



TRADE AND DEVELOPMENT SYMPOSIUM

Perspectives on the Multilateral Trading System

A Collection of Short Essays

Is an all or nothing WTO fisheries subsidies agreement achievable?

By U. Rashid Sumaila



International Centre for Trade
and Sustainable Development



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Federal Department of Economic Affairs FDEA
State Secretariat for Economic Affairs SECO

Introduction

The practice by governments of providing financial support, whether direct or indirect, to the fishing sector, is known as fisheries subsidies. Since a back of the envelope calculation by the Food and Agricultural Organization of the United Nations (FAO) revealed that the total amount of fisheries subsidies paid maritime countries globally could be as high as US\$50 billion annually in the early 1990s, eliminating harmful fisheries subsidies have become a central issue in the quest to achieve sustainable fisheries globally. More recent detailed studies put this number at between US\$15-34 billion (Milazzo 1998 and Sumaila et al. 2010). This is a substantial amount given that the total gross revenues from the world's fisheries is estimated at between US\$80-85 billion (FAO, 2011).

There is a strong connection between fisheries governance, sustainable development and how subsidies serve as a stumbling block for meeting sustainability goals (Molte, 2010). The crucial issue is that subsidies that motivate fishers to exert more fishing pressure make fisheries governance and therefore the attainment of sustainability and conservation goals difficult if not impossible to achieve. These types of subsidies that lead to overcapacity and overfishing are called variously in the literature as 'harmful', 'bad' or 'capacity enhancing'.

Despite the significant amount of effort devoted to identifying and measuring fisheries subsidies and to analyzing their potential and actual impacts on environmental and economic sustainability over the past decade, there has been little progress made in formulating an international regime for the regulation of fisheries subsidies. The negotiation for the improved discipline on fisheries subsidies at the WTO has stalled in recent years and considerable challenges remain before a meaningful agreement can be attained.

In this contribution, I identify a key challenge to the WTO negotiations, and offer possible solutions to the problem identified.

Challenge to the WTO negotiations

There are obviously several challenges to the WTO negotiations on fisheries subsidies but in my opinion, a key reason for the lack of progress in these negotiations, after seven years of trying, is that the negotiations suffer what I call the problem of 'lumpiness'. By this I mean negotiators aim for an all-inclusive deal or no deal at all. This lumpiness takes two forms.

First, the WTO negotiations are conducted as a "single undertaking", meaning that results must be achieved in all areas of the negotiations, not only in those regarding fisheries subsidies, and must be applicable to all member countries. Any potential breakthroughs in the negotiations on fisheries subsidies at the WTO must therefore be coupled with similar breakthroughs in the

negotiations on the Doha Round as a whole. The fact that this requirement constituted a problem for the negotiation was recognized during the later stages of the last stalled negotiations, leading to a last minute an unsuccessful attempt to decouple fisheries subsidies negotiations from the others in the Round. I think this decoupling is needed if progress in the negotiations is to be made.

The second lumpiness, which is the focus of this contribution, relates to the goal of negotiators to arrive at a deal on subsidies that is all-inclusive, for all fisheries of the world, domestic or international; small or large scale, etc. This approach, I argue, has limited the ability of the negotiations to make progress by confounding the issues.

Within this all or nothing setting, the Chair's Draft Report (WTO 2007) was designed to have two core elements: a broad set of prohibited subsidies and a list of general exceptions to these prohibitions, with complementary regulations guarding against circumvention; and 'special and differential treatment' giving policy flexibility to developing countries through provisions of additional exceptions based on various combinations of factors such as types and location of fisheries.

As with many international agreements (e.g., the Kyoto Protocol), it is always a sticky issue when, even though there are often good reasons for doing so, developing countries are given special exemptions. I think some of the resistance to such exemptions, in the case of fisheries subsidies, is due to the fact that developing countries are not a homogenous group - they consist of global powers such as China and very small developing island states such as Samoa.

Hence, several countries (e.g., South Korea, Japan and Canada) or groups of countries (e.g., large developing countries, small vulnerable economies, and the Africa, Caribbean and Pacific countries) presented their positions and concerns regarding the Chair's Draft.

