

Chapter 4

Key Policy Insights

This report highlights a number of important policy messages that may assist OECD governments (as well as non-OECD governments) in assessing the effects of financial support to the sector.

- *Transfers have an important, but limited, role to play in fisheries management.*
- *Improving the transparency of support programmes is essential and should include ex-ante and ex post evaluations of programmes.*
- *Policy makers need to take an integrated approach to assessing the full range of costs and benefits of transfers across all participants in the sector.*
- *Both the management regime and the effectiveness of enforcement are critical in assessing the impacts of support programmes.*
- *To improve economic sustainability and community resilience, financial support for the sector should be de-coupled from fishing activity.*
- *Transfers should be time-limited and subject to evaluation prior to extension.*
- *Reducing financial support to the industry, if accompanied by appropriate management changes and transition measures, can increase the profitability of the industry and the resilience of communities over the medium to long term.*

A number of themes emerged from the analysis in the previous chapter highlighting the policy challenges confronting decision makers. The analysis also provided some insights into policy development which may assist in improving the effectiveness of support programmes in meeting their objectives. The purpose of this chapter is to draw these themes together and present a set of key findings that will assist policy makers in their deliberations about support programmes in their countries.

Transfers have an important, but limited, role to play in fisheries management policy

Transfers are an important part of the government's policy toolbox for managing fisheries. As discussed in Chapter 3.1, transfers are used to provide fisheries services that otherwise may not necessarily be supplied by the market. These transfers cover many types of research, management and enforcement services as well as some forms of infrastructure services. These services comprise around two-thirds of the total value of budgetary support provided to the sector in OECD countries. However, this study has noted that the applicability of public good argument that is generally invoked to justify the government provision of services is generally limited to a subset of fisheries services. These services are mostly associated with providing basic research and management functions the benefits of which flow to the community in general and where private provision of the services is unlikely to be forthcoming. A range of other fishery and infrastructure services have characteristics of club goods, with the fisheries industry as the clearly identifiable beneficiary. Examples include the maintenance of quota registries and applied research which aims to reduce costs or increase efficiency of fishing operations. To address this dichotomy, there is scope to increase the use of cost recovery and user charging, as well as the outsourcing of some services, to reduce the public costs of service provision and improve the efficiency of service delivery.

The other major rationale for the provision of transfers is to assist the industry during times of structural change. Transition payments will ease the burden of adjustment of restructuring and smooth the adjustment path, and can help set segments of the industry on a sounder footing. However, such assistance to restructuring should be temporary; many programmes that are meant to have been temporary have a tendency to become permanent (see further below). This will have a longer term impact on both the environmental health of fisheries resources and on the social resilience of fisheries communities.

Outside these areas of clear market failure or temporary assistance, the rationale for transfers is confined to providing financial relief to the industry in the form of increasing profits. The benefits of this transfer to the industry needs to be weighed against the potential costs. As has been discussed extensively in this report, the economic, environmental and social effects of transfers can be significant in the absence of effective and enforced management. Such transfers attract resources to the sector from other sectors which may be economically sustainable and less potentially environmentally harmful. The transfers become capitalised in the asset values of vessels, quotas and access rights, reducing the flexibility of the industry to adjust. Depending on management settings, there may be impacts on trade patterns and pressures arising from increases in capacity, which may also have international spillover effects (for example, in IUU fishing). Cost-reducing transfers insulate the fishing industry from the real costs of their operations and artificially inflate profits, inhibiting industry adjustment to changing economic and environmental conditions.

There is a need to increase the transparency of fisheries support programmes

This study has highlighted the shortcomings in the transparency of fisheries support programmes in many OECD countries. Much of the data and information on the programmes are difficult to access and analyse, and there remain significant gaps in the data. Particular areas of concern that have been raised cover the extent of sub-national transfers (at regional and local levels) and the cost of off-budget items such as tax

concessions, loan guarantees and interest subsidies. This study goes some way towards addressing the shortcomings by providing detailed inventories for a selection of OECD countries. Clearly, however, further efforts both across and within countries are required to improve on these efforts.

