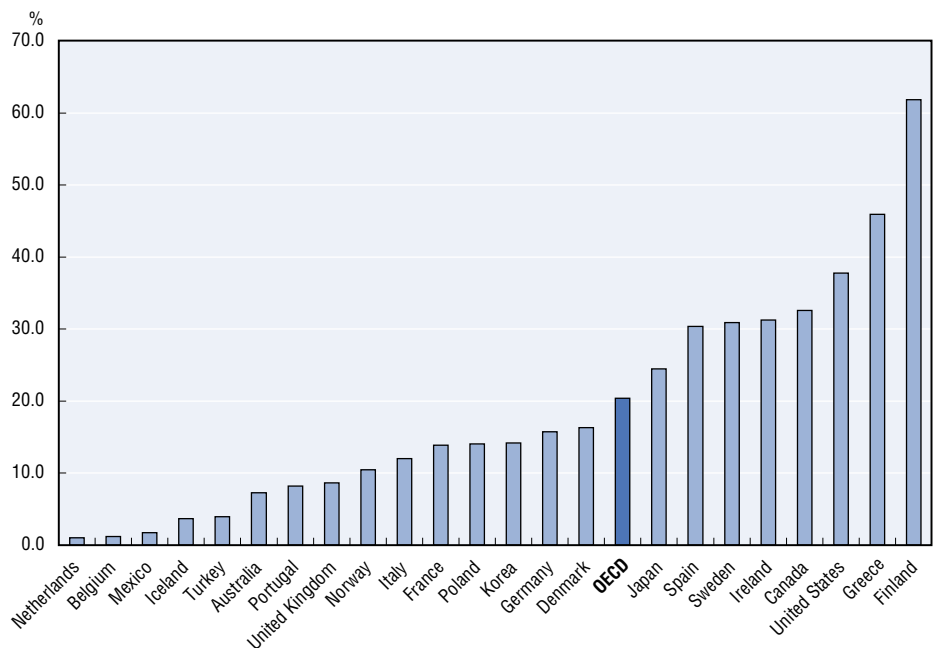
Fish are a “common property resource” which is owned by the public, and which requires government intervention to ensure that the resource is used for the benefit of society and is not over-exploited. To achieve this, there is a need for government policy to ensure effective management is provided. Governments currently provide financial support to the industry equal to 20% of the value of production (Figure 1). However, there is concern, expressed in the WTO and at the 2002 World Summit on Sustainable Development (WSSD), that some forms of government financial support threaten the sustainability of fisheries resources by encouraging overcapacity and excess fishing effort, reduce the long-term viability of the fishing industry, and inadvertently promote illegal, unreported and unregulated fishing. The negotiations underway in the WTO to clarify disciplines on fisheries subsidies will be an important step in moving the national and international agenda forward.

Many OECD governments have undertaken or are contemplating reforms to shift towards more sustainable and responsible fisheries, including reconsidering the extent and type of fisheries support they provide. For example, some countries have shifted, or are shifting, away from funding the construction of fishing vessels, having recognised that there is significant overcapacity in many OECD fleets, partly as a result of earlier financial support to build and modernise fishing vessels.

While the total amount of support has not declined, and is not expected to do so in the foreseeable future, increasing emphasis is being placed on “environmentally-friendly” support, often linked to introducing more environmentally acceptable fishing gear and technologies, reducing fishing capacity and effort, closing fishing grounds, retraining of fishers, and so on. However, as fish stocks take time to recover, it remains to be seen how far this will improve the sustainability of fisheries and the economic health of the fishing sector.

All forms of support have an impact on the fisheries sector, including on fish stocks, profitability, trade, investment in fleet capacity, employment, regional growth and social cohesion. The fact that government support to the sector is

Figure 1. THE RATIO OF GOVERNMENT FINANCIAL TRANSFERS TO THE VALUE OF PRODUCTION IN 2003 VARIED SIGNIFICANTLY ACROSS OECD COUNTRIES



How to make fisheries economically sustainable?

designed to achieve a broad range of objectives, and has a broad impact, highlights the need for an integrated analytical approach. The main advantage of taking a sustainable development approach to fisheries support is that it allows the full range of economic, environmental and social effects of financial support policies to be addressed. ■

While government support for fisheries has an effect on all three sustainable development aspects, financial transfers are basically an economic policy instrument designed to reduce the costs or raise the incomes of fishers and others in the sector. However, ironically, the positive short-term effects on profits can undermine economic sustainability in the longer run. By changing the incentives facing fishers, the economic effects will flow through to the environmental and social dimensions.

