



RESEARCH AND ANALYSIS

Subsidizing Fisheries

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Marine fishery resources are in decline. Compared to the 1950s, when most of the catches were taken from undeveloped fisheries, by the 1990s three-quarters of the catches were from fully exploited or overfished fisheries, and over 10 percent from collapsed fisheries, i.e., fisheries where current catches are less than 10% of the maximum catch ever taken. (Worm et al., 2006) Many reasons have been ascribed to the decline of fishery resources, including increasing demand for fish, the globalization of markets for fish, poor management and ineffective monitoring of open access fisheries (Gordon, 1954, Pauly et al., 2002), overcapacity, technological innovation and illegal fishing (High Seas Task Force, 2006), but the role of subsidies in the issue of overcapacity and overfishing must be emphasized (Milazzo, 1998). In contrast to most land-based resources like trees or minerals, governments do not generally require payments for the right to access fisheries. This failure to collect access payments has not been considered a subsidy up to now largely because many fisheries are treated as a common resource. In an open access or quasi-open access system any economic rents (the difference between the revenue generated and the cost of extraction, including a return to capital) are generally dissipated through increased fishing effort.

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Rather than collecting rents from resource exploitation, governments have been actively subsidizing fishing, leading to even greater fishing effort and resource depletion. Subsidies that expand fishing capacity, including subsidies for vessel construction and modernization, operating costs (particularly fuel), construction of fishing ports and processing plants, payment for foreign access agreements and marketing support are estimated to total about \$16 billion globally each year (Sumaila et al., in press). This represents close to 20 percent of the total value of marine catch, a level of subsidization that has trade and competitiveness impacts given that seafood is one of the most highly traded "agricultural" products. Asian countries lead in providing capacity-enhancing subsidies, accounting for \$11 billion of the total.

Subsidies that reduce the cost of fishing or increase revenues from a given effort provide an incentive for fishers to increase their catch and potential profits. Subsidies can make fishing profitable even when fishery resources are in decline. In offsetting the economic incentives for fishermen to exit the industry, subsidies effectively maintain fishing capacity at levels that vastly exceed what is appropriate for sustainable fishing (Cox, 2003).

Capacity-enhancing subsidies remain a threat to resource sustainability even when the open access aspects of a fishery are not in place, such as in a privatized fishery or one owned and managed by a single entity. It is widely believed that providing subsidies to privatized fisheries or those with well-enforced catch limits will have negligible resource implications. However, the perverse incentives created by subsidies undermine the stewardship qualities of even privatized or well-managed fisheries, creating pressures on fisheries managers to increase quotas, potentially to the point of resource extinction.

In their emphasis on economic injury from trade, the current mechanisms of the WTO Agreement on Subsidies and Countervailing Measures are inadequate to address the overexploitation of fish stocks from subsidies. By directly addressing the impact of subsidies on overcapacity and overfishing, the current Doha Round negotiations hold great promise for promoting the sustainability of global fish stocks. This new focus represents a significant shift for WTO members and raises several fundamental issues, including that of specificity. The concept of specificity was developed to identify trade-distorting subsidies, but in the current Doha negotiations the policy objective is not just to reduce trade

distortion, but to curtail overfishing. Therefore, from a resource-depletion perspective, it is the absolute amount of subsidies going to enhance effort in the fishing industry that is important, even if these same subsidies are received by other sectors such as agriculture. This contrasts with the focus of the ASCM on trade-distortion arising from subsidies that are specific to an industry. Addressing this issue in the context of fuel subsidies is of particular importance not only given their widespread use but also their role in encouraging the wasteful consumption of fossil fuels.

Subsidies are not always harmful, for example those for fisheries conservation management and enforcement should support healthy fish stocks. However, many subsidies that initially appear to be beneficial for the resource, such as subsidies to decommission fishing vessels, can have perverse effects and actually increase fishing capacity. This is because the anticipation of buyback subsidies will encourage vessel owners to retain obsolete equipment and intensify fishing operations in order to maximize their benefits from the programs. Furthermore, decommissioned vessels have frequently been transferred to other usually less-developed countries, leading to an increase in fishing effort in the receiving country's waters or the high seas. For decommissioning to be effective, the buyback program should be entirely unanticipated by vessel owners and the vessels themselves scrapped or permanently redirected away from fishing (Clark et al., 2005). This example suggests that even supposedly beneficial subsidies, such as assistance for the purchase of new fishing gear that reduces catch of non-targeted species, must be assessed for their potential to increase fishing capacity, with strict conditions applied to their use.

Developing countries are concerned that their interests in poverty reduction, livelihoods and food security be reflected in the WTO discussions to discipline fishing subsidies. However, it is important to ensure that subsidies for legitimate development objectives do not in turn become the means for the overexploitation of fish stocks, undermining not only the stated objective of the Doha round negotiations, to discipline subsidies that contribute to overcapacity and overfishing, but also ultimately undermining fishers and the availability of fish as a food source in developing countries.

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