Policy Research – Implications of Liberalisation of Fish Trade for Developing Countries

Trade Issues Background Paper: Fiscal Reforms and Trade in Fisheries Products

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Project PR 26109

July 2004

Food and Agriculture Organization (FAO) of the United Nations, Rome

This report forms part of a wider study on "Policy Research – Implications of Liberalisation of Fish Trade for Developing Countries", comprising five trade issues background papers and five country case studies.

The trade issues background papers are dealing with the following topics:

- Sanitary and Phyto-Sanitary (SPS) Measures and Technical Barriers to Trade (TBT)
- Ethical/Social/Eco Certification, Labelling and Guidelines
- The Impact of Subsidies on Trade in Fisheries Products
- The Impact of Dumping on Trade in Fisheries Products
- Fiscal Reforms and Trade in Fisheries Products

The case studies cover the following countries:

- Bangladesh
- Guinea
- India
- Uganda
- Vietnam

For a synthesis of the entire study including policy recommendations, see:
Bostock, T., Greenhalgh, P. and Kleih, U. (2004), Policy Research – Implications of Liberalisation of Fish Trade for Developing Countries – Synthesis Report. Chatham, UK: Natural Resources Institute. ISBN 0 85954 560-1.

Copies of the various reports are available on the following websites:

- www.onefish.org/id/225570
- www.nri.org/projects/projects/htm

The study was funded by the German Ministry for Economic Cooperation and Development (BMZ), and the UK's Department for International Development (DFID).

FISCAL REFORMS AND TRADE IN FISHERIES PRODUCTS[1]

In October 2003, the Support unit for International Fisheries and Aquatic Research (SIFAR) organised a '*Workshop and Exchange of Views on Fiscal Reforms for Fisheries: To Promote Growth, Poverty Eradication and Sustainable Management'*. This took place in the context of a wider OECD-DAC initiative aimed at examining issues related to environmental fiscal reform (EFR) for sustainable development and poverty reduction. Taking ideas from that workshop, this brief paper examines fiscal reforms in the context of sustainable international trade in fisheries. It concludes by noting that the achievement of sustainable and equitable international trade is dependant upon the existence of effective national (and regional) fisheries management systems.

The rationale underlying fisheries management, exploitation and development is beginning to change. Where once the focus was primarily on producing greater quantities of fish, the emphasis is now gradually moving, through concepts such as responsible fishing and sustainable management, towards wealth and revenue generation and their appropriate distribution. This change in focus presents new challenges to fisheries administrations. The wealth that aquatic resources are capable of generating means that the fisheries sector has the potential to contribute – sometimes very substantially- to growth and poverty reduction. Appropriate governance and fiscal arrangements for fisheries management using principles of economic efficiency, can be instrumental in achieving this: first, by helping to control the overall level of effort and second, by encouraging effort reallocation between fisheries.

The OECD noted that although scope exists for further trade liberalization, sustainable benefits can only accrue from this if efficient fisheries management systems are in place (OECD 2003)[2]. A key conclusion of this study was that 'policies should target market liberalization and improvements in fisheries management *simultaneously*, in a coherent and comprehensive manner'. Fiscal reforms are therefore relevant to international trade inasmuch as they may be expected to lead to the emergence of more effective management systems upon which sustainable trade can then be based. There is a critical need both to enhance awareness amongst decision makers and the wider public that the concepts of *good management practice* and *responsible fisheries trade* must run hand in hand if economic and associated benefits are to accrue. In particular, policy choices by (fish exporting) developing countries based on short-term gains need to be carefully considered within a bleak context of long-term failure. Such failure, often associated with unmanaged open access fisheries, is wide-ranging and exemplified by environmental despoliation, diminishing economic returns, and increasing food and livelihood insecurity. Fiscal reforms are compelling governance instruments that can be used in tackling such outcomes through ensuring that a proportion of the potential (or actual) wealth from fisheries is captured and redeployed in addressing externalities.