At the international level, the WTO notification process under the ASCM provides some measure of transparency. However, it has been noted that there are concerns over the extent of reporting by WTO countries and there is concern over how well countries adhere to reporting obligations. Transparency could be improved by increasing the compliance with the reporting requirements under the ASCM and by increasing the use of the review process contained within the ASCM. An additional issue lies in the fact that the types of subsidies reported under the ASCM definition of subsidies is not sufficiently comprehensive to capture the full range of support programmes that may affect the sector. While the usefulness of the ASCM reporting is not in question, a more concerted effort by international organizations with fisheries economics interests (such as the OECD and FAO) should be undertaken. The broad economic, environmental and social effects of transfers highlighted in this study go well beyond the trade concerns which are the focus of the ASCM process.

Transparency at the national level can be improved by an *ex-ante* assessment of the likely effects of programmes. In many countries, regulatory impact assessments are being increasingly regarded as a normal part of the functioning of government in an effort to improve the cost-effectiveness of policies, improve their efficiency and ensure cohesion between policy areas. It is feasible to extend such assessment processes to include assessment of the likely environmental and social impacts flowing from particular programmes. This is a corollary to the environmental impact assessments generally required of construction and development projects.

The study has also noted the relative paucity of *ex post* evaluation of transfer programmes by many OECD governments. The bulk of the analysis has been undertaken in the academic world, by non-governmental organizations (such as WWF) or in intergovernmental organisations (such as OECD, UNEP and FAO). As with *ex-ante* assessments, there is certainly scope for the increased use of *ex post* assessments to improve the understanding of the impacts in order to help countries improve the next round of policies.

An integrated approach to assessing support programmes identifies tradeoffs and dynamic effects

Financial support to the fisheries sector has a wide range of impacts, often reaching beyond the intended target(s) of the programmes. The key reasons for taking an integrated approach is to ensure that the full range of effects of particular programmes on the environmental, economic and social dimensions is taken into account when the programmes are designed and implemented. Failure to do so increases the potential for unintended impacts of a programme to escape detection until too late, with the result that the total costs across the economy of the programme may outweigh the benefits. Such policy inadvertence can be particularly critical in the fisheries sector where getting policies wrong has a high cost in terms of long term impacts on an often fragile resource.

Identifying the inherent trade-offs in balancing competing objectives and ascertaining the dynamic (second and third round) effects of transfers is essential to better understanding how the effects of transfers flow through the sector and the wider economy

and highlighting areas of actual and potential policy incoherence. The importance of an integrated approach has been demonstrated in several areas in this study.

A prime example is that of income support programmes. The short term focus of such programmes is generally on supporting the incomes of fishing communities. In the absence of positive structural adjustment programmes to complement the income support, the resilience of both individuals and fisheries communities can decline and a culture of subsidy dependence can arise over the medium to longer term. This situation has arisen in a number of fisheries, most notably in the Newfoundland cod fishery in the mid 1990s. Importantly, the Canadian government learnt the lessons from that episode and responded quite differently to the 2003 cod closure with temporary income support and industry adjustment measures. The environmental effects of such a situation are potentially significant, as the income support becomes a *de facto* mechanism for maintaining latent fishing capacity while not addressing the root cause of the problem; income support merely delays the adjustment pressure rather than dealing with it. There is often strong pressure from fishers to commence fishing once signs of a stock recovery begin to appear, and so the cycle continues.

At the same time, the economy-wide costs of open-ended income support can be significant, representing a drain on government budgets. The costs of delaying action on addressing the underlying fisheries management problem can accumulate over time. The key lesson from the analysis is that income support needs to be of a temporary nature, providing sufficient support to cover the transition costs as the sector or community moves to a new, more sustainable, level and mode of operation (see below). Importantly, adjustment of fishing management regimes and structural adjustment programmes (retraining, etc) need to be integral to income support packages.

The advantage of taking an integrated approach was also evident when the issue of transfers for vessel construction and modernization was considered. These transfers contribute directly to the expansion of fishing capacity as, even where access to such transfers is conditional upon the scrapping of an equivalent vessel, the new vessels can increase effective fishing power (although in some cases authorities make an allowance for such increases in their scrapping requirements). Support for modernisation can also lead to an increase in the effective fishing power and efficiency of vessels and reductions in the costs of handling, storing and processing catches. Modernisation grants are also used in some cases to improve the health and safety conditions on vessels. The integrated analysis has pointed to the potential for policy incoherence to arise in those countries where vessel construction and modernization receive public financial support at the same time as decommissioning programmes are in place. This not only sends conflicting signals to the industry, but also can serve to inject capital into the sector from both programmes, potentially compounding adverse environmental and social effects.