Transfers such as subsidised loans or grants to build or modernise fishing boats have a direct impact on profits, while others such as government funding of management services or ports have an indirect effect by reducing industry-wide costs. The overall impact of such transfers will depend on the type of management system in place, how effectively management regulations are enforced, and whether there is overfishing or underfishing of stocks.

If there are no restrictions on fishing and little or no effective management, government financial support will lead to investment in new equipment and more intensive use of existing vessels. In the short term, this will result in increased catches but, in the long term, it will reduce fish stocks, ultimately leading to lower catches with higher costs and lower revenue.

If governments decide to avoid such effects by limiting the amount of fish that can be caught, then financial transfers will not necessarily have an adverse effect on fish stocks or catches, as long as the limit is set to achieve a sustainable yield, and regulations are perfectly enforced. However, if the catch controls are not perfectly enforced, then the effects will tend to be similar to those of an unrestricted (or open access) system.

Moves aimed simply at controlling fishing effort will only be partially successful, as this involves attempts to regulate diverse elements such as time at sea, vessel size and power, the type of fishing gear used, the number of people employed, etc, and it is very difficult to effectively regulate all these aspects. In this situation, transfers will again have the long-term effect of reduced fish stocks, lower catches and lower profitability.

However, if governments introduce individual rights to catch at appropriate levels, and enforce them effectively, fishers focus on landing their allowed catch at minimum cost. In principle, financial transfers have no impact on fish stocks but will increase the profits from fishing, as well as the market value of the access rights to the fishery.

Financial support to the fishing sector also affects the economy as a whole. While the fishing sector is relatively small in most OECD economies, often accounting for less than 1% of GDP and an even smaller proportion of the total workforce, it often accounts for a high proportion of employment and income in coastal regions. Transfers will attract human and other resources into the fishing industry where they may yield a lower return than in the economy at large. ■

How does support affect the environment?

The effects on the targeted fisheries resources will clearly depend on the type of fisheries management system in place and how effectively fisheries regulations are enforced. The key point is that the more effectively a management regime restricts the catch of the target stock, then the lower the likely effect of subsidies on the stock. This is fairly straightforward if a single species of fish is targeted, but becomes more complicated when multi-species fisheries are considered.

But financial transfers which lead to increased effort and catches may also result in increased bycatch – the catching of non-target species. In recent years, many OECD countries have introduced policies to reduce bycatch, often including support to buy, install and operate more “environmentally-friendly” fishing techniques and gear. However, by providing transfers that encourage increased fishing while at the same time offering transfers that seek to reduce bycatch, governments risk sending mixed messages to fishers. Some transfers may also have broader environmental implications. For example, fuel tax exemptions reduce the relative cost of fuel and thus will encourage fishers to use more of it, with potential consequences for marine pollution and carbon dioxide emissions. ■

What of the social dimension?

The social dimension of financial transfers to fisheries is particularly significant as a number of OECD countries use transfer programmes to address social concerns such as regional development, community support and unemployment in fishing communities. However, it has been increasingly recognised that social policy tools, rather than fisheries management tools, should be the main mechanism to meet social objectives, or they should at least be coherent and mutually supportive. Transfer policies which are directed either implicitly or explicitly at social objectives need to be analysed to ensure that they do not hamper the effective management of stocks, the competitiveness of the industry or create transfer-dependent communities.

Fisheries financial transfers can have an impact on individual capabilities and human capital through improving education and skills of fishers and families, improving their health and reducing poverty. However, they can also serve to reduce individual and community resilience and the flexibility to respond to changes in economic and natural conditions. Expectations of ongoing government support can become embedded in decision-making processes of fishers and their communities, insulating the sector from necessary adjustments, and further reducing the incentive to diversify economic activities. This is a serious policy challenge in many coastal regions of OECD countries where there are few alternatives to fishing.

For similar reasons, the impacts of transfers on the social capital dimension, with its emphasis on networks and shared norms, values and understandings, can be significant. Institutional settings (such as co-management) help to strengthen the bridging, bonding and linking dimensions of social capital, which in turn can lower transaction costs, increase creativity and innovation, and improve the well-being of individuals and communities. Transfers can support or inhibit the development of social capital within the fishing sector. ■

What are the trade effects?