I contend that the issues raised in the various positions tabled by different countries/groups of countries was due, partly, to the challenge identified in this contribution, namely, the lumpiness of the objective of the negotiations. The consequence of these positions was the inability of the WTO to reach an agreement on disciplining subsidies.

Response to the challenge

This section discusses my suggestion on how to deal with the second lumpiness described in the preceding section. The starting point is to split the world's fisheries into (i) domestic, i.e., fisheries that operate within country EEZs and target fish stocks that spend all their lives within the EEZs; and (ii) international fisheries, made up of fish stocks that do not qualify as domestic fisheries as defined herein. Thus, they consist of (a) transboundary fish stocks, i.e., stocks that are shared by two or more countries because they spend

their lives within the EEZs of these countries; (b) highly migratory stocks such as tunas that straddle the EEZs of countries and the high seas; and (c) discrete high seas stocks that spend all their lives in the high seas.

There are at least three reasons why the above split is necessary to help move WTO negotiations forward. First, the incentives for countries to eliminate harmful or overfishing subsidies differs significantly depending on whether a fishery is domestic or international; and within the latter, whether a fishery is a transboundary, highly migratory or discrete high seas stock. Second, the institutional framework needed to support the elimination of harmful subsidies is different, in the case of domestic fisheries, for example, I believe the heavy lifting has been done at the home front with international support by organizations such as the WTO. However, in the case of highly migratory stock international fisheries, a coordinated international framework is needed because unilateral action by one country is not likely to eliminate the problem of overfishing. Thirdly, by dividing fisheries into these groups, it would be easier to identify the leverage points for eliminating harmful subsidies.

Disciplining harmful subsidies to domestic fisheries

The incentives for countries are clear here: If a country depletes its domestic fish stock, it would suffer the consequences, as Canada learnt the hard way with the collapse of the cod stock off Newfoundland in 1992. Hence, the battle front for eliminating or at least redirecting harmful subsidies for domestic fisheries should rightly be at home in individual countries. The key to success here is to make it abundantly clear to fishing countries that it is in their best interest to divert harmful subsidies from helping diminish their fisheries stock (capital) into more constructive uses. Countries could use the resources in a number of innovative ways to help their fishers to adapt to the elimination of harmful subsidies. Recent innovative approaches that have been floated include 'fishing for plastic' instead of fishing for vulnerable fish stocks and 'trawling for data' instead of fish. Countries that divert their harmful subsidies to provide skills to fishers to help them transition to more sustainable livelihood activities would see win-win benefits in the sense that they keep the money in the fishing communities while reducing the pressure to deplete a renewable food source.

An important role for (local) fisheries scientists and managers is to help countries understand the harm caused by these subsidies, and the immense benefits that could follow the elimination of harmful subsidies. Once countries, especially developing ones realize that the benefits of taking action now will accrue exclusively to them, and that this is the best way to improve the quality of life of their coastal communities in the medium to long term, they would begin to take action to mobilize the resources currently used to provide

harmful subsidies in ways that would ensure the sustainability of fisheries rather than their depletion.

The Norway story on subsidies should serve as a good example here. In the early 1970s, the country was a leading provider of fisheries subsidies to its fledging fisheries industry. During this period, Norway could easily have won the competition as the country with the world's most subsidized fisheries. The country provided both price support and cost reducing subsidies that were clearly bad for the sustainability of the resource, and therefore the medium to long term benefits to the country's fishing sector. By the mid 1980, the country realized that harmful subsidies are ultimately bad for the fish and the fisher, and then the country quickly reduced its subsidies to almost nothing, with good results to show in both biological and economic terms.

In this framework, the international community, through institutions such as the WTO, FAO, and UNEP, and regional intergovernmental bodies such as the OECD, (AU) African Union, APEC (Asia-Pacific Economic Cooperation) could provide guidelines and incentives to help countries implement their home grown plans to discipline harmful subsidies to their domestic fisheries.

Disciplining harmful subsidies to international fisheries

Here, the incentives are less clear and more complicated: If a country subsidizes and overfishes a highly migratory fish stock, the country enjoys the benefit of doing so while the negative consequences of overfishing the stock are suffered by many countries. As a result of this asymmetric nature of the distribution of cost and benefits, the battle ground for eliminating harmful subsidies is at the international level - at the level of the WTO, for example.