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[1] This paper was prepared by Tim Bostock of Support unit for International Fisheries and Aquatic Research (SIFAR)

[2] *Liberalising fisheries markets: scope and effects,* OECD, 2003

Implementing fiscal reforms, however, requires a turn-around in political thinking. For years, policymakers faced with dwindling fisheries have responded all too readily to calls from fishers for subsidies which have further contributed to overcapacity and overexploitation. Fiscal reforms call for bold policy choices that reverse such transfers and begin putting the potential (or implicit) wealth of resources to alternative use for the benefit of society. A key challenge is to identify and implement appropriate institutional arrangements that will enable this to take place.

It is now accepted that promoting a better understanding of the key role of *resource rent*[3] is a key element in successful fisheries management. Rents can either be the driving force leading to overcapacity and overfishing, or they can be the basis for generating wealth and revenue. The apparently limited extent to which many policy makers are aware of this, or recognise latent value of rents, is a critical factor affecting management performance. Continuing ignorance will keep fisheries policy reform as a low priority, and will ensure that the potential for fisheries to contribute to development and welfare objectives remains unrealised.

In considering the development and liberalization of trade, an important policy choice by governments is to derive estimates of existing and potential (assuming economically rational management) values of fisheries [rents] and consider this information in subsequent policy processes aimed at establishing effective management systems. A crucial element of this will be to define appropriate sharing of rent between resource owners (generally government) and exploiters. Again, this takes political courage, as a logical outcome might involve significant restructuring, including the institution of new management regimes that may be unpopular as they are likely to involve both winners and losers – approaches involving 'short-term pain, long-term gain' are generally inconsistent with quick-fix/short-term political perspectives.

The allocation of permanent, enforceable and tradable fishing rights is now generally accepted as an enabling tool for sustainable fisheries management. Rights permit several key questions to be addressed including value and availability of resource rents (rent values are revealed through rights trading), ownership of the resource and the share of rent that owners may take, and who may exploit the resource.

Assuming new fiscal arrangements are instituted with appropriate management instruments in place that allow rent to be generated; several choices can then be made regarding the use of these rents. They can for example be used in pro-poor policies to create alternative employment opportunities, education and training programmes, or even continued 'subsidies' to particularly vulnerable groups[4]. Rents can be used more directly to support trade through investments in alternative employment (e.g. processing, value-added), trade promotion and market research. Alternatively, the choice can be made to ensure rents remain (dissipated) within the fisheries. Continued free and open access in small-scale fisheries can use the inherent wealth of the fishery to address welfare objectives.

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[3] For a useful key sheet briefing on *rents in fisheries* (and more generally on *fiscal reforms* see (reference needed).

[4] Such 'subsidies' should better be thought of as *redistribution* of wealth generated from the fisheries.

Whatever the scenario, some form of management system will always be required as a prerequisite of sustainable trade, to ensure that the resources are not over-fished (costs approximate to revenues). These are important choices from a political-economy perspective, and require an understanding of the trade-offs between efficiency and equity/welfare.

The OECD study (ibid.) identifies six cases where the effects of market liberalization on trade and resources may be of particular concern. These are: aquaculture; shared stocks; high seas fisheries not subject to management; fisheries under bilateral access agreements; underexploited fisheries; and multi-species fisheries. The study recommends policy makers should pay particular attention to these cases as they represent situations where 'market liberalization is most likely to elicit a supply response and hence where complimentary targeted sector policies should be in place if welfare gains are to be optimised'. Although trade measures are increasingly being used in support of fisheries management and conservation purposes, at both national and/or international level (e.g. SPS, TBT, social, ethical and environmental labelling), the extent to which these are being implemented 'in a coherent and comprehensive manner' is arguable. Although there is a body of opinion emerging that labelling is overstated as an issue, evidence from existing impacts of other non-tariff barriers to trade shows that labeling has the potential to impact negatively on the livelihoods of the more vulnerable members in fisheries systems (see other papers for discussion on this). It is also increasingly clear that labeling should perhaps be better considered as an eventual outcome of efficient management systems (developed through improved national institutional capacity), rather than as an external driver of these.

Evidently, more work is needed to understand the links (and by implication, the inconsistencies) between international trading regimes and national governance and management systems aimed at sustainable exploitation, particularly in the six cases noted above.