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Organización  
de las  
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Unidas  
para la  
Agricultura  
y la  
Alimentación

## TECHNICAL CONSULTATION ON THE USE OF SUBSIDIES IN THE FISHERIES SECTOR

Rome, Italy, 30 June – 2 July 2004

### A GLOBAL TECHNICAL INITIATIVE ON FISHERIES SUBSIDIES

#### ABSTRACT

National fisheries policies that use subsidies are controversial both at the national and international level. In an attempt to settle some of these controversies, WTO members are now discussing those that lead to over-fishing and trying to reach an agreement on how to discipline their use. This document proposes a “global technical initiative” that would generate information of use *inter alia* to those participating in the WTO discussions. Before describing the “global technical initiative” this document identifies four major issues concerning subsidies and fisheries: (i) overcapacity and over-fishing; (ii) IUU-fishing; (iii) livelihoods and social dimensions of sustainable development; (iv) how to take due account of the special situation of developing countries. For each of these four issues the document reviews and describes the attempts which have been made to address them and concludes that although progress has been made in the understanding of the underlying factors and processes, much research remains to be done. Empirical research is technically complex and seems to lack the necessary encouragement, especially from governments. To overcome these difficulties the global technical initiative which is proposed is designed to generate during a 18 months period information about the observed impacts of subsidies with special emphasis on over-fishing while ensuring confidentiality as well as accuracy and fairness of the information that will be obtained using the best scientific methods available.

## **I. THE CONTEXT**

1. During recent decades a number of governments keen to promote economic development and wishing to ensure social welfare have provided economic help to farmers, entrepreneurs and corporations, in the form of subsidies.
2. Amongst the most well known subsidies are those provided to farmers. But also fishers have received subsidies and in many different forms<sup>1</sup>. Examples of fishery subsidies are: lower tax on fuel for fishing vessels than on fuel for other uses; below market rates on loans intended to finance construction of fishing vessels, etc.
3. Economic policies that rely on the use of subsidies are controversial. Frequently they generate controversies not only at the national level but also internationally between those who receive such subsidies and those who do not. As is well known, this is the case of fishery subsidies, which are being addressed among others by WTO members committed to reviewing how to discipline fisheries subsidies within the context of the WTO Agreement on Subsidies and Countervailing Measures (ASCM).

## **II. THE MAJOR ISSUES SURROUNDING SUBSIDIES**

4. Disagreements about subsidies are usually rooted in divergent opinions about the effects of subsidies, but not about all these effects. Some effects are experienced by those who receive subsidies, but those who do not receive subsidies at times are also affected by them.
5. In this document, the immediate – or first order – effects are those that are experienced by subsidy-recipients . There are at least two aspects of concern in these first order effects. First, the immediate consequence for subsidy-recipients is an improvement of the economic results of their activities caused by reduction of costs, or increased incomes, both deriving from the subsidy<sup>2</sup>. Second, the improved economic results of the enterprise will permit the fisher or the fishing enterprise to employ a production (or fishing) strategy of a different nature or intensity.
6. These first order effects of subsidies are generally not subject of debate. Most of those who are concerned with subsidies and fisheries in fact agree that the direct recipients of subsidies generally are better off with subsidies than without – at least in the short to medium run. Also, they seem to share the assessment that subsidies more often than not cause the recipient to change his/her strategy of production, either by continuing to fish in situations where the recipient would have stopped fishing if a subsidy had not been provided or, by producing more and/or at lower cost in an effort to increase his/her overall income.

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<sup>1</sup> See pages nine and ten in Fishery Report No R638: “Report of the Expert Consultation on economic incentives and responsible fisheries”, Rome, 28 November – 1 December 2000.

<sup>2</sup> In fact, if there was not such an effect, most economists would say that no subsidy had been at work.

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7. In this document, modifications in the productive conditions both for recipients and non-recipients of subsidies are considered as second-order effects. The controversies that have arisen about subsidies most often relate to these second-order effects. Those who experience these effects are mostly fishers and other non-consumptive users of the aquatic resource. But also those who trade in fish or in the vast range of goods and services needed by the fishing industry are likely to be affected by the second-order effects of fisheries subsidies. The effect is transmitted from the subsidy-receiving fishers to traders and fishers who do not receive subsidies through reduced fish stocks, or worsened marketing conditions. Currently the international trade effects of fisheries subsidies are regulated in the WTO Agreement on Subsidies and Countervailing Measures.

8. During the last years, the argument that there is a link between subsidies and illegal, unreported and unregulated fishing (IUU-fishing) and that subsidies can exacerbate the IUU-fishing has been increasingly put forward.