Fisheries may play a relatively small role in the economy as a whole, but they are often more important for trade as many countries have significant exports and imports of fish and fisheries products; more than half of the fish caught in the world is subsequently traded internationally. There has been much discussion of the trade effects of government financial transfers to fisheries in the WTO negotiations on fisheries subsidies. But it is difficult to generalise about the likely

effects on trade, because the impact of transfers on catches and stocks, and hence on the potential supplies of fish to domestic and world markets, depends to a great extent on the management regimes of importing and exporting countries.

In principle, if fisheries management regimes which effectively constrain catches and effort are uniformly and effectively enforced, then transfers are unlikely to affect supply in a way that will have an impact on either domestic or international markets.

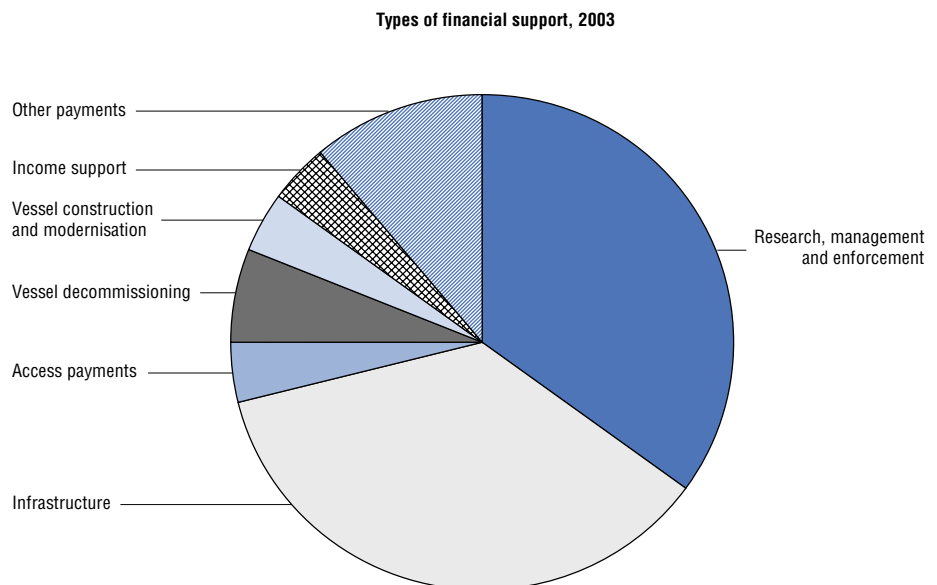
But if transfers enable fishers to increase fish supplies to domestic and world markets, trade flows and prices will be affected. While this may provide a short-term competitive advantage to fishers in the country providing the support, such support (in the absence of effective management) will ultimately lead to reduced catches and fish stocks.

The structure of a country’s fisheries industry, and the point in the value chain at which the transfers are applied, will also influence the extent to which financial transfers affect the world market. If the transfer is provided to fishers who sell their catch directly by auction or to a wholesaler, it will increase their profits, without affecting the price they get for their fish (provided there is effective management and catches are constrained). If the transfer is provided further along the value chain, say as support for processing or transport facilities, it may affect prices as companies are able to shift sales over time and between regions. The structure of a country’s market is also important. A high degree of vertical integration (where one firm owns fishing, processing and retailing facilities) will mean that the benefits of any financial support will be passed along the value chain and may affect the prices at which the final products are traded. ■

What are the main types of support?

Of the estimated USD 6.3 billion of financial transfers provided by OECD governments about one third is for research and management of fisheries and enforcing regulations and another third goes on fisheries infrastructure, such as ports (Figure 2). The final third is in the form of direct payments and cost-reducing transfers, such as grants or subsidised loans to build or modernise fishing vessels, or to decommission ships as part of efforts to reduce overcapacity, or

Figure 2.
RESEARCH, MANAGEMENT AND ENFORCEMENT EXPENDITURES AND PAYMENTS FOR FISHERIES INFRASTRUCTURE ACCOUNT FOR THE BULK OF FINANCIAL SUPPORT



straightforward income support and cost subsidies (such as fuel tax exemptions). Because the types of support are so varied across OECD countries, and in some cases difficult to identify, the USD 6.3 billion figure is probably an underestimate.

Research, management and enforcement expenditure is essential in ensuring that publicly-owned fisheries resources are appropriately managed and researched, and that regulations are enforced. It is generally assumed that this category of transfers is benign in terms of economic and environmental impacts but their effectiveness in meeting management objectives has not been tested as yet in OECD countries. There is also scope for exploring the use of cost recovery and user charging to improve the effectiveness of service delivery in this area.