The effectiveness of the management regime and its enforcement is critical

It has been a fundamental tenet of the OECD's work on fisheries policy analysis that fisheries management is at the heart of almost all the policy challenges facing the sector. Instituting effective management regimes will go a long way towards solving many of the problems facing the sector. This report has demonstrated that the issue of GFTs is no different in that the effects of transfer programs need to be assessed against the background of the management system in place for particular fisheries.

However, the analysis in this report using the sustainable development framework takes this tenet a step further and has refined it to make it more applicable in the real

world of fisheries policy. This is evident in several areas. First, even with perfectly enforced management, some support programmes will still have economic, environmental and social effects. For example, the provision of income enhancing or cost reducing transfers can result in the expectations of continued government support becoming embedded in the minds of fishers and fisheries communities irrespective of the management regime in place. This alters the relative prices of inputs and the evaluations of risk in the production and investment decisions of fishers. It also tends to reduce the resilience of both individuals and communities, compromising their flexibility to respond to external changes in economic and environmental conditions.

Second, anything less than perfect enforcement will generally result in adverse impacts on all dimensions and under all management regimes. Whether these adverse impacts lead to a net welfare loss as a result of the transfer policy is an open empirical question which will vary according to the conditions applicable in different fisheries settings. However, there are some types of management regimes which tend to be more robust than others. For example, management regimes which are characterized by stronger access rights will tend to be more self-enforcing as the industry has a greater incentive to cooperate with enforcement measures. A higher degree of stakeholder participation is likely to reinforce this incentive.

So, in summary, the oft-quoted conclusion needs to be qualified to some extent: it is the effectiveness of the management regime in enforcing rules and securing rights that is a key factor, just as much as the type of management regime itself. The extent to which fisheries in OECD countries are effectively managed is therefore critical to determining the effects of transfers. The effectiveness of management in OECD countries has not been examined empirically as yet and there is scope for addressing such a monitoring and evaluation exercise in the future work of the OECD.

Financial support for the sector should be de-coupled from fishing activity

The analysis has highlighted the problems that arise when financial support is linked to fishing activity. This occurs in OECD countries both directly and indirectly. Transfers such as fuel tax exemptions, bait subsidies, crew cost subsidies and underwriting of investment and insurance directly reduce the cost per unit of effort of fishing operations. This has direct flow-on effects to the economic incentives facing fishers and the environmental outcomes of fishing activity. A range of other transfers, in particular income support programmes, are less directly linked to fishing activity, but are conditional upon the beneficiary participating in the fishing industry. Such transfers are often introduced to achieve social objectives or regional development goals yet tend to increase dependence on financial support, reduce individual and community resilience and inhibit adjustment to changing conditions. The longer term dynamic effects of such transfers are too often ignored in the policy debate.

Decoupling financial support for the sector from fishing activity will help ensure that fisheries management policies are not used as the primary means to achieve social and regional development objectives. While there is clearly a need for government intervention to address pressing issues in these areas, using fisheries management as the major mechanism carries a significant risk that one of the fundamental objectives of sustainable fisheries – stock conservation – will be compromised and will send blurred policy messages to sector participants. Financial transfers through the social policies as part of the income redistribution objectives of the government are more likely to be better targeted and efficient than trying to achieve the goals through fisheries management tools.

Similarly, regional development objectives are more likely to be achieved through development policy tools than through fisheries policy. Linking assistance directly or indirectly to fishing activity can send inappropriate signals to fishers and their communities. At the same time, it is important to maintain coherence between the different policy areas to ensure that inadvertent policy outcomes are avoided.