The trick here is to identify the low apples, i.e., international fisheries that would be relatively easy to get an agreement on while at the same time reaping high conservation benefits. The negotiations can then begin with these. The immediate examples that come to mind are high and deep seas fish stock fisheries, and highly migratory high seas tuna stocks. For both of these international fisheries, the biology, economics, social and food security, legal and current management regimes indicate to me that they are low apples because it would be very difficult to argue for their subsidization using any of these.

Ecologically, high and deep sea fish stocks are known to have life history characteristics that make them vulnerable to overfishing. In addition the legal and management structures for managing are weak to say the least (Norse et al., 2011). These fisheries are operated by a few, mostly, developed countries, producing a small percentage of the world total capture fisheries catch while employing only a few people. It has been estimated that without subsidies many of

the bottom trawl fleet operating in the high seas will not be economically viable (Sumaila et al., 2010). In effect, the production-distorting effects of fisheries subsidies are most pronounced in high seas fisheries. Thus, obtaining a WTO agreement on these fisheries would be a significant win for conservation and sustainability.

I can see a significant role for revamped regional fisheries management organizations (RFMOs), especially with respect to the management of transboundary and straddling fish stocks fisheries.

Conclusion

In this brief contribution, I have identified the lumpiness in the WTO negotiations as a key reason for the failure to reach an agreement after seven years of effort. Two types of lumpiness were identified, the first relates to the fact that results must be achieved in all areas of the negotiations, not only in those regarding fisheries subsidies, and must be applicable to all member countries. There is already an effort to decouple fisheries subsidies negotiations from the others in the Round. I think this decoupling is needed if progress in the negotiations is to be made. The second lumpiness relates to the goal of negotiators to arrive at a deal on subsidies that is all-inclusive. This approach, I argue, has limited the ability of the negotiators to make progress.

Next, I provide a sketch of how the second lumpiness can be dealt with. I propose that we need to categorize fish stocks and fisheries into domestic and international fisheries. My suggestion then is to move the battle front for dealing with harmful subsidies to domestic fisheries to home countries, with the international and regional communities providing guidelines and incentives to help countries transition to harmful subsidies-free fisheries.

The battle front in dealing with harmful subsidies to international fisheries remains with the international community via its institutions such as the WTO. This is because of the asymmetry in the distribution of cost and benefits of providing subsidies by a country.

To implement this proposal, more details need to be worked out. Still, the principles behind my proposal are clear: In order to succeed in disciplining these subsidies, align the effort to disciplining harmful subsidies more to the interest of fishing nations, and take the battle to the right front - home country in the case of domestic fisheries and the international arena in the case of international fisheries.

U. Rashid Sumaila, Fisheries economics Research Unit, Fisheries Centre, the University of British Columbia, Vancouver, Canada.

References

- FAO (2011). The State of World Fisheries and Aquaculture 2010. Food and Agriculture Organization of the United Nations, Rome.
- Milazzo, M. 1998. Subsidies in world fisheries: a re-examination. World Bank Technical Paper, 406. Fisheries Series, The World Bank., Washington DC. 86 pp.
- Molte, A. ed. (2010). Fisheries subsidies, Sustainable Development and the WTO, Earthscan, 2010, 450 pp.
- Norse, E.; S. Brooke, W. Cheung; M. R Clark, I. Ekeland, R. Froese, K. M Gjerde, R. L. Haedrich, S. S. Heppell, T. Morato; L. E. Morgan; D. Pauly; U. R. Sumaila; R. Watson (2012). Sustainability of deep sea fisheries. *Marine Policy*, 36, 307-320.
- Sumaila, U.R., A. Khan, Andrew J. Dyck, A., Watson, R., Munro, G., Peter Tyedmers, and Pauly, D. (2010). A bottom up re-estimation of global fisheries subsidies. *Journal of Bioeconomics*, 12:201-225, DOI 10.1007/s10818-010-9091-8.
- Sumaila, U.R., Khan, A., Teh, L., Watson, R., Tyedmers, P., Pauly, D. (2010). Subsidies to high seas bottom trawl fleet and the sustainability of deep sea benthic fish stocks. *Marine Policy*, Volume 34(3), 495-497.
- WTO (2007) Draft consolidated chair texts of the AD and SCM Agreements. TN/RL/W/213.