OECD governments provide a variety of **fisheries infrastructure**, such as harbour and landing facilities, navigation services, or search and rescue support. If these are free to users, the costs of the fishing industry are reduced and potential profits increased, irrespective of the management regime.

Payments for access to other countries' waters may involve an explicit monetary transfer, the transfer of fishing technology, assistance with improving fisheries management institutions, the provision of market access in the fishing country, or some combination of these. The effects of access payments will differ between the countries providing the payment and those receiving it.

Payments for vessel decommissioning and licence retirement have increasingly been used in recent years to tackle the over-capacity in many OECD fleets. Decommissioning is promoted as a "win-win" solution, with reductions in capacity, less pressure on stocks, and increased profitability to the remaining fishers. However, the available evidence suggests that most vessel decommissioning schemes fail and that some may actually increase overcapacity as they inject new capital into the fisheries sector and are generally not introduced in conjunction with effective mechanisms to stop effort expanding following the buy-back.

Transfers for investment and modernisation include government payments and tax incentives for building and modernising fishing vessels, as well as loan guarantees and loan restructuring schemes. Many countries have only recently changed their funding priorities away from vessel construction, and transfers to vessel modernisation are still widely provided although these transfers often lead to increased fishing pressure.

OECD countries also provide **transfers for income support and unemployment insurance**, including payments to stop fishing temporarily or to ensure income during bad weather, or because of lack of alternative employment opportunities in regions where fishing is the main activity. But income support to employees reduces the cost to firms of keeping them in the industry and can often prevent adjustment away from unsustainable levels of fishing, while increasing community dependence on government support.

A number of **other cost-reducing transfers and direct payments** are also provided by OECD countries, including support to retrain fishers, interest subsidies, fuel tax exemptions and price support mechanisms. Many of these transfers will increase incomes or reduce costs, and will more directly affect the competitive position of fishers in international trade. ■

What lessons for the future?

Experience shows that transfers have an important, but limited, role to play in fisheries management policy, essentially by providing essential research, management and enforcement services that would not necessarily be supplied by the market.

The other major reason for governments to provide financial support for fisheries is to help ease the burden of adjustment and restructuring during times of change.

Outside these areas of market failure and temporary adjustment assistance, the main effect of transfers is to help the fishing industry reduce costs and increase revenue. This insulates the industry from the real costs of its operations and artificially inflates profits, making it harder to adjust to changing economic and environmental conditions. There may also be impacts on trade patterns and pressures arising from increases in capacity.

Lack of information about countries' fisheries support programmes is a major problem in assessing transfer policy. This is particularly true when it comes to transfers at regional and local levels, and for certain programmes such as tax concessions or loan guarantees. The OECD has provided detailed inventories of financial transfers for a selection of OECD countries, but more is needed. One particularly important step for policy makers would be to assess the likely effects of programmes before they are implemented, and to conduct evaluations to assess whether transfers have achieved the desired result.

Policy makers also need to ensure that the full range of economic, environmental and social effects is taken into account when programmes are designed and implemented. Failure to do so increases the potential for unintended impacts to escape detection until too late, with the result that the total costs across the economy may outweigh the benefits. This problem can be particularly critical in the fisheries sector where getting policies wrong has a high cost in long-term impacts on an often fragile resource.

Effective fisheries management lies at the heart of almost all the policy challenges facing the sector. Even where effectively designed management systems are in place, anything less than perfect enforcement will generally result in adverse impacts across the board. And even with perfectly enforced management, many support programmes will still have undesirable economic, environmental and social effects.

While there is clearly a need for government intervention to address pressing social issues or regional development problems in areas where fisheries play a significant role, linking assistance to fishing activity carries a significant risk that a fundamental objective of sustainable fisheries – stock conservation – will be compromised.

And it is important that policy makers remember that imposing time limits on support programmes makes them more effective. There is less incentive for fishing communities to invest in diversified economic activities when they expect that continued government support will insulate the sector from necessary adjustments. This is likely to have further environmental implications where the support is linked to the need to engage in fishing activity.

Finally, it is evident that reducing financial support does not necessarily spell doom and gloom for the fisheries industry, as the experiences of a number of countries such as Norway, New Zealand, Iceland and Australia have shown. Indeed, reduced financial support as part of a broader package of changes designed to put the industry on a more economically, socially and environmentally sustainable footing has generally resulted in increased profitability and reduced dependence on government assistance. ■



For further reading

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ISBN: 92-64-01204-1, € 35, 159 p.

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