9. This document discusses four issues, or controversies, concerning fisheries subsidies and their use. The two first issues were highlighted by the twenty-fifth session of the FAO Committee on Fisheries. They are the effects of subsidies on *overcapacity and fish stocks* and the contribution of fisheries subsidies to *IUU-fishing*<sup>3</sup>. Subsequently the document addresses two other prominent issues. They are: (i) subsidies and livelihoods; and (ii) subsidies and the special case of developing countries.

10. Some consider the definition of subsidies to be an issue apart from the others discussed above. The contention of this document is that it may be unrealistic to try to solve this question in isolation<sup>4</sup>. It would seem more productive to tackle subsidy definitions separately for each issue, and settle them as a part of any issue-specific agreement.

11. When considering the definition of subsidies care should be taken not to mix the definition of the *subsidy concept* with the definition of *categories of subsidies*. Once categories are established, an agreement needs to be developed about which *types of subsidies* that should be allocated to the various categories.

12. Given the vast array of different fisheries subsidies, the definition or identification of categories of subsidies is a natural step in the simplification necessary to progress the analysis and discussion of any of the many issues surrounding fisheries and subsidies. A number of different categories of subsidies have been proposed in particular in relation to subsidies and overcapacity. Their suitability is being discussed.

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<sup>3</sup> The 25<sup>th</sup> Session of the FAO Committee on Fisheries (COFI) requested that these two issues be given prominence in this technical consultation. See paragraph 73 of Fisheries Report no 702: "Report of the twenty-fifth Session of the Committee on Fisheries", Rome 24-28 February 2003.

<sup>4</sup> In December 2000 the FAO Expert Consultation on Economic Incentives and responsible fisheries concluded that: (i) none of the commonly used definitions of subsidies is adequate for a comprehensive analysis of subsidies' effects on trade and sustainability in fisheries and aquaculture; (ii) there is no definition of subsidies that the Consultation recommends as the only definition for the measurement, analysis and political debate of subsidies in fisheries; and, (iii) definitions of four sets of subsidies are needed in order to advance the measurement, analysis and discussion of subsidies in fisheries and aquaculture. From para 31 FAO Fisheries Report R638.

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## 2.1 Overcapacity and over-fishing

### *The issue*

13. It is widely recognized that most commercially exploited fish stocks have reached their limits and can not support further increases in fishing effort. It is also recognized that subsidies provided to owners of the fishing fleet that participates in fisheries where fishing effort is not effectively limited to a sustainable level of exploitation<sup>5</sup>, may lead to an expansion of the fleet, bringing it to a state of ‘overcapacity’<sup>6</sup>. The decline in stock-levels, and presumably catch per unit of effort, that will result from over-capacity will in turn worsen the situation of those fishers who exploit the same stocks but do not receive subsidies<sup>7</sup>.

14. The controversy about subsidies and overcapacity and over-fishing is more about the *remedy* which is proposed – i. e. prohibition of fisheries subsidies – than about the diagnosis itself. Those who oppose the remedy generally hold the view that although the diagnosis is correct, it is too simplistic and that, for that same reason, the proposed remedy might turn out to be ineffective.

15. Those who oppose a complete ban on fisheries subsidies generally argue: (i) there are a number of other factors at work in the fishing industry that causes overcapacity – and subsequently over-fishing - to occur, and this is demonstrated by the fact that over-fishing is known to occur also in fisheries that are not subsidized, (ii) that it is by no means clear what proportion of the increase in fishing capacity and subsequent decline of stocks is caused by subsidies and what proportion result from the influence of the “other” factors; and; (iii) if effort is firmly controlled, fishers will not be able to increase fishing effort as a response to subsidies and therefore – from the narrow point of view of sustainability of wild fish stocks – subsidies will be harmless.

16. Another reason, sometimes advanced against such a ban, relies on what economists often consider the one “acceptable” reason for subsidies: time-bound subsidies can help ‘infant industries’ overcome market imperfections. This argument is generally used by developing countries when they affirm that they should have the right to use subsidies to help “infant fishing

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<sup>5</sup> Most management regimes now in force, as many argue, do not lead to an effective control of fishing effort.