Time limits on support programmes will improve their effectiveness and increase community and individual resilience

One of the major concerns over the provision of financial support to the fisheries sector is that expectations of government assistance tend to become embedded in the decision making processes of fishers. From an economic perspective, ongoing financial support changes the expected costs and revenues of fishers who then base their production and investment decisions on the future stream of expected profits. This then alters their perceptions of risk related to investments, leading to excess investment, and the relative costs of inputs, altering their pattern of input use. Without clear, enforced time limits to government support programmes, such a situation can lead to increased pressure for the maintenance of transfers, perhaps even when their original objective has been achieved.

The role of expectations in influencing investment decisions was most evident in the discussion of decommissioning schemes. There is a strong argument for making decommissioning schemes both time limited and one-off programmes, as well as linking the schemes to management changes that reinforce the capacity reduction and internalise adjustment within the management regime (rather than being externally driven).

The need for time limits on transfers also arises from the social dimension, particularly in the case of income support programmes. Expectations of ongoing government support reduce the flexibility of individuals and communities to respond to fluctuations in economic and natural conditions. The incentives to invest in diversified economic activities are likely to be reduced where there is an expectation 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. This reflects the point made above concerning the need to decouple financial support from fishing activity. As was also noted above, there are some cases where economic diversification is not feasible, in which case there is a need to ensure that regional support and development goals are not achieved through fisheries management policies.

Reducing sectoral dependence on government financial support can increase profitability and community resilience

The analysis highlighted the fact that the reduction of financial support in the form of income-enhancing and cost-reducing transfers does not necessarily spell doom and gloom for the industry. The evidence from the experiences of Norway, New Zealand, Iceland and Australia point to the increased profitability and reduced dependence that results over the medium to longer term from reducing financial support. Reduction in financial support was not the only factor in the evolution of the industries in these countries. Each country undertook the adjustment as part of a broader package of management changes designed to set in train structural changes that put the industry on a more sustainable footing from an economic, environmental and social perspective. In each case, stronger access rights were instituted, generally with the active cooperation of the industry.

Ineffective firms disappeared, improving the balance between the available resources and the fishing fleet, helped by improved management regimes which helped to internalise the dynamic process of fleet capacity adjustment.

While there were adjustment costs in the short term, the benefits over the medium to long term were sufficiently clear to the countries to convince them to embark on the reforms. Transition measures were put in place to ease adjustment, but these were temporary and so avoided the trap of becoming entrenched.

Concluding Remarks

The issue of government financial support to the fisheries sector is one of the most hotly debated topics in fisheries policy. It is an issue at play at national, supranational and international levels and is likely to remain at the forefront of the policy debate in fisheries for some years to come. The pressures for reform at all levels arising from the WSSD and Doha commitments have been a major driving force for the increased political attention being paid to the issue. This pressure has also highlighted the relative paucity of analysis to underpin the process of reform. This report is aimed at improving the information base that policy makers can draw upon in their deliberations in national and international forums.

The policy challenge confronting policy makers is a complex one as it lies at the interface of the economic, environmental and social dimensions of sustainable development. Achieving sustainable fisheries, encompassing sound management policies, sustained economic value-added and improved community resilience, requires all dimensions of sustainable development to be addressed in an integrated framework. For this reason, this study has adopted the sustainable development paradigm as the basis for the analysis. This paradigm ensures that the effects of policy interventions, in this case the provision of transfers, incorporate the full range of costs and benefits across all participants in the sector. Success in achieving the goal of sustainable fisheries is dependent on identifying short-run and longer-run tradeoffs and synergies, finding cost-effective policy solutions, and developing integrated decision-making mechanisms for achieving government objectives in fisheries.

The key findings of the report reinforce the need to take an integrated approach to the analysis of transfers. Government transfers to the sector have consequences that go beyond the immediate impacts on the profitability of fishing operations and will often affect the sustainability of fish stocks and the social resilience of individuals and communities. There are also significant, and sometimes counterintuitive, differences between the short-term and long-term effects of transfers that often go unnoticed or unacknowledged for a range of reasons (including the length of the political cycle and the governance arrangements for the sector). The report has also observed that the way ahead for improving the efficiency and targeting of transfer programmes requires a holistic approach. Placing the industry and dependent communities on a sounder economic, environmental and social footing requires a package approach to policy development. Changes in the provision of financial support to the sector should be part of a broader programme of management changes designed to increase the profitability and flexibility of the industry, provide transition assistance to individuals and increase the sustainability of communities.

The report also highlights a number of areas where further work may assist policy makers in their deliberations on the design, implementation and evaluation of GFT

programmes. First, and perhaps the most pressing, continued efforts are required to improve the transparency of GFTs. There are a number of ways in which this could be pursued. For example, the OECD will continue to collect data on GFTs as part of its annual statistical survey of Member countries. It is also possible to use the existing WTO ASCM notification procedure as a basis for improving transparency.

Second, there is a need to undertake *ex post* evaluations of programmes and make the results publicly available. Amongst other things, such evaluations should address the efficiency of programmes, the distribution of costs and benefits from the programmes, and ways in which current or future programmes can be better targeted. This will help improve the understanding of the full range of impacts as well as contribute to improved transparency.

Third, there is clearly scope for undertaking further analysis of the social dimension of both GFTs and other fisheries policies. As has been noted in this report, quite a few transfers are introduced to meet social objectives, most notably regional development and community support goals. However, the report also concluded that transfers are not necessarily the most effective mechanism for meeting such goals, particularly when such transfers are not decoupled from fishing activity. Further work could address how social objectives in fisheries could be met in cost-effective ways and within a sustainable development framework.

Fourth, developing processes and mechanisms for assessing the effectiveness of fisheries management across OECD countries should be a priority area for further work. This report has emphasized that the type of management regime and the effectiveness of implementation and enforcement are critical to achieving the goal of sustainable development in fisheries. While considerable work has been done on the types of management regimes that are likely to result in improved outcomes for the sector, little effort has gone into assessing how existing management arrangements perform across the sustainable development dimensions. Most attention has been devoted to assessing the status of fish stocks, but as highlighted several times in this report, this is only one dimension of fisheries policy and the challenge is now to expand the assessment process to encompass the other dimensions of the sustainable development paradigm. This would be a timely exercise in light of the WSSD commitment to restore fish stocks by 2015.

Finally, there is likely to be continued pressure for countries to reform their support programmes to the sector and there is a significant information gap on how such reforms can be successfully undertaken. There is scope for research on the process of policy reform and identifying the characteristics of successful reform experiences. This would require, amongst other things, analysis of the political economy of reform including the drivers for and obstacles to policy reform, how governance arrangements hinder or help policy reform, and the role of stakeholders in reform. Sharing experiences on successful reform can improve the information base and assist the momentum for reforms which improve the sustainable development of fisheries.

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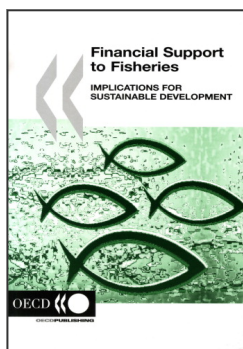
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Table of Contents

	Page
EXECUTIVE SUMMARY	9
PART I. GOVERNMENT FINANCIAL TRANSFERS FROM A SUSTAINABLE DEVELOPMENT PERSPECTIVE	15
Chapter 1: Government Financial Transfers to Fisheries in OECD Countries	17
Chapter 2: A Sustainable Development Framework for Assessing the Effects of Government Financial Transfers	51
Chapter 3: Analysis of Specific Government Financial Transfer Categories	75
Chapter 4: Key Policy Insights	111
Annex I.1: Historical Data 1996-2003	125
PART II. ANALYSING THE PILLARS OF SUSTAINABLE DEVELOPMENT IN FISHERIES	151
Chapter 5: The Economic Effects of Transfers to the Fisheries Sector	153
Chapter 6: The Environmental Effects of Transfers to the Fisheries Sector	193
Chapter 7: Social Impacts of Government Financial Support of Fisheries	225
Chapter 8: Social Capital and Fisheries Subsidy Reform	261

PART III. COUNTRY CASE STUDIES	283
Chapter 9: Canada’s Response to the 2003 Cod Fishery Closure	285
Chapter 10: Analysis of the Fishery Agreement between the Seychelles and the European Union	299
Chapter 11: Fisheries Subsidies in Norway	319
Chapter 12: Analysis of Subsidies to Decommissioning Vessels and License Retirement in Australia	345



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