<sup>6</sup> The term ‘overcapacity’ is used to describe a situation where the combined fishing capacity available to be deployed is larger than that needed to capture the long-term “target yield” for the fishery in which the fishing capacity, or fleet, is usually deployed. Thus, the term ‘overcapacity’ conveys a message to fishery managers. It implies that if the fish stocks targeted by the fleet are not already in danger of being reduced beyond their optimum level by the fishing fleet, they may be so reduced if counter-measures are not taken. The term “excess capacity” is sometimes used as a synonym of the term “overcapacity”. However, for those who study these phenomena these two terms have very different content. The most telling difference is that “excess capacity” can be determined ex-post without any knowledge of the status of stocks, while the same is not true for “over-pacacity”. Over-capacity describes a relationship between, on the one hand, the capability of a fleet to catch fish, and, on the other, the likelihood that fish stock being exploited (the stock and recruitment conditions for which therefore must be known) in the long run can withstand such a fishing effort with undiminished returns. The “excess capacity” measurement simply states that there is un-used fishing capacity in a fleet.

<sup>7</sup> Thus, this issue is about second-order effects.

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industries” become established, a practice that countries which are now developed have followed in the past<sup>8</sup>.

17. Finally, it has been frequently pointed out that subsidies can have beneficial effects on wild fish stocks if they are employed as incentives to reduce fishing effort and fishing capacity.

### *Attempts to resolve the issue*

#### (i) Discussions at the intergovernmental level

18. During the past decade, discussions at the intergovernmental level about fisheries subsidies have taken place mainly in the WTO Committee on Trade and Environment (CTE). In the CTE, those countries that argue for a better discipline for fisheries subsidies apparently hold the view that the SCM agreement does not discipline the use of fishery subsidies sufficiently to ensure the long-term sustainability of wild fish stocks.

19. At the WTO Ministerial Conference in Doha, Qatar, in November 2001, Ministers agreed to negotiations aimed at clarifying and improvement disciplines under the Agreements on Implementation of article VI of the GATT 1994 and on Subsidies and Countervailing Measures, while preserving the basic concepts, principles and effectiveness of these Agreements. It was furthermore agreed that, in the context of the negotiations, participants should aim to clarify and improve WTO disciplines on fisheries subsidies, taking into account the importance of this sector to developing countries<sup>9</sup>.

20. Although there is not yet a complete agreement amongst major fishing nations on how to deal with the issue of fishery subsidies and their effects on overcapacity and therefore on wild fish stocks, there is a general recognition that in order to preserve wild fish stocks fisheries subsidies must be subject to an agreed and limited use.

#### (ii) Research and fact finding

21. As the issue of subsidies has become a central point in debates over fishery policy, governments, universities and NGOs’ have undertaken efforts to uncover more facts about subsidies and their effect. These efforts are reported on in an information document that has been made available to this Technical Consultation and is briefly summarized in the following paragraphs<sup>10</sup>.

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<sup>8</sup> See page 13 in Fisheries Technical Paper 437, “Introducing Fisheries Subsidies”, FAO, Rome, 2003

<sup>9</sup> From article 28 of the Doha WTO Ministerial Declaration adopted 14 November 2001.

<sup>10</sup> TC SUB/2004/Inf. 3 “Understanding the Impact of subsidies in fisheries; a review of ongoing work and recent activities”

22. Research has focused on: (i) establishing the volume, or magnitude, of subsidies; (ii) identifying different kinds of subsidies; and, but to a lesser extent, (iii) determining the effects of subsidies and their nature.

23. FAO brought the world's attention to subsidies in 1992 when it published a desk review of the economic status of world fisheries. It appeared from the study that at the end of the 1980's the value of subsidies were equivalent to a significant proportion of the landed value of the world's fish catch.

24. Subsequent reviews, which followed dramatic changes in economic policies on the part of several major fishing nations, reported world subsidies in the order of US \$ 15 to US \$ 20 billions annually. The same studies have concluded that most of these subsidies were those provided to fishing industries in industrialized economies<sup>11</sup>.

25. Because of the commonly held view that not all subsidies are bad for the state of the stocks, there has been an increased interest in breaking down subsidies into categories of "good" and "bad" subsidies, good being those that promote the conservation of stocks, the bad being those that cause overcapacity and subsequent over-fishing. Many hold the view that Government Financial Transfers<sup>12</sup> that serve to pay for fisheries management, or for the reduction of fishing capacity, fall into the category of "good" subsidies.

26. Only very few studies have been carried out on the effects of subsidies. Most of the literature on this subject is conceptual. There is almost a total lack of empirical studies<sup>13</sup>.

***Suggestions for further work intended to promote a solution to the controversy surrounding subsidies, overcapacity and over-fishing***

27. To date the international debate has resulted in a convergence of opinion about the magnitude of the subsidy problem, about fishery management conditions that modify the effects of subsidies, and about which categories of subsidies that should be disciplined in order to halt over-fishing. However, these findings need to be taken further to enable governments to develop specific policies and management strategies. Preferably the following questions should be answered: how to distinguish good types of subsidies from bad types of subsidies? how to estimate the quantitative relationship between subsidies and second-order effects? and how to deal with the multiple effects of subsidies?

28. Which subsidies should be banned - or their use otherwise regulated – because they are "capacity-enhancing" and may lead to over-capacity? Which subsidies are on one side of the line separating 'good' from 'bad' subsidies and which ones are on the other? It does not seem to be

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<sup>11</sup> It should be noted that the methods used by FAO to estimate "fisheries subsidy" in the 1992 study differs significantly from the methods used in later studies on this subject. In the 1992 study the subsidy estimates was arrived at as a difference between estimated costs (including depreciation and interest on capital invested) and earnings. In subsequent studies an attempt has been made to identify individual categories of subsidies and then add them to arrive at a total..

<sup>12</sup> OECD restricted its recent study to "Government financial transfers" .

<sup>13</sup> UNEP has supported empirical work through four country case studies, two of which are ongoing. The analysis has been exploratory and descriptive and constitute rare examples of empirical field work. For more information see document TC-SUB/2004/Inf. 4.

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altogether evident how to allocate subsidies in the two categories separated by this line. The discussion of this matter has been started but not concluded<sup>14</sup>.

29. The “effectiveness” of subsidies is not known. Does one million dollars worth of fuel-rebate in the end lead to as large a decline in stocks as a similar amount provided in grants for vessel construction under similar fishery management conditions? Are the effects of a fuel subsidy worth 10 000 US dollar the same in a shrimp fishery in the North Atlantic as in a shrimp fisheries in the Bay of Bengal? The more answers that are available to these kinds of questions, the easier it will be to agree on how to discipline the use of subsidies.

30. As stated above, most subsidies, quite apart from benefiting the recipients (first order effects), have several second-order effects. Subsidies will make possible different fishing strategies and often increased fishing effort on the part of those who receive them. This will affect stocks of wild fish and most likely reduce the catch per unit of fishing effort for all participants in the fisheries. Very likely these changes will cause an impact on markets traditionally supplied by the subsidized fishermen. This will modify the success of non-subsidised fishers who supply fish in these same markets. So even fishers who do not participate in the exploitation of the stocks fished by subsidised fishermen will be affected.

31. When governments provide subsidies they need to consider all major second-order effects. Therefore when Governments intend to modify their use of subsidies, no matter the reason, they most likely will want to consider as many of the second-order effects as possible of those same subsidies. Normative and empirical studies establishing those effects may help move the discussion forward. Such studies were recommended by many Members during the 25<sup>th</sup> Session of COFI<sup>15</sup>.

## 2.2 IUU fishing

32. There is an international consensus that illegal, unregulated and unreported fishing is undesirable and should be prevented, deterred and eliminated. An international understanding has been reached on actions to be undertaken to this effect<sup>16</sup>. Not only wild fish stocks are affected when IUU fishing takes place but also the aquatic eco-systems. By its very nature IUU fishing<sup>17</sup> will tend to increase fishing capacity in any fishery, often beyond the legally approved capacity levels. Also, as a consequence, in those fisheries where IUU-fishing is common, legally produced fish faces competition from cheaper products of IUU origin.

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<sup>14</sup> Most economists would maintain that all subsidies are capacity enhancing, excluding those that remove, or reduce, capacity in the fleet or fishery. Fishery managers would probably have a more narrow, pragmatic view on this issue.

<sup>15</sup> See paragraph 72 of Fisheries Report No 702.

<sup>16</sup> “International Plan of Action to Prevent, Deter and Eliminate Illegal, Unreported and Unregulated Fishing”, FAO 2002 (IPOU-IUU).

<sup>17</sup> Illegal fishing is conducted by vessels of countries that are parties to a regional fisheries management organization (RFMO) but operate in violation of its rules, or operate in a country’s waters without permission. Unreported fishing is catch not reported or misreported to national relevant authorities or to RFMOs. Unreported fishing is conducted by vessels without nationality or flying the flag of States not parties of relevant RFMOs and who therefore consider themselves not bound by their rules (see paras in the IPOA-IUU)..

33. Fishing is an economic activity and IUU-fishing is no exception. Fishers, enterprises and/or corporations that have a choice between conducting legal fishing or IUU fishing will make a decision for or against one or the other of these alternatives at least partly depending on the likely economic results. Therefore any action - no matter its origin - that “improves” the likely economic result of IUU fishing can be considered as encouraging such a practice.

34. The international interest in IUU fishing has focused mainly on fisheries occurring on the high seas. The IUU-catch has been estimated to be substantial in several of these fisheries and various trade-related measures have been taken in order to reduce and eliminate this practice. These measures have been agreed in the relevant RFMOs and then implemented by states which are members of these RFMOs or cooperate with them. To date, none of the measures agreed by RFMOs to combat IUU-fishing have identified subsidies as directly linked to IUU-fishing<sup>18</sup>.

### *Attempts to resolve the issue*

#### (i) Discussions at the intergovernmental level

35. The Plan of Implementation adopted in September 2002 in Johannesburg by the World Summit on Sustainable Development (WSSD) stipulates that: “*States are invited to ... eliminate subsidies that contribute to illegal, unreported and unregulated fishing and to over-capacity*”<sup>19</sup>. The FAO Committee on Fisheries at its meeting in February 2003 invited Members to develop “... *a practical mandate to consider the effects of subsidies on fisheries resources, such as effects on IUU fishing and overcapacity*”<sup>20</sup>.

36. At other international meetings<sup>21</sup> Governments have also addressed the need to coordinate national efforts dealing with IUU-fishing, in particular with IUU-fishing on the high seas. The conclusions have generally been in favour of following the guidelines provided by the IPOA-IUU<sup>22</sup>. However, in these meetings, no specific, detailed and comprehensive attention seems to have been paid to subsidies in the context of discussion of factors promoting IUU-fishing.

#### (ii) Research and fact finding

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<sup>18</sup> There is no clear information available as to whether or not measures have been proposed in those bodies – but not agreed to – for disciplining fishery subsidies in order to combat IUU-fishing.

<sup>19</sup> Paragraph 31, bullet “F”, of the WSSD Plan of Implementation.

<sup>20</sup> Paragraph 73 “Report of the 25<sup>th</sup> Session of the Committee on Fisheries”, Fisheries Report 702, FAO, Rome, 2003.

<sup>21</sup> *Inter alia*: (i) The meeting of the G8 in Evian, June 2003, called for urgent implementation of the IPOA-IUU; (ii) IUU fishing is part of the work programme of the OECD Committee on Fisheries.

<sup>22</sup> One most recent example is the Workshop on Illegal, Unreported and Unregulated Fishing Activities which was organized by OECD in Paris, on 19-20 April 2004, the results of which were reported to the 93th Session of the Committee for Fisheries of the Organization, on 21-23 April 2004.

37. The OECD's Committee on Fisheries is looking into the issue of IUU-fishing and how it is to be countered. Subsidies are under review as one of the economic and social drivers underlying IUU fishing activities.

38. In 2003 representatives of Intergovernmental Organizations, participating in a meeting that addressed the co-ordination of work on fisheries subsidies noted that: "the underlying economic framework for analyzing IUU fishing is similar to that used for analysing non-IUU fishing. Therefore, IUU fishing could be analysed after the economic/operational linkage between subsidies and overcapacity have been established."<sup>23</sup>

### *Possible further work to promote a solution of the subsidies-IUU-Fishing controversy*

39. Further work could aim at establishing the link between subsidies and IUU-fishing so as to support development of strategies that would ensure the elimination of all possible incentives for IUU fishing through the granting of subsidies. In addition to an attempt to identify which types, or kinds, of subsidies that have led to IUU-fishing in the past, an initial task could be to develop a set of criteria through which to identify which subsidies are "good" or "bad", taking into account their effects on IUU-fishing.

40. Countries may find that they have a shared interest in attempting to establish the role of various kinds of subsidies in promoting/restraining IUU-fishing. Such shared interests will probably be quite apparent in respect of high seas fisheries but could also concern fishing on wild fish stocks that are present, permanently or part of the year, in adjoining EEZ or other areas under national jurisdiction.

### **III. OTHER ISSUES**

41. There are a number of other issues which have been mentioned in the international debate about fisheries subsidies. Little is known presently, and less agreed, about the links between these issues and the effects of subsidies on over-capacity and IUU-fishing and it would be imprudent to affirm their lack of significance or importance when taking measures aiming at reducing overcapacity and eliminating IUU-fishing.

42. One of these issues is the question of fishery specific fiscal policies, which has not been confronted effectively yet in the political discussion on subsidies. These policies can be seen as "negative subsidies". Fishers and other in the fishery sector who are forced to pay government charges, specific to the sector (*e.g.* access fees, licence fees, export taxes)<sup>24</sup>, will argue that they are in a different and worse competitive situation vis-à-vis those who do not pay similar charges. This issue is likely to become part of the fisheries subsidies discussion before any international understanding has been reached on how to discipline them.

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<sup>23</sup> Paragraph 46, FAO Fisheries Report no 719 "Report of the Third Ad Hoc Meeting of Intergovernmental Organizations on Work Programmes Related to Subsidies in Fisheries", Rome, July 2003

<sup>24</sup> "Specificity" of government economic policies is a key criteria for defining subsidies according to the ASCM. Those who argue that taxes, levies, etc are nothing but "negative subsidies" will find that fishery specific fiscal policy instruments could be considered specific enough to be considered as negating the impact of "positive" subsidies.

43. The international subsidy discussion has concentrated on the capture fisheries sector. However, given the growing importance of aquaculture and the frequency of vertical integration<sup>25</sup> it would seem likely that to be effective and equitable any agreement on how to use, or not use, subsidies in fisheries must include aquaculture and post-harvest activities.

44. Attention must be drawn also on two other prominent issues: (i) how do subsidies effect livelihoods, both for those who receive subsidies and for those who do not receive them? and (ii) how are the effects of subsidies compared internationally – or phrased differently and consistent with terminology used in the WSSD Plan of Implementation and the Doha Declaration– how are the interests of developing countries reflected in the evaluation of the links between subsidies and their various (second-order) effects?

### 3.1 Livelihoods and the economic and social dimensions of sustainable development

45. The effects that subsidies have on people and their livelihood have not received much attention in the recent discussion about fisheries subsidies and their effects. This may explain why the following statement is part of the report on the the 25<sup>th</sup> Session of the FAO Committee on Fisheries, held in February 2003: *"A large number of developing countries emphasized that , when appraising the role of subsidies in the fisheries sector careful attention also needed to be given to their impact on the economic and social dimensions of sustainable development and, in particular, on their use as instruments of economic policy aimed, among other objectives, at stimulating the sustainable growth of their national fishery sectors, at reducing and alleviating the poverty of fishing communities and households and at enhancing food security"*<sup>26</sup>.

46. The quality of life in fishery dependent communities is of concern globally and is of particular relevance to developing countries. The greater precariousness in developing countries of fishery depending livelihoods is not a consequence of the vulnerability of aquatic resources (which is equal both in developed and developing economies) but of the unequal availability of economic resources as well as of the different degrees of mobility and organization of community life. In particular, the absence of publicly provided social safety nets (which are common in rich industrial economies but not in developing economies) may bring dramatic and tragic consequences upon the individuals or social groups for which fisheries cease to be a source of livelihood.

47. The fact that subsidies make an immediate and positive contribution to the livelihoods of those fishers who receive them, cannot be ignored , irrespective of their negative effects such as their possible contribution to overcapacity and/or IUU-fishing. Hence those in government who are responsible for fisheries subsidies need some method of estimating and comparing costs and benefits. In general terms, the costs will be those stemming from growing increased IUU-fishing and from growing overcapacity and over-fishing, while the benefits are those experienced by fishers, and any other direct recipients of subsidies. It seems that if an agreement could be reached on how to identify, quantify and evaluate these costs and benefits, it would easier to reach

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<sup>25</sup> Capture/culture, processing and trading being undertaken by the same company, or corporation.

<sup>26</sup> Paragraph 75 "Report of the 25<sup>th</sup> Session of the Committee on Fisheries", Fisheries Report 702, FAO, Rome, 2003.

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consensus on the larger question of what is the most appropriate policy vis-à-vis subsidies and fisheries.

48. On this issue, which concerns both developing countries and industrial economies, progress in international discussion will be slow until more facts are provided. Research is needed to adapt cost/benefit methodologies. The adaptation of such methodologies would require normative work<sup>27</sup> and case studies.

49. However, at the time of writing, there is little information available on the effects of fisheries subsidies on economic and social dimensions of sustainable development. And little, if any, research appears to be in progress on assessing the importance of subsidies for fishery livelihoods or on testing cost/benefit methodologies for comparing the benefits obtained with the costs incurred. Internationally approved methodologies for these cost/benefit studies would constitute a positive contribution<sup>28</sup>.

### 3.2 International comparisons of subsidies and their effects; or, how to take due account of the special situation of developing countries

50. Discussions on subsidies in fisheries at the intergovernmental level generally reflect a shared understanding that the role and effects of fisheries subsidies in developing countries are not identical to those in developed countries. Hence the oft-repeated statement that “the special conditions” of developing countries should be considered in conducting reviews, or in negotiating future agreements. The view that the particular effects of subsidies in developing economies need to be investigated is gaining ground<sup>29</sup>.

51. But what are these “special conditions” of developing countries in respect of the effects of fishery subsidies? Independently from the response that may be given to that question, it is clear that the mere recognition that such conditions exist imply an understanding that developing countries are not expected or required to live up to all the provisions of a particular arrangement or agreement, or, at least not as rapidly as developed countries<sup>30</sup>. Presumably such understanding is valid also in relation to fisheries subsidies.

52. So the issue is not whether the “special conditions” justify or not the existence of softer rules for developing countries, but: how much softer and/or for how long?

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<sup>27</sup> Part of the normative work has been undertaken. See Fishery Technical Paper no 438: “Guide for identifying, assessing and reporting on subsidies in the fisheries sector”, FAO, Rome, 2004.

<sup>28</sup> See “Chairman’s Summary” pages 6 and 7 from “UNEP Workshop on the Impact of Trade-Related policies on fisheries and Measures required for their sustainable management”, Geneva, Switzerland, 15 March 2002

<sup>29</sup> See section on “moving forward” in the report of the “UNEP workshop on Fisheries Subsidies and Sustainable Fisheries Management”, Geneva, 26-27 April 2004.

<sup>30</sup> Which in turn is based on the assumption that during the “grace period” the economic and social conditions in developing countries will change so that they become if not equal, at least roughly comparable to those of developed countries.

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53. The discussion on how to deal with subsidies that cause over-capacity and over-fishing seems to make progress particularly in relation to modern, capital intensive fisheries undertaken on the high seas. This progress is made possible not because empirical evidence unequivocally points to specific conclusions. On the contrary, little empirical evidence is available about the effects of subsidies on over-capacity<sup>31</sup>. The progress has been made because those concerned generally agree that the macro-, and micro-, economic theories used to predict results are applicable and reliable, and that there is no need to verify the conclusions through empirical research.

54. There are reasons to expect that the application of standard economic theories to the study of the effects of fisheries subsidies in fisheries of developing countries, typically small-scale, multi-gear and multi-species fisheries, will meet with difficulties. First and foremost, it is far from certain that the production decisions (implicit in the bio-economic models) expected from small-scale fishermen, who receives subsidies, will follow a pattern similar to that expected from subsidy recipients that manage capital intensive and modern fishing vessels. Second, there is also the practical difficulty caused by lack of data. For many, if not for most, artisanal or small scale fisheries, the data needed to for use in multi-year bio-economic models may be expected not to be available. Third, the peculiar, structural, social and institutional aspects that characterize developing country economies must be considered when using conventional economic policy instruments in order to obtain results similar to those normally obtained from the application of the same policy instruments in developed countries.

55. It seems likely that empirical research can identify the conditions that determine the behaviour that subsidies cause in recipients. Sometimes this behaviour is referred to as “supply response”. Research should be able to determine, first, the conditions that determine the supply response and then link the intensity and scope of the supply response to the nature and character of the surrounding, social, economic and institutional conditions. If the typical “supply response” in developing countries differ from the typical supply response in developed and wealthy economies<sup>32</sup> then the effects in terms of IUU-fishing, overcapacity and over-fishing will also differ.

56. Research and reflection are needed to identify and elaborate an answer. This – and other possible differences in the conditions that determine the effects of subsidies between developed and developing economies – need to be investigated to provide factual information on the “special situation” of developing countries vis-à-vis fishery subsidies.

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<sup>31</sup> See: “Report on Expert Consultation on Economic Incentives and Responsible Fisheries. FAO Fisheries Report No 638. Rome 2000

<sup>32</sup> In hardship situations the recipient will retain a share of the subsidy to use to increase personal consumption for him/her and the household. The size of the share will depend on several factors. Amongst the most important ones there would seem to be, on the one hand, the possibilities to increase earnings overall by modifying price/quantity of outputs/services, and, on the other the livelihood situation of the household. Where such situation is precarious and production alternatives are few, a relatively large share of the subsidy will be kept. The larger the share kept, the smaller the second-order effects on fish stocks and the conditions of trade in fish and fish products.

## IV CONCLUSIONS

57. Discussions at the intergovernmental level have focussed mainly on the controversy about subsidies and overcapacity/over-fishing. Some attention has been given to subsidies and IUU-fishing and only little explicit recognition of the two other issues discussed above. A summary is attempted in the table below:

<i>Issues reviewed in international discussions and/or negotiations</i>	<i>What is known and/or agreed?</i>			
	<i>Do fisheries subsidies cause second order impacts?</i>	<i>What is the volume of subsidies (\$s)</i>	<i>Is there a basic agreement that subsidies should be disciplined?</i>	<i>Which (classes of) subsidies to eliminate/control?</i>
<i>IUU – fishing</i>	Under Discussion	Not estimated	Yes, implicit	No
<i>Over-capacity: fish stocks</i>	Agreed	Attempted	Agreed	Under Discussion
<i>Trade</i>	Agreed	Attempted	Agreed	Agreed
<i>Livelihoods</i>	Not discussed	Not estimated	No	No

58. In spite of some fact-finding and empirical studies, research has been generally dominated by normative analysis and speculation. However, an opinion that more empirical work needs to be undertaken is forming amongst many of those concerned<sup>33</sup>.

59. It is the contention of this document that a deeper understanding of the nature of each of the issues and their linkages will facilitate an international understanding about how to deal with subsidies that spur IUU-Fishing or that generate overcapacity followed by over-fishing. More fact-finding and empirical research will make it possible to reach such a deeper understanding.

<sup>33</sup> Para 53 of “Report of the Expert Consultation on Identifying, Assessing and Reporting on Subsidies in the Fishing Industry, Rome, 3 – 6 December 2002” FAO Fisheries Report. No 698. Rome, FAO, 2003, 81 p.

60. At the same time it should be recognized that few governments at this time are keen to make public detailed data either about the volume or the effects of fisheries subsidies as international negotiations are underway about how to use such subsidies.

61. However, without wide-spread governmental support for further studies of subsidies and their impacts not much can be done to provide relevant and internationally acceptable data of relevance to the ongoing policy debate. A global technical initiative is needed. Such an initiative, which is described below, should overcome governments' hesitation by ensuring confidentiality and be convincing by providing information of high quality.

## **V. THE PRACTICAL MANDATE: A "GLOBAL TECHNICAL INITIATIVE"**

62. The purpose of the Global Technical Initiative (GTI) should be clear from what has already been said: it should provide policy relevant information on subsidies and their impacts. In this context all the issues raised above will be addressed. The GTI will consist of one set of "core activities" and of "ad-hoc" activities

63. The process employed by the GTI should guarantee that the confidentiality of any information is protected, while at the same time providing information that is accepted as accurate, fair and developed using the best scientific procedures available.

64. To ensure confidentiality the following principles are proposed:

- formal approval by concerned governments will be needed to initiate a country case study and for the establishment of national study teams;
- case studies will be available only to the concerned government and those managing the research programme, unless the concerned government decides differently;

65. It is expected that the GTI would be open to all governments, and relevant IGOs and INGOs which would be invited to undertake "ad-hoc" activities in conformity with the process developed by the GTI.

66. It is proposed that the GTI be supervised by an international steering committee.

67. It is also proposed that the "core-work" of the GTI be performed through an FAO executed: "Project for the study of subsidy impacts". This project has two basic purposes: to provide in the course of a year and a half the minimum information judged essential for progressing international discussions on fisheries subsidies, and to serve as the technical supervisor and back-stopper for "ad-hoc" activities. The technical supervision will ensure that methodologies used are such that results of studies done in different parts of the world, and by different individuals/organizations, are comparable.

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68 The project will undertake country-based and fishery specific case studies and econometric work focusing on the effects of subsidies on over-fishing. The FAO project is described in an information document provided to this technical consultation<sup>34</sup>

69. The costs likely to be incurred under the GTI are considerable, but so are its benefits. The information procured would help to remove one of the major threats to sustainable fisheries.

70 It should be noted that costs would be contained by employing the analytical methodology proposed in the “Project for the study of subsidy impact” for country case studies. The reason is that all the issues are addressed simultaneously in fishery specific case studies. The studies would include for selected fisheries, not only first-order effects (effects on costs/income; effects on household consumption in subsidy recipient households; and modifications in operational and investment patterns). But also creation of overcapacity and IUU-fishing, declines in stocks; loss of benefits for non-consumptive users; modifications of competitive situations for fish products in international trade.

## **VI. SUGGESTED ACTION BY THE TECHNICAL CONSULTATION**

71. The Technical Consultation is invited to review the information provided in this document and to advise on the scope and purpose of activities to be undertaken particularly in the framework of the Global Technical Initiative (GTI) described above, with a view to provide information useful to the policy debate on fisheries subsidies.

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<sup>34</sup> “A global project for the study of fisheries subsidies” TC SUB/2004/Inf